

State of Idaho
Internal Control Report

Independent Auditor's 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*

Fiscal Year 2015



Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

Eric Milstead
Director

February 29, 2016

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Legislature
Honorable Brandon D Woolf, State Controller

We are pleased to submit the State of Idaho *Internal Control Report* as it relates to our audit of the statewide *Comprehensive Annual Financial Report* (CAFR) covering the fiscal year ended June 30, 2015. This *Internal Control Report* is an integral part of the CAFR audit process and is required by *Government Auditing Standards* issued by the Comptroller General of the United States.

These standards require that we consider the internal control over financial reporting and disclose weaknesses that could have a material effect on the financial statements. We are also required to perform and disclose the results of tests of compliance with certain laws, regulations, and other requirements that could have a direct and material effect on the financial statement amounts.

The results of our audit identified three material weaknesses in internal control. Although the risk of misstatement exists as a result of these issues, none of these weaknesses resulted in material misstatements that were not corrected as a result of the audit. As such, we were able to issue an unmodified opinion on the financial statements.

This report is available on our website at www.legislature.idaho.gov, and the CAFR can be obtained from the Office of the Idaho State Controller's website at www.sco.idaho.gov.

Sincerely,

April Renfro

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Eric Milstead
Director

Legislative Services Office
Idaho State Legislature

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December 31, 2015

Independent Auditor's 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*

Honorable C.L. "Butch" Otter, Governor
Honorable Members of the Legislature
Honorable Brandon D. Woolf, State Controller

We have audited, in accordance with the 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 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 Idaho as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State of Idaho's basic financial statements, and have issued our report thereon dated December 31, 2015. Our report includes a reference to other auditors who audited the financial statements of Boise State University, Eastern Idaho Technical College, Idaho State University, Lewis-Clark State College, University of Idaho and their respective component units, the Idaho Potato Commission, Idaho Dairy Products Commission, Idaho State Bar, Idaho Wheat Commission, Endowment Fund Investment Board, State Lottery Commission, Public Employee Retirement System of Idaho, Public Employees' Deferred Compensation Plan, IDeal Idaho College Savings Program, Idaho Individual Risk Reinsurance Pool, Idaho Small Employer Health Reinsurance Program, Idaho Health Insurance Exchange, State of Idaho Idle Pool, Local Government Investment Pool, Diversified Bond Fund, Idaho Building Authority, Bond Bank Authority, and the Idaho Housing and Finance Association as described in our report on the State of Idaho'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 Boise State University Foundation, Eastern Idaho Technical College Foundation, Idaho State University, Idaho State University Foundation, and the Public Employees' Deferred Compensation Plan were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Idaho's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Idaho's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Idaho's internal control.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 entity'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 Responses to be material weaknesses: 2015-101, 2015-102, and 2015-103.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Idaho's financial statements are free from 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

State of Idaho's Responses to Findings

The State of Idaho's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The State of Idaho's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



April Renfro, CPA, Manager
Legislative Audits Division

STATE OF IDAHO
INTERNAL CONTROL REPORT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015

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STATE OF IDAHO
INTERNAL CONTROL REPORT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015

OFFICE OF THE STATE CONTROLLER (Office)

FINDING 2015-101

Internal control weaknesses allowed unsupported adjustments and misstatements in the statewide financial statements and note disclosures submitted for audit.

Type of Finding: Material Weakness

Related to Prior Finding: 2014-101

Criteria: The *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a basis for organizations to design internal control procedures to ensure reliable financial reporting, effective and efficient operations and compliance with applicable laws and regulations. Components of this framework include risk assessment, control activities, information and communication, and monitoring. Risk assessment is the identification and analysis of various risks entities face because of changing economic, industry, regulatory, and operating conditions. It provides a basis to develop appropriate responses to manage those risks. Control activities are policies and procedures that help ensure management directives are carried out and risks are mitigated, including verifications, approvals, reconciliations, authorizations, and segregation of duties that support this objective. Information and communication relates to obtaining quality information and effective internal and external communication of that information to achieve management's objectives. Monitoring is the evaluation of results of the internal control system and remediation of deficiencies in a timely manner.

Management objectives should include the preparation and fair presentation of the CAFR in conformity with accounting principles generally accepted in the United States of America and compliance with applicable laws and regulations. The government-wide Statement of Net Position and the fund balance sheets represent the financial position of the government or fund as of the last day of the fiscal year. The government-wide Statement of Activities and the fund operating statements present the financial activity of the government or fund that occurred throughout the fiscal year.

Additionally, government accounting standards specify that changes to equity should normally include the activity reported on the government-wide Statement of Activities and the fund operating statements. No direct adjustments should be made to prior year equity balances, with the exception of a retroactive application of a change in accounting principle, a change in the financial reporting entity, and a correction of an error.

Condition: Misstatements were identified and communicated to management during the audit process. The following misstatements exceeded our materiality threshold for the applicable opinion unit:

- Revenue from the sale of cottage sites was recorded by two entities resulting in $46.7 million being double counted.

- The amount of restricted net position that is restricted by enabling legislation is required to be disclosed in the notes. $626.1 million restricted by enabling legislation was not included in the note and was offset by $508.9 million that was included, but was actually restricted for other purposes.
- A request of federal funds was made prior to June 30, 2015, but the cash was not received until July, culminating in a negative pooled cash and investments balance. An adjustment was made to reclassify $29.4 million in federal grants receivable to pooled cash and investments in order to resolve the abnormal balance.

Several other misstatements were identified that exceeded our trivial threshold, but did not exceed materiality. The most significant errors included misclassification in the financial statements and note disclosures, inconsistencies with the outside audited financial statements and supporting documentation, and unsupported adjustments.

Adjustments made directly to the prior year equity balances totaling $22.6 million were of significant concern. The adjustments attempted to get amounts in the statewide accounting system (STARS) to equal amounts reported in the outside audited financial statements for the Idle pool; however, the amounts used as the starting point in STARS when determining the adjustments could not be verified to the underlying accounting records. In addition, the adjustments were made under the premise that they were a correction of an error, but no supporting documentation was made available to show an error was identified in the prior year financial statements.

Cause: The Office did not obtain an adequate understanding of the discrepancy or gather sufficient information to support adjustments that were made to the financial statements. Additionally, weaknesses in the internal control structure allowed adjustments to be made that were inadequately supported and errors in the financial statements and note disclosures to go undetected.

Effect: The financial statements submitted for audit contained material misstatements, as well as other errors that were not material but more than trivial. In addition, a direct adjustment was made to the beginning equity balances which did not meet the criteria set forth in governmental accounting standards. All of the material misstatements, and several of the other errors, were corrected before the CAFR was finalized; however, three errors were not corrected and were included on the passed-on adjustment schedule.

Recommendation: We recommend that the Office improve the design and effectiveness of internal controls over the compilation of the statewide financial statements and note disclosures, including adjustments.

Management's View and Corrective Action Plan: *We have enhanced our Office's ability to identify significant changes year over year and trends over multiple years in the financial statement line items using reporting software. This will identify issues such as the double counting of revenue and other potential reporting errors or omissions. In addition, our Office has updated procedures and instructions for identifying the amount of restricted net position disclosed in the notes of the financial statements.*

Our Office has met with agencies to ensure understanding of the timing and recording of federal money receipts at fiscal year-end and the related revenue. Additionally, we have added procedures to request supporting documentation from agencies prior to an adjustment being made to the financial statements.

Lastly, we share the auditor's concern related to identifying differences between the Idle pool financial statements and the amounts recorded in the state-wide accounting system. We have identified many of the amounts in the underlying accounting records and will continue to work diligently with the Treasurer's Office to identify supporting documents for all amounts.

Scheduled Completion Date for Corrective Action Plan: The Office did not provide a completion date. We will revisit progress on the corrective action during the 90-day follow-up.

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Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We will review the status of the Office's corrective action during follow-up procedures completed 90 days after issuance of this report.

IDAHO DEPARTMENT OF HEALTH AND WELFARE (Department)

FINDING 2015-102
Deficiencies in internal controls allowed several errors in various closing packages to go undetected.

Type of Finding: Material Weakness

Related to Prior Finding: 2014-104

Criteria: The *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), identifies control activities that help ensure management directives are carried out and risks are mitigated. These activities include adequate review and authorization of financial reporting and using the general ledger or other reliable records as the basis for reports. Additionally, each year, State agencies are required to report accounting information to the Office of the State Controller (Office) in the form of closing packages, which provide the details necessary to prepare the statewide *Comprehensive Annual Financial Report* (CAFR). The Office provides instructions for preparing the closing packages in accordance with Generally Accepted Accounting Principles (GAAP).

Condition: The Department's internal control system failed to prevent or detect misstatements in various closing packages. The most significant errors include:

- The Department reports Upper Payment Limit (UPL) payments that are owed to Medicaid providers but are not paid until after the fiscal year-end. These amounts are included in the incurred by not reported amount (IBNR) and an associated amount for grants receivable. The payables less than or equal to 60 days included payments made after 60 days. This resulted in an overstatement of $26,080,659 in accounts payable and an overstatement of $18,613,245 in grants receivable. In addition, while the Department was reviewing this issue, it was determined the IBNR estimate was understated by $4,171,823.

- Amounts payable to a state entity were incorrectly included in the accounts payable closing package rather than the interfund payable closing package. Upon the Department's review during the audit, it was determined the interfund payable was understated by $937,884 and accounts payable was overstated by $900,383.
- The grants receivable closing package should report amounts received within the first 60 days following the fiscal year-end. The Department's calculation incorrectly used health district billings received in the first 60 days of fiscal year 2015, rather than 2016. Upon the Department's review during the audit, it was determined this resulted in an understatement of $406,311 in grants receivable.

The amortization of intangible assets reported on the capital assets closing package included assets which were not amortized based on the standard practice of a seven-year useful life. Errors in the amortization calculations of two assets resulted in a calculated useful life beyond seven years. While the calculated useful life and amortization amounts are reasonable, deviations from the Department's standard practice of a seven-year useful life were not documented.

Cause: Review procedures were not performed at the level of detail necessary to detect errors in closing packages prior to submission to the Office or the lack of support documenting deviations from standard practice.

Effect: Undetected errors included in closing packages submitted to the Office increase the risk of material misstatements occurring in the statewide financial statements. Subsequent to our communications with the Department regarding the errors noted during the audit, the Department resubmitted information to the Office to correct the misstatements discussed above. In addition, other errors were noted and not corrected in the statewide financial statements; these errors were not material.

Recommendation: We recommend that the Department strengthen the design and effectiveness of internal controls over the completion of closing packages to ensure accurate and reliable financial information is provided to the Office. We also recommend that the Department maintain appropriate documentation to support amounts reported in closing packages, including deviations from standard practices.

Management's View and Corrective Action Plan: *The Department agrees with the finding. Procedures have been updated and automated processes have been implemented to prevent errors from re-occurring. Future closing packages will incorporate comparative analysis of actual accounting activity from prior and subsequent periods to identify anomalies associated with reported estimates. Qualifying vendor list, cross-referencing information provided by the Office of the State Controller, will be used in the compilation of inter-fund and accounts payable closing packages.*

Scheduled Completion Date for Corrective Action Plan: August 31, 2016

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Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during follow-up procedures completed 90 days after issuance of this report.

IDAHO DEPARTMENT OF INSURANCE (Department)

FINDING 2015-103
Internal control deficiencies resulted in errors in the accounts receivable closing package.

Type of Finding: Material Weakness

Criteria: The *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), identifies control activities that help ensure management directives are carried out and risks are mitigated. These activities include adequate review and authorization of financial reporting and using the general ledger or other reliable records as the basis for reports. Additionally, each year, State agencies are required to report accounting information to the Office of the State Controller (Office) in the form of closing packages, which provide the details necessary to prepare the statewide *Comprehensive Annual Financial Report* (CAFR). The Office provides instructions for preparing the closing packages in accordance with Generally Accepted Accounting Principles (GAAP).

Specifically, reporting for the accounts receivable closing package requires the agencies to differentiate receivables between those received within 60 days of the year-end and those received after 60 days. Only those receivables collected within 60 days of the year-end, or reasonably estimated to be collected, are classified as revenue under modified accrual accounting purposes. Receivables with a longer collection period are classified as deferred inflows. This distinction is important for financial reporting and instructions are provided as part of the closing package process coordinated by the Office.

Condition: The Department's internal control system failed to prevent or detect errors in the accounts receivable closing package. The Department reports the amount of immunization assessments that have been billed but not received in the accounts receivable closing package. Approximately half of the assessments are received prior to the end of the fiscal year. The errors found include the following:

- The unavailable revenue portion (receivables that will not be collected within 60 days) was incorrectly reported as accounts receivable that will be collected in less than 60 days. This resulted in an overstatement of $5,803,514.25 in revenue on the governmental fund financial statement and an understatement of deferred inflows; this amount was material.
- The immunization assessment spreadsheet used to calculate the accounts receivable balance contained two errors. First, the total dollar value of assessments billed after revisions was reduced by the actual number of dependents and not the dollar amount. Second, the method of reducing the original assessment amount by the total of revised dependents was not applied correctly. The calculation did not account for the change between the original survey amount and any revisions for all carriers; instead, it reduced the total number by the total of revised surveys. The original number of dependents was reported as 242,057 and the revised number of dependents totaled 238,246. The immunization assessment spreadsheet calculated a reduction of 1,161 dependents when the actual difference was 3,811. These two errors resulted in accounts receivable being overstated by $246,554; this amount was immaterial.

During testing of the closing packages completed by the Department, we also found that all but one closing package was prepared and submitted by the same person without a review completed by another person. This results in a lack of segregation of duties with the preparation and review of the closing packages.

Cause: Review procedures were not performed at the level of detail necessary to detect errors in closing packages prior to submission to the Office. In addition, there was a lack of segregation in the preparation and review of the closing packages that would improve the effectiveness of procedures intended to detect errors.

Effect: Undetected errors included in closing packages submitted to the Office increase the risk of material misstatements occurring in the statewide financial statements. Subsequent to communications with the Department regarding the errors noted during the audit, the Department resubmitted information to the Office to correct the material misstatement.

Recommendation: We recommend that the Department strengthen the design and implementation of internal controls over the completion of closing packages to ensure accurate and reliable financial information is provided to the Office.

Management's View and Corrective Action Plan: *The DOI concurs with the facts as they are described in the management report. The agency values the financial audit process and takes the findings very seriously. Process changes are already underway to improve internal controls and to achieve accurate and reliable financial information in closing package reporting.*

The error in reporting Unavailable Revenue, the minimal review that was conducted and failed to detect the errors in the immunization vaccine fund assessment spreadsheet, and the lack of segregating the preparation from the submittal of the closing packages were the direct result of vacancies in the Fiscal Section. The Fiscal Section at the DOI consists of 4 individuals: a mailroom Office Specialist 2 (0S2) whose duties include receipting monies coming into the DOI, a Customer Service Representative 1 (CRS1) whose duties include preparing the daily deposits, a Financial Technician (FT) who codes and enters all other financial transactions, and a Financial Specialist Principal (FSP) whose responsibilities include releasing all transactions, reporting, budget, purchasing, and other assorted duties. The FT position became vacant in May and remained so until October. The 0S2 position became vacant in August. During the vacancies, the CRS1 and the FSP had to step in to complete the work of the entire Fiscal Section while maintaining segregation of duties for processing financial transactions. The DOI staff members who were available to assist with the closing package preparation did not have the necessary expertise or background knowledge to effectively assist with the closing packages.

Actions taken to address the identified issues:

1. *An additional staff review of the immunization vaccine fund assessment worksheet has been added to the process;*
2. *A FT and 0S2 were hired in October 2015 and are undergoing training;*
3. *The FSP has created a calendar reminder of the closing package correction that must be incorporated into reporting for FY 2016.*

Re-evaluation of corrective actions will not be possible until closing packages are completed for FY 2016.

Scheduled Completion Date for Corrective Action Plan: The Department did not provide a completion date. We will revisit progress on the corrective action during the 90-day follow-up.

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Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during follow-up procedures completed 90 days after issuance of this report.

STATE OF IDAHO
INTERNAL CONTROL REPORT
SCHEDULE OF PRIOR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

STATE AGENCY		CURRENT STATUS	PAGE
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2014-101	Internal control weaknesses allowed misstatements in the statewide financial statements and note disclosures to go undetected.	Open Current Finding 2015-101	12
2014-102	Internal control deficiencies over the processing of statutory transfers led to noncompliance as well as miscoded and unsupported transactions.	Open	12
IDAHO STATE DEPARTMENT OF EDUCATION			
2014-103	Errors in the accounts receivable closing package were not detected or prevented by internal control procedures in place.	Closed	12
IDAHO DEPARTMENT OF HEALTH AND WELFARE			
2014-104	Deficiencies in internal control allowed several errors in various closing packages to go undetected.	Open Current Finding 2015-102	13
IDAHO STATE TAX COMMISSION			
2014-105	Errors in the data used to prepare the taxes receivable estimate were not detected by internal control procedures, resulting in misstatements.	Closed	13
IDAHO DEPARTMENT OF TRANSPORTATION			
2014-106	Internal controls intended to reduce the risk of misstatements in the inventory closing package were not performed at a level of detail necessary to detect significant errors.	Closed	14

STATE OF IDAHO
INTERNAL CONTROL REPORT
PRIOR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE CONTROLLER (Office)

FINDING 2014-101

Internal control weaknesses allowed misstatements in the statewide financial statements and note disclosures to go undetected.

Recommendation: We recommended that the Office improve the design and effectiveness of internal controls over the compilation of the statewide financial statements and note disclosures.

Audit Follow-up: In addition to changes made to the compilation process of the State's *Comprehensive Annual Financial Report* (CAFR) in recent years, the Office has made modifications to their risk assessment to identify areas of risk related to other state agencies. This includes inquiry of experiences helpline staff have had with agencies and reviewing agency audit findings. The Office has also continued to perform trend analyses to identify anomalies or unusual amounts.

Regardless of these changes, our most recent audit for fiscal year 2015, still identified several errors and unsupported adjustments in the financial statements and note disclosures submitted for audit; some of which were considered material. These misstatements continue to indicate weaknesses in the internal controls over the preparation of the statewide financial statements.

Current Status: Open; repeated as current year Finding 2015-101

FINDING 2014-102

Internal control deficiencies over the processing of statutory transfers led to noncompliance as well as miscoded and unsupported transactions.

Recommendation: We recommended that the Office perform a risk assessment of statutory transfers. We also recommended that the Office design and implement control procedures to ensure that transfers are properly identified, tracked, supported, and recorded.

Audit Follow-up: The Office examined the areas of risk and modified the review process over statutory transfers in late March 2015, to include verification of compliance with Idaho Code, adequacy of supporting documentation, and accuracy of the entry to record the transfer. Based on our testing of transfers performed during the last quarter of fiscal year 2015, the control was not consistently applied and documented; however no significant errors were identified. Due to the limited time frame of the implementation, we will revisit at a later date to determine if this control is being performed on a consistent basis.

Current Status: Open; not repeated

IDAHO STATE DEPARTMENT OF EDUCATION (Department)

FINDING 2014-103

Errors in the accounts receivable closing package were not detected or prevented by internal control procedures in place.

Recommendation: We recommended that the Department improve the design and implementation of internal control procedures intended to detect and prevent closing package errors.

Audit Follow-up: Each year the Department prepares the Accounts Receivable closing package which includes an estimate of the federal grant revenues the Department expects to receive within 60 days and thereafter from the end of the fiscal year. In fiscal year 2014 the Department reported the entire federal grant receivable as collectible within 60 days of the end of the fiscal year, but procedures used to calculate the estimate included a significant amount of revenue expected to be collected outside the 60 day period.

While completing the fiscal year 2015 closing packages the Department has implemented procedures to properly identify accounts receivable that are estimated to be collectible within 60 days and thereafter from the end of the fiscal year. Our testing of the Department's closing packages for fiscal year 2015 found no errors, indicating that their new procedures were effective.

Current Status: Closed

IDAHO DEPARTMENT OF HEALTH AND WELFARE (Department)

FINDING 2014-104
Deficiencies in internal control allowed several errors in various closing packages to go undetected.

Recommendation: We recommended that the Department strengthen the design and effectiveness of internal controls over the completion of closing packages to ensure accurate and reliable financial information is provided to the Office of the State Controller.

Audit Follow-up: The Department modified procedures to strengthen internal controls over reviewing closing package calculations and supporting information to reduce the risk of errors. Additional training was given to staff that emphasized reporting timeframes as well as more specific reporting instructions that will help ensure more accurate financial information is submitted on each closing package. However, material errors were still identified during the fiscal year 2015 audit.

Current Status: Open; repeated as current year Finding 2015-102

IDAHO STATE TAX COMMISSION (Commission)

FINDING 2014-105
Errors in the data used to prepare the taxes receivable estimate were not detected by internal control procedures, resulting in misstatements.

Recommendation: We recommended that the Commission implement control procedures to ensure closing packages are prepared in accordance with the Office of the State Controller instructions, and the data used to prepare the taxes receivable estimate is relevant, sufficient, and reliable.

Audit Follow-up: The Commission has addressed the issues in the finding in several ways. During the fiscal year 2014 audit, the Commission upgraded its taxpayer accounting system, Gentax, from version 6 to version 9. Gentax version 9 increased reporting abilities that address the issue of revenues being double counted. The Commission has also added an internal control

where the Gentax revenue reports are compared to the actual receipts in the statewide accounting system (STARS) before being used to calculate the taxes receivable estimate. The Commission also adjusted its calculation of the taxes receivable estimated to be collected within 60 days instead of 30 days after the end of the fiscal year.

During testing of the 2015 taxes receivable estimate, we determined that the new control procedures are in place and functioning effectively.

Current Status: Closed

IDAHO DEPARTMENT OF TRANSPORTATION (Department)

FINDING 2014-106

Internal controls intended to reduce the risk of misstatements in the inventory closing package were not performed at a level of detail necessary to detect significant errors.

Recommendation: We recommended that the Department implement internal controls to detect errors in the anti-skid material valuation process and design and implement procedures to ensure the consistent accounting treatment of snowplow blades.

Audit Follow-up: In fiscal year 2014, there were two issues with the Department's inventory valuation. The Department has six district offices throughout the State, and each office accounted for snowplow blade inventory differently. Some offices recorded snowplow blades as expenses when they were purchased, others recorded the snowplow blades as inventory when they were purchased and then recorded as an expense when they were used. This inconsistent treatment led to errors in inventory reporting. We also found several errors in the volume calculations of anti-skid material stockpiles which led to errors in inventory reporting.

To address the snowplow blade inventory issue, the Department has designed a new procedure to record the inventory consistently in all district offices. Each district has a main warehouse and multiple storage sheds throughout the district. With the new procedure, all districts record the snowplow blades as inventory and initially store them in the main warehouse. The snowplow blades are recorded as an expense when they are assigned to the storage sheds for use.

To address the stockpile inventory issue, the Department has created additional procedures. In each district, the District Operations Manager will assign appropriate maintenance personnel to measure and calculate the volume and value of the stockpiles. The District Operations Manager will then review the calculations and sign the inventory documents. The District Business Manager will ensure the inventory calculations are entered correctly into the accounting system, and the Financial Operations section in the Headquarters Office will reconcile all district entries.

Our testing of the Department's fiscal year 2015 closing packages found that the new inventory procedures have been implemented and we found no errors in inventory reporting.

Current Status: Closed

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