

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 2016



Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

Eric Milstead
Director

February 13, 2017

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, 2016. 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 did not identify any material misstatements, material weaknesses in internal control, noncompliance, or other matters required to be reported under *Governmental Auditing Standards*. Additionally, we have issued 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

April Renfro, CPA, Manager
Legislative Audits Division

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

April Renfro, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

Statehouse, P.O. Box 83720
Boise, Idaho 83720-0054

Tel: 208-334-2475
www.legislature.idaho.gov

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Eric Milstead
Director

Legislative Services Office
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December 23, 2016

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, 2016, 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 23, 2016. 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, 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 (including The Housing Company, a discretely presented component unit of 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 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.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

April Renfro, Manager
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Information Technology

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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 entity'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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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, 2016

There were no findings identified as a result of our fieldwork completed for the 2016 *Comprehensive Annual Financial Report.*

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

STATE AGENCY		CURRENT STATUS	PAGE
OFFICE OF THE STATE CONTROLLER			
2014-102	Internal control deficiencies over the processing of statutory transfers led to noncompliance as well as miscoded and unsupported transactions.	Closed	5
2014-101 repeated as 2015-101	Internal control weaknesses allowed unsupported adjustments and misstatements in the statewide financial statements and note disclosures submitted for audit.	Closed	5
IDAHO DEPARTMENT OF HEALTH AND WELFARE			
2014-104 repeated as 2015-102	Deficiencies in internal controls allowed several errors in various closing packages to go undetected.	Closed	5
IDAHO DEPARTMENT OF INSURANCE			
2015-103	Internal control deficiencies resulted in errors in the Accounts Receivable closing package.	Closed	6

OFFICE OF THE STATE CONTROLLER (Office)

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 areas of risk and modified the review process over statutory transfers to incorporate a segregation of duties between the individuals preparing, entering and releasing the transaction to ensure accuracy and compliance with laws. Our testing determined that controls over statutory transfers have been implemented, consistently applied and are operating as intended.

Current Status: CLOSED

FINDING 2014-101 and 2015-101

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

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, including adjustments.

Audit Follow-Up: The Office developed a better understanding of the Idle pool and made other improvements to their compilation process of the State's *Comprehensive Annual Financial Report* (CAFR). An extensive amount of time was spent working with the Office of the State Treasurer to reconcile the audited Idle pool amounts with the Statewide Accounting and Reporting System (STARS), eliminating the need for a prior-period adjustment. The Office improved their trend analyses and modified procedures to obtain adequate supporting documentation from agencies to support adjustments. In addition, they re-analyzed the components of net position to properly identify amounts that were restricted by enabling legislation.

While our audit work still identified some errors, they were not material or significant.

Current Status: CLOSED

IDAHO DEPARTMENT OF HEALTH AND WELFARE (Department)

FINDING 2014-104 and 2015-102

Deficiencies in internal controls 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. We also recommended that the Department maintain appropriate

documentation to support amounts reported in closing packages, including deviations from standard practices.

Audit Follow-up: The Department modified procedures to strengthen the review of closing package calculations and supporting information to reduce the risk of errors. The Department developed additional internal instructions to define the data needed to prepare the closing packages and included procedures to validate the data submitted. Comparisons of prior-year projections to actual amounts reported were also included in the review process. Additional procedures were developed to ensure supporting documentation is maintained to uphold reported information and decisions reached. We reviewed these procedural changes and determined that the procedures were implemented and operating as intended.

Current Status: CLOSED

IDAHO DEPARTMENT OF INSURANCE (Department)

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

Recommendation: We recommended 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.

Audit Follow-up: The Department has implemented changes to ensure the closing package is submitted accurately. This includes obtaining additional training related to the completion of the closing package and creating a new alert process to ensure it has been submitted. Further, the Department added an additional staff review of the immunization vaccine fund assessment worksheet to ensure accuracy. During testing of the fiscal year 2016 accounts receivable closing package, we determined that the additional staff review was implemented and that the closing package was prepared with accurate and reliable financial information.

Current Status: CLOSED

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Idaho Legislative Services Office
Audits Division
P.O. Box 83720
Boise, Idaho 83720-0054
208-334-4875