

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 2018



Legislative Services Office
Idaho State Legislature

Eric Milstead
Director

Serving Idaho's Citizen Legislature

February 13, 2019

Honorable Brad Little, Governor
Honorable Senator Steve Bair, JFAC Co-Chair
Honorable Representative Rick D. Youngblood, JFAC Co-Chair
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, 2018. 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 five significant deficiencies and one material weakness in internal control required to be reported under *Governmental Auditing Standards*. Although the risk of misstatements 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 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

Kristin Ford, Manager
Research & Legislation

Paul Headlee, Manager
Budget & Policy Analysis

April Renfro, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

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Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

Eric Milstead
Director

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*

December 19, 2018

Honorable Brad Little, Governor
Honorable Senator Steve Bair, JFAC Co-Chair
Honorable Representative Rick D. Youngblood, JFAC Co-Chair
Honorable Brandon D Woolf, State Controller

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 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, 2018, and the related notes to the financial statements, which collectively comprise State of Idaho's basic financial statements, and have issued our report thereon dated December 19, 2018. 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 Fish and Wildlife Foundation, Idaho Potato Commission, Idaho Dairy Products Commission, Idaho State Bar, Idaho Wheat Commission, Idaho Endowment Fund Investment Board, Idaho Lottery, Public Employee Retirement System of Idaho, Idaho Public Employees' Deferred Compensation Plan, IDeal Idaho College Savings Program, Idaho Individual High Risk Reinsurance Pool, Idaho Small Employer Health Reinsurance Program, Idaho Health Insurance Exchange, Idaho State Treasurer – Assets Under Management, Idaho State Building Authority, Idaho 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 Boise State University Foundation, Eastern Idaho Technical College Foundation, Idaho State University Foundation, Idaho Fish and Wildlife Foundation, Idaho Housing and Finance Association (including The Housing Company, a discretely presented component unit of the Idaho Housing and Finance Association), and the Idaho 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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Basic Financial Statement Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Basic Financial Statement Findings to be material weaknesses: 2018-102.

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 consider the deficiencies described in the accompanying Basic Financial Statement Findings to be significant deficiencies: 2018-101, 2018-103, 2018-104, 2018-105, and 2018-106.

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*.

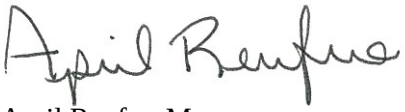
State of Idaho's Response to Findings

The State of Idaho's response to the findings identified in our audit are described in the accompanying Basic Financial Statement Findings and Management's Corrective Action Plan. The State of Idaho's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of the State of Idaho'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 State of Idaho's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



April Renfro, Manager
Legislative Audits Division

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SCHEDULE OF BASIC FINANCIAL STATEMENTS FINDINGS

STATE OF IDAHO
INTERNAL CONTROL REPORT
SCHEDULE OF BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OFFICE OF THE STATE CONTROLLER (Office)

FINDING 2018-101

The Office's internal review process did not prevent or detect misstatements in the statewide *Comprehensive Annual Financial Report* (CAFR).

Type of Finding: Significant Deficiency

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 and control activities. 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 objectives. Monitoring is the evaluation of results of the internal controls 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.

Idaho Code Section 67-1001(2) requires that the Office submit Generally Accepted Accounting Principles (GAAP) financial statements to the Governor and Legislative Services on or before the first day of January for the preceding fiscal year. The Office achieves compliance through the preparation and submission of the CAFR.

Idaho Code Section 67-1007 states that the State Controller may examine any of the books, papers, accounts, bills, vouchers or other documents of property of any or all of the State officers and custodians of State funds.

Condition: In general, the CAFR was presented with a high level of accuracy. However, immaterial misstatements and presentation errors were either identified by the auditors and communicated to the Office during the audit process or identified by the Office after the financial statements were provided for audit.

The Office implemented a new Governmental Accounting Standards Board (GASB) standard. Some of the amounts related to the new GASB standard reported in the financial statements were incorrect. The associated note disclosures also included several errors and omissions. Portions of the errors and omissions were corrected prior to the issuance of the CAFR.

The following examples were not corrected prior to the issuance of the CAFR:

- A State agency erroneously reported a new financial activity in an investments closing package to the Office and the associated amounts and information were incorrectly included in the financial statements and the notes to the financial statements.
- Our audit work at two separate State agencies identified areas of incorrect financial reporting as part of the closing package process. The Office chose not to update the financial statements due to the immaterial nature of the differences.

The following examples were corrected prior to the issuance of the CAFR:

- A journal entry to reclassify capital outlay and interest expense to rent expense was not made.
- In the note disclosures for Deposits, Investments, and Restricted Assets, Note 2, certain amounts were not updated from the prior year, other amounts were reported with incorrect credit ratings, and other amounts were classified with incorrect custodial credit risk.
- In the note disclosures for Intra-entity Transactions, Note 4, amounts were unintentionally shifted on a schedule therefore amounts were reported under incorrect line titles and amounts totaling $85.7 million were not included on the schedule. In addition, the required purpose descriptions were not included for four transfers.
- Some of the required elements for the Pension Plans note disclosure, Note 8, were missing and a disclosure for contributions made by colleges and universities and employees included incorrect amounts.
- The Management Discussion and Analysis included a narrative explanation of investment in capital assets that did not tie to a related table.

Cause: Internal controls over the compilation process for the CAFR included review of work by a staff member independent of the staff member completing the work. However, these review procedures did not prevent or detect the misstatements and errors listed above.

Effect: The financial statements and note disclosures submitted for audit contained misstatements and information that was not clearly presented; the amounts were not material, but exceeded our trivial threshold.

Recommendation: We recommend that the Office strengthen the review process over the compilation of the CAFR to ensure that the financial statements, note disclosures, and other information contained therein agree to the documentation that supports those amounts, including closing packages and outside audits.

Management's View: *The State Controller's Office acknowledges the immaterial misstatements and presentation errors identified by the auditors. Most errors were corrected prior to the issuance of the financial statements. The office will evaluate and make improvements to the internal review procedures and the related instructions for the compilation of the CAFR this spring.*

Due to errors identified in financial information provided by state agencies, the office will conduct an evaluation to determine where greater risk may be present. Additional reviews and checks will be conducted on this information to ensure reporting errors are eliminated prior to inclusion in the statewide financial report. The office will put emphasis on these areas of increased risk during the annual financial reporting trainings provided to state agencies.

The office will continue to search out training opportunities for implementing new accounting standards, specifically trainings on the complex reporting requirements related to pension and other postemployment benefits (OPEB). Additionally, the office will work with the agencies who administer the state's pension and OPEB plans to better understand how to apply generally accepted accounting principles to these plans.

Lastly, the office will add a new step in the internal review procedures to include a check of links within the reporting software to ensure amounts display correctly within the financial report.

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. The corrective action plan provided will not be complete until June 30, 2019, so this finding will remain open until we complete a review as part of our audit work to support the fiscal year 2019 *Comprehensive Annual Financial Report.*

IDAHO DEPARTMENT OF HEALTH AND WELFARE (Department)

FINDING 2018-102

The Department does not have adequate controls in place to ensure the accuracy of drug rebate revenue received from the third-party billing contractor, Magellan Medicaid Administration (Magellan).

Type of Finding: Material Weakness

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) published the Internal Control Integrated Framework, which identifies control activities that help ensure management directives are carried out and risks are mitigated. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties.

Additionally, the State Fiscal Policy Manual for Internal Controls states that a management control system, including comprehensive internal controls, should provide reasonable assurance that entity objectives are being met for effective and efficient operations, reasonable use of public funds, and compliance with applicable laws, rules, and regulations.

Condition: The Department currently contracts with Magellan to monitor the drug rebate processes for both the national and supplemental drug rebates. Magellan is responsible for billing manufacturers for the federal and supplemental state rebates, which totaled $153,699,883 in State fiscal year 2018. Prior to sending the manufacturer invoices, Magellan sends an invoice summary to the Department for review. However, we found no evidence that the Department reviews the billing information received from Magellan for completeness and accuracy.

Cause: A failure in communication between the Medicaid division and the Business Financial Services division resulted in each division believing the other division was completing a review over the drug rebate invoice summary. The Medicaid division was unaware of the need to have documentation of a review over the drug rebate process.

Effect: No errors were noted during the testing of 18 transactions totaling $26,369,912. However, the Department's lack of review of the invoices for accuracy increases the risk that the service

organization responsible for determining rebate revenue and billing the amounts to the manufacturers could include errors that would go undetected by the Department.

Recommendation: We recommend that the Department strengthen internal controls over the approval and review of the drug rebates invoicing process to help ensure amounts reported are complete and accurate.

Management's View: *The Department agrees with this finding. The Division of Medicaid will strengthen the controls over the review of drug rebates. The Division of Medicaid will write procedures for reviewing drug rebates and will ensure that the reviews are documented.*

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. The corrective action plan provided will not be complete until May 31, 2019, so this finding will remain open until we complete a review as part of our audit work to support the fiscal year 2019 *Comprehensive Annual Financial Report.*

FINDING 2018-103
Medicaid eligibility rate codes determined by age were not modified in the Medicaid Management Information System (MMIS).

Type of Finding: Significant Deficiency

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 things like approvals, authorizations, verifications, reconciliations, and segregation of duties.

The Uniform Grant Guidance given in the *Code of Federal Regulations* (CFR) (2 CFR 200.303) requires that a non-federal entity receiving federal awards establish and maintain internal controls that provide reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions in the federal award.

Condition: For all eligibility determinations, changes in rate codes are initially made in the Idaho Benefit Eligibility System (IBES) and then transferred via an automated process to MMIS. During testing of Medicaid claim expenditures, 1 out of 76 sample units tested contained an incorrect eligibility rate code in MMIS. The MMIS data shows the rate code for this individual as 55 (Katie Beckett program for children ages 0 to 18); however, the individual was over 18 years of age and should have been listed as rate code 54 (Aid to the Disabled – Medicaid). In the instance noted, the member's eligibility was updated in the IBES; however, the change was not received in the MMIS to update the member's record.

We performed additional testing over other rate codes that have age limits to determine if additional instances of incorrect coding existed, and we found an additional 70 individuals that were coded incorrectly out of 240,479 in MMIS.

Cause: The process of updating eligibility rate codes between IBES and MMIS is an automated process. That automated process failed to update eligibility rate codes from IBES to MMIS that changed based on an age criteria. The Department's internal controls failed to identify and correct the errors in the MMIS eligibility codes.

Effect: Although this miscoding resulted in a $0 payment error for this client because they received the same coverage between rate code 54 and rate code 55, there is an increased risk that other rate codes are not updated in a timely manner, causing errors in payments or providing services to ineligible clients.

Recommendation: We recommend that the Department strengthen internal controls to help ensure eligibility rate codes are updated in a timely manner for the Medicaid claim expenditure processing.

Management's View: *The Department agrees with this finding. The Division of Welfare, who manages Medicaid eligibility, will strengthen controls to ensure that eligibility rate code changes are updated in a timely manner. In December 2018, the Division of Welfare modified the system so that rate code changes were identified correctly and timely. Additionally, The Division of Welfare will implement reconciliations to identify other data mismatch issues more promptly.*

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. The corrective action plan provided will not be complete until April 30, 2019, so this finding will remain open until we complete a review as part of our audit work to support the fiscal year 2019 *Comprehensive Annual Financial Report.*

FINDING 2018-104
An investment account closing package was erroneously submitted for funds not belonging to the Department.

Type of Finding: Significant Deficiency

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 and control activities. Risk assessment is the identification and analysis of various risks entities face because of changing economic, industry, regulatory, and operating conditions. It is used to form a basis for how the risks should be managed. Control activities are policies and procedures that help ensure management directives are carried out and risks are mitigated. Verifications, approvals, reconciliations, authorizations, and segregation of duties are all control activities that support this objective.

Each year, State agencies are required to report accounting information to the Office of the State Controller (SCO) in the form of closing packages, which provide the details necessary to prepare the statewide *Comprehensive Annual Financial Report* (CAFR). The SCO provides instructions for preparing the closing packages in accordance with Generally Accepted Accounting Principles (GAAP).

Governmental Accounting Standards Board (GASB) *Concept Statement No. 4* defines assets as resources with present service capacity that the government presently controls.

Condition: The Department contracts with Optum Idaho to manage outpatient benefits for the Idaho Behavioral Health Plan (IBHP) for Idaho Medicaid members. In accordance with contract requirements, Optum Idaho established an outside bank

account, referred to as the Community Health Initiatives Reserve Account (CHIRA), to hold funds if Optum does not meet specific metrics related to the use of premium receipts. The Department may request remittance of the CHIRA funds if the funds are not used for specific purposes outlined in the contract. The Department is not an owner of the account and does not make deposit or other investing decisions related to the account activity.

The Department incorrectly identified the June 30, 2018 CHIRA account balance of $662,194 as a State bank account and reported the balance on the investment closing package. Activity related to the CHIRA account also included investment purchases of $33,272,897 and investment sales of $48,077,909 that was incorrectly included in the statewide financial statements.

Cause: The Department interpreted GASB *Concept Statement No. 4* guidance incorrectly to include funds held by a subcontractor as an asset and reported the amount on the investment closing package. After further review, it was determined that the Department has the right to request the CHIRA account funds in specific situations, but they do not have control of the funds before that option is selected.

Effect: The misstatement was not material to the statewide financial statements. However, undetected errors included in closing packages submitted to the SCO increase the risk of material misstatements occurring in the statewide financial statements. Additionally, the Department does not have authority to invest funds separate from those that are held by the State Treasurer. Subsequent to discussions with the Department regarding the misstatement noted during the audit, the Department resubmitted a corrected investment closing package with a $0 balance.

Recommendation: We recommend that the Department strengthen the design and effectiveness of internal controls over the completion of closing packages to ensure that accurate and reliable financial information is provided to the SCO. This should include an on-going analysis of new operations and financial activity to ensure information is identified and appropriately disclosed on closing packages.

Management's View: *The Department agrees with this finding. The Division of Medicaid and the Bureau of Financial Services will strengthen controls to ensure that accurate financial information regarding Community Health Initiatives Reserve Account (CHIRA) is provided to the State Controller's Office. The Division of Medicaid will monitor reserve accounts quarterly and will report them to Financial Services. The Bureau of Financial Services re-submitted the correct investment closing package with a $0 balance to the State Controller and will coordinate with the Division of Medicaid to ensure that future investment closing packages are correct, related to CHIRA accounts.*

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. The corrective action plan provided will not be complete until June 30, 2019, so this finding will remain open until we complete a review as part of our audit work to support the fiscal year 2019 *Comprehensive Annual Financial Report.*

FINDING 2018-105

Misclassification of expenditures resulted in an $898,025 overstatement of Work in Process (WIP) and a corresponding understatement of Intangible Assets reported on the capital asset closing package.

Type of Finding: Significant Deficiency

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) publishes the Internal Control Integrated Framework, which identifies control activities that help ensure management directives are carried out and risks are mitigated. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties.

Additionally, each year, State agencies are required to report accounting information to the Office of the State Controller (SCO) in the form of closing packages, which provide the details necessary to prepare the statewide *Comprehensive Annual Financial Report* (CAFR). Closing packages include identifying and capitalizing appropriate capital assets, including development in progress and intangible assets. The SCO provides instructions for preparing the closing packages in accordance with Generally Accepted Accounting Principles (GAAP).

Condition: As part of our review of the capital asset closing package, testing included intangible and development work in process transactions. Testing of 47 transactions included 4 items, or 9 percent, that were recorded to the incorrect capital asset phase of the ICSES Phase 2 project.

In one instance, a total of $134,563 for labor hours for separate projects, the Ongoing Medicaid Modernization (OMM) Project and the Child Welfare Information System (CWIS) Modernization project, were incorrectly included in the WIP balance amount for the Idaho Child Support Enforcement System (ICSES) Phase 2 project.

In three instances, charges of $763,462 for the ICSES Phase 1 project were incorrectly included in the ICSES Phase 2 project. The overall ICSES project is broken into phases based on expenditure dates, and each phase is capitalized separately. Phase 1 includes expenditures prior to November 1, 2017, and Phase 2 includes all expenditures after November 1, 2017. For the three exceptions noted, services were for contractor hours in October 2017 that should have been coded to Phase 1, but were incorrectly coded to Phase 2 because the invoice was paid after November 1, 2017.

Cause: The Department's review of the transactions failed to detect miscoding for the OMM and CWIS project costs between the contracted hours billed and the amounts entered for each separate project.

The reviews completed by the Department as part of their internal control process also failed to recognize the dates that the underlying services occurred for the sample items coded to the incorrect ICSES project phase. Transactions were coded to an ICSES project phase based on the invoice payment dates, instead of the service dates.

Effect: There is a potential overstatement to the development WIP account of $134,563 related to the incorrectly charged labor hours. There is also a known overstatement of $763,462 to the WIP for the three transactions coded incorrectly to the ICSES Phase 2 project. The intangible asset balance is understated by the same amount.

Recommendation: We recommend that the Department strengthen internal controls to ensure capital assets are recorded accurately and appropriately.

Management's View: *The Department agrees with this finding. The Bureau of Financial Services will develop procedures to strengthen internal controls to ensure that capital assets are recorded accurately. The Bureau will work with other Divisions to develop procedures and reports that can be used to review invoices to ensure that costs are recorded to the correct project phase.*

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. The corrective action plan provided will not be complete until June 30, 2019, so this finding will remain open until we complete a review as part of our audit work to support the fiscal year 2019 *Comprehensive Annual Financial Report.*

IDAHO TRANSPORTATION DEPARTMENT (Department)

FINDING 2018-106
Procedures were not adequately designed to identify accounts payable related to work performed under construction contracts.

Type of Finding: Significant Deficiency

Criteria: Each year, State agencies are required to report financial information to the Office of the State Controller (SCO) in the form of closing packages, which provide the information necessary to prepare the statewide CAFR. The SCO provides instructions for reporting information in the closing packages in accordance with Generally Accepted Accounting Principles (GAAP).

The SCO instructs agencies to report as accounts payable, amounts owed for goods or services received on or before the June 30 fiscal year-end and paid for after that date. This would also include federal grant expenses incurred, but not paid at fiscal year-end.

Condition: We performed a search for unrecorded liabilities by testing all 26 construction contractor payments from July and August 2018 that were greater than $700,000, and which had not been identified and reported by the Department as accounts payable. We examined supporting documentation from SiteManager, the Department's project management software, to identify the dates covered by the invoice. We noted that for 6 of these transactions (23 percent), the full date range or majority of the dates covered by the invoice, were for work performed prior to the June 30 fiscal year-end. These transactions were not identified by the Department and were excluded from the amount reported to the SCO on the accounts payable closing package. In addition, a portion of these expenditures were paid with federal grant funding and also excluded from the grants receivable closing package.

Cause: The procedures used by the Department were not properly designed to identify accounts payable related to construction contractor payments. The Department relied on the invoice date in Advantage, the Department's internal accounting system, to determine the fiscal year in which the work was performed; however, the invoice date does not necessarily coincide with the last day of the billing cycle or the last day that work was performed during the billing cycle. Differences ranged from 1 day to as many as 69 days.

Additionally, the internal controls were not designed or adequate to identify this error in the procedures.

Effect: Deficiencies in the design of the procedures resulted in unreported accounts payable of $6.7 million. Since a share of many construction contract expenditures are reimbursed with Federal funds, this error also resulted in unreported grants receivable of $4.6 million.

These errors were communicated to the Department and modifications were made to their procedures. They revisited July and August expenditures and identified an additional $2.5 million in accounts payable and $1.7 million in grants receivable that should have been reported. These new procedures were also applied during their review of September and October expenditures. Amendments to the accounts payable and grants receivable closing packages were submitted to the SCO.

Recommendation: We recommend the Department improve procedures to identify material accounts payable associated with work performed on construction contracts through the end of the fiscal year. We further recommend the Department improve internal controls to ensure that all material accounts payable and related grants receivable are reported in the applicable closing packages.

Management's View: *Process changes are already underway to improve and achieve accurate and reliable financial information in closing package reporting. Management's corrective action plan is to improve procedures to identify accounts payable related to construction payments for goods or services received on or before June 30th and paid for after June 30th. The Department will review the SiteManager application (construction project software) to determine the best way to use the data entered into the application to help determine the accounts payable liability at June 30th. The department will also review the process around the first pay estimate in the new fiscal year to only include work performed on construction contracts on or before June 30th. A SiteManager cut-off procedure will provide the ability to identify work performed on construction projects at June 30th and accurately report the construction contract accounts payable liability at June 30th. Our corrective action plan will be implemented by June 30th and made available for review during FY 2019 CAFR reporting.*

The execution of these additional controls should identify and report all material accounts payable and grants receivable identified in the recent audit and prevent future failures of the same nature from occurring.

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. The corrective action plan provided will not be complete until June 30, 2019, so this finding will remain open until we complete a review as part of our audit work to support the fiscal year 2019 *Comprehensive Annual Financial Report.*

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

MANAGEMENT'S CORRECTIVE ACTION PLAN

STATE OF IDAHO
CONTROLLER'S OFFICE
BRANDON D WOOLF

February 7, 2019

April Renfro, CPA
Division Manager
Legislative Services Office, Audit Division
700 W Jefferson Street
P.O. Box 83720
Boise, Idaho 83720-0054

Dear Ms. Renfro,

Enclosed with this letter is the State of Idaho's Corrective Action Plan and Summary Schedule of Prior Audit Findings for the fiscal year 2018 Internal Control Report related to the Comprehensive Annual Financial Report.

The State's Corrective Action Plan and Summary Schedule of Prior Audit Findings are a compilation of information provided to us by the applicable state agencies. They are prepared in conjunction with your fiscal year 2018 Comprehensive Annual Financial Report audit.

We appreciate the efforts of the Idaho Legislative Services Office in completing the Comprehensive Annual Financial Report audit for the State for fiscal year 2018. If you have any questions regarding the Corrective Action Plan or Summary Schedule of Prior Audit Findings, please do not hesitate to contact our office.

Sincerely,

Brandon D Woolf
State Controller

P.O. Box 83720, Boise, Idaho 83720-0011
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Located at 700 W. State Street, 5th Floor



Corrective Action Plan
For the fiscal year ended June 30, 2018

Office of the State Controller

Finding Number 2018-101: The Office's internal review process did not prevent or detect misstatements in the statewide CAFR.

Related to Prior Finding: N/A

Corrective Action: The State Controller's Office acknowledges the immaterial misstatements and presentation errors identified by the auditors. Most errors were corrected prior to the issuance of the financial statements. The office will evaluate and make improvements to the internal review procedures and the related instructions for the compilation of the CAFR this spring.

Due to errors identified in financial information provided by state agencies, the office will conduct an evaluation to determine where greater risk may be present. Additional reviews and checks will be conducted on this information to ensure reporting errors are eliminated prior to inclusion in the statewide financial report. The office will put emphasis on these areas of increased risk during the annual financial reporting trainings provided to state agencies.

The office will continue to search out training opportunities for implementing new accounting standards, specifically trainings on the complex reporting requirements related to pension and other postemployment benefits (OPEB). Additionally, the office will work with the agencies who administer the state's pension and OPEB plans to better understand how to apply generally accepted accounting principles to these plans.

Lastly, the office will add a new step in the internal review procedures to include a check of links within the reporting software to ensure amounts display correctly within the financial report.

Anticipated Corrective Action Date: The State Controller's Office will complete the corrective actions by June 30, 2019.

Responsible for Corrective Action: Brandon Purcell
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Idaho Department of Health and Welfare

Finding Number 2018-102: The Department does not have adequate controls in place to ensure the accuracy of drug rebate revenue received from the third-party billing contractor, Magellan Medicaid Administration (Magellan).

Related to Prior Finding: N/A

Corrective Action: The Department agrees with this finding. The Division of Medicaid will strengthen the controls over the review of drug rebates. The Division of Medicaid will write procedures for reviewing drug rebates and will ensure that the reviews are documented.

Anticipated Corrective Action Date: The Division of Medicaid will complete the corrective actions by May 31, 2019.

Responsible for Corrective Action: Steve Bellomy
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Steve.bellomy@dhw.idaho.gov
450 W State St., Fl. 10
Boise, ID 83702

Finding Number 2018-103: Medicaid eligibility rate codes determined by age were not modified in the Medicaid Management Information System (MMIS).

Related to Prior Finding: N/A

Corrective Action: The Department agrees with this finding. The Division of Welfare, who manages Medicaid eligibility, will strengthen controls to ensure that eligibility rate code changes are updated in a timely manner. In December 2018, the Division of Welfare modified the system so that rate code changes were identified correctly and timely. Additionally, the Division of Welfare will implement reconciliations to identify other data mismatch issues more promptly.

Anticipated Corrective Action Date: The Division of Welfare will complete the corrective actions by April 30, 2019.

Responsible for Corrective Action: Steve Bellomy
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Finding Number 2018-104: An investment account closing package was erroneously submitted for funds not belonging to the Department.

Related to Prior Finding: N/A

Corrective Action: The Department agrees with this finding. The Division of Medicaid and the Bureau of Financial Services will strengthen controls to ensure that accurate financial information regarding Community Health Initiatives Reserve Account (CHIRA) is provided to the State Controller's Office. The Division of Medicaid will monitor reserve accounts quarterly and will report them to Financial Services. The Bureau of Financial Services re-submitted the correct investment closing package with a $0 balance to the State Controller and will coordinate with the Division of Medicaid to ensure that future investment closing packages are correct, related to CHIRA accounts

Anticipated Corrective Action Date: The Division of Medicaid will complete the corrective actions by May 31, 2019. The Bureau of Financial Services will complete corrective actions by June 30, 2019.

Responsible for Corrective Action: Steve Bellomy
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Finding Number 2018-105: Misclassification of expenditures resulted in an $898,025 overstatement of Work in Process (WIP) and a corresponding understatement of Intangible Assets reported on the capital asset closing package.

Related to Prior Finding: N/A

Corrective Action: The Department agrees with this finding. The Bureau of Financial Services will develop procedures to strengthen internal controls to ensure that capital assets are recorded accurately. The Bureau will work with other Divisions to develop procedures and reports that can be used to review invoices to ensure that costs are recorded to the correct project phase.

Anticipated Corrective Action Date: The Bureau of Financial Services will complete the corrective action by June 30, 2019.

Responsible for Corrective Action: Steve Bellomy
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Idaho Transportation Department

Finding Number 2018-106: Procedures were not adequately designed to identify accounts payable related to work performed under construction contracts.

Related to Prior Finding: N/A

Corrective Action: Process changes are already underway to improve and achieve accurate and reliable financial information in closing package reporting. Management's corrective action plan is to improve procedures to identify accounts payable related to construction payments for goods or services received on or before June 30th and paid for after June 30th. The Department will review the Site Manager application (construction project software) to determine the best way to use the data entered into the application to help determine the accounts payable liability at June 30th. The department will also review the process around the first pay estimate in the new fiscal year to only include work performed on construction contracts on or before June 30th. A Site Manager cut-off procedure will provide the ability to identify work performed on construction projects at June 30th and accurately report the construction contract accounts payable liability at June 30th.

The execution of these additional controls should identify and report all material accounts payable and grants receivable identified in the recent audit and prevent future failures of the same nature from occurring.

Anticipated Corrective Action Date: The corrective action plan will be implemented by June 30th and made available for review during FY 2019 CAFR reporting.

Responsible for Corrective Action: Dave Tolman
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STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SCHEDULE OF BASIC FINANCIAL STATEMENTS PRIOR FINDINGS

STATE OF IDAHO
INTERNAL CONTROL REPORT
SCHEDULE OF BASIC FINANCIAL STATEMENTS PRIOR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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IDAHO TRANSPORTATION DEPARTMENT		
2017-102	The Grants Receivable and Accounts Payable closing packages contained errors resulting in the understatement of grants receivable, revenue, and accounts payable.	20

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

MANAGEMENT'S FOLLOW-UP FOR
BASIC FINANCIAL STATEMENTS PRIOR FINDINGS

STATE OF IDAHO
CONTROLLER'S OFFICE
BRANDON D WOOLF

February 7, 2019

April Renfro, CPA
Division Manager
Legislative Services Office, Audit Division
700 W Jefferson Street
P.O. Box 83720
Boise, Idaho 83720-0054

Dear Ms. Renfro,

Enclosed with this letter is the State of Idaho's Corrective Action Plan and Summary Schedule of Prior Audit Findings for the fiscal year 2018 Internal Control Report related to the Comprehensive Annual Financial Report.

The State's Corrective Action Plan and Summary Schedule of Prior Audit Findings are a compilation of information provided to us by the applicable state agencies. They are prepared in conjunction with your fiscal year 2018 Comprehensive Annual Financial Report audit.

We appreciate the efforts of the Idaho Legislative Services Office in completing the Comprehensive Annual Financial Report audit for the State for fiscal year 2018. If you have any questions regarding the Corrective Action Plan or Summary Schedule of Prior Audit Findings, please do not hesitate to contact our office.

Sincerely,

Brandon D Woolf
State Controller

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Summary Schedule of Prior Audit Findings
For the fiscal year ended June 30, 2018

Idaho State Liquor Division

Finding Number 2017-101: Statutorily required distributions of excess funds are not supported by adequate documentation, and controls are not in place to ensure the accuracy of the amount distributed.

Related to Prior Finding: N/A

Current Status: Corrected

Idaho Transportation Department

Finding Number 2017-102: The Grants Receivable and Accounts Payable closing packages contained errors resulting in the understatement of grants receivable, revenue, and accounts payable.

Related to Prior Finding: N/A

Current Status: Corrected

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by
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