

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 2019



Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

Eric Milstead
Director

February 13, 2020

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, 2019. 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 four significant deficiencies and one material weakness in internal control required to be reported under *Government 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

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Legislative Audits Division

Kristin Ford, Manager
Research & Legislation

Paul Headlee, Manager
Budget & Policy Analysis

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Legislative Services Office
Idaho State Legislature

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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 20, 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 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, 2019, 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 20, 2019. Our report includes a reference to other auditors who audited the financial statements of Boise State University, 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, 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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: 2019-101.

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: 2019-102, 2019-103, 2019-104, and 2019-105.

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, 2019

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, 2019

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STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OFFICE OF THE STATE CONTROLLER (Office)

FINDING 2019-101

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

Type of Finding: Material Weakness

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 Office 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: Several misstatements and presentation errors within the statewide financial statements were either identified by the auditors and communicated to management during the audit process or identified by the Office after the financial statements were provided for audit. The following items exceeded our materiality thresholds for the applicable opinion units but were corrected prior to issuing the CAFR:

- We noted the following misstatements for Component Units in the Statement of Net Position:
    - The Accounts Receivable Net and Accounts Payable were overstated by $597.6 million and Other Assets and Long Term Liabilities were understated by $597.6 million. The misstatements were due to the inclusion of financial information for the Idaho Housing and Finance Authority (IHFA). The financial information was changed in the IHFA independent outside audit after the Office provided the statewide financial statements for audit.

The following items exceeded our trivial thresholds, but did not exceed the materiality thresholds, for the applicable opinion units and were corrected prior to issuing the CAFR:

- Note 2 Deposits, Investments, and Restricted Assets: We noted the following errors in the note:
  - $12 million of Trust Equity Securities and Mutual Funds were not included in the Primary Government and Fiduciary Funds Fair Value of Investments Schedule.
  - The Component Unit Fair Value Schedule had errors totaling $37.1 million, and the Component Unit Interest Rate Risk Schedule had errors totaling $19.9 million.
  - $89 million was incorrectly classified as Business-Type Activities Debt Service on the Restricted Assets Schedule.
- Note 8 Pension Plans: We noted the following error in the note:
  - The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was understated by .07 percent.
- Note 9 Postemployment Benefits other than Pensions: We noted the following errors in the note:
  - The Retiree Life Insurance Plan was not disclosed as a multiple-employer defined benefit plan.
  - Additional benefit information included in the Milliman Actuarial Valuation was not disclosed in the note for employees of Colleges and Universities or the Judicial Department. The note should disclose that the benefit amount was reduced to 75% of the normal benefit amount after age 65 and 50% after age 70 for the employees of Colleges and Universities or the Judicial Department.
- Note 13 Bonds, Notes, and other Long-Term Liabilities: We noted the following error in the note:
  - The Idaho Housing and Finance Authority bonds payable were understated by $8 million.
- Note 14 Equity: We noted the following error in the note:
  - The Restricted by Enabling Legislation Governmental Activities amount was understated by $67.6 million.
- Note 16 Litigation, Contingencies, Commitments, and Encumbrances: We noted the following errors in the note:
  - The outstanding commitments for services for the Idaho Wildlife Information and Licensing Data System were overstated by $2.7 million.
  - The Public Employee Retirement System of Idaho (PERSI) unfunded private equity commitments were understated by $190 million.
- Management's Discussion and Analysis (MD&A): We noted the following errors in the MD&A:
  - The first paragraph under FINANCIAL ANALYSIS OF THE STATE AS A WHOLE indicates that the State's net position increased $579.0 million and that business-type activities net position increased $160.4 million. When compared to the Statement of Activities, the total net position increased $550.4 million and the net position of Business-Type Activities increased $131.9 million.
  - In the restated 2018 amounts within the "Net Position" table, Total Assets and Deferred Outflows of Resources, minus Total Liabilities and Deferred Inflows of Resources, did not equal Total Net Position. The difference was $41.6 million.
  - Under the Business-Type Activities heading in the FINANCIAL ANALYSIS OF THE STATE AS A WHOLE section, the narrative was not modified to either calculate the change in the operating expenses of the College and University Fund

or to state that the calculated change was for all expenses of the College and University Fund. The difference between the stated operating expenditures in the narrative and in the financial statements was $7 million.

The following items exceeded our trivial thresholds for the applicable opinion units and were not corrected prior to issuing the CAFR:

- Note 2 Deposits, Investments, and Restricted Assets: We noted the following error in the note:
  - The Endowment Funds Fair Value Measurements schedule does not include a description of the valuation techniques used in the fair value measurement as required by GASB Statement No. 72:81a(3).
- Note 9 Postemployment Benefits other than Pensions: We noted the following error in the note:
  - Governmental Accounting Standards Board (GASB) Statement No. 75 paragraph 52(c) requires disclosure of the dates of experience studies on which significant assumptions are based. The disclosures in Note 9 for the University of Idaho plan do not include a reference to the date of an experience study on which significant assumptions are based.
- Note 6 Capital Assets and Note 14 Equity: We noted the following errors in the notes:
  - The Capital Asset, Governmental Activities-Buildings and Improvements beginning balance includes an overstatement of $8.3 million and decreases includes the overstatement of ($8.3 million).
  - The Restatement of the Beginning Net Position of the Internal Service Fund is overstated by $8.3 million.
- Note 8 Pension Plans and Note 9 Postemployment Benefits other than Pensions: We noted the following errors in the notes:
  - The disclosures for Notes 8 and 9 do not include brief descriptions of the changes of assumptions and other inputs that have affected the measurement of the total pension or OPEB liability since the prior measurement date as required by GASB Statement Nos. 68 and 75. GASB Statement 68:45c applies to the Judge's Retirement Fund. GASB Statement 68:80d applies to the PERSI Base Plan. GASB Statement 75:56d applies to the University of Idaho Plan. GASB Statement 75:96d applies to the State Long-Term Insurance Reserve Fund. GASB Statement 75:190d applies to the OPEB plans administered by the Department of Administration.
- Two blended and discrete component units identified by the SCO are excluded from the statewide CAFR. The following entities had amounts that exceeded the trivial threshold for aggregate discretely presented component units.
  - Friends of Public TV Foundation
  - Bureau of Education Services for Deaf & Blind
- Department of Health and Welfare (DHW) CAFR Support Audit:
  - The Capital Assets, Depreciable, Net, on the Statement of Net Position and the Primary Government's Machinery, Equipment, and Other in Note 6 Capital Assets ending balances were overstated by $6.9 million because DHW has not provided support for amounts that were capitalized as intangible assets that meet the requirements of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets.

- The Capital Assets, Nondepreciable on the Statement of Net Position and the Primary Government's Capital Assets in Progress in Note 6 Capital Assets ending balances were overstated by $7.9 million because DHW has not provided support for amounts that were classified as intangible assets in Capital Assets in Progress to ensure that they meet the requirements of GASB Statement No. 51. The unsupported amounts included $6.9 million from prior years and $1 million in additions in the current year.

Cause: Internal controls over the compilation process for the CAFR included the 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 several misstatements and information that was not clearly presented. The significance of the misstatements and errors are described above.

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 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 and will create automated trend analysis and comparisons to identify variances and incorrect information.*

Due to errors identified in financial information provided by component units, the office will communicate with the parties to ensure correct information is submitted with the auditor's signature prior to the first draft of the CAFR being submitted.

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit.

IDAHO DEPARTMENT OF HEALTH AND WELFARE (Department)

FINDING 2019-102

The Department did not have a current evaluation of the adequacy of internal controls for a service organization responsible for processing $230 million in pharmacy expenditure claims.

Type of Finding: Significant Deficiency

Criteria: The Committee of Sponsoring Organization of the Treadway Commission (COSO) published the Internal Control Integrated Framework, which 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 control activities, information and communication, and monitoring. Control activities are policies and procedures that help ensure management directives are carried out and risks are mitigated. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties. Information and communication is the identification, capture, and exchange of information. Monitoring is a process that assesses the quality of an internal control system's performance over time.

Additionally, adequate internal controls to help ensure management directives are carried out both within the Department and with external entities providing critical financial business processes should be in place. A Statement for Standards on Attestation Engagement (SSAE) No. 18 report documents an examination of controls at organizations that provide services to user entities when those controls are likely to be relevant to user entities' internal controls over financial reporting and identifies potential weaknesses within those controls.

Condition: The Department has a contract with Magellan Medicaid Administration (Magellan) to process pharmacy claims received for recipients under the Medicaid program. Magellan receives Medicaid recipient eligibility information through an interface process with the Department, and approves amounts for each pharmacy claim paid. This is a critical financial function, as approximately $230 million of claims are processed annually.

Cause: The Department was unable to provide a current SSAE No. 18 report from Magellan and did not seem to have processes in place to evaluate the effect this might have on the vendor's ability to carry out the Department's directives.

Effect: While the Department did receive a copy of the report on December 12, 2019, after multiple requests and adjustments to our risk assessment and testing, they have not been adequately monitoring the internal controls of a service organization processing approximately $230 million dollars of expenditures annually.

Recommendation: We recommend that the Department strengthen internal controls to ensure current SSAE No. 18 reports are received and reviewed for all significant service organizations. We further recommend that the Department review and improve, if necessary, contract monitoring terms to ensure that they receive the reports in a timely manner so as to not diminish the usefulness of the information provided.

Management's View: *The Department agrees with the finding as a control weakness. The Department will strengthen internal communications and controls. The Division of Medicaid Contract Managers will review critical deliverables, as outlined in each contract, with their contract monitors to ensure contract monitoring activities are current and delivery of reports for review and acceptance are timely and within requirements.*

DHW Internal Audit will include Contract Managers and the Division Audit Liaison on all correspondence to ensure audit deliverables and timelines are being fulfilled. Internal Audit will also continue to review and evaluate the Standards for Attestation Engagements ("SSAE") reports in a timely manner in accordance with our procedures.

These changes will ensure DHW Internal Audit and related external parties, to include Legislative Audit Services, receive requested information, and approve any adjustments to timelines.

The Division of Medicaid will add additional contract language during the next amendment(s) to include, the contractor will submit annual SSAE and System and Organization Controls ("SOC") reports to the Department within 15 days of the issued audited report.

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit.

FINDING 2019-103
Capital assets in progress and capitalized intangible asset costs could be overstated and not in compliance with Governmental Accounting Standards Board Statement (GASB) Statement No. 51 requirements.

Type of Finding: Significant Deficiency

Criteria: GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, provides guidance on recognizing internally generated computer software and the related subject of cost capitalization.

- GASB Statement No. 51.8 states that outlays incurred related to the development of an internally generated intangible asset should be capitalized only when the project objective is determined, when the service capacity can be determined and is technically feasible, and there is an intention and ability to complete the project.
- GASB Statement No. 51.12 states that capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.
- GASB Statement No. 51.15 states that outlays associated with the modification of internally generated computer software should be considered maintenance and expensed as incurred if the software is already in operation. Outlays should be capitalized if the modification of software results in any of the following:
    a. An increase in the functionality of the computer software; that is, the computer software is able to perform tasks that it was previously incapable of performing.
    b. An increase in the efficiency of the computer software; that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks.
    c. An extension of the estimated useful life of the software.

Additionally, the Department's Bureau of Financial Services internal Financial Policy Manual provides guidance related to information technology (software) projects. The policy provides examples of relevant costs, like training, maintenance, and data conversion, that are needed for information management and indicates that these costs should be expensed as they are incurred regardless of when the cost is generated.

Condition: We reviewed capital assets and the expenditures charged to intangible assets in production and development in progress. The Department uses a capital asset spreadsheet to track

expenses related to these projects that may be capitalized, if they meet accounting standards and internal policies. This spreadsheet included the Medicaid Management Information System (MMIS) as an intangible asset that was implemented in 2012. However, it also identified expenditures of $6,855,423 that were added to the cost of the asset in fiscal year 2019. These charges should have been expensed, rather than capitalized, since the software was substantially complete and operational in 2012.

We also noted that the intangible assets development in progress section of the worksheet includes an Ongoing Medicaid Modernization (OMM) asset with a project start date in 2017 and an "open-ended" completion date. This asset includes a total of $7,882,223 charged to the project to date, with $960,846 applicable to fiscal year 2019. The Department has not clearly defined the project objective nor documented an estimated completion date, which does not meet the GASB Statement No. 51 definition of an intangible asset that would allow for costs charged to be capitalized.

Additionally, we noted 5 out of 45 expenditures tested were related to training and cell phone costs. Routine expenses like cell phones and training costs are not considered direct costs of development, so they should be expensed rather than capitalized.

Cause: The Department is not following internal policies and accounting standards that provides guidance for capitalization of costs related to intangible assets and does not appear to have provided adequate training on the requirements of GASB Statement No. 51 to the staff approving these transactions and establishing and tracking intangible asset projects.

Effect: The transaction errors identified related to training and cell phone charges result in a known overstatement of $258 and a projected overstatement of $128,955 in capitalized costs for intangible assets. Additionally, the charges to the MMIS project during fiscal year 2019 of $6,855,423 that were capitalized should have been expensed since they do not appear to meet the requirements in GASB Statement No. 51 for capitalization. Finally, the OMM project also does not appear to meet the requirements of GASB Statement No. 51 and potentially $7,882,223 should have been expensed over the past three fiscal years, rather than being accumulated in this project for capitalization.

Recommendation: We recommend that the Department evaluate and modify their internal policy to ensure compliance with GASB Statement No. 51 guidelines when capitalizing costs of intangible assets related to development in progress and assets in production to reduce the risk of misstatements of intangible capital assets. We also recommend that the Department provide training to staff tasked with tracking these projects and making determinations about the nature of the expense to ensure accurate classification of the costs. Finally, we recommend that the Department review each of these intangible project and make appropriate adjustments to ensure compliance with GASB Statement No. 51 requirements.

Management's View: *The Department partially agrees with this finding.*

We agree with the noted condition that some of the expenditures charged to intangible assets in development included costs, like training, that were capitalized contrary to Governmental Accounting Standards Board ("GASB") Statement No. 51.10 and 51.14 and the Department's Financial Policy. The Bureau of Financial Services will strengthen its training, procedures, and documentation in order to ensure that costs are recorded in accordance with GASB Statement No. 51.

The Department disagrees with the condition that $7,882,223 charged to the Ongoing Medicaid Modernization ("OMM") project did not meet the capitalization requirements of GASB Statement No. 51. While the title of the project in DHW's system indicates "ongoing", the OMM project includes an incremental approach that is intended to make substantial improvements to the Medicaid eligibility system based on objectives and funding commitments that are established annually for each discrete initiative. The objective of the project is to avoid costly full-scale system replacement through incremental modernization improvements. Individual project deliverables are defined annually based on stakeholder needs, state and federal regulations, and emerging program requirements. The OMM Advanced Planning Documents (APDs), define incremental objectives, with estimated completion and release dates, for each individual discrete component, rather than the project as a whole. We believe the level of documentation performed for each component meets the standards set in GASB Statement No. 51. In the future, the Bureau will proactively communicate procedures to our audit partners on how the information concerning the nature of project costs is accumulated and distinguished for financial reporting. The Department will report adjustments to subsequent year's capital assets closing package, to incorporate accumulated cost and amortization of completed OMM components into the "asset in production" section of the report.

The Department disagrees with the condition that the $6,855,423 in expenditures included for Medicaid Management Information System (MMIS) should have been expensed, rather than capitalized, since the software was substantially complete and operational in 2012. The charges to the MMIS project are reflective of system modifications with determined project objectives, funding commitments, and effort of achieving required levels of service capacity. Examples of some functionalities and efficiencies included in the reported outlays include automation of provider enrollment processes and implementation of system changes to support a new health plan. Based on the results of these activities, the Department deems the capitalization of the modification costs to be appropriate and consistent with GASB Statement No 51.15 which states that outlays associated with modification of software in operation should be capitalized if such modification results in an increase of functionality, efficiency, or extension of the useful life of the software.

Auditor's Concluding Remarks: We appreciate the Department's response; however, we would like to clarify that it remains unclear if the annual costs added to the OMM and MMIS projects increase functionality, increase efficiency, or extend the useful life of the software to qualify the costs for capitalization under GASB Statement No. 51.

IDAHO STATE TAX COMMISSION (Commission)

FINDING 2019-104

Evidence of review for sales tax distributions and reversal reconciliations was not maintained.

Type of Finding: Significant Deficiency

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) published the Internal Control Integrated Framework, which 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. A component of this framework is control activities, which are the policies and procedures that help ensure the entity's

objectives are met. These activities include segregation of duties, review and authorization of transactions, and maintaining supporting documentation.

Condition: The Commission uses an End of Month Checklist to document the completion of month-end tasks, reconciliations and associated reviews.

During our testing of this internal control over sales tax distributions, we noted four of the ten distributions tested did not have initials on the End of Month Checklist indicating that a review took place.

Additionally, we reviewed the Commission's monthly reconciliation of reversal transactions that are mostly related to insufficient fund payments from taxpayers. In our review of the reversal reconciliations, we noted that the reviewed column of the End of Month Checklist was marked "N/A" for all 12 months. After further discussion with Commission staff, it was revealed that no review of the reversal reconciliation was taking place.

Cause: The Commission has identified control procedures to document reviews on the End of Month Checklist. However, those procedures were not followed and documentation was not maintained for reviews over sales tax distributions and reversal reconciliations.

Effect: Our substantive procedures did not identify any errors in either sales tax distributions or reversals. However, the review process is a critical control, and without evidence that it is consistently applied, the risk of errors occurring and going undetected increases.

Recommendation: We recommend that the Commission ensure that internal control procedures are in place and consistently applied, and that they improve the documentation of control activities performed to ensure that reviews are completed and proper segregation of duties is maintained.

Management's View: *During the CAFR Audit, the Legislative Services Office discovered one finding; that the evidence of review for sales tax distributions and reversal reconciliations were not maintained. Regarding sales tax distributions, four end-of-month checklists did not have initials indicating that a review occurred. Data entry and review was done at the Financial Specialist Senior level. Moving forward, the Financial Specialist Principal or Financial Executive Officer will sign the End of Month checklist before it is filed to verify that a review was conducted by one of the Financial Specialist Seniors. The Financial Specialist Principal will be the primary contact in verifying that a review was conducted. The Financial Executive Officer will be the verifier in the Financial Specialist Principal's absence.*

Regarding the review of reversal reconciliations, reversals and reconciliations were conducted by one individual. The Commission had personnel staffing shortfalls which contributed to this process. The Commission now has three active Financial Specialist Seniors that execute the day to day revenue accounting operations. Changes to workflow have been implemented and the individual who conducted the reversal process only reconciles the reversals while one of the other two employees enter in the reversal. All three employees are capable of entering and reconciling the reversal. If needed, one of the Financial Specialist Principals or the Financial Executive Officer can conduct the reconciliation.

Auditor's Concluding Remarks: We thank the Commission for its cooperation and assistance throughout the audit.

IDAHO TRANSPORTATION DEPARTMENT (Department)

FINDING 2019-105

The Department did not appropriately monitor the adequacy of internal controls for a service organization responsible for processing approximately $15.2 million in receipts for International Registration Plan (IRP) fees.

Type of Finding: Significant Deficiency

Criteria: The Committee of Sponsoring Organization of the Treadway Commission (COSO) published the Internal Control Integrated Framework, which 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 control activities, information and communication, and monitoring. Control activities are policies and procedures that help ensure management directives are carried out and risks are mitigated. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties. Information and communication is the identification, capture, and exchange of information. Monitoring is a process that assesses the quality of an internal control system's performance over time.

Additionally, adequate internal controls to ensure management directives are carried out both within the Department and with external entities providing critical financial business processes should be in place, effective, and monitored. A Statement for Standards on Attestation Engagement (SSAE) No. 18 report documents an examination of controls at organizations that provide services to user entities when those controls are likely to be relevant to user entities' internal controls over financial reporting, and identifies potential weaknesses within those controls.

Condition: The International Registration Plan is a reciprocity agreement among states of the U.S., the District of Columbia, and provinces of Canada, which recognizes the registration of commercial motor vehicles issued by other jurisdictions. Motor carriers register with and pay to one jurisdiction. The fee is based on the percentage of distance traveled in each jurisdiction according to that jurisdiction's fee schedule; these fees are then distributed to the relevant jurisdictions.

The Department has a contract with Celtic Systems, a service organization, to register commercial carriers under this plan, and calculate and collect registration fees. The fees collected are sent to the Department on a daily basis, either via credit card transactions or deposits of checks received. Internal control activities should be in place and effectively functioning throughout this process to ensure that the correct registration fee is charged and remitted to the Department.

The report provided by Celtic Systems has been for their service organization, a sub-service organization for the Department. This report did not provide the appropriate information about the adequacy of the service organization's internal controls.

Cause: Staff at the Department assigned to collect these reports were not aware of the difference in reports and did not emphasize the importance of receiving and reviewing these reports in a timely manner to ensure accurate reporting.

Effect: Procedures completed during the audit to test a sample of these transactions for accuracy did not identify any errors. However, the lack of monitoring of the service organization increases the risk that errors in properly calculating and collecting the amount of IRP fees could occur and go undetected. This fee generates approximately $15.2 million dollars of receipts annually.

Recommendation: We recommend that the Department improve policies and procedures to ensure current, and appropriate, SSAE No. 18 reports are received, reviewed, and evaluated for all significant service organizations.

Management's View: *The Idaho Transportation Department (ITD) will work with our providers of technology services to ensure that appropriate SSAE No. 18 reports are provided to ITD as part of their contracts by the end of Fiscal Year 2020. ITD will also train our staff on SSAE No. 18 reports and how to review and evaluate those reports to ensure that these systems provided to ITD are meeting the requirements for which they are intended.*

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

MANAGEMENT'S CORRECTIVE ACTION PLAN

STATE OF IDAHO
CONTROLLER'S OFFICE
BRANDON D WOOLF

February 3, 2020

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 2019 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 2019 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 2019. 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
Telephone: (208) 334-3100, e-mail: frontoffice@sco.idaho.gov, Fax: (208) 334-2671
Located at 700 W. State Street, 5th Floor



Corrective Action Plan
For the fiscal year ended June 30, 2019

Office of the State Controller

Finding Number 2019-101: The Office's internal review process did not prevent or detect misstatements in the statewide CAFR.

Related to Prior Finding: 2018-101

Corrective Action: The State Controller's Office acknowledges the 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 and will create automated trend analysis and comparisons to identify variances and incorrect information.

Due to errors identified in financial information provided by component units, the office will communicate with the parties to ensure correct information is submitted with the auditor's signature prior to the first draft of the CAFR being submitted.

Anticipated Corrective Action Date: The State Controller's Office will complete the corrective actions by June 30, 2020.

Responsible for Corrective Action: Tiffini LeJeune
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Tlejeune@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Idaho Department of Health and Welfare

Finding Number 2019-102: The Department did not have a current evaluation of the adequacy of internal controls for a service organization responsible for processing $230 million in pharmacy expenditure claims.

Related to Prior Finding: N/A

Corrective Action: The Department agrees with the finding as a control weakness. The Department will strengthen internal communications and controls. The Division of Medicaid Contract Managers will review

critical deliverables, as outlined in each contract, with their contract monitors to ensure contract monitoring activities are current and delivery of reports for review and acceptance are timely and within requirements.

DHW Internal Audit will include Contract Managers and the Division Audit Liaison on all correspondence to ensure audit deliverables and timelines are being fulfilled. Internal Audit will also continue to review and evaluate the Standards for Attestation Engagements ("SSAE") reports in a timely manner in accordance with our procedures.

These changes will ensure DHW Internal Audit and related external parties, to include Legislative Audit Services, receive requested information, and approve any adjustments to timelines.

The Division of Medicaid will add additional contract language during the next amendment(s) to include, the contractor will submit annual SSAE and System and Organization Controls ("SOC") reports to the Department within 15 days of the issued audited report.

Anticipated Corrective Action Date: The Division of Medicaid and the Division of Management Services will complete the corrective actions by March 31, 2020.

Responsible for Corrective Action: Ryan Smith
Phone: 208-334-5814
Ryan.Smith@dhw.idaho.gov
450 W State St., Fl. 10
Boise, ID 83702

Finding Number 2019-103: Capital assets in progress and capitalized intangible asset costs could be overstated and not in compliance with Governmental Accounting Standards Board Statement (GASB) Statement No. 51 requirements.

Related to Prior Finding: N/A

Corrective Action: The Department partially agrees with this finding.

We agree with the noted condition that some of the expenditures charged to intangible assets in development included costs, like training, that were capitalized contrary to Governmental Accounting Standards Board ("GASB") Statement No. 51.10 and 51.14 and the Department's Financial Policy. The Bureau of Financial Services will strengthen its training, procedures, and documentation in order to ensure that costs are recorded in accordance with GASB Statement No. 51.

The Department disagrees with the condition that $7,882,223 charged to the Ongoing Medicaid Modernization ("OMM") project did not meet the capitalization requirements of GASB Statement No. 51.While the title of the project in DHW's system indicates "ongoing", the OMM project includes an incremental approach that is intended to make substantial improvements to the Medicaid eligibility system based on objectives and funding commitments that are established annually for each discrete initiative. The objective of the project is to avoid costly full-scale system replacement through incremental modernization improvements. Individual project deliverables are defined annually based on stakeholder

needs, state and federal regulations, and emerging program requirements. The OMM Advanced Planning Documents (APDs), define incremental objectives, with estimated completion and release dates, for each individual discrete component, rather than the project as a whole. We believe the level of documentation performed for each component meets the standards set in GASB Statement No. 51. In the future, the Bureau will proactively communicate procedures to our audit partners on how the information concerning the nature of project costs is accumulated and distinguished for financial reporting. The Department will report adjustments to subsequent year's capital assets closing package, to incorporate accumulated cost and amortization of completed OMM components into the "asset in production" section of the report.

The Department disagrees with the condition that the $6,855,423 in expenditures included for Medicaid Management Information System (MMIS) should have been expensed, rather than capitalized, since the software was substantially complete and operational in 2012. The charges to the MMIS project are reflective of system modifications with determined project objectives, funding commitments, and effort of achieving required levels of service capacity. Examples of some functionalities and efficiencies included in the reported outlays include automation of provider enrollment processes and implementation of system changes to support a new health plan. Based on the results of these activities, the Department deems the capitalization of the modification costs to be appropriate and consistent with GASB Statement No 51.15 which states that outlays associated with modification of software in operation should be capitalized if such modification results in an increase of functionality, efficiency, or extension of the useful life of the software.

Anticipated Corrective Action Date: The Division of Management Services will complete the corrective actions by June 30, 2020.

Responsible for Corrective Action: Ryan Smith
Phone: 208-334-5814
Ryan.Smith@dhw.idaho.gov
450 W State St., Fl. 10
Boise, ID 83702

Idaho State Tax Commission

Finding Number 2019-104: Evidence of review for sales tax distributions and reversal reconciliations was not maintained.

Related to Prior Finding: N/A

Corrective Action: During the CAFR Audit, the Legislative Services Office discovered one finding; that the evidence of review for sales tax distributions and reversal reconciliations were not maintained. Regarding sales tax distributions, four end-of-month checklists did not have initials indicating that a review occurred. Data entry and review was done at the Financial Specialist Senior level. Moving forward, the Financial Specialist Principal or Financial Executive Officer will sign the End of Month checklist before it is filed to verify that a review was conducted by one of the Financial Specialist Seniors. The Financial Specialist Principal will be the primary contact in verifying that a review was conducted. The Financial Executive Officer will be the verifier in the Financial Specialist Principal's absence.

Regarding the review of reversal reconciliations, reversals and reconciliations were conducted by one individual. The Commission had personnel staffing shortfalls which contributed to this process. The Commission now has three active Financial Specialist Seniors that execute the day to day revenue accounting operations. Changes to workflow have been implemented and the individual who conducted the reversal process only reconciles the reversals while one of the other two employees enter in the reversal. All three employees are capable of entering and reconciling the reversal. If needed, one of the Financial Specialist Principals or the Financial Executive Officer can conduct the reconciliation.

Anticipated Corrective Action Date: The corrective action plan was implemented on January 15, 2020.

Responsible for Corrective Action: Nick Landry
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Nick.Landry@tax.idaho.gov
11321 W. Chinden Blvd
Boise, ID 83714

Idaho Transportation Department

Finding Number 2019-105: The Department did not appropriately monitor the adequacy of internal controls for a service organization responsible for processing approximately $15.2 million in receipts for International Registration Plan (IRP) fees.

Related to Prior Finding: N/A

Corrective Action: The Idaho Transportation Department (ITD) will work with our providers of technology services to ensure that appropriate SSAE No. 18 reports are provided to ITD as part of their contracts by the end of Fiscal Year 2020. ITD will also train our staff on SSAE No. 18 reports and how to review and evaluate those reports to ensure that these systems provided to ITD are meeting the requirements for which they are intended.

Anticipated Corrective Action Date: Corrective action will be completed by the end of Fiscal Year 2020.

Responsible for Corrective Action: Dave Tolman
Phone: 208-334-8525
dave.tolman@itd.idaho.gov
3311 W State Street
Boise, ID 83703

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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, 2019

STATE AGENCY		PAGE
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IDAHO DEPARTMENT OF HEALTH AND WELFARE		
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).	22
2018-103	Medicaid eligibility rate codes determined by age were not modified in the Medicaid Management Information System (MMIS).	22
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2018-106	Procedures were not adequately designed to identify accounts payable related to work performed under construction contracts.	22

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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



Summary Schedule of Prior Audit Findings
For the fiscal year ended June 30, 2019

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

Current Status: Partially corrected

Reason for recurrence: The Office implemented corrective actions provided on the prior year corrective action plan, however, staffing changes and review process changes still resulted in errors going undetected. As a result, the Office is working to improve the review process as discussed in our current year corrective action plan.

Planned corrective action: The Office will evaluate and make improvements to the internal review procedures and the related instructions for the compilation of the CAFR this spring and will create automated trend analysis and comparisons to identify variances and incorrect information.

Due to errors identified in financial information provided by component units, the office will communicate with the parties to ensure correct information is submitted with the auditor's signature prior to the first draft of the CAFR being submitted.

Partial corrective action taken: Our team attended professional development training during the year. The team continues to attend trainings to stay current on governmental accounting standards and will continue to seek out additional trainings.

Our team has utilized our reporting software to identify possible errors, and we have implemented an upgrade to the software, which allowed us to remove one layer of linking complexity.
Our team met with the Department of Administration to discuss other post-employment benefit information required to be reported in the financial statements and agreed on the information the Department provides to SCO for reporting.

Our team identified common errors reported by agencies in the prior year and documented them as part of our annual agency risk assessment. At the beginning of financial statement preparation and again after closing packages were submitted, our team reviewed the risk assessment and identified agencies that may be higher risk. The common errors were also discussed during our annual training to the agencies.

Our team evaluated and improved internal review procedures for the CAFR compilation by improving the closing package platform to include a new review feature. This allows the SCO reviewer and users to easily see that closing packages have been reviewed by at least one reviewer. The Office continues to have entries of $5 million or more, as well as unusual or uncommon entries to be reviewed before being processed.

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

Current Status: Corrected

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

Current Status: Corrected

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

Current Status: Corrected

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

Current Status: Corrected

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

Current Status: Corrected

Compiled and Published
by
Idaho Legislative Services Office
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