

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 2021

Terri Kondeff
Director

Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

February 18, 2022

Honorable Brad Little, Governor
Honorable Representative Rick D. Youngblood, JFAC Co-Chair
Honorable Senator Jeff Agenbroad, 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 *Annual Comprehensive Financial Report* (ACFR) covering the fiscal year ended June 30, 2021. This *Internal Control Report* is an integral part of the ACFR 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 three material weaknesses 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 ACFR 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

Paul Headlee, Deputy Director
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Kristin Ford, Manager
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Legislative Services Office
Idaho State Legislature

Terri Kondeff
Director

Serving Idaho's Citizen Legislature

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 22, 2021

Honorable Brad Little, Governor
Honorable Representative Rick D. Youngblood, JFAC Co-Chair
Honorable Senator Jeff Agenbroad, 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, 2021, 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 22, 2021. 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 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, and Idaho Housing and Finance Association 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) as a basis for designing 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: 2021-101, 2021-102, and 2021-103.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Basic Financial Statement Findings to be significant deficiencies: 2021-104, 2021-105, 2021-106, and 2021-107.

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 financial statements. 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, 2021

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, 2021

STATE AGENCY		PAGE
OFFICE OF THE STATE CONTROLLER		
2021-101	The Office's internal review process did not prevent or detect misstatements in the statewide ACFR submitted to the auditors.	4
2021-102	The Office's internal review procedures did not prevent or detect the understatement of Medicaid Payable on the Governmental Fund statements.	7
2021-103	The Office did not have control procedures implemented to ensure appropriate grouping of accounts on the Intergovernmental Revenue Sharing expenditure line on the Governmental Fund statements, resulting in misstatements to the initial financial statements submitted for audit.	9
2021-104	The Office did not have control procedures implemented to ensure the calculation of the IDLE allocation was based on the appropriate grouping of funds.	10
IDAHO STATE TAX COMMISSION		
2021-105	Critical reviews and reconciliations were not completed for sales tax distributions, fuel tax distributions, Rebound Idaho distributions, and total monthly refunds for 9 out of 12 months during fiscal year 2021. Additionally, the Total Monthly Refunds (Allotment Ledger) contained unreconciled amounts in the months of March through June 2021.	12
2021-106	The Commission submitted an Accounts Receivable closing package that lacked supporting documentation and contained errors resulting in an overstatement of $16,500,000.	13
IDAHO STATE TREASURER'S OFFICE		
2021-107	The Millennium Permanent Endowment Fund (MPEF) investment decisions are not being made with the involvement of, and recommendations from, the State Treasurer Investment Advisory Board, as required by Idaho Code.	14

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

OFFICE OF THE STATE CONTROLLER (Office)

FINDING 2021-101

The Office's internal review process did not prevent or detect misstatements in the statewide ACFR submitted to the auditors.

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 ACFR 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 statewide ACFR.

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: The ACFR submitted for audit purposes included several misstatements, omissions, and presentation errors. These items were either identified by the auditors and communicated to management during the audit process or identified by the Office after the ACFR was provided for audit purposes. The following item exceeded our materiality threshold for the applicable opinion unit and was corrected prior to issuing the ACFR:

- Note 2: We noted that the Restricted Assets Summary Schedule did not include the American Rescue restricted funds of $604,110,621.

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

- Note 2: The Primary Government and Fiduciary Funds Fair Value of Investments schedule contained three errors. An amount of $2,078,000 reported under Money Market Funds as Level 2

should have been shown in Level 1. External Investment Pools listed under Amortized Cost reported the incorrect market valuation technique as market when this should have been reported as cost. The valuation technique for Real Estate and Perpetual Trusts of $11,664,000 was listed as cost; this should have been shown as Net Asset Value (NAV).

The Component Unit Fair Value Schedule incorrectly listed the valuation for Investment Agreements as cost; this should have been listed as market. This schedule also incorrectly reported the amounts for Investments in Real Estate and Perpetual Trusts NAV column. The amount for Perpetual Trusts should have been shown in the Level 1 column. The full amount for Private Equities was incorrectly classified as market and should have been listed as NAV. Additionally, the footnotes at the bottom of the schedule were determined to be redundant because the footnote contained information that was already clearly shown in the table.

The Endowment Funds Fair Value Measurements Table did not have a column listing the valuation technique, and the note did not contain a disclosure discussing the valuation of the Level 1 and Level 2 investments.

The Credit Risk of Debt Securities section contained a paragraph discussing changes to the State Board of Education investment policy for College and Universities changed from the prior year; however, our review noted that these changes did not occur.

The note did not include a separate disclosure for the Millennium Permanent Endowment Fund (MPEF) under the Types of Investments section.

- Note 7: On the Deferred Inflows of Resources – Government-Wide schedule, the amounts for Service Concession Arrangement of $10,000,000 and Other Deferred Inflows of $39,856,680 for Business-Type Activities were switched. Based on a review of the supporting documentation, the Service Concession Arrangement should have been $39,856,680 and the Other Deferred Inflow should have been $10,000,000.

- Note 8: We noted in the first paragraph under Mortality Rates, that economic assumptions for the Judges Retirement Fund (JRF) were studied for the period 2015 through 2021. However, the supporting documentation noted that experience study period was changed from 2015 through 2020. Under Discount Rate, the note disclosure included the new discount rate for the JRF plan, but not the change in the discount rate since the prior measurement period. Per GASB 68 paragraph 42a., the disclosure should include the discount rate and the change from the prior measurement date. The discount rate for the Department of Labor Retirement Plan should have been updated to 3.5 percent. There were changes in assumptions that affected the measurement of the total pension liability since the prior measurement date for the JRF plan. A discussion of these changes was not included in the note disclosure. GASB 68 paragraph 45 requires a brief description of these changes.

- Note 9: A reference to actuarial assumptions incorrectly reference the June 30, 2020, Milliman GASB 75 disclosure report. This should have referenced the June 30, 2021 report. The plan description noted a benefit phase out between 2021 and 2014. This should have said 2024 instead of 2014.

- Note 10: The Office reported that cyber liability was commercially insured up to $500,000 in the note. In the previous fiscal year, Cyber Liability coverage was obtained commercially. In fiscal year 2021, that coverage has been brought under the State Retained Risk Account. This should have been restated as "self-insured" instead of "commercially" to better describe the insurer of the Cyber Liability policy.

- Note 11: The Asset Operational Lease Total Assets Held for Lease was understated for both Primary Government and Component Units by $55,735,000; Land was understated by $13,450,000; Buildings by $45,632,000; and Accumulated Depreciation by $3,347,000.

- Note 13: Interest rates for the Idaho Bond Bank Authority (IBBA) were not correctly reported in the note. The support noted the amount was 1.25 to 5.15 percent, while the note stated 1.25 percent to 6.25 percent. Additionally, the interest rates for the Idaho Transportation Department (ITD) were incorrectly reported as 2.25 percent, when this should have been 2.11 percent. The duration of pledge for the College and Universities Pledged Revenue is paid through 2050; the note incorrectly reported through 2048. Aggregate principal amount payable was incorrectly reported as $33.8 million; this should be $32.4 million.

- Note 14: The note incorrectly stated that Idaho Code requires the money in the Budget Stabilization Fund shall not exceed 15 percent of the total General Fund receipts for the fiscal year just ending. This change is not in full effect until on and after July 1, 2021 (fiscal year 2022). The percentage should remain 10 percent for fiscal year 2021.

- Note 16: The note overstated the commitment for the Management and Training Corporation contract by $2,562,557. The total commitment should have been $20.7 million. The commitment for Corizon LLC of $13,436,169 for fiscal year 2021 was not included in the note. Its contract was extended through September 30, 2021, and the amount should have been included. The commitment for GenTax software of $41,689,000 was not included. An Asset Retirement Obligation is disclosed in the note, but does not include the estimated remaining useful life of the associated tangible capital assets. Based on review of GASB 83, paragraph 27(c), the disclosure should include the estimated remaining useful life of the associated tangible capital assets.

- The Management Discussion and Analysis (MD&A) Net Position schedule and Changes in Net Position schedule showed the Net Position – Beginning of Year as restated for Governmental Activities being reported as $12,790,365,000, instead of the $12,757,740,000 as shown on the Statement of Activities in the Government-Wide statements. The MD&A incorrectly stated Tax Anticipation Notes (TANs) were not issued for a second year in a row; TANs were not issued in fiscal year 2021 only and were issued in fiscal year 2020.

The following items were not changed prior to issuance of the ACFR and were not material:

- Taxes receivable on the Governmental Fund statements were overstated in the General Fund by $11,764,441 and were overstated in the Transportation Fund by $5,143,182. The Government-Wide statements, taxes receivable were overstated by $16,543,871.

- Note 9: We noted that the disclosures for the University of Idaho did not include a reference to the date of an experience study on which significant assumptions are based. We also noted that the University of Idaho outside audit also does not include this information. The measurement of the

total OPEB liability for the Sick Leave Insurance Reserve Fund (SLIRF) was affected by changes of assumptions; however, a description of what assumptions changed was not included in the note disclosure as required by GASB 75 paragraph 96(d).

- Component Unit Materiality Determination: We noted that two discrete component units identified by the Office were excluded from the statewide ACFR. The entities had amounts that exceeded the trivial threshold for aggregate discretely presented component units and should have been included, but the SCO did not include these entities.

Cause: Internal controls over the compilation process for the ACFR included review of work by a staff member independent of the staff member completing the work; however, the review was not performed at a level of detail necessary to prevent or detect the misstatements, errors, and omissions listed above.

Effect: The financial statements and note disclosures submitted for audit contained several misstatements and information that was not clearly presented. Material errors identified were corrected; other errors not corrected were for amounts which were not material, but exceeded our trivial threshold.

Recommendation: We recommend that the Office strengthen the review process over the compilation of the ACFR by additional training and documentation to ensure adequate reviews are taking place. This will assist in ensuring 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 Office agrees with this finding. Most errors were corrected prior to the issuance of the financial statements. The Office will continue to evaluate and make improvements to the internal review procedures along with improved analysis of the trends from one year to another. We will be using new functionality in our ACFR compilation system for the review process with reminders and tasks set to ensure there is enough time for a thorough review. We are also in the process of developing a risk based internal review checklist to help identify and correct potential errors in reporting.*

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

FINDING 2021-102
The Office's internal review procedures did not prevent or detect the understatement of Medicaid Payable on the Governmental Fund statements.

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 ACFR 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 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 ACFR.

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: The following misstatement was identified by the auditors and communicated to management during the audit process after the financial statements were provided to the auditors. The following item exceeded our materiality threshold for the Governmental Fund statements, but was corrected prior to issuing the ACFR.

The amount listed as Medicaid Payable on the Governmental Fund Balance Sheet was $3,171,000. The supporting documentation included in the Office closing package listed the amount due within 1 to 60 days for sub-object 7040 as $189,033,000. The amount reported as Medicaid Payable on the Governmental Fund Balance Sheet and as Governmental Activities on the Government-Wide Statement of Net Position should have been $189,033,000.

Cause: The review of the closing package support documentation was not adequate and only part of the amount reported was included in the Medicaid Payable. A trend analysis was also completed by the Office to identify potential errors, but the review of that analysis lacked the attention to detail necessary to identify the misstatement.

Effect: The financial statements submitted for audit contained misstatements that exceeded our materiality threshold for the Governmental Funds statement, however the misstatement for Governmental Activities on the Government-Wide statements was less than material, but above our trivial threshold. The Office corrected the error prior to issuing the ACFR.

Recommendation: We recommend that the Office strengthen the review process over the compilation of the ACFR to ensure financial statements agree to documentation that supports those amounts.

Management's View: *The Office agrees with this finding. Errors were corrected prior to the issuance of the financial statements. We have modified our task instructions for processing the Medicaid payables entry to ensure it is complete and accurate. As mentioned in the response to finding #2021-101, we are also working to improve our internal review analytical procedures to ensure any significant fluctuations from year to year are identified and investigated to ensure accuracy.*

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

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

FINDING 2021-103

The Office did not have control procedures implemented to ensure appropriate grouping of accounts on the Intergovernmental Revenue Sharing expenditure line on the Governmental Fund statements, resulting in misstatements to the initial financial statements submitted for audit.

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 ACFR 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 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 statewide ACFR.

Condition: The following misstatement was identified by the auditors and communicated to management during the audit process after the financial statements were provided to the auditors. The following item exceeded our materiality threshold for the applicable opinion unit, but was corrected prior to issuing the ACFR:

- Sub-objects with governmental class code 195 were supposed to flow to the Intergovernmental Revenue Sharing reporting line. This class code did not flow to the expenditure line as intended. We noted expenditures were overstated for the following opinion units and functions resulting in an understatement of the Intergovernmental Revenue Sharing line for that opinion unit:
    - In the General Fund, the General Government and Natural Resources functions were overstated.
    - In the Transportation Fund, the Economic Development function was overstated.
    - In the Federal Stimulus Fund, the General Government, Education, and Economic Development functions were overstated.
    - In the Nonmajor Governmental Funds (Aggregate Other Funds), the General Government, Natural Resources, Economic Development, and Public Safety and Correction functions were overstated.

Cause: When new accounts were added to the governmental class code 195, not all accounts were grouped correctly. The Office did not implement or design control procedures to review changes and ensure that the Intergovernmental Revenue Sharing line was grouped and reported correctly.

Effect: We noted misstatements that exceeded our trivial thresholds in the following expense lines and function codes in the Governmental Fund statements:

- Transportation Fund - The Economic Development function was overstated by $420,000. Intergovernmental Revenue Sharing is understated by $420,000 this misstatement did not exceed materiality and was not corrected.
- Federal Stimulus Fund - General Government was overstated by $58,651,000 and Economic Development was overstated by $38,229,000. Intergovernmental Revenue Sharing was understated by $97,905,000. Misstatements shown in the Federal Stimulus Fund also exceeded our threshold for material misstatements; however, those misstatements were corrected prior to issuing the ACFR.

Additional errors that were identified and below trivial are not included in the effect.

Recommendation: We recommend that the Office design and implement a review process of the grouping of class codes to ensure the financial statements are accurately stated.

Management's View: *The Office agrees with this finding. Errors were corrected prior to the issuance of the financial statements. The Office will be including an additional query of the specific subobjects that should be reported as intergovernmental revenue sharing, to ensure new accounts are grouped properly.*

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. The suggested procedures included in the corrective action plan should address the concern related to the error found, if properly implemented. However, we would like to emphasize that the structure used to consolidate activity to reporting lines, currently called subobject grouping, should be improved for all reporting lines to ensure accounts are correctly mapped and included in the financial statements.

FINDING 2021-104
The Office did not have control procedures implemented to ensure the calculation of the IDLE allocation was based on the appropriate grouping of funds.

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 ACFR in conformity with accounting principles generally accepted in the United States of America and compliance with applicable laws and regulations.

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Idaho Code, Section 67-1001(2), requires that the Office submit 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 ACFR.

Condition: The IDLE Allocation percentage for Fund Sub Group SFD (Special Revenue – Federal fund) was calculated using Funds 0344, 0346, and 0348, however, fund 0344 should have been included in the calculation of the IDLE allocation for SFS instead of the calculation of SFD. This resulted in an overstatement of restricted cash, investment income, and other income and an understatement of other assets, other accrued liabilities, and general government expenses in fund sub group SFS (Special Revenue – Federal Stimulus fund) and an overstatement of Interfund Payable, Other Assets, Other Accrued Liabilities and General Government Expenses and an understatement of Investment Income in fund sub group SFD. The misstatement was identified by the auditors and communicated to management during the audit process after the financial statements were provided to the auditors, and the error exceeded our trivial threshold, but did not exceed our materiality threshold.

Cause: Fund 0344 was a new fund for fiscal year 2021. When added to the IDLE Allocation, the fund was not grouped correctly and a control procedure was not designed or implemented to ensure the funds were classified in the proper Fund Sub Group in the IDLE Allocation.

Effect: The following misstatements exceeded our trivial thresholds, but not materiality, in the Governmental Funds Balance Sheet and Operating Statement:

Balance Sheet:

- Federal Stimulus Column:
  - Restricted Cash Line was overstated by $33,678,000
  - Other Assets Line was understated by $1,363,000
- Nonmajor Governmental Column:
  - Interfund Payable Line was overstated by $33,678,000

Operating Statement:

- Federal Stimulus Column:
  - General Government Line was understated by $31,064,000
  - Investment Income Line was overstated by $1,218,000
- Nonmajor Governmental Column:
  - General Government Line was overstated by $31,064,000

The error was not corrected prior to issuing the ACFR.

Recommendation: We recommend that the Office design and implement a review process to ensure appropriate grouping of funds in the IDLE Allocation.

Management's View: *The Office agrees with this finding. Task instructions have been updated to explain the grouping of the funds and if there are new funds, to ensure they are grouped correctly. As mentioned in our response to finding #2021-101, we are working on a risk based internal review checklist.*

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

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

IDAHO STATE TAX COMMISSION (Commission)

FINDING 2021-105

Critical reviews and reconciliations were not completed for sales tax distributions, fuel tax distributions, Rebound Idaho distributions, and total monthly refunds for 9 out of 12 months during fiscal year 2021. Additionally, the Total Monthly Refunds (Allotment Ledger) contained unreconciled amounts in the months of March through June 2021.

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 that are critical to ensuring these distributions and refunds are completed and recorded accurately.

During our testing of internal controls, we noted portions of the End of Month Checklist in 9 out of the 12 months, or 75 percent, was not fully completed.

The End of Month Checklist completion and review helps ensure:

- Sales tax amounts are accurately and fully distributed,
- Fuel tax amounts are accurately and fully distributed,
- Rebound Idaho distribution totals are accurately accounted for in total, and
- Monthly refunds are accurately accounted for in total and reconcile to the Statewide Accounting and Reporting System (STARS).

Additionally, the Total Monthly Refunds (Allotment Ledger) for the months of March through May showed an error of $8,127.79 that could not be reconciled and the month of June had an amount of $24,637 that could not be reconciled or explained. This leaves a total of $32,764.79 unexplained for fiscal year 2021.

Cause: The End of Month Checklist was not fully completed in July, August, October, November, February, March, April, May, or June. The reviewer's initials on the checklist is how the agency chooses to document and verify that a control occurred and determine that a reconciliation was completed and reviewed at the end of the month. These checklists did not contain the reviewer's initials, indicating that the full set of control procedures were not followed, and this allowed for errors to go undetected. The Commission asserts that the End of Month Checklist was not completed due to staff turnover and the transition from paper to electronic checklists.

Effect: There is no evidence that controls were consistently applied or that other controls are in place to prevent errors from occurring and going undetected. Testing identified errors totaling $32,764.79. While this amount is not material to the scope of work, the lack of consistently applied controls increases the risk of undetected or uncorrected errors that are significant to the statewide ACFR.

Recommendation: We recommend that the Commission ensure that internal control procedures are in place and consistently applied, including when work is completed remotely, and that they improve the documentation of control activities performed to ensure that reviews are completed accurately and in a timely manner.

Management's View: *The Commission agrees with this finding. A cloud-based version of the daily checklist was created in November 2020. In December, an additional layer of review was added to the month-end distribution process to mimic the LUMA environment requirements. Separate users will enter, review and post, month-end distributions. Electronic notes are required to be added to the checklist by each user and include date/time stamps for LSO quick reference.*

A Cloud-based version of daily checklist with date/time stamps has been in place since FY21. In January of 2022, LSO reviewed the checklist and approved the necessary changes.

Auditor's Concluding Remarks: We thank the Commission for its cooperation and assistance throughout the audit. We want to re-iterate that the cloud-based checklist the Commission indicated was in place in November 2020 was not consistently completed and the additional reviews were also not consistently evidenced and allowed errors to occur and go undetected. While we did meet with the Commission in January to review the design of the proposed improvements to the control procedures, we have not completed audit procedures that would be necessary to determine if they had been properly implemented.

FINDING 2021-106
The Commission submitted an Accounts Receivable closing package that lacked supporting documentation and contained errors resulting in an overstatement of $16,500,000.

Type of Finding: Significant Deficiency

Criteria: Each year, State agencies are required to report accounting information in the form of closing packages to the Office of the State Controller (Office) with details necessary to prepare the statewide *Annual Comprehensive Financial Report* (ACFR). The Office provides instructions for the Commission to prepare the information in the closing packages in accordance with Generally Accepted Accounting Principles (GAAP). The Commission submitted the Accounts Receivable closing package to report amounts expected to be collected for various types of outstanding tax amounts due to the State.

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. Additionally, auditing standards provide guidance on required elements when estimates are used for financial information. Management is responsible for establishing a process for preparing accounting information based on relevant, sufficient, and reliable data. Control activities are policies and procedures that help ensure management directives are carried out and risks are mitigated. These activities include segregation of duties, adequate review and authorization of financial transactions, and maintaining supporting documentation or other reliable records as the basis for reports.

Condition: The Commission is required to report tax amounts owed from parties outside the State as of June 30. The total taxes receivable amounts include estimated amounts to be collected within 60 days and within one year. Other amounts are estimated for refunds and uncollectible amounts.

The Commission prepares a compilation spreadsheet from system reports and historical trend information for each tax type and fund. The spreadsheet takes into account actual amounts received in July for accounts receivable at June 30. The accounts receivable balance is then reduced by the cash on hand that is not yet allocated to taxpayer accounts. Other amounts are estimated based on historical information, such as refunds of approximately 1 percent, 75 percent of receivables are typically collected within a month, 75 percent of the remaining balance is collected within a year, and the remainder is determined to be uncollectible over a five-year period.

Errors occurred because the compilation spreadsheet was not completely updated with current fiscal year 2021 amounts, and formulas for calculating estimates were not consistently applied to all funds. The review procedures completed failed to identify and correct these mistakes. The errors resulted in a $16.5 million overstatement of the accounts receivable balance reported to the Office.

Cause: The Commission's process of calculating and reviewing the accounts receivable amounts for accuracy and reasonableness were not completed with sufficient level of scrutiny to the details provided to detect and correct errors in the amounts reported. Formula errors and repeated data from the prior year was not identified for correction either by the preparer or the reviewer.

Effect: The accounts receivable was overstated by an estimated $16,500,000. This amount is not material to the statewide financial statements; however, the extent of errors increases the risk of additional errors occurring and not being detected and corrected. After the error was identified during the audit procedures, the Commission worked with the Office to submit revised amounts based on the auditor's calculations.

Recommendation: We recommend that the Commission design and implement control procedures to ensure accounts receivable amounts submitted to the Office are reasonable with adequate supporting documentation. We further recommend that the Commission ensure staff completing the procedures have the proper training to adequately review the closing packages to identify errors reported.

Management's View: *The Commission agrees with this finding. LSO has recommended the Commission design and implement control procedures to ensure accounts receivable amounts are reasonable and substantiated with adequate supporting documentation. As of January, 2022, we are working with our vendor FAST to develop a reporting method for calculating receivables. We've reached out to other state agencies for guidance as well.*

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

IDAHO STATE TREASURER'S OFFICE (Office)

FINDING 2021-107
The Millennium Permanent Endowment Fund (MPEF) investment decisions are not being made with the involvement of, and recommendations from, the State Treasurer Investment Advisory Board, as required by Idaho Code.

Type of Finding: Significant Deficiency

Criteria: Chapter 18, Title 67, Idaho Code grants the Idaho State Treasurer (Treasurer) the authority to invest assets in the MPEF under the standards of the Prudent Investor Act, Chapter 5, Title 68, Idaho Code.

The Prudent Investor Act provides very broad guidance and few limitations as to the types of investments trustees are authorized to use. The Treasurer has established an investment policy to govern and provide oversight of the fund. This policy defines the asset allocation and is required to be reviewed annually by the Investment Division and approved by the Treasurer.

The State Treasurer Investment Advisory Board was established under Idaho Code, Section 67-1203. Per Idaho Code, Section 67-1203B(2), the investment board shall recommend investment policies governing the investment of idle moneys and other moneys accepted for investment by the Treasurer. The recommendations shall pertain to the types, kinds, or nature of investment of any of the moneys and any limitations, conditions or restrictions upon the methods, practices or procedures for investment, reinvestments, purchases, sales or exchange transactions, provided such recommendations shall not conflict with nor be in derogation of any Idaho constitutional provision, or of the provisions of this chapter. Further, Idaho Code, Section 67-1203B(3), states that the investment advisory board, in making recommendations, and the Treasurer and all investment managers shall be governed by the Idaho Uniform Prudent Investor Act, Chapter 5, Title 68, Idaho Code. The Treasurer and any investment manager shall invest and manage the assets of the respective funds in accordance with that act and the Idaho constitution. Idaho Code, Section 67-1801, creates the MPEF, and Section 67-1801(3) states that fund assets shall be invested by the Treasurer according to the standards of the Idaho Uniform Prudent Investor Act, and the Treasurer is hereby granted authority to invest the assets of the fund in any investment instruments authorized by the standards of the Idaho Uniform Prudent Investor Act.

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 MPEF was created on January 1, 2007, and receives 80 percent of the tobacco settlement receipts collected by the State of Idaho. The purpose of the MPEF is to provide distributions from these settlement receipts into perpetuity. The Treasurer has been granted statutory authority to invest assets in the MPEF under the standards of the Prudent Investor Act, Chapter 5, Title 68, Idaho Code. The Treasurer has further established an investment policy to govern and provide oversight of the MPEF. The policy provides strategic targets and allowable tactical ranges for asset allocation to ensure proper diversification of the fund. This policy has not been updated since July 25, 2019. The policy states that it will be reviewed and authorized by the Treasurer annually.

Additionally, the Treasurer and the investment team review the MPEF performance and asset allocations with a consulting firm on a quarterly basis to determine if the asset classes are within the strategic target and tactical ranges, as defined in the investment policy. The Office's investment policies for the MPEF include a rebalancing policy that states: "When the Fund's total allocation to any major asset class (equities, fixed income, real assets, cash) is reported to be outside of the Tactical Range, the Fund's fiduciaries are obligated to return the Fund's asset allocation back to the Strategic Target specified above prior to the next reporting period. These reporting periods shall not be less frequent than quarterly. The investment consultant shall prepare the report which will contain, at a minimum, the Fund's asset allocation relative to its Strategic Target and Tactical Ranges; identification of any variances to this asset allocation strategy; and recommendations to remedy any variances. When rebalancing requirements occur, the Fund will be rebalanced so that all asset classes are at the Strategic Target or within Allowable Tactical Ranges. The

Fund may rebalance its asset mix closer to the Strategic Target at any time, even if it is already within Allowable Tactical Ranges."

During our review of the quarterly reports issued during fiscal year 2021, we noted that the fixed income tactical range amount was 17 to 23 percent and the actual amount invested in fixed income at the end of fiscal year 2020 was 26.2 percent, 3.2 percent above the top of the tactical range; in quarter 1 of fiscal year 2021, it was 26.1 percent, 3.1 percent above the top of the tactical range; in quarter 2 it was 23.2 percent, .2 percent above the top of the tactical range; and in quarter 3, it was 27.3 percent, 4.3 percent above the top of the tactical range. Quarter 4, at the end of fiscal year 2021, was the only quarter in which it was within the identified tactical range at 22.3 percent.

No rebalancing was completed during the first three quarters of fiscal year 2021 to comply with internal investment policies for the fixed income investments that would require a rebalancing no later than quarterly, and no evidence was provided that the quarterly meetings with the consulting firm occurred as described by the investment staff.

Additionally, we were provided no evidence that the MPEF investments, the decision to remain noncompliant with internal investment policies, and the new investment strategy were ever communicated to the State Treasurer Investment Advisory Board so that they could provide recommendations as stated in Idaho Code, Section 67-1203B(2).

Cause: During fiscal year 2021, the Treasurer was aware that the fixed income asset was out of compliance with the investment policy for ¾ of the year and indicated that this was a strategic decision, as the Treasurer was awaiting new capital calls for a private real estate investment. The Treasurer invested over $17 million on June 30, 2021 in this capital call with CBRE U.S. Core Partners, LP, supporting the purchase of six commercial and residential properties across the United States, mostly along the East Coast. The Treasurer's investment manager indicated they needed to maintain liquidity of the funds so that they could take advantage of the capital call for this new investment class and made the choice to leave the funds in the fixed income assets.

It is important to note that the fixed income asset is an investment in the internally established Diversified Bond Fund (DBF), which is described by the Treasurer as "an alternative to the short term investment funds for those state agencies and public agencies who are able to assume less liquidity and more price volatility for the potential of greater returns over the long run." The description further states that "participating agencies should therefore only invest monies that they consider longer-term in nature (ex. 3.5 years or longer)." This does not appear to be the most liquid, least risky allocation for funds that were being held in the short term to invest in another investment vehicle. Further, the MPEF investment in the DBF was in an unrealized loss position at June 30, 2021.

The State Treasurer Investment Advisory Board was not involved in the initial investment decision, or the decision to remain out of compliance with internal policies, as the Treasurer does not believe the MPEF falls under the purview of the State Treasurer Investment Advisory Board. As stated in the condition, we believe that Idaho Code, Section 67-1203B(2), provides that the MPEF, as "other moneys accepted for investment by the state treasurer," does fall under the purview of the State Treasurer Investment Advisory Board.

Effect: The MPEF investments and strategy are not being reviewed by the State Treasurer Investment Advisory Board resulting in noncompliance with Idaho Code. Additionally, the Treasurer chose not to

comply with internal investment policies and remain over-allocated to fixed income investments, potentially increasing the risk of loss when they redeemed the investment for use in the real estate investment. Without proper oversight and compliance with statutes and internal policies, the investments of the MPEF are at an increased risk of inappropriate risk levels and potential losses.

Recommendation: We recommend that the State Treasurer Investment Advisory Board receive appropriate information about the MPEF, oversee and make recommendations that pertain to the types, kinds or nature of investments, and investment policies of the MPEF, and that the Treasurer maintain compliance with their internal investment policies and applicable statutes. We also recommend that the Treasurer document these meetings, meetings with external investment advisors, and the decisions made at these meetings.

Management's View: *While the State Treasurer's Office (STO) is in general agreement with the finding, we would like to add some high-level context to various statements in the finding. In addition, STO will address the Recommendation put forth by your office and corresponding action plan to rectify the Internal Control deficiency finding in this response.*

Contextual comments from the STO related to the finding:

As the STO reviewed your finding and interpretation of the role of the Treasurer's Investment Advisory Board (TIAB), we do recognize the purview of the of the TIAB and their various duties as defined in Idaho Code 67-1203B to apply to the MPEF in addition to the investment pools managed by our office. The term "and other monies", while we don't believe it was contemplated to include the MPEF, would capture those assets as well. The STO has reported to the TIAB on the MPEF, though we have not done it quarterly as we have with the other pools. We do not believe it is the charge of the TIAB to "oversee" the individual investment decisions in any of the funds managed by the STO, but to advise on policies and procedures and asset allocation decisions.

The decision to change how the fund was invested in "real assets" by re-allocating into a private real estate investment was put before the TIAB by way of presentation from Callan Associates and the investment team. This meeting did not fall within the 2021 Fiscal Year and was thus not included in the minutes provided. In addition, the investment team reviews the MPEF portfolio allocation and performance report with Callan Associates on a quarterly basis. The dates of these calls for the 2021 fiscal year were not provided in the documentation relating to the audit.

We acknowledge being out of the tactical range for fixed income in the periods you noted due to the pending private real estate capital calls.

Action Plan for the STO to rectify the internal control deficiency with regard to the MPEF:

The STO will include a high-level review of the MPEF at each quarterly meeting and review the MPEF investment policy with the TIAB on an annual basis, including having the Treasurer sign off on all policies at least annually. In addition, we will strive to have our investment consultant present to the TIAB at least annually on the MPEF.

Should the investment consultant or the investment team feel there is a reason to temporarily be out of the tactical ranges as described in the internal investment policy, the investment team will report the rationale to the TIAB and document any out of compliance with the internal investment policy and estimated timing to be back in compliance.

The investment team will document all internal team meetings regarding the MPEF, as well as reviews with our investment consultant and will provide this information to the Treasurer in writing.

The STO feels the addition of these consistent actions will adequately address the internal control finding.

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We continue to assert that the Office should maintain compliance with their internal policies related to the tactical ranges of the MPEF investments. If the investment team feels that a change is necessary, the policy should reconsidered by the Treasurer and the advisory board and, if approved, changed to reflect the needs of the Office and maintain compliance. Additionally, we continue to assert that Idaho Code Section 67-1203B(2), specifically provides the authority for the Treasurer Investment Advisory Board to "oversee" the individual investment decisions in any of the funds managed by the STO, not just to advise on policies and procedures and asset allocation decisions. This section authorizes the Board to provide recommendations pertaining to the types, kinds, or nature of investment of any of the moneys and any limitations, conditions or restrictions upon the methods, practices or procedures for investment, reinvestments, purchases, sales or exchange transactions. A critical component needed for the Board to make suitable recommendations is ensuring that members are provided appropriate information about the objectives, strategies, allocations, and performance of investments and potential investments the Office is engaged in or considering, especially when that consideration drove a decision to over-expose the MPEF to risk in the fixed income investments through purposeful noncompliance with internal policies.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

MANAGEMENT'S CORRECTIVE ACTION PLAN



Corrective Action Plan
For the Fiscal Year Ended June 30, 2021

Office of the State Controller

Finding Number 2021-101: The Office's internal review process did not prevent or detect misstatements in the statewide ACFR submitted to the auditors.

Related to Prior Finding: N/A

Agency's View: The Office agrees with this finding. Most errors were corrected prior to issuance of the financial statements.

Corrective Action: The Office will continue to evaluate and make improvements to the internal review procedures along with improved analysis of the trends from one year to another. We will be using new functionality in our ACFR compilation system for the review process with reminders and tasks set to ensure there is enough time for a thorough review. We are also in the process of developing a risk based internal review checklist to help identify and correct potential errors in reporting.

Anticipated Corrective Action Date: The Office will complete the corrective actions for FY22 reporting.

Responsible for Corrective Action: Ethan Draves
Reporting and Review Bureau Chief
Phone: (208) 334-3100
email: edraves@sco.idaho.gov
700 W. State St., Fl. 5
Boise, ID 83720

Finding Number 2021-102: The Office's internal review procedures did not prevent or detect the understatement of Medicaid Payable on the Governmental Fund statements.

Related to Prior Finding: N/A

Agency's View: The Office agrees with this finding. Errors were corrected prior to issuance of the financial statements.

Corrective Action: We have modified our task instructions for processing the Medicaid payables entry to ensure it is complete and accurate. As mentioned in the response to finding #2021-101, we are also working to improve our internal review analytical procedures to ensure any significant fluctuations from year to year are identified and investigated to ensure accuracy.

Anticipated Corrective Action Date: The Office will complete the corrective actions for FY22 reporting.

Responsible for Corrective Action: Ethan Draves
Reporting and Review Bureau Chief
Phone: (208) 334-3100
email: edraves@sco.idaho.gov
700 W. State St., Fl. 5
Boise, ID 83720

Finding Number 2021-103: The Office did not have control procedures implemented to ensure appropriate grouping of accounts on the Intergovernmental Revenue Sharing expenditure line on the Governmental Fund statements, resulting in misstatements to the initial financial statements submitted for audit.

Related to Prior Finding: N/A

Agency's View: The Office agrees with this finding. Errors were corrected prior to issuance of the financial statements.

Corrective Action: The Office will be including an additional query of the specific subobjects that should be reported as intergovernmental revenue sharing to ensure new accounts are grouped properly.

Anticipated Corrective Action Date: The Office will complete the corrective actions for FY22 reporting.

Responsible for Corrective Action: Ethan Draves
Reporting and Review Bureau Chief
Phone: (208) 334-3100
email: edraves@sco.idaho.gov
700 W. State St., Fl. 5
Boise, ID 83720

Finding Number 2021-104: The Office did not have control procedures implemented to ensure the calculation of the IDLE allocation was based on the appropriate grouping of funds.

Related to Prior Finding: N/A

Agency's View: The Office agrees with this finding.

Corrective Action: Task instructions have been updated to explain the grouping of the funds and if there are new funds, to ensure they are grouped correctly. As mentioned in our response to finding #2021-101, we are working on a risk based internal review checklist.

Anticipated Corrective Action Date: The Office will complete the corrective actions for FY22 reporting.

Responsible for Corrective Action: Ethan Draves
Reporting and Review Bureau Chief
Phone: (208) 334-3100
email: edraves@sco.idaho.gov
700 W. State St., Fl. 5
Boise, ID 83720

Idaho State Tax Commission

Finding Number 2021-105: Critical reviews and reconciliations were not completed for sales tax distributions, fuel tax distributions, Rebound Idaho distributions, and total monthly refunds for 9 out of 12 months during fiscal year 2021. Additionally, the Total Monthly Refunds (Allotment Ledger) contained unreconciled amounts in the months of March through June 2021.

Related to Prior Finding: 2020-104, 2019-104

Agency's View: The Commission agrees with this finding.

Corrective Action: A cloud-based version of the daily checklist was created in November 2020. In December, an additional layer of review was added to the month-end distribution process to mimic the LUMA environment requirements. Separate users will enter, review and post, month-end distributions. Electronic notes are required to be added to the checklist by each user and include date/time stamps for LSO quick reference.

Anticipated Corrective Action Date: A Cloud-based version of daily checklist with date/time stamps has been in place since FY21. In January of 2022, LSO reviewed the checklist and approved the necessary changes.

Responsible for Corrective Action: Lisa Kopke
Financial Executive Officer
Email: lisa.kopke@tax.idaho.gov

Phone: (208) 334-7507
11321 W Chinden
Boise, ID 83714

Finding Number 2021-106: The Commission submitted an Accounts Receivable closing package that lacked supporting documentation and contained errors resulting in an overstatement of $16,500,000.

Related to Prior Finding: N/A

Agency's View: The Commission agrees with this finding.

Corrective Action: LSO has recommended the Commission design and implement control procedures to ensure accounts receivable amounts are reasonable and substantiated with adequate supporting documentation. As of January, 2022, we are working with our vendor FAST to develop a reporting method for calculating receivables. We've reached out to other state agencies for guidance as well.

Anticipated Corrective Action Date: The Commission will complete the corrective actions by June 30, 2022.

Responsible for Corrective Action: Lisa Kopke
Financial Executive Officer
Email: lisa.kopke@tax.idaho.gov
Phone: (208) 334-7507
11321 W Chinden
Boise, ID 83714

State Treasurer's Office

Finding Number 2021-107: The Millennium Permanent Endowment Fund (MPEF) investment decisions are not being made with the involvement of, and recommendations from, the State Treasurer Investment Advisory Board, as required by Idaho Code.

Related to Prior Finding: N/A

Agency's View: While the State Treasurer's Office (STO) is in general agreement with the finding, we would like to add some high-level context to various statements in the finding. In addition, STO will address the Recommendation put forth by your office and corresponding action plan to rectify the Internal Control deficiency finding in this response.

As the STO reviewed the finding and interpretation of the role of the Treasurer's Investment Advisory Board (TIAB), we do recognize the purview of the of the TIAB and their various duties as defined in Idaho Code 67-1203B to apply to the MPEF in addition to the investment pools managed by our office. The term "and other monies", while we don't believe it was contemplated to include the MPEF, would

capture those assets as well. The STO has reported to the TIAB on the MPEF, though we have not done it quarterly as we have with the other pools. We do not believe it is the charge of the TIAB to "oversee" the individual investment decisions in any of the funds managed by the STO, but to advise on policies and procedures and asset allocation decisions.

The decision to change how the fund was invested in "real assets" by re-allocating into a private real estate investment was put before the TIAB by way of presentation from Callan Associates and the investment team. This meeting did not fall within the 2021 Fiscal Year and was thus not included in the minutes provided. In addition, the investment team reviews the MPEF portfolio allocation and performance report with Callan Associates on a quarterly basis. The dates of these calls for the 2021 fiscal year were not provided in the documentation relating to the audit.
We acknowledge being out of the tactical range for fixed income in the periods you noted due to the pending private real estate capital calls.

Corrective Action: The STO will include a high-level review of the MPEF at each quarterly meeting and review the MPEF investment policy with the TIAB on an annual basis, including having the Treasurer sign off on all policies at least annually. In addition, we will strive to have our investment consultant present to the TIAB at least annually on the MPEF.

Should the investment consultant or the investment team feel there is a reason to temporarily be out of the tactical ranges as described in the internal investment policy, the investment team will report the rationale to the TIAB and document any out of compliance with the internal investment policy and estimated timing to be back in compliance.

The investment team will document all internal team meetings regarding the MPEF, as well as reviews with our investment consultant and will provide this information to the Treasurer in writing.

The STO feels the addition of these consistent actions will adequately address the internal control finding.

Anticipated Corrective Action Date: The STO agrees with the recommendation put forth and will execute the following, beginning February 1st, 2022.

Responsible for Corrective Action: Laura Steffler
Chief Deputy Treasurer
Phone: (208) 332-2999
Email: laura.steffler@sto.idaho.gov
P.O. Box 83720
Boise, ID 83720-0091

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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, 2021

STATE AGENCY		PAGE
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STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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



Corrective Action Plan
For the Fiscal Year Ended June 30, 2021

Idaho Department of Administration

Finding Number 2020-101: Benefits payments subsequent to the actuarial measurement date for Post-Employment Benefits Other than Pensions (OPEB) were overstated by $7,357,468

Related to Prior Finding: N/A

Current Status: Corrected

Office of the State Controller

Finding Number 2020-102: The Office's internal review process did not prevent or detect misstatements in the statewide CAFR.

Related to Prior Finding: N/A

Current Status: Corrected

Idaho Department of Labor

Finding Number 2020-103: The Department understated the amount received from the Federal Government through the Unemployment Insurance program by $89,060,000.

Related to Prior Finding: N/A

Current Status: Corrected

Idaho State Tax Commission

Finding Number 2020-104: Internal control procedures were not consistently followed while employees worked remotely during the pandemic resulting in a lack of critical reviews for sales tax distributions, fuel tax distributions, Rebound Idaho distributions, reversals, and total monthly refunds that occurred in February, March, April, and May.

Related to Prior Finding: 2019-104

Current Status: Not Corrected

Planned Corrective Action: During the CAFR audit, the Legislative Services Office discovered one finding; that the hard copy end of month checklist was not utilized when staff was working remotely during the pandemic. The checklist was not utilized form February to May.

In November, the Commission established an electronic end of month checklist on Microsoft OneDrive, so all members of the accounting team can sign off as they complete their tasks. This checklist enables all staff to maintain internal controls even while in a remote environment and will be the standard going forward.

Anticipated Corrective Action Date: November 2020

Partial Corrective Action Taken: A cloud-based version of the daily checklist was created in November 2020. In December, an additional layer of review was added to the month-end distribution process to mimic the LUMA environment requirements. Separate users will enter, review and post, month-end distributions. Electronic notes are required to be added to the checklist by each user and include date/time stamps for LSO quick reference.

Reason for Recurrence: Although corrective actions were taken in November 2020, the results of the FY2021 audit found they were not sufficient to address the internal control deficiencies previously identified.

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