

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 2023

Terri Kondeff
Director

Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

February 15, 2024

Honorable Brad Little, Governor
Honorable Representative Wendy Horman, JFAC Co-Chair
Honorable Senator Scott Grow, 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, 2023. 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 material weaknesses and five significant deficiencies 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, CPA, Manager
Legislative Audits Division

Paul Headlee, Deputy Director
Legislative Services Office

Matt Drake, Manager
Research & Legislation

Keith Bybee, 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 20, 2023

Honorable Brad Little, Governor
Honorable Representative Wendy Horman, JFAC Co-Chair
Honorable Senator Scott Grow, 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, 2023, 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, 2023. 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 and Idaho State University Foundation 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 following deficiencies described in the accompanying Basic Financial Statement Findings to be material weaknesses: 2023-101, 2023-102, 2023-106, and 2023-107.

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 following deficiencies described in the accompanying Basic Financial Statement Findings to be significant deficiencies: 2023-103, 2023-104, 2023-105, 2023-108, and 2023-109.

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*.

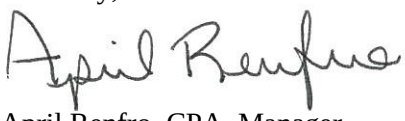
State of Idaho's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State of Idaho's response to the findings identified in our engagement and described in the accompanying Basic Financial Statement Findings. The State of Idaho's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, CPA, Manager
Legislative Audits Division

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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, 2023

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STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

OFFICE OF THE STATE CONTROLLER (Office)

FINDING 2023-101
The Office misclassified early repayments of $51.3 million of GARVEE and TECM debt as prepaids.

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 Annual Comprehensive Financial Report (ACFR) in conformity with accounting principles generally accepted in the United States of America and compliance with applicable laws and regulations.

Condition: The Idaho Transportation Department made early repayments of GARVEE debt of $46.4 million and for TECM debt of $4.8 million that were included as Inventories and Prepaids on the financial statements. This misstatement was identified by the auditors and communicated to management during the audit process after the financial statements were provided for audit and exceeded our materiality threshold for the Transportation column of the Governmental Fund statements but was corrected prior to issuing the ACFR.

Cause: The Office misinterpreted how to account for the early payments of the long-term debt. The Office contacted GASB after we identified the concern, and determined the early payment of long-term debt should be a reduction of long-term debt and not a prepaid.

Effect: The financial statements submitted for audit contained misstatements that exceeded our materiality threshold for the Transportation column of the Governmental Fund statements. These errors were corrected prior to issuance of the ACFR:

- Inventories and Prepaids on the Transportation column of the Governmental Fund were overstated by $51.3 million. In addition, this $51.3 million was misclassified in the fund balance as Nonspendable: Inventory and Prepaids instead of Restricted.
- On the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, Expenditures for Debt Service: Principal Retirement were understated by $34.5 million and Expenditures for Debt Service: Interest and Other Charges were understated by $16.8 million.
- On the Governmental Activities of the Government-Wide Statement of Net Position prepaids were overstated by $51.3 million, the current portion of Bonds and Notes Payable was overstated by $34.5 million, and Other Accrued Liabilities were overstated by $16.8 million.

Recommendation: We recommend that the Office improve training to ensure appropriate interpretation of the requirements for the compilation of the financial statements.

Management's View: *The State Controller's Office agrees with this finding.*

Corrective Action: *The adjustments to correct this were done prior to issuance. The Idaho Transportation Department had reported prepaying the GARVEE and TECM note payable to ensure that payment was received with new systems being implemented July 1st. As we had previously done with leases, we kept the liability and booked an asset. After discussing the issue with GASB, they informed us that long term liabilities would not be considered a prepaid, instead a reduction of liability would be shown on the statements. We have noted this and will be updating our closing package instructions to show that these items should be excluded.*

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

FINDING 2023-102
The Office did not properly include Supplemental Nutrition Assistance Program (SNAP) non-cash amounts for food stamps, as reported by the Department of Health and Welfare on the Schedule of Expenditures of Federal Awards (SEFA) closing package, of $255.8 million.

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 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: Non-cash amounts for the Supplemental Nutrition Assistance Program (SNAP) reported for food stamps on the Department of Health and Welfare's SEFA closing package of $255.8 million were not included as revenues on the Grants and Contributions line and expenditures on the Health and Human Services line of the Governmental Fund Statements and were not included as Expenses and Operating Grants and Contributions on the Health and Human Services line of the Statement of Activities. This misstatement exceeded our materiality threshold for the Health & Welfare column of the Governmental Fund statements but was corrected prior to issuing the ACFR.

Cause: The Office has procedures in place to ensure that closing package entries are processed properly; however, this procedure occurred after the financial statements had been submitted for audit. The Office identified the error after submission of the financial statements for audit. A well designed and implemented control should have occurred prior to submitting the financial statements for audit.

Effect: The financial statements were understated by $255.8 million. This error affects multiple lines on multiple financial statements. Revenues on the Grants and Contributions line and expenditures on the Health and Human Services line of the Governmental Fund Statements were understated and Expenses and Operating Grants and Contributions on the Health and Human Services line of the Statement of Activities were understated.

Recommendation: We recommend that the Office strengthen the design and implementation, including timing, of internal controls to ensure all appropriate closing packages are processed and included on the financial statements prior to submitting for audit.

Management's View: *The State Controller's Office agrees with this finding.*

Corrective Action: *The entry was made before the financial statements were issued. While the non-cash entry was created, it was inadvertently not processed. To ensure this does not happen again in the future, we will be adding an additional trend analysis specific to the SNAP non-cash as part of the SEFA task checklist. This will involve running a query for the current and two prior fiscal years and ensuring the variance from year to year is within a reasonable range. In addition, we will require the entry to be done where the other miscellaneous entries are entered and processed.*

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

FINDING 2023-103
The Office's internal review process did not prevent or detect misstatements in the statewide ACFR submitted to the auditors.

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.

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

Financial Statement Errors:

- The Component Units column of the Government-Wide Statement of Net Position understated Long-Term Liabilities Due Within One Year and overstated Long-Term Liabilities Due in More Than One Year by $27.8 million.
- Net Position Restricted for Permanent Trust Fund – Expendable was understated by $16 million and Unrestricted Net Position was overstated by $16 million on the Statement of Net Position for the Colleges and University fund of the Proprietary Fund statements and Business-Type Activities of the Government-Wide statements.
- The footnote on the Combining Statement of Cash Flows for Non-Major Enterprise funds overstated the Liquor Division's Capital Asset Acquisition by Lease amount by $7.6 million.
- The Component Unit Statement of Net Position, Idaho Housing and Finance Association (IHFA) Column, Due Within One Year line was understated by $3.8 million and the Due in More Than One Year line was overstated by $3.8 million.

Note 2:

- The Component Units Maturity of Debt Investments understated the Bonds Mutal Funds line by $3.7 million.
- The Restricted Assets Schedule had a negative balance of $60.7 million for the Coronavirus Aid, Relief, and Economic Security (CARES) Act but should have been combined with the American Rescue Plan (ARPA) Act to avoid a negative asset restriction.

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Note 8:

- The first paragraph under Mortality Rates discusses the study of demographic assumptions, including mortality for the base plan and Fireman's Retirement Fund (FRF) for the period 2011 through 2017. However, the supporting documentation states that demographic assumptions, including mortality for the base plan and FRF were studied for the period 2015 through 2020.

Note 9:

- GASB 75 paragraph 56c requires a brief description of assumptions changes or other inputs that affected measurement of the total Other Post-Employment Benefits (OPEB) liability since the prior measurement date. The note disclosure stated that changes in assumptions for the University of Idaho plan were the net effect of several factors, including actuarial experience losses and valuation assumption changes without explaining what those changes were. The disclosure should have stated that changes were the result of updating year per capita health costs and retiree contribution rates, updating actuarial factors used to estimate individual retiree and spouse costs by age and gender, modifying future trend on such costs, updating mortality rates, and modifying the percentage of future retirees assumed to elect Plan A versus Plan B.

Note 11:

- The table for the Future Minimum Leases Payable contained several errors beginning with fiscal years 2029 through 2033. This resulted in incorrect amounts for the fiscal year; however, the total present value was correct.
- The Subscription-Based Information Technology Arrangements (SBITA) Right to Use Subscription assets table for Business-Type Activities Assets were overstated by $11.2 million.
- The interest rate range for the SBITA was listed incorrectly as 1.7 percent to 5.6 percent, this should have been 0.25 percent to 5.6 percent.

Note 13:

- The Revenue Bond Debt Service Requirements to Maturity Component Unit Schedule, contained an error in the interest rates listed, this should be disclosed as 2.02 percent to 6.35 percent.
- The fiscal year in the discussion of Revenue Bonds was incorrectly listed as 2022.
- The interest rated disclosed on the Debt Service Requirements to Maturity Schedule for Governmental Activities for Internal Service should not have been included.
- The interest rate for IHFA on the Debt Service Requirements to Maturity Schedule for Component Units should have been listed as 0.00 percent to 6.50 percent.
- In the Changes in Long Term Liabilities Schedule, the Right-to-Use Payables line for Governmental Activities was understated by $67.7 million, the Notes Payable line for Business-Type Activities was overstated by $.03 million, and the Claims and Judgements line for Component Units was overstated by $.5 million.
- In the Changes in Long Term Liabilities Schedule, the Amounts Due in One Year in the Component Unit Revenue Bonds line was understated by $3.8 million.
- The Schedule for Outstanding Debt Payable for each Defeased Debt Issue contained errors, the amount defeased for Idaho State Building Authority (ISBA) 2003 Series B Bonds was overstated by $4.8 million, ISBA 2005 Series A/2013 Series B Bonds was overstated by $.7 million, and the Idaho Bond Bank Authority (IBBA) 2017 Series A Bonds was overstated by $2.9 million.
- In the disclosure of Conduit Debt for the Idaho Water Resource Board, the stated aggregate principal amount payable of $9.4 million was understated by $19.6 million and should be disclosed as $29 million.

- In Section D, Notes Payable, under the Primary Government, the discussion of Transportation Expansion and Congestion Mitigation (TECM) incorrectly reported pledged revenue percentage as 6.1 percent. This should have been reported as 2.12 percent.
- In Section D, Notes Payable, under the Primary Government, the pledged revenue for Grant Anticipation Revenue Vehicle (GARVEE) bonds was understated by $67.7 million. Total principal and interest payments was overstated by $46.4 million. Additionally, the discussion noted that the amount of bonds possible exceeded the amount of bonds issued.
- In the Note, Debt Service Requirements to Maturity Schedule under Governmental Activities, Transportation, for fiscal year 2024, the amounts for principal and interest were overstated by $34.5 million and by $16.8 million respectively.
- In schedule F, Changes in Long-Term Liabilities, the amount due within one year for Component Units was understated by $27.8 million.

Note 16:

- The Unfunded Commitment amount for the University of Idaho Foundation was understated by $17 million and should have been $31.4 million. Section B, Primary Government Commitments did not include $14.4 million as reported by the University of Idaho.
- Encumbrances for the Federal Stimulus fund was overstated by $37 million and Nonmajor Governmental encumbrances were understated by $37 million.

Management Discussion and Analysis (MD&A):

- In the discussion of Net Position for Governmental Activities, the MD&A reported an increase in Net Position of $694.6 million, this was overstatement of $7.3 million.
- In the discussion of the General Fund highlights, the MD&A reported that General Fund receipts were $950 million less in fiscal year 2023 than in fiscal year 2022, this amount was overstated by $94.9 million.
- In the Long-Term Debt discussion of the IHFA notes, the amount of newly issued TECM bonds was overstated by $8 million.

Required Supplementary Information (RSI):

- GASB 75 paragraph 58 requires a brief description of assumptions changes or other inputs that affect trends in the amounts reported. The note disclosure states that changes in assumptions for the University of Idaho plan were the net effect of several factors, including actuarial experience losses and valuation assumptions changes without explaining what those changes were. The disclosure should have stated changes were the result of updating year per capita health costs and retiree contribution rates, updating actuarial factors used to estimate individual retiree and spouse costs by age and gender, modifying future trend on such costs, updating mortality rates, and modifying the percentage of future retirees assumed to elect Plan A versus Plan B.

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

Note 9:

- 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 did not include this information.

Component Unit Materiality Determination:

- Several blended and discrete component units identified by the Office were excluded from the ACFR. 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 and Blind
    - Idaho Youth Challenge Foundation (Military)

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, these review processes did not prevent or detect the misstatements, errors, and omissions listed above. We noted several errors were due to information from the prior year not updated with current year information.

Effect: The financial statements and note disclosures submitted for audit contained several misstatements and information that was not clearly presented; the amounts of 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 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 agrees with this finding.*

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 continue to evaluate and make improvements to the internal review procedures. The office will be working with the entities that provide us audited financial statements to ensure that we are provided with a final audit along with all the data that is required by GASB to be presented in the statements. If there are drafts, we will implement a compare process to ensure we catch any changes. Our team will review GASB guidance and take opportunities for training when available. We will be implementing the use of task checklists and prior year findings, to ensure a complete and timely review of the notes.*

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

OFFICE OF THE STATE CONTROLLER, DIVISION OF STATEWIDE PAYROLL (Office)

FINDING 2023-104

A reconciliation was not completed to ensure the completeness of payroll accruals included in the statewide financial statements.

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, control activities, and monitoring.

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

Condition: As part of the year-end process, the Office makes journal entries to record year-end payroll accruals for the portion of June payroll that was paid out in July. During our testing of the procedures to complete the fiscal year 2023 payroll accruals, we noted no reconciliation was performed to ensure the completeness of the payroll accrual amounts. Verifying completeness of the population ensures that all transactions that should have been included have been recorded in the financial statements.

Cause: On June 11, 2023, the State transitioned the payroll system from the Employee Information System (EIS) to Human Capital Management (HCM). This transition is part of the overall implementation of the new enterprise resource planning system, Luma. Due to the transition, queries were also not available, and only Luma Payroll Distribution reports were used for calculating the payroll accruals. No reconciliation occurred between the HCM system and the Financial Services Module (FSM), the financial module in Luma.

This reconciliation is necessary to ensure that all time entered into the HCM module and those associated payroll costs were accurately included in the FSM module. Without a reconciliation, we were unable to verify that the payroll accrual was complete and all costs were included.

Effect: Not performing a reconciliation increases the risk of inaccurate or incomplete payroll accruals that could be significant to the statewide ACFR.

One of the procedures we perform is an analytical procedure to determine if the accrual amount is materially accurate and reasonable. Based on the application of that procedure, we have determined that the accrual is reasonable and very likely materially accurate; however, a significant deficiency in control activities still remains that increases the risk of errors or omissions that could be material.

Recommendation: We recommend that the Office ensure that a reconciliation is performed to verify that the payroll accruals are complete and accurate.

Management's View: *The State Controller's Office agrees with this finding.*

Corrective Action: *The office makes journal entries to record year-end payroll accruals for the portion of June payroll that was paid out in July. The audit noted no reconciliation was performed to ensure the completeness of the payroll accrual amounts. Due to the transition to a new enterprise resource planning system, the assertion was that there were no queries to reconcile between the Human Capital Management module and the Financial Services Module is inaccurate. The State Controller's Office did create detailed reports that required additional knowledge and expertise to isolate the exact information needed to reconcile.*

Our corrective action plan is to improve the queries and reports available prior to the end of the fiscal year. As the upcoming year transition will occur within a singular system, we fully expect this to be a minor task with suitable reporting available. We will then accomplish the reconciliation and document the completion.

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, 2023

STATE DEPARTMENT OF EDUCATION (Department)

FINDING 2023-105
The Department did not implement new policies and procedures to properly monitor data that supports foundation payments made to school districts and charter schools.

Type of Finding: Significant Deficiency

Criteria: Idaho Code, Title 33, Chapter 10 establishes the foundation program and how payments for education support shall be calculated. Included in this section are the rules for data elements that are included in the calculation of this payment. Further, this section states that the State Board of Education and/or State Superintendent of Public Instruction shall establish rules on the method of data collection. The Idaho Administrative Procedures Act (IDAPA) 08.02.01 notes that data must be submitted through the State longitudinal system.

Idaho Code, Section 33-701(6), requires school districts to submit audited financial statements for review by the Department by November 10 each year. If the Department requests further explanation or additional information regarding the audit report, the school district shall provide a full and complete response within 30 days of the request.

Idaho Code, Section 33-701(7), requires school districts to annually file with the Department such financial and statistical reports required by the State Superintendent of Public Instruction.

The Department published a Memorandum to Auditors of Idaho's Public School Districts and Charter Schools (Memo) that outlines several areas that the Department requests the auditors to review and test during the audit of Idaho's public schools. Specific areas of review include a review of revenue and expenditure coding, review of the accuracy of the school's attendance, staffing, and pupil transportation data, among other things.

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 and monitoring. 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. Monitoring is the evaluation of results of the internal controls system and remediation of deficiencies in a timely manner.

Condition: This is a repeat of Finding 2022-103 related to the Department's use of data from the Idaho System for Education Excellence (ISEE), which is the State longitudinal system required through IDAPA 08.02.01, to calculate and distribute foundation payments to Idaho school districts. School districts directly submit the required data, such as student attendance and teacher information through ISEE.

Through fiscal year 2023, the Department relied on financial audits completed by CPA firms to verify the support for and internal controls over the data entered by the school districts. The Department provided criteria for review in a memo to CPA firms contracted by school districts and charter schools to complete the financial audits. This memo includes specific items for review and suggested testing to be completed by the contracted auditors; however, there was no mechanism to verify that the

procedures were completed or if there were weaknesses identified. As part of its corrective action related to Finding 2022-103 at the beginning of fiscal year 2024, the Department requested from those CPA firms a Letter of Assurance attesting that their testing procedures included a review of student attendance and enrollment data, school staffing data, financial data, procurement policies, and pupil transportation data.

The Department is also in the process of developing procedures to complete additional deeper reviews of a sample of public and chart schools' audit reports to verify the accuracy of data reporting.

Neither of these procedures were completed during fiscal year 2023.

Cause: The Department is in the process of implementing their proposed corrective action plan for the fiscal year 2022 audit; however, no changes were available for audit for fiscal year 2023.

Effect: Each year, the Department distributes over $2 billion to schools, the majority of their general maintenance and operating revenues. The amount distributed is based on attendance and staffing information provided by the public schools through the ISEE data reporting. Without assurances that the data input into the system is accurate, the Department is at risk of providing incorrect payments to school districts.

Recommendation: We recommend that the Department completes the implementation of the corrective action plan to ensure the data entered into ISEE is accurate and reliable.

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

Corrective Action: *The Public School Finance team implemented a Letter of Assurance completed by school auditors acknowledging the review of auditing recommendations set forth in the annual memo. This document outlines key areas of focus and provides reassurance that these areas are being reviewed. Specifically, a question is included asking if auditors reviewed internal controls for data submission and verified the accuracy of staffing and student information submitted by schools during the period of audit. A timeline of that process is immediately below:*

- *March 2, 2023: Notified school districts and charter schools during the annual spring training of the finding and that a Letter of Assurance would be requested from their auditor.*
- *May 2023: Department staff member working on this project transferred to another state agency.*
- *June 29, 2023: Mailed a 14-page "CPA Memo" to all auditors who had completed public school audits in the prior school year outlining major areas that each auditor should be reviewing and testing during audits of Idaho's public schools.*
- *June 29, 2023: That same "CPA Memo" was emailed to all auditors (whose email addresses we had) as well as all school district and charter school business managers.*
- *September 2023: Drafted the Letter of Assurance language.*
- *September 13 and 15, 2023: Had discussions with school auditors who provide services to several schools on the purpose/goal of the Letter of Assurance and received their feedback.*
- *September 15, 2023: Emailed Letter of Assurance to school auditors (whose addresses we had).*
- *September 18, 2023: Mailed the Letter of Assurance to all school auditors.*
- *October 4, 2023: Shared/discussed the Letter of Assurance with the school district and charter school staff attending the monthly School Business Official webinar.*

- *The agenda for the meeting, which included the actual Letter of Assurance, was shared with all school business managers.*
- *A recording of the webinar is available to all business managers.*

- *December 8, 2023: Updated the Letter of Assurance for FY 2024 to specifically include a statement that internal controls for data submission were reviewed.*
- *December 8, 2023: Have received the majority of the requested Letter of Assurances.*

While Public School Finance staff review the audits submitted, the Department of Education will develop an additional deeper review of a small sample of district/charter school audits to verify accuracy of data reporting.

The Department's FY 2025 budget request includes a new position whose focus would be data validation and ensuring students are accounted for properly through working with Idaho's public schools and school auditors.

In the spring of 2024, Department staff will request the audit workpapers from a small sample of school districts and charter schools to do a deeper review and verify that items included in the Letter of Assurance were reviewed and documented.

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

DIVISION OF FINANCIAL MANAGEMENT (Division)

FINDING 2023-106
The Division understated the Grants Advances closing package for the American Rescue Plan Act funds by $181 million.

Type of Finding: Material Weakness, Material Misstatement

Criteria: The *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), identifies control activities that help ensure management directives are carried out and risks are mitigated. These activities include adequate review and authorization of financial reporting and using the general ledger or other reliable records as the basis for reports.

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

Condition: The Division submitted to the Office Form 15B - Grants Advances closing package related to the American Rescue Plan Act (ARPA) Fund 0344. The original submission was understated by $180,857,061.

The Grants Advances closing package requires the preparer to report the beginning balance, the amount expensed or transferred, and finally the ending balance. The original submission by the Division contained

numerous errors for the amounts reported as beginning balance and the amounts expensed. These errors led to the ending balance also being inaccurate.

The amount reported as the beginning balance was understated by $86,139,274. The amount expensed was overstated by $94,717,787, and the advance ending balance was understated by $180,857,061. In addition, the total amount of advance reported in the prior year was understated by $99,205,207.

Cause: The original submission included the amounts distributed to other agencies, but not the amounts expended by the Division for the ARPA Fund 0344. The Division's review procedures were not performed at a level sufficient to identify and correct the errors prior to submission to the Office.

Effect: In the absence of the audit work completed and the resulting adjustment completed by the Office, the statewide ACFR would have included an understatement of $180,857,061 in grants advances related to ARPA funding.

Recommendation: We recommend that the Division strengthen the review process over the completion and submission of closing packages to ensure that accurate and reliable financial information is provided to the Office.

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

Corrective Action: *The agency submitted the grants package initially and had to make corrections to the report after this initial submission. We appreciate both LSO and SCO for working with DFM to ensure the correction was made in a timely fashion prior to issuance of the public financial statement. A weakness in internal controls prevented the identification of the error prior to the initial submission. While this technical error did not result in any funds being available to any agencies in error, DFM agrees that it is paramount that correct information be reported on all financial statements to ensure public confidence in state government. DFM will work with SCO for the necessary training on the grants package to remedy this internal control weakness prior to the next submission.*

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

IDAHO STATE TAX COMMISSION (Commission)

FINDING 2023-107
The Commission's Accounts Receivable closing package for the statewide financial statements was overstated by $92.9 million.

Type of Finding: Material Weakness

Criteria: The *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), identifies control activities that help ensure management directives are carried out and risks are mitigated. These activities include adequate review and authorization of financial reporting and using the general ledger or other reliable records as the basis for reports.

Each year, State agencies are required to report accounting information to the Office of the State Controller (Office) in the form of closing packages, which provide the information necessary to prepare

the statewide ACFR. The Office provides instructions for preparing the closing packages in accordance with Generally Accepted Accounting Principles (GAAP). The Commission is required to submit an Accounts Receivable closing package related to each fund with estimate tax receivables in excess of $50,000.

Condition: The Commission is required to report tax amounts owed from parties outside the State as of June 30 each year. The total taxes receivable amounts include estimated amounts to be collected within 60 days and within one year. The Commission prepares a compilation spreadsheet from system reports and historical trend information for each tax type and fund. The spreadsheet takes into account several factors including actual amounts received in July for accounts receivable at June 30, cash on hand, estimated refunds based on historical information, and uncollectible amounts over a five-year period.

Legislation in fiscal year 2023 authorized the creation of the In-Demand Careers Fund (0323) with an $80 million annual appropriation. The same legislation appropriated $330 million annually to the Public School Income Fund (0481). Quarterly transfers were made in July 2023 from the General Fund to distribute $20 million to the In-Demand Careers Fund and $82.5 million to the Public School Income Fund. These two quarterly transfers were not factored into the initial Accounts Receivable closing package calculation submitted by the Commission. There was an additional $2 million transfer in the Sales Tax Fund (0502) that was incorrectly included.

Cause: Review procedures were not completed with a sufficient level of scrutiny to detect and correct errors in the amounts reported. The Commission's process of calculating and reviewing the accounts receivable amounts for accuracy and reasonableness changed in fiscal year 2023 to account for the implementation of Luma, the State's newly implemented enterprise system for financial management and human capital management. In addition, to review weaknesses, a portion of the cause of the error was due to the Commission lacking appropriate access to see that fund in Luma.

Effect: The errors resulted in a $92.9 million overstatement for the accounts receivable balance reported to the Office. The General Fund was overstated by $110,927,812; the In-Demand Careers Fund was understated by $20,000,000; and the Sales Tax Fund was overstated by $1,987,739.

After the errors were identified, the Commission worked with the Office to submit the corrected amounts.

Recommendation: We recommend that the Commission strengthen their internal control procedures to ensure that the accounts receivable amounts submitted to the Office are accurate and complete.

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

Corrective Action: *Strengthen internal control procedures to ensure the accounts receivable closing package submitted for ACFR is accurate and complete. Create an internal review process and audit activities to assist with this process.*

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

FINDING 2023-108
Monthly reconciliations of the Refund Fund were not properly completed and documented for 5 of 12 months reviewed, or 42 percent.

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, control activities, and monitoring.

Condition: At the close of each month, a reconciliation of the Refund Fund is completed to ensure the accuracy between Navision (the Commission's internal accounting system) and the Statewide Accounting and Reporting System (STARS). To document the performance of the reconciliation, the individual completing the reconciliation initials a master monthly checklist. Our testing found that this reconciliation did not occur in 5 of the 12 months of fiscal year 2023.

Cause: The monthly checklist used to document review and approval of monthly reconciliations was not completed in full for 5 out of 12 months in fiscal year 2023. The reviewer's initials on the checklist documents and verifies that a review occurred. Without the initials on the checklist, there is no way to verify that the review occurred and that internal controls were operating effectively.

Effect: We were unable to verify that controls were operating throughout the entire period for the Total Refund Fund. While there were no substantive errors found during the audit, the lack of review increases the risk that errors could occur and not be identified and corrected.

Recommendation: We recommend that the Commission strengthen internal controls and improve the documentation of control activities performed for all fund reconciliations to ensure that reviews are completed and documented.

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

Corrective Action: *Strengthen controls and create documentation of control activities performed for the Refund Fund. Segregation of duties are in place to assist with this process.*

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

IDAHO STATE TREASURER'S OFFICE (Office)

FINDING 2023-109
The investments closing package submitted by the Office for the statewide ACFR was understated for restricted investments by $87.7 million.

Type of Finding: Significant Deficiency

Criteria: The *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), identifies control activities that help ensure management directives are carried out and risks are mitigated. These activities include adequate review and authorization of financial reporting and using the general ledger or other reliable records as the basis for reports.

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

State agencies are required to report accounting information to the Office of the State Controller in the form of closing packages, which provide the details necessary to prepare the statewide ACFR. The Office provides instructions for preparing the closing packages in accordance with Generally Accepted Accounting Principles (GAAP).

Condition: The Office is required to report the fair value and restricted amounts for the investments it manages on the Investments closing package. The amount reported for the Millennium Permanent Endowment fund restricted amount was incorrectly reported. The assets of this fund are restricted by Idaho Code 67-1801 and therefore the fair value and restricted amounts of the investments should be the same. The investment fair value on June 30 was $97.5 million; however, the restricted amount as of June 30 was listed as $9.7 million, resulting in an understatement of $87.7 million for restricted investments.

After communication with the Office regarding the errors noted during the audit, the Office resubmitted information to the Office of the State Controller to correct the misstatements.

Cause: The Offices' final review procedures over the investments closing package was not performed at a level sufficient to identify and correct the errors prior to submission to the Office of the State Controller.

Effect: The statewide ACFR would have included an understatement of $87.7million in the restricted investments section of the financial statements for fiscal year 2023, had the error not been identified through the audit procedures completed.

Recommendation: We recommend that the Office strengthen the review process over the completion and submission of closing packages to ensure that accurate and reliable financial information is provided to the Office of the State Controller. The Office should also consider additional training on the appropriate completion of information to be reported in compliance with government accounting standards.

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

Corrective Action: *As recommended, the STO will evaluate and make improvements to the internal review process of closing packages and consider additional training when available.*

Typically, the Treasurer's Office has the opportunity to review any discrepancies prior to the final submission to the State Controller's Office. Our current internal review process has worked well, but the Luma transition put an increased workload on staff during the period that closing packages were prepared, limiting the ability for a more thorough review before the due dates. The understated amount for restricted investments was corrected prior to issuance of the financial statements, so no additional action is necessary.

Even though this year was out of the ordinary, we will evaluate the process to determine if any improvements to the internal review for closing packages is needed. This will be completed by June 30, 2024.

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We continue to asset that the Office does need to strengthen internal controls for the review of the closing packages, as we identified the current process did not prevent or detect an error.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

MANAGEMENT'S CORRECTIVE ACTION PLAN

STATE OF IDAHO
CONTROLLER'S OFFICE
BRANDON D WOOLF

Corrective Action Plan - ACFR
For the Fiscal Year Ended June 30, 2023

Office of the State Controller

Finding Number 2023-101: The Office misclassified early repayments of $51.271 million of GARVEE and TECM debt as prepaids.

Related to Prior Finding: N/A

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

Corrective Action: The State Controller's Office agrees with this finding. The adjustments to correct this were done prior to issuance. The Idaho Transportation Department had reported prepaying the GARVEE and TECM note payable to ensure that payment was received with new systems being implemented July 1st. As we had previously done with leases, we kept the liability and booked an asset. After discussing the issue with GASB, they informed us that long term liabilities would not be considered a prepaid, instead a reduction of liability would be shown on the statements. We have noted this and will be updating our closing package instructions to show that these items should be excluded.

Anticipated Corrective Action Date: The State Controller's Office will complete the corrective actions for the June 30, 2024 reporting period.

Responsible for Corrective Action: Name: Tiffini LeJeune
Title: Reporting and Review Bureau Chief
Phone: (208) 334-3100
email: TLejeune@sco.idaho.gov

Finding Number 2023-102: The Department of Health and Welfare reported Supplemental Nutrition Assistance Program (SNAP) non-cash amounts for food stamps on the Schedule of Expenditures of Federal Awards (SEFA) closing package of $255,790,543 that was not included by the Office in the financial statements.

Related to Prior Finding: N/A

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

Corrective Action: The State Controller's Office agrees with this finding. The entry was made before the financial statements were issued. While the non-cash entry was created, it was inadvertently not processed. To ensure this does not happen again in the future, we will be adding an additional trend analysis specific to the SNAP non-cash as part of the SEFA task checklist. This will involve running a query for the current and two prior fiscal years and ensuring the variance from year to year is within a reasonable range. In addition, we will require the entry to be done where the other miscellaneous entries are entered and processed.

Anticipated Corrective Action Date: The State Controller's Office will complete the corrective actions for the June 30, 2024 reporting period.

Responsible for Corrective Action: Name: Tiffini LeJeune
Title: Reporting and Review Bureau Chief
Phone: (208) 334-3100
email: TLejeune@sco.idaho.gov

Finding Number 2023-103: The Office's internal review process did not prevent or detect misstatements in the statewide ACFR submitted to the auditors.

Related to Prior Finding: 2022-101

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

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 continue to evaluate and make improvements to the internal review procedures. The office will be working with the entities that provide us audited financial statements to ensure that we are provided with a final audit along with all the data that is required by GASB to be presented in the statements. If there are drafts, we will implement a compare process to ensure we catch any changes. Our team will review GASB guidance and take opportunities for training when available. We will be implementing the use of task checklists and prior year findings, to ensure a complete and timely review of the notes.

Anticipated Corrective Action Date: The State Controller's Office will complete the corrective actions for the June 30, 2024 reporting period.

Responsible for Corrective Action: Name: Tiffini LeJeune
Title: Reporting and Review Bureau Chief
Phone: (208) 334-3100
email: TLejeune@sco.idaho.gov

Finding Number 2023-104: A reconciliation was not completed to ensure the completeness of Payroll accruals included in the statewide financial statements.

Related to Prior Finding: N/A

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

Corrective Action: The State Controller's Office agrees with this finding. The office makes journal entries to record year-end payroll accruals for the portion of June payroll that was paid out in July. The audit noted no reconciliation was performed to ensure the completeness of the payroll accrual amounts. Due to the transition to a new enterprise resource planning system, the assertion was that there were no queries to reconcile between the Human Capital Management module and the Financial Services Module is inaccurate. The State Controller's Office did create detailed reports that required additional knowledge and expertise to isolate the exact information needed to reconcile.

Our corrective action plan is to improve the queries and reports available prior to the end of the fiscal year. As the upcoming year transition will occur within a singular system, we fully expect this to be a minor task with suitable reporting available. We will then accomplish the reconciliation and document the completion.

Anticipated Corrective Action Date: The corrective action plan along with validation of reconciliation will be accomplished prior to July 31, 2024.

Responsible for Corrective Action: Name: Scott Smith
Title: Deputy Controller
Phone: (208) 334-3100
email: ssmith@sco.idaho.gov

Idaho State Department of Education – Superintendent of Public Instruction

Finding Number 2023-105: The Department did not implement new policies and procedures to properly monitor data that supports foundation payments made to school districts and charter schools.

Related to Prior Finding: 2022-103

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

Corrective Action: The Public School Finance team implemented a Letter of Assurance completed by school auditors acknowledging the review of auditing recommendations set forth in the annual memo. This document outlines key areas of focus and provides reassurance that these areas are being reviewed. Specifically, a question is included asking if auditors reviewed internal controls for data submission and verified the accuracy of staffing and student information submitted by schools during the period of audit. A timeline of that process is immediately below:

- March 2, 2023: Notified school districts and charter schools during the annual spring training of the finding and that a Letter of Assurance would be requested from their auditor.
- May 2023: Department staff member working on this project transferred to another state agency.
- June 29, 2023: Mailed a 14-page "CPA Memo" to all auditors who had completed public school audits in the prior school year outlining major areas that each auditor should be reviewing and testing during audits of Idaho's public schools.
- June 29, 2023: That same "CPA Memo" was emailed to all auditors (whose email addresses we had) as well as all school district and charter school business managers.

- September 2023: Drafted the Letter of Assurance language.
- September 13 and 15, 2023: Had discussions with school auditors who provide services to several schools on the purpose/goal of the Letter of Assurance and received their feedback.
- September 15, 2023: Emailed Letter of Assurance to school auditors (whose addresses we had).
- September 18, 2023: Mailed the Letter of Assurance to all school auditors.
- October 4, 2023: Shared/discussed the Letter of Assurance with the school district and charter school staff attending the monthly School Business Official webinar.
    - The agenda for the meeting, which included the actual Letter of Assurance, was shared with all school business managers.
    - A recording of the webinar is available to all business managers.
- December 8, 2023: Updated the Letter of Assurance for FY 2024 to specifically include a statement that internal controls for data submission were reviewed.
- December 8, 2023: Have received the majority of the requested Letter of Assurances.

While Public School Finance staff review the audits submitted, the Department of Education will develop an additional deeper review of a small sample of district/charter school audits to verify accuracy of data reporting.

The Department's FY 2025 budget request includes a new position whose focus would be data validation and ensuring students are accounted for properly through working with Idaho's public schools and school auditors.

In the spring of 2024, Department staff will request the audit workpapers from a small sample of school districts and charter schools to do a deeper review and verify that items included in the Letter of Assurance were reviewed and documented.

Anticipated Corrective Action Date: See Corrective action above

Responsible for Corrective Action: Name: Gideon Tolman
Title: Chief Financial Officer
Email: gtolman@sde.daho.gov
phone: (208) 332-6874

Idaho Division of Financial Management

Finding Number 2023-106: The Division understated the Grants Advances closing package for the American Rescue Plan Act funds by $181 million.

Related to Prior Finding: N/A

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

Corrective Action: The agency submitted the grants package initially and had to make corrections to the report after this initial submission. We appreciate both LSO and SCO for working with DFM to ensure the correction was made in a timely fashion prior to issuance of the public financial

statement. A weakness in internal controls prevented the identification of the error prior to the initial submission. While this technical error did not result in any funds being available to any agencies in error, DFM agrees that it is paramount that correct information be reported on all financial statements to ensure public confidence in state government. DFM will work with SCO for the necessary training on the grants package to remedy this internal control weakness prior to the next submission.

Anticipated Corrective Action Date: This will be corrected by June 30, 2024.

Responsible for Corrective Action: Name: Michael Pearson
Title: State Financial Officer
Email: Michael.Pearson@dfm.idaho.gov
Phone: (208) 854-3063

Idaho State Tax Commission

Finding Number 2023-107: The Commission's Accounts Receivable closing package for the statewide financial statements was overstated by $92.9 million.

Related to Prior Finding: N/A

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

Corrective Action: Strengthen internal control procedures to ensure the accounts receivable closing package submitted for ACFR is accurate and complete. Create an internal review process and audit activities to assist with this process.

Anticipated Corrective Action Date: This will be corrected by June 30, 2024.

Responsible for Corrective Action: Name: Lisa Kopke
Title: Financial Executive Officer
Email: lisa.kopke@tax.idaho.gov
phone: (208) 334-7507

Name: Craig Allison
Title: Financial Specialist, PR
Email: craig.allison@tax.idaho.gov
Phone: (208) 334-7552

Finding Number 2023-108: Monthly reconciliations of the Refund Fund were not properly completed and documented for 5 of 12 months reviewed, or 42 percent.

Related to Prior Finding: 2022-106

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

Corrective Action: Strengthen controls and create documentation of control activities performed for the Refund Fund. Segregation of duties are in place to assist with this process.

Anticipated Corrective Action Date: This will be corrected by June 30, 2024.

Responsible for Corrective Action: Name: Lisa Kopke
Title: Financial Executive Officer
Email: lisa.kopke@tax.idaho.gov
phone: (208) 334-7507

Name: Jena Antrip
Title: Financial Specialist, SR
Email: jena.antrim@tax.idaho.gov
Phone: (208) 332-6665

State Treasurer's Office

Finding Number 2023-109: The investments closing package submitted by the Office for the statewide ACFR was understated for restricted investments by $87,710,000.

Related to Prior Finding: N/A

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

Corrective Action: Typically, the Treasurer's Office has the opportunity to review any discrepancies prior to the final submission to the State Controller's Office. Our current internal review process has worked well, but the Luma transition put an increased workload on staff during the period that closing packages were prepared, limiting the ability for a more thorough review before the due dates. The understated amount for restricted investments was corrected prior to issuance of the financial statements, so no additional action is necessary.

Even though this year was out of the ordinary, we will evaluate the process to determine if any improvements to the internal review for closing packages is needed.

Anticipated Corrective Action Date: This will be corrected by June 30, 2024.

Responsible for Corrective Action: Name: Laura Steffler
Title: Chief Deputy Treasurer
Email: laura.steffler@sto.idaho.gov
Phone: (208) 332-2999

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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, 2023

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STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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



Prior Findings Follow-up - ACFR
For the Fiscal Year Ended June 30, 2023

Office of the State Controller

Finding Number 2022-101: 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

Current Status: Not Corrected

Reason for Recurrence: Although steps were taken to address the finding, errors of a similar nature were identified during the FY 2023. This finding relates to current year finding 2023-103 on the corrective action plan.

Planned 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 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 work with entities that we rely on for information to provide updated and correct information, including agencies that provide closing packages as well as audited financial statements. We will update coding information sheets to correct any identified errors. With new guidance being implemented we will do an extra review to validate all information required by guidance is incorporated. We will adjust internal deadlines to provide more time for thorough reviews.

The office will continue to communicate with component units to receive correct and timely information prior to the first draft.

Partial Corrective Action Taken: More attention to reviews on submitted audited financial statements was given to ensure correct amounts. As well as communication to the entities to receive the statements in a timelier manner. We updated our coding sheets to ensure that correct data was being recorded.

Responsible for Corrective Action: Name: Tiffini LeJeune
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Finding Number 2022-102: The Office's internal review procedures did not prevent or detect the understatement of Unrestricted Net Position and the overstatement of Net Position-Restricted for Other Purposes on the Component Unit Statement of Net Position.

Related to Prior Finding: N/A

Current Status: Corrected

Idaho State Department of Education – Superintendent of Public Instruction

Finding Number 2022-103: The Department is not properly monitoring data that supports foundation payments made to school districts and charter schools.

Related to Prior Finding: N/A

Current Status: Not Corrected

Reason for Recurrence: Due to the timing of when corrective actions began, this finding was not corrected for FY 2023. This finding relates to current year finding 2023-105 on the corrective action plan.

Planned Corrective Action: School Finance will implement a Letter of Assurance completed by school auditors acknowledging the review of auditing recommendations set forth in the annual memo. This document will outline key areas of focus and provide reassurance that these areas are being reviewed. Specifically, a question would be included asking if auditors reviewed internal controls for data submission and verified the accuracy of staffing and student information submitted by schools during the period of audit.

While public school finance staff do currently review the audits submitted, the department will develop an additional deeper review of a small sample of district/charter school audits to verify accuracy of data reporting.

Partial Corrective Action Taken:

- March 2, 2023: Notified school districts and charter schools during the annual spring training of the finding and that a Letter of Assurance would be requested from their auditor.
- May 2023: Department staff member working on this project transferred to another state agency.
- June 29, 2023: Mailed a 14 page "CPA Memo" to all auditors who had completed public school audits in the prior school year outlining major areas that each auditor should be reviewing and testing during audits of Idaho's public schools.
- June 29, 2023: That same "CPA Memo" was emailed to all auditors (whose email addresses we had) as well as all school district and charter school business managers.
- September 2023: Drafted the Letter of Assurance language.
- September 13 and 15, 2023: Had discussions with school auditors who provide services to several schools on the purpose/goal of the Letter of Assurance and received their feedback.

- September 15, 2023: Emailed Letter of Assurance to school auditors (whose addresses we had).
- September 18, 2023: Mailed the Letter of Assurance to all school auditors.
- October 4, 2023: Shared/discussed the Letter of Assurance with the school district and charter school staff attending the monthly School Business Official webinar.
    - The agenda for the meeting, which included the actual Letter of Assurance, was shared with all school business managers.
    - A recording of the webinar is available to all business managers.
- December 8, 2023: Updated the Letter of Assurance for FY 2024 to specifically include a statement that internal controls for data submission were reviewed.
- December 8, 2023: Have received the majority of the requested Letter of Assurances.

Date corrective action was/will be implemented: Ongoing

Planned or additional steps taken to address the finding:

- The Department's FY 2025 budget request included a new position (FTE) whose focus would be data validation and ensuring students are accounted for properly through working with Idaho's public schools and school auditors.
- In the spring of 2024, Department staff will request the audit workpapers from a small sample of school districts and charter schools to do a deeper review and verify that items included in the Letter of Assurance were reviewed and documented.

Anticipated implementation date: Completion upon the hiring of a new staff member who will be focused on verifying data accuracy.

Responsible for Corrective Action: Gideon Tolman, Chief Financial Officer
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Idaho Department of Health and Welfare

Finding Number 2022-104: The Department's internal review process did not prevent or detect errors in the Accounts Receivable closing package for the statewide ACFR.

Related to Prior Finding: N/A

Current Status: Corrected

Idaho State Tax Commission

Finding Number 2022-105: The Commission failed to report the Idaho Tax Rebate Fund restricted cash balance of $144.8 million and the related accounts payable liability.

Related to Prior Finding: N/A

Current Status: Not Corrected

Reason for Recurrence: Although steps were taken to address the finding, errors of a similar nature were identified during the FY 2023 so this finding will remain open.

Planned Corrective Action: Research applicable standards and consider all reporting methods related to the changes in funding and new fund. If applicable, create a new restricted cash closing package.

Partial Corrective Action Taken:

- The agency has taken two steps to correct this issue. In June 2022, the Tax Commission created a governance committee to review new legislation. The purpose of the committee is to track legislative changes that affect the Commission's procedures and processes. The result of the actions taken by the committee was cleaner legislative implementation and all-inclusive communication regarding changes. Documentation from the committee is stored electronically and is easily accessible for the accounting department to reference while completing closing packages.

- Per LSO recommendation, the second action taken was the creation of additional reporting. The incorporation of a reporting mechanism available in the statewide accounting system assisted the commission with the creation of a new restricted closing package. The reporting tool lists all funds in the control of the commission to ensure correctness and completeness. The new closing package was completed August 9, 2023.

Responsible for Corrective Action: Lisa Kopke
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Finding Number 2022-106: Documentation of internal controls is not present due to lack of control process for unscheduled sales tax distribution.

Related to Prior Finding: N/A

Current Status: Not corrected

Reason for Recurrence: Although steps were taken to address the finding, they were not implemented until FY24. This finding relates to current year finding 2023-108 on the corrective action plan.

Planned Corrective Action: Strengthen controls and create documentation of control activities performed for sales tax distributions and other unscheduled distributions. Segregation of duties are in place to assist with this process.

Partial Corrective Action Taken: The Commission has created an electronic folder called "Corrections" where backup documentation is being stored for correcting entries and unplanned distributions. Controls built into LUMA have given us the ability to maintain separation of duties by requiring one level of entry and two levels of approvals. In addition, the LUMA system creates an audit trail of activities posted in the system and the ability to attach backup documentation when appropriate.
In addition to systematic changes, we are enhancing our month-end checklist to include a review process of the backup documentation stored and we have incorporated hyperlinks in spreadsheets for unplanned distributions when appropriate.

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Idaho Transportation Department

Finding Number 2022-107: The Department's internal control procedures did not detect or prevent errors in reporting capital assets.

Related to Prior Finding: N/A

Current Status: Corrected

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