

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 2024

Terri Kondeff
Director

Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

September 18, 2025

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, 2024. 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 11 material weaknesses and 8 significant deficiencies in internal control required to be reported under *Governmental Auditing Standards*. As explained in Finding 2024-100, we were unable to obtain sufficient appropriate evidence related to Pooled Cash & Investments, Restricted Cash & Cash Equivalents, and related equity accounts. Our opinion was modified on the following opinion units: Governmental Activities, Business-Type Activities, Governmental Fund General, Governmental Fund Health and Welfare, Governmental Fund Transportation, Governmental Fund Federal Stimulus, Enterprise Fund Loan, and Aggregate Remaining Fund Information. Additional issues were identified during the course of the audit. There is a risk that misstatements still exist in the financial statement. In regard to the identified issues, all material misstatements were corrected prior to issuance of the ACFR.

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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Terri Kondeff
Director

Legislative Services Office
Idaho State Legislature

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 18, 2025

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, 2024, 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 September 4, 2025. Our report includes a reference to other auditors who audited the financial statements of the following entities as described in our report on the State of Idaho's financial statements:

- Idaho State Bar
- Idaho Bond Bank Authority
- Idaho State Building Authority
- Idaho Dairy Products Commission
- Idaho Endowment Fund Investment Board
- Idaho Fish and Wildlife Foundation
- Idaho Health Insurance Exchange
- Idaho Small Employer Health Reinsurance Program
- Idaho Individual High Risk Reinsurance Pool
- Idaho Housing and Finance Association and component unit
- Idaho Lottery
- Idaho Potato Commission
- Public Employee Retirement System of Idaho
- Idaho State Treasurer – Assets Under Management
- Idaho Wheat Commission
- Lewis-Clark State College and component unit
- Boise State University and component unit
- Idaho State University and component unit
- University of Idaho and component unit

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.

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: 2024-100, 2024-101, 2024-102, 2024-103, 2024-106, 2024-111, 2024-112, 2024-113, 2024-114, 2024-116, and 2024-118.

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: 2024-104, 2024-105, 2024-107, 2024-108, 2024-109, 2024-110, 2024-115, and 2024-117.

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
Legislative Auditor

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

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, 2024

STATE AGENCY		PAGE
OFFICE OF THE STATE CONTROLLER		
2024-100	The Office discontinued the process of reconciling cash balances by fund with the implementation of a new statewide enterprise resource planning system, Luma, on July 1, 2023, resulting in unverified pooled cash and cash equivalents reported on the financial statements and material misstatements going undetected.	5
2024-101	Errors in journal entry templates when implementing the State's new accounting system, Luma, resulted in misstatements in pooled cash, other accrued liabilities, and revenues in the Health and Welfare column on the financial statements.	6
2024-102	Weak internal controls allowed multiple misstatements in the Division of Financial Management's grants advances closing package to be included in the financial statements.	8
2024-103	Errors in the transfer elimination process resulted in overstated revenue and expenditures in the Transportation column of $102.3 million and $178.3 million in the Unemployment Compensation column.	9
2024-104	The Office did not include Supplemental Nutrition Assistance Program (SNAP) non-cash amounts for food benefits of $280.9 million as Grants and Contributions revenue and Health and Human Services expenditures in the Health and Welfare column on the Governmental Fund Statements.	11
2024-105	The Office's internal review process did not prevent or detect multiple misstatements in the statewide ACFR submitted for audit that were greater than the trivial threshold but less than material.	12
2024-106	Over $30 million was issued in duplicate payments during fiscal year 2024 due to a lack of data validation controls.	14
2024-107	Multiple control deficiencies were identified in Luma's Security and Privacy Program increasing the risk of fraud, unauthorized transactions, data manipulation, or undetected errors.	18
2024-108	A reconciliation was not completed to ensure the completeness of payroll accruals included in the statewide financial statements.	22
2024-109	The statewide accounting system does not have system controls to prevent employees from modifying their timesheets after supervisor approval.	23

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

STATE DEPARTMENT OF EDUCATION

2024-110 The Department did not adequately monitor data that supports $574,773,460, or 24.5 percent, of the statewide distribution payments made to school districts and charter schools in fiscal year 2023, nor did they properly implement corrective action procedures for fiscal year 2024. 24

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY

2024-111 The Department was unable to reconcile the Loans and Notes Receivable ending balance between the Loan and Grant Tracking System (LGTS) and the State's accounting system, Luma, for the Clean Water and Drinking Water State Revolving funds, and balances reported are incorrect. 27

2024-112 The Department's internal review failed to prevent an overstatement of revenue by $83.7 million for the American Rescue Plan Act (ARPA) SLRF Fund. 28

DIVISION OF FINANCIAL MANAGEMENT

2024-113 The Division's internal review failed to prevent a misstatement of $175 million on the Grants Advances closing package for the American Rescue Plan Act funds. 29

IDAHO DEPARTMENT OF HEALTH AND WELFARE

2024-114 The Department structured some journal entries in the accounting system incorrectly and did not identify or correct the errors during the fiscal year resulting in a material overstatement of $491 million to cash in the statewide *Annual Comprehensive Financial Report* (ACFR). Additional accounts had corresponding over/understatements related to these errors. 31

IDAHO DEPARTMENT OF LABOR

2024-115 The Department overstated accounts receivable by $32,977,010. 33

IDAHO STATE TAX COMMISSION

2024-116 The Commission failed to ensure or monitor for changes to statutory cash allocation codes in the State's accounting system, Luma. 34

2024-117 Restricted Cash amounts reported to the Office of the State Controller were understated by $190.8 million. 36

IDAHO STATE TREASURER'S OFFICE

2024-118 IDLE pool distributions were not made accurately or timely in accordance with the Idaho State Treasurer's Office investment policy. 37

STATE OF IDAHO
INTERNAL CONTROL REPORT
BASIC FINANCIAL STATEMENTS FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

OFFICE OF THE STATE CONTROLLER (Office)

Finding 2024-100

The Office discontinued the process of reconciling cash balances by fund with the implementation of a new statewide enterprise resource planning system, Luma, on July 1, 2023, resulting in unverified pooled cash and cash equivalents reported on the financial statements and material misstatements going undetected.

Related to Current Finding: 2024-118

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) provides a basis for organizations to design internal control procedures to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Components of this framework include control activities. 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.

Condition: The State of Idaho pools idle funds that remain after balancing daily cash flow requirements. The Idaho State Treasurer's Office invests these idle funds generally in short-term ventures, guaranteeing that funds will be available for all of the State's appropriations. This pool is referred to as IDLE and reported as Pooled Cash and Investments and Restricted Cash and Cash Equivalents on the face of the financial statements.

When the State of Idaho implemented Luma in July 2023, the Office discontinued a standard reconciliation process that agreed the State's accounting system to the Idaho State Treasurer's Office system of record and the bank. The Office did not implement a new process to ensure that cash amounts continued to reconcile among the various systems.

The lack of adequate reconciliations increases the risk that material misstatements may exist within the State of Idaho's pooled cash. During the audit, we identified material errors totaling $491 million in the Idaho Department of Health and Welfare's cash balance of the Cooperative Welfare fund. Additional material errors could remain unidentified and uncorrected in other funds.

The lack of reconciliations increases the risk that material errors in account balances and mark-to-market adjustments for the IDLE funds may occur. The accuracy of IDLE allocation amounts across the State's funds in the financial statements could not be verified as the Office did not reconcile cash reported in Luma to the system of record maintained by the Idaho State Treasurer's Office by fund and to cash held by the bank.

Cause: During the implementation of Luma and the integration of required interfaces from the Idaho State Treasurer's Office systems, there was a lack of sufficient interface testing, including end-user acceptance testing, completed by the Office. In addition, the Office discontinued a standard reconciliation process and did not implement an effective replacement to ensure that Luma fund account balances agreed to the Idaho State Treasurer's Office systems and the bank.

Effect: As a result of the lack of reconciled balances, we were unable to verify that pooled cash balances are materially accurate. In addition, we were unable to verify adjustments for fair value of the investments since its calculation relies upon an accurate balance to determine the amount needed to be adjusted to arrive at fair value. There is insufficient evidence to verify that the pooled cash amount was materially accurate for the following opinion units:

- Governmental Activities
- Business-Type Activities
- General Fund
- Health and Welfare Fund
- Transportation Fund
- Federal Stimulus Fund
- Loan Fund
- Aggregate Other Funds

Recommendation: We recommend that the Office implement reconciliation procedures between Luma, the Idaho State Treasurer's Office, and the bank to ensure pooled cash can be accurately determined. We further recommend that this reconciliation process be applied back to the date of implementation.

Management's View: *The State Controller's Office agrees with this finding and acknowledges the lack of a cash reconciliation like the one done in previous years.*

Corrective Action: *An outside consultant was hired to reconcile the bank to the Treasurer's Office system (TATRS). The Office continues to meet weekly with the State Treasurer's Office to review transaction accuracy and coordinate efforts to improve current interface processes between Luma and TATRS. The Office is developing a sustainable and effective cash reconciliation going forward. This reconciliation process will focus on matching cash balances by fund.*

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We would like to clarify that the reconciliation prepared by an outside consultant as referenced in the Office's response was incomplete and inadequate to truly reconcile all funds and did not identify any of the errors identified during our audit. We also would like to emphasize that it is critically important that the Office reconcile by fund back to the implementation date of July 1, 2023, to ensure cash balances are accurate.

Finding 2024-101
Errors in journal entry templates when implementing the State's new accounting system, Luma, resulted in misstatements in pooled cash, other accrued liabilities, and revenues in the Health and Welfare column on the financial statements.

Related to Current Finding: 2024-114

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) provides a basis for organizations to design internal control procedures to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Components of this framework include control activities and information and communication. 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 relate to obtaining quality information and effective internal and external communication of that information to achieve management objectives.

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.

Condition: The State of Idaho replaced its accounting system with a new enterprise resource planning system, Luma, in July 2023. Under the previous accounting system, fiscal staff used a transaction code that would record the details of the transaction, including the debits and credits, to the appropriate general ledgers. Within Luma, fiscal staff are required to create a complete journal entry including all of the accounting details for the transaction; however, staff can build reusable journal entry templates that simplify the process of entering recurring or structured accounting transactions.

During the audit, we identified errors in the journal entry template for certain cash, other accrued liabilities, and accounts receivable transactions at the Idaho Department of Health and Welfare, reported in the Health and Welfare column of the governmental funds. The template was built so that the debits and credits were reversed, resulting in overstated cash, other accrued liabilities, and revenue. This error was identified in November 2023 and while the template was corrected, the transactions were not. Additionally, an error in an accounts receivable write-off resulted in overstatements to cash and revenue.

Cause: During the implementation of Luma and the integration of required interfaces from the Idaho Department of Health and Welfare systems, there was a lack of proper end-user testing, insufficient personnel training, and incomplete online resources for Luma provided by the Office to State agencies. In addition, the reports provided through Luma were inadequate and incorrect.

Additionally, when the State implemented Luma, the Office discontinued a standard reconciliation process that agreed the State's accounting system to the State Treasurer's Office investment system and the bank. The Office did not implement a new process to reconcile cash amounts among the various systems. A reconciliation process would have increased the chances that the Office would have identified the errors in the journal entry when cash balances did not reconcile to the bank.

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

- On the Governmental Funds Balance Sheet, Pooled Cash was overstated by $433.6 million and other accrued liabilities were overstated by $280.7 million; and on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, sales of goods and services were overstated by $152.9 million.
- On the Governmental Activities of the Government-Wide Statement of Net Position, Pooled Cash was overstated by $433.6 million and other accrued liabilities were overstated by $280.7 million; and on the Statement of Activities, Charges for Services for the Health and Human Services were overstated by $152.9 million.

Recommendation: We recommend that the Office implement appropriate internal controls to ensure correct reporting of financial transactions. This includes appropriate reviews of journal entries/templates

created by agencies, specifically when the entries/templates impact cash balances, and to reconcile cash between Luma and the Idaho State Treasurer's Office. We further recommend that the Office provide appropriate and accurate financial reports of agency activities and provide training to ensure Luma processes appropriately reflect activity.

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

Corrective Action: *The processes have been corrected and although the agency still needs to make correcting prior period entries in Luma, the statements will reflect the correct entries in the ACFR.*

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. While the fiscal year 2024 template error was corrected by the Department, and the Office made adjustments to the financial statements after notification from the auditors, we would like to emphasize that the Office should implement appropriate policies, procedures, and internal controls to ensure timely correction of errors in the accounting system and accurate financial statements are submitted for audit in the future.

Finding 2024-102
Weak internal controls allowed multiple misstatements in the Division of Financial Management's grants advances closing package to be included in the financial statements.

Related to Current Finding: 2024-113

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) 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 67-1007, states that the Office 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 Division of Financial Management submitted the grants advances closing package with incorrect beginning balances from the prior year and incorrect expenditures based on account analysis in Luma. After multiple resubmissions, the beginning balance was reported to be $645,417,330, while the

prior-year final closing package shows an ending balance of $813,695,442, an understatement of $168,278,112. In addition, reported expenditures were understated by $8,885,580.

Additionally, when the original error was initially corrected, the Office reversed the debits and credit in the journal entry causing the $168,278,112 error in Unearned Revenue and Grants and Contributions to be doubled, making the total misstatement $336,556,224.

These errors were not identified by the Office but were discovered by us.

Cause: The errors were caused by a lack of sufficiently detailed reviews by the Office over journal entries, including those from closing packages and adjusting entries, allowing errors to be processed incorrectly. In addition, the financial statements were not reviewed at a sufficient detail to identify potential misstatements. With the implementation of Luma, and challenges for agencies and the Office in the compilation of the statewide financial statements, these reviews are even more critical in the reporting process.

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

- On the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, Grants and Contributions were overstated by $168.3 million and on the Balance Sheet, Unearned Revenues were understated by $168.3 million. In addition, expenditures were understated by $8.9 million
- On the Governmental Activities of the Government-Wide Statement of Net Position, unearned revenue was understated by $168.3 million and on the Statement of Activities, Operating Grants and Contributions for the General Government line were overstated by $168.3 million. In addition, expenditures were understated by $8.9 million.

Recommendation: We recommend that the Office strengthen the review process to ensure journal entries, including those related to closing packages and adjusting entries, accurately report amounts on the financial statements.

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

Corrective Action: *We have met with the Division of Financial Management and come to an understanding of what should be reported on this closing package. We will have additional reviews of the backup and the transactions on this closing package.*

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

Finding 2024-103
Errors in the transfer elimination process resulted in overstated revenue and expenditures in the Transportation column of $102.3 million and $178.3 million in the Unemployment Compensation column.

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) 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.

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.

Condition: Material errors related to transfers were identified in the financial statements provided to us for audit. For the Transportation column of the governmental fund statements, $102.2 million was included as both Other Income and Economic Development expenditures. For the Unemployment Compensation column of the proprietary fund statements, $178.3 million was included as Other Income and as Other Expenses. These amounts should have been eliminated as interfund transfers.

Cause: The Office did not review the financial statements at a level sufficient to prevent the misclassification of transfers. Additionally, unclear establishment of transfer coding, a lack of proper end-user testing, inadequate training of agency personnel and incomplete online resources for Luma resulted in the inconsistent use of event codes and difficulty in identifying transfers from revenues and expenditures.

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

- On the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, Other Income and the Economic Development expenditure line were overstated by $102.2 million.
- On the Governmental Activities of the Government-Wide Statement of Activities, Charges for Services for the Economic Development line and Expenses for the Economic Development line were overstated by $102.2 million.
- On the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position, Other Income and Other Expenses were overstated by $178.3 million.
- On the Business-Type Activities of the Government-Wide Statement of Activities, Charges for Services for the Unemployment Compensation line and Expenses for the Unemployment Compensation line were overstated by $178.3 million.

Recommendation: We recommend that the Office improve transfer coding and work with State agency personnel to provide additional training on correctly reporting transfers so they can be identified during the elimination process. In addition, we recommend that the Office review the financial statement data at a level sufficient to identify such errors.

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

Corrective Action: *We have updated our process and will ensure that transfers are reported correctly and the appropriate eliminations are made. The ACFR team has incorporated appropriate event code use in*

agency training. We will also improve reference documentation with additional definitions and explanations. The transfers were corrected for the final FY24 ACFR.

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

Finding 2024-104
The Office did not include Supplemental Nutrition Assistance Program (SNAP) non-cash amounts for food benefits of $280.9 million as Grants and Contributions revenue and Health and Human Services expenditures in the Health and Welfare column on the Governmental Fund Statements.

Related to Prior Finding: 2023-102 communicated on February 15, 2024, in the Internal Control Report

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.

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.

Condition: Non-cash amounts for the Supplemental Nutrition Assistance Program (SNAP) reported for food benefits on the Department of Health and Welfare's Schedule of Expenditures of Federal Awards (SEFA) closing package of $280.9 million were not included in the financial statements provided to the auditors. This amount should have been reported as revenue on the Grants and Contributions line and as expenditures on the Health and Human Services line of the Governmental Fund Statements and also included as Expenses and Operating Grants and Contributions on the Health and Human Services line of the Statement of Activities.

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 contained a $280.9 million misstatement that exceeded our materiality threshold for the Health and Welfare column of the Governmental Fund statements. This error affected multiple lines on the 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. These errors were corrected prior to issuance of the ACFR.

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 submission for audit.

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

Corrective Action: *The information is reported on the SEFA closing package, which normally does not have any processed transactions. Going forward the entry will be added to the Bureau Chief journal entry adjustment log to ensure the transactions are processed.*

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We agree that adding the journal entry to the adjustments log to ensure the transactions are processed is a good step. However, including more specific instructions as part of the detailed financial statement review, including adding a step in the review process to provide an opportunity for the Office to detect missing adjustments prior to providing the draft financial statements for audit would strengthen internal controls.

Finding 2024-105
The Office's internal review process did not prevent or detect multiple misstatements in the statewide ACFR submitted for audit that were greater than the trivial threshold but less than material.

Related to Prior Finding: 2023-103 communicated on February 15, 2024, in the Internal Control Report

Related to Current Finding: 2024-113

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, information and communication, and monitoring. 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 Office 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 us and communicated to management during the audit process or identified by the Office after the financial statements were provided to us for audit. The following is a summary of the identified items that 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 Area	Number of Identified Items
Financial Statements	4
Note 2: Deposits, Investments, and Restricted Assets	4
Note 4: Intraentity Transactions	1
Note 6: Capital Assets	3
Note 8: Pension Plans	3
Note 9: Postemployment Benefits Other than Pensions	1
Note 11: Leases, Subscription-Based Information Technology Arrangements, and Public-Private and Public-Public Partnerships	2
Note 14: Equity	7
Note 16: Litigation, Contingencies, Commitments, and Encumbrances	2
Note 18: Subsequent Events	2
Management Discussion and Analysis	4
Required Supplementary Information	2

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 were not at a detailed level sufficient to prevent or detect and correct the misstatements, errors, and omissions listed above. We noted several errors were due to information from the prior year and not updated with current-year information.

Effect: The financial statements and note disclosures submitted 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 and acknowledges the misstatements and presentation errors identified by the auditors.*

Corrective Action: *All 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. We have updated our preparation processes to allow for a more thorough review of the final product. We will incorporate additional reviews of the linked data into the ACFR. When we receive drafts of audited financial statements, we will create a list of changes and communicate them to the team to ensure final draft numbers are used from the outside audits. 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.

Finding 2024-106
Over $30 million was issued in duplicate payments during fiscal year 2024 due to a lack of data validation controls.

Type of Finding: Material Weakness

Criteria: The Federal Information System Controls Audit Manual (FISCAM) provides a methodology for assessing information system (IS) controls published by the Government Accountability Office (GAO). The FISCAM framework is an objective-based control framework that provides guidance in (1) identifying relevant control objectives and (2) identifying and understanding the entity's IS controls that are likely to achieve the relevant control objectives and are most efficient for testing. The FISCAM controls are consistent with, and mapped to, management requirements for information security and privacy controls included in the National Institute of Standards and Technology (NIST) Computer Security Resource Center publications and specifically include the information security and privacy controls presented in the NIST Special Publication 800-53, Security and Privacy Controls for Information Systems and Organizations.

Business process controls relate to the structure, policies, and procedures for the input, processing, storage, retrieval, and output of data that operate over individual transactions; activities across business processes; and events between business process applications, their components, and other systems.

Condition: The Office replaced the State's dated mainframe accounting system, STARS, with a cloud-based Enterprise Resource Planning (ERP) system, Luma. After several delays, Luma was implemented on July 1, 2023.

We contracted with Baker Tilly to conduct an IT audit of Luma. Baker Tilly reviewed 101 relevant IT General Controls (ITGC) identified within the FISCAM framework and assessed the reliability of key data across 62 sampled interfaces in 21 modules within Luma from adjacent systems. Modules included General Ledger, Cash Management, Accounts Payable, Accounts Receivable, Payroll, and Benefits.

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During the assessment of relevant (ITGC), Baker Tilly identified the following deficiencies related to data validation:

Control Objective Area	Control Count	Deficiencies			Failure Rate
		High Risk	Moderate Risk	Low Risk	
Interface Controls	28	15	7		79%
Data Management	7	1			14%

High risk indicates significant likelihood for material loss or misstatement, compliance concerns, reputational risk, availability and completeness of critical management information, or misappropriation of the State's assets or data. Moderate risk indicates a moderate likelihood for those things to occur.

High and moderate severity deficiencies related to a lack of data validation procedures, determined to have contributed to a lack of confidence in the integrity of system and interfaced data. Deficiencies related to interface controls (business process controls) were largely a result of inconsistent configurations, incomplete or informally managed specification documentation, and a lack of established data validation controls. In addition, one deficiency was noted surrounding the lack of a validation control to reconcile master/transactional data (non-specific to interfaces).

Specifically, interfaces were inconsistently configured, and specification documentation did not consistently capture information related to error handling, unit and/or user acceptance testing performed, interface custodians, or owners. However, technologies and processes were implemented to reactively respond to issues as the Office was made aware.

In addition, automated mechanisms for ensuring data validity were not consistently implemented or documented within specification documentation or system configurations.

Finally, the Office did not own or assume ownership over processes for data validation and reconciliations that leveraged reporting capabilities of the system. Detective controls to proactively identify issues with interfacing data and/or system functionality in processing were not established.

As a result of these deficiencies, multiple incidents occurred to raise concern surrounding an interface process known as IFS517, which produces a payment output file sent to banks for disbursements.

The first incident occurred in November 2023, during fiscal year 2024. Due to insufficient configuration of referencing parameters within the IFS517 process, the interface reprocessed records from a prior day, which lead to multiple identical payments issued to Medicaid providers totaling approximately $30 million. Additionally, records of the duplicate payments are not found in Luma. The incident was not discovered until Medicaid providers called the State inquiring about the extra payment.

A second incident occurred in fiscal year 2025. The IFS517 process was stopped before it was completed to address an issue with remittance advices. The process was started again, resulting in duplicate payments, double and sometimes triple payments.

Because none of these duplicate payments were recorded in Luma, there was no way to track them through the accounting system. The Idaho State Treasurer's Office had to track these payments, and the recovery of the payments through a manual process using a spreadsheet.

Additionally, when the Office was questioned about instances beyond the two incidents, we were aware of, it stated that only "one or two, here and there" were seen. This did not instill confidence that additional errors had been detected or prevented.

We learned of two additional instances where duplicate payments were created. One instance was at the Tax Commission; however, the Tax Commission identified the duplicate payments before they were issued. We learned of this instance during our audit at the Tax Commission. The second instance was at the Division of Human Resources where over $550,000 in duplicate payments were issued. We discovered this instance when the Office was planning to correct the error with an interagency billing rather than an appropriate correcting entry approved by the Legislature, as required by Idaho Code, Section 67-3604, since it was over $500,000 and within six months of the end of the fiscal year.

Cause: Following the implementation of Luma, several root causes for the origination and/or persistence of issues were identified.

Limited requirements analysis, suboptimal communication, incomplete testing, and ambitious timelines led to misunderstandings and incorrect implementations, a system that is misaligned with operational needs, late-stage defect identification, and a rushed, incomplete implementation.

Inadequate user acceptance testing resulted in a multitude of post-system challenges, including functionality and data reliability issues, inadequate preconfigured reports for financial reporting, integration challenges, complex workflow processes, and system performance issues, such as extended loading times and unstable data extraction.

Challenges in effectively managing the volume of IT support cases submitted by agencies of varying complexity levels led to unresolved issues and prolonged downtime. Agencies have resorted to informational communication channels rather than utilizing the official support case system, despite the simplified process for submitting IT support cases. In addition, resources like Quick Reference Guides are outdated, incomplete, and inaccurate.

Data validation controls, primarily within the interface controls and data management areas, were not effectively designed or implemented. The Office does not operate or own data validation or reconciliation processes to periodically assess the completeness and accuracy of interfacing data. In addition, reporting capabilities are not being utilized to aid in the reconciliation of data source systems. Finally, design documentation and build specifications are informally reviewed and maintained and do not consistently document expected processes and procedures related to interfaced data handling.

The root cause that produced the initial error for each instance of the duplicate payments was different. However, the common dominator between the events was the lack of suitable and effective controls, like reconciliations, to prevent payments from being issued or discovered in a timely manner.

Effect: Unplanned events and errors are to be expected within a large recently implemented ERP system; however, effective controls can mitigate the effects of said errors. Appropriate and adequate information system controls support the design, implementation, and operational integrity of system interfaces by ensuring clear documentation, periodic validation, and effective error handling. The Office's failure to follow these controls may lead to undocumented or misconfigured interfaces, and incomplete or inaccurate data exchanges, resulting in a lack of trust in Luma system outputs.

Consequently, the operational efficiency of the State agencies' processes was significantly impacted, resulting in delays, increased costs, and user dissatisfaction. Issues related to inadequate user acceptance testing led to operational disruptions, delays, confusion, increased troubleshooting efforts, reliance on manual Excel work, errors, and significant time investment in data preparation. Ultimately, these challenges have negatively impacted user experience, productivity, and perceptions about Luma's viability. Moreover, they hinder effective decision-making, erode stakeholder trust, and directly impede program delivery by State agencies, potentially causing delays, errors, and inefficiencies in providing services to constituents. This cascade of issues ultimately undermines overall organizational performance and diminishes the quality and effectiveness of government services.

The IT support case process led to unresolved issues and prolonged downtime. Even with a simplified process for submitting IT support cases, agencies still resorted to informal communication challenges resulting in unresolved issues and prolonged downtime.

The outdated, incomplete, or inaccurate Quick Reference Guides have led to user confusion and inefficiencies, resulting in increased training needs and operational delays.

Data integrity is a core component of any information system. Without periodic data validation procedures, the integrity of system data will continually be scrutinized, and errors will persist. Until effective and routine reconciliation processes are implemented, data integrity will constitute a high risk.

Additionally, errors in interface data may go undetected or unresolved, resulting in data loss, corruption, or delays. Without proper logging, alerting, and escalation mechanisms, the Office may not become aware of critical issues in time to mitigate them, leading to data corruption and increased risk of financial misstatements or fraud.

The lack of data integrity resulted in the State issuing duplicate payments in excess of $30 million. The duplicate payments were not reflected in the accounting system, therefore, Luma did not correctly report the amount of payments made by the State, nor did it provide a way to recover the payments, forcing them to be tracked outside of luma. Without appropriately designed and implemented controls, duplicate payments may continue to occur without being detected.

Recommendation: We recommend that the Office design and implement appropriate validation controls. These policies and procedures should include data reconciliation procedures; policies regarding how the Office will address system errors, specifically regarding "manual interventions"; timing of periodic testing and review of business process effectiveness, including all implemented interfaces.

In addition, we recommend the Office develop up-to-date business processes and interface specification documentation that are supported with systemic evidence that supports the design of the interfaces and system configurations.

Specific requirements with relation to duplicate entries or data should be validated through unit and user acceptance testing and ensure that such mechanisms are functioning as expected in accordance with functional and technical requirements as noted by business teams.

To assist the users of the system, we further recommend that the Office implement a holistic approach comprising rigorous requirements gathering with active end-user involvement, clear communication protocols among stakeholders, strengthened testing processes with comprehensive test coverage, and

realistic project timelines to address post-system implementation issues effectively. Additionally, we recommend that the Office enhance response time through increased resource allocation, continuous training, automation implementation, routine reviews, clear communication channels, and improved business requirements and testing procedures to better serve agencies with greater efficiency and support.

The Office should improve communication by implementing clear protocols and utilizing IT service management tools to ensure stakeholders receive transparent updates regarding support case status and future actions. The Office should also promote the adoption of the official ticketing system through training sessions that highlight its benefits and ongoing reinforcement efforts. Finally, the Office should review and update the Quick Reference Guides to reflect system changes and provide accessible training materials to mitigate user confusion.

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

Corrective Action: *The Office has incorporated automated checks to prevent duplicate payments in the future. The automated script compares the data to the previous files and will send notification to the Office of any issues that need to be reviewed prior to routing to the bank. The Office has also implemented a process whereby validation reports have been built and are sent to agency representatives quarterly that will allow agencies to validate that the data interfaced into Luma from their local systems is correct in Luma.*

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We would like to clarify that the duplicate payment error would not have been detected by the validation process mentioned in the corrective action plan whereby reports are sent to agency representatives to validate that the data interfaced into Luma from their local systems is correct in Luma. The amounts reported in Luma agreed to the agency's local system amounts, but neither of those systems agreed to the ISF517 file that was sent to the bank for payment. The error occurred in the payment interface file sent to the bank that was not reconciled back to Luma, and without an overall reconciliation process from the bank to account balances, this type of error would continue to go undetected. Reconciling the ISF517 file to Luma should be the responsibility of the Office.

Finding 2024-107
Multiple control deficiencies were identified in Luma's Security and Privacy Program increasing the risk of fraud, unauthorized transactions, data manipulation, or undetected errors.

Type of Finding: Significant Deficiency

Criteria: The Federal Information System Controls Audit Manual (FISCAM) provides a methodology for assessing information system (IS) controls published by the Government Accountability Office (GAO). The FISCAM framework is an objective-based control framework that provides guidance in (1) identifying relevant control objectives and (2) identifying and understanding the entity's IS controls that are likely to achieve the relevant control objectives and are most efficient for testing. The FISCAM controls are consistent with, and mapped to, management requirements for information security and privacy controls included in the National Institute of Standards and Technology (NIST) Computer Security Resource Center publications and specifically include the information security and privacy controls presented in the NIST Special Publication 800-53, Security and Privacy Controls for Information Systems and Organizations.

Business process controls relate to the structure, policies, and procedures for the input, processing, storage, retrieval, and output of data that operate over individual transactions; activities across business processes; and events between business process application, their components, and other systems.

Security management controls provide the foundation of a security-control structure and reflect senior management's commitment to addressing security risks. Information security management programs provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning and communicating responsibilities, and monitoring the adequacy of the entity's IS controls.

Access controls, also known as logical and physical access, limit access or detect inappropriate access to information resources (i.e., data and information technology), thereby protecting these resources against unauthorized modification, intentional or unintentional loss, impairment, and disclosure. Logical access controls require users to authenticate themselves and limit the files and other resources that authenticated users can access and the actions that they can execute. Physical access controls involve restricting physical access to information resources and facilities.

The segregation of duties category relates to the policies, procedures, and an organizational structure for managing who can control key aspects of computer-related operations and thereby prevent unauthorized actions or unauthorized access to assets or records. Segregation of duties involves segregating work responsibilities so that one individual does not control all critical stages of a process. Effective segregation of duties is achieved by splitting responsibilities between two or more individuals or organizational units. In addition, dividing duties this way diminishes the likelihood that errors and wrongful acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other.

Contingency planning provides for the continuation of critical or essential mission and business functions in the event of a system disruption, compromise, or failure and the restoration of the information system following a system disruption. Contingency planning involves protecting against losing the capability to process, retrieve, and protect electronically maintained information. Effective contingency planning is achieved by having procedures for protecting information resources and minimizing the risk of unplanned interruptions. It also involves having a plan to recover and reconstitute information systems should system disruptions occur.

Condition: The Office replaced the State's dated mainframe accounting system, STARS, with a cloud-based Enterprise Resource Planning (ERP) solution, Luma. After several delays, Luma was implemented on July 1, 2023.

We contracted with Baker Tilly to conduct an IT audit of Luma. Baker Tilly reviewed 101 relevant IT General Controls identified within the FISCAM framework and assessed the reliability of key data across 62 sampled interfaces in 21 modules within Luma from adjacent systems. Modules include General Ledger, Cash Management, Accounts Payable, Accounts Receivable, Payroll, and Benefits.

During an assessment of relevant IT General Controls, Baker Tilly identified 37 deficiencies related to an informally managed security and privacy program.

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Control Objective Area	Control Count	Deficiencies			Failure Rate
		High Risk	Moderate Risk	Low Risk	
Security Management	17		11	4	88%
Segregation of Duties	5		4		80%
Access Controls	16		4	2	38%
Contingency Planning	3			2	67%
Application General Controls	21		6	4	48%
Configuration Management	4				0%

Moderate risk indicates a moderate likelihood for material loss or misstatement, compliance concerns, reputational risk, availability and completeness of critical management information, or misappropriation of the State's assets or data. Low risk indicates a low likelihood for those things to occur.

Moderate and low severity deficiencies were indicative of informally implemented security and privacy functions with design or documentation gaps. These deficiencies were largely a result of key security or privacy processes that have not been formalized or fully implemented to the requirements outlined within the FISCAM framework.

While the controls within access management need improvement, the severity of the deficiencies were determined to be of moderate or low risk. There were 16 controls identified for testing and 6 deficiencies were noted, a 38 percent failure rate.

Out of 3 controls tested for contingency planning, 2 deficiencies were identified, a 67 percent failure rate. Of 21 controls assessed under the application general controls (business process controls), 10 deficiencies were identified, a 48 percent failure rate. These deficiencies in contingency planning and application general controls were generally due to informalized and unmanaged policies and procedural documentation or were a result of key security or privacy processes that have not been formalized or fully implemented to the requirements within the FISCAM framework. These deficiencies were determined to be moderate or low risk.

No deficiencies were identified related to the tested configuration management controls.

Specifically, the Office has not formally designed and documented policies and procedures with relation to the security and privacy program for Luma to be maintained and updated on a periodic basis.

In addition, critical security processes (i.e., a formal risk assessment, access reviews and restriction of privileged access, incident response program, business continuity and disaster recovery plan, audit logging and monitoring capabilities, etc.) have not been formally designed, documented, or implemented to the expected level of maturity outlined in the FISCAM framework.

While a role-based access model is utilized, the Office did not implement controls to periodically and continuously evaluate potential segregation of duties conflicts and enforce the principle of least privilege when allocating permissions to users.

Finally, security and privacy controls that currently exist within the control environment are largely informal, unoptimized, and performed on an ad-hoc basis.

When a State employee requires access to Luma or a modification to their current authorizations, an appointed authority (Security Request Administrator) at the agency will submit an online Security Access Request (SAR) form to the Office. The Office security team uses this information to update the employees' permissions and access roles within Luma.

We performed testing of user access roles. In a sample of 40 users, there were 41 instances of "non-matching" access roles to their SAR forms among 17 of the 40 individuals. These "non-matching" user permissions to their SAR forms occur in two forms:

1. Based on the user's SAR form, the user should have access to an access role based on the user's position and job duties, but the user did not have access to the necessary and approved role.
2. Based on the user's SAR form, the user should NOT have access to an access role based on the user's position and job duties but did have access to an unnecessary or unapproved role.

There were instances of both forms of discrepancies found within the Office's lists.

Cause: Following the implementation of Luma, several root causes for the origination and/or persistence of issues were identified.

Limited requirements analysis, suboptimal communication, incomplete testing, and ambitious timelines led to misunderstandings and incorrect implementations, a system that is misaligned with operational needs, late-stage defect identification, and a rushed, incomplete implementation.

Key security and privacy processes, including the lack of updated or managed policies and procedures and inadequately designed security and privacy controls are informally designed and implemented. Specifically, a formal security and privacy management program has not been established through updated policies and procedures. Critical security processes (i.e., a formal risk assessment, access reviews and restriction of privileged access, incident response program, business continuity and disaster recovery plan, etc.) have not been formally designed, implemented, or documented. Security and privacy controls that currently exist within the control environment are largely informal, unoptimized, and performed on an ad-hoc basis.

During the audit period, there was no review or reconciliation of user SAR forms to actual Luma user access roles and user permissions. While the Office purchased Infor's Governance, Risk, and Compliance (GRC) software, it was not implemented during the fiscal year. The GRC software includes:

- Automated monitoring. Continuously oversees user access and business processes to detect segregation of duties violations and potential fraud.
- Streamlined user provisioning. Facilitate compliant user provisioning by automating access requests and role changes and providing audit trails for all activities.

Effect: Weak governance documentation and procedures create opportunities for concern of defined security and privacy controls that safeguard the system, operations, and its userbase by users and management.

Consequently, the operational efficiency of the State agencies' processes was significantly impacted, resulting in delays, increased costs, and user dissatisfaction. Issues related to inadequate user acceptance testing led to operational disruptions, delays, confusion, increased troubleshooting efforts, reliance on manual Excel work, errors, and significant time investment in data preparation. Ultimately, these challenges have negatively impacted user experience, productivity, and perceptions about Luma's viability.

Moreover, they hinder effective decision-making, erode stakeholder trust, and directly impede program delivery by State agencies, potentially causing delays, errors, and inefficiencies in providing services to constituents. This cascade of issues ultimately undermines overall organizational performance and diminishes the quality and effectiveness of government services.

Ensuring system users have the appropriate system permissions and access roles is a critical component of an effective information system. Failure to implement key controls may result in users having excessive or conflicting access, increasing the risk of fraud, unauthorized transactions, data manipulation, or undetected errors. This lack of segregation may lead to financial misstatements, weakened internal control environments and audit findings.

Recommendation: We recommend that the Office formalize and strengthen governance of existing security and privacy processes and controls, ensure user access controls incorporates segregation of duties considerations, and implement key incident response and risk assessment programs.

We further recommend that the Office establish routine reconciliation procedures to ensure user access roles and system permissions match their SAR form. We also recommend that the Office regularly review SAR forms to verify they are accurate and updated. This may be done through the implementation of the GRC software to aid user provisioning and user access monitoring.

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

Corrective Action: *The Office is implementing the use of Governance Risk and Compliance (GRC) software to identify control deficiencies. The Office has developed policies prioritized in the IT audit and continues to review and refine the policies on an ongoing basis.*

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit. We are concerned that the implementation of Governance Risk and Compliance software is not currently providing adequate oversight and will continue to monitor its implementation and effectiveness.

Finding 2024-108
A reconciliation was not completed to ensure the completeness of payroll accruals included in the statewide financial statements.

Related to Prior Finding: 2023-104 communicated on February 15, 2024, in the Internal Control Report

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: As part of the year-end process, the Office records year-end payroll accruals for the portion of June payroll paid out in July. During our testing of the procedures to complete the fiscal year 2024 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 Office using EIS and STARS systems to the Human Capital Management (HCM) system within Luma. This transition is part of the overall implementation of the new enterprise resource planning system, Luma. Due to the transition, queries were not available, and only Luma Payroll Distribution reports were used for calculating the payroll accruals. No reconciliation occurred between the Human Capital Management system and the Finance and Supply Management (FSM) system, the financial module in Luma.

Payroll transactions are entered into HCM and uploaded to FSM. This reconciliation is necessary to ensure that all time entered into the HCM module and 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.

We performed 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 and go undetected.

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: *I have reviewed the report covering fiscal year 2024 and agree with the auditors' findings.*

Corrective Action: *As of October 2024, SCO implemented a new reconciliation procedure to ensure that payroll accruals are accurate and complete. This procedure includes bi-weekly review and validation steps designed to improve the accuracy of the information reported in the statewide financial statements.*

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

Finding 2024-109
The statewide accounting system does not have system controls to prevent employees from modifying their timesheets after supervisor approval.

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: As part of our audit of the ACFR, we tested internal controls related to timesheet processing. The statewide accounting system, Luma, has controls in place for employees to enter their time worked and supervisors to review the timesheets for accuracy and electronically sign them as approval. Our testing

found that employees could change their timesheets after their supervisor had signed off on the timesheet indicating it had been reviewed. Luma did not generate a notification to alert the supervisor that the timesheet had been changed subsequent to approval.

Cause: Luma does not have system controls in place to prevent employees from altering their timesheets subsequent to supervisor approval or to alert supervisors that the timesheets have been altered.

Effect: Without controls in place to prevent employees from altering timesheets after supervisor approval, or notifications alerting supervisors that timesheets have been altered, employees could commit timesheet fraud. Sick time and vacation time could be changed to actual time worked or overtime hours could be added to timesheets increasing the employees' comp-time or total pay.

Recommendation: We recommend that the Office design and implement system controls in Luma to prevent employees from altering their timesheet after a supervisor has approved it.

Management's View: *I have reviewed the report covering fiscal year 2024 and agree with the auditors' findings.*

Corrective Action: *As of February 2025, we reconfigured the system so any modification made to a timesheet after approval automatically unauthorizes the timesheet and triggers a notification to the employee's manager. While the system does not fully prevent post-approval modifications, it ensures that employees cannot be paid on unauthorized timesheets.*

Additionally, the system locks employees out of their timesheets every Wednesday at 12:00 p.m., preventing further edits. Any modifications required after this cutoff must be submitted through agency payroll for manual adjustment and reauthorization. We believe this configuration serves as a strong mitigating control that significantly reduces the risk of inappropriate timesheet changes and timesheet fraud.

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

STATE DEPARTMENT OF EDUCATION (Department)

Finding 2024-110
The Department did not adequately monitor data that supports $574,773,460, or 24.5 percent, of the statewide distribution payments made to school districts and charter schools in fiscal year 2023, nor did they properly implement corrective action procedures for fiscal year 2024.

Related to Prior Finding: 2023-105 communicated on February 15, 2024, in the *Internal Control Report*

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.

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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) outlining several areas the Department requested auditors to review and test during the audit of Idaho's public schools. Specific areas of review include revenue and expenditure coding and accuracy of attendance, staffing, and pupil transportation data. This review should include testing of the submitted attendance data and confirmation that schools are reporting in compliance with Department guidelines and State Board Rules and Regulations. The memo also asked auditors to sign a letter of assurance on their procedures. The letter of assurance requires auditors to certify that their testing procedures included reviewing the applicable school year's Idaho System for Educational Excellence (ISEE) school data. The completed letter is required to be sent to the Department by December 1 each year.

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 finding of Finding 2022-103 and 2023-105 related to the Department's use of data from the 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.

To address a prior finding, the Department implemented procedures to require the school districts' auditors to sign a letter of assurance confirming their review of submitted attendance data. We selected a sample of school districts and charter schools and reviewed whether the auditors signed the letter of assurance for the 2022-2023 school year. Out of the 19 school districts reviewed, 2 did not have signed letters. Both deviations were from the same auditor. Upon further review, we discovered that the auditor would not sign the letter for 6 of the 186 statewide school districts they were contracted to audit. The auditor believed the attestation would require a level of assurance for which they were not engaged. The auditor stated that they could not certify their procedures were sufficient for the Department's purposes as they have not followed professional assurance standards related to testing State compliance. Further, the Department did not perform other review procedures for these 6 school districts.

The Department continues to develop procedures to complete additional deeper reviews of a sample of public and charter schools' audit reports to verify the accuracy of data reporting. However, these procedures were not completed during fiscal year 2024.

Cause: The Department has been in the process of implementing its proposed corrective action plan for the fiscal year 2022 and 2023 audits. However, the implementation is taking longer than expected. Fiscal year 2024 was the first year the Department required auditors to sign a letter of assurance, and they did not include procedures to address auditors that might decline signing and had no alternative monitoring procedures identified or performed by the Department to address the weakness. In fiscal year 2025, the Department was able to hire additional staff to complete additional reviews of school districts to verify the accuracy of data reporting.

Effect: Each year, the Department distributes over $2.3 billion to public school districts, which is 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. The school districts audited by the accounting firm that declined to sign the letter of assurance received $574,773,460, or 24.5 percent, of the total funding provided to schools for the 2022-2023 school year. Public school districts' audit information related to the 2023-2024 school year was not available at the time of our review.

Recommendation: We recommend that the Department fully implement procedures to ensure a review of the attendance data entered by school districts.

Management's View: *We are in general agreement with this finding.*

Correction Action: *The Idaho Department of Education (Department) hired an auditor in December 2024, based on funding and legislative approval received during the 2024 Legislative session. The individual in this position developed an annual risk assessment of public school finance including an activities list, consolidated and prioritized activities list, pre-controls risk assessment, control activity list for each category, and post-controls risk assessment. Further review found that controls are in place to reduce the risk associated with data accuracy and monitoring, as well as other inherent risks. Risk assessments and further testing will be conducted annually.*

Letters of assurance were sent to and collected from external LEA auditors regarding the review of additional data in the areas of attendance, staffing, and transportation. If an external auditor does not sign the letter of assurance, the districts they serve are considered higher risk, and the Department will conduct additional audits. The process for monitoring and reporting attendance and enrollment, including calculations of average daily attendance for dual enrollment calendars and alternative calendars, was reviewed. This process was analyzed for accuracy and consistent implementation across multiple situations within the public schools.

Reviews of procedures and calculations to reduce risks are ongoing, including additional scrutiny on prior-year corrections and initial employee placement requests; tracking and submitting attendance data for virtual and hybrid programs; and further monitoring of instructional hours.

Auditor's Concluding Remarks: We thank the Department for its cooperation and assistance throughout the audit. We appreciate the progress made to implement corrective action plans from prior audit findings and agree that the auditor position filled in December 2024 will further support progress on completing the corrective action plan. We want to emphasize that implementation of the final corrective action step from the fiscal year 2023 audit "…the 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." is an important final step in the risk assessment process implemented by the Department.

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY (Department)

Finding 2024-111

The Department was unable to reconcile the Loans and Notes Receivable ending balance between Loan & Grant Tracking System (LGTS) and the State's accounting system, Luma, for the Clean Water and Drinking Water State Revolving funds, and balances reported are incorrect.

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 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 Department submitted an accounts receivable closing package for the amounts expected to be collected for outstanding loans and notes receivable.

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 Department is required to report the loans and notes receivable balances for the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF) to the State as of June 30, 2024. The Department utilizes an internal system to track loans and notes receivable, the LGTS. The Department runs a report in LGTS to obtain the current and noncurrent loan balances for the CWSRF and DWSRF. The Department used a LGTS report showing loan receivable balances as of May 30, 2024, to determine the loans receivable totals to report to the Office. This LGTS report did not include loan payments received in May 2024 and June 2024.

The LGTS reports are also used to reconcile monthly payments and loan balances in LGTS to Luma. However, the Department was unable to agree the Loans and Notes Receivable balances for the CWSRF and DWSRF in LGTS to the balances shown in Luma for fiscal year 2024.

Cause: Incorrect and inaccurate month-end reports were used, and a detailed review was not completed by Department personnel to identify and correct the error. The Department used a report dated May 30, 2024, instead of June 30, 2024, for the total loan receivable balances. Further, this report did not account for loan payments received in May 2024 and June 2024.

In addition, the Department was unable to reconcile fiscal year 2024 Loans and Notes Receivable balances for the CWSRF and DWSRF in LGTS to the ending balances shown in Luma. Luma is not designed to track loan portfolios. The Department has notified the Office of this issue, but the issue has not yet been resolved.

Effect: The loan receivable amounts reported on the closing packages were overstated by $1,525,524 for the CWSRF and $1,006,602 for the DWSRF due to errors in the internal reports used by the Department. The Loans and Notes receivable balances for the CSWRF and DWSRF are understated in Luma by $101,395 in the CWSRF and $2,286,509 in the DWSRF.

These amounts are 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.

Recommendation: We recommend that the Department strengthen the controls over the closing package reporting process to ensure closing package amounts are reported accurately and appropriately.

We also recommend the Department work with the Office to reconcile loan balances in Luma on a regular basis to ensure accurate tracking and reporting.

Management's View: *We are in general agreement with this finding.*

Correction Action: *DEQ has had significant turnover in the fiscal office. The fiscal office is currently in a rebuilding phase and is dedicated to training and developing staff, implementing best practices, and documenting processes and procedures, including those for fiscal year end closing packages. The Department anticipates having trained, knowledgeable staff completing the closing packages for the 2026 fiscal year end.*

The fiscal office currently performs a monthly reconciliation process between the Loan & Grant Tracking System (LGTS) and the State of Idaho's Accounting System (Luma).

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

Finding 2024-112
The Department's internal review failed to prevent an overstatement of revenue by $83.7 million for the American Rescue Plan Act (ARPA) SLRF Fund.

Type of Finding: Material Weakness

Criteria: The *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), 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.

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: Funding was made available to the Department from the ARPA Fund for water infrastructure and remediation projects during fiscal year 2024. The Division of Financial Management received the funds and completed statutory transfers to the Department's ARPA Fund, as appropriated by the Legislature. The Department also utilized a Generate Invoice option in Luma to create revenue transactions based on the ARPA Fund disbursements. Those invoices generated a revenue entry, in addition to the transfer, when no money was receipted by the Department. This effectively recorded $83.7 million in the ARPA Fund twice. The error was identified by auditors and corrections were provided to the Office of the State Controller.

Cause: The Department's review procedures were not performed at a level sufficient to identify and correct the errors prior to processing the transactions. In part, this was due to insufficient personnel training for Luma that might have enabled staff to better understand the full effects of data entry processes.

Effect: The Department overstated revenue in the ARPA Fund by $83,688,411. The amount is material to the statewide financial statements but was corrected prior to issuance of the statewide ACFR. Weaknesses in internal controls also increase the risk that other significant errors could occur and would go undetected.

Recommendation: We recommend that the Department strengthen the review process and obtain training in the Luma receipt process to ensure that accurate and reliable financial information is included in the accounting system.

Management's View: *We are in general agreement with this finding.*

Correction Action: *DEQ has had significant turnover in the fiscal office. The fiscal office is currently in a rebuilding phase and is dedicated to training and developing staff, implementing best practices, and documenting processes and procedures. The fiscal office is currently working with the State Controller's Office (SCO) on creating a series of work sessions to help train new fiscal staff, particularly on project set up and management, and accounts receivable processes and procedures. These work sessions will include when and how to properly generate a project invoice, and receipt and record the corresponding revenue. The fiscal office is currently developing the work sessions with SCO and will start them once new staff are hired. The anticipated start date of the work sessions is the beginning of calendar year 2026. In the meantime, DEQ fiscal office has a standing meeting with SCO every other week to discuss current issues the agency is needing assistance with.*

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

DIVISION OF FINANCIAL MANAGEMENT (Division)

Finding 2024-113
The Division's internal review failed to prevent a misstatement of $175 million on the Grants Advances closing package for the American Rescue Plan Act funds.

Related to Prior Finding: 2023-106 communicated on February 15, 2024, in the Internal Control Report

Related to Current Findings: 2024-102, 2024-105

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 the Form 15B - Grants Advances closing package related to the American Rescue Plan Act (ARPA) Fund 344 with errors. The original submission was understated by $154,759,734. The second submission was understated by $175,110,403.

In the original submission, the advance beginning balance was understated by $198,357,020, the amount expensed was understated by $43,597,286, and the advance ending balance was understated by $154,759,734.

In the second submission, the advance beginning balance was understated by $183,995,983, the amount expensed was understated by $8,885,580, and the advance ending balance was understated by $175,110,403.

Cause: The original submission included the amounts directly expended by the Division; however, the amounts distributed to other agencies for the ARPA Fund 344 were not included. In addition, the original submission included incorrect beginning balances for three fund detail codes. The Division's personnel who completed the Grants Advances closing package were not sufficiently trained, and 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: The statewide ACFR would have included understatements of grant advances totaling $175,110,403 related to ARPA funding had they not been discovered during the audit and corrected. The Division submitted corrected information to the Office to be properly included in the statewide financial statements.

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

Management's View: *The agency agrees with this finding. With significant turnover at DFM, it was initially assumed that agencies who receive ARPA SLFRF funds would report on their own grant advance closing packages. DFM worked closely with SCO to determine other agencies' cash balances and added it to DFM's ending cash to correct this error in the final ACFR submission for FY25.*

Correction Action: *The initial grant advance closing packet was submitted without other agencies ARPA SLFRF balances being included. We appreciate both LSO and SCO for working with DFM to get this corrected in the final submission. While this technical error did not result in any errors in agency fund availability, DFM agrees that correct information on all financial statements is crucial to ensure public confidence in state government. DFM will work with SCO to determine other agency cash balances in the*

ARPA SLFRF funds, then add that to DFM's balances to report in the grant advance closing packet for future years.

Auditor's Concluding Remarks: We thank the Division for its cooperation and assistance throughout the audit. While the fiscal year 2024 errors have been corrected, we would like to emphasize that the Division create appropriate policies and procedures, obtain training, and implement appropriate internal controls to ensure accurate closing packages are prepared and submitted in the future.

IDAHO DEPARTMENT OF HEALTH AND WELFARE (Department)

Finding 2024-114

The Department structured some journal entries in the accounting system incorrectly and did not identify or correct the errors during the fiscal year resulting in a material overstatement of $491 million to cash in the statewide *Annual Comprehensive Financial Report* (ACFR). Additional accounts had corresponding over/understatements related to these errors.

Related to Current Finding: 2024-101

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 items such as approvals, authorizations, verifications, reconciliations, and segregation of duties.

Condition: The State implemented a new Enterprise Resource Planning system, Luma, in July 2023. The Department's Division of Financial Services was tasked with setting up templates in Luma, the State's accounting system, for accounting transactions. This setup included project codes in the D78 table. The D78 table was set up incorrectly, specifically for other accrued liabilities and cash accounts. An incorrect reversal indicator was used which resulted in a doubling effect to cash when the transaction processed.

The coding error was discovered in November 2023 during a reconciliation process. However, a review of past activity to determine the impact to the accounts, and appropriate adjustments, was not completed for fiscal year 2024. The correct account codes and amounts needed for the adjustment were difficult to identify due to the complexities associated with Luma. After the issue was identified and communicated during the audit, the Department determined that the overstatement of other accrued liabilities and cash requiring adjustment totaled $359 million.

In addition, some federal draw transactions were miscoded in Luma. When incorrectly coded payments for accounts receivable transactions were reversed (corrected), Luma used default coding to increase a revenue account instead of decreasing the cash account. The error associated with the incorrect setup of the accounts receivable transactions totaled $132 million, overstating cash.

Cause: During the implementation of Luma and the integration of required interfaces from Department systems, there was a lack of proper end-user testing and insufficient personnel training in Luma provided by the Office of the State Controller. In addition, the Department did not complete a review of the setup of accounting transactions at a level detailed enough to identify the errors. The Department did not perform timely reconciliations of accounts, also partly due to a lack of appropriate reporting provided by Luma in

fiscal year 2024. In the aggregate, these factors lead to the inclusion of material misstatements in the statewide ACFR.

Effect: The statewide ACFR included material misstatements due to accounting errors in Luma. The overstatement of cash related to the D78 table error totaled $359 million and the overstatement of cash related to the accounts receivable error totaled $132 million.

Recommendation: We recommend that the Department work with the Office of the State Controller to ensure templates are properly tested and work as intended and to provide training for staff when possible and implement system enhancements as they are made available. In addition, we recommend that the Department strengthen internal controls over the setup of default transactions in Luma, including reviews for accuracy and appropriateness.

Management's View: *The Department **Agrees** with the finding. The Department also **Agrees** with overstatement of cash resulting from the accounts receivable error totaling $132 million.*

Corrective Action: *The Department agrees with the finding related to the overstatement of cash resulting from the D78 table error totaling $359 million. The D78 issue was largely the result of migrating to a new ERP. Although we did have a review process of the conversion and tested with SCO, we missed identifying this error. When we discovered the table error, the D78 table was corrected and validated, however, the necessary transactional corrections were missed. This error happened very early on after go-live, and staff didn't have the knowledge base needed or the reporting tools available to identify and correct transactional level data at that point. Staff now has a broader knowledge and understanding of the system, as well as reporting tools and processes in place to ensure compliance.*

Testing: The Department will work with the Office of the State Controller to ensure future conversions are thoroughly tested and work as intended. Testing must be completed and both DHW and SCO must sign off prior to changes going live.

1. *Strengthen Internal Controls and Reconciliation Processes: Applicable staff are now monitoring suspense account activity to identify anomalies. Monitoring is conducted at least monthly by the Financial Policy and Reporting team and any necessary corrections are made within 45 days.*
2. *Develop and Implement Written Policies and Procedures: In November 2024 written procedures were completed and implemented that clearly outline how to properly perform an AR write-off. These were updated in April 2025 after changes were made to Luma to ensure alignment. These documents are reviewed and changed to align with ongoing Luma updates*
3. *Documents are maintained on a share drive available to all applicable staff.*
4. *Staff Training: Current staff and supervisors were trained in November 2024 on the correct procedures to perform an AR write-off, updated training was provided to staff in April 2025 when processes were updated. All new staff will be trained on the proper process as part of their normal training.*

Additional Information: Additional action will need to be taken to adjust financial statements and complete prior period adjustments in the Luma system. DHW is working with SCO and the legislature to obtain the necessary approval to complete the correction transactions. We anticipate this will resolved during the 2026 legislative session.

Auditor's Concluding Remarks: We thank the Department 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, 2024

IDAHO DEPARTMENT OF LABOR (Department)

Finding 2024-115
The Department overstated accounts receivable by $32,977,010.

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) to provide the details necessary to prepare the statewide *Annual Comprehensive Financial Report* (ACFR). The Office provides instructions for preparing the information in the closing packages in accordance with Generally Accepted Accounting Principles (GAAP). The Department submitted the accounts receivable closing package to report amounts expected to be collected from the overpayment of unemployment insurance benefits, unemployment reimbursements from other states, and taxes due.

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. Components of this framework include control activities and information and communication.

Management is responsible for establishing a process for preparing accounting estimates 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 adequate review and authorization of financial reporting, using the general ledger or other reliable records as the basis for reports, and comparing estimates to actual financial results to determine accuracy. Information and communication are the identification, capture, and exchange of information, including adequate source documentation to support financial transactions.

Condition: The Department's accounts receivable includes three elements: overpayments of unemployment insurance benefits, reimbursements from other states for benefits paid, and taxes receivable from employers. These three items, along with an estimate for receivables they determine will be uncollectable, are reported on the accounts receivable closing package.

The amount reported as total accounts receivable was $118,812,058 with an uncollectible amount estimated to be $1,811,926 for a net receivable of $117,000,132. Our testing found that the initial accounts receivable incorrectly included a calculation of interest earned on the amount due and that the estimate for the uncollectable amount was calculated using information that did not accurately reflect the historical rate of collection. These errors caused the net accounts receivable to be overstated.

Cause: The Department has a segregation of duties and review control procedure in place to prevent errors in the accounts receivable closing package. However, this procedure did not detect the errors.

The Department used a report that incorrectly included interest calculated on the balance of accounts receivable from the overpayment of benefits. The Department's calculation of uncollectable amounts included an assumption that all accounts receivable from the overpayment of benefits would be 100 percent collectible if the accounts were less than 10 years old due to a lien process. This assumption was significantly different than the assumption used in prior years, and the Department could not provide

evidence of a significant change in the collectability of those accounts. Our evaluation of the Department's historical data for collecting these amounts found that the actual collection rate is considerably lower, and the 100 percent collection rate was not a reasonable estimate.

Effect: The accounts receivable closing package initially reported $118,812,058 as receivable, but this amount incorrectly included interest calculated at $10,356,607, which resulted in an overstatement.

The uncollectable amount of accounts receivable was initially reported as $1,811,926. The revised amount recalculated using historical collection rates was $24,432,329, resulting in an understatement of the allowance for doubtful accounts and an overstatement of $22,620,403 in the accounts receivable balance. The combined overstatement of net accounts receivable was $32,977,010. After the misstatement was identified, the Department worked with the Office to submit the correct amounts for inclusion in the statewide financial statements.

Recommendation: We recommend that the Department strengthen internal control procedures and training to improve the accuracy of the accounts receivable estimate, including a retrospective review to evaluate assumptions and verify the accuracy of the estimate.

Management's View: *The Department agrees with the audit finding and corrected the errors prior to issuance of the SFY24 ACFR.*

Corrective Action: *Moving forward, the Department will take the following steps to strengthen internal control practices for this and other financial reporting functions:*

1. Changes to internal accounting practices will be vetted and approved prior to staff implementation. Deviations from the established procedure will go through an upline approval process.

2. For all closing packages, staff have compiled 5 years of data for each closing package item reported, allowing for year-over-year analysis that would point out and allow the Department to address material changes prior to submission to the State Controller's Office. Current year closing package data will be added to the spreadsheets to allow staff to see trends and do reasonableness tests on the data prior to submission. Financial data varies from year to year naturally, so doing the analysis ahead of time will allow staff to anticipate questions from the State Controller's Office and Legislative Services and be prepared to defend material changes. This will also bring to light potential errors such as this issue and give the Department time to refine their process ahead of the submission deadlines.

3. The Department will place renewed emphasis on retrospective analysis of assumptions from the prior year. If assumptions are reasonable, then they will continue to be used as a part of the predictive modeling for doubtful accounts in the receivables closing package. If the assumptions do not track with actuals or turn out to not be reasonable, then the process will be reevaluated and revised to align more closely with reality for future periods.

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

IDAHO STATE TAX COMMISSION (Commission)

Finding 2024-116

The Commission failed to ensure or monitor for changes to statutory cash allocation codes in the State's accounting system, Luma.

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. A component of this framework is control activities, which are the policies and procedures that help ensure management directives are carried out and risks are mitigated.

Sales Tax receipts are allocated based on Idaho Code, Title 63, Chapter 36. Fuels tax receipts are allocated based on Idaho Code, Title 63, Chapter 24. Income tax receipts are allocated based on Idaho Code, Title 63, Chapter 30.

Condition: Cash allocation codes are established in Luma to help ensure tax revenues are allocated according to the Idaho Code provisions. Tax receipts are received and posted to the Tax Revenue Holding Fund. The funds are then allocated and transferred to various funds/agencies based on the cash allocation codes, tax type, and statutory requirements.

We found that cash allocation codes in Luma were not secure, and access was not limited to authorized individuals. Any individual or State employee with Luma access had the ability to make changes to the cost allocation codes specific to the Tax Commission collections.

Cause: Controls in Luma were not properly designed to limit user access to the cash allocation codes. Further, the Commission was not aware of this weakness and did not design compensating controls to monitor cash allocating codes for unauthorized changes.

Effect: No errors or misallocations were noted during the review process. However, there is an increased risk that tax receipts are not allocated or transferred accurately or in compliance with Idaho Code.

Recommendation: We recommend that the Commission work with the Office of the State Controller to strengthen edit and role control procedures to limit access to the cash allocation codes in Luma. We further recommend that the Commission establish reasonable monitoring procedures to help monitor activity and ensure unauthorized changes to the allocation codes do not occur.

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

Correction Action: *Under Idaho Code Title 63, the Commission is responsible for collecting and distributing tax revenues. Tax revenues received are posted in Luma and placed in holding funds until the Commission distributes them according to Idaho Code. The Commission uses cash allocation codes to identify the destination of the funds, complete the distributions, and ultimately report results by tax type and fund.*

The LSO audit of the Luma system identified that access to Commission cash allocation codes isn't limited to authorized individuals within the Commission. This creates an increased risk of error and potential for being out of compliance with Idaho Code.

LSO recommended the Commission establish monitoring activities to ensure unauthorized changes don't occur and work with the State Controller's Office to strengthen edit and role controls. In response, the Commission created a production report that generates audit history for cash allocation code changes in September 2024. Additionally, the Commission added the report to the month-end checklist and developed

mandatory training for all staff with access to the cash allocation codes. This report is now being generated and monitored monthly, and the training has been delivered. We'll continue to work with our partners at the Controller's office to identify and correct systemic deficiencies to safeguard Idaho tax revenue.

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

Finding 2024-117
Restricted Cash amounts reported to the Office of the State Controller were understated by $190.8 million.

Type of Finding: Significant Deficiency

Criteria: State agencies are required each year 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 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 miscellaneous closing package to report information, such as restricted cash, that is not included in the other closing packages.

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: Sales tax receipts are distributed and restricted for specific purposes as required in Idaho Code, Section 63-3638. These restriction purposes include Demonstration Pilot Project, County Revenue Sharing, County Circuit Breaker, Personal Property Tax Replacement, Agriculture Property Tax Relief, Election Consolidation Fund, Sales Tax Reserve Account, Homeowner Property Tax Relief, and School District Facility Holding Account.

The Commission reported $11.3 million as a restricted cash balance for the Demonstration Pilot Project Fund. However, other restricted sales tax funds totaling $190.8 million were not reported.

Cause: Policies and procedures in place at the Commission were not designed properly or were not effectively applied to identify appropriate cash balances as restricted. In addition, the review and approval of the closing package was insufficient to prevent or detect and correct misstatements.

Effect: The error noted in this issue is immaterial to the statewide financial statements. The restricted sales tax balances were understated by $190.8 million. However, errors in closing packages submitted to the Office increase the risk of material misstatements or noncompliance occurring in the statewide financial statements and going undetected.

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

Recommendation: We recommend that the Commission review closing package procedures and strengthen internal controls, including training, to help ensure closing package amounts reported, including restricted cash balances, are complete and accurate.

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

Correction Action: *Under the Idaho Code section 63-3638, the Commission is responsible for collecting and distributing sales tax receipts. These receipts are tracked through separate funds and reported as revenue through a monthly comparative statement posted by the Commission. Since this revenue is restricted for specific purposes, the Commission should identify and report it to the Office of the State Controller through closing packages. During the audit, LSO identified several subsidiary accounts that weren't identified as restricted. LSO recommended the Commission strengthen controls regarding closing packages.*

In response, the Commission is currently developing Cognos reporting in Luma to help identify all cash and restricted funding sources to increase accuracy when completing the closing packages. The Commission is also developing documentation which will include the procedures for accurately preparing the closing packages. Once documentation is complete, we'll deliver mandatory training to all staff responsible for finalizing closing activities by August 31, 2025.

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

IDAHO STATE TREASURER'S OFFICE (Office)

Finding 2024-118
IDLE pool distributions were not made accurately or timely in accordance with the Idaho State Treasurer's Office investment policy.

Related to Current Finding: 2024-100

Type of Finding: Material Weakness

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. 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.

Pursuant to the Office's IDLE Investment Policy, the Office uses an internal banking system, the Treasurer's Accounting Transaction Reporting System (TATRS) as the book of record, which went into effect on July 1, 2011. The policy further states the following:

- All monthly distributions will be calculated from the figures provided by TATRS and reconciled against third party information.
- A monthly reconciliation will be performed between TATRS and the custodian to ensure that all securities are accounted for.

The policy is reviewed and approved annually and had no changes during fiscal year 2024.

Condition: The IDLE pool is an involuntary internal investment pool for State funds. The IDLE pool consists of moneys belonging to specific agency funds and the general fund. The IDLE pool is classified as Pooled Cash and Investments in the ACFR. Historically, the Office used TATRS to track and record investment portfolio activity by fund and reconcile to the bank. During fiscal year 2024, the Office was not able to reconcile fund account balances between TATRS and Luma, the State's accounting system. The Office of the State Controller also discontinued a standard reconciliation process that agreed STARS fund account balances to TATRS fund account balances with the transition to Luma and did not replace that process with the new system. The Office eventually made a decision to use data from Luma to make distributions after identifying issues with the interface process.

Monthly distributions are calculated using amortized cost based on each fund's average daily balance and the net income earned within the IDLE pool each month. Net income earned each month is calculated by netting beginning and ending accrued income, realized gains and losses, interest, purchased and sold accrued interest, amortization and management fees.

The Office completed distributions in July 2023 using TATRS data from June 2023, as was the standard process. Subsequent distributions between August and April were completed then reversed due to ongoing reconciliation issues and identified errors in fund account balances in Luma. Distributions were completed in May and June 2024 for the entire year.

Distribution amounts also would have been affected by misstatements in cash balances; for example, the Department of Health and Welfare (DHW) cooperative welfare fund was overstated by $491 million. The overstatement skewed the proportionality of the DHW fund in relation to the IDLE pool. The lack of a reconciliation process between Luma fund account balances to bank balances contributed to misstatements occurring and going undetected, resulting in related inaccurate cash balances and distributions.

In our efforts to recalculate the IDLE pool distributions from August of 2023 through June of 2024, we determined that there were differences when comparing the calculated amounts using the Office's distribution method and the associated amounts included in Luma. We analyzed five specific funds where investment income is material to the financial statements and determined that two of the funds had variances. The variances ranged from .1% to 5.8%. In the aggregate, the Office's distribution method showed distributions should have been .8% more than the amounts included in the Luma system for the funds analyzed.

Cause: During the implementation of Luma and the integration of required interfaces from TATRS, there was a lack of sufficient interface testing, including end-user acceptance testing, completed by the Office of the State Controller. In addition, the Office of the State Controller discontinued the previous reconciliation process and did not have an effective replacement to ensure that Luma fund account balances were properly

reconciled to the bank. The Office also could not perform reliable internal reconciliations of accounts due to a lack of appropriate reporting provided by Luma in fiscal year 2024.

Effect: The lack of reconciliations between TATRS and Luma by fund increases the risk that inaccurate distributions and fund balances could be included in both systems. The inaccurate balances could be material at the fund level. The lack of timely distributions also increases the risk that inaccurate calculations of the distribution amount could occur.

Recommendation: We recommend that the Office continue to work with the Office of the State Controller to ensure that proper fund-level reconciliations between TATRS and Luma can be completed in a timely manner. This will ensure a full reconciliation between the State's book of record that supports the financial statements and cash held in the bank. In addition, we recommend that the Office, in conjunction with the Office of the State Controller, complete reconciliations to ensure that the ending fiscal year 2024 balances are accurate.

Management's View: *We acknowledge the issues identified and agree that the transition to Luma presented significant challenges in maintaining accurate fund-level reconciliations and timely distributions. The STO made every effort to adapt to the new system, including using Luma data for Idle interest distributions after identifying interface issues. However, SCO's failure to anticipate the need for reliable reporting, and the inability to identify and extract data from Luma to provide TATRS with transactions that affect cash in interface files, and the lack of a reconciliation process between the two systems, originally the function of SCO, hindered our ability to ensure accuracy. Even though there were reconciliation challenges at the fund accounting level, the Treasurer's Office has been able to consistently reconcile accounting transactions to bank account transactions.*

Correction Action: *1. Collaboration with the Office of the State Controller: We are actively working with the Office of the State Controller to develop and implement a reliable fund-level reconciliation process between TATRS and Luma. This includes advocating for enhanced reporting capabilities, creating and improving existing interfaces to allow for more timely reconciliations.*

2. Review of FY 2024 Average Daily Balances and Ending Balance: A review of FY 2024 average daily balances is underway to validate the accuracy of average daily balance calculations and ensure that any discrepancies are identified and corrected. In addition, reconciliations are being completed by both STO and SCO to identify discrepancies and correct FY 2024 ending balances in TATRS.

3. Process Improvements:
- *Internal procedures are being revised to include additional validation steps and cross-checks during distribution calculations.*
- *Existing interfaces are being reviewed to be able to request the changes needed to improve the data being imported into TATRS.*

4. Policy Review: The IDLE Investment Policy will be reviewed and updated, if necessary, to reflect current system capabilities and ensure alignment with best practices in internal controls and financial reporting. For clarity, the STO uses TATRS as the book of record for portfolio activity. Luma remains the book of record for fund cash balances.

Auditor's Concluding Remarks: We thank the Office for its cooperation and assistance throughout the audit**.** We would like to clarify that reconciling accounting transactions to bank transactions is just one step in a robust reconciliation process as other activities occur that may not impact the bank activity but do impact the accounting system. We appreciate the effort to collaborate with the State Controller to develop a reconciliation process and improve existing interfaces.

STATE OF IDAHO
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

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, 2024

Office of the State Controller

Finding 2024-100:
The Office discontinued the process of reconciling cash balances by fund with the implementation of a new statewide enterprise resource planning system, Luma, on July 1, 2023, resulting in unverified pooled cash and cash equivalents reported on the financial statements and material misstatements going undetected.

Related to Prior Finding: N/A

Agency's view: The State Controller's Office agrees with this finding and acknowledges the lack of a cash reconciliation like the one done in previous years.

Corrective Action Plan:
An outside consultant was hired to reconcile the bank to the Treasurer's Office system (TATRS). The Office continues to meet weekly with the State Treasurer's Office to review transaction accuracy and coordinate efforts to improve current interface processes between Luma and TATRS. The Office is developing a sustainable and effective cash reconciliation going forward. This reconciliation process will focus on matching cash balances by fund.

Anticipated Corrective Action Date:
The State Controller's Office anticipates completing the corrective actions for the June 30, 2025 reporting period.

Responsible for Corrective Action: Tiffini LeJeune
Phone: 208-334-3100
tlejeune@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Finding 2024-101:
Errors in journal entry templates when implementing the State's new accounting system, Luma, resulted in misstatements in pooled cash, other accrued liabilities, and revenues in the Health and Welfare column on the financial statements.

Related to Prior Finding: N/A

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
The processes have been corrected and although the agency still needs to make correcting prior period entries in Luma, the statements will reflect the correct entries in the ACFR.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions for the June 30, 2025 reporting period.

Responsible for Corrective Action: Tiffini LeJeune
Phone: 208-334-3100
tlejeune@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Finding 2024-102:
Weak internal controls allowed multiple misstatements in the Division of Financial Management's grants advances closing package to be included in the financial statements.

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
The State Controller's Office has met with the Division of Financial Management and come to an understanding of what should be reported on this closing package. The Office will have additional reviews of the backup and the transactions on this closing package.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions for the June 30, 2025 reporting period.

Responsible for Corrective Action: Tiffini LeJeune
Phone: 208-334-3100
tlejeune@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Finding 2024-103:
Errors in the transfer elimination process resulted in overstated revenue and expenditures in the Transportation column of $102.3 million and $178.3 million in the Unemployment Compensation column.

Related to Prior Finding: N/A

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
The Office has updated our process and will ensure that transfers are reported correctly and the appropriate eliminations are made. The ACFR team has incorporated appropriate event code use in agency training. The Office will also improve reference documentation with additional definitions and explanations. The transfers were corrected for the final FY24 ACFR.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions for the June 30, 2025 reporting period.

Responsible for Corrective Action: Tiffini LeJeune
Phone: 208-334-3100
tlejeune@sco.idaho.gov
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Boise, ID 83720

Finding 2024-104:
The Office did not include Supplemental Nutrition Assistance Program (SNAP) non-cash amounts for food benefits of $280.9 million as Grants and Contributions revenue and Health and Human Services expenditures in the Health and Welfare column on the Governmental Fund Statements.

Related to Prior Finding: 2023-102

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
The information is reported on the SEFA closing package, which normally does not have any processed transactions. Going forward the entry will be added to the Bureau Chief journal entry adjustment log to ensure the transactions are processed.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions for the June 30, 2025 reporting period.

Responsible for Corrective Action: Tiffini LeJeune
Phone: 208-334-3100
tlejeune@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Finding 2024-105:

The Office's internal review process did not prevent or detect multiple misstatements in the statewide ACFR submitted for audit that were greater than the trivial threshold but less than material.

Related to Prior Finding: 2023-103

Agency's view: The State Controller's Office agrees with this finding and acknowledges the misstatements and presentation errors identified by the auditors.

Corrective Action Plan:
All 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 has updated our preparation processes to allow for a more thorough review of the final product and will incorporate additional reviews of the linked data into the ACFR. When the Office receives drafts of audited financial statements, it will create a list of changes and communicate them to the team to ensure final draft numbers are used from the outside audits. The team will review GASB guidance and take opportunities for training when available. The Office 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, 2025 reporting period.

Responsible for Corrective Action: Tiffini LeJeune
Phone: 208-334-3100
tlejeune@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Finding 2024-106:
Over $30 million was issued in duplicate payments during fiscal year 2024 due to a lack of data validation controls.

Related to Prior Finding: N/A

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
The Office has incorporated automated checks to prevent duplicate payments in the future. The automated script compares the data to the previous files and will send notification to the Office of any issues that need to be reviewed prior to routing to the bank. The Office has also implemented a process whereby validation reports have been built and are sent to agency representatives quarterly that will allow agencies to validate that the data interfaced into Luma from their local systems is correct in Luma.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions for the June 30, 2025 reporting period.

Responsible for Corrective Action: Patrick Hodges
Phone: 208-334-3100
phodges@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Finding 2024-107:
Multiple control deficiencies were identified in Luma's Security and Privacy Program increasing the risk of fraud, unauthorized transactions, data manipulation, or undetected errors.

Related to Prior Finding: N/A

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
The Office is implementing the use of Governance Risk and Compliance (GRC) software to identify control deficiencies. The Office is developing policies prioritized in the IT audit and continues to review and refine the policies on an ongoing basis.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions September 30, 2025.

Responsible for Corrective Action: Patrick Hodges
Phone: 208-334-3100
phodges@sco.idaho.gov
700 West State St., Fl. 5
Boise, ID 83720

Finding 2024-108: A reconciliation was not completed to ensure the completeness of payroll accruals included in the statewide financial statements.

Related to Prior Finding: 2023-104

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
As of October 2024, SCO implemented a new reconciliation procedure to ensure that payroll accruals are accurate and complete. This procedure includes bi-weekly review and validation steps designed to improve the accuracy of the information reported in the statewide financial statements.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions September 30, 2025.

Responsible for Corrective Action: Hanna Hall
Phone: 208-334-3100
hhall@sco.idaho.gov
700 West State St., Fl. 4
Boise, ID 83720

Finding 2024-109: The statewide accounting system does not have system controls to prevent employees from modifying their timesheets after supervisor approval.

Related to Prior Finding: N/A

Agency's view: The State Controller's Office agrees with this finding.

Corrective Action Plan:
As of February 2025, the Office reconfigured the system so any modification made to a timesheet after approval automatically unauthorizes the timesheet and triggers a notification to the employee's manager. While the system does not fully prevent post-approval modifications, it ensures that employees cannot be paid on unauthorized timesheets.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions September 30, 2025.

Responsible for Corrective Action: Hanna Hall
Phone: 208-334-3100
hhall@sco.idaho.gov
700 West State St., Fl. 4
Boise, ID 83720

State Department of Education

Finding 2024-110:
The Department did not adequately monitor data that supports $574,773,460, or 24.5 percent, of the statewide distribution payments made to school districts and charter schools in fiscal year 2023, nor did they properly implement corrective action procedures for fiscal year 2024.

Related to Prior Finding: 2023-105

Agency's view: The agency agrees with this finding.

Corrective Action Plan:
The Idaho Department of Education (Department) hired an auditor in December 2024, based on funding and legislative approval received during the 2024 Legislative session. The individual in

this position developed an annual risk assessment of public school finance including an activities list, consolidated and prioritized activities list, pre-controls risk assessment, control activity list for each category, and post-controls risk assessment. Further review found that controls are in place to reduce the risk associated with data accuracy and monitoring, as well as other inherent risks. Risk assessments and further testing will be conducted annually.

Letters of assurance were sent to and collected from external LEA auditors regarding the review of additional data in the areas of attendance, staffing, and transportation. If an external auditor does not sign the letter of assurance, the districts they serve are considered higher risk, and the Department will conduct additional audits. The process for monitoring and reporting attendance and enrollment, including calculations of average daily attendance for dual enrollment calendars and alternative calendars, was reviewed. This process was analyzed for accuracy and consistent implementation across multiple situations within the public schools.

Reviews of procedures and calculations to reduce risks are ongoing, including additional scrutiny on prior-year corrections and initial employee placement requests; tracking and submitting attendance data for virtual and hybrid programs; and further monitoring of instructional hours.

Anticipated Corrective Action Date:
July 2025

Responsible for Corrective Action: Public School Finance Auditor
Tricia Kadri
208-332-6841
pkadri@sde.idaho.gov

With support from:
Chief Financial Officer
Gideon Tolman
208-332-6874
gtolman@sde.idaho.gov

Department of Environmental Quality

Finding 2024-111:
The Department was unable to reconcile the Loans and Notes Receivable ending balance between the Loan and Grant Tracking System (LGTS) and the State's accounting system, LUMA, for the Clean Water and Drinking Water State Revolving funds, and balances reported are incorrect.

Related to Prior Finding: N/A

Agency's view: The agency agrees with this finding.

Corrective Action Plan:

DEQ has had significant turnover in the fiscal office. The fiscal office is currently in a rebuilding phase and is dedicated to training and developing staff, implementing best practices, and documenting processes and procedures, including those for fiscal year end closing packages. The Department anticipates having trained, knowledgeable staff completing the closing packages for the 2026 fiscal year end. The fiscal office currently performs a monthly reconciliation process between the Loan & Grant Tracking System (LGTS) and the State of Idaho's Accounting System (Luma).

Anticipated Corrective Action Date:
Fiscal Year 26

Responsible for Corrective Action:
Linda Brown Financial Executive Director
208-373-0292
Linda.brown@deq.idaho.gov

Finding 2024-112:
The Department was unable to reconcile the Loans and Notes Receivable ending balance between the Loan and Grant Tracking System (LGTS) and the State's accounting system, LUMA, for the Clean Water and Drinking Water State Revolving funds, and balances reported are incorrect.

Related to Prior Finding: N/A

Agency's view: The agency agrees with this finding.

Corrective Action Plan:
DEQ has had significant turnover in the fiscal office. The fiscal office is currently in a rebuilding phase and is dedicated to training and developing staff, implementing best practices, and documenting processes and procedures. The fiscal office is currently working with the State Controller's Office (SCO) on creating a series of work sessions to help train new fiscal staff, particularly on project set up and management, and accounts receivable processes and procedures. These work sessions will include when and how to properly generate a project invoice, and receipt and record the corresponding revenue. The fiscal office is currently developing the work sessions with SCO and will start them once new staff are hired. The anticipated start date of the work sessions is the beginning of calendar year 2026. In the meantime, DEQ fiscal office has a standing meeting with SCO every other week to discuss current issues the agency is needing assistance with.

Anticipated Corrective Action Date:
Fiscal Year 25

Responsible for Corrective Action:
Linda Brown Financial Executive Director

208-373-0292
Linda.brown@deq.idaho.gov

Division of Financial Management

Finding 2024-113:
The Division's internal review failed to prevent a misstatement of $175 million on the Grants Advances closing package for the American Rescue Plan Act funds.

Related to Prior Finding: 2023-106

Agency's view: The agency agrees with this finding. With significant turnover at DFM, it was initially assumed that agencies who receive ARPA SLFRF funds would report on their own grant advance closing packages. DFM worked closely with SCO to determine other agencies' cash balances and added it to DFM's ending cash to correct this error in the final ACFR submission for FY25.

Corrective Action Plan:
The initial grant advance closing packet was submitted without other agencies ARPA SLFRF balances being included. We appreciate both LSO and SCO for working with DFM to get this corrected in the final submission. While this technical error did not result in any errors in agency fund availability, DFM agrees that correct information on all financial statements is crucial to ensure public confidence in state government. DFM will work with SCO to determine other agency cash balances in the ARPA SLFRF funds, then add that to DFM's balances to report in the grant advance closing packet for future years.

Anticipated Corrective Action Date:
This has been corrected as of June 30, 2025, and the corrective action plan is in place to ensure accurate reporting on future grant advance closing packets.

Responsible for Corrective Action:
Justin Collins
Deputy Administrator | State Financial Officer
Phone: (208) 854-3063
Email: Justin.Collins@dfm.idaho.gov
304 N 8th Street, Fl. 3
Boise, ID 83720

Department of Health and Welfare

Finding 2024-114:
The Department structured some journal entries in the accounting system incorrectly and did not identify or correct the errors during the fiscal year resulting in a material overstatement of $491 million to cash in the statewide *Annual Comprehensive Financial Report* (ACFR). Additional accounts had corresponding over/understatements related to these errors.

Related to Prior Finding: N/A

Agency's view: The agency agrees with this finding.

Corrective Action Plan:
When we discovered the table error, the D78 table was corrected and validated, however, the necessary transactional corrections were missed. This error happened very early on after go-live, and staff didn't have the knowledge base needed or the reporting tools available to identify and correct transactional level data at that point. Staff now has a broader knowledge and understanding of the system, as well as reporting tools and processes in place to ensure compliance

1. Develop and Implement Written Policies and Procedures: In November 2024 written procedures were completed and implemented that clearly outline how to properly perform an AR write-off. These were updated in April 2025 after changes were made to Luma to ensure alignment. These documents are reviewed and changed to align with ongoing Luma updates
2. Documents are maintained on a share drive available to all applicable staff.
3. Staff Training: Current staff and supervisors were trained in November 2024 on the correct procedures to perform an AR write-off, updated training was provided to staff in April 2025 when processes were updated. All new staff will be trained on the proper process as part of their normal training.

Anticipated Corrective Action Date:
8/15/2025

Responsible for Corrective Action:

Name and job title: Jason Brizendine, Financial Manager
Address: 450 W. State St., Boise, ID 83702
Phone number: 208-334-6665
Email: Jason.Brizendine@dhw.idaho.gov

Name and job title: Dena Darpli, Financial Manager
Address: 450 W. State St., Boise, ID 83702
Phone number: 208-334-4909
Email: Dena.Darpli@dhw.idaho.gov

Department of Labor

Finding 2024-115:
The Department overstated accounts receivable by $32,977,010.

Related to Prior Finding: N/A

Agency's view: The agency agrees with this finding.

Corrective Action Plan:

The Department agrees with the audit finding and corrected the errors prior to issuance of the SFY24 ACFR. Moving forward, the Department will take the following steps to strengthen internal control practices for this and other financial reporting functions:

1. Changes to internal accounting practices will be vetted and approved prior to staff implementation. Deviations from the established procedure will go through an upline approval process.

2. For all closing packages, staff have compiled 5 years of data for each closing package item reported, allowing for year-over-year analysis that would point out and allow the Department to address material changes prior to submission to the State Controller's Office. Current year closing package data will be added to the spreadsheets to allow staff to see trends and do reasonableness tests on the data prior to submission. Financial data varies from year to year naturally, so doing the analysis ahead of time will allow staff to anticipate questions from the State Controller's Office and Legislative Services and be prepared to defend material changes. This will also bring to light potential errors such as this issue and give the Department time to refine their process ahead of the submission deadlines.

3. The Department will place renewed emphasis on retrospective analysis of assumptions from the prior year. If assumptions are reasonable, then they will continue to be used as a part of the predictive modeling for doubtful accounts in the receivables closing package. If the assumptions do not track with actuals or turn out to not be reasonable, then the process will be reevaluated and revised to align more closely with reality for future periods.

Anticipated Corrective Action Date:

1. Immediate. Change was implemented as of 7/21/2025.
2. Immediate. Change was implemented as of 7/21/2025 and updated accordingly throughout the closing package submission timeframe for SFY25.
3. Immediate. When reviewing the receivables closing package submission for SFY25, the department did a lookback to the revised assumptions for SFY24 receivables and determined that the model is resulting in reasonable assumptions. We will continue this practice moving forward and revise our processes accordingly.

Responsible for Corrective Action:

Name and job title: Carrie Peterman, Financial Executive Officer
Phone number: 208-696-2533
Email: carrie.peterman@labor.idaho.gov

Idaho State Tax Commission

Finding 2024-116:
The Commission failed to ensure or monitor for changes to statutory cash allocation codes in the State's accounting system, Luma.

Related to Prior Finding: N/A

Agency's view: The agency agrees with this finding.

Corrective Action Plan:

Under Idaho Code Title 63, the Commission is responsible for collecting and distributing tax revenues. Tax revenues received are posted in Luma and placed in holding funds until the Commission distributes them according to Idaho Code. The Commission uses cash allocation codes to identify the destination of the funds, complete the distributions, and ultimately report results by tax type and fund.

The LSO audit of the Luma system identified that access to Commission cash allocation codes isn't limited to authorized individuals within the Commission. This creates an increased risk of error and potential for being out of compliance with Idaho Code.

LSO recommended the Commission establish monitoring activities to ensure unauthorized changes don't occur and work with the State Controller's Office to strengthen edit and role controls. In response, the Commission created a production report that generates audit history for cash allocation code changes in September 2024. Additionally, the Commission added the report to the month-end checklist and developed mandatory training for all staff with access to the cash allocation codes. This report is now being generated and monitored monthly, and the training has been delivered. We'll continue to work with our partners at the Controller's office to identify and correct systemic deficiencies to safeguard Idaho tax revenue.

Anticipated Corrective Action Date:
The State Controller's Office will complete the corrective actions for the June 30, 2025 reporting period.

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

Finding 2024-117:

Restricted Cash amounts reported to the Office of the State Controller were understated by $190.8 million.

Related to Prior Finding: 2022-105

Agency's view: The agency agrees with this finding.

Corrective Action Plan:
Under the Idaho Code section 63-3638, the Commission is responsible for collecting and distributing sales tax receipts. These receipts are tracked through separate funds and reported as revenue through a monthly comparative statement posted by the Commission. Since this revenue is restricted for specific purposes, the Commission should identify and report it to the Office of the State Controller through closing packages. During the audit, LSO identified several subsidiary accounts that weren't identified as restricted. LSO recommended the Commission strengthen controls regarding closing packages.
In response, the Commission is currently developing Cognos reporting in Luma to help identify all cash and restricted funding sources to increase accuracy when completing the closing packages. The Commission is also developing documentation which will include the procedures for accurately preparing the closing packages. Once documentation is complete, we'll deliver

Anticipated Corrective Action Date:

August 31, 2025.

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

Idaho State Treasurer's Office

Finding 2024-118:
IDLE pool distributions were not made accurately or timely in accordance with the Idaho State Treasurer's Office investment policy.

Related to Prior Finding: N/A

Agency's view:
We acknowledge the issues identified. The transition to Luma presented significant challenges in maintaining accurate fund-level reconciliations and timely distributions. The STO made every effort to adapt to the new system, including using Luma data for Idle interest distributions after identifying interface issues. However, SCO's failure to anticipate the need for reliable reporting, and the inability to identify and extract data from Luma to provide TATRS with transactions that affect cash in interface files, and the lack of a reconciliation process between the two systems,

originally the function of SCO, hindered our ability to ensure accuracy. Even though there were reconciliation challenges at the fund accounting level, the Treasurer's Office has been able to consistently reconcile accounting transactions to bank account transactions.

Corrective Action Plan:

1. Collaboration with the Office of the State Controller:
We are actively working with the Office of the State Controller to develop and implement a reliable fund-level reconciliation process between TATRS and Luma. This includes advocating for enhanced reporting capabilities, creating and improving existing interfaces to allow for more timely reconciliations.

2. Review of FY 2024 Average Daily Balances and Ending Balance:
A review of FY 2024 average daily balances is underway to validate the accuracy of average daily balance calculations and ensure that any discrepancies are identified and corrected. In addition, reconciliations are being completed by both STO and SCO to identify discrepancies and correct FY 2024 ending balances in TATRS.

3. Process Improvements: o Internal procedures are being revised to include additional validation steps and cross-checks during distribution calculations.
o Existing interfaces are being reviewed to be able to request the changes needed to improve the data being imported into TATRS.

4. Policy Review:
The IDLE Investment Policy will be reviewed and updated, if necessary, to reflect current system capabilities and ensure alignment with best practices in internal controls and financial reporting. For clarity, the STO uses TATRS as the book of record for portfolio activity. Luma remains the book of record for fund cash balances.

Anticipated Corrective Action Date:
We expect to have FY 2024 Average Daily Balances recalculated in Luma and FY 2024 interest distributions to be corrected by June 30, 2026. This is a joint effort with the State Controller's Office as the Average Daily Balance report comes from Luma.

Responsible for Corrective Action:
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Compiled and Published
by
Idaho Legislative Services Office
Audits Division
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