Tab 9

Legislative Audits Update

(Please double click to enlarge the document. You can then maneuver through the pages with the arrows located at the bottom of the document, click "open file" in the top right corner or download the file to your computer using the "extract file" icon located at the bottom of the document in the pdf tool bar.)

LEGISLATIVE AUDIT

November 9, 2018

Legislative Council Meeting

BACKGROUND

- 28 authorized positions
- 26 Auditors, 1 Administrative Assistant, 1 Division Manager
- 14 CPAs
- Primarily tasked with completing financial/compliance audits and reviews:
  - Statewide Comprehensive Annual Financial Report (CAFR)
  - Statewide Single Audit
  - Management Reviews
  - Other Opinion Audits

AUDITS VERSUS REVIEWS

- An Audit has specific standards that we must comply with and is intended to provide an opinion on the accuracy of financial information provided and compliance with laws, rules, and regulations
  - CAFR, Single Audit, Agreed-Upon Procedures, and Opinion Audits are all in this category
- Management Reviews do not provide an opinion on a specific set of financial statements, but rather provide us with the flexibility to review small state agencies or activities at large agencies that would not normally be significant enough to be included in a purely financial audit
  - Statutorily required management reviews are in this category
  - Special requests included in legislative intent language generally fit this category as well

COMPREHENSIVE ANNUAL FINANCIAL REPORT

- Statewide Comprehensive Annual Financial Report (CAFR)
  - A financial audit which provides an opinion about the State's financial statements through evaluation of internal controls and the accuracy of information presented.
  - Fiscal Year 2017 audit fieldwork is currently underway visiting 15 agencies auditing significant activities such as:
    - Sales Tax Revenue
    - Education Expenditures (School District Distributions)
    - Health and Human Services Expenditures (Medicaid)
    - Public Safety Expenditures (Corrections)
    - Payroll
    - Statutory Transfers

RESULTS

- The Internal Control Report is issued in conjunction with our opinion on the CAFR, and within 60 days of that opinion being issued
  - The 2017 Internal Control Report includes 2 findings and recommendations and no prior year findings
  - The 2018 CAFR audit is currently in progress with auditors out in the field completing audit procedures

THE STATEWIDE SINGLE AUDIT

- Statewide Single Audit
  - Regulatory requirements for the use and audit of federal awards is provided in Uniform Guidance from the Office of Management and Budget and in the Single Audit Act of 1984, as amended
  - The Statewide Single Audit is a two part audit covering financial statement accuracy for both the statewide basic financial statements and the schedule of expenditures of federal awards and also compliance with federal requirements

WHAT WE AUDIT

- Using a risk-based approach, we evaluate the federal programs administered by the state and identify which programs to audit
- Federal guidance requires we audit at least 40% of the federal funds expended
- Generally we visit 6-10 different state agencies over a 9 month period
- We complete testing to assure materially accurate financial statements, assess internal controls, and determine compliance with federal regulations

RESULTS

- Results are communicated in individual agency management letters and as part of the Auditor's Results section of the Single Audit
  - Findings include criteria, condition, cause, and effect
  - Recommendations are specific to the finding condition, but allow for latitude in Management's approach to correct the finding
  - Agencies provide a corrective action for each finding
  - Auditor's Response addresses the sufficiency of the corrective action
  - The 2017 Single Audit included 15 findings and recommendations at 5 agencies
  - The 2017 Single Audit also included 13 prior findings and recommendations of which 7 were corrected and closed

AGREED-UPON PROCEDURES

- We complete 2 reports a year using procedures that are agreed-upon between the agency and LSO
- These reports are prepared in compliance with auditing standards for Agreed-Upon Procedures
- An overall opinion is not given, rather results of the procedures are included in the report and any results outside of expectations are noted

OPINION AUDITS

- We complete approximately 6-8 opinion audits each year
  - 7 Health Districts alternate every other year, which include financial and single audit reports
  - Idaho Public Television annually, which is a financial audit

PEER REVIEW

- We participate in a peer review program that is intended to evaluates our system of quality control to ensure our audits are completed in accordance with standards
- Peer review process:
  - Reviews occur every three years for audits (not management reviews)
  - 5 day review completed by a team of other state auditors
  - Staff surveys and review of our policies and procedures
  - Review of our audit workpapers for compliance with our policies and procedures and with standards
  - Opinion of pass, pass with deficiencies, or fail

2018 PEER REVIEW RESULTS

- Received a pass rating-the highest rating available
- Provided some areas for improvement on documentation
- Provided interpretation from federal regulators on expectations and a half day training for our staff

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PEER REVIEW REPORT
August 31, 2018

Ms. April Renfro, CPA
Audit Division Manager
State of Idaho, Legislative Services Office
P.O. Box 83720
Boise, Idaho 83720-0054

Dear Ms. Renfro:

We have reviewed the system of quality control of the State of Idaho's Legislative Services Office, (the office) in effect for the period July 1, 2017 through June 30, 2018. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore, it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of Idaho's Legislative Services Office in effect for the period July 1, 2017 through June 30, 2018 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. An audit organization can receive a rating of *pass, pass with deficiency(ies),* or *fail.* The State of Idaho's Legislative Services Office has received a peer review rating of *pass.*

Thu Ann Phung, CPA
Team Leader
External Peer Review Team
National State Auditors Association

Denise Olive, CPA
Concurring Reviewer
External Peer Review Tearn
National State Auditors Association

MANAGEMENT REVIEW

- Management Reviews are completed for all state agencies at least once every three years, and are especially important for those agencies that are not large enough to be included in the CAFR or Single Audit work
- Generally focus on internal controls over revenues and expenditures
- May also target reviews to risky areas or unique activity at an agency, for example:
  - Travel
  - Purchasing Cards
  - Legislative Compliance

MANAGEMENT REVIEW RESULTS

FY 2015 Reports

Number of reviews scheduled for the summer 2016: 21

Number of reports issued: 21

Number of reports to be issued: 0

Number of findings: 10

FY 2016 Reports

Number of reviews scheduled for the summer 2017: 25

Number of reports issued: 25

Number of reports to be issued: 0

Number of findings: 15

FY 2017 Reports

Number of reviews scheduled for the summer 2018: 17

Number of reports issued: 6

Number of reports to be issued: 11

Number of findings: 3

LOCAL GOVERNMENT REGISTRY UPDATE

- Established in 2015 based on the passage of HB560 in the 2014 legislative session
- A process to identify local government units and ensure compliance with audit requirements

COMPLIANCE DEADLINES

- Entities are required to register/update information by December 1 each year
- Entities requiring audits (expenditures over $100,000) must submit audit reports within 9 months of their fiscal year end
- LSO is required to determine compliance with registration and audit requirements, reporting non-compliance to the Idaho State Tax Commission and Idaho County Clerks by September 1 each year

COMPLIANCE BY YEAR

Registry Year 2015

- 1524 Entities Identified
- 1404 Entities Compliant
- 92% Compliant

Registry Year 2016

- 1365 Entities Identified
- 1207 Entities Compliant
- 88% Compliant

Registry Year 2017

- 1357 Entities Identified
- 1209 Entities Compliant
- 89% Compliance

2018 TAX WITHHOLDING FOR NONCOMPLIANCE

County	District	2018 Requested P-Tax	2018 Reduced Ptaxes	2018 Ptax Penalty	Withheld Sls Tax
Bannock	McCammon Cemetery	28,023	27,019	1,004	468.98
Bannock	Swan Lake Cemetery	3,372	3,128	244	97.08
Boundary	Boundary Abatement	-	-		169.12
Cassia	Oakley Valley Cemetery	22,139	20,759	1,380	807.99
Idaho	Ferdinand Cemetery	2,072	2,072	-	122.15
Idaho	Ferdinand Highway	35,829	35,445	384	1,984.77
Idaho	Keuterville Highway	15,282	14,551	731	1,216.31
Jefferson	Levee District #1	-	-		638.73
Lewis	Central Highway	188,879	188,879	-	6,235.75
Lewis	Evergreen Highway	87,336	87,336	-	3,546.97
Payette	Sand Hollow Fire	18,336	17,666	670	304.10
Teton	Felt Cemetery	-	-		40.83
Valley	Yellow Pine Fire	18,132	17,875	257	225.75
Butte	City of Butte City	-	-		314.8
Custer	City of Clayton	-	-		32.89
Custer	City of Lost River	-	-		0
Jefferson	City of Hamer	-	-		454.41
Kootenai	City of Heutter	62,546	62,546	-	515.51
Total withheld				4,670.00	17,176.14

REGISTRY COMPLIANCE FACTS

- Compliance is determined based on two factors
  - Completed registration
  - Audit submitted, if required
- Compliance overall improved from approximately 35.5% in 2014 when the report on Special Districts in Idaho was completed to 89% in 2017
- Total withheld funds (property tax increases denied and sales tax withheld) for 2017 = $21,846.14
- We continue to work with the State Tax Commission and the County Clerks to improve compliance with local government entities