



CPAs & BUSINESS ADVISORS

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We have reviewed the Grazing Program expense allocation methodology and related memos and worksheets supplied by the Idaho Department of Lands (IDL). The purpose of our review was to determine the cost allocation methods employed by IDL were in accordance with generally accepted accounting principles (GAAP) for the fiscal year ended June 30, 2007.

Program costs for IDL for fiscal year ended June 30, 2007 are summarized as follows:

	Initial Allocation	Allocation to Grazing Program %	Dollars Allocated From Support Services to Grazing Program	Dollars Allocated From Real Estate to Grazing Program	Total Grazing Program
Direct Grazing Costs					
Personnel	\$ 893,856.28		\$ 174,057.13	\$ 17,197.94	\$ 1,085,111.34
Operating	224,469.06		104,996.32	10,483.15	339,948.53
Capital Outlay	56,997.85		31,149.43	1,670.91	89,818.19
	<u>\$1,175,323.19</u>		<u>\$ 310,202.88</u>	<u>\$29,352.00</u>	<u>\$ 1,514,878.06</u>
Support Services					
Personnel	\$1,543,551.18	11.28%	\$ 174,057.13		
Operating	931,114.93	11.28%	104,996.32		
Capital Outlay	276,235.43	11.28%	31,149.43		
	<u>\$2,750,901.54</u>		<u>\$ 310,202.88</u>		
Real Estate					
Personnel	\$ 219,240.65	7.84%		\$ 17,197.94	
Operating	133,640.01	7.84%		10,483.15	
Capital Outlay	21,300.85	7.84%		1,670.91	
	<u>\$ 374,181.51</u>			<u>\$29,352.00</u>	

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GAAP requires costs to be allocated in a manner that is reasonable and consistent. In achieving this overall objective, management is tasked with determining that the costs associated with a more specific cost allocation do not outweigh the benefits. Under any allocation methodology, more accurate outcomes can be obtained if time and cost are not a factor. In analyzing the current methodologies utilized, we considered the potential related costs and potential benefits in arriving at our conclusions.

In reviewing the data supplied by IDL, we have broken down our analysis into three general areas and three cost categories. The general areas are: specific allocation, support services allocation and real estate allocation. The three cost categories are: personnel, operating and capital outlay. The comments following are directed at determining if we believe IDL is following GAAP as costs are allocated.

Direct Grazing Costs - Specific Allocation

In regard to the direct grazing costs specific allocation, it appears IDL is following GAAP. Following are three cost categories and our comments related to the specific allocation:

Personnel

IDL performs a formal study of the personnel within the department on a five year basis to determine the allocation to each of the programs. Percentage increments are generally done down to a level of 5%, which appears reasonable. As of the 2007 fiscal year end, there were a total of 53 people that were charging a portion of their time to the Grazing Program. The allocation of these people resulted in a total full-time equivalent (FTE) of 16.6 people. IDL management reviews the allocated employees' worksheet on an annual basis to determine if modifications to the five year data are appropriate. We understand management of IDL makes inquiries of employees when allocation revisions appear necessary. Subsequent to these annual inquiries, revisions are made to the extent necessary.

A portion of each of the 53 employee's actual salary and related benefit costs are charged to the Grazing Program. As such, there is no blending of the personnel costs such that a higher paid employee from a non-Grazing Program could get allocated to the Grazing Program. The portion of personnel costs charged to the Grazing Program include all benefits and related costs. These personnel costs totaled \$893,856 or 76% of the direct expenses for the fiscal year ended June 30, 2007.

In discussions with IDL personnel and review of detail for the fiscal year ended June 30, 2008 and fiscal year ending June 30, 2009, we observed the FTE allocation for the Grazing Program was reduced to 13.4 and 14.4 FTE's respectively. This reflects a decrease of 3.2 and 2.2 FTE's from the fiscal year ended June 30, 2007, FTE's. As the FTE allocation is determined from an allocation of each of the employees' time, we reviewed the relationships for employees present in all three time periods. Specifically, we reviewed the employees' percentage allocation at fiscal year ended June 30, 2007 to those at fiscal year ending June 30, 2009. Our analysis showed the majority of these employees had reductions in the percentage of time allocated to the Grazing Program. As the time allocation is made on estimated hours worked and not actual hours worked, adjustments of this type are not deemed unusual. In addition, because the base data from employees is only obtained in five-year increments, changes in duties are apt to occur and not be adjusted immediately.

The allocation of direct personnel costs appears to be a reasonable method. Management is utilizing a method of tracking individual time to allocate the expense which is deemed an acceptable method in accordance with GAAP. Management is expending resources to review the data annually, which would identify any significant issues or allocation problems. We don't believe the annual review of personnel costs by management is as thorough as it could be. It likely results in identifying significant issues, but may not identify potential allocation problems as timely as other methods would. We understand the five-year study of personnel is a substantial undertaking. Areas of higher risk could be studied more frequently than the five-year period. We would recommend that employees attempt to provide a

determination of time allocation on a quarterly or annual basis. The quarterly or annual basis determination could simply consist of monitoring the last month's actual time usage. This more frequent reporting, would serve to increase the reliability without a significant cost.

Operating Costs

IDL expends approximately 19% of the total direct costs for operating. Of these costs, no single line item exceeds 20%. The largest item is land supplies (\$35,955), which includes items such as fencing and grass seed. These expenses appear reasonably allocated to the Grazing Program as a direct cost. The next largest expense after land supplies is gasoline. This accounts for \$33,197. Capital outlay costs, including vehicles, are allocated based largely on the usage at the time of purchase. The related gasoline charges in the years following the purchase of the vehicle remain with the program that initially paid for the vehicle. Allocating gasoline charges to the program that initially paid for the vehicle may not be a reasonable allocation methodology. We did not specifically review this area, but if one program's vehicle usage is significantly higher, other programs could be overcharged gasoline costs. There may be other operating expenses that could be grouped into a general pool of land, range and minerals costs. These pooled costs could be allocated based on FTE's or a similar basis.

In summary, excluding the gasoline costs which we believe could be allocated differently, the operating cost allocation methodology appears reasonable. Changes could be made to indirectly allocate some of the operating costs line items to support services. However, the current methodology is considered consistent with GAAP.

Capital Outlay

Total capital outlay costs for the fiscal year ended June 30, 2007 were \$56,998 or 5% of the total direct expenses. Management allocates capital outlay costs in a method that reasonably approximates the usage at the time of purchase. If two vehicles are purchased in a single year and the current usage is one half for the Grazing Program and one half for the Minerals Program, then management charges one vehicle to each program. If only one vehicle is purchased, they allocate the cost to one program and the next purchase is allocated to the other program.

Allocating capital outlay costs in this manner is a reasonable method and is deemed to be in accordance with GAAP. If the capital outlay expenses were more significant to the Grazing Program, management could consider other means of allocation. However, the current method appears to be cost benefit responsive.

Support Services

In regard to the support service allocation, it appears IDL is following GAAP. Following are three cost categories and our comments related to the support service allocation and a general commentary on the costs charged to the support services category:

Support Services Category and Overall Allocation

Expenses of IDL related to Fund 0482 (Earnings Reserve) that are not directly charged to a program are charged to support services. Personnel costs comprise 56% of these total costs in fiscal year ended June 30, 2007. Support services are allocated to each program based on the percentage of personnel within each program to the total personnel within Earnings Reserve. In fiscal year ended June 30, 2007, the percentage was 11.28% (16.6 FTE's divided by 147.21 FTE's for Earnings Reserve, excluding the 23.68 support service FTE's). The total costs allocated to the Grazing Program for the fiscal year ended June 30, 2007 were \$310,203. All of the following support service costs described below were allocated in this manner.

There are several ways in which IDL could choose to allocate these support service indirect costs. Management has elected to allocate these costs based on a direct labor formula described above. Given that personnel expenses are the largest cost of IDL and the largest component of the support service indirect costs, allocating these costs based on labor appears reasonable and in accordance with GAAP. In addition, the allocation method appears to be in line with determining an efficient and cost beneficial allocation methodology. We have described our review of the direct labor allocation methodology previously and have concluded the methodology is reasonable.

Personnel

As described in the direct grazing costs specific allocation section above, management of IDL maintains an annual spreadsheet of the total personnel for IDL. The spreadsheet for fiscal year ended June 30, 2007 showed 23.68 FTE's allocated to support services within the portion that includes the Grazing Program. Personnel costs included in this support service category are recorded in the same manner as the direct grazing costs specific allocation personnel costs. This means that each employee's actual costs follow the charges to support services. Based on our review of the employee allocation worksheet and the procedures we described above for direct grazing costs specific allocation personnel costs section, we believe the allocation method used for support service personnel costs are reasonable and in accordance with GAAP.

Operating Costs

IDL expends approximately 34% of the support service costs for operating. Of these costs, the largest components are for allocated overhead, rent, and data lines. These three expenses account for approximately 46% of the total operating costs. Allocating these items to support services appears reasonable and in accordance with GAAP. Allocating the operating costs for support services on the basis of personnel appears to be reasonable and in accordance with GAAP.

In discussions with management and review of the operating expenses we observed that there are no specific allocations for legal services. Legal fees are currently allocated as an indirect support service cost. We understand from reviewing Earnings Reserve operating expenses that total legal services for fiscal year end June 30, 2007 were \$160,145. To the extent these legal services relate specifically to a program such as the Grazing Program, the cost should be directly charged to that program. We did not review the detail of the legal services to determine if the costs could have been more appropriately reported as a direct cost.

Capital Outlay

IDL expends approximately 10% of the support service costs for capital outlay. These costs relate primarily to computer related costs. Allocating the capital outlay costs for support services on the basis of personnel appears to be reasonable and in accordance with GAAP.

Real Estate Allocation

In regard to the real estate allocation, it appears IDL is following GAAP. Following are three cost categories and our comments related to the real estate allocation and a general commentary on the costs charged to the real estate category:

Real Estate Category and Overall Allocation

The real estate category includes 5.92 allocated FTE's and is part of the overall land, range, and minerals area. IDL allocated the personnel costs and other direct costs based on the total costs of all programs

within Earnings Reserve, excluding the direct costs of the real estate category. Accordingly, the Grazing Program was allocated approximately \$29,352 of the total direct costs of the real estate category of \$374,182. The amount allocated to the Grazing Program represented 7.84% of the total real estate category direct expenses.

There are several ways in which IDL could choose to allocate these real estate costs. Management has elected to allocate these costs based on the total cost formula described above. Given that personnel expenses are the largest cost of IDL and the largest component of the real estate category being allocated, allocating these costs based on labor based costs appears reasonable and in accordance with GAAP. In discussions with IDL management we determined the real estate category was discontinued after 2008 and the costs began to be captured in the support service category.

IDL could have allocated the real estate personnel costs for fiscal year ended June 30, 2007, into support services as described above. This would have resulted in approximately \$42,208 allocated to the Grazing Program. The change would result in an increase from the original allocation of \$12,856. Either method of allocation is deemed to be in accordance with GAAP.

Personnel

As stated above, management of IDL maintains an annual spreadsheet of the total personnel for IDL. The spreadsheet for fiscal year ended June 30, 2007 showed 5.92 FTE's allocated to real estate and total costs of \$17,198. Personnel costs included in this real estate category are recorded in the same manner as the direct personnel costs. This means that each employee's actual costs follow the charges to support services. Based on our review of the employee allocation worksheet and the procedures we described above for direct personnel costs, we believe the allocation method used for real estate personnel costs are reasonable and in accordance with GAAP.

Operating Costs

IDL expends approximately 36% of the real estate category costs for operating. Of these costs, the largest component is for consulting costs for approximately 52% of the total consulting costs. Allocating the operating costs for real estate on the basis described above for personnel costs appears to be reasonable and in accordance with GAAP.

Capital Outlay

IDL expended approximately 6% of the real estate costs for capital outlay. Allocating the capital outlay costs for real estate on the basis of personnel appears to be reasonable and in accordance with GAAP.

Summary Conclusion

The cost allocation methodologies utilized by IDL in allocating expenses to the Grazing Program are in accordance with GAAP. As stated above, certain modifications may provide a more comprehensive determination without the detriment of spending significant additional time. The most significant modifications we would recommend are:

- Obtain payroll hours on a more frequent basis from IDL employees.
- Consider recording operating expenses that are not specifically related to a program into the support service category. These expenses could relate to items like fuel or supplies that are used by several programs.
- Consider recording legal invoices directly to the related program.
- Consider recording capital expenses that are not specifically related to a program into the support service category.

- Collapse the real estate areas into support services. As noted above, IDL has already collapsed the real estate area into support service as of the beginning of the fiscal year ended June 30, 2008.

Sincerely,

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Eide Bailly LLP