



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE

October 16, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a report on the Iowa Department of Revenue for the year ended June 30, 2019.

The Iowa Department of Revenue collects taxes and fees imposed by the General Assembly, enforces state revenue statutes to assure taxpayer compliance and apportions revenue collections for distribution to various state funds and local governments.

AUDIT FINDINGS:

Sand reported three findings pertaining to the Iowa Department of Revenue. The findings are found on pages 4 through 6 of this report. The findings address returned check procedures, questionable expenditures, and pay increases. Sand provided the Department with recommendations to address each of the findings.

Management of the Iowa Department of Revenue has a fiduciary responsibility to provide oversight of the Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF REVENUE**

JUNE 30, 2019

Iowa Department of Revenue



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October 12, 2020

To Kraig Paulsen, Director
of the Iowa Department of Revenue:

I am pleased to submit to you this Report of Recommendations for the Iowa Department of Revenue for the year ended June 30, 2019. The report includes findings pertaining to the Department's internal control and compliance with statutory requirements and other matters which resulted from the fiscal year 2019 audit. The report also includes data provided by Department personnel related to individual income tax refunds.

I appreciate the cooperation and courtesy extended by the officials and employees of the Iowa Department of Revenue throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Iowa Department of Revenue



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October 12, 2020

To Kraig Paulsen, Director
of the Iowa Department of Revenue:

The Iowa Department of Revenue is a part of the State of Iowa and, as such, has been included in our audit of the State's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2019.

In conducting our audit, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which includes findings pertaining to the Department's internal controls and compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to the recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Department of Revenue's responses and, accordingly, we express no opinion on them.

We have included certain unaudited financial and other information on page 8 of this report to report information related to individual income tax refunds for the four calendar years ended December 31, 2019.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Revenue, citizens of the State of Iowa and other parties to whom the Iowa Department of Revenue may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you. Individuals who participated in our audits of the Iowa Department of Revenue are listed on page 7 and they are available to discuss these matters with you.

A handwritten signature in black ink that reads "Marlys K. Gaston".

Marlys K. Gaston, CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2019

Findings Reported in the State's Report on Internal Control:

No matters were reported.

Other Findings Related to Internal Control:

Unhonored Check Procedures

An effective internal control system provides for internal controls related to the processing of unhonored checks to ensure appropriate action is taken in a timely manner.

An unhonored check for \$147,672 was returned to the Iowa Department of Revenue (IDR) on May 30, 2018, due to a closed account. In accordance with IDR policy, Internal Services accounting staff sent a copy of the unhonored check to the Inheritance and Fiduciary team on June 11, 2018. The employee on that team responsible for researching the unhonored check had to wait for a return filing by the estate before proceeding with obtaining a new check from the estate. The return filing was delayed and, while waiting, the papers were placed in the employee's desk. In June 2019, the employee took another position within the Department of Revenue. When the employee's desk was being cleaned on November 18, 2019, the unhonored check was found. Since the estate's account had closed, the Attorney General's office was contacted to help the Department recover the funds. In January 2020, the Attorney General's office filed a probate claim for \$179,864, the original unhonored check plus interest and penalty, to collect on the unhonored check.

Recommendation – Procedures should be designed and implemented to ensure that appropriate action is taken in a timely manner for unhonored checks.

Response – The Department has updated procedures to avoid this happening in the future.

Conclusion – Response accepted.

June 30, 2019

Findings Related to Statutory Requirements and Other Matters:

- (1) Questionable Expenditures – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General's opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in the Attorney General's opinion since the public benefits to be derived have not been clearly documented.

During fiscal year 2019, the Department Director booked a round-trip airfare ticket to attend a Board meeting in Washington D.C. The cost of the round-trip airfare when the flight was originally booked was \$316. Four days prior to the flight, the Director changed the dates of the trip in order to leave one day sooner than originally planned. According to Department officials we spoke with, the Director needed to go to Washington, D.C. early due to the fact she was stepping down and it impacted the groups she was meeting with. The only available ticket to Washington D.C. at the time the change was made was a first-class ticket, which increased the cost of the airfare by \$1,517, and added a \$200 ticket change fee. The total cost of the round-trip airfare was \$2,033, \$1,717 more than the original cost.

The public purpose of incurring \$1,717 of additional costs to move the Director's flight one day was not properly documented prior to making the expenditure.

Recommendation – The Department should determine and document the public purpose served by this type of expenditure before authorizing any further such payments.

Response – For future instances, the Department shall validate and document the purpose served.

Conclusion – Response accepted.

- (2) Pay Increases – Guidance provided by the Governor's Office in the form of a Department of Administrative Services (DAS) memo for "FY19 within-grade pay increases" allows Departments discretion to provide up to 3% within-grade pay increases for employees (unless otherwise bargained in a collective bargaining agreement). While this is not a "policy," it is guidance provided by the Governor's Office and there should be documentation to support exceptions to following the guidance.

Of 51 pay increases selected for testing, 5 were within-grade pay increases that exceeded 3%. Below are the 5 positions and their respective pay increases:

Public Service Manager 1	–	12.50% increase
Public Service Manager 1	–	15.88% increase
Public Service Manager 1	–	16.86% increase
General Counsel Supervisor	–	18.04% increase
Public Service Manager 1	–	26.69% increase

According to Department officials we spoke with, the Department made the decision to align salaries with their peers within the Department. Their reasoning for doing this was several supervisors were making significantly less than the employees they were supervising and there was retention risk in these key positions.

The reason for these increases was not included in the supporting documentation and no documentation was found to support these being an exception to the Governor's guidance.

Report of Recommendations to the Iowa Department of Revenue

June 30, 2019

Recommendation – The Department should follow the guidance set by the Governor’s Office through the Department of Administrative Services for within-grade pay increases.

Response – The Department will follow any guidance set by the Governor’s Office through the Department of Administrative Services.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Revenue

June 30, 2019

Staff:

Questions or requests for further assistance should be directed to:

Marlys K. Gaston, CPA, Deputy
Donna F. Kruger, CPA, Manager
Tiffany M. Ainger, CPA, Manager
Luke M. Bormann, CPA, Senior Auditor

Other individuals who participated in the audits include:

Adjoa S. Adanledji, Senior Auditor
Preston R. Grygiel, Senior Auditor
Nathan A. DeWit, Staff Auditor
Terry J. Erlbacher, Staff Auditor
Jon G. Hanson, Staff Auditor
Cody J. Pifer, Staff Auditor
Steven D. Rater, Staff Auditor
Nicholas J. Rustin, Staff Auditor
Silvester K. Rutto, Staff Auditor
Ethan M. Snedigar, Staff Auditor
Brandon G. Sommers, Staff Auditor
Cara N. Roush, Assistant Auditor

Iowa Department of Revenue
 Individual Income Tax Refund Data
 (Unaudited)

Calendar year ended December 31, 2019
 with comparative information for the three preceding years

Calendar Year	Method of Return Filing	Count of Refunds	Total Refunds Issued	Average Refund Issued	Average Days between Return Receipt and Refund Issuance
2019	Electronic	996,263	\$ 704,785,669	707.43	35.29
2019	Paper	95,238	101,838,209	1,069.30	49.87
2018	Electronic	993,748	711,582,482	716.06	35.54
2018	Paper	106,166	106,325,583	1,001.50	45.59
2017	Electronic	988,114	678,636,954	686.80	37.11
2017	Paper	112,598	100,004,649	888.16	48.11
2016	Electronic	974,069	648,393,098	665.65	12.72
2016	Paper	123,555	117,379,526	950.02	47.85

According to the Department, there was a change in goals at the Department in the calendar year 2017 from fast refunds to protecting taxpayers and the State of Iowa from fraudulent refund claims.