



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

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NEWS RELEASE

Contact: Andy Nielsen

FOR RELEASE _____ July 7, 2006

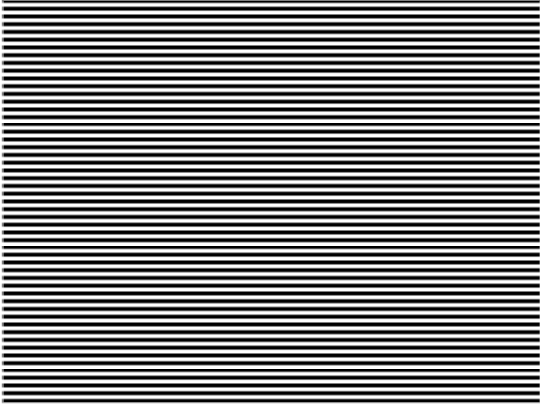
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Revenue for the year ended June 30, 2005.

The Department 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.

A copy of the audit report is available for review in the Iowa Department of Revenue, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

JUNE 30, 2005

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



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June 26, 2006

To Mark Schuling, 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 audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2005.

In conducting our audits, 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 pertain to the Department's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

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 audits. Should you have questions concerning the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 8 and they are available to discuss these matters with you.

Handwritten signature of David A. Vaudt.

DAVID A. VAUDT, CPA
Auditor of State

Handwritten signature of Warren G. Jenkins.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Thomas J. Vilsack, Governor
Michael L. Tramontina, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

Iowa Department of Revenue

Report of Recommendations to the
Iowa Department of Revenue

June 30, 2005

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to Internal Control:

- (1) Segregation of Duties - Payroll – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Department's financial statements.

Certain employees can initiate and approve payroll transactions on the Human Resource Information System (HRIS). In addition, these same employees have the ability to initiate, approve and input individuals onto HRIS.

Recommendation – Adequate segregation of duties should be established so the same person does not initiate and approve a transaction. In addition, duties should be segregated to ensure the same person does not have the ability to input and approve individuals onto HRIS.

Response – Segregation of duties has occurred so that there are separate individuals involved at each level of the approval process. The Personnel Assistant has the initial approval level and then either of two other employees at the Executive Officer level in the Human Resources unit have departmental approval capabilities.

Conclusion – Response accepted.

- (2) Segregation of Duties – Security Deposits – The person responsible for the detailed record keeping of the security deposit certificates of deposit is also the custodian of the investments.

Recommendation – The Department should review controls to ensure proper segregation of duties is obtained.

Response – The Department concurs and has initiated the following process:

Bond Examiner duties:

1. Verifies dollar amount matches bond amount required.
2. Verifies endorsement meets Department requirements.
3. Enters information into computer for Department tracking. (CUB Program)
4. Delivers bond to designated Bond Controller.

Bond Controller duties:

1. Receives bond from Examiner and files by permit number in safe.
2. Retrieves bonds from safe when requested by Bond Examiner.

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Internal Auditors:

1. Complete annual physical review of bonds to verify accuracy of Certificate of Deposit records.
2. Submit report of findings to Program Managers.

Conclusion – Response accepted

- (3) Prod Expenditures - Tax Credit expenditures are calculated from the Integrated Revenue Information system (IRIS). The data processing division generates a pre-warrant listing which identifies all of the checks, including payee and amount, along with a “Prod” document, which summarizes expenditures by credit type. Appropriate personnel are required to approve the final data run. The pre-warrant listing and “Prod” document are provided to appropriate personnel responsible for approval of the expenditures.

Although the personnel authorizing the expenditure are ensuring the “Prod” document agrees with the pre-warrant listing total, a review is not performed to determine if the tax credit expenditures generated by IRIS are reasonable.

Recommendation – The personnel approving the final run should obtain the estimation schedule which identifies when warrants are to be run and the approximation of the total amount of the warrants to be issued to enable them to review the “Prod” document for reasonableness.

Response – The Department concurs. The individual responsible for generating the estimation schedule will provide the information to the personnel authorizing the expenditures. The Operations Division Administrator will follow up with both individuals to make sure this is accomplished.

Conclusion - Response accepted.

- (4) Capital Asset Reconciliation – The Department of Revenue maintains a manual capital asset listing. When an asset is added or deleted, the listing is updated accordingly. However, the Department does not reconcile capital asset expenditures per the Integrated Information for Iowa system (I/3) to the capital asset listing to ensure the accuracy of the reported amounts.

Recommendation – The Iowa Department of Revenue should complete an asset reconciliation between the purchases made per the I/3 system to additions per the asset listing.

Response – The Internal Services division will be meeting with two individuals from the GAAP Team in State Accounting Enterprise (SAE) to assist in modifications to their expenditure spreadsheets. This should avoid any future issues in this area.

Conclusion – Response accepted.

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Findings Related to Statutory Requirements and Other Matters:

Personal Service Contracts — The State Accounting Policy and Procedures Manual, Chapter 240.102, issued by the Iowa Department of Administrative Services, and Iowa Administrative Code [11] Chapters 105 & 106 provide general guidelines to be used by departments when entering into personal service contracts. The following items were noted:

- One contract tested did not have the required pre-contract questionnaire on file.
- One contract tested exceeded the six year maximum contract period.
- Two contracts did not have a copy of the required notice to the targeted small business (TSB) web page.

Recommendation – The Department should follow established laws and regulations governing state contracts.

Response –

- All contracts will be reviewed to insure the required pre-contract questionnaire is attached, particularly those relating to the litigation expense fund.
- The Iowa Department of Revenue is a Charter Agency and therefore may extend contracts.
- The Department is aware of the need to post on the TSB web site 48 hours in advance of any other postings. We will attach the copy of the required notice to the appropriate documents.

Conclusion – Response accepted.

Report of Recommendations to the
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June 30, 2005

Staff:

Questions or requests for further assistance should be directed to:

Michelle Meyer, CPA, Manager
Timothy D. Houlette, CPA, Senior Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Scott P. Boisen, Staff Auditor
Jennifer Edgar, CPA Staff Auditor
Dorothy O. Stover, Assistant Auditor
Janet M. Tiefenthaler, Assistant Auditor