



OFFICE OF AUDITOR OF STATE
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NEWS RELEASE

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FOR RELEASE _____ September 29, 2008

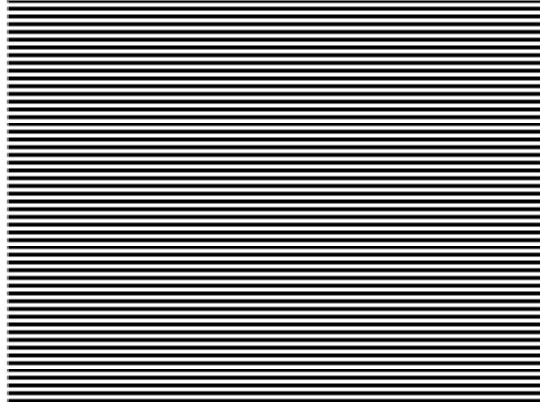
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Revenue for the year ended June 30, 2007.

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 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, 2007

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



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September 19, 2008

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, 2007.

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 7 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor
Charles J. Krogmeier, Director, Department of Management
Director, Legislative Services Agency

Iowa Department of Revenue

Report of Recommendations to the
Iowa Department of Revenue

June 30, 2007

Findings Reported in the State's Single Audit Report:

No matters were noted.

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

No matters were noted.

Other Findings Related to Internal Control:

- (1) Collection Unit Bond System Reconciliation – The Department may require sales tax permit holders to post a security bond if the applicant has had unfavorable filings in the past, if the Department has had prior collection problems with the permit holder and/or if the applicant's financial status is such that they may be unable to remit taxes by a due date.

When the Department receives cash security bonds, they are posted to the Collection Unit Bonds (CUB) system and later recorded to the State's I/3 system. The CUB system is an internal system used to track the permit number, name of the permit holder, the date payments are made, as well as refunds issued to the permit holder.

A reconciliation between the ending balances on the CUB system and the State's I/3 system for this activity is not performed by the Department.

Recommendation – The Department should complete a timely reconciliation of the CUB system to the State's I/3 system to ensure completeness and accuracy.

Response – The Department agrees with the recommendation. A reconciliation was completed for the quarter ended September 30, 2007 to bring this activity into balance with CUB. As part of this reconciliation, it was determined that the CUB system was incapable of being adapted to account for non-cash transactions such as state offsets. Subsequently, the CUB system has been replaced with new functionality in the IRIS system that will allow entry and tracking of all cash bond transactions directly within the IRIS system. This process improves accountability and eliminates the need to balance transactions between three systems (CUB, IRIS and I/3). Staff in the Deposit Unit now reconcile the cash bond balance in IRIS and I/3 on a monthly basis.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Revenue

June 30, 2007

- (2) Investment Tax Credits – The Department is authorized to issue tax credits to individuals who invest in qualifying businesses or community-based seed capital funds. Chapter 15E.43(4) of the Code of Iowa establishes a maximum of \$3,000,000 of tax credits which may be awarded in any one fiscal year, with an aggregate limit of \$10,000,000.

The Department issued tax credits of \$3,076,228 during fiscal year 2007.

Recommendation – The Department should review its controls to ensure investment tax credits issued do not exceed \$3,000,000 in any one fiscal year as required by Chapter 15E.43(4) of the Code of Iowa. In addition, the Department should monitor the aggregate tax credit awards to ensure the aggregate amount issued does not exceed \$10,000,000.

Response – The Department is monitoring the aggregate investment tax credits issued to make sure it does not exceed \$10 million. For the fiscal year ended June 30, 2008, there were only \$2.9 million of investment tax credits still available, so the situation where more than \$3 million of credits were awarded in a fiscal year will not occur for any subsequent fiscal year.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the
Iowa Department of Revenue

June 30, 2007

Staff:

Questions or requests for further assistance should be directed to:

Suzanne R. Dahlstrom, CPA, Manager
Timothy D. Houlette, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Shelley M. Allen, Staff Auditor
Philip J. Cloos, Staff Auditor
Shannan M. Hoffman, Staff Auditor
Michael P. Piehl, Staff Auditor
Jacob R. Chambers, Assistant Auditor