



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

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NEWS RELEASE

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FOR RELEASE _____ June 17, 2010

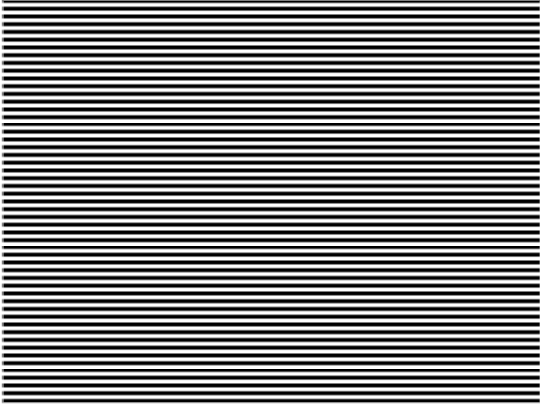
Auditor of State David A. Vaudt today released a report on the Iowa Department of Revenue for the year ended June 30, 2009.

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.

Vaudt recommended the Department re-evaluate the current methodology for estimating future tax revenues and refunds to ensure the estimates are reasonable. In addition, the Department should establish procedures to track the processing of returns from the initial receipt through completion to ensure returns with refunds are processed as soon as possible to minimize interest paid. The Department's responses are included in the report.

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/index.html>.

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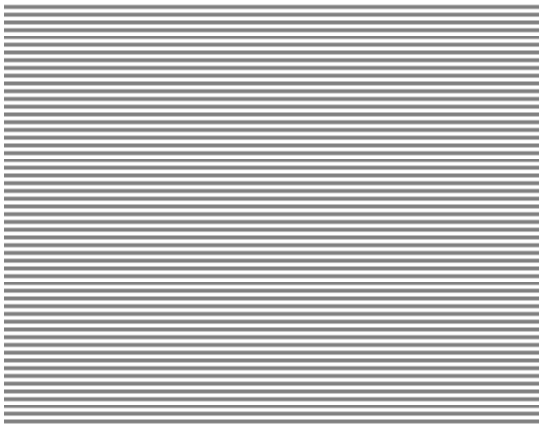
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF REVENUE**

JUNE 30, 2009

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



David A. Vaudt, CPA
Auditor of State





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June 11, 2010

To Mark R. 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, 2009.

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 include those reported in the States' Report on Internal Control as well as other recommendations pertaining to the Department's internal control. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Revenue's responses and, accordingly, we express no opinion on them.

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
Richard C. Oshlo, Jr., Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Iowa Department of Revenue

June 30, 2009

Findings Reported in the State's Single Audit Report:

No matters were noted.

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

- (1) Tax Revenue and Refund Estimates – To comply with governmental accounting and financial reporting standards, the Department has established a process to calculate estimates to recognize tax revenues and refunds to be collected or paid in future periods which are attributable to the current and prior tax years. The estimates are based on historical data of tax receipts and refunds.

During fiscal year 2009, the portion of the estimate attributable to tax year 2008 was compared to actual receipts and refunds collected or paid. Using the current methodology, the estimate of corporate income tax refunds for tax year 2008 to be paid during fiscal year 2010 was calculated to be \$5,638,379. However, approximately \$38 million in corporate income tax refunds attributable to tax year 2008 were actually paid in fiscal year 2010 through September 30, 2009. This was properly adjusted for reporting purposes.

Recommendation – The Department should re-evaluate the current methodology for estimating future individual income, corporate income and other tax revenues and refunds to ensure the estimates are reasonable. Also, the Department should compare actual results subsequent to year end with the estimates to validate the estimates or identify additional amounts to be recorded.

Response – The current methodology was created by consensus several years ago. Numerous factors, including the current tax system and the economy, affect the estimates. The Department agrees the refund estimation methodology should be reviewed with input from the Iowa Department of Administrative Services - State Accounting Enterprise and monitored to determine its effectiveness.

Conclusion – Response accepted.

- (2) Payroll – The Department processes and records payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. During fiscal year 2009, one individual was identified who had the ability to initiate and approve P-1 documents without supervisory approval.

Recommendation – To strengthen controls, the Department should develop and implement procedures to segregate the duties of the Human Resource Associates.

Response – The Department understands the importance of appropriate internal control. We have taken action to segregate duties so individuals cannot both initiate and approve P-1 documents for payroll actions. The corresponding changes have been made to the Human Resource Information System (HRIS).

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Revenue

June 30, 2009

Other Findings Related to Internal Control:

Corporate Income Tax Refunds – The Department is responsible for issuing income tax refunds on applicable tax returns received by the Department. The Department’s policy for processing returns is a first-in, first-out basis. In addition, there is no process in place for tracking the status of returns from the initial receipt through completion. Chapter 422.25(3) of the Code of Iowa provides for interest to be accrued on refunds beginning on the first day of the second calendar month following the date of payment or the date the return was due to be filed, whichever is later.

Six corporate income tax returns postmarked in June 2009 with refunds totaling \$37,638,639 were not paid until September 2009 due to a lack of prioritizing refunds by dollar amount. As a result, the Department paid two months of accrued interest totaling \$526,941 on these six corporate income tax refunds.

Recommendation – The Department should establish a mechanism for tracking the processing of returns from the initial receipt through completion to ensure returns with refunds are processed timely. The Department should also establish procedures to identify high dollar refund returns and process these returns as soon as possible to minimize interest paid.

Response – The Department received budget reductions in FY09 and FY10 which impacted the ability of the Department to process paper returns. The Department has implemented several changes in an effort to balance the responsibility to ensure taxes are deposited and refund amounts are accurate. The Department has specifically implemented changes to address the issues raised and has begun accepting corporate income tax returns in an “e-file” format. This will allow e-filed returns to bypass the entire opening and data entry process and, if the returns meet required specifications, will allow for refunds to be more quickly generated.

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, 2009

Staff:

Questions or requests for further assistance should be directed to:

Suzanne R. Dahlstrom, CPA, Manager
Michael P. Piehl, Senior Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audit include:

Daniel L. Durbin, CPA, Staff Auditor
Mike R. Field, Staff Auditor
Dan W. Henaman, Assistant Auditor