



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

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NEWS RELEASE

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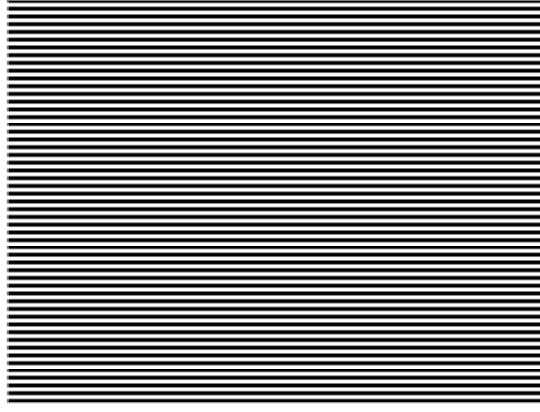
Auditor of State David A. Vaudt today released a report on the Iowa Department of Revenue and Finance for the year ended June 30, 2003.

The Department collects taxes and fees imposed by the General Assembly, enforces state revenue statutes to assure taxpayer compliance, apportions revenue collections for distribution to various state funds and local governments, processes payroll and performs central accounting functions.

The Iowa Department of Revenue and Finance became the Iowa Department of Revenue on July 1, 2003. On that date, the payroll and central accounting functions became a part of the Department of Administrative Services.

A copy of the report is available for review in the Iowa Department of Revenue and Finance or the Office of Auditor of State.

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

JUNE 30, 2003

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



**David A. Vaudt, CPA
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December 12, 2003

To Michael Ralston, Director of the
Iowa Department of Revenue and Finance:

The Iowa Department of Revenue and Finance 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, 2003.

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, 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 and Finance, citizens of the State of Iowa and other parties to whom the Iowa Department of Revenue and Finance 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 Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

Iowa Department of Revenue and Finance

Report of Recommendations to the
Iowa Department of Revenue and Finance

June 30, 2003

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to Internal Control:

- (1) Distribution Account Bank Reconciliation – Although monthly bank reconciliations were performed, the reconciliations were not reviewed and approved.

Recommendation – The Department should review and approve the bank reconciliations.

Response – The Department has amended the existing procedures for reconciling the distribution account to include a supervisory review and signoff.

Conclusion – Response accepted.

- (2) Segregation of Duties – Receipts – During our review of internal control, the existing procedures are evaluated in order to determine that 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. One individual in the Accounting Bureau has access to receipts, prepares the initial listing and reconciles the listing to the deposits.

Recommendation – An independent individual should reconcile the initial listing of receipts to the deposits.

Response – Although staff availability precludes adopting the Auditor of State's recommendation, additional procedures will be implemented to strengthen internal control.

Conclusion – Response accepted.

- (3) Reconciliation of Use Tax – Beginning in January 2002, the Department established a reconciliation process to review UT-510 forms submitted by counties and ensure that tax-exempt transactions reported to the Iowa Department of Revenue and Finance agree with transactions reported to the Iowa Department of Transportation. However, the Department has not yet implemented procedures for sampling and testing UT-510 forms submitted by counties.

Recommendation – The Department should implement procedures to reconcile information submitted from the Iowa Department of Transportation to information submitted by counties.

Response – The Department requires counties to submit completed UT-510 forms to its Dubuque office as well as maintain a file of the daily printout of use tax transactions from the Iowa Department of Transportation vehicle registration system. The UT-510 forms received by the Dubuque office are sorted by exemption code and recorded by county. If a county does not submit the forms, the Dubuque office will contact the county. The Department had intended to review the UT-510 forms submitted by the counties against the daily reports maintained by counties on a sampling basis. With 100,000 UT-510 forms being submitted by the counties each year the Department has not had the resources to perform the reviews. Since the Department does not expect additional resources to be allocated to this task and because the activity does not generate any additional compliance revenue the Department will not be able to reconcile the information submitted by the counties in the foreseeable future.

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Representatives of the Department have been working with the Iowa Department of Transportation on reengineering the use tax reporting process as part of the revamp of the Iowa Department of Transportation's vehicle title and registration transaction system. Effective January 1, 2005, all exempt transactions will be electronically recorded by the county treasurers and the system will not allow for exempt transactions without the input of the required supporting information. The use of the UT-510 form will be discontinued at that time as will any supporting procedures.

Conclusion – Response acknowledged. The system will be reviewed in subsequent audits.

Findings Related to Statutory and Other Matters

Personal Service Contracts – Iowa Department of Revenue and Finance Policy 240.102 provides general guidelines to be used by departments when entering into personal service contracts. Two contracts tested did not have the required pre-contract questionnaire on file. In addition, one contract tested exceeded the six year maximum contract period.

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

Response – The Department is taking measures to monitor that all pieces of a contract are present and managed appropriately through the contract period. Included is the recent construction of an Access database to track contracting procedures.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Revenue and Finance

June 30, 2003

Staff:

Questions or requests for further assistance should be directed to:

Michelle Meyer, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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Daniel L. Durbin, CPA, Staff Auditor
Sarah D. McFadden, Staff Auditor
Elvir Alicic, Assistant Auditor
Jennifer Edgar, Assistant Auditor