



**OFFICE OF AUDITOR OF STATE
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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ July 12, 2005

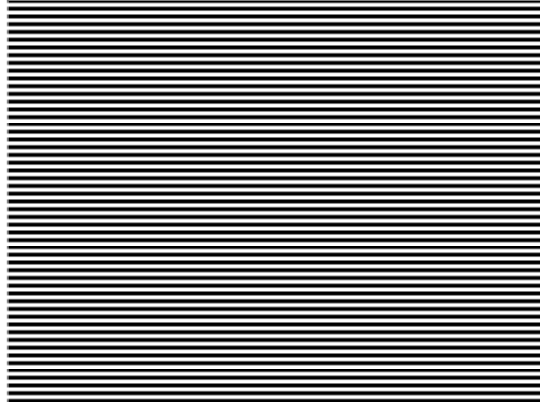
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Revenue for the year ended June 30, 2004.

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 or the Office of Auditor of State.

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

JUNE 30, 2004

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



David A. Vaudt, CPA
Auditor of State





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July 1, 2005

To Michael Ralston, 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, 2004.

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. 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 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, 2004

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 – The Department will ensure segregation of duties by having separate approvals of personnel and payroll documents by a different person. This also includes capabilities relating to HRIS.

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. In addition, there is no evidence of an independent periodic inspection of the certificates of deposit.

Recommendation – The Department should review controls to ensure proper segregation of duties is obtained. In addition, reviews should be performed by an independent person and evidenced by initials or a signature.

Response – The Department will review the entire inventory of investments and return to the responsible party those investments no longer required to be held. The Department will also segregate the duties of recording and custody of the investments and will further assign a third party to perform and document an independent review of the inventory.

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 tax-exempt transactions reported to the Department agree with transactions reported to the Iowa Department of Transportation (DOT). 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 to the Iowa Department of Transportation to information submitted by counties.

Report of Recommendations to the
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Response – Effective January 3, 2005, all motor vehicle use tax payments and claims for exemption are reported directly to the Iowa Department of Transportation through the DOT's Vehicle Registration and Titling (VRT) system. The VRT system reconciles transactions and the DOT deposits the funds with the State Treasurer. The reconciliation of motor vehicle use tax paid as reported by counties to cash deposited with the Treasurer now occurs within the DOT.

Data previously provided by counties on tax exempt transactions is now provided to the Department electronically through the VRT system. The Department has established criteria for testing the validity of individual exempt transactions and is currently performing ongoing testing.

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, 2004

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:

Jennifer Campbell, CPA, Senior Auditor
Daniel L. Durbin, CPA, Staff Auditor
Sarah D. McFadden, CPA, Staff Auditor
Scott P. Boisen, Staff Auditor
Jeffrey L. Lenhart, Assistant Auditor