Report of the Audit Committee and Audit Program

Multistate Tax Commission
July 2015

Frank Hales, Chair, MTC Audit Committee
Lee Baerlocher, Vice Chair, MTC Audit Committee
Keith Getschel, Director, MTC Joint Audit Program

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2015 fiscal year ended June 30, 2015.

* AUDIT COMMITTEE *

The audit committee met four times during fiscal year 2015. They first met on July 29, 2014 in Albuquerque, New Mexico. There were 44 members, guests and staff present at the meeting. There were 38 individuals representing 20 audit program states present. There were no members of the public present at the meeting. The second meeting took place on October 30, 2014. This meeting was held via teleconference. Although the sole purpose of this meeting was to select income tax cases for MTC audits, a public meeting was also held. There were no members of the public present, so the audit selection was conducted in the closed session. There were 22 members and staff who called in and participated in this teleconference, with 19 individuals representing 14 income tax audit committee states. The third meeting took place in Nashville, Tennessee on December 10, 2014. There were 56 members, guests and staff present at the meeting. There were 43 individuals representing 26 audit program states present and there were two members of the public present during the public session. The fourth meeting was held in Kansas City, Missouri on March 11, 2015. There were 35 members, guests and staff present at the meeting. There were 28 individuals representing 17 audit program states present. There were no members of the public present at the meeting.

During the meeting in Albuquerque the audit committee selected 13 sales tax cases to be added to the MTC's audit inventory. The committee reviewed the status of all active audits and discussed cases with significant issues. The committee thanked retiring MTC Audit Director Les Koenig for his many years of dedicated service to the Commission and welcomed Keith Getschel as the incoming Audit Director.

During the October teleconference, the audit committee selected 10 income tax cases to be added to the MTC's audit inventory. Since this was the sole purpose for this meeting, no further actions were taken.

During the meeting in Nashville the committee thanked Rick DeBano for his outstanding service as the chair of the MTC Audit Committee and wished him the best in his retirement. The committee recommended Frank Hales to replace Rick as committee chair and Lee Baerlocher as vice-chair of the committee. The audit committee reviewed the status of all the audits in progress.

The audit committee conducted a round table discussion regarding audit issues and how those issues were discovered.

During the meeting in Kansas City, Elizabeth Harchenko gave the committee an overview and update of the strategic planning project for the audit program. The audit committee reviewed the status of all the audits in progress. Discussion included a taxpayer who originally was not very cooperative, but was being more cooperative than was previously reported. Harold Jennings informed the audit committee that two sales tax audits that were selected by the committee and referred for audit failed to garnish the necessary participation of states. With much discussion, the committee decided to drop the audit of one of the cases, but asked MTC staff to send a second round of audit requests to member states for the other case.

* AUDIT PROGRAM *

PRODUCTIVITY

Audit Program completed five income tax audits and parts of four other income tax audits for the fiscal year end of June 2015. The Audit Program also completed four sales tax audits and parts of eight other sales tax audits for the same period. There are 23 income and 40 sales tax audits in progress.

The MTC Audit Program has proposed assessments of $85,153,922 for income tax and $6,064,084 for sales tax for the fiscal year end of June 2015. One of the completed audits for income tax actually resulted in tax refunds of $4,793,099, due to unclaimed research and development credits and payroll factor adjustments. In discussion with those states, it was decided to incorporate those credits in our audit to alleviate the burden on the taxpayer of having to file refund claims.

STAFFING

During the fiscal year Iowa, Pennsylvania, Rhode Island and Delaware joined the MTC audit program. We added four new income tax auditors this past year. Three of whom replaced resignations and/or retirements and one was added due to the joining of the states listed above. We are also in the process of hiring a sales tax auditor to replace a resignation. This position will be filled by September 1, 2015.

OFFICE RELOCATION

We successfully moved the Chicago office from the downtown location 223 West Jackson Boulevard, to 2800 River Road, Des Plaines. Since our lease was up, it gave us the opportunity to reduce our leased space and move to a more convenient location, both of which resulted in reducing our lease expenses.

AUDIT COMMITTEE

During this fiscal year the Audit Committee met in Albuquerque, New Mexico on July 29, 2014, on October 30, 2014, via teleconference, in Nashville, Tennessee on December 10, 2014 and in Kansas City, Missouri on March 11, 2015. We thanked Les Koenig for his many years of dedicated service as audit director and wished him the very best in his retirement. We thanked Rick DeBano for his service as audit committee chair and wished him the best in his retirement. We welcomed Frank Hales as the new audit committee chair and Lee Baerlocher as the new vice-chair of the committee.

TRAINING

Jeff Silver and Larry Shinder participated as instructors in an income tax course in Burlington, Vermont in October, 2014. Harold Jennings conducted a "Computer Assisted Audit Techniques using Excel" class in Washington, DC in October, 2014. Bob Schauer conducted a statistical sampling class, with the assistance of Scott Elliot (from Minnesota) in Georgia, in November 2014. Cathy Felix and Jeff Silver participated as instructors in an income tax course in Salem, Oregon in April 2015. Harold Jennings and Bob Schauer conducted a statistical sampling class in April in St. Paul, Minnesota.

The MTC audit program held a training session for all staff in Chicago, the week of May 11th. There were numerous issues and topics to cover with the addition of several states to the audit program. We were pleased that Joe Huddleston, Greg Matson, Helen Hecht and Chris Lane were able to join us and provide some instruction and answer questions, as well.

TRENDS IN PRODUCTIVITY

MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/98- 6/15

	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	6/13	6/14	6/15
Income Tax Total Audits	9	7	10	8	7	8	7	7	9	7	7	3	6	6	4	5	6	5
Total States Audited	120	186	251	131	166	165	266	196	175	141	209	79	152	309	131	150	103	79
Total Hours	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136
Average Hours Per State	**83**	**55**	**52**	**66**	**57**	**64**	**45**	**64**	**72**	**66**	**84**	**81**	**69**	**83**	**91**	**86**	**139**	**141**
Sales Tax Total Audits	10	16	11	14	13	11	10	11	6	15	9	10	12	5	5	12	6	4
Total States Audited	97	184	102	158	159	145	154	160	77	187	97	120	147	65	59	163	63	48
Total Hours	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121
Average Hours Per State	**80**	**40**	**89**	**75**	**56**	**61**	**71**	**38**	**64**	**71**	**80**	**61**	**73**	**110**	**85**	**81**	**104**	**106**
Total Both Taxes Total Audits	19	23	21	22	20	19	17	18	15	22	16	13	18	11	9	17	12	9
Total States Audited	217	370	353	289	325	310	420	336	252	328	306	199	299	374	190	313	166	127
Total Hours	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257
Average Hours Per State	**82**	**48**	**63**	**71**	**56**	**62**	**55**	**56**	**70**	**69**	**83**	**69**	**71**	**88**	**89**	**83**	**126**	**128**