



## **Report of the Audit Committee and Audit Program**

**Multistate Tax Commission  
July 2017**

**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 the 2017 fiscal year ended June 30, 2017.

### **\* AUDIT COMMITTEE \***

The audit committee has met three times in fiscal year 2017. The first meeting was in Kansas City, Missouri, on July 25, 2016. There were 46 members, guests, and staff present during the public session and 47 members and staff present during the closed session of the meeting. There was one member of the public present at the public session, and there were 40 individuals representing 22 audit program states present during the closed session of the meeting.

The second meeting was held in Houston, Texas, on December 13, 2016. There were 48 members, guests, and staff present during the public session and 47 members and staff present during the closed session of the meeting. There were no members of the public present at the public session and there were 39 individuals representing 22 audit program states present during the closed session of the meeting.

The third meeting was held in San Diego, California, on March 9, 2017. There were 38 members, guests, and staff present during the public session and 34 members and staff present during the closed session of the meeting. There were two members of the public present at the public session and there were 27 individuals representing 21 audit program states present during the closed session of the meeting.

During the meeting in Kansas City the audit committee reviewed a proposed audit evaluation survey for the audit program and moved forward with that project. The audit committee reviewed the status of all the audits in progress. A discussion was held on 16 income tax and 6 sales tax audits that had significant issues. This discussion included a recommendation from one of the MTC auditors to close one of the audits based on the program's early closure guidelines. The committee took action to approve this recommendation. As customary, the audit committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

During the meeting in Houston the audit committee approved the final draft of an audit satisfaction survey, which the audit program began using on completed audits at the start of the calendar year. The audit committee discussed the continued problem with statute deadlines and decided to have the audit program audit the two most currently filed tax years with the third year being the returned filed during the audit process. The committee reviewed the income tax nominations and voted to add ten nominated companies into the audit inventory. The committee reviewed the status of all the audits in progress.

During the meeting in San Diego the audit committee discussed closing one of the audit program audits. After the discussion the committee recommended closing the audit pursuant to the early audit closure provisions. The audit committee also discussed the sales tax audit program results. Overall, there was a common understanding that the results of the sales tax audits would not compare to the income tax audit results and the committee was satisfied with the sales tax audit results. As usual, the committee reviewed active cases and held the states' round table discussion.

The next meeting of the audit committee will be held during the MTC annual meeting in Louisville, Kentucky, July 31<sup>st</sup> through August 3<sup>rd</sup>.

## **\* AUDIT PROGRAM \***

### **1. Productivity**

The Audit Program has completed four income tax audits and parts of eight other income tax audits for the fiscal year 2017. The Audit Program also has completed eight sales tax audits and parts of six other sales tax audits for this same period. Currently, there are twenty-one (21) income and thirty-three (33) sales tax audits in progress.

The MTC Audit Program has proposed assessments of \$167,460,884 for the completed income tax audits and \$3,753,760 for the completed sales tax audits for the fiscal year ending June 30, 2017.

## **2. Staffing**

In October we added a new income tax auditor, Ali Pazand. Ali came to us highly recommended from the New Mexico Taxation and Revenue Department. In January we hired another income tax auditor, Virginia (Kay) Mick. Kay came to us highly recommended from the West Virginia Department of Revenue. Both Ali and Kay report to Jeff Silver in New York.

Kathy Owens, one of our sales tax auditors, retired from the Commission in December.

## **3. Audit Committee**

The audit committee met three times during the fiscal year 2017. The first meeting was held during MTC annual meeting event on July 25, 2016, in Kansas City, Missouri. The second meeting, fall meeting, took place in Houston, Texas, on December 13, 2016. The third meeting, winter meeting, took place in San Diego, California, on March 9, 2017.

## **4. Training**

The MTC held a Statistical Sampling for Sales and Use Tax Audits, September 19 -22, 2016, in Wheat Ridge, Colorado. Bob Schauer was the instructor for this class. We also held a Computer Assisted Audit Techniques Using Excel class October 18-19, 2016, in Hoover, Alabama. Harold Jennings and L.D. Ridenour were the instructors for that class. Another Statistical Sampling for Sales and Use Tax Audits was held in Sioux Falls, South Dakota, May 16-19, 2017. The instructor for that class was Bob Schauer, with assistance from Sam Moon.



**TRENDS IN PRODUCTIVITY**  
**MTC JOINT AUDIT PROGRAM**  
**AUDIT HOUR ANALYSIS**  
**6/00- 6/17**

	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	6/16	6/17
Income Tax Total Audits	10	8	7	8	7	7	9	7	7	3	6	6	4	5	6	5	4	4
Total States Audited	251	131	166	165	266	196	175	141	209	79	152	309	131	150	103	79	64	76
Total Hours	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136	12893	7925
<b>Average Hours Per State</b>	<b>52</b>	<b>66</b>	<b>57</b>	<b>64</b>	<b>45</b>	<b>64</b>	<b>72</b>	<b>66</b>	<b>84</b>	<b>81</b>	<b>69</b>	<b>83</b>	<b>91</b>	<b>86</b>	<b>139</b>	<b>141</b>	<b>201</b>	<b>104</b>
Sales Tax Total Audits	11	14	13	11	10	11	6	15	9	10	12	5	5	12	6	4	11	8
Total States Audited	102	158	159	145	154	160	77	187	97	120	147	65	59	163	63	48	108	76
Total Hours	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121	18155	12267
<b>Average Hours Per State</b>	<b>89</b>	<b>75</b>	<b>56</b>	<b>61</b>	<b>71</b>	<b>38</b>	<b>64</b>	<b>71</b>	<b>80</b>	<b>61</b>	<b>73</b>	<b>110</b>	<b>85</b>	<b>81</b>	<b>104</b>	<b>106</b>	<b>168</b>	<b>161</b>
Total Both Taxes Total Audits	21	22	20	19	17	18	15	22	16	13	18	11	9	17	12	9	15	12
Total States Audited	353	289	325	310	420	336	252	328	306	199	299	374	190	313	166	127	172	152
Total Hours	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257	31048	20192
<b>Average Hours Per State</b>	<b>63</b>	<b>71</b>	<b>56</b>	<b>62</b>	<b>55</b>	<b>56</b>	<b>70</b>	<b>69</b>	<b>83</b>	<b>69</b>	<b>71</b>	<b>88</b>	<b>89</b>	<b>83</b>	<b>126</b>	<b>128</b>	<b>180</b>	<b>133</b>