



Report of the Audit Committee and Audit Program

**Multistate Tax Commission
2019**

**Frank Hales, Chair, MTC Audit Committee
Lee Baerlocher, Vice Chair, MTC Audit Committee
Holly Coon, Director, MTC Joint Audit Program**

The following report reflects the activities of the MTC Audit Committee and the Audit Program for the 2019 fiscal year ended June 30, 2019.

*** AUDIT COMMITTEE ***

The committee has met three times in fiscal year 2019. The committee first met on July 23, 2018, in Boston, Massachusetts. There were 54 members, guests, and staff present during the public session and 50 members and staff present during the closed session of the meeting. There were 2 members of the public present during the public session and there were 42 individuals representing 20 audit program states present during the closed session of the meeting.

The committee also met on November 6, 2018, in Orlando, Florida. There were 61 members, guests, and staff present during the public session and 59 members and staff present during the closed session of the meeting. There were no members of the public present during the public session and there were 36 individuals representing 22 audit program states present during the closed session of the meeting.

The third and final meeting of the committee in fiscal year 2019 was in Denver, Colorado on April 24, 2019. There were 46 members, guests, and staff present during the public session and 44 members and staff present during the closed session of the meeting. There were 2 members of the public present during the public session and there were 36 individuals representing 23 audit program states present during the closed session of the meeting.

At each meeting the committee reviewed the status of all audits, whether in progress or recently closed. Discussions were held on income tax and sales tax audits that had significant issues. MTC legal staff provided an update on state and local tax issues and cases at each meeting during this fiscal year. This legal update was new as a regular agenda item for the committee and well received by its members.

During the meeting in Denver, the committee approved changes to Step 2 in the audit nomination process. Step 2 allows member states to vote on audit candidates nominated by member states. Members of the committee felt such changes were necessary to ensure voting accurately measured member interest in each audit nomination. The changes included revising voting options, corresponding audit weight for each option, and some slight formatting changes.

During the meeting in Orlando, the committee reviewed and approved closure of a sales tax audit under the guidelines of the committee's early closure policy. The committee also reviewed and approved adding eight new corporate income tax audits into the MTC's audit inventory.

During the meeting in Boston, the committee discussed the Commission's use of subpoenas. While only used as a last resort of action, taxpayers should be informed upfront (at the beginning of audit) that we will use them should they fail to respond to our IDRs.

As is customary, the committee ended all of its meetings with a round table discussion regarding audit leads and issues that individual states are experiencing.

The committee will meet for the first time in fiscal year 2020 on August 5, 2019, during the MTC annual meetings held in Boise, Idaho.

*** AUDIT PROGRAM ***

1. Productivity

The Audit Program completed six corporate income tax audits and parts of twelve other corporate income tax audits for fiscal year 2019. The Audit Program also completed seven sales tax audit and parts of twenty-eight other sales tax audits in fiscal year 2019. Currently, there are twelve income and twenty-eight sales tax audits in progress.

The MTC Audit Program proposed assessments of \$61,704,365 for the completed corporate income tax audits and \$6,470,763 for the completed sales tax audits for fiscal year 2019.

2. Staffing

Fiscal year 2019 was a bitter sweet year for the Audit Program. At our spring meeting, we celebrated the years of service Keith Getschel, outgoing Director, provided to the Commission. It was my honor to be chosen as his replacement. Big thanks to Keith for preparing me for the continued success of the Audit Program. We also bid farewell to Dan Keating, a Senior Income Tax Auditor, who notified us of his retirement in May 2019. While we are sad to see Keith and Dan leave the Commission, we are happy for them and wish them the very best in retirement.

However, we are excited about to the future of Audit Program and posted an announcement for a new corporate income tax auditor. We accepted applications through July 15, 2019, and we are in the process of conducting interviews to fill this position.

3. Audit Committee

The committee last met on April 24, 2019 in Denver, Colorado. This was the third and final meeting for the audit committee in fiscal year 2019. The first meeting was held in Boston, Massachusetts, on July 23, 2018, and the second meeting was held in Orlando, Florida, on November 6, 2018.

4. Training

The Joint Audit Program staff provided instruction at five trainings during the 2019 fiscal year.

- Computer Assisted Audit Techniques Using Excel
July 11-12, 2018, in Hoover, Alabama.
Bob Schauer and Harold Jennings were the instructors for this class.
- Statistical Sampling Class for Sales & Use Tax
September 25-28, 2018, in Sioux Falls, South Dakota.
Bob Schauer and Jantha Jamison were the instructors for this class.
- SITAS/Collaborative Audit Group Training (CAGT)
March 4-5, 2019, in Peachtree City, Georgia.
Holly Coon (AL) and Larry Shinder were instructors at this training.
- Corporate Income tax training
March 18-22, 2019, in Ewing, New Jersey
Jeff Silver and Larry Shinder were instructors at this training.

- Statistical Sampling Class for Sales & Use Tax Audits
June 11 -14, 2019, in Milwaukee, Wisconsin
Bob Schauer and Jantha Jamison were the instructors for this class.

The entire audit staff met in Boston, Massachusetts, May 20-23, 2019, to attend training on new and developing state tax issues and to promote camaraderie among the audit group. Instruction was provided by members of the audit and legal staff.



TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/2002- 6/2019

	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	6/18	6/19
Income Tax Total Audits	7	8	7	7	9	7	7	3	6	6	4	5	6	5	4	4	2	6
Total States Audited	166	165	266	196	175	141	209	79	152	309	131	150	103	79	64	76	35	113
Total Hours	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136	12893	7925	7469	28337
Average Hours Per State	57	64	45	64	72	66	84	81	69	83	91	86	139	141	201	104	213	251
Sales Tax Total Audits	13	11	10	11	6	15	9	10	12	5	5	12	6	4	11	8	6	7
Total States Audited	159	145	154	160	77	187	97	120	147	65	59	163	63	48	108	76	66	71
Total Hours	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121	18155	12267	8133	6307
Average Hours Per State	56	61	71	38	64	71	80	61	73	110	85	81	104	106	168	161	123	89
Total Both Taxes Total Audits	20	19	17	18	15	22	16	13	18	11	9	17	12	9	15	12	8	13
Total States Audited	325	310	420	336	252	328	306	199	299	374	190	313	166	127	172	152	101	184
Total Hours	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257	31048	20192	15602	36644
Average Hours Per State	56	62	55	56	70	69	83	69	71	88	89	83	126	128	180	133	154	188