

## **Discussion Draft Audit Nomination Process – v. 1.5 – 2-26-13**

Desired Process Outcomes: (from the project description)

- Streamlined nomination process that would take no longer than 120 days to complete.
- Recommendations for improving the quality of the pool of audit nominees.
- Recommendations for quality indicators for the audit pool. (TBD)
- Describe the process steps or stages that could be made more efficient by using technology, or by using it differently. (TBD)

**Possible MTC Joint Audit Nomination Process (same basic steps for both income and sales tax except where noted)**

**Goals for the audit nominating process:**

1. Maximize the MTC's unique joint audit expertise
2. Use the MTC's audit resources, both people and budget, to maximum benefit for the states
3. Choose audit candidates that have significant common audit issues that affect multiple states
4. Maximize the return on the investment of audit resources

**STEP 1.** December 1 (or 120 days before additions to inventory are needed): Audit Director initiates process by asking states for audit nominations

- Step 1 materials include:
- Description of the process and nomination form
  - INCOME TAX
  - Minimum criteria for nomination
  - Suggested criteria for states to use in selecting candidates for joint income tax audits (see form for list)
  - SALES TAX
  - Minimum criteria for nomination
  - Suggested criteria for states to use in selecting candidates for joint sales tax audits (see form for list)
- States have 30 days to nominate up to 2 candidates and must include a description of the reason(s) for the nominations or they will not be included on the ballot.
- States are not required to make a nomination.
- Late submissions would be included in the next process, if the nominating state wants it to be considered at that time.
- States are free to submit nominations at any other time, to be included in the ensuing process.

**STEP 2.** February 1 (or 60 days before additions to inventory are needed): Audit Director distributes nominations to the states for a vote

- Audit Director reviews current inventory of audits and identifies those that have not yet been started; these audit candidates are included in the ballot
- For each candidate, Audit Director provides comments regarding the candidate. These comments would include an indication of whether, in his opinion, the candidate would likely be a good or poor joint audit candidate
- States indicate: “1-priority audit,” “2-will participate” or “3- will not likely participate” if the candidates are selected for inventory
- States also indicate whether the nominees are filing in their states
- If any candidate is not filing in a state, the state can indicate on the ballot whether nexus is a significant concern for that candidate in that state
- States have 30 days to return their ballots

**STEP 3.** March Audit Committee meeting (or 30 days before additions to inventory are needed): Audit Director reviews ballot results with committee and recommends new taxpayers to include in audit inventory and which taxpayers to retain from current inventory. Audit Committee approves inventory.

The number of audits kept in active inventory should be no more than can be commenced within the next 12 months given current resources and work load.