

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

**Multistate Tax Commission**

**July 2012**

**Janielle Lipscomb, Chair, MTC Audit Committee**

**Rick DeBano, Vice Chair, MTC Audit Committee**

**Les Koenig, Director, MTC Joint Audit Program**

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2011-2012 fiscal year.

**\* AUDIT COMMITTEE \***

The audit committee met three times in fiscal year 6/12. They first met on July 26, 2011 in Whitefish, Montana. There were 47 members, guests and staff present at the meeting. There were 41 individuals representing 20 audit program states present. There were no members of the public present at the meeting.

The audit committee reviewed the status of all the audits in progress. A discussion was held on 9 income tax and 3 sales tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress.

The audit committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing. The audit committee also participated in the SWOT discussion chaired by Elizabeth Harchenko.

A follow up discussion on improving the audit program was held during the audit committee meeting. The audit committee formed a small sub-committee to further explore ways to improve the audit program. This sub-committee met on September 27 and October 19 to develop recommendations to the audit committee.

The audit committee met a second time via a teleconference on November 16, 2011. There were 43 members, staff and members of the public present at the meeting. There were 33 individuals representing 22 audit program states present. The main topic during the public session was to approve the recommendations forwarded by the sub-committee on ways to improve the audit program. The public session was adjourned and a new teleconference call was established for the closed session. There were 39 members and staff present for the closed session. The audit committee reviewed the status of all the audits in progress. A discussion was held on 12 income tax and 5 sales

tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress. The audit committee also selected 11 companies for the MTC income tax program.

The audit committee met for a third time in Nashville Tennessee on March 8, 2012. There were 36 members present or attended via a teleconference representing 21 states.

The audit committee reviewed the status of all the audits in progress. A discussion was held on 14 income tax and 5 sales tax audits that had significant issues. The audit committee expressed its satisfaction with the status of the audits in progress.

The audit committee held a lengthy discussion on revamping the audit selection criteria for both income and sales tax. The audit director prepared a draft for each tax. The audit committee recommended many revisions and asked the audit director to reflect these changes. The audit director will make changes and the committee will review and approve at a special meeting.

The audit committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

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

### **PRODUCTIVITY**

Audit Program completed 4 and parts of 8 income tax audits for fiscal year end 6/12. The Audit Program also completed 5 sales tax audits and parts of 8 other audit for the same period. There are 20 income and 32 sales tax audits in progress. There were several income and sales tax cases that were delayed by the taxpayers due to turn over in their tax staffs or taxpayers being sold.

The MTC Audit Program proposed assessments of \$110,878,008 for income tax and \$6,990,376 for sales tax.

### **STAFFING**

The MTC hired 2 income tax auditors, who began work in February, 2012. One auditor, Nick Polimeros was hired for the New York Office and Bill LoCascio for the Chicago office.

## **TRAINING**

Cathy Felix and Les Koenig participated as instructors in an income tax course in Wisconsin in September, 2011 and Cathy and Jeff Silver conducted training in West Virginia. Also, Harold Jennings and Bob Schauer participated in a sampling class in New Mexico in September 2011 and Chicago in March 2012 in Chicago.

**TRENDS IN PRODUCTIVITY**  
**MTC JOINT AUDIT PROGRAM**  
**AUDIT HOUR ANALYSIS**  
**6/96- 6/12**

	6/96	6/97	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	
Income Tax Total Audits	9	10	9	7	10	8	7	8	7	7	9	7	7	3	6	6	4	
Total States Audited	111	152	120	186	251	131	166	165	266	196	175	141	209	79	152	309	131	
Total Hours	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649	11937	
<b>Average Hours Per State</b>	<b>68</b>	<b>81</b>	<b>83</b>	<b>55</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>	
Sales Tax Total Audits	13	14	10	16	11	14	13	11	10	11	6	15	9	10	12	5	5	
Total States Audited	123	143	97	184	102	158	159	145	154	160	77	187	97	120	147	65	59	
Total Hours	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200	5000	
<b>Average Hours Per State</b>	<b>79</b>	<b>79</b>	<b>80</b>	<b>40</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>	
Total Both Taxes Total Audits	22	24	19	23	21	22	20	19	17	18	15	22	16	13	18	11	9	
Total States Audited	234	295	217	370	353	289	325	310	420	336	252	328	306	199	299	374	190	
Total Hours	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849	16937	
<b>Average Hours Per State</b>	<b>74</b>	<b>80</b>	<b>82</b>	<b>48</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>	





