Report of the Audit Committee and Audit Program

Multistate Tax Commission
July 2009

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 2008-2009 fiscal year.

* AUDIT COMMITTEE *

The Audit Committee met on July 29, 2008 in Santa Fe, NM. There were 39 members, guests and staff present at the meeting. There were 31 individuals representing 18 Audit Program States present. There were no members of the public present at the meeting.

The Audit Committee and several members of the MTC Executive Committee discussed the COST white paper on the MTC Audit Program.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 5 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 met on November 19, 2008 in San Antonio, TX. There were 27 members, guests and staff present at the meeting. There were 21 individuals representing 15 Audit Program States present. There were no members of the public present at the meeting.

The Audit Committee discussed the final two questions of the COST white paper on the MTC Audit Program. A final draft was recommended for approval to the MTC Executive Committee

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 8 income tax and 3 sales tax audits that had significant issues.

The Audit Committee also selected 11 companies for the MTC audit program's sales tax inventory.

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

The Audit Committee also met on March 19, 2009 in Nashville, TN. There were 19 members, guests and staff present at the meeting. There were 10 members present via a teleconference call. This total included 18 individuals representing 16 program states. There were no members of the public present at the meeting.

The Audit Committee discussed possibly reducing the number of in-person meetings to 2 a year. The Committee believed this was doable if the MTC staff held a third meeting via a teleconference once a year. The committee also expressed its preference to hold the 2 in-person meetings during the annual meeting and March. They recommended that the March meeting be held in an airport hub to make travel easier.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 13 income tax and 5 sales tax audits that had significant issues. During this discussion, several members of the committee expressed concern on the length of time that was being spent on several audits. Les explained that in many of these audits, the auditor had outstanding requests for information that the taxpayer has delayed in its response. The Audit Committee advised the staff that the MTC should consider sending demand letters and subsequent subpoenas if necessary. Oregon and Wisconsin offered examples of letters the states use. Les responded that he would follow up with the states in several audits to utilize a version of these demand letters.

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

The Audit Committee also met numerous times by teleconference to discuss audits where cutting edge issues were pertinent and follow up on several audits that were protested.

* AUDIT PROGRAM *

PRODUCTIVITY

Audit Program completed 3 income tax audits and parts of 8 other income tax audits for fiscal year end 6/09. The Audit Program also completed 10 sales and parts of 3 other sales tax audits for fiscal year end 6/09. There are 22 income and 33 sales tax audits in progress. There were several income tax cases that were delayed by the taxpayers due to turn over in their tax staffs. The Audit Director anticipates that 14 income and 21 sales tax cases should be concluded by fiscal year end 6/10.

The Audit program proposed assessments for $39,432,308 for income tax cases and $6,862,182 for sales tax cases.

The Audit continued the process of revamping the Commission's Audit Manuals. There are two separate committees comprised of the Commission's Deputy Director, Audit Director, Audit Supervisors and auditors meeting weekly to complete this work. The income tax manual was distributed for review by the Audit Committee. It was also distributed to certain members of the public for comment. The sales tax manual should be ready for distribution to the Audit Committee soon after the Annual Meeting.

The attached charts reflects the MTC Audit Program average hours per completed audits. Please note in interpreting the enclosed charts on productivity that declining numbers represent improvement.

STAFFING

As of December 31 the audit program was fully staffed. Terry Daehn a former California Franchise Tax Board auditor with 30 plus years of experience was hired to fill the income tax position. Terry started work on October 16, 2008. Ki Yun a former Ohio auditor with 6 years experience was hired to fill the sales tax vacancy. Ki began work on November 3, 2008.

MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/93- 6/09

	6/93	6/94	6/95	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
Income Tax Total Audits	12	9	9	9	10	9	7	10	8	7	8	7	7	9	7	7	3
Total States Audited	132	93	99	111	152	120	186	251	131	166	165	266	196	175	141	209	79
Total Hours	11208	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440
Average Hours Per State	**85**	**97**	**94**	**68**	**81**	**83**	**55**	**52**	**66**	**57**	**64**	**45**	**64**	**72**	**66**	**84**	**81**
Sales Tax Total Audits	14	13	15	13	14	10	16	11	14	13	11	10	11	6	15	9	10
Total States Audited	146	140	152	123	143	97	184	102	158	159	145	154	160	77	187	97	120
Total Hours	14323	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265
Average Hours Per State	**98**	**49**	**53**	**79**	**79**	**80**	**40**	**89**	**75**	**56**	**61**	**71**	**38**	**64**	**71**	**80**	**61**
Total Both Taxes Total Audits	26	22	24	22	24	19	23	21	22	20	19	17	18	15	22	16	13
Total States Audited	278	233	251	234	295	217	370	353	289	325	310	420	336	252	328	306	199
Total Hours	25531	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705
Average Hours Per State	**92**	**68**	**69**	**74**	**80**	**82**	**48**	**63**	**71**	**56**	**62**	**55**	**56**	**70**	**69**	**83**	**69**

Note: Change in policy occurred in 6/07. Audits are submitted on state by state basis rather than when entire audit is concluded. Audits are shown on this schedule when entire audit is completed. This results in a one year gap in completed audits for this reporting purpose in income tax.

Audit Hour Analysis
Last Four Quarters

	9/08	12/08	3/09	6/09	Total
Income Tax					
Total Audits	2	0	0	1	3
Total States Audited	54	0	0	25	79
Total Hours	3946	0	0	2494	6440
Average Hours Per State	**73**	**0**	**0**	**99**	**81**
Sales Tax					
Total Audits	4	1	4	1	10
Total States Audited	49	11	48	12	120
Total Hours	3091	1183	2675	316	7265
Average Hours Per State	**63**	**107**	**56**	**26**	**61**
Total Both Taxes					
Total Audits	6	1	4	2	13
Total States Audited	103	11	48	37	199
Total Hours	7037	1183	2675	2810	13705
Average Hours Per State	**68**	**107**	**56**	**76**	**69**