

Report of the Audit Committee and Audit Program

**Multistate Tax Commission
July 2008**

**Janielle Lipscomb, Chair, MTC Audit Committee
Rick DeBano, Vice Chair, MTC Audit Committee
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The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2007-2008fiscal year.

*** AUDIT COMMITTEE ***

The MTC Audit Committee met three times during the fiscal year. During the Annual Meeting in July, 2007 the Audit Committee reviewed the past year MTC audit activity. The Committee also selected 12 sales tax and 11 income tax audits for the audit program's inventory. The Audit Committee also formed a working group to investigate ways to improve the audit selection process.

During the November, 2007 meeting, the working group recommended changes to the audit selection process. The audit Committee asked the MTC Audit Director to test these changes and report back at next meeting.

During the March, 2008 meeting, the Audit Committee reviewed the status of all audits in progress. The Committee also provided guidance on several key issues in several audits. The Audit Committee approved the changes to the audit selection process. The Audit Committee met with members of COST to discuss COST's White Paper on ways to improve the MTC Audit Program. The Audit committee recommended that a working group comprised of members of Audit and Executive Committees be formed to respond to several open items on the White Paper.

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.

Lastly, the Audit Committee reviewed the MTC Audit Program's audit activity at each meeting and offered advice on many complex audit issues that were found in various audits.

*** AUDIT PROGRAM ***

PRODUCTIVITY

Audit Program completed 7 income tax audits and parts of 2 other income tax audits. The Audit Program also completed 9 sales and parts of 2 other sales tax audits for fiscal year end 6/30/08. There are 18 income and 32 sales tax audits in progress.

The MTC Audit Program has increased the productivity of its audit work by over 36% since 1992, as measured by the number of staff hours per audit per state. In 1992, an MTC audit required 130 hours of staff time per audit per state. In 2008, that number was only 83. That represents improved efficiency for both states and taxpayers, who also benefit when tax auditors spend less time completing an audit.

Please note in interpreting the enclosed charts on productivity that declining numbers represent improvement.

STAFFING

The MTC Audit Program hired one sales tax and one income auditor this year. One income and one sales tax auditor resigned during the year. There is currently one vacancy in the income tax and sales tax auditor positions. Interviews will be conducted in August to fill the two positions.

AUTOMATION

The MTC is pursuing electronic records in every audit that is commencing. The MTC Sales Tax Auditors request electronic records when an audit begins. Several taxpayers have been cooperative in supplying the records. However, many taxpayers are still reluctant to supply electronic records. Every effort is made to assure the taxpayer that electronic records will be held in all confidentiality.

Note: Declining numbers on the following charts represent improvement

**MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/92 - 6/08**

	6/92	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
Income Tax Total Audits	7	12	9	9	9	10	9	7	10	8	7	8	7	7	9	7	7
Total States Audited	75	132	93	99	111	152	120	186	251	131	166	165	266	196	175	141	209
Total Hours	11148	11208	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570
Average Hours Per State	148	85	97	94	68	81	83	55	52	66	57	64	45	64	72	66	84
Sales Tax Total Audits	9	14	13	15	13	14	10	16	11	14	13	11	10	11	6	15	9
Total States Audited	104	146	140	152	123	143	97	184	102	158	159	145	154	160	77	187	97
Total Hours	12209	14323	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818
Average Hours Per State	117	98	49	53	79	79	80	40	89	75	56	61	71	38	64	71	80
Total Both Taxes Total Audits	16	26	22	24	22	24	19	23	21	22	20	19	17	18	15	22	16
Total States Audited	179	278	233	251	234	295	217	370	353	289	325	310	420	336	252	328	306
Total Hours	23357	25531	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388
Average Hours Per State	130	92	68	69	74	80	82	48	63	71	56	62	55	56	70	69	83

*Audit Hour Analysis
Last Four Quarters*

	<u>9/07</u>	<u>12/07</u>	<u>3/08</u>	<u>6/08</u>	<u>Total</u>
Income Tax					
<u>Total Audits</u>	1	0	1	5	7
Total States <u>Audited</u>	25	0	42	142	209
Total <u>Hours</u>	2148	0	4094	11328	17570
Average Hours Per State	86	0	97	80	84
Sales Tax					
<u>Total Audits</u>	2	3	1	3	9
Total States <u>Audited</u>	24	32	10	31	97
Total <u>Hours</u>	1256	1231	1691	3640	7818
Average Hours Per State	52	38	169	117	80
Total Both Taxes					
<u>Total Audits</u>	3	3	2	8	16
Total States <u>Audited</u>	49	32	52	173	306
Total <u>Hours</u>	3404	1231	5785	14968	25388
Average Hours Per State	68	38	111	86	83

