



MULTISTATE TAX COMMISSION

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

**Multistate Tax Commission**

**August 2007**

**Rich Schrader, Chair, MTC Audit Committee**  
**Janielle Lipscomb, 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 2006-2007 fiscal year.

**\* AUDIT COMMITTEE \***

The MTC Audit Committee met three times during the fiscal year. During the Annual Meeting in August, 2006 the Audit Committee reviewed the past year MTC audit activity. The Committee also selected 18 sales tax and 9 income tax audits for the audit program's inventory.

During the November, 2006 meeting, Income and Sales Tax Nomination Forms were distributed at this meeting to start the annual selection process. The Committee also selected one income tax audit for the audit program's inventory.

During the March, 2007 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 Committee also approved the MTC Sales Tax Audit Sampling Manual.

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**

The Audit Staff completed 15 sales tax audits for the fiscal year end 6/30/07. There are currently 24 sales tax audits in progress. The Audit Staff completed 7 income tax audits during this fiscal year. There are currently 21 income tax audits in progress.

The MTC Audit Program has increased the productivity of its audit work by over 39% since 1991, as measured by the number of staff hours per audit per state. In 1991, an MTC audit required 113 hours of staff time per audit per state. In 2007, that number was only 69. 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.

### **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  
6/91 - 6/07**

	6/91	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
Income Tax Total Audits	9	7	12	9	9	9	10	9	7	10	8	7	8	7	7	9	7
Total States Audited	95	75	132	93	99	111	152	120	186	251	131	166	165	266	196	175	141
Total Hours	12646	11148	11208	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361
<b>Average Hours Per State</b>	<b>133</b>	<b>148</b>	<b>85</b>	<b>97</b>	<b>94</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>
Sales Tax Total Audits	8	9	14	13	15	13	14	10	16	11	14	13	11	10	11	6	15
Total States Audited	79	104	146	140	152	123	143	97	184	102	158	159	145	154	160	77	187
Total Hours	7069	12209	14323	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296
<b>Average Hours Per State</b>	<b>89</b>	<b>117</b>	<b>98</b>	<b>49</b>	<b>53</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>
Total Both Taxes Total Audits	17	16	26	22	24	22	24	19	23	21	22	20	19	17	18	15	22
Total States Audited	174	179	278	233	251	234	295	217	370	353	289	325	310	420	336	252	328
Total Hours	19715	23357	25531	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657
<b>Average Hours Per State</b>	<b>113</b>	<b>130</b>	<b>92</b>	<b>68</b>	<b>69</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>

***Audit Hour Analysis  
Last Four Quarters***

	<u>9/06</u>	<u>12/06</u>	<u>3/07</u>	<u>6/07</u>	<u>Total</u>
<b>Income Tax</b>					
<u>Total Audits</u>	1	3.5	2	.5	7
Total States <u>Audited</u>	15	66	47	13	141
Total <u>Hours</u>	147	5422	3289	503	9361
<b>Average Hours Per State</b>	<b>10</b>	<b>82</b>	<b>70</b>	<b>39</b>	<b>66</b>
<b>Sales Tax</b>					
<u>Total Audits</u>	5	3	0	7	15
Total States <u>Audited</u>	59	39	0	89	187
Total <u>Hours</u>	3673	1755	0	7868	13296
<b>Average Hours Per State</b>	<b>62</b>	<b>45</b>	<b>0</b>	<b>88</b>	<b>71</b>
<b>Total Both Taxes</b>					
<u>Total Audits</u>	6	6.5	2	7.5	22
Total States <u>Audited</u>	74	105	47	102	328
Total <u>Hours</u>	3820	7177	3289	8371	22657
<b>Average Hours Per State</b>	<b>52</b>	<b>68</b>	<b>70</b>	<b>82</b>	<b>69</b>

