



MULTISTATE TAX COMMISSION

Working together since 1967 to preserve federalism and tax fairness

To: Members, Executive Committee
From: Janielle Lipscomb, Vice Chair, Audit Committee
Date: April 12, 2007
Subject: Report of the Audit Committee

The Audit Committee met on March 22, 2007 in San Diego, CA. There were 25 members, guests and staff present at the meeting. There were 16 individuals representing 12 Audit Program States plus 2 guests from 2 non-audit participating states present. There was no member of the public present at the meeting. A conference call was arranged and representatives from 7 Audit Committee States participated in the call.

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 discussion then turned to the problems the states are experiencing in conducting bank and financial audits. One big problem involves dealing with assigning receivables to the numerator of the property factor. After some discussion the MTC Audit Committee made the following resolution to the MTC Executive Committee:

The Audit Committee moved to request that the MTC Executive Committee consider action to rectify the problem with the MTC Bank and Financial Regulation concerning assignment of receivables in the property factor.

The MTC Audit Committee approved the MTC Sales Tax Audit Sampling Manual.

Audit Hour Analysis

Last Four Quarters

	<u>6/06</u>	<u>9/06</u>	<u>12/06</u>	<u>3/07</u>	<u>Total</u>
Income Tax					
<u>Total Audits</u>	8	1	3.5	2	14.5
Total States					
<u>Audited</u>	162	15	66	47	290
Total					
<u>Hours</u>	11730	147	5422	3289	20588
Average Hours					
Per State	72	10	82	70	71
Sales Tax					
<u>Total Audits</u>	1	5	3	0	9
Total States					
<u>Audited</u>	12	59	39	0	110
Total					
<u>Hours</u>	836	3673	1755	0	6264
Average Hours					
Per State	70	62	45	0	57
Total Both Taxes					
<u>Total Audits</u>	9	6	6.5	2	23.5
Total States					
<u>Audited</u>	174	74	105	47	400
Total					
<u>Hours</u>	12566	3820	7177	3289	26852
Average Hours					
Per State	72	52	68	70	67

Audit Hours Worked Per Quarter

	6/06	9/06	12/06	3/07	Total
Income Tax Total					
Audits in Process	19	21	22	21	N/A
Total State Returns Under Audit	303	315	348	328	N/A
Total Income Audit Hours per Quarter	3405	3250	3016	3348	13019
Sales Tax Total					
Audits in Process	22	32	29	29	N/A
Total State Returns Under Audit	274	384	344	344	N/A
Total Sales Audit Hours per Quarter	2576	2647	2023	2316	9562
Total Both Taxes					
Audits in Process	41	53	51	50	N/A
Total State Returns Under Audit	577	699	692	672	N/A
Total Audit Hours Both Taxes	5981	5897	5039	5664	22581

TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS

6/90 - 6/06

	6/90	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
Income Tax Total Audits	4	9	7	12	9	9	9	10	9	7	10	8	7	8	7	7	9
Total States Audited	37	95	75	132	93	99	111	152	120	186	251	131	166	165	266	196	175
Total Hours	7211	12646	11148	11208	9016	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514
Average Hours Per State	195	133	148	85	97	94	68	81	83	55	52	66	57	64	45	64	72
Sales Tax Total Audits	9	8	9	14	13	15	13	14	10	16	11	14	13	11	10	11	6
Total States Audited	88	79	104	146	140	152	123	143	97	184	102	158	159	145	154	160	77
Total Hours	8866	7069	12209	14323	6818	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946
Average Hours Per State	101	89	117	98	49	53	79	79	80	40	89	75	56	61	71	38	64
Total Both Taxes Total Audits	13	17	16	26	22	24	22	24	19	23	21	22	20	19	17	18	15
Total States Audited	125	174	179	278	233	251	234	295	217	370	353	289	325	310	420	336	252
Total Hours	16077	19715	23357	25531	15834	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460
Average Hours Per State	129	113	130	92	68	69	74	80	82	48	63	71	56	62	55	56	70