

As discussed from our previous meeting, our audit staff discussed about pros and cons of integrating MFA audit function into the existing Commission's sales tax audit function and/or creating another dimension aside from the current sales and income tax functions in the audit program

I have laid out few points to consider concerning the issue:

- 1) Audit Objectives (the current audit program vs MFA audit)
- 2) Audit Process/ Audit Scope
- 3) Efficiency/Cost Effectiveness
- 4) Utilization of the existing resources from joint audit program
- 5) Organizational Structure
- 6) Budget
- 7) Legal Issues

The Commission audit program has been in existence over 40 years and offers unique joint audit opportunity to states and the public. There are commonalities between the joint audit and the MFA's "single audit".

The Commission is already poised to start doing the work on behalf of the MFA states and local governments. We believe the current audit program can take up the task of the single audit for MFA states as we have been doing the work for the Commission member states over 40 years.

However based on what we know thus far, the MFA audit function will likely have somewhat different participating states compares to the states participating in the current Commission sales tax audit program. Also the MFA audits will likely have different audit selection process and audit scope compare to the current Commission sales tax audit.

Les recommend that this be a separate unit funded by states participating in this project. He does not believe there would significant assessments and states must know this upfront. If we incorporated this project into our current sales tax program, dollar production would probably drop per audit. It would be critical for states participating in project to realize that dollar assessments may not cover costs of program.

Harold and I are in favor of merging the MFA audit function into the current audit program but as a separate function. Therefore, the audit program would have three primary functions, sales tax audits, income tax audits and MFA audits. All three audit functions would report directly to the audit director just as the income and sales tax do now.

Our current structure has income tax supervisors and auditors, sales tax supervisors and auditors. With the implementation of the MFA, it would want a supervisor and auditors who would be devoted just to that function. Initially the senior audit supervisor should be able to oversee this function along with his other responsibilities.

With the organizational structure described above, the MFA audit function may be able to share/adopt some of the existing resource from the current sales tax audit function without going through lengthy and costly building up process of following;

- 1) The MTC Audit Manual/Audit Policy
- 2) Audit Research Tools
- 3) CAA
- 4) Sampling Software
- 5) Auditor Training
- 6) Human Resources

The sharing of such resources described above would provide opportunity to the MFA audit as well as the Commission's current audit program to achieve cost savings through economies of scale.

Annual fees would be paid to support this function just as they are now by states to participate in the income and or sales tax audits. Though we believe the fee structure would probably be somewhat different compare to the current joint audit membership fee for the income and sales tax. Such a structure would not and should not interfere with the current audit program resources and production.

The fees charged for MFA audits would be based on the direct cost associated with equipment and hiring appropriate staff. All overhead cost would be shared in some proportion with the current audit functions.

With respect to legal aspects of integrating the MFA audit function into the current audit program, Greg believes that the legal authority would derived from state-by-state contracts, unless specific authority is granted to the Commission in the federal legislation itself which he believes unlikely "anytime soon", it would operate much like how our associate member states join the audit program now.