Very Rough Draft Audit Nomination Process – something to "shoot at" – v. 0.5 – 1-25-13

Disclaimer: This document offers some possibilities for an audit nominating process. I have tried to take into account the discussion by the project team, the data we have so far, comments from other states, and my own thoughts. Not everything is reflected here. This draft is intended to push the discussion to the next level so that you can further explore what might be possible. Feel free to question, offer alternatives, adapt or adjust. The immediate goal is for you to produce a version 1.0 to share with the Audit Committee, and for you to identify the questions you want the states to answer before you further refine your thinking. I have not attempted to address the role of technology – that will come later once a conclusion is reached about what the process will be. So "fire away!"

Desired Process Outcomes: (from the project description)

- Streamlined nomination process that would take no longer than 120 days to complete.
- Recommendations for improving the quality of the pool of audit nominees.
- Recommendations for quality indicators for the audit pool. (TBD)
- Describe the process steps or stages that could be made more efficient by using technology, or by using it differently. (TBD)

Possible MTC Joint Audit Nomination Process (same basic steps for both income and sales tax except where noted)

STEP 1. November 1: Audit Director initiates process by asking states for audit nominations

- States are free to submit nominations at any other time, to be included in the ensuing process
- Step 1 materials include:
    - Description of the process
    - Minimum criteria for nomination (Fortune 100? More than $X in Federal Gross Income?)
    - Additional suggested criteria for states to use in selecting candidates for joint audits (criteria can include suggestions from audit staff based on recent experience with hot issues or specific industries)
    - Nomination form
- States have 21 days to nominate up to 3 candidates and must include a description of the reason(s) for the nominations or they will not be moved forward to Step 2
- Late submissions go into the next year's process

STEP 2. December 1: Audit Director distributes nomination information to the states for a straw poll to show initial interest in candidates

- States indicate "yes" or "no" interest in the candidates
- States also indicate whether the nominees are filing in their states
- If any candidate is not filing in a state, the state can indicate on the ballot whether nexus is a concern for that candidate in that state
- States have 30 days to return their straw ballots
- States must indicate reason(s) for their interest level (can have checklists on the ballot of most likely reasons for a "yes" or "no")

STEP 3. By January 10: Audit Director acts on straw poll results

- Refer any taxpayer that is identified as not filing, and as raising nexus concerns for multiple states, to a team for nexus research (separate report to the affected states)
- Identify first cut nominees - those for which at least 25% of the states responded "yes"
- Audit Director reviews current inventory of audits and identifies those that have not yet been started

STEP 4. January 15: Audit Director sends final ballots to states

- Ballot candidates include BOTH first cut nominees from Step 3 AND audits in current inventory that have not been started
- For each candidate, Audit Director indicates whether the candidate would likely be a "high quality" joint audit candidate based on criteria previously approved by Audit Committee
- States vote "high" priority or "low" priority on the candidates
- States must return ballots within 30 days

STEP 5. March Audit Committee meeting: Audit director reviews ballot results with committee and recommends new taxpayers to include in audit inventory and taxpayers to retain from current inventory

- Number of audits kept in active inventory should be no more than can be commenced within the next 12 months given current resources and work load

ASSUMPTIONS:

Obviously, there are a lot of decisions that must be made before this kind of a process can be used.

- There must be agreement on what general characteristics make a high quality joint audit program, as well as a high quality joint audit (balancing broad state participation with productivity and the knowledge and skills of the MTC audit staff)
- The states will need to discuss the similarities and differences between a good state audit and a good joint audit, and what are reasonable expectations of the joint audit program
- There must be agreement that timely responses are essential, and that if a state doesn't meet a deadline, there won't be a grace period.
- There must be agreement that there is value in refreshing current inventory by testing it against new possible audit candidates
- There must be a clear written description of this process, including the purpose, steps and how it helps meet the goals for a high quality audit program for the states
- And, of course, there will be issues raised that are not part of this project, but that will inform future opportunities for improvement of the joint audit program (we will capture these so that they don't get lost)