

Report of the Audit Committee and Audit Program

**Multistate Tax Commission
2021**

**Frank Hales, Chair, MTC Audit Committee
Vacant, Vice Chair, MTC Audit Committee
Holly Coon, Director, MTC Joint Audit Program**

The following report reflects the activities of the MTC Audit Committee and the Audit Program for the 2021 fiscal year ended June 30, 2021.

*** AUDIT COMMITTEE ***

The audit committee met three times in fiscal year 2021 and all meetings of the committee were conducted via teleconference due to the global COVID-19 pandemic. The committee's first meeting was held on July 28, 2020. There were 92 members, guests and staff present during the public session and 72 members and staff present during the closed session of the meeting. There were 9 members of the public present during the public session, and there were 50 individuals representing 24 audit program states present during the closed session of the meeting.

The Audit Committee also met on November 17, 2020. This was the second meeting of the committee in the fiscal year 2021. There were 82 members, guests and staff present during the public session and 71 members and staff present during the closed session of the meeting.

The third and final meeting of the audit committee in fiscal year 2021 was held on April 21, 2021. There were 107 members, guests and staff present during the public session and 96 members and staff present during the closed session of the meeting. There were 8 members of the public present during the public session, and there were 65 individuals representing 26 audit program states present during the closed session of the meeting.

At each meeting, the audit committee reviewed the status of all audits, in progress or recently closed. Discussions were held on income tax and sales tax audits that had significant issues.

During its spring meeting, the committee reviewed a proposed charter for the Audit Committee and recommended that it be accepted by the Executive Committee. The committee also voted to add nine additional companies to income tax audit inventory.

During the fall meeting, committee members approved a revised statute of limitations waiver extension form and an updated audit manual for income tax. The committee also voted to add ten additional companies to sales tax audit inventory and members approved a more detailed reporting format for recording audit results for the Joint Audit Program, as proposed by the Director. New information includes tax refunds requested by taxpayers, recommended refund reductions, and any recommended changes to tax attributes such as tax credits and net operating losses.

During its July 2020 meeting, the committee learned that enhancements were planned for the MTC Audit Program database. After some discussion, the committee asked MTC staff to propose a more detailed reporting format for audit results at the next committee meeting.

The audit committee will meet for the first time in fiscal year 2021 on August 10, 2021 during the MTC annual meetings which will be held via teleconference.

*** AUDIT PROGRAM ***

1. Productivity

The Joint Audit Program completed seven (7) income tax audits and parts of six (6) other income tax audits during fiscal year 2021. Audit staff also completed six (6) sales tax audits and parts of ten (10) other sales tax audits. Currently, there are eighteen (18) income tax audits and twenty-nine (29) sales tax audits in progress.

During the fiscal year, the income tax program proposed net assessments of \$40,161,302 (proposed assessments of \$42,525,382 less taxpayer requested adjustments of \$2,364,080) for completed and partially completed income tax audits. Income tax program staff also proposed tax credit, NOL, and refund reductions of \$2,020,131.

The sales tax program proposed net assessments of \$9,767,932 (proposed assessments of \$10,243,451 less taxpayer requested refunds of \$475,519) for completed and partially completed sales tax audits. Sales tax program staff also proposed \$203,571 in tax refund reductions.

2. Staffing

At the Spring Audit Committee meeting, I notified you of Bob Schauer's plans to retire from the Commission and I am sad to say Bob did follow through with those retirement plans. Bob was a key member of our sales tax program staff for 14 years and is well known for his expertise using statistical sampling in sales tax audits.

3. Audit Committee

The Audit Committee met three times in fiscal year 2021 on July 28, 2020, November 17, 2020, and finally April 21, 2021. Due to the global COVID-19 pandemic, all meetings of the Audit Committee were held via teleconference.

During its spring meeting, the committee reviewed a proposed charter for the Audit Committee and recommended that it be accepted by the Executive Committee. The committee also voted to add nine additional companies to income tax audit inventory. As always, the audit supervisors provided an update on the on-going income tax and sales tax audits.

4. Training

The Commission is working to provide training via an online training platform that may allow member states access to view training on demand. Currently, only one training has been provided via this online platform, a statistical sampling course customized for Georgia income tax credits. We expect to offer more training opportunities in the future using this platform.

- Upcoming training opportunities:
 - Market Based Sourcing Training: Michael Fatale and I are working to develop a virtual multi-session training course on market-based sourcing focusing on the MTC's model statute and regulation. Recordings were delayed while we contracted with a production firm. Exact dates, times and fees are still being determined, but we expect the training to be available in Fall 2021.
 - You can always stay up to date with goings on at MTC by subscribing to the MTC monthly newsletter. Please sign up by sending your email address to Loretta King of the MTC staff – lking@MTC.gov



TRENDS IN PRODUCTIVITY
MTC JOINT AUDIT PROGRAM
AUDIT HOUR ANALYSIS
6/2004- 6/2021

	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11	6/12	6/13	6/14	6/15	6/16	6/17	6/18	6/19	6/20	6/21
Income Tax Total Audits	7	7	9	7	7	3	6	6	4	5	6	5	4	4	2	6	1	7
Total States Audited	266	196	175	141	209	79	152	309	131	150	103	79	64	76	35	113	21	112
Total Hours	12012	12617	12514	9361	17570	6440	10445	25649	11937	12836	14413	11136	12893	7925	7469	28337	3296	38275
Average Hours Per State	45	64	72	66	84	81	69	83	91	86	139	141	201	104	213	251	157	342
Sales Tax Total Audits	10	11	6	15	9	10	12	5	5	12	6	4	11	8	6	7	7	6
Total States Audited	154	160	77	187	97	120	147	65	59	163	63	48	108	76	66	71	71	66
Total Hours	10943	6133	4946	13296	7818	7265	10772	7200	5000	13195	6570	5121	18155	12267	8133	6307	9685	11141
Average Hours Per State	71	38	64	71	80	61	73	110	85	81	104	106	168	161	123	89	136	169
Total Both Taxes Total Audits	17	18	15	22	16	13	18	11	9	17	12	9	15	12	8	13	8	13
Total States Audited	420	336	252	328	306	199	299	374	190	313	166	127	172	152	101	184	92	178
Total Hours	22955	18750	17460	22657	25388	13705	21217	32849	16937	26031	20983	16257	31048	20192	15602	36644	12981	49416
Average Hours Per State	55	56	70	69	83	69	71	88	89	83	126	128	180	133	154	188	141	511