

MINUTES
AUDIT COMMITTEE MEETING
PUBLIC SESSION
WASHINGTON, DC
NOVEMBER 14, 2000

I. CALL TO ORDER:

Kim Ferrell, Audit Committee Chairman called the meeting to order at 8:00 AM and welcomed the members and guests who were present.

II. ROLL CALL:

Present were the following members and guests:

UT. Kim Ferrell	MO. Joe Evans	MO. John Feldmann
ND Harold Aldinger	ID Phil Aldape	WA Forrest Bush
AR. Danny Walker	OR Janielle Lipscomb	ND Gary Anderson
MT Don Hoffman	MT Gene Walborn	UT Shelly Robinson
NJ Rich Schrader	KS Carol Ireland	NE Dennis Nelson
MI Douglas Schafer	MN William Lunka	CA Larry Bergkamp
MN Jack Mansun	KY Jennifer Hayes	DC Deborah Cunningham
DC Nancy Tucker	ID Joe Randall	Al Dan Bass
MN Cathy Wicks	MTC Jeff Silver	MTC Sheldon Laskin
MTC Cathy Felix	MTC Harold Jennings	MTC Dan Bucks
MTC Les Koenig	MTC Steve Yang	MTC Ken Beier

III. ADDRESS BY MTC CHAIRWOMAN:

Mary Bryson, MTC Chairwoman called in to address the MTC Audit Committee. She discussed the strategic planning session held by the MTC Executive Committee in September 2000. She explained the goals that were put in place during the strategic planning session. She asked that the Audit committee address these goals during this and subsequent meetings. She asked that a work plan be prepared and presented at the executive Committee Meeting later that week.

IV. APPROVAL OF MINUTES:

The public section of the minutes of the July 25, 2000 meeting in Girdwood, Alaska was approved as submitted.

V. PUBLIC COMMENTS:

Kim Ferrell opened the floor for any public comments. There were no public comments from the floor.

VI. EXECUTIVE DIRECTOR'S REPORT:

Dan Bucks, Executive Director presented a verbal report on the Commission activities for the last 3 months. He reported that the new Technology sub-committee has been organized. He also reported on the work of the Streamlined Sales Tax Project. Many states continue to participate in this project. Dan also discussed the work being done on the MTC internal internet security mechanisms.

VII. AUDIT DIRECTOR'S REPORT:

Les Koenig, MTC Audit Director submitted a written report to the Audit Committee summarizing the activities of the Audit Program from July 1, 2000 through September 30, 2000.

VIII. TECHNOLOGY AND AUDITING:

Joe Randall, chairman of this subcommittee reported on its meeting held on November 13, 2000. Joe reported that Rene Blocker gave a report on electronic signatures. Harold Jennings reported on the success of the sampling classes being held. These classes are being fully attended. The Sub-Committee also appointed a working group that will explore criteria to use in statistical sampling for sales tax purposes. Harold Jennings will staff this working group.

IX. NEW BUSINESS:

Kentucky asked if any of the states were embarking on limited scope sales tax audits. None of the states present indicated that there was any activity in this area.

X PUBLIC SESSION OF AUDIT COMMITTEE SUSPENDED; CLOSED SESSION ANNOUNCED:

Kim Ferrell suspended the public session of the Audit Committee at 8:30AM.

Kim announced that, as previously described in the notice for the meeting, the Audit Committee would conduct a closed session to consider the items on the public notice of the meeting. These items are being considered in a closed session because they involve the consideration of confidential taxpayer information or data the disclosure of which is prohibited by law.

XI. PUBLIC SESSION RECONVENES:

Kim Ferrell reconvened the public session of the Audit Committee at 10:15AM. The Audit Committee met to brainstorm ideas to improve the MTC Audit Program. The Committee divided into two groups. One group discussed income tax and the other sales tax. A copy of the discussions is attached to the minutes.

The Audit Committee also discussed the MTC Audit Committee Charter. Don Hoffman moved and seconded by John Feldmann that the charter be approved and presented to the Executive Committee. Motion carried. Kim Ferrell was asked to present the charter to the executive Committee.

XII. PUBLIC SESSION OF AUDIT COMMITTEE ADJOURNS:

Kim Ferrell adjourned the Audit Committee Meeting at 12:00PM.

MTC Audit Committee

Strategic Planning Discussion

The Audit Committee broke into two groups (income tax & sales tax) to discuss ways to improve the MTC Audit Program. The following report summarizes the two discussions. The Audit Committee will spend additional time during the March meeting discussing audit selections and ways to improve the MTC audit packages. There will be a conference call before the meeting to further discuss this information. The MTC Audit Director will notify you when the conference call will be made.

Income Tax Group:

This group focused its discussion on the following ideas:

A. Audit selection

1. Establish standard procedures in nominating audits,
2. Target industries where additional clarification and uniformity is needed,
3. Identify problems in current audit selection process,
4. Identify corporations where there is non-compliance in multiple states,
5. Increased research for the nominated audits (the nominating states must do research and determine whether there is potential before the audit is nominated),
6. There should be a reasonable amount or maybe a threshold interest by states before it is audited,
7. Maybe a degree of scoring for the audits, i.e. score based on audit potential,
8. Weighting based on goals of the commission,
9. Increased communication between the states and the MTC regarding the audit candidates and their experience with the companies (i.e. prior audit results),
10. Need to set standards or guidelines that the states need to follow in making their audit recommendations,
11. Minnesota suggested that the state that is considering nominating a taxpayer contact the taxpayer and ask for additional information from the taxpayer (they do that for their audits due to unitary issues),
12. Balance the needs of single entity and combined states (i.e. possibly separate audits for single entity and combined states),
13. Ask states for best practices on audit selection,
14. Have the committee split up and discuss the audit selection and have more discussion of the selections, have the nominating state explain why the candidate is a good candidate.
15. Request information from the home state before the audit is started,

16. Give the states the information that is provided on the nominations so they can use it when the audit is finally being put into inventory so they can decide,
17. Active participation in the MTC staff in the nomination process,
18. Approaching cutting edge audits with the goal in mind (i.e. Understand what the result wanted is, i.e. to obtain knowledge rather than dollars),
19. Communication between the states

B. Increasing Participation:

1. Find out why states do not participate in audits, i.e. keep a record of why a state says no to participation,
2. If a better job is done in audit selection, participation will increase,
3. Increased commitment by states,
4. Timely commencement and a timetable workplan for starting audits,
5. Should not be getting new nominations too soon, i.e. we now have enough audits in our inventory for the next 4 years so they will sit there awhile and in the meantime the states have to start their own audit if they think there is issues for their state,
6. Concern over state unique issues,
7. States will lend assistance for unique issues such as credits,
8. How do states overcome the hurdle of submitting candidates with significant presence to the MTC?
9. Quality of MTC audits needs to be addressed,
10. Is there a problem with assigning audits to the M T C because the states have differing expectations?
11. More follow up by the MTC staff with the states that say no to participating to encourage them to participate,
12. General survey on the quality of MULTISTATE TAX COMMISSION audits and address the problems that are indicated,
13. Better feedback from the states on the results and the disposition of the audit at the state level, i.e. how audit is settled, etc.

Sales Tax Breakout Group:

This group focused its discussion on the following areas:

- A. Reasons states choose not to participate in an audit.
1. Audits remain in inventory too long.
 2. Quality of MTC audits needs improvement.
 3. Audit is in a state.
 4. Complex legal issues in a particular state.
 5. Currently under audit by the state.
 6. Time lag is too great between time audit is put into MTC inventory until audit authorizations are issued.

7. Complexity of the audit.
- B Reasons states participate in audits.
1. Cost effectiveness.
 2. Increased audit coverage.
 3. Increased revenues
 4. Nexus purposes.
 5. States learn together on cutting edge issues.
- C How to improve MTC Audit Program.
1. States share research material on audit nominations.
 2. Establish explicit audit criteria for adding audit to MTC audit inventory.
 3. Select audits on a regional basis.
 4. Decrease the time between the audit selection and audit authorization.
 5. Utilize data mining. (use Michigan as resource)
 6. Revamp nomination form.
 7. Review and improve total audit package.
 8. Review audit procedures used by MTC Audit Program.
 9. Contact states to determine if criteria used to determine whether audit meets expectations of the states have changed.
 10. Better communication between MTC Audit Supervisors and State Supervisors.

There was not enough time for the two working groups to reconvene and hold a joint discussion. The consensus of the two groups was that this was a good start but much more time is needed to come to some concrete proposals to improve the MTC Audit Program. The Audit Director was asked to distribute a survey to the states to discover why states specifically do not participate in some audits. This is to be accomplished early in 2001. One group thought that a sub-committee should meet before the March Audit Committee and develop a plan of action for the March meeting. The other group asked the Audit Director to do the same. Subsequently it was decided to have the MTC Audit Chair, Vice Chair and Audit Director meet and discuss the best way to prepare for the March meeting. This meeting should take place early in January so that sufficient time will be available to prepare materials for the March meeting.

In reviewing the two discussions, several areas seemed to be a focus of both groups. One primary focus should be revamping the audit selection process. Improvement in this area should greatly help the Audit Program meet the overall goals of the MTC Audit Program Charter. It was also discovered that some states have changed their criteria for what constitutes a good audit. Several states indicated that their auditors are required to include much more documentation than was previously required. The MTC Audit program needs to conduct a review of its current audit practices to insure they meet the needs of all the states.

The Audit Committee has one day set aside in the spring meetings for “training”. The Audit Committee plans to use this time to implement a plan to begin the audit improvement process.