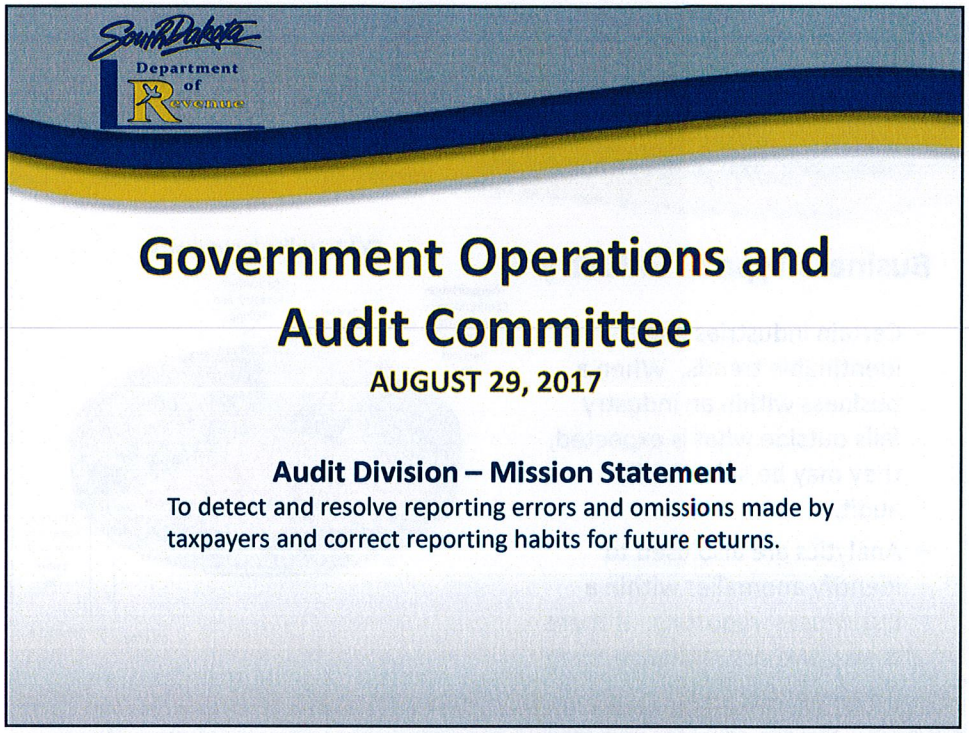
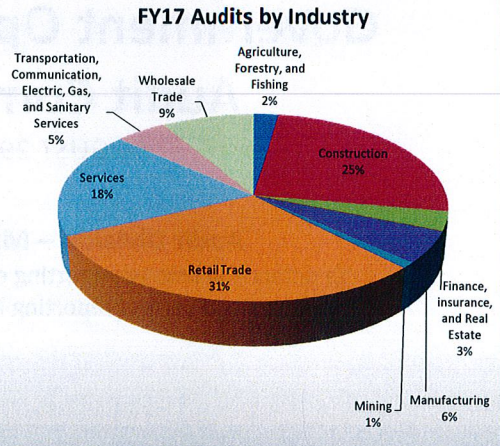

South Dakota
Department of Revenue
Government Operations and Audit Committee
AUGUST 29, 2017
Audit Division – Mission Statement
To detect and resolve reporting errors and omissions made by taxpayers and correct reporting habits for future returns.

South Dakota
Department of Revenue
AUDIT SELECTION
• Business type or industry trends
• Previous high risk audits
• 1099-K leads
• Midwest Border States
• Business Size
• Leads

AUDIT SELECTION

Business Type or Industry

- Certain industries have identifiable trends. When a business within an industry falls outside what is expected, they may be selected for audit.
- Analytics are also used to identify anomalies within a businesses' reporting. If there is an unexpected change, they may be audited.



AUDIT SELECTION

Past High Risk Audits

- Accounts with multiple or large issues identified in a prior audit are routinely reviewed for follow up.
- If the businesses' reporting reflect that the business made the changes directed by the auditor, then no follow-up is done (ex: self-reporting use tax when none was reported before)

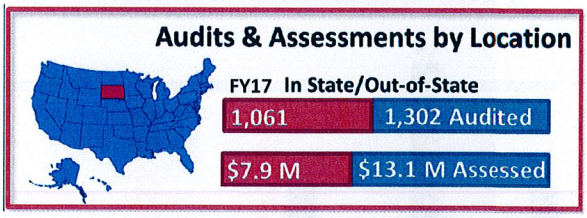
AUDIT SELECTION

1099-K Leads

- The department receives in-state credit card data from the IRS annually
- This information allows us to pinpoint businesses that underreport their sales

AUDIT SELECTION

Midwest Border States



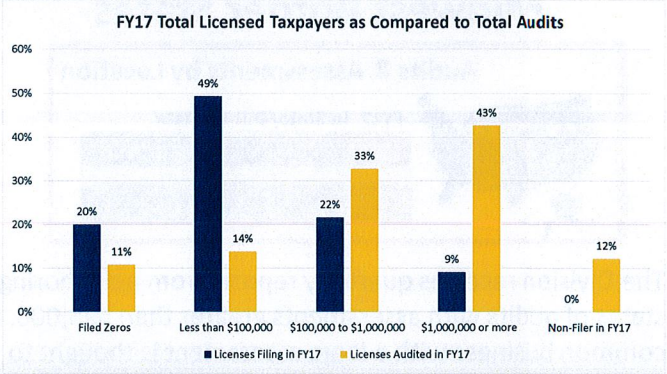
The Division receives quarterly reports from neighboring states of audits with assessments greater than $25,000. If a common business with a large assessment is thought to have a similar issue within our state, that license will be assigned to an auditor for audit.

AUDIT SELECTION

Audit Assignment:

- Cases selected using the methods described are placed in a pool for auditor selection or assigned directly to an auditor if there are time sensitive issues
- Audit supervisors are responsible for monitoring audit selection for all their staff and approve selections for their Auditor I's.
- Experienced auditors have more discretion in audit selection, but their audit selection is still monitored by audit supervisors.

AUDIT SELECTION



This chart displays the distribution of licensed businesses by total gross receipts, and compares this to the number of audits completed in FY17. The blue bars represent how many businesses fall into each sales volume category. The yellow bars represent the amount of audits done in each category.

AUDIT DIVISION PERSONNEL

- DOR auditors are included in the accounting career band family.
- Performance is evaluated on:
  - » Leads
  - » Days
  - » Hours
  - » Audits Completed
  - » Quality Distinct Audits

AUDIT DIVISION PERSONNEL

Metrics Used:

- Leads
  - Information found through invoices in other audits, the news, building permits, and construction contracts.
- Days
  - Average days it takes to complete an audit.
- Hours
  - Average hours to complete an audit based on completed audits issued as lead.
- Audits Completed
  - Total audits each auditor closes as a lead auditor.
- Quality Distinct Audits
  - Total distinct audits a lead auditor completes that meet all metric standards.

AUDIT DIVISION PERSONNEL

Audit assessments are not used in evaluating performance, determining salary adjustments or financial benefits of any kind. SDCL 10-59-29:

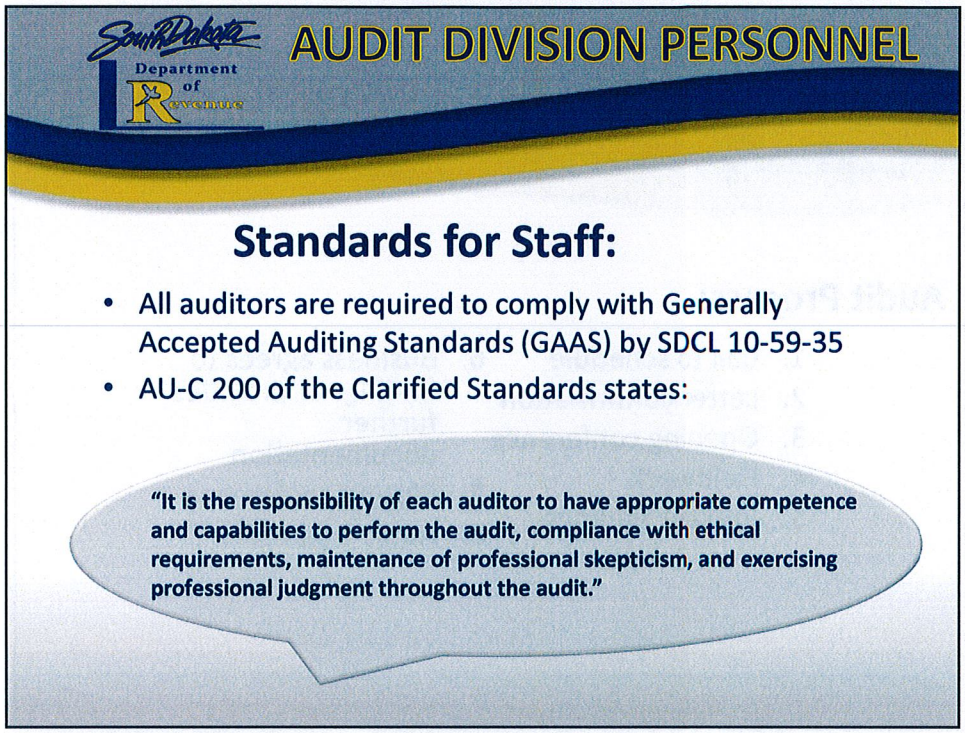
Evaluation of employees or imposition of quotas from revenue amount prohibited.

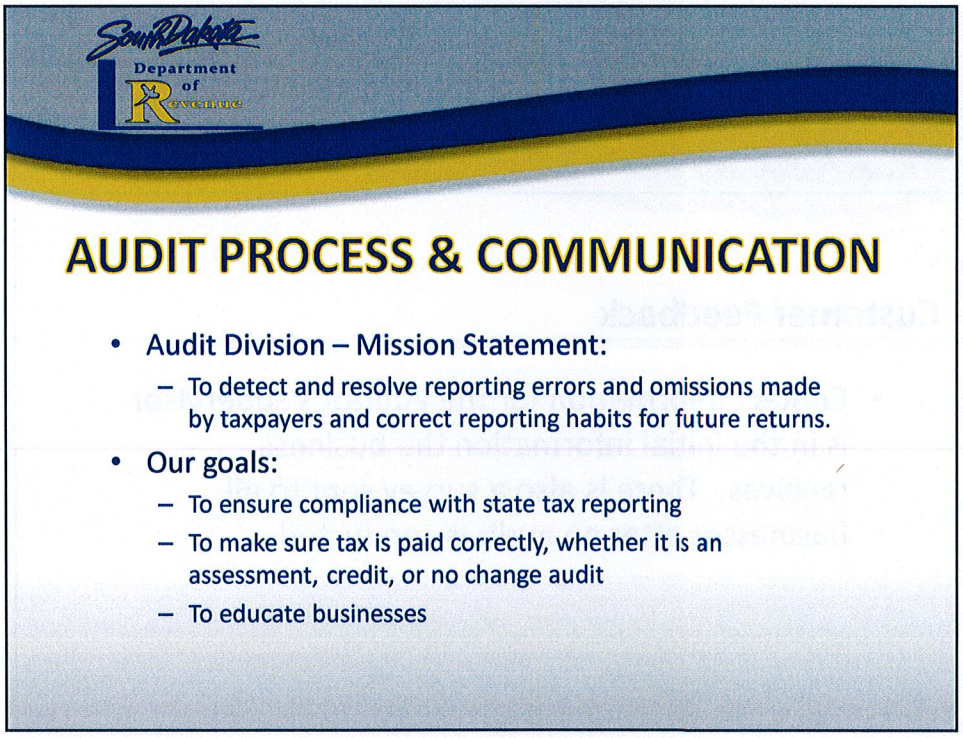
- The amount of revenue collected or assessed by the department may not be used:
  - (1) To evaluate individual officers or employees; or
  - (2) To impose or suggest production quotas or goals.
  - Source: SL 1990, ch 100, § 5.

AUDIT DIVISION PERSONNEL

Auditor Training:

- Two weeks of classroom training on tax laws
- Classroom audit procedures training which is taught by a senior auditor with over 23 years of experience
- Six months on the job training assisting experienced staff
- Continuous learning through teamwork and collaboration
- Annual training events


South Dakota Department of Revenue
AUDIT DIVISION PERSONNEL
Standards for Staff:
• All auditors are required to comply with Generally Accepted Auditing Standards (GAAS) by SDCL 10-59-35
• AU-C 200 of the Clarified Standards states:
"It is the responsibility of each auditor to have appropriate competence and capabilities to perform the audit, compliance with ethical requirements, maintenance of professional skepticism, and exercising professional judgment throughout the audit."


South Dakota Department of Revenue
AUDIT PROCESS & COMMUNICATION
• Audit Division – Mission Statement:
– To detect and resolve reporting errors and omissions made by taxpayers and correct reporting habits for future returns.
• Our goals:
– To ensure compliance with state tax reporting
– To make sure tax is paid correctly, whether it is an assessment, credit, or no change audit
– To educate businesses

AUDIT PROCESS & COMMUNICATION

Audit Process:

1. Call to schedule
2. Letter confirmation
3. Opening conference
4. Fieldwork
5. Present findings
6. Business agrees to findings or provides further documentation
7. Closing conference
8. Audit finalized

AUDIT PROCESS & COMMUNICATION

Customer Feedback

- Contact information for the auditor's supervisor is in the initial information the business receives. There is also a survey sent to all businesses after an audit is conducted.

WHAT OUR CUSTOMERS ARE SAYING:

"Operating in several states has resulted in a several state audit experiences-none of which that have been completed as well as this SD audit. The audit uncovered a few missed city sales tax issues which the auditor assisted by providing a web site that helped identify whether or not city tax was applicable. Our auditor was not only professional throughout the audit he was extremely helpful with providing guidance going forward."

"I have been through 2 SD audits and numerous other state audits. SD ranks very high in comparison-knowledgeable auditors, professional, respectful, willing to work with us on issues - to ensure they fully understand issues as well as educating the taxpayer."

"I was very pleased with the respect given by the auditor and his professionalism. Also, his explanations of CET and applications thereof were very helpful. This will be beneficial when we come back to South Dakota to do work in the future!"

"It was a pleasure to work with her. She made the audit go very smoothly. She explained everything she was doing and what she found and how we need to include those things on future returns. She answered all of our questions too."

"Auditor was prompt, knowledgeable, and most of all understanding. We have nexus in 41 states so audits are a formality around here. The South Dakota auditor was one of the best ones thus far I have worked with."

"He was very helpful. He worked with my busy schedule and rearranged a time to meet. He let me know exactly what he needed so I was ready for the audit. We worked together to go through everything and he was kind and courteous. You have a very good auditor working for you that doesn't make things difficult. Thank you!"

"The South Dakota Department of Revenue is one of the better taxing jurisdictions with regards to the audit process. The auditors try to move the audit along within a reasonable amount of time."

AUDIT ASSESSMENTS & PENALTIES

Interest Rate:

- Our interest rate is set in statute 10-59-6
- In 2015, SB 182 passed unanimously in the House and Senate with support of the Governor and DOR to lower the monthly interest rate

1.25%

1.00%

BUSINESS TAX & AUDIT DIVISION INTERACTION

- All calls to the Business Tax Division are logged to the corresponding business license.
- This documentation is for the protection of the business.
  - DOR will stand by advice provided to a business if the advice is documented.
- Agents and auditors share the same integrated system.

FY17: 31,116 calls answered by the Business Tax phone bank alone.
This does not include regional agents

BUSINESS TAX & AUDIT DIVISION INTERACTION

- Agents will work with businesses to resolve reporting errors without going through the audit process.
- Multiple calls from businesses in a particular industry may trigger additional education through:
  - written correspondence
  - newsletter articles
  - seminars

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