

ALASKA STATE LEGISLATURE



SENATOR HOLLIS FRENCH

February 13, 2013

Senator Anna Fairclough, Chair
Legislative Budget and Audit Committee
State Capitol, Room 514
Juneau, AK 99801

Dear Senator Fairclough,

I respectfully request that an audit be performed on the effectiveness of the Department of Revenue's (DOR) oil and gas production tax audit process. DOR's Tax Division is charged with the responsibility of auditing tax payments made to the State. Over six years have passed since the Petroleum Production Tax (PPT) law was enacted and over five years have passed since the Alaska's Clear and Equitable Share (ACES) tax law was passed. It is my understanding that the Division is just now completing the audits for the 2007 tax year. Given the importance of oil revenue to the State's finances and the apparent delay in completing the audits, it seems prudent to be highly vigilant in our oversight of this area. In Latin this idea was expressed long ago as, *Quis custodiet ipsos custodies?* In English: who watches the watchmen?

Specifically, I request the audit to include the following objectives:

- Identify the effectiveness of DOR's audit function in terms of audit coverage, level of assessments and timeliness when compared the audit function under the prior tax structure (ELF).
- Identify impediments to the process of auditing ACES and PPT returns and make recommendations for improvement.
- Examine the professional qualifications and experience level of DOR's audit staff and determine if resources are sufficient to fulfill audit requirements.
- Examine the Tax Division's methodology for conducting audits and determine if the agency is following industry best practices.

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- Identify the status of audits including any backlog and DOR's plan for addressing the backlog.

Thank you for considering this request.

Sincerely,

A handwritten signature in blue ink, appearing to read "Hollis French", with a stylized, cursive script.

Hollis French

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LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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AUDIT REQUEST ADDENDUM

At its April 6, 2013, meeting, the Legislative Budget and Audit Committee authorized adding the following objective to the request for an audit of the Department of Revenue's (DOR) oil and gas tax audit process.

- As part of the analysis of the Tax Division's methodology for conducting audits and whether the agency is following industry best practices, examine DOR policies and procedures for using joint interest billings. Evaluate whether the use of joint interest billings is in accordance with Alaska Statutes.