

Compliance Audit Selection Policy

Overview:

The District will select 20 businesses annually for a compliance audit of the prior calendar year. 10 businesses will be audited beginning in September and 10 in May.

Audit Purpose:

To assess the overall effectiveness of the District's compliance practices and protocols. The third-party compliance auditor will determine whether the business being examined complies with established standards per Ordinance 98-01.

20 Businesses will be selected annually with the following criteria in mind:

1. 60% Based on three factors determining highest risk (12 businesses): 1) collection totals, 2) years since last audit (if any), and 3) years since opening. The Excel spreadsheet used will be sorted to find the 12 highest risk businesses based on these criteria.

<i>Annual Collection Total</i>	<i>Points Assigned</i>
>30,000	3
29,999-15000	2
14,999-5000	1

<i>Years Since Last Audit</i>	<i>Points Assigned</i>
10+	3
6-9	2
4-5	1
0-3	0

<i>Years Since Opening</i>	<i>Points Assigned</i>
1	3
2-5	2
6-9	1
10+	0

2. 15% Based on leads: tips, possible non-compliance issues, new business/ownership change, errors, delinquencies (3 businesses). Leads can be provided by the Board or staff. If no leads exist, the next three highest risk businesses will be chosen.
3. 25% Random Selection (5 businesses)
 - a. Businesses selected randomly will be chosen using formula in Excel that will randomly pull names from the full list after the 60% highest risk and 15% lead based entities are selected.
 - i. **=INDEX(\$A:\$A,RANDBETWEEN(1,COUNTA(\$A:\$A)),1)**

Exceptions:

1. Those collecting less than \$5000 in resort tax in the previous calendar year will not be considered for an audit unless there is a lead indicating high risk.
2. For the percentage of random selections, businesses audited within the last three years will be eliminated from consideration.

3. Businesses will be eligible for audit once they've operated for a full year unless there is a significant lead indicating high risk.
4. Businesses collecting over 1 million in resort tax in a calendar year will be audited every three years due to the high level of risk. The District will coordinate an audit schedule with each entity in this category.

Reference from Ordinance 98-01:

Section 14. Audits: Periodic random Audits shall be conducted under the direction of the District and all establishments shall cooperate in all respects in the conduct of the Audits. Any Audit shall be for the previous calendar year, and shall be conducted in Big Sky on the premises of the establishment collecting the resort tax or at such other location as the District may determine. If the Audit determines a deficiency, the District shall have the discretion but not the obligation to Audit the previous three (3) years and may further require a follow-up Audit on the next reporting year. Payments and/or arrangements for payment of the amount determined as outstanding resort taxes owed must be paid or payment arrangements made within thirty (30) days of the date of the notification of the Audit results. Failure to cooperate in any Audit, including the failure to comply with agreed upon procedures, to provide information, or to make the appropriate records available in Big Sky within fourteen (14) calendar days of the auditor's scheduled Audit, shall constitute a violation of the provisions of this Ordinance and may result in the imposition of penalties set forth in Section 17.

Follow up On Deficiencies, Audit Determinations:

1. Payments and/or arrangements for payment of the amount determined as outstanding resort taxes owed must be paid or payment arrangements made within thirty (30) days of the date of the notification of the Audit results.
2. Businesses fully cooperating in the audit process may have back taxes forgiven depending on the clarity in the Ordinance of the items in question. The staff will review the data from the auditor and make a determination which can be appealed per Section 16 of Ordinance 98-01.
3. For clearly taxable goods/services on which taxes were never collected, back taxes will be owed, though staff will determine if late fees and/or interest can be waived depending on the level of cooperation from the business.

After Selections are Made:

1. Selections will be made for 10 businesses twice annually, once in August and once in April so that audits will occur during the shoulder seasons (September/October & May/June).
2. The Finance & Compliance Manager will send an initial letter to the 10 businesses selected asking them to contact the third party auditor to schedule the audit.
3. Per Ordinance 98-01, if the business does not respond to the auditor within 14 days of the initial letter the business may be subject to penalties.