

January 16, 2001

Mr. Mark Scott
Internal Revenue Service
111 Constitution Avenue NW
Washington, DC 20224

RE: Audit of Bond Issues

Dear Mr. Scott:

As you know the Government Finance Officers Association formed a working group to explore the ramifications of the Internal Revenue Service's expanded enforcement efforts, including audits of bond issues. This group is currently working on an article addressing issues which should be considered if an issuer receives a notice of audit. One concern that has become apparent is the need to know more about the purpose of the audit.

In order to fashion an appropriate response to a notification letter, the issuer needs to know the nature of the audit at the earliest point in the process. One of the most significant obligations an issuer undertakes upon entering the bond market is the duty to disclose information which would be material to investors. Without some understanding of the reason its bonds have been selected for examination, the issuer will be without critical information necessary for assessing the materiality of the audit. In addition, providing such information would facilitate efficient resolution of audits by enabling the issuer to marshal the proper participants and focus on potential problems from the outset.

Attached are changes which we would recommend in the model contact letter from the IRS advising issuers that bonds are to be audited. The suggestions were developed jointly by GFOA and the National Association of Bond Lawyers and with participation from the National Federation of Municipal Analysts and The Bond Market Association. It is our expectation that such collaborative efforts, and the communication among market participants, will result in a better understanding of the IRS's expanded audit program. Such increased awareness of IRS concerns can expand voluntary compliance with tax laws and produce a more efficient market system.

We thank you for your openness and inclusiveness in addressing this issue. We are available at your convenience to discuss the attached suggestions.

Very truly yours,

J. Hobson Presley, Jr.
President, National Association of
Bond Lawyers

J. Ben Watkins III
Co-Chair, GFOA Tax Audit Working Group

Alternative 1 - Random Audits to Study Certain Types of Bonds

These bonds were selected for examination as part of a random sample in connection with a study of [Specify Types of Bonds]. The purpose of the examination is to gather information to evaluate compliance with tax requirements related to [Specify Types of Bonds]. The examination is not designed to address any specific concern regarding this issue and we have no reason to believe the bonds are not in compliance with applicable tax requirements. However, we reserve the right to examine any aspect of the transaction.

Alternative 2 - Audit of Certain Types of Transactions

These bonds were selected for examination as part of our ongoing efforts to keep abreast of developments in the municipal bond market. We routinely examine new types of transactions, in this case [Specify Types of Bonds], to determine compliance with tax requirements related to [Specify Types of Bonds]. We have no reason to believe the bonds are not in compliance with applicable tax requirements. The primary focus of the examination will be to determine compliance with tax requirements related to [Insert IRC Reference and Description of Tax Issue]. However, we reserve the right to examine any aspect of the transaction.

Alternative 3 - Targeted Audit of a Specific Problem Area

These bonds were selected for examination because they may be similar to bonds which we have determined are not in compliance with certain tax requirements. Based on this similarity, we have reason to believe the bonds may not be in compliance with certain tax requirements. The examination is designed specifically to address compliance with [Insert IRC Reference and Description of Tax Issue]. However, we reserve the right to expand the examination to any aspect of the transaction.

Alternative 4 - Audits Based on External Information Received

These bonds were selected for examination because of information we received regarding this transaction that alleges the bonds may not be in compliance with [Insert IRC Reference]. The examination is designed to determine compliance with [Insert IRC Reference and Description of Tax Issue]. However, we reserve the right to expand the examination to any aspect of the transaction.