

State Board of Equalization

OPERATIONS MEMO

For Public Release

No : 1162

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SUBJECT: Audit Procedures

I. PURPOSE

The purpose of this memo is to introduce the new provisions of Regulation 1698.5, *Audit Procedures*, and to introduce new forms required by the regulation. The procedures outlined in this memo and in Regulation 1698.5 should be used in audits as well as field billing orders and claims for refund.

II. OVERVIEW

Because sales and use taxes are self-assessed by taxpayers, the purpose of the Board of Equalization's (BOE) audit program is to determine if tax is being reported correctly. The audit program also helps promote accuracy in self-assessments and deter tax evasion. Although the BOE's audit manual is available to the public, it is primarily an advisory resource providing guidance to BOE staff. Regulation 1698.5 was created to improve the audit process and to provide consistent definitions and procedures, so those with various levels of expertise both within and outside the BOE can navigate through the sometimes complex audit process. The regulation also provides for appropriate and timely communication between BOE staff and the taxpayer of requests, agreements, and expectations related to an audit.

The new or refined requirements and procedures discussed in this memo as part of the implementation of Regulation 1698.5 include the following:

- Audit Plan
- Pre-Audit Conference
- Opening Conference
- Status Conference
- Information Document Request (IDR) process
- Audit Findings Presentation Sheet (AFPS) process
- Exit Conference
- Concurrent Audits

The BOE has a duty and an obligation to use its audit resources in the most effective and efficient manner possible. The objective of a sales and use tax audit is to determine, with

the least possible expenditure of time, the accuracy of any return made or the amount required to be paid. Regulation 1698.5 sets forth a goal for the timely completion of an audit within two years beginning with the opening conference and ending with the exit conference. BOE staff generally completes most audits within a shorter timeframe. However, larger and more complicated audits may require a period beyond two years. The provisions set forth in Regulation 1698.5 create an auditing environment that assists BOE staff and taxpayers in meeting the goal of a two-year completion date. However, neither BOE staff nor taxpayers should construe this goal to mean the audit must take two years when the audit can be completed sooner, or that the completion of an audit must occur within two years when a longer timeframe is warranted.

In addressing the audit procedures to use in requesting information and documentation for an audit, Regulation 1698.5 provides for the use of new forms:

- BOE-698-A, *Information Document Request* (IDR, Exhibit A) is used to request information/documentation when a taxpayer fails to provide records in response to verbal requests for information/documentation.
- BOE-698-C, *IDR Master Log* (Exhibit B) is used to track all Information Document Requests.
- BOE-698-B, *Formal Notice and Demand* letter (Exhibit C) is used after a taxpayer's failure to furnish the requested records in response to the second IDR requesting the same records. The *Formal Notice and Demand* letter serves as a precursor to a subpoena request.
- BOE-699, *Audit Findings Presentation Sheet* (AFPS, Exhibit D) is used to present the audit findings of each particular area of an audit to the taxpayer as it is completed rather than addressing all areas at the conclusion of the audit. This allows the taxpayer to review the findings prior to the completion of the audit and indicate their agreement or disagreement with the results. Agreement to the audit findings on an AFPS does not preclude the taxpayer from appealing or disagreeing to the audit findings at a later date nor does it prevent the taxpayer from providing additional documentation should it become available as the rest of the audit proceeds. The auditor should make the taxpayer aware that these findings are subject to review.
- BOE-699-A, *Audit Findings Presentation Sheet Master Log* (Exhibit E), is used to track multiple AFPSs.

Form BOE-414-Z, *Assignment Activity History*, was established to create a record of contacts, staff actions, and taxpayer or taxpayer representative (collectively referred to as "taxpayer") responses. Completion of this form is mandatory for all audit assignments including reaudits and claims for refund. It should be professionally written as it becomes a permanent part of all working papers and is subject to disclosure under the Public Records Act. Audit Manual section 0221.06, *Use of Form BOE-414-Z*, establishes minimum guidelines for completion of this form. See also Tax Policy Memorandum dated March 12, 2010, *BOE-414-Z Documentation Guidelines*, for additional information and guidance on use of the BOE-414-Z.

A record of contacts, requests, and audit activities is essential to develop a history of staff actions and taxpayer responses. The BOE-414-Z should include all requests made to a taxpayer, the reason for such requests, and the taxpayer's response to the request. All testing procedures, audit milestones, and significant events should be recorded. The BOE-414-Z should also document any taxpayer obstructions to the audit process and any conflicts that may arise between staff and the taxpayer. Generally, the auditor(s), computer audit specialist, audit supervisor, and District Principal Auditor assigned to an audit are required to make entries on the BOE-414-Z. Reference made in the remainder of this memo regarding the documentation of information is generally made in reference to the BOE-414-Z.

III. AUDIT PLAN

A. Purpose

The purpose of the audit plan is to:

- Establish open lines of communication,
- Promote understanding of commitments made and agreements reached,
- Identify key potential audit issues, and
- Assist in the progression and completion of the audit.

An audit plan allows the auditor and the taxpayer to work together to resolve problems as early as possible in the audit process and establish a common understanding and working relationship. The audit plan should be sufficiently detailed so that the taxpayer and BOE staff can assess, at any time, the extent of work that has been completed, the work remaining, and a timeframe for the completion of the work remaining. In doing so, the audit plan helps ensure an effective and efficient audit that is less burdensome, less costly, and less intrusive.

As provided in Audit Manual section 0404.10, a written audit plan is required on all audits. However, the complexity of the audit plan will differ based on the circumstances of each audit. As discussed in the overview, the auditor should develop an audit plan that strives for the completion of an audit within a two-year timeframe. Most audits, however, will be completed in a much shorter timeframe although some may require a period beyond two years. The auditor should consider the duration of the audit and anticipated completion date when preparing the audit plan.

B. Working With Taxpayers

Establishing a positive working relationship with the taxpayer is conducive to the effective and timely completion of the audit. While the audit is the responsibility of the auditor, taxpayer participation in the development of the audit plan is encouraged. The audit plan should be discussed and expanded upon during the course of the audit as the auditor learns more about the taxpayer's business and records.

By reviewing the audit plan with the taxpayer:

- Both parties will be able to more efficiently manage the fact gathering and analysis process;
- The taxpayer will be able to anticipate deadlines better and provide alternative solutions to resolving issues, such as when specific records are unavailable or missing but alternative records or documents can be provided which contain the requested information;
- Apprehension by the taxpayer may be minimized, and communication and cooperation is enhanced;
- The materiality or immateriality of specific audit areas can be discussed early, and if appropriate, those areas found to be immaterial may be waived from examination, and
- The audit plan can be revised as the need for more, less, or different work arises than originally noted.

C. When Is The Audit Plan Developed?

The audit plan sets forth the road map for the audit and therefore should be completed as a preliminary step to conducting the audit. Prior to the opening conference, the auditor should begin to prepare a draft audit plan. Because the audit process is collaborative, the auditor should obtain input and information from the taxpayer regarding the business and its records prior to the formulation of an audit plan. This may be done in a pre-audit conference or during preliminary contact to set-up the first audit appointment. In order for the audit plan to be meaningful and relevant, the auditor should review the taxpayer's history and prior audit(s) in determining the scope of the expected audit. This includes analyzing tax returns, transcripts, the taxpayer's account (including ownership); reviewing the prior audit history; researching the business and industry; and performing other information gathering techniques that provide the auditor with a better understanding of the taxpayer's business and potential audit issues.

The audit supervisor is required to review and sign all drafts of the audit plan prior to submitting it to the taxpayer. The audit supervisor should also make a comment on the BOE-414-Z of their approval.

The auditor should discuss the draft audit plan with the taxpayer at the opening conference, and provide a copy at the time of the discussion. A copy of the audit plan may be provided after this discussion when it is necessary for the auditor to first review the taxpayer's records or to obtain supervisory approval, but, according to Regulation 1698.5, a plan must always be provided within 30 days of the opening conference.

Additional guidelines:

- The draft of the audit plan should be clearly marked "Initial" or "Revised" with a revision date at the top of all audit plans.

- After the opening conference, the auditor, the supervisor, and assigned team members (if applicable) should complete the final audit plan incorporating changes made as a result of discussions with the taxpayer.
- If there are significant changes to the draft audit plan discussed at the opening conference and the supervisor previously signed the audit plan and was not present at the opening conference, the auditor should submit the audit plan to the supervisor for review and approval before providing it to the taxpayer.
- Any changes or revisions to the audit plan should be provided to the taxpayer.
- Audit supervisors should review the progress of all audits at least monthly. The audit plan should always be a part of the review and the audit supervisor should make a comment on the BOE-414-Z at the time of review.

D. Audit Plan Details

In addition to any areas, audit procedures, and tasks to be addressed in the audit the following items should also be included in the audit plan. Additions or deletions from the audit plan should be done on a case-by-case basis.

Although not inclusive, items generally found in an audit plan include:

1. **Audit Scope**—The audit scope shows the audit period, district/branch/area office conducting the audit, areas to be examined, number of divisions or locations, overview of transactions, etc.
2. **List of Key Personnel**—Identify all key BOE staff, taxpayer personnel, and any outside representatives, including their addresses and telephone numbers. The auditor should confirm that the taxpayer personnel identified in the audit plan are authorized to provide the BOE with records, receive IDRs, and are authorized to enter into preliminary and final discussions with the BOE.
3. **Timeframes**—The audit plan should document the estimated timeframe required to complete the audit. Although not shown in the audit plan, budgeted hours for the entire audit should be established and taken into consideration when estimating the time required for each area of the audit. Establishing a timeframe in the audit plan and adhering to it is critical in completing audits timely. Throughout the audit process, these timeframes serve as benchmarks against which progress is measured. Timeframes should be established for:
 - Estimated start and completion dates,
 - Scheduled future field appointments, and
 - Status conferences – periodic meetings to discuss the progress of the audit and any audit issues.
4. **Claims for Refund**—The audit plan should document any claims for refund already filed and the testing procedures to be used to verify the claimed amounts.

5. **Amended Returns Filed by the Taxpayer**—Determine if any amended returns were filed by the taxpayer and whether copies of returns will need to be requested.
6. **Audit Issues**—Identify known audit issues and the potential tax application or effect. The taxpayer should be informed that additional audit issues may arise during the course of the audit and changes to the audit plan will be made accordingly.

Two sample audit plans, Exhibits F and G, are attached. Information on both audit plans can be added or deleted as necessary and should be customized for the particular taxpayer being audited.

E. Signing the Audit Plan

The auditor and taxpayer should sign the final completed audit plan, and a copy of the plan should be provided to the taxpayer. As noted above, the audit supervisor should review and sign all audit plans before they are submitted to the taxpayer. Signing the audit plan shows a commitment by all parties that the audit will be conducted in the manner discussed and will allow for the timely completion of the audit. If the taxpayer declines to sign the audit plan, the auditor should determine why the taxpayer declines to sign the audit plan and make changes, if warranted. If the auditor feels no adjustment is warranted, consultation with the audit supervisor is appropriate at this time to see if resolution can be obtained prior to proceeding as provided for in the audit plan. Both the taxpayer's and the auditor's position should be documented on both the audit plan and in the BOE-414-Z.

The auditor should initial and date any amendments to the original audit plan and provide a copy of the amended audit plan to the taxpayer. The auditor should document on the BOE-414-Z delivery of the original, any amended audit plans provided to the taxpayer, or the reason the taxpayer did not sign the audit plan.

IV. PRE-AUDIT CONFERENCE

A. Purpose

A pre-audit conference is a meeting between the taxpayer and BOE staff (including the audit supervisor and computer audit specialist, if appropriate) prior to the opening conference (start of the audit) to discuss the availability and production of records, including electronic records. Whereas a telephone discussion at the time the appointment is made, or at a later date may suffice for smaller or less complex audits, a pre-audit conference is required on larger or more complex audits, especially those where electronic records are involved. After the auditor conducts the preliminary overview work on the audit, he or she will have the ability to determine whether a pre-audit conference is warranted.

The pre-audit conference may occur several months before the first day the field work begins. Among other things, such as discussion of staffing and resources that are needed

by the taxpayer and BOE staff, a pre-audit conference provides for a discussion of the records that are required, the period for which requested records are available, the manner in which they are to be furnished, and the timeframe in which they are to be made available. Participation in a comprehensive pre-audit conference by key taxpayer and BOE personnel will minimize the likelihood of misunderstanding and reduce delays in retrieving records.

B. Pre-Audit Conference Discussion

An audit engagement letter sent by the auditor (form series BOE-80, *Audit Engagement Letter*) will precede the pre-audit conference. The audit engagement letter encloses copies of, or provides references to the website locations of publication 17, *Appeals Procedures: Sales and Use Taxes and Special Taxes*; publication 70, *Understanding Your Rights as a California Taxpayer*; and publication 76, *Audits*.

Taxpayers (owners, partners, or corporate officers) should be invited and encouraged to attend the pre-audit conference, even if they have authorized another person to represent them. The audit supervisor should attend the pre-audit conference, when feasible, to ensure proper direction and control of the audit is in place. In cases involving electronic records, the BOE's computer audit specialist (CAS) should attend and participate in the pre-audit conference to discuss the availability of the electronic records, as appropriate. The auditor should suggest the taxpayer include their information technology staff in the pre-audit conference to discuss the technical aspects of retrieving the necessary electronic records.

As provided for in Audit Manual section 1304.40, a CAS must participate in the discussion of the taxpayer's books and records on all audits where the previous audit exceeded 400 hours or as deemed appropriate by the audit supervisor. Use of the CAS enables audit staff and taxpayers to make more informed decisions regarding the population to be tested, sample size, stratification levels, sample representativeness, sample evaluations, etc. The CAS assigned to a specific audit will serve as a technical consultant to the auditor(s) to assist with the electronic records and sampling. At the pre-audit conference, the auditor should inform the taxpayer that technical questions regarding the data may be addressed to the CAS; however, all questions and issues related to the audit and scope of work should be discussed with the auditor. The CAS should be given access to the BOE-414-Z so that the CAS can enter comments as appropriate.

During the pre-audit conference, the items to be discussed should include, but are not limited to:

- General audit procedures
- Use of Prior Audit Percentage of Error (PAPE)
- Use of Managed Audit Program (MAP)
- Availability of and access to records (refer also to V. Opening Conference, F. Taxpayer Records)
- Computer assisted audit procedures

- Relevant sampling issues
- Data transfer process
- Verification of data
- Security of data
- Timeframes for the furnishing and reviewing of records
- Name of the person(s) designated to receive IDRs
- Potential new or emerging issues
- Potential claims for refund

V. OPENING CONFERENCE

A. Purpose

The opening conference is generally the first on-site meeting between the taxpayer and BOE staff to discuss how the audit will be conducted and to begin the field work. The opening conference is considered the start date of the audit and the audit concludes with the exit conference. This conference establishes the groundwork necessary to conduct an effective and efficient audit and establishes lines of communication that help build a good working relationship between the auditor and taxpayer. During the opening conference, the auditor and taxpayer will introduce the participants of the audit, agree on a general audit plan, discuss audit processes and procedures, and agree upon expected timeframes.

Although the opening conference is considered the start of the audit, the auditor may charge a reasonable number of hours to the audit for preliminary work such as the overview work, as well as time spent conducting a pre-audit conference, if necessary.

B. Introduction of Personnel

The auditor should introduce himself or herself and any other audit team members to the taxpayer (if applicable). If team auditing is being used, the lead auditor should discuss each team member's role in the audit, including the area or segment in the audit that each team member will be responsible for completing. The lead auditor should also discuss the audit team's reporting lines to the taxpayer and provide, in writing, the name and telephone number of the audit supervisor, and any BOE staff assigned to the audit team. For large or complex audits, the audit supervisor should attend the opening conference to ensure that proper direction and control of the audit are in place.

The taxpayer should also introduce their staff and identify those persons who will be working with the auditor and BOE staff on the audit. The auditor should obtain the name, title, and telephone number of the taxpayer's staff in the event that the main contact person is not available or leaves the company during the audit. Taxpayers (owners, partners, or corporate officers) should be invited and encouraged to attend the opening conference, even if they have authorized another person to represent them.

C. General Discussion

The general discussion at the opening conference is an opportunity for the auditor to:

- Advise the taxpayer of any relevant law sections or regulations pertaining to the taxpayer's business and explain where the information relating to the taxpayer's business is located on the BOE website,
- Address any questions the taxpayer may have regarding their rights during the audit or the appeals process,
- Emphasize the BOE's expectation of completing the audit within two years, or as appropriate for the size and complexity of the audit,
- Discuss the general history of the taxpayer, including any changes in ownership, acquisitions, changes in product line, going concern, and unusual activities during the period under audit, or current changes that may impact the audit,
- Discuss the facts of any pertinent issue or area within the business, such as how a product is made or where assets and supplies are purchased, and
- Determine whether there are known credit issues for which a claim for refund will be filed,
- Obtain a signed copy of form BOE-82, *Authorization for Electronic Transmission of Data*, if not already obtained, and discuss the BOE policy for emailing taxpayer information.
- Request copies of the returns filed and their back-up to start the review of the taxpayer's filings.

D. Potential Audit Issues

Auditors should inform the taxpayer of potential audit issues, including potential areas of refund, identified during the cursory review process or established in a prior audit. Possible items to discuss include, but are not limited to:

- **Recurring Audit Issues.** If a prior audit determination is being protested or was changed during the appeals process, the auditor should determine the status of the recurring issues. When applicable, the auditor should discuss any changes to the law or regulations related to these items since the last audit.
- **Potential Areas of Refund.** The auditor should inform the taxpayer of the benefit (i.e., interest offset) of providing a claim for refund early in the audit. The taxpayer should also be notified that if a claim for refund is presented at the end of the audit, the claim for refund may be addressed separately so as not to delay the completion of the current audit.
- **Potential Time Saving Areas.** The auditor should consider and discuss any areas where audit time may be reduced and where efficiencies of reviewing the information can be accomplished.

- **Prior Audit Percentage of Error.** The auditor should discuss the possible use of a prior audit percentage of error as set forth in the policy in Audit Manual section 0405.33.
- **Managed Audit.** The auditor should discuss the availability and eligibility of a Managed Audit as set forth in Audit Manual section 0435.00.
- Deletions or additions to the business such as the sale or addition of an asset or entire division.

E. Taxpayer's Return Preparation

Obtaining information on how the sales and use tax returns for the periods under audit were prepared will provide valuable information on how to address issues and identify the person(s) within the taxpayer's business who is knowledgeable in given areas. Questions the auditor may want to ask the taxpayer include:

- Who prepared the returns? If it is not the same contact person(s) the auditor is working with, is that individual(s) still available for questions or information?
- Where are the workpapers/worksheets for the tax returns located and what lead-time is needed to obtain them?
- Are the tax return workpapers/worksheets electronic, and if so, in what format?
- Have amended sales and use tax returns been filed during the audit period, and if so, for what periods?
- How were district tax allocations addressed? Is the taxpayer engaged in business in other taxing jurisdictions?
- Are instructions or return preparation guidelines issued to those preparing the returns, and if so, are they available?
- Did the method of reporting change over the course of the audit?

F. Taxpayer Records

Government Code section 15618 authorizes an auditor to examine records of the taxpayer and of persons doing business with the taxpayer. Revenue and Taxation Code section 7054 provides additional authority for the examination of records pertaining to the Sales and Use Tax Law. Taxpayer records (both original and copies) are confidential and must be safeguarded at all times. The auditor should inform the taxpayer that any information provided is confidential and protected. The auditor may not remove records from the taxpayer's or representative's premises without permission from the taxpayer or designee. Records relating to the audit of one taxpayer should not be brought to and accessed/worked on at another taxpayer's location. In addition, per Audit Manual section 0403.35, receipt of taxpayer original records require that form BOE-945, *Receipt for Books and Records of Account*, be accurately, completely, and timely prepared by the auditor and signed by the taxpayer, with a copy provided to the taxpayer.

In addition to explaining the legal authority for requesting records, the auditor should also explain the reason why specific records are being requested as they relate to the audit. This allows the taxpayer the opportunity to provide or recommend additional or alternative records the auditor may not be aware of that will provide the same information/documentation being requested.

Below are some questions the auditor should ask the taxpayer if not already covered in a pre-audit conference:

- What are the taxpayer's record keeping practices and record retention policies?
- Has anything changed in the taxpayer's record keeping during the audit period or from that of the prior audit?
- What areas of the taxpayer's organization have responsibility for the records that need to be examined? Who is the contact person(s) in each area?
- What electronic records are available and in what format are they stored?
- Has there been a change in accounting software?
- What documents are actually retained?
- What alternative records may be available to assist in auditing a specific area if the requested records are not available?
- How long will it take to retrieve documents from storage? Where is the document storage area located?
- Who should the auditor contact if the primary contact is unavailable or has left the company?

G. Photocopies and Scanning of Taxpayer Records

Photocopies or scans of taxpayer records may be needed for documentation of transactions and to support the facts as set forth in the audit report. Regulation 1698.5 provides that the BOE may require the taxpayer to provide photocopies, or make records available for photocopying or scanning. However, the auditor should request photocopies or scans of documents only for relevant portions of a specific issue. The auditor should not arbitrarily request photocopies of all records in the audit or a particular area in the audit unless there is a legitimate need.

Additional guidelines:

- It is helpful to establish what procedures the taxpayer would like for photocopying and scanning records or documents. The taxpayer may request that their staff do all of the photocopying and scanning. The auditor should ask who to contact if there are any problems with photocopying or scanning requests.
- In audits where the auditor is permitted to make the photocopies and scans of documents, if the taxpayer requests it, the auditor should provide the taxpayer a copy of all documents photocopied or scanned for the audit file.

- The auditor should not photocopy or scan any documents without first securing the taxpayer's permission. In addition, no photos of any records should be taken using personal cell phones or other personal electronic devices.
- The law may prohibit photocopying or scanning of certain documents. If an auditor encounters this situation in an audit, the auditor should discuss this with their respective supervisor.
- Photocopies and scans of all taxpayer records must be included as part of the audit working papers or properly purged at the completion of the audit.

H. Discussion of Information Document Requests (IDRs)

The auditor should explain the IDR process and determine who should receive the IDRs (see *IDR* section VII). The auditor should also request a secondary contact in the event the requested documents, data, or other information cannot be provided by the primary contact.

I. Discussion of Audit Findings Presentation Sheets (AFPSs)

The auditor should explain the AFPS process and how it will be used in the audit (see *AFPS* section VIII).

J. Waivers of Limitation

A Waiver of Limitation is a legal agreement that a taxpayer may voluntarily enter into with the BOE. The waiver of limitation extends the statute of limitations for specific periods indicated on the form. The auditor should explain how waivers of limitation will be addressed throughout the audit.

Generally, a waiver of limitation should be requested when:

- The audit is about to commence and the taxpayer requests a postponement in starting the audit.
- The audit is in process and the taxpayer requests a postponement in completing the audit.
- There is a documented understatement or overstatement that cannot be billed/refunded without additional examination and there is insufficient time to conduct an audit that could be used as a basis for a determination before the expiration of the periods.

Reasons for requesting a waiver of limitation should be entered on the BOE-414-Z. The auditor should also document any circumstances that may lead to a delay in the audit process. Supervisory approval of the circumstances which necessitated the request for a waiver or extension will be noted on the BOE-414-Z before presenting the waiver to the taxpayer. Supervisory approval of each waiver or extension will be made before it is presented to the taxpayer for signature as provided for in Audit Manual section 0215.16. Regulation 1698.5 adds the provision that if the extension of the statute of limitations

totals two years or more, the District Principal Auditor must approve the extension before it is presented to the taxpayer for signature. This must also be documented on the BOE-414-Z.

If the taxpayer declines to sign a waiver, the BOE may issue a determination for the expiring period(s).

K. Scheduling Future Appointments

To complete the audit timely, the auditor should establish future audit appointment dates with the taxpayer so that both parties understand the expectations and resources that will be needed to complete the audit. This will establish a commitment to obtaining and reviewing audit work by the next scheduled appointment. Whenever possible, appointments should be scheduled with the intent of completing work efficiently; generally this means scheduling appointments for a full working day.

L. Use of Taxpayer Facility

Taxpayers may be limited in the space they have available. However, it is appropriate for an auditor to request adequate working space to work efficiently and protect confidential taxpayer records. The availability of office space should not dictate the number of audit staff assigned to complete any given audit. During the pre-audit conference or the opening conference, the auditor should identify the resources needed to conduct the audit, including workspace, electrical outlets, etc. The auditor should inform the taxpayer of how many auditors will be assigned to the audit.

Some taxpayers assign permanent work areas to auditors until the audit is complete or for the duration of a field visit. If an auditor is provided with an office, the auditor should determine who has access to the office and what hours the auditor will have access to the office. If temporary space is assigned, the audit staff may make an agreement with the taxpayer so that records will be made available at the beginning of the first day of each field visit. For security purposes, the taxpayer may require that an auditor obtain and wear an identification or access badge. Generally, auditors are not authorized to sign any confidentiality agreements in order to obtain an access or identification badge. An exception can be made with prior approval from the District Principal Auditor.

As noted in section F, taxpayer records are confidential and must be safeguarded. Taxpayer records that relate to one taxpayer should not be brought to and accessed or worked on at another taxpayer's location.

M. Taxpayer Requests to Change Audit Location

Audits generally take place at the location where the taxpayer's original books, records, and source documents relevant to the audit are maintained, which is usually the taxpayer's principal place of business. A request to conduct the audit at a different location should include the reason(s) for the request. It is the taxpayer's responsibility to provide all requested records at that location. Requests will be granted unless BOE staff determines the move will significantly delay the start or completion of the audit, or the

BOE does not have adequate resources available to conduct the audit at the requested location. A BOE-122-*Waiver of the Statute of Limitations* should be requested in all cases where the taxpayer requests a transfer of an audit to another district office.

After an initial request to change the audit location has been granted by BOE staff, any subsequent requests for location changes in the same audit period shall be made in writing and include the reason(s) for the request. These subsequent requests will be considered on a case-by-case basis. Approval of these requests is at the discretion of BOE staff.

If the taxpayer operates out of a private residence, or has a small office or work environment that will not accommodate the auditor(s), BOE staff may require the records be brought to a BOE office or taxpayer's representative's office. If the audit is conducted at a BOE office, the taxpayer will be provided a receipt for records.

N. Exit Conference

The auditor should discuss the purpose of the exit conference and make the taxpayer aware that the exit conference will be held at the conclusion of the audit so that the taxpayer knows what to expect and is aware of the timeframes associated with a response to the audit findings (See *Exit Conference* section IX).

VI. STATUS CONFERENCES

A. Purpose

There are two kinds of status conferences: (1) meetings between the taxpayer and BOE staff held throughout the audit to discuss audit issues and the progress of the audit, and (2) meetings between the audit supervisor and audit staff to discuss the progress of the audit and any audit issues. Status conferences are used to keep lines of communication between the taxpayer and auditor open, as well as keep the supervisor apprised of the audit's progress toward meeting the projected completion date.

- **Status Conference with Taxpayer** – Taxpayers (owners, partners, or corporate officers) should be invited and encouraged to attend status conferences, whether or not the taxpayer has authorized another party to represent them. Status conferences with the taxpayer should be held regularly to measure the actual audit progress with planned benchmarks. Supervisors are encouraged to attend status conferences when available or when there is a need for their presence (complex issues, delays, slow progress). The auditor should record a summary of each status conference on the BOE-414-Z. However, some audits may not require a status conference, particularly in smaller audits where issues are quickly resolved. When an actual meeting between the audit staff and the taxpayer or representative is not possible or practical, a telephone conference with the taxpayer or representative may be sufficient, and this type of meeting should be recorded on the BOE-414-Z.

- **Status Conference with Audit Supervisor and Staff** – Status conferences should be held between the auditor (or audit team) and audit supervisor on a regular basis. Status conferences should also be held between the lead auditor and the audit team on a regular basis. These conferences provide an opportunity to make needed adjustments to keep the audit on track with the planned completion date. This includes evaluating the initial budgeted hours and making adjustments to the budgeted hours or workload assignments, if necessary. The audit supervisor should record the discussion held with the auditor or the audit team on the BOE-414-Z.

B. Discussion of Information Document Requests (IDRs)

While IDRs (see *IDR* section VII) are generally discussed separately, the status conference provides an opportunity for the auditor to:

- Review outstanding and new IDR requests;
- Review the timeframes for outstanding and new IDRs;
- Discuss IDR requests that cannot be resolved with taxpayer;
- Address taxpayer's questions regarding the materiality of an issue/area that is the subject of an IDR; and
- Discuss the consequences of non-compliance with an IDR, such as the issuance of a subpoena.

C. Discussion of Audit Findings Presentation Sheets (AFPSs)

AFPSs (see *AFPS* section VIII) are generally discussed when they are provided to the taxpayer. The status conference provides an opportunity for the auditor to:

- Discuss and try to reach agreement on the facts related to the audit issue or describe what facts are still not agreed to, even if there is disagreement as to the application of the law;
- Discuss follow-up requests on outstanding AFPS, with specific expectations for completion; and
- Provide follow-up written confirmation of any agreements or understandings that resulted from prior meetings.

D. Scheduling Audit Appointments

Status conferences provide the opportunity to review any audit appointments that were previously made and to cancel, postpone, or make new appointments in order to keep the audit moving towards completion. The audit plan should be revised to reflect any changes.

E. Resolving Disputes Related to the Conduct of the Audit

The auditor should immediately discuss any disputes (conflicts/issues) concerning the conduct of the audit with the taxpayer. This may include, but is not limited to, interpersonal disputes, disagreement of where the audit takes place, or the type of testing being performed. Conflicts should not wait until the end of the audit to be resolved; they should be discussed during an audit appointment or during a status conference. If the dispute is not resolved between the auditor and the taxpayer, assistance from the audit supervisor should be requested. If the audit supervisor and the taxpayer are unable to resolve the issue, the taxpayer or audit supervisor may request District Principal Auditor assistance to resolve the issue. If the issues/dispute cannot be resolved and discussions have been previously held with the taxpayer representative, bookkeeper, or tax manager, it may become necessary for the DPA or District Administrator (Chief of Field when necessary) to advise the owner or CFO of the issue and seek resolution with their assistance.

VII. INFORMATION DOCUMENT REQUESTS (IDRs)

A. Purpose

The purpose of issuing an IDR is to document and provide a written request for information/documentation when the taxpayer fails to provide the records in response to verbal requests for the same records. The IDR process includes the issuance of an initial IDR, a second IDR, and a Formal Notice and Demand letter to furnish the information/documentation. Before auditors proceed with the IDR process, taxpayers should be allowed to comply with verbal requests for the same records. However, when BOE staff is unable to make verbal contact with the taxpayer, the auditor may proceed directly with the IDR process. The auditor has the discretion to determine reasonable response times for verbal requests. The auditor should discuss the IDR process and significance of issuing an IDR with the taxpayer at the opening conference.

The IDR should generally contain a request for records for a single area of the audit as opposed to one IDR for all areas of the audit. This format assists the taxpayer if questions need to be distributed to different departments, provides for better organization in monitoring and following up on IDRs, and provides for better organization of the audit workpapers. In the event that a taxpayer is unresponsive or provides incomplete records, the use of the single area format allows the auditor to send a follow-up request using the same IDR, but modified to update the history of the request. Separate IDRs make it easier to document the history of a request (date of the original request, follow-up dates, extensions granted). However, if the taxpayer does not provide any records or minimal records at the beginning of the audit, rather than issuing an initial IDR for each area of the audit, a single IDR may be prepared to request all records necessary to conduct the audit. In such cases, the outlined IDR process should be followed including the issuance of a second IDR and Formal Notice and Demand letter, if necessary.

An IDR Master Log will be maintained to track all issued IDRs and to provide a clear focus for the status of IDRs. Auditors should use form BOE-698-C, *Information*

Document Request Master Log, which can be found on eBOE, to maintain and track IDRs. Copies of the IDR Master Log (either printed or electronic) should also be shared with the taxpayer so that all parties have a common understanding of the expectations and status.

B. Initial IDR

The auditor should issue the initial IDR after verbal requests with due dates for specific information/documentation were made, and the taxpayer did not furnish the information/documentation, unless doing so results in a period of the audit expiring under the statute of limitations. If a period of the audit will expire, the BOE may issue a determination for an expiring period(s) in lieu of following the IDR process. When the auditor is unable to make verbal contact with the taxpayer, or if the taxpayer has established a pattern of delaying the progress of the audit by not responding to verbal requests, the auditor may proceed directly with the IDR process. All verbal and IDR requests must be documented on the BOE-414-Z. The auditor or lead auditor of a team audit will sign the initial IDR before issuance to the taxpayer. The audit supervisor will review the initial IDR before issuance to the taxpayer to ensure the information being requested by the auditor is reasonable and relevant to the area being reviewed and that the information being provided by the taxpayer is as stipulated in the IDRs.

All IDR requests will be on form BOE-698-A, *Information Document Request*, which can be found on eBOE. The auditor should follow these guidelines when preparing form BOE-698-A:

- **Numbering IDRs**—IDRs should be numbered sequentially when they are provided to the taxpayer. They should retain the same number when they are reissued or followed-up on (unless the nature of the information request has changed). For example, an auditor may first prepare an IDR for resale certificates, and thus should be numbered 1. Next, the auditor may prepare an IDR for paid bills, and thus should be numbered 2, and so on.
- **Due Date**—Response times should follow the guidelines set forth by Regulation 1698.5: 30 days for the initial IDR and 15 days for the second IDR, measured from the date the IDR is delivered or mailed to the taxpayer and the person designated by the taxpayer at the pre-audit or opening conference to receive IDRs.
- **Signature**—The auditor or lead auditor of a team audit should sign the initial IDR before issuance to the taxpayer. The audit supervisor should sign the second IDR before issuance to the taxpayer.
- **Subject**—Generally the area of the audit for which information or records are requested.
- **Description of Request**—Identify the information or documents requested. Clearly state the reason for the request and provide any applicable law or regulation references if appropriate.
- **History Section**—Enter all requests for information, due dates, and responses by the taxpayer. These will include verbal requests, prior IDRs, follow-ups by the auditor, and partial responses by the taxpayer.

The auditor should discuss the content of an IDR with the taxpayer to ensure the taxpayer understands what information or document is being requested and why. Discussion of the applicable laws and regulations is also essential. The auditor should also discuss alternative documentation if the information requested is not available or will not resolve the audit issue.

The auditor should discuss with the taxpayer if records exist in electronic format. The taxpayer should not be asked to re-create information in electronic format, but if the taxpayer maintains the information or records electronically, then the IDR should specifically state that electronic records are requested.

All IDRs and the IDR Master Log should be included in the back of the audit as memo schedules.

C. Responding to IDRs

Regulation 1698.5 provides that the auditor must contact the taxpayer within 30 days of receiving a response to the initial IDR. However, every effort should be made to contact the taxpayer as soon as a response is received. When the taxpayer provides the requested records, the auditor should either (1) notify the taxpayer the records are sufficient, (2) issue additional IDRs, or (3) notify the taxpayer that additional time is needed to review the records provided and provide the taxpayer with a reasonable date for future contact. All contact with the taxpayer regarding follow-ups and deadlines must be recorded on the BOE-414-Z.

Taxpayers will be allowed 30 days to respond to the initial IDR, measured from the date the IDR is delivered or mailed to the taxpayer and the person designated by the taxpayer at the pre-audit or opening conference to receive IDRs. Due dates for responses to IDRs shall be within the statute of limitations applicable to the audit. The timeframes allotted for responses to IDRs are intended to provide an orderly audit process, but they cannot be used to limit the taxpayer's right to provide information. This means if the taxpayer does provide information while the audit is still open, even if it is after the due date set in the IDR, the auditor still must give consideration to and analyze the information.

Any response other than full compliance with an IDR must be reviewed by the District Principal Auditor who will determine the course of action to be taken in response to any issues or extensions requested by the taxpayer. The District Principal Auditor will document their recommendations on the BOE-414-Z and in any necessary correspondence. All telephone contact with the taxpayer regarding extensions of IDR due dates must be documented either by a brief letter summarizing the discussion with the taxpayer or an email, as well as documented on the BOE-414-Z.

In cases where an extension to an IDR is granted, the auditor should note on the IDR form that an extension was granted, the due date for the extension, and the reason for the extension. A notation to this effect should also be made on the IDR Master Log.

D. Second IDR

If the taxpayer does not provide, by the date due, the documentation requested in the initial IDR, the auditor may proceed directly in preparing a second IDR for the same records. The audit supervisor should review the second IDR to ensure it is prepared correctly before it is issued to the taxpayer. The second IDR will be issued under the supervisor's signature and will include an explanation of the relevance of the records being requested. Form BOE-698-A should be used to prepare the second IDR and the appropriate box marked "Second IDR" checked. A copy of the initial IDR should be attached when providing the second IDR to the taxpayer. The history section of the IDR should reflect all requests for information, due dates, extensions granted, and responses by the taxpayer. Taxpayers will be allowed 15 days to provide the records in response to the second IDR measured from the date the IDR is delivered or mailed to the taxpayer and to the person designated by the taxpayer at the pre-audit or opening conference to receive IDRs, unless doing so results in a period of the audit expiring under the statute of limitations. The auditor and supervisor should document all requests for information, due dates, extensions granted, and responses by the taxpayer on the BOE-414-Z.

If the taxpayer provides incomplete or missing records, the District Principal Auditor must review the response and determine if an extension is warranted. In all cases where an extension to the second IDR is provided, and the taxpayer fails to provide the requested records by the due date of the extension, a Formal Notice and Demand letter as discussed below should be prepared.

E. Formal Notice and Demand to Furnish Information

Regulation 1698.5 provides for the issuance of a *Formal Notice and Demand* letter when a taxpayer fails to furnish the requested records in response to a second IDR requesting the same records. The *Formal Notice and Demand* letter will be signed by the DPA. A *Formal Notice and Demand* will be made on Form BOE-698-B, *Formal Notice and Demand*, which can be found on eBOE.

The *Formal Notice and Demand* should reference the two previous IDRs and copies of each should be attached. The *Formal Notice and Demand* should also state the due date for the requested records. The Formal Notice and Demand should be sent to the taxpayer (owner, partner, corporate officer), and the person designated by the taxpayer at the pre-audit conference to receive IDRs. The auditor should consider sending a copy of the *Formal Notice and Demand* letter to a representative in addition to the taxpayer's designee to receive IDRs if it is felt that the designee is uncooperative in responding to previous information document requests. Taxpayers will have 15 days from the date the *Formal Notice and Demand* was delivered or mailed to the taxpayer and the taxpayer's designee to receive IDRs, unless doing so results in a period of the audit expiring under the statute of limitations.

The *Formal Notice and Demand* letter informs the taxpayer that if the BOE does not receive the requested information, a subpoena may be issued or an estimated liability may be billed (form BOE-698-B provides this statement). Subpoena requests should follow the guidelines set forth in Audit Manual section 0401.25 and should be prepared on form

BOE-301, *Subpoena Request Form*. Although individual IDR's are issued for specific areas, a subpoena request should cover all records requested. The subpoena should be considered only when the records are known or believed to exist, the potential liability to be revealed by the records is significant, and all other methods of obtaining the records have been unsuccessful. Because the time to prepare a subpoena request may delay the audit, it is recommended that the subpoena request process begin immediately after the 15 day deadline noted in the *Formal Notice and Demand* letter that was sent to the taxpayer. In the event the taxpayer responds to the *Formal Notice and Demand* subsequent to the 15 day deadline, the subpoena request may be withdrawn.

All *Formal Notice and Demand* letters should be included at the back of the audit as memo schedules.

VIII. AUDIT FINDINGS PRESENTATION SHEETS (AFPSs)

A. Purpose

The purpose of issuing an AFPS is to present the auditor's findings for each area of the audit as it is completed. It communicates to the taxpayer specific audit findings regarding an issue or area within an audit and allows the taxpayer to address those findings while the auditor continues to work on other areas of the audit. The purpose and use of the AFPS form should be discussed at the opening conference.

AFPSs should be prepared in all large and complex audits with multiple areas of tax change. It is not necessary to prepare an AFPS for no-change audits, or audits with only one or two areas of tax change that are clearly defined. Although the use of AFPSs was initially intended for use in larger or complex audits, its use will be helpful in organizing and presenting tax errors to all taxpayers.

An AFPS should be issued during the course of the audit as soon as each area of the audit is completed. For example, if an auditor has completed the fixed asset exam, and will begin the resale test, an AFPS should be issued for the fixed asset exam. An audit area is considered complete when the auditor has completed all of the verification and the taxpayer has been provided all of the necessary opportunity and resources to provide documentation to refute the audit findings for that area. Issuing an AFPS provides the opportunity to conclude and resolve issues during the audit rather than addressing all issues/areas at the conclusion of the audit.

B. Preparing and Issuing AFPSs

AFPSs should be prepared on form BOE-699, *Audit Findings Presentation Sheet*, which can be found on eBOE. Space is provided for the discussion of the specific issue, the facts developed, the relevant law and the audit recommendation on the issue. All audit workpapers associated with the respective issue or area, including the lead and subsidiary schedules, should be provided. The auditor should include as much detail on the AFPS as possible to isolate the errors in contention. In a team audit, the lead auditor should

review and approve all AFPSs before presentation to the taxpayer. If an issue is controversial or complex, an AFPS, along with the related audit working papers, may be reviewed by the audit supervisor and/or district reviewer when appropriate prior to providing the AFPS to the taxpayer. All issuances of AFPSs, follow-ups, and deadlines must be recorded on the BOE-414-Z.

The following guidelines should be used when preparing form BOE-699:

- **AFPS Number**—Number the AFPS according to the instructions in section VIII C.
- **Audit Area/Issue**—Provide a short description of the audit area being addressed.
- **Due Date to Respond**—Follow the guidelines for response times set forth by Regulation 1698.5. This will generally be 30 days from the date the AFPS is delivered to the taxpayer.
- **Description of Findings**—Provide a short description of the findings, schedule reference number, and estimated taxable measure.
- **Summary of Findings**—Provide a summary of the audit findings. Include the methodology the auditor used to determine audited taxable measure if necessary.
- **Law or Regulation**—Cite the relevant statutory law and regulations along with the application of the tax to the facts.
- **Auditor's Position**—State the auditor's findings and conclusions based on the relevant law and facts.
- **Taxpayer's Position**—Ask the taxpayer to indicate their position regarding the audit findings. If they are in disagreement, they should state the reason they do not agree on the back of form BOE-699 and attach any supporting documentation for their position.
- **Taxpayer Signature**—Obtain the signature of the taxpayer or representative (if applicable) and the date.
- **Resolution**—If the taxpayer disagrees with the audit findings, the auditor must indicate what steps were taken to resolve any disagreements.

C. Numbering AFPSs

As with IDRs, AFPSs should be numbered sequentially at the time they are issued starting with 1. Auditors may assign numbers differently in order to facilitate team audits, but it is imperative that the taxpayer understands the numbering system so that they are not looking for a "missing AFPS" which has not been issued.

An AFPS Master Log must be maintained to track all AFPSs and to provide a clear focus for all adjustments made. Auditors should use form BOE-699-A, *Audit Findings Presentation Sheet Master Log*, which can be found on eBOE, to maintain and track AFPSs. The AFPS Master Log should be shared with audit team members and the audit supervisor. This allows the lead auditor or audit supervisor the opportunity to review AFPSs and monitor the status of the audit. A copy of the AFPS Master Log (either paper or electronic) may also be shared with the taxpayer.

All AFPSs and the AFPS Master Log should be included in the back of the audit report as memo schedules.

D. Taxpayer Response to AFPS

Upon issuance of an AFPS, the auditor should give the taxpayer an opportunity to clarify the facts and provide rebuttal arguments to the audit findings. The taxpayer should be encouraged to respond using the back of form BOE-699 or other correspondence. This process can result in the resolution of the issue at the lowest level, minimizing time and costs for both the BOE and the taxpayer. The taxpayer should indicate agreement or disagreement with the audit findings and provide additional documentation to support their position if they disagree. The taxpayer should be advised that agreement to an area of the audit through use of an AFPS does not preclude protest or other administrative rights (form BOE-699 also contains this statement).

Response times may vary, depending upon the difficulty and complexity of the issue or area and the amount of discussion that has already taken place between the auditor and the taxpayer in advance of issuing the AFPS. The response time should generally be 30 days from the date AFPS was mailed or delivered to the taxpayer. However, due dates for responses to any AFPS shall be within the statute of limitations applicable to the audit. Auditors will consider late responses to an AFPS, provided a period of the audit will not expire due to the statute of limitations. Depending on the area or issue in the audit, some AFPSs can be responded to in less than 30 days. Others will require additional time. The auditor has the discretion to adjust this timeframe as warranted. All responses and follow-ups must be documented on the BOE-414-Z.

If the taxpayer does not respond to the AFPS, or returns an AFPS without any indication of whether they agree or disagree, the auditor should make every effort to obtain verbal indication of whether the taxpayer agrees or disagrees. If the taxpayer does not provide any verbal indication, or if the taxpayer wishes to withhold any agreement, it will be assumed the taxpayer does not agree with the audit result for that area. The auditor should enter a "Discussion with Taxpayer" comment in the "General Audit Comments" section of Form BOE-414-A, *Field Audit Report* in accordance with Audit Manual section 0207.10.

E. Revising AFPSs

While every effort is made to ensure the audit findings are correct before the issuance of an AFPS, there are times when an AFPS will need to be revised. For example, once the taxpayer has a clear understanding of the proposed adjustment, the taxpayer provides additional documentation to support their position, or the auditor may find a computational error. Both may necessitate issuing a revised AFPS and providing a copy to the taxpayer for response. A revised AFPS should be issued when:

- Errors are noted in the computation of taxable measure,
- Additional material facts are provided,

- A different section of the law is applicable rather than the one(s) stated in the original AFPS, or
- Any other adjustment to the audit findings is deemed warranted.

The auditor should use the same numbering for the revised AFPS as the original AFPS, with some indication that it is a revised version. For example, AFPS 1 is for resales. When a revised AFPS is issued, it should be numbered 1-A. The second revised AFPS should be numbered 1-B, etc. The auditor should note in the Master AFPS Log that a revised AFPS was issued. The auditor should not delete original AFPSs that were issued to the taxpayer; instead, all copies of AFPSs that have been provided to the taxpayer should be retained.

If the auditor determines that a revised AFPS is not warranted based on the taxpayer's response, the auditor should make a comment in the resolution section of the AFPS and provide a copy to the taxpayer. The taxpayer's responses to AFPSs should not be included in the audit package without a comment being made in the resolution section as to how the taxpayer's response was addressed and why.

F. Withdrawing an AFPS

In some cases, the taxpayer might provide additional information/documentation resulting in a no-change in a particular area of the audit. The AFPS should then be formally withdrawn. This can be accomplished by using the original AFPS, adding a comment in the resolution section that provides a brief explanation of the reason for the withdrawal and providing a copy to the taxpayer. The Master AFPS Log should be updated to reflect the AFPS withdrawal.

IX. EXIT CONFERENCE

A. Purpose

The purpose of an exit conference is for the auditor and taxpayer to discuss and review the final audit findings. The exit conference is generally held after the field work has been completed; however, an exit conference may also be held on the last day of the field work. The auditor assigned to a particular area of the audit should methodically lead the taxpayer through the audit workpapers, discussing the results of each area of the audit. The lead auditor may want to recap any findings previously discussed in status conferences or through an AFPS, if necessary. In a team audit, the auditor assigned to a particular area of the audit should lead the discussion of that area. However, the lead auditor should be present to assist with any questions or concerns the taxpayer may have.

The auditor should provide the taxpayer a copy of the final audit workpapers, including the verification comments, prior to the exit conference so the taxpayer has the opportunity to review them. However, the workpapers may be provided during the exit conference if necessary.

If at the time of any discussion the audit workpapers are not complete, the auditor may leave copies of all schedules that were used in the discussion with the taxpayer. Once the workpapers are completed, the auditor should ensure the taxpayer receives a copy of the final set of audit workpapers either by mail, encrypted email, or hand-delivery. Delivery of the audit workpapers should be documented on the BOE-414-Z.

B. Who Should Attend the Exit Conference?

Generally the auditor or lead auditor in team audit will facilitate the exit conference. Audit team members should also be present at the exit conference if available. Taxpayers (owners, partners, or corporate officers) should be invited and encouraged to attend the exit conference, even if they have authorized another party to represent them. At a minimum, the auditor should request the person who primarily handled the audit for the taxpayer be present at the exit conference. In accordance with Audit Manual section 0207.02, it is recommended that the audit supervisor attend the exit conference when the audit liability is above \$25,000, when it is likely the taxpayer will not agree with the audit findings, or when there is an evasion penalty.

C. Agenda for the Exit Conference

In addition to an explanation of the audit findings, the following are suggested topics for the exit conference:

- **Review Process**—The auditor should explain the BOE’s review process (by the audit supervisor and reviewer) and provide an estimated date of when the audit will be submitted to each respectively. The taxpayer should be made aware that the audit is not final until after the review and billing process. Any audit workpapers adjusted as a result of the review process will be provided to the taxpayer as soon as possible.
- **Timeframe to Provide Additional Documentation**—Generally, taxpayers will be allowed 30 days from the date of the exit conference to indicate whether they agree or disagree with the audit findings, unless doing so results in a period of the audit expiring under the statute of limitations. If the taxpayer disagrees with the audit findings, they may provide additional information within these 30 days for the auditor to consider. The auditor may adjust the audit findings if warranted based on the information provided.
- **Correspondence from the BOE**—The auditor should explain what letters or notices the taxpayer can expect to receive from the BOE. This includes the formal audit report, the 10-day hearing process, the BT-836, *Report of Discussion of Audit Findings* (if applicable), and the *Notice of Determination*.
- **Prepaying an Audit Liability**—The auditor should provide the taxpayer an estimate of when a *Notice of Determination* may be issued. The auditor should also inform the taxpayer how to download a copy of form BOE-1, *Audit Prepayment Information*, and explain how to prepay an audit liability to stop the accrual of additional interest.
- **Petition for Redetermination, Administrative Protest, Claim for Refund and Settlement**—If not already provided, the auditor should inform the taxpayer of how

to download a copy of publication 17, *Appeals Procedures*, and explain to the taxpayer their protest and appeals rights.

X. CONCURRENT AUDITS

Generally, the BOE will not hold in abeyance the start of an audit pending the conclusion of an audit of prior periods or pending completion of an appeal of a prior audit currently in the BOE's appeals process. In cases where a prior audit is under appeal and the audit for the subsequent periods is not held in abeyance, the BOE will begin the current audit by examining areas that are not affected by the outcome of the appeal. However, each audit engagement should be considered on a case-by-case basis and the decision whether to postpone the subsequent audit or begin the subsequent audit will be at the discretion of the District Administrator.

XI. OBSOLECENCE

This Operations Memo will become obsolete when the information contained herein is incorporated into the appropriate manuals.

Jeffrey L. McGuire
Deputy Director
Sales and Use Tax Department

Attachments:

Exhibit A – Form BOE-698-A, *Information Document Request*

Exhibit B – Form BOE-698-C, *Information Document Request Master Log*

Exhibit C – Form BOE-698-B, *Formal Notice & Demand*

Exhibit D – Form BOE-699, *Audit Findings Presentation Sheet*

Exhibit E – Form BOE-699-A, *Audit Findings Presentation Sheet Master Log*

Exhibit F – Sample Audit Plan #1

Exhibit G – Sample Audit Plan #2

**Exhibit A – Form BOE-698-A, Information Document Request
Initial IDR**



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

[UNIT NAME]

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[BOE MAILING ADDRESS]

[XXX-XXX-XXXX] • FAX [XXX-XXX-XXXX]

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BETTY T. YEE
First District, San Francisco

MICHELLE STEEL
Third District, Rolling Hills Estates

JEROME E. HORTON
Fourth District, Los Angeles

JOHN CHIANG
State Controller

BARBARA ALBY
Acting Member
Second District, Sacramento

KRISTINE CAZADD
Interim Executive Director

5/10/10

XYZ Company
5000 Corporate Drive
Denver, CO 80010

SZ OH 100-123456

INFORMATION/DOCUMENT REQUEST

IDR Number:	3	Requestor:	Brittany Auditor
Due Date:	6/25/10	Title:	Associate Tax Auditor
<input checked="" type="checkbox"/> Initial IDR	<input type="checkbox"/> Second IDR	Office:	Sacramento, CA
Case:	98765	Telephone:	916-555-4444
Audit Period:	1/1/07-12/31/09	Fax:	916-555-4443
Subject:	Asset Purchases		

Requestor Signature

A block test of asset purchases is being performed. Attached is a list questioned asset purchases. Please provide an invoice for each asset purchase on the list.

History

Date:	Action:	Due Date:
3/20/10	Verbal request for records made during field visit.	4/30/10
5/10/10	First IDR request.	6/10/10

**Exhibit A – Form BOE-698-A, Information Document Request
Second IDR**



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BETTY T. YEE
First District, San Francisco

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Fourth District, Los Angeles

JOHN CHIANG
State Controller

BARBARA ALBY
Acting Member
Second District, Sacramento

KRISTINE CAZADD
Interim Executive Director

6/10/10

XYZ Company
5000 Corporate Drive
Denver, CO 80010

SZ OH 100-123456

INFORMATION/DOCUMENT REQUEST

IDR Number:	3	Requestor:	Christina Supervisor
Due Date:	6/25/10	Title:	Supervising Tax Auditor
<input type="checkbox"/> Initial IDR	<input checked="" type="checkbox"/> Second IDR	Office:	Sacramento, CA
Case:	98765	Telephone:	916-555-4444
Audit Period:	1/1/07-12/31/09	Fax:	916-555-4443
Subject:	Asset Purchases	_____ <i>Requestor Signature</i>	

An IDR request was issued on 5/10/10 requesting purchase invoices for questioned asset purchases subject to use tax. These were provided prior to the due date, however the following invoices were missing:

- Invoice 23594 Rob's Distributing
- Invoice 9988123 Johnson's Supply Co.
- Invoice 40-3323 Atlas Machine Tools Co.

Please provide these invoices by the due date above.

History

Date:	Action:	Due Date:
3/20/10	Verbal request for records made during field visit.	4/30/10
5/10/10	First IDR request.	6/10/10
5/15/10	Taxpayer responded to first IDR, however some invoices were missing.	
5/20/10	Follow-up by auditor informing taxpayer of missing purchase invoices.	6/10/10
6/10/10	Second IDR request.	6/25/10

Exhibit B – Form BOE-698-C, IDR Master Log

BOE-698-C (8-10)

**INFORMATION DOCUMENT
REQUEST MASTER LOG**STATE OF CALIFORNIA
BOARD OF EQUALIZATION**XYZ CORPORATION
January 1, 2007-December 31, 2009**

IDR NO.	SUBJECT	REQUEST DATE	ISSUE DATE	DUE DATE	DATE RECEIVED	COMMENTS
1	Resale Certificates	Verbal Request	04/01/10	04/30/10	None	No response to initial IDR. Full response to second IDR.
		Initial IDR	05/05/10	06/05/10	None	
		Second IDR	06/06/10	06/21/10	06/10/10	
		Formal Notice				
2	Tax Accrual Account	Verbal Request	04/01/10	04/30/10	None	Sufficient alternative documentation was provided.
		Initial IDR	05/01/10	05/30/10	Withdrawn	
		Second IDR				
		Formal Notice				
3	Asset Purchases	Verbal Request	03/20/10	04/30/10	None	No response to verbal request. Initial IDR prepared. Taxpayer responded to initial IDR, however provided incomplete records. Second IDR prepared for missing invoices.
		Initial IDR	05/10/10	06/10/10	06/05/10	
		Second IDR	06/10/10	06/25/10	None	
		Formal Notice				
4	Paid Bills	Verbal Request	04/01/10	04/30/10	None	No response to verbal request. Documentation provided in response to initial IDR.
		Initial IDR	05/10/10	06/10/10	05/15/10	
		Second IDR				
		Formal Notice				

**Exhibit C – Form BOE-698-B, *Formal Notice and Demand*
Completed Version**



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

[UNIT NAME]

[BOE STREET ADDRESS]

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BETTY T. YEE
First District, San FranciscoMICHELLE STEEL
Third District, Rolling Hills EstatesJEROME E. HORTON
Fourth District, Los AngelesJOHN CHIANG
State ControllerBARBARA ALEY
Acting Member
Second District, SacramentoKRISTINE CAZAOD
Interim Executive Director

6/25/10

XYZ Company
5000 Corporate Drive
Denver, CO 80010

Account: SZ OH 100-123456
Audit Period: 1/1/07-12/31/09
Case: 98765

Dear XYZ Company:

We have not received responses to our initial and subsequent follow-up requests for Information Document Requests (IDR's) 1 and 3. Copies are attached for your reference. We need the information requested in those IDR's to correctly determine your tax liability or refund and complete our examination.

This is a **formal, legal demand** for the information requested. California Revenue and Taxation Code sections 7053 and 7054 provide that every seller or purchaser of tangible personal property must keep appropriate records and provide those records to the Board of Equalization for examination upon request.

If we do not receive the information requested by July 10, 2010, we will be required to either issue a subpoena requiring that you provide the books and records or prepare a billing for estimated additional taxes due.

To ensure proper handling, attach a copy of this letter to your reply and send it to:

Board of Equalization
Attn: Brittany Auditor
3321 Power Inn Rd, Ste 130
Sacramento, CA 95818

If you have any questions regarding this matter, please call me at 916-555-5555.

Sincerely,

Hannah Principal
District Principal Auditor

Enclosures

IDR 1 & 3

E-file now, find out how . . . www.boe.ca.gov

**Exhibit D – Form BOE-699, Audit Findings Presentation Sheet – Page 1
Completed Version**

BOE-699 (FRONT) (6-10)
AUDIT FINDINGS PRESENTATION SHEET

STATE OF CALIFORNIA
BOARD OF EQUALIZATION

TAXPAYER NAME XYZ Company	AFPS NUMBER 2
ACCOUNT NUMBER SZ OH 100-123456	DATE 6/10/10
AUDIT CASE 98765	AUDITOR Brittany Auditor
AUDIT PERIOD January 1, 2007 - December 31, 2009	TELEPHONE 916-555-4444
AUDIT AREA/ISSUE (example: Test of Resales) Asset Purchases	
DUE DATE TO RESPOND (date) 7/10/10	

DESCRIPTION OF FINDINGS	SCHEDULE REFERENCE	ESTIMATED TAXABLE MEASURE
Unreported ex-tax purchases of assets	12B	\$192,500

The audit findings presented are the auditor's proposed recommendation for determination and are subject to further review. Agreement to the audit findings does not preclude the taxpayer from appealing the issue(s) at a later date. Taxpayers may use audit pre-payment form BOE-1 if at any time during the audit they wish to pay all or part of the proposed audit liability. Advance payment of the tax portion will stop the accrual of interest; however, it will not affect the right to appeal portions of the audit with which the taxpayer does not agree.

SUMMARY OF FINDINGS
Capital asset purchases were examined on an actual basis. Unreported ex-tax purchases were scheduled and were noted to be subject to use tax.

LAW/REGULATION SECTION
Sales and Use Tax Law Section 6201

AUDITOR'S POSITION
Questioned asset purchases were noted to be purchased from unregistered, out-of-state vendors. The purchases were noted to be consumed in this state in the taxpayer's business. Use tax was not collected by the vendor, nor was it reported on the taxpayer's sales and use tax return.

**Exhibit D – Form BOE-699, *Audit Findings Presentation Sheet* – Page 2
Completed Version**

BOE-699 (BACK) (4-10)

TAXPAYER’S POSITION: *(Please indicate your position regarding the audit findings. If you do not agree, please state your reason and attach the necessary documentation to support your position. If you currently don’t have any position, please state so.)*

- Agree with Audit Findings
- Disagree with Audit Findings

PRINT TAXPAYER’S OR REPRESENTATIVE’S NAME	TAXPAYER’S OR REPRESENTATIVE’S SIGNATURE	DATE
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RESOLUTION

Exhibit F – Sample Audit Plan #1

**Audit Plan
ABC Manufacturing**

Audit Period: XX/XX/20XX to YY/YY/20YY
 Discussed with _____ on XX/XX/20XX
 Case ID: XXX123

Permit Number: SR OH 1XX-XXX123

Check as Applicable
 Initial Audit Plan: _____
 Amended Audit Plan _____
 Date: XX/XX/XX

Description of Taxpayer's Business Operations:				
Audit Logistics:				
Estimated Audit Completion Date				
BOE Staff				
Taxpayer Staff				
Location of Audit & Records				
TP Photocopy/Scanning Policy				
Refund Claims on File?				
Initial Waivers on File?				
Prior Audit on File?				
Scheduled Future Appointments				
Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
				Planning:
				Pre-audit Conference Meeting Set
				Review IRIS: AUD MC, TAR AI, APL PR, etc.
				Review prior audit working papers, 414M, 1164s
				Review claims for refund
				Prepare engagement letter and pamphlets for mailing
				Alert Computer Audit Specialist (CAS) of Audit Assignment
				Contact taxpayer for initial audit meeting
				Meet with taxpayer at initial planning meeting
				Audit plan discussed with taxpayer and their representatives
				Provide taxpayer with listing of phone numbers of team, etc.
				Tour of Facilities

Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
				Verify registration, sub locations and make any corrections
				Prepare BOE-1296
				Identify related accounts
				Hours for Planning
				Understand Method of Reporting Sales & Use Tax Returns:
				Interview taxpayer to understand method of reporting
				Write reporting method comments
				Review sales and use tax worksheets and returns
				Schedule compiling errors
				Write audit verification comments
				Discuss findings with taxpayer
				Name of assistant(s) for this section:
				Hours for Method of Reporting
				Tax Accrual Reconciliation:
				Discuss method of testing tax accrual with taxpayer
				Understand and test of credits (additions) to accrual account
				Clear debits (deletions) for payments to the Board
				Question unsupported debits (deletions) to the accrual account
				Verify taxpayer collects correct amount of district tax
				Write audit verification comments
				Discuss findings with taxpayer
				Name of assistant(s) for this section:
				Hours for Tax Accrual Reconciliation
				Sales Examination:
				Discuss method of testing sales with taxpayer
				Circle testing type: Actual, Stat Sample, Block, MAP, PAPE
				Sales Examination - PAPE
				Consider PAPE, review prior AWP's, discuss with supervisor
				Discuss PAPE with taxpayer
				Prepare PAPE proposal and submit to supervisor
				Prepare PAPE projection, AWP's, discuss with taxpayer
				Write PAPE audit verification comments
				Sales Examination - MAP
				Consider eligibility for MAP
				Discuss MAP with supervisor
				Discuss MAP with taxpayer
				Prepare MAP Participation Agreement
				Present MAP Participation Agreement to taxpayer
				Review taxpayer's progress on MAP

Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
				Write MAP audit verification comments
				Sales Examination - Stat Sample, Actual, or Block
				Obtain records and validate completeness of sales
				Prepare audit sampling plan (BOE-472): discuss with taxpayer
				Review sales invoices and related documents
				Schedule questioned transactions
				Present questioned items to taxpayer and discuss XYZ process
				Deadline for Receipt of XYZ letters
				Review XYZ letters
				Revise schedule of questioned transactions
				Prepare projections, subsidiary and lead schedules
				Prepare Audit Findings Presentation Sheet (AFPS)
				Present findings to taxpayer
				Write audit verification comments
				Name of assistant(s) for this section:
				Hours for Sales Examination
				Consumables & Supplies Purchases:
				Discuss method of testing expenses with taxpayer
				Circle testing type: Actual, Stat Sample, Block, MAP, PAPE
				Consumables & Supplies: PAPE
				Consider PAPE, review prior AWP's, discuss with supervisor
				Discuss PAPE with taxpayer
				Prepare PAPE proposal and submit to supervisor
				Prepare PAPE projection, AWP's, discuss with taxpayer
				Write PAPE audit verification comments
				Consumables & Supplies: MAP
				Consider eligibility for MAP
				Discuss MAP with supervisor
				Discuss MAP with taxpayer
				Prepare MAP Participation Agreement
				Present MAP Participation Agreement to taxpayer
				Review taxpayer's progress on MAP
				Write MAP audit verification comments
				Consumables & Supplies: Stat Sample, Actual, or Block
				Obtain records and validate completeness of expenses
				Prepare audit sampling plan (BOE-472): discuss with taxpayer
				Review purchase invoices and related documents
				Schedule questioned transactions
				Present questioned items to taxpayer and discuss ABC process
				Deadline for Receipt of ABC letters
				Review ABC letters

Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
				Revise schedule of questioned transactions
				Prepare projections, subsidiary and lead schedules
				Prepare Audit Findings Presentation Sheet (AFPS)
				Present findings to taxpayer
				Write audit verification comments
				Name of assistant(s) for this section:
				Hours for Consumables & Supplies Purchases
				Fixed Asset Purchases:
				Discuss method of testing fixed assets with taxpayer
				Circle testing type: Actual, Stat Sample, Block, MAP, PAPE
				Fixed Assets: PAPE
				Consider PAPE, review prior AWP's, discuss with supervisor
				Discuss PAPE with taxpayer
				Prepare PAPE proposal and submit to supervisor
				Prepare PAPE projection, AWP's, discuss with taxpayer
				Write PAPE audit verification comments
				Fixed Assets: MAP
				Consider eligibility for MAP
				Discuss MAP with supervisor
				Discuss MAP with taxpayer
				Prepare MAP Participation Agreement
				Present MAP Participation Agreement to taxpayer
				Review taxpayer's progress on MAP
				Write MAP audit verification comments
				Fixed Assets: Stat Sample, Actual, or Block
				Obtain records and validate completeness of fixed assets
				Prepare audit sampling plan (BOE-472): discuss with taxpayer
				Review purchase invoices and related documents
				Schedule questioned transactions
				Present questioned items to taxpayer and discuss ABC process
				Deadline for Receipt of ABC letters
				Review ABC letters
				Revise schedule of questioned transactions
				Prepare projections, subsidiary and lead schedules
				Prepare Audit Findings Presentation Sheet (AFPS)
				Present findings to taxpayer
				Write audit verification comments
				Name of assistant(s) for this section:
				Hours for Fixed Asset Purchases
				Self-Consumed Inventory:

Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
				Tour facilities and consider the extent of self-consumption
				Discuss self-consumption with taxpayer
				Consider samples, maintenance contracts, repairs, etc.
				Review taxpayer's records
				Discuss method of testing self-consumption with taxpayer
				Circle testing type: Actual, Stat Sample, Block, MAP, PAPE
				Self-Consumed Inventory: PAPE
				Consider PAPE, review prior AWP's, discuss with supervisor
				Discuss PAPE with taxpayer
				Prepare PAPE proposal and submit to supervisor
				Prepare PAPE projection, AWP's, discuss with taxpayer
				Write PAPE audit verification comments
				Self-Consumed Inventory: MAP
				Consider eligibility for MAP
				Discuss MAP with supervisor
				Discuss MAP with taxpayer
				Prepare MAP Participation Agreement
				Present MAP Participation Agreement to taxpayer
				Review taxpayer's progress on MAP
				Write MAP audit verification comments
				Self-Consumed Inventory: Stat Sample, Actual, or Block
				Obtain records and validate completeness of items
				Prepare audit sampling plan (BOE-472): discuss with taxpayer
				Review journal entries and related documents
				Schedule questioned transactions
				Prepare Audit Findings Presentation Sheet (AFPS)
				Present questioned items to taxpayer
				Write audit verification comments
				Name of assistant(s) for this section:
				Hours for Self-Consumed Inventory
				Other Sales - Fixed Assets, etc.:
				Discuss method of testing sales of fixed assets with taxpayer
				Circle testing type: Actual, Stat Sample, Block, MAP, PAPE
				Other Sales - PAPE
				Consider PAPE, review prior AWP's, discuss with supervisor
				Discuss PAPE with taxpayer
				Prepare PAPE proposal and submit to supervisor
				Prepare PAPE projection, AWP's, discuss with taxpayer
				Write PAPE audit verification comments
				Other Sales - MAP
				Consider eligibility for MAP

Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
				Discuss MAP with supervisor
				Discuss MAP with taxpayer
				Prepare MAP Participation Agreement
				Present MAP Participation Agreement to taxpayer
				Review taxpayer's progress on MAP
				Write MAP audit verification comments
				Other Sales - Stat Sample, Actual, or Block
				Obtain records and validate completeness of sales
				Prepare audit sampling plan (BOE-472): discuss with taxpayer
				Review sales contracts and related documents
				Schedule questioned transactions
				Present questioned items to taxpayer and discuss XYZ process
				Deadline for Receipt of XYZ letters
				Review XYZ letters
				Revise schedule of questioned transactions
				Prepare projections, subsidiary and lead schedules
				Prepare Audit Findings Presentation Sheet (AFPS)
				Present findings to taxpayer
				Write audit verification comments
				Name of assistant(s) for this section:
				Hours for Other Sales - Fixed Assets, etc.
				Exemptions - Food, Bad Debt, TPPR, etc.:
				Discuss method of testing exemptions with taxpayer
				Circle testing type: Actual, Stat Sample, Block, MAP, PAPE
				Exemptions - PAPE
				Consider PAPE, review prior AWP's, discuss with supervisor
				Discuss PAPE with taxpayer
				Prepare PAPE proposal and submit to supervisor
				Prepare PAPE projection, AWP's, discuss with taxpayer
				Write PAPE audit verification comments
				Exemptions - MAP
				Consider eligibility for MAP
				Discuss MAP with supervisor
				Discuss MAP with taxpayer
				Prepare MAP Participation Agreement
				Present MAP Participation Agreement to taxpayer
				Review taxpayer's progress on MAP
				Write MAP audit verification comments
				Exemptions - Stat Sample, Actual, or Block
				Obtain records and validate completeness of transactions
				Prepare audit sampling plan (BOE-472): discuss with taxpayer

Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
				Review invoices and related documents
				Schedule questioned transactions
				Present questioned items to taxpayer and discuss XYZ process
				Deadline for Receipt of XYZ letters
				Review XYZ letters
				Revise schedule of questioned transactions
				Prepare projections, subsidiary and lead schedules
				Prepare Audit Findings Presentation Sheet (AFPS)
				Present findings to taxpayer
				Write audit verification comments
				Name of assistant(s) for this section:
				Hours for Exemptions
				Claims for Refund:
				Discuss claims for refunds with taxpayer
				Send letter requesting records to support claim for refund
				Send 2 nd letter requesting records to support claim for refund
				If records not presented consider denying interest
				Discuss denial of credit interest with supervisor, if needed
				Discuss denial of credit interest with taxpayer, if needed
				Send letter concerning denial of credit interest to taxpayer
				Request taxpayer to sign waiver of credit interest form
				Prepare and mail letter denying claim for refund, if needed
				Review records for claim for refund
				Schedule questioned transactions
				Prepare Audit Findings Presentation Sheet (AFPS)
				Present questioned items to taxpayer
				Review additional documentation to support claim for refund
				Prepare audit working papers
				Present findings to taxpayer
				Write audit verification comments
				Name of assistant(s) for this section:
				Hours for Claims for Refund
				Information Document Request:
				Prepare initial IDR
				Follow-up on initial IDR
				Prepare second IDR
				Follow-up on second IDR
				Prepare formal notice and demand letter
				Follow-up on formal notice and demand letter
				Hours for Information Document Request

Date Completed	Date Started Or N/A	Estimated Hours	AWP Reference	Audit Procedures and Tasks
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This audit plan is a collaborative effort by the auditor and taxpayer to acknowledge the various audit areas to be addressed during the verification of the returns, the scope of testing warranted in each area and the anticipated timeline for completion. This audit plan may be modified as the audit progresses. Should any deviation to this plan be required, it will be fully discussed with the taxpayer. Signature below indicates acknowledgment that the audit plan was discussed prior to implementation.

	Print Name	Title	Signature	Date
Auditor:	_____	_____	_____	_____
Taxpayer:	_____	_____	_____	_____
Supervisor:	_____	_____	_____	_____

Exhibit G – Sample Audit Plan #2

TAXPAYER NAME

AUDIT PERIOD: 7/1/XX TO 6/30/ZZ

Discussed with: on: 3/10/AA

PERMIT: XX-123456

CASE ID: XXXXXX

Check as Applicable

INITIAL AUDIT PLAN: _____

AMENDED AUDIT PLAN: _____

DATE: 1/1/2010

BOE Audit Team	Lead - Supervisor - CAS - Team members -		
Taxpayer Staff contacts:	Overall control - IDR & AFPS contact - IT - AR mgr - AP mgr - GL mgr - S&Utx returns - Corp officer - for status letters and waiver signatures		
Estimated start date of field work			
Estimated audit completion date			
Waiver Status			

Description of Taxpayer's Business Operations:

For example:
Taxpayer created and maintains internet search engine. Sales of equipment = server appliances, phones. Sales of software.
Maintenance contracts for hardware and software?
Delivery method for software licenses and upgrades?

Audit Procedures and Tasks	AWP	(Expected) Start Date	(Expected) Completion Date	Actual Completion Date
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Planning:

Review IRIS: AUD MC, TAR AI, APL PR, etc.				
Prepared and mailed engagement letter, 80RU and pamphlets. No response to first letter to tax director - sent second to corporate officer.				
Confirm Audit Period - Obtain initial waiver in consideration of request to delay start of audit				
Review claim for refund CID # – 30 day letter				
15 day letter				
Denial				

Alert Computer Audit Specialist (CAS) of Audit Assignment for all mandatory accounts. Prepare info sheet				
Contact TP to set up initial audit meeting – discuss electronic records requested and email follow up with 82, 175d and CAS checklist. Set up Pre-Audit conference as warranted – confirm with CAS and TP IT staff.				
Request list of locations/Subsidiaries/Divisions				
Obtain electronic 414M				
Review prior audit working papers – consider potential for PAPE, note areas of audit adjustment and testing methods & results				
Discuss applicability of MAP program with supervisor.				
Taxpayer website review – nature of business, products sold, locations, officers, recent financials etc.				
Pre Audit Planning Meeting - to facilitate (electronic) data requests				
Introduce CAS - review 175d, format of data, fields required, control totals, validation process. Set timelines for data retrieval in each audit area.				
Discuss prior audit results and introduce potential areas for PAPE consideration.				
Request chart of accounts & departmental listing				
Verify registration, sub locations, NAICS code. Make any necessary corrections for compliance.				
Collect BOE 82. Can taxpayer accept encrypted data?				
Collect BOE 80RU - prepare 1296				
Discuss potential Claims for Refund				
Discuss nature of business and any changes since prior audit, or during current audit period - schedule tour of facilities.				
Sale of Business divisions? Purchase of other companies?				
Related Accounts?				
Set date of opening conference and start of field work.				
Opening Conference				
Hold team meeting to discuss overall audit goals and potential audit issues noted in planning phase. Prepare Formal Engagement Letter. Prepare initial Audit Program and Document Request Timeline to review at opening conference.				

Meet with taxpayer, supervisor and audit team. Review Formal Engagement Letter. Audit Program and Document Request Timeline.				
Confirm start date of field work and available facilities, badge requirements, etc.				
Planning				
Thorough Review of Method of Reporting:				
Audit team member: A. Auditor				
Interview taxpayer to understand method of reporting				
Write reporting method comments				
Review sales and use tax worksheets and returns				
Schedule compiling errors				
Review 414M for excess or additional tax adjustments and resolve				
Review 414M for tax differences >\$50 and resolve				
Method of Reporting				
Tax Accrual Reconciliation:				
Audit team member: A. Auditor				
Request GL tax accrual account detail – verify CA activity.				
Reconcile to reported per 414M				
Analyze differences – provide preliminary schedule to TP for review.				
Overaccrual concerns? – test warranted or Actual?				
Review Debit entries to accrual account – test basis or actual				
Write complete audit verification comments.				
Discuss findings with taxpayer and provide copy of schedules. AFPS				
Prepare IDR's				
Tax Accrual Reconciliation				
Sales Examination:				
Audit team member: B. Auditor				
PAPE - MAP?				
Various test populations warranted? types of sales activity – equipment sales, SW, warranties etc. Interstate Commerce vs Resale				

Sales Examination – test basis decided				
Obtain electronic test data & control totals				
Obtain electronic population data and validate completeness of sales				
Prepare audit sampling plan (BOE-472): discuss with taxpayer				
Sample selections given to taxpayer				
Review sales invoices and related supporting documents (resale cards, purchase orders)				
Schedule questioned transactions				
Present questioned items to taxpayer and discuss XYZ process – timeline for 1 st request, 2 nd request				
Deadline for Receipt of XYZ letters				
Review XYZ letters				
Update schedule of questioned transactions				
Prepare projections, subsidiary and lead schedules				
Write complete audit verification comments				
Discuss findings with taxpayer and provide copy of schedules. AFPS				
Prepare IDR's				
Sales Examination				
Accounts Payable Purchases:				
Audit team member: A Auditor				
PAPE - MAP?				
Various populations to be tested: expense accounts of interest, assets included or reviewed separately, TPPR accounts if warranted, activity with use tax accrual, employee expenses (P-cards)				
AP Exam: test basis decided				
Obtain electronic test data & control totals				
Obtain electronic population data & validate completeness of purchases				
Prepare audit sampling plan (BOE-472): discuss with taxpayer				
Sample selections given to taxpayer				
Review purchase invoices and related documents. Trace accruals on test basis.				
Schedule questioned transactions				
Present questioned items to taxpayer and discuss ABC process				

Deadline for Receipt of ABC letters				
Review ABC letters				
Update schedule of questioned transactions				
Prepare projections, subsidiary and lead schedules				
Write complete audit verification comments				
Discuss findings with taxpayer and provide copy of schedules. AFPS				
Prepare IDR's				
AP & Employee Expense Purchases				
Fixed Asset Purchases:				
Audit team member: C. Auditor				
Discuss method of testing fixed assets with taxpayer – include in AP? PAPE?				
Fixed Assets: test basis decided				
Obtain electronic test data & control totals				
Obtain electronic population data & validate completeness of fixed assets				
Prepare audit sampling plan (BOE-472): discuss with taxpayer				
Sample selections given to taxpayer				
Review purchase invoices and related documents. Trace accruals on test basis.				
Schedule questioned transactions				
Present questioned items to taxpayer and discuss ABC process				
Deadline for Receipt of ABC letters				
Review ABC letters				
Update schedule of questioned transactions				
Prepare projections, subsidiary and lead schedules				
Write complete audit verification comments				
Discuss findings with taxpayer and provide copy of schedules. AFPS				
Prepare IDR's				
Fixed Asset Purchases				
Self-Consumption:				
Audit team member:				
Evaluate potential - no adj in prior audit, limited product sales				

Review taxpayer's records – support for any reported amounts, intercompany sales/purchases				
Discuss appropriate method of testing with taxpayer				
Self-Consumed Items: test basis decided				
Obtain electronic test data & control totals				
Obtain electronic population data & validate completeness of data				
Prepare audit sampling plan (BOE-472): discuss with taxpayer				
Sample selections given to taxpayer				
Review journal entries and related documents				
Schedule questioned transactions				
Present questioned items to taxpayer				
Review supporting documentation provided				
Update schedule of questioned transactions				
Prepare projections, subsidiary and lead schedules				
Write complete audit verification comments				
Discuss findings with taxpayer and provide copy of schedules. AFPS				
Prepare IDR's				
Self-Consumed Inventory				
Other Sales – Fixed Assets, etc.:				
Audit team member:				
Discuss method of testing sales of fixed assets – sample or actual				
Other Sales – test basis decided				
Obtain electronic test data & control totals				
Obtain electronic population data & validate completeness of sales of assets				
Prepare audit sampling plan (BOE-472): discuss with taxpayer				
Sample selections given to taxpayer				
Review sales contracts and related documents				
Schedule questioned transactions				
Present questioned items to taxpayer and review XYZ process				
Deadline for Receipt of XYZ letters – 1 st & 2 nd request				
Review XYZ letters and other supporting documentation				

Update schedule of questioned transactions				
Prepare projections, subsidiary and lead schedules				
Write complete audit verification comments				
Discuss findings with taxpayer and provide copy of schedules. AFPS				
Prepare IDR's				
Other Sales – Fixed Assets, etc.				
Journal Entries				
Audit team member:				
Evaluate audit areas potentially covered by JV exam – have they been addressed in a separate examination? potential for material audit adjustment?				
Review taxpayer's records – volume of hard copy activity, electronic data availability				
Discuss method of testing journal entries with taxpayer				
Journal Entries – test basis decided				
Obtain electronic test data & control totals				
Obtain electronic population data & validate completeness of journal entries				
Prepare audit sampling plan (BOE-472): discuss with taxpayer				
Sample selections given to taxpayer				
Review supporting documents				
Schedule questioned transactions				
Present questioned items to taxpayer				
Review supporting documentation provided				
Update schedule of questioned transactions				
Prepare projections, subsidiary and lead schedules				
Write complete audit verification comments				
Discuss findings with taxpayer and provide copy of schedules. AFPS				
Prepare IDR's				
Journal Entries				
Status Conferences Held				
#1 - Discuss data validation issues				
#2 - Discuss delays in providing supporting documentation for sales exam. Consider waiver.				

#3 - Discuss overall timeline and work required to meet completion date.				
#4 - etc.				
Audit Wrap Up				
414L Allocation				
FINAL work papers & comments provided to Taxpayer				
Exit Conference (as needed)				
Submit to Review				
Audit Wrap Up				

This audit plan is a collaborative effort by the auditor and taxpayer to acknowledge the various audit areas to be addressed during the verification of the returns, the scope of testing warranted in each area and the anticipated timeline for completion. This audit plan may be modified as the audit progresses. Should any deviation to this plan be required, it will be fully discussed with the taxpayer. Signature below indicates acknowledgment that the audit plan was discussed prior to implementation.

	Print Name	Title	Signature	Date
Auditor:	_____	_____	_____	_____
Taxpayer:	_____	_____	_____	_____
Supervisor:	_____	_____	_____	_____