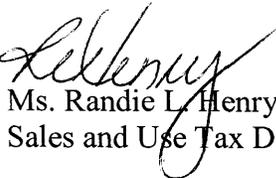


M e m o r a n d u m

To : Mr. Ramon J. Hirsig
Executive Director (MIC 73)

Date: September 11, 2008

From :  Ms. Randie L. Henry, Deputy Director
Sales and Use Tax Department (MIC 43)

Subject : **Proposed Revisions to Audit Manual Chapter 2, *Preparation of Field Audit Reports*, Chapter 3, *Audit Working Papers*, and Chapter 4, *General Audit Procedures***

In accordance with the established procedures for audit and compliance manual revisions, I am submitting the following proposed partial revisions to Audit Manual Chapter 2, *Preparation of Field Audit Reports*, Chapter 3, *Audit Working Papers*, and Chapter 4, *General Audit Procedures*, for your approval to forward to the Board Proceedings Division. These changes have been reviewed and approved by SUTD management, provided to Board Members, and posted at <http://www.boe.ca.gov/sutax/staxmanuals.htm> to solicit comments from interested parties. Chapters 2 and 3 revisions have been posted since June 18, 2008 and Chapter 4 since July 15, 2008.

We received no comments from the public. On August 27, 2008, we sent a memo advising Board Members that there were no comments and of our intention to place these revisions on the October 2, 2008 Administrative Agenda as a consent item.

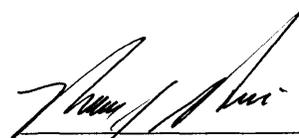
The proposed revisions are attached for your reference. We request your approval to forward these revisions to the Board Proceedings Division for placement on the next Administrative Agenda as a consent item.

If you have any questions, please let me know or contact Mr. Jeff McGuire at 324-1825.

RLH:nm:lsc

Attachment

Approved:



Ramon J. Hirsig
Executive Director

cc: (all without attachment)
Mr. Stephen Rudd (MIC 46)
Ms. Freda Orendt (MIC 47)
Mr. Jeff McGuire (MIC 92)
Mr. Bob Buntjer (MIC 49)
MS. Erin Little (MIC 46)
Ms. Kelly Reilly (MIC 47)
Mr. Geoff E. Lyle (MIC 50)
Ms. Nini McCormack (MIC 50)
BTCT Files – AM Revisions

BOARD APPROVED
At the October 2, 2008 Board Meeting

Diane Olson, Chief
Board Proceedings Division

Summary of Revisions

AM Section

- 0215.09** Deletes the erroneous statement that the signing of a Waiver of Limitation for an eight-year period does not hold all periods covered open for filing of claims for refund.
- 0302.05** Updates the procedures for preparing handwritten audit working papers.
- 0306.00 – 0306.30** Incorporates procedures for handling electronic audit working papers. Source: Tax Policy Division memo dated 8/7/2008.
- 0403.35** Incorporates an existing policy that prohibits auditors from removing cigarette and tobacco product purchase invoices at each licensed California retailers' location for at least one year after date of purchase.

This summary includes substantive revisions only. Minor revisions were made but were not included in the summary.

BENEFITS GAINED FOR SIGNING A WAIVER

0215.09

A taxpayer may benefit from signing a Waiver of Limitation as follows:

- The waiver avoids the Board's immediate issuance of a Notice of Determination in cases where the statute of limitation will expire.
- The waiver holds the period(s) in question open for filing a Claim for Refund or for offsetting any overpayment of tax against an existing tax liability.

~~However, the signing of a Waiver of Limitation for an eight-year audit period does not hold all periods covered open for filing of claims for refund. The claim for refund period remains at three years (RPC section 6902).~~

- A waiver provides the taxpayer and the Board with the ability to adapt to both foreseen and unforeseen time constraints. The waiver gives the taxpayer and the Board the time necessary to thoroughly address difficult audit issues before those issues result in a billing.
- The waiver can at times expedite the audit process by allowing time to resolve audit issues "up front," rather than during the appeals process. This may even eliminate the need to appeal the audit findings.
- The waiver may eliminate needless "red tape" which may result from a billing issued with good intentions, but that is possibly incorrect, due to time constraints that did not allow the detailed review necessary to reach a fair and equitable conclusion.

ELECTRONIC AUDIT WORKING PAPERS

0306.00

GENERAL

0306.05

All audits in process will be backed up to a designated location on the Local Area Network (LAN). Each auditor is responsible for backing up AWP's to the LAN on a weekly basis. The network's "J:\\" drive has been identified for this purpose. This procedure ensures the data can be restored in case of equipment failure. In addition, it provides supervisors the ability to review work in response to taxpayer contact, audit issues, and auditor performance issues. If a weekly backup is not practical, auditors should make alternative arrangements with their supervisors.

NAMING CONVENTION

0306.10

As a general rule, audits should be saved using the format "case ID Taxpayer Name" as the file name (e.g. 654321 Jane Doe). The addition of letter designators for multiple workbooks, account names or numbers, etc. are acceptable for clarification or identification as long as the case ID Taxpayer Name is maintained as part of the filename. In those instances where a case ID does not exist, the seller's permit number should be used as the primary form of file identification followed by the taxpayer's name. To maintain organization in the designated "Audits" portion of the SUTD LAN, the auditor should create a folder for each audit using the case ID naming convention and save all related electronic AWP's in the appropriate folder.

AUDITOR RESPONSIBILITIES

0306.20

When the audit is complete and ready for upload to IRIS, the auditor will move (not copy) the audit folder and its contents to the "Audit Control Inbox" ("Inbox") on the LAN.

AUDIT CONTROL RESPONSIBILITIES

0306.20

Audit control staff will move the audit upload file from the "Inbox" folder to an "Upload" location on the LAN and move (not copy) the audit folder from the "Inbox" folder to the "Audits Transmitted" folder. For those occasions where an audit is not immediately ready to be moved from the "Inbox" to the "Audits Transmitted" folder for archiving, there is an "Audits Pending" folder. The audit control staff should remove audit folders from the "Inbox" and place them in the "Audits Pending" folder when it is determined the audit needs to be held and not transmitted for some time.

LAN COORDINATOR RESPONSIBILITIES

0306.25

The District LAN Coordinator (or a designee) will burn the contents of the "Audits Transmitted" folder to a CD at least once a quarter, no earlier than the seventh calendar day of the month. A backup of that CD will be created during each backup session to ensure proper preservation of the data. The data on the archived CDs must be compared with the data in the "Audits Transmitted" folder to verify that all data was burned onto the CD. Once the data transfer is verified, the information in the "Audits Transmitted" folder will be deleted to preserve LAN space. Files may be archived more frequently than once a quarter

RECEIPT FOR TAXPAYER'S RECORDS

0403.35

Whenever a taxpayer leaves ~~their~~ his or her records at a ~~B~~Board office or whenever records are picked up in the field and removed from the taxpayer's premises,* a Receipt for Books and Records, Form BOE-945, must be used. Receipts will be made in duplicate, the original being given to the taxpayer or representative and the duplicate retained in the working paper file. In preparing the form, care should be taken to adequately describe the books and records.

*California retailers of cigarette and tobacco products are required by Law to keep complete and legible cigarette and tobacco product purchase invoices at each licensed location for at least one year after the date of purchase. Accordingly, auditors may not remove from the taxpayer's facilities the invoices for cigarette and tobacco products purchased during the previous 12 months. The taxpayer may provide copies of such invoices.

~~In addition to the above, the f~~Form BOE-945 has a mailing address box to be checked by the taxpayer when signing the form. This new box requests the taxpayer to indicate if the mailing address listed on the form represents a change to the mailing address of record. The auditor must verify that the taxpayer completed the mailing address box. If the taxpayer did not complete the box, the auditor should request the taxpayer to provide the information prior to the auditor signing the form. If the taxpayer indicates there is a change of address of record, the auditor should confirm the correct address, make a copy of the Form BOE-945 and provide it to the appropriate account maintenance staff. If the taxpayer indicates there is no change to the official address of record, no further action is required by the auditor.

In accordance with ~~S~~sections 1000.100 and 1000.110 of the Information Security at the Board of Equalization handbook, when taxpayer data is in the possession of the Board it will be stored in secure, lockable areas. Thus, taxpayer books and records must be stored in a locked area when the records are not actually being used.

When the books and records are returned to the taxpayer or representative, the original receipt should be obtained with proper signature of taxpayer or representative affixed thereto indicating their return. If the original receipt is not available, the duplicate copy retained by the staff should be used to obtain receipt for return of the material listed thereon.

If the taxpayer wishes to have the records ~~sent to them~~ returned by mail, this should be done in such a way that the Board has ~~their~~ the taxpayer's written instructions and a record of the shipment. The taxpayer should be asked to pay the shipping charges if they are excessive.

If the taxpayer does not respond to normal attempts to return the records, a letter should be sent to the taxpayer by certified mail at the address given on Form BOE-945. ~~This~~ The letter should notify ~~them~~ the taxpayer that the records are no longer needed and unless ~~they~~ he or she ~~call for them~~ responds or ~~advises the Board~~ advises the Board within 15 days where to ship ~~them~~ the records, ~~they records~~ will be destroyed as authorized by the taxpayer on Form BOE-945. ~~In most instances, such letters will be returned undelivered since they will only be sent after other means of communication have failed.~~ To allow an ample margin of time there should be no actual destruction of the records until at least 30 days after mailing the certified letter. After 30 days, if the taxpayer's records can serve no useful purpose in connection with the tax obligation, they should be removed from the files and disposed of in the same manner as other records the destruction of which has been authorized. A record of such destruction, together with copies of Form BOE-945 and the certified letter, should be retained.