State of California

Board of Equalization

Memorandum

To: Ms. Kristine Cazadd
Executive Director

Date: November 21, 2011

From: Jeffrey L. McGuire, Deputy Director
Sales and Use Tax Department

Subject: Board Meeting December 14 – 16, 2011
Item N: Administrative Agenda
Proposed Revisions to Audit Manual Chapter 1, *General Information*

In accordance with the established procedures for audit and compliance manual revisions, I am submitting the following proposed new Audit Manual (AM) sections to incorporate current audit policies and management guidelines:

- Section 0107.00, *Adjustments to Billed Differences*
- Section 0108.00, *Guidelines for Processing Refunds*
- Section 0109.00, *Cancellation and Credits*

The proposed AM sections have been reviewed and approved by SUTD management, provided to Board Members, and posted on the Board's website (http://www.boe.ca.gov/sutax/pmr.htm) to solicit comments from interested parties. There were no comments received from interested parties.

A copy of the new AM sections are attached for your reference. We request your approval to forward them 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 Ms. Susanne Buehler at 324-1825.

JLM:nvm
Attachment

Approved:

STATE BOARD OF EQUALIZATION

BOARD APPROVED
At the December 15, 2011 Board Meeting

Diane G. Olson, Chief
Board Proceedings Division

Ms. Kristine Cazadd
Executive Director

cc: (all without attachments)
Mr. Stephen Rudd (MIC 46)
Ms. Susanne Buehler (MIC 92)
Mr. Kevin Hanks (MIC 49)

ADJUSTMENTS TO BILLED DIFFERENCES 0107.00

Cancellations and modifications of $5,000 or more to previously billed differences require the approval of a supervisor or designee. Employees authorized to approve difference adjustments cannot create and approve the same adjustment.

Cancellations and modifications of less than $5,000 to previously billed differences do not require the approval of a supervisor or designee. However, all sections/divisions involved in adjusting differences previously billed must routinely sample these adjustments to help ensure their validity.

SAMPLE REVIEW PROCESS BY DIVISION/SECTION 0107.02

Petitions Section

Ten percent of an entire day's transactions not requiring supervisor approval are reviewed once every two weeks. Review days are selected randomly so that transactions performed by all employees have an opportunity to be reviewed. Transactions requiring review are identified by using the Audits Results Released for Billing Report and the Revenue Transaction Audit Trail Report (Audit Trail).

The Petitions Section maintains a log of the reviews performed. Log entries include the name of the reviewer, the date of review, the account number of each transaction reviewed, the name of the employee initiating the adjustment and a comment regarding action taken on any discrepancies noted. The log is retained for two years.

Return Analysis Unit

Every two weeks, a day is selected for one employee's work to be reviewed. On the day selected for review, an employee's name is randomly selected. The section supervisor or designee will review the Audit Trail, IRIS Document Management browses, daily work summaries, re-file material, or any other available resource to determine if the employee had any transactions posted for the previous day.

The employee selected is notified that his or her work is up for review and is required to submit all completed work from the previous day to the reviewer. The reviewer also performs a quality assurance review, such as proper notations left on documents, proper payment application, and extensions granted.

The section/division supervisor maintains a log of the review findings. The log contains the employee name, the date of review, and the reviewer's name and initials signifying completion of the review of the employee's work for that day. The log is retained for two years.

Consumer Use Tax Section

Ten percent of an entire day's transactions not requiring supervisor's approval are reviewed once every two weeks. Review days are randomly selected so that transactions performed by all section employees have a chance to be reviewed. Transactions requiring review are identified by using the CUT SR screen in IRIS in conjunction with the Audit Trail.

The section maintains a log to record the reviews performed. Log entries identify the date and the total number of transactions reviewed. The account number of any transaction with discrepancies is noted in the comment portion of the log. A memorandum that identifies the total number of accounts reviewed is prepared for the section files. The hard copy documentation of each report used for the review is attached to the memorandum. The log will be retained for two years.

Special Taxes and Fees Division

Every two weeks, a day is selected for one employee's work to be reviewed. On the day selected for review, an employee's name is randomly selected. The section supervisor or designee will review the IRIS Document Management subsystem browses, daily work summaries, re-file material, or any other available resource to determine if the employee had any transactions posted for the date selected for review.

The employee selected is notified that his or her work is up for review and is required to submit all completed work from the previous day to the reviewer. The reviewer also performs a quality assurance review, such as proper notations on documents, proper payment application and extensions granted.

The section supervisor maintains a log of the review findings. The log contains the employee name, the date of review, and the reviewer's name and initials signifying the completion of the review of the employee's work for that day. The log is to be retained for two years.

Special Operations Branch

Adjustments not requiring supervisor's approval that are less than $5,000 in the Special Operations Branch will be routinely sampled. A Business Taxes Compliance Specialist, on a quarterly basis, will review an employee's transactions that did not require approval. The employee will be randomly selected and the day of the review will vary so that no set pattern is followed. All employees involved in completing transactions not requiring approval will have their work reviewed. Quarterly reports will be used to identify transactions selected for review.

The section will maintain a log to record the reviews performed. The log entries will show the employee name, date of review, number of transactions reviewed, and the reviewer's name and initials. The log will also contain the number of transactions that show discrepancies. The log will be retained for two years.

Timber Tax Section

No sample review is performed as all cancellations and adjustments to previously billed differences require the approval of a supervisor or designee. Employees authorized to approve difference adjustments cannot create and approve the same adjustment.

GUIDELINES FOR PROCESSING REFUNDS 0108.00

- Claims for refund exceeding $100,000 require Board approval. ADRS handles claims for refund of $100,000 or less.
- All refunds of $5,000 or greater require approval of the section supervisor or designee.
- All refunds where the payee name or address has been changed require the approval of the section supervisor or designee.
- Refunds cannot be created and approved by the same employee.
- The section supervisor or designee will verify the validity of at least ten percent of all refunds processed by their section for one day every two weeks that did not require supervisory approval (that is, refunds of less than $5,000). The DIF BX screen in IRIS is used to request a random sample of the refunds processed and identifies the specific refunds requiring review. This review should be performed at least monthly, and the reports identifying the refunds reviewed should be retained for two years. These reports must identify the name of the person performing the review and the date on which the review was performed.

CANCELLATIONS AND CREDITS 0109.00

In general, cancellations and credits exceeding $100,000, including relief of penalties, require Board approval. Cancellations involving a fraud penalty for any amount also require Board approval.

The following categories of cancellations and credits can be processed without Board approval:

1. Credits for $100,000 or less involving cancellation or reduction of determinations and credits established for overpayments which are to be applied to other liabilities. However, credits or cancellations for amounts of $50,000.01 to $100,000.00 require approval of the Deputy Director of the appropriate program area and must be made a public record for ten days before they become effective.
2. Cancellation of Consumer Use Tax Vehicle, Vessel or Aircraft Determinations of any amount. However, cancellations in excess of $50,000 require approval of the Deputy Director of the Sales and Use Tax Department and the cancellation must be made a public record for ten days before the cancellation becomes effective.
3. Credits for cancellation of delinquency interest and penalty determined not to be due, and correction of internal accounting errors or document preparation errors.
4. Credits or cancellations of any amount for successor liabilities. However, credits or cancellations of successor liabilities in excess of $50,000 require approval of the Deputy Director of the appropriate program area.
5. Credits or cancellations resulting from approved settlement agreements.