

Audits



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STATE BOARD OF EQUALIZATION

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Taxpayers' Rights Advocate

The State Board of Equalization wants to make working with us as easy as possible. Consequently, we have appointed a Taxpayers' Rights Advocate to help you with problems you cannot resolve at other levels.



Taxpayers' Rights Advocate, MIC:70
State Board of Equalization
450 N Street
PO Box 942879
Sacramento CA 94279-0070

Telephone numbers:
Call: 916-324-2798 or toll-free, 888-324-2798
Fax: 916-323-3319

You can obtain a copy of publication 70,
The California Taxpayers' Bill of Rights, by visiting our website,
www.boe.ca.gov, or calling 800-400-7115.

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Note: The statements in this booklet are general and are current as of the date on the cover. The Revenue and Taxation Code sections governing the taxes and fees discussed in this publication are complex and subject to change. If there is a conflict between the law and this booklet, any decisions will be based on the law and not this booklet.

1. Introduction

The information in this pamphlet explains what you should expect from an audit and how you can prepare to make it easier for you and the auditor. It also discusses how to appeal an audit if you disagree with the results.

In general, accounts are subject to audits in three-year intervals, at the time a permit or license is closed out, or in connection with an audit of another permit or license held by the taxpayer or feepayer. Audits may also be initiated as a result of information received from outside sources.

It is important to remember that the conduct of audits is governed by law and Board policy. In particular, you should keep in mind that

- Board auditors will impartially determine whether you have reported the correct amount of taxes or fees. Overpayments, as well as underpayments, are considered during an audit.
- The Board's audit program is intended to correct errors that result in underreporting or overreporting and to inform you how to properly report your taxes or fees. During an audit, you may ask any questions you have about the law governing taxes or fees or your reporting requirements.
- Our auditors are expected to conduct audits in a professional, courteous and helpful manner.
- Frequently, audits do not result in any change in tax or fee liability.

Because audits will vary depending on the type or size of a business and the issues involved, this pamphlet is not intended as a comprehensive guide. For more detailed information, you may visit our website at www.boe.ca.gov or, you may contact the department that administers the tax or fee for which you have questions (see pages 11-12 for telephone numbers). If you are scheduled for an audit, you should direct your questions to the auditor assigned to your account. Our staff closely follows the policies and procedures provided in our audit and compliance manuals. These manuals, although technical by nature, are available for you to read and may help you follow the audit procedures being used in your audit. Both can be viewed and/or downloaded from our website at www.boe.ca.gov/sutax/sutaxmanuals.htm. Our audit and compliance manuals can also be ordered from our website at www.boe.ca.gov/cgi-bin/form_search.cgi. You can also ask your auditor to direct you to one or more of our Board publications written for your specific industry. *For your protection, it is best to get tax advice in writing (see page 11).*

When using this pamphlet for tax programs other than sales and use tax, please note that there may be minor differences in some procedures, or that another state agency may be involved in your audit (see page 13 for listing of other tax programs).

2. Audit Objective

The objective of an audit is to verify that you have correctly reported taxes or fees on your returns. The table on pages 13-22 describes what the auditor needs to determine in an audit and the types of records that may be requested for examination based on the type of tax or fee under consideration.

You should expect courteous and professional treatment in an audit.

In a sales and use tax audit, for example, the auditor wants to determine the following about the returns you have filed:

- Did you report all gross receipts from sales of tangible personal property and taxable labor and services?
- Did you report the cost of all business equipment and supplies that you purchased without tax either from out-of-state vendors or for resale that would be subject to use tax?
- Did you properly claim deductions?
- Did you properly allocate local tax?
- Did you use the correct rate of tax when reporting sales in special tax districts?
- Did you properly apply tax to your sales and uses of tangible personal property?

The auditor's goal is to answer these questions as accurately as possible in the minimum amount of time.

3. Preliminary Arrangements

Initial Contact

As a matter of policy, we rarely start an audit without prior notice. We have found that audits tend to be completed more efficiently when businesses have time to prepare.

Initial contact is usually by phone. If unable to reach you by phone, the auditor may write or visit your business location. During the initial contact, the auditor will tell you the audit period (usually three years) and will ask about your business operations, including the type of records that you keep. The auditor will also tell you what business records you should have ready for the audit and will ask about a convenient date and location to begin the audit.

Board audits are rarely started without prior notice.

If you want the audit handled by an authorized representative, such as your accountant or bookkeeper, you should tell the auditor during this initial contact. He or she can then arrange an appointment with your representative.

If the audit appointment is made by phone, you will be sent a letter confirming the start date of the audit, as well as a copy of Board publication 70, *The California Taxpayers' Bill of Rights*.

Scheduling an Appointment

Auditors can be flexible about the starting date and location of an audit. Normally, you can have up to two or three weeks to prepare. If you feel more time is needed, you can ask for a longer delay.

Delays and Waivers: The auditor may request that you sign a *Waiver of Limitation* for significant delays. This is a document extending the legal requirements should additional taxes or fees be determined within a prescribed three-year period. It also permits you to file a claim for refund for the period covered by the waiver. If you request a delay and there is a credit or refund involved, the auditor may also request that you sign a *Waiver of Credit Interest*. If you have questions about either waiver form, you should discuss them with the auditor.

Although the Board prefers to conduct the audit at your business location, it can be performed elsewhere. For example, the audit can be conducted out at an accountant's office or at a Board location.

If the audit is at your business, you should provide a space with a work surface, an electrical outlet and adequate light. If it is necessary to have the audit at the Board office, you will be required to leave all the needed records at the office and accept a receipt for them. Even when the audit is not at your business location, the auditor may still request a tour of your premises to get a better understanding of your operations.

Records That Will Be Reviewed

The types of records the auditor will review depends on the tax or fee program for which the audit is being conducted. Please refer to the appendix, pages 13-22, for examples of the records the auditor will need to review and for information on what the auditor will try to determine based on his or her examination of those records.

All records, even those you consider confidential, must be made available for review if they have information about your tax or fee liability. If you refuse to provide your records, the Board may issue a subpoena. To protect your privacy, Board employees are forbidden by law to divulge confidential information obtained during an audit to any unauthorized persons. Board employees who violate this law are subject to internal discipline and criminal prosecution.

How long should I keep my business records?

You should keep required records for at least *four years* unless we give you specific, written authorization to destroy them sooner. Exception: Records that cover reporting periods before January 1, 2003, may be covered by an extended statute of limitations if you did not participate in the 2005 tax amnesty program, or if fraud or intent to evade tax is discovered during an audit. You must keep those records for at least *ten years*. If you are being audited, you should retain all records that cover the audit period until the audit is complete, even if that means you keep them longer than four years. In addition, if you have a dispute with us about how much tax you owe, you should retain the related records until that dispute is resolved. For instance, if you appeal the results of an audit or another determination (billing), or you file a claim for refund, you should keep your records while that matter is pending.

Common Problems With Records

If you have lost or have not kept all of the records mentioned on pages 13-22, tell the auditor what records you do have. The auditor may be able to obtain enough information from the available records. If not, you may be required to reconstruct the missing records or the auditor may need to estimate the missing information (in some cases, records can be reconstructed from information supplied by suppliers or customers). You should also remember that if you are found to owe additional taxes or fees because of inadequate record keeping, you may be charged a 10 percent negligence penalty.

Board audits usually cover three years; so you may have some of your records in storage. Whether you should remove the records from storage will depend on the auditor's need for them. Often, records can be left at the storage location if they can be easily retrieved when requested by the auditor.

Discussion with the Auditor

Before starting the review of your records, the auditor will usually have some questions about your business operations and accounting methods. You should answer these questions as completely as possible. A full understanding of your business and accounting records will enable the auditor to more quickly and accurately complete the audit.

Managed Audit Program

The Board's original Managed Audit Program expired on December 31, 2002, however, the program was reinstated effective January 1, 2004. The Board of Equalization's Managed Audit Program (MAP) allows certain businesses to conduct a type of self-audit with instructions and guidance from one of our auditors.

If you qualify for a managed audit and we approved your participation, you will enter into a managed audit program participation agreement, and conduct many of the audit tasks that would ordinarily be performed by our auditor.

If you complete a managed audit and owe additional tax, you will pay interest on that tax liability at only *one-half the interest rate* that would otherwise apply. This can result in significant savings to you.

There are other benefits, too. In a conventional audit, our auditor typically reviews your records at your place of business, during working hours. In a managed audit, *you can review your records at a time and location most convenient for your staff*, as long as you finish your work within the time specified.

For more information, publication 53, *Guide to the Managed Audit Program*, provides general information regarding the Board of Equalization's Managed Audit Program as well as specific instructions for managed audit procedures. Prepayment accounts may now participate in a MAP and the Board may grant relief of liability under Revenue and Taxation Code section 6596 in cases where taxpayers who have participated in the MAP rely on erroneous advice from the Board and fail to pay amounts due.

4. Examination and Testing

Our auditor usually starts the audit with a preliminary examination of your records. This examination gives the auditor some idea of what records are available and the procedures you use to record your transactions.

The auditor then performs some tests to determine if a complete audit is needed. For a sales tax audit, for example, the auditor may compare

- The total sales recorded on your books to the total sales reported on your sales tax returns
- The total sales recorded on your books to the total sales on your income tax returns
- The sales tax reimbursement you collected to the tax reported on your returns
- Claimed sales for resale to resale certificates

The auditor might also check your purchase invoices for equipment or supplies purchased without tax or might test your achieved markup on cost.

Please see the appendix, pages 13-22, for examples of the types of documents reviewed for tax and fee programs other than sales and use taxes.

Based on a brief review of your records, the auditor may feel an audit is not needed. If this is the case, you will receive a notice waiving the audit. ***This notice does not constitute written advice that you are reporting tax correctly.***

Use of prior audit percentages of error in current audits

At times, under certain circumstances, we can use a percentage of error developed from prior audits of your business for the sales or accounts payable portion of the current audit. This allows us to be more efficient and reduce the burden on those being audited.

If your audit meets the criteria, the auditor and audit supervisor will contact you and explain the program in detail. Upon your approval for us to use the prior percentage, we will provide you with a detailed outline that indicates why your audit was eligible for this program.

We cannot use prior audit percentages of error in consecutive audits.

Computer-assisted audits

If you keep your records in electronic form, we can more readily assess the accuracy of your tax reporting by examining those electronic records. We call this a “computer-assisted audit” (CAA). Businesses usually find this method less time-consuming and more convenient than a conventional audit. Among other things, it dramatically reduces the volume of paper documents required.

In a computer-assisted audit, we examine your electronic records in addition to some of your paper records. You will download data that we will analyze using specialized software. We will provide guidance and work with your information systems staff to make sure they download the data in a format we can use.

For more information, please see publication 147, *What to Expect in a Computer-Assisted Audit*.

In-Depth Review

If the tests of your records indicate possible reporting errors, the auditor may decide that a more complete examination is needed. This examination could be on an actual basis (looking at every transaction) or on a sample basis (looking at selected transactions).

For a sample-basis audit, the auditor generally tries to use a statistical sample. Under this method, the auditor randomly selects enough transactions to enable him or her to draw a conclusion about all of the transactions under review. For example, an auditor may randomly select invoices for a portion of your sales to determine how accurately you have reported tax on all of your sales. If your records are not suitable for a statistical sample, the auditor may use some other sampling method. In general, if an auditor is going to use a sampling method, he or she should discuss the sampling elements with you before finalizing the plan.

Whether the auditor reviews your records on an actual or sample basis depends on the type, size, complexity, and accounting methods of your business. Sampling is normally used when an actual basis review would take too much time. In many cases, the auditor will use both methods on the same audit. For example, he or she may review your asset purchases on an actual basis and use a sample to review sales.

If preliminary tests indicate possible reporting errors, a more complete review may be required.

In addition to sampling, the auditor may use a variety of other methods to review your records. The auditor can answer any questions that you or your authorized representative may have about audit methods and procedures. You may also contact the auditor's supervisor for answers to your questions if you believe the auditor has not adequately addressed your concerns.

You should let the auditor know about any disagreements you have with the audit findings. In many cases, you can resolve those disagreements by providing the auditor with more information.

5. Audit Findings

At the exit conference, the auditor will explain any changes in your tax or fee liability.

Exit Conference

When the audit is complete, our auditor will arrange to hold an exit conference with you and/or your authorized representative. The auditor's supervisor may also attend. At this conference, the auditor will explain any proposed refunds or additional taxes or fees or let you know that your returns have been accepted as filed.

Even if you have a representative, you should consider attending the exit conference. It will give you a chance to fully review the audit working papers. You can also ask any additional questions you have about the audit process and obtain information about how the law applies to your business. This information may help you to properly report taxes or fees in the future.

Our auditors are required to provide you copies of all the audit working papers. They will normally include an indexed set of schedules prepared by the auditor documenting the tests and examination procedures used in the audit. The audit working papers should also include the auditor's narrative comments describing your records, explaining the purposes of the tests conducted, and interpreting the findings of the tests.

You should let the auditor know if you agree or disagree with the audit findings. As explained later, you will be given an opportunity to discuss your reasons with the auditor's supervisor or another Board representative.

Notice of Audit Results

If it is determined that you do not owe taxes or fees, or you are not entitled to a refund, you will receive a letter stating that your returns have been accepted as filed.

If the auditor determines that you owe taxes or fees, or are entitled to a refund, he or she will prepare a *Report of Field Audit* or a *Report of Investigation* that summarizes those findings. If you have indicated you agree with the audit findings, the report will be reviewed for accuracy and sent to our Sacramento headquarters for action. Based on the audit findings, you will later receive:

- A *Notice of Determination* (billing), or
- A *Notice of Refund*

See page 8 for more information on each type of notice and your appeal rights.

Note: You should keep your copies of the audit report and the audit working papers for at least four years.

If You Disagree with the Audit Results

If you indicate you disagree with the audit results, the auditor will generally defer preparing the final audit report until you have provided additional information to support your argument. You should clearly explain why you disagree and ask the auditor about the documentation you need to support your position. Once the auditor has considered your reasons and documentation, he or she may:

- Adjust the audit results.
- Request more information and arrange for another discussion, or
- Recommend the next step in resolving the dispute: discussion with the audit supervisor.

Discussion with the Audit Supervisor

The auditor will tell the supervisor that you want to discuss the audit, and the supervisor will call you to schedule a meeting. At this meeting, you may explain why you disagree with the audit results and suggest what should be done to resolve the disagreement. You should also present any documents that support your position.

After considering your reasons, the supervisor will decide whether the audit results should be adjusted and will discuss any proposed adjustments with you. You should let the auditor know if you still disagree with the findings.

Following the meeting, the auditor will prepare the *Report of Field Audit* or *Report of Investigation* that summarizes the final audit findings. If the report notes you do not agree with the audit results, you will be given the opportunity to meet with a Board representative to discuss your disagreement.

Discussion with a Board Representative

If the report notes that you do not agree with the audit results, it will usually not be sent to the Sacramento headquarters immediately. Instead, you will receive a letter that gives you ten days to make an appointment with the Board representative identified in the letter.

Please note: *If you do not respond within ten days, we will assume that you agree with the audit and the Report of Field Audit or Report of Investigation will be sent to our headquarters office in Sacramento for processing, billing or refund.*

Since this discussion is the last step before you receive a billing or refund notice, you should present any information that you feel can resolve the disagreement. As with the meeting with the audit supervisor, the Board representative may recommend a change to your tax refund or tax liability if the information you provide at that time is found acceptable. Any proposed adjustments will be discussed with you. Next, the Board representative will review the issues involved to determine whether the audit is correct. Depending on the findings, the Board representative will then recommend that a Notice of Determination or Notice of Refund be issued as applicable.

Prepaying a Liability

Whether you agree or disagree with the audit findings, you may wish to prepay the proposed liability to avoid the additional accrual of interest. For *most* liabilities, payments are first applied to the amount of tax owed. Interest will continue to accrue on the amount of tax still owed. Once the tax amount is paid in full, interest will stop accruing. However, payments on motor vehicle fuel tax liabilities are applied first to interest charges, then penalty charges (if any), and last to the tax amount due. Therefore, for *motor vehicle fuel*

Interest charges continue to accrue for the unpaid portion of your liability.

tax liabilities, the entire liability must be paid to stop interest from accruing. You may prepay the liability, or a portion of the liability, prior to receipt of a billing notice. Form BOE-1, *Audit Payment Information*, is available from our website at www.boe.ca.gov, or by calling our Information Center at 800-400-7115, or from your auditor. This form also contains more information on prepayments. Please note, the Board does not presume that prepayment of the liability indicates your agreement with the audit results.

6. Billing or Refund Notice

Notice of Determination (billing)

If you receive a *Notice of Determination* indicating that you owe additional taxes or fees, please note the issue date. Within 30 days of that date, you must either:

- Pay the billed amount, or
- File an appeal (“petition for redetermination”) if you disagree with the billing.

If you do not take either action within that time period, you will be assessed a penalty equal to *ten percent of the unpaid taxes or fees due*. If you do not pay the billed amount, the Board may take collection actions, including filing liens or levies. For information on the collection process, please refer to publication 54, *Tax Collection Procedures*, available from our website at www.boe.ca.gov, or by calling our Information Center at 800-400-7115.

If you miss the 30-day deadline, you cannot file a petition for redetermination and must pay the billed amount. However, you can “appeal” your payment by filing a claim for refund for *each* payment. For more information, you may request a copy of publication 17, *Appeals Procedures* (see page 9).

Note—Interest Charges

If you appeal the *Notice of Determination* (that is, you file a petition for redetermination), you should consider paying the billed tax or fee amount, or at least the undisputed portion, before your appeal is resolved. This is because interest charges continue to accrue on any unpaid portion of the tax or fee. If you are successful in your appeal, any overpaid tax or fee will be refunded with interest. Although the majority of petitions are decided in less than a year from the date the petition is first acknowledged, some cases may take several years to be resolved. If you think you may have difficulty paying a determination, please contact your local Board office.

You may call the Information Center, 800-400-7115, or check our website for information on the current interest rates for unpaid liabilities and refunds at www.boe.ca.gov. You can also call the Information Center for information on the status of your appeal or to request the amount of interest that has accumulated to date or refer to our on line interest calculator at www.boe.ca.gov. Click “Sales and Use Tax”, then look under “General Interest” and click “Internet Calculator.”

Interest and Penalties

For more information regarding audit interest and penalties with regard to sales and use tax audits, please review our publication 75, *Interest and Penalties*, available from our website at www.boe.ca.gov. You can also order a copy of the publication, please see our For More Information section on page 11.

Notice of Refund

Before any refund can be issued, Board staff must first determine whether you have an outstanding tax liability with the Board or any other state agency. If you do have such a liability, the Board may be required to transfer enough of the refund amount to cover it. In addition, refunds over \$50,000 must be approved by the Members of the Board of Equalization. When an approved refund is \$50,000 or less, Board Headquarters staff normally issue a *Notice of Refund*. A warrant for the refund amount will be issued by the State Controller and sent with the notice. This usually occurs four to eight weeks after receipt of the *Report of Field Audit*.

If you believe you are entitled to a larger refund, you must file a claim for refund with the Board. For more information, please review publication 17, *Appeals Procedures: Sales and Use Taxes and Special Taxes*. To order a copy of publication 17, please see below.

7. Further Appeals Procedures (Publication 17)

The steps involved in an appeal after this point are explained more fully in publication 17, *Appeals Procedures: Sales and Use Taxes and Special Taxes*. If you have not already received a copy, you should ask the auditor for one. You may download a copy from our website, www.boe.ca.gov, or a copy will be mailed to you by calling our Information Center, 800-400-7115.

If you do appeal, you should carefully read all notices and letters sent by the Board. ***Failure to respond within stated time limits can result in denial of your appeal.***

While you are pursuing an appeal, you may also be able to propose a settlement of your case. Publication 17 also provides information on the Board's settlement program.

For More Information

Do You Need Assistance?

Internet

www.boe.ca.gov

Information Center

800-400-7115

TDD assistance (telephone device for the deaf)

800-735-2929 (TDD/TTY phone)

To speak to a customer service representative, call between 8:00 a.m. and 5:00 p.m., Monday-Friday, excluding State holidays.

Written Tax Advice

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction or activity if the Board determines that you reasonably relied on written advice from the Board regarding the transaction or activity.

For this relief to apply, a request for advice must be in writing, identify the taxpayer or feepayer to whom the advice applies, and fully describe the facts and circumstances of the transaction or activity.

For written advice,

- Write to the appropriate department (see the next column for addresses), or
- Send us an e-mail (<http://www.boe.ca.gov/info/email.html>)

Written advice provided to you in a prior audit may be relied upon as “written advice from the Board” if the prior audit contains written evidence that demonstrates that the issue in question was examined, either in a sample or actual review.

Department Addresses

Sales and Use Taxes

- Sales and Use Tax Department, MIC:44
Audit and Information Section
P.O. Box 942879
Sacramento, CA 94279-0044

Property and Special Taxes

- County-Assessed Properties, MIC:60
P.O. Box 942879
Sacramento, CA 94279-0060
Timber Yield Tax
916-445-4982
- Excise Taxes Division, MIC:56
P.O. Box 942879
Sacramento, CA 94279-0056
916-327-4208
Alcoholic Beverage Tax
California Cigarette and Tobacco Products Licensing Act of 2006
Cigarette and Tobacco Products Tax
Emergency Telephone Users Surcharge
Energy Resources Surcharge
Insurance Tax
Natural Gas Surcharge
- Fuel Taxes Division, MIC:33
P.O. Box 942879
Sacramento, CA 94279-0033
916-322-9669
Motor Vehicle Fuel Tax
Diesel Fuel Tax
International Fuel Tax Agreement (IFTA)
Use Fuel Tax
Underground Storage Tank Maintenance Fee
Childhood Lead Poisoning Prevention Fee
Oil Spill Response, Prevention, and Administration Fees
- Environmental Fees Division, MIC:57
P.O. Box 942879
Sacramento, CA 94279-0057
Integrated Waste Management Fee
California Tire Fee
Generator Fee/Disposal Fee/Facility Fee/
Occupational Lead Poisoning Prevention Fee
Environmental Fee

For More Information

Taxpayers' Rights Advocate

If you have been unable to resolve a disagreement with the Board, or if you would like to know more about your rights under the law, contact the Taxpayers' Rights Advocate for help:

Taxpayers' Rights Advocate, MIC: 70

State Board of Equalization

P.O. Box 942879

Sacramento, CA 94279-0070

888-324-2798 toll-free phone

916-324-2798 phone

916-323-3319 fax

Acceptance or Solicitation of Gifts

It is against Board policy for an employee to solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value from a person or entity the Board employee knows or has reason to believe

- Has, or is seeking to obtain, contractual or other business or financial relations with the Board; or
- Conducts business or other activities that are regularly monitored by the Board under circumstances from which it reasonably could be substantiated the gift was intended to influence the employee in his or her official actions or was intended as a reward for any official action performed by the employee.

Field Offices

City	Area Code	Number
Bakersfield	661	395-2880
Chula Vista	619	409-7440
Culver City	310	342-1000
El Centro	760	352-3431
Eureka	707	576-2100
Fresno	559	248-4219
Laguna Hills	949	461-5711
Norwalk	562	466-1694
Oakland	510	622-4100
Rancho Mirage	760	770-4828
Redding	530	224-4729
Riverside	951	680-6400
Sacramento	916	227-6700
Salinas	831	443-3003
San Diego	619	525-4526
San Francisco	415	356-6600
San Jose	408	277-1231
San Marcos	760	510-5850
Santa Ana	714	558-4059
Santa Rosa	707	576-2100
Suisun City	707	428-2041
Van Nuys	818	904-2300
Ventura	805	677-2700
West Covina	626	480-7200

Out-of-State Accounts

Sacramento	916	227-6600
Chicago	312	201-5300
New York	212	697-4680
Houston	281	531-3450

Appendix

Audit Objectives and Records Subject to Review

Fuel Taxes

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Environmental Fee	18
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Sales and Use Taxes	22
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Tax or Fee ***Audit Objective****Records**

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

Fuel Taxes**Motor Vehicle Fuel Tax**

- Did you correctly report all rack removals of motor vehicle fuel and other accountable products?
- Did you correctly report all sales of motor vehicle fuel to unlicensed suppliers above the rack?
- Did you correctly report two-party exchanges?
- Did you correctly report total gallons of imports and exports?
- Have all below-the-rack purchases been made tax-paid?
- Did you correctly claim total credits in number of gallons and use the correct tax rate, supported with proper documentation?
- Did you correctly report the amount of motor vehicle fuel used?
- Did you use the correct tax rate when reporting?

- Books of account related to all rack removals, purchases, and sales of motor vehicle fuel and accountable products, including general ledger accounts, purchase and sales journals, purchase and sales invoices, bills of lading, pipeline tickets, terminal reports, purchase orders, contracts, and exchange agreements
- A record of all imports and exports of motor vehicle fuel and accountable products
- Physical inventory records of motor vehicle fuel and accountable products
- Refinery production reports
- Terminal Operator reports
- Exemption certificates, shipping documents, or any documentation to support claimed exemptions or credits
- Copies of returns and claims filed with the Board and the working papers and schedules used to prepare the returns

Jet Fuel Tax

- Did you correctly report the total gallons of jet fuel you sold?
- Did you correctly report the gallons of aircraft jet fuel used by you as an aircraft jet fuel user?
- Did you correctly report the number of gallons of aircraft jet fuel sold to the United States Armed Forces?
- Did you correctly report the number of gallons of aircraft jet fuel sold to aircraft manufacturers?
- Did you correctly report the number of gallons of aircraft jet fuel sold to air common carriers?
- Did you correctly report the gallons of aircraft jet fuel exported?
- Did you correctly report the gallons of aircraft jet fuel sold to registered jet fuel dealers?

- Books of account relating to jet fuel purchased or produced and sales of jet fuel; including general ledger accounts, purchases and sales journals, purchase and sales invoices, bills of lading, purchase orders and contracts.
- A record of all imports and exports of aircraft jet fuel
- Physical inventory records of aircraft jet fuel.
- Copies of common carrier exemption certificates.
- A record of all sales to the United States Armed Forces including supporting purchase orders, sales invoices and contracts.

Use Fuel Tax

- Do you have proper fuel permits or licenses to operate vehicles that are powered by liquefied petroleum gas (LPG), liquefied natural gas (LNG), compressed natural gas (CNG), or certain alcohol fuels on public roads?
- Did you properly claim and support exemptions?
- Did you use the correct tax rate when reporting?

- Books of account related to all use fuel, including general ledger accounts, purchase and sales journals, purchase and sales invoices, and bills of lading
- Copies of returns filed with the Board and the working papers and schedules used to prepare the returns* If you are registered under a tax or fee program that is not listed here, please contact the appropriate department for information on the records the department will need to examine. See pages 11 and 12 for telephone numbers and addresses.

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Tax or Fee ***Audit Objective****Records**

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

Diesel Fuel Tax Suppliers

- Did you correctly report all rack removals of diesel fuel and accountable products?
- Did you correctly report all sales of diesel fuel to unlicensed suppliers above the rack?
- Did you correctly report two-party exchanges?
- Did you correctly report total gallons of imports and exports?
- Did you correctly report sales of bio-diesel?
- Have all below-the-rack purchases been made tax-paid?
- Did you correctly claim total deductions in number of gallons and use the correct tax rate, supported with proper documentation?
- Did you correctly report the amount of diesel fuel used?
- Did you use the correct tax rate when reporting?

- Books of account related to rack removals, purchases, and sales of diesel fuel and accountable products, including general ledger accounts, purchase and sales journals, purchase and sales invoices, bills of lading, pipeline tickets, terminal reports, purchase orders, contracts, and exchange agreements
- A record of all imports and exports of diesel fuel
- Physical inventory records of diesel fuel and accountable products
- Refinery production reports
- Terminal Operator reports
- Exemption Certificates, off-highway or usage logs or any documentation to support claimed exemptions/or credits.
- Copies of returns and claims filed with the Board and the working papers and schedules used to prepare the returns

Ultimate Vendors

- Did you correctly report your sales of tax-paid gallons of fuel to farmers for use on a farm?
- Did you correctly report your sales of tax-paid gallons of fuel to exempt bus operators?
- Did you correctly report your exports of tax-paid gallons of fuel to the United States Government?
- Did you correctly report your exports of tax-paid gallons of fuel exported from this state?
- Did you correctly segregate and properly report your purchases of tax-paid clear diesel fuel from your purchases on tax fee dyed diesel fuel?
- Did you correctly report tax-paid diesel fuel used in your operations for purposes other than to operate motor vehicles on the highway?

- Books of accounts related to diesel fuel purchases and sales of diesel fuel and accountable products; including general ledger accounts, purchase and sales journals, purchase and sales invoices, bills of lading, purchase orders, contracts.
- A record of all imports records of untaxed and tax-paid gallons of diesel fuel.
- Physical inventory records of untaxed and tax-paid gallons of diesel fuel and other accountable products.
- Timely exemption certificates from farmers and exempt bus operators.
- A record of all United States Government sales including supporting purchases orders, sales invoices, and contracts.
- Supporting documentation for tax-paid diesel fuel claimed as being used off the highway.

Exempt Users

- Did you correctly report the gallons of tax-paid diesel fuel that you used in vessels?
- Did you correctly report the gallons of tax-paid diesel fuel that you used in construction equipment exempt from registration operated off-highway?
- Did you correctly report the gallons of tax-paid diesel fuel that you used in the operation of power take-off equipment?
- Did you correctly report your purchases of tax-paid diesel fuel and ex-tax dyed diesel fuel?
- Did you correctly report your sales of dyed and undyed diesel fuel?

- Books of account relating to purchases and sales of clear and dyed diesel fuel and accountable products; including general ledger accounts, purchase and sales journals, purchase and sales invoices, bills of lading, purchase orders, and contracts.
- Physical inventory of untaxed and tax-paid gallons of diesel fuel.
- Supporting documentation for exempt gallons for which a refund was claimed including logs, trip reports, equipment lists and exempt fuel usage tests

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Tax or Fee ***Audit Objective****Records**

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

Oil Spill Response, Prevention, and Administration Fees

- Has total crude oil (including condensate and natural gasoline) received at owner's marine terminal/shipping dock, from within or outside the state, been reported?
- Has total crude oil received at third-party terminal/shipping dock from within or outside the state been reported by the owner of the crude oil or by the terminal operator?
- Has the following been reported: total crude oil originating from a production facility in marine waters and transported in the state by means of pipeline operating across, under, or through marine waters?
- Have total petroleum products received at owner's marine terminal/shipping dock from outside the state been reported?
- Have total petroleum products received from out of state at third-party marine terminals/shipping docks been reported by the owner of the petroleum products or the terminal operator?
- Was the correct fee amount paid?
- Was ownership of crude oil and other petroleum products properly determined at the time of distribution? Who owns the crude oil or petroleum products at the time of discharge?
- Was MTBE properly documented?
- Was the correct measure (net or gross) of crude oil or petroleum products used when reporting to the Board?

Underground Storage Tank Maintenance Fee

- Did you report total gallons of petroleum products placed into your underground storage tank?
- Did you use the correct rate of the fee when reporting?
- Is the underground storage tank account correctly registered to the owner of the tank?

- Books of account related to crude oil (including condensate and natural gasoline) and petroleum products received at a marine terminal (including third-party terminals) or transported by pipeline across, under, or through marine waters of this state
- Purchase and sales journals, purchase and sales invoices, bills of lading, shipping and discharge records, contracts showing title
- Records identifying all marine terminal/shipping dock locations owned or operated within the state and all third-party locations where crude oil or petroleum products are received
- Third-party independent inspection reports (for example, Saybold and Caleb Brett reports), showing loading and discharge of crude and other petroleum products at marine terminals/shipping docks
- Refinery records showing the origin and receipt of crude oil used for processing
- Records from production platforms accounting for all crude oil and any other products extracted on the platforms and their receipt in this state
- Copies of all returns filed with the Board and the working papers and schedules used to prepare the returns
- Copies of the Underground Storage Tank Maintenance Fee returns and their related worksheets
- Purchase invoices for all petroleum products purchased for the audit period, including meter tickets and bills of lading
- Purchase journals showing gallons of petroleum products purchased
- Petroleum products inventory records
- Sales or usage records, including pump meter readings
- Property tax statements and/or deeds of trust on properties owned where underground storage tanks are located
- Leases or any other documents that verify ownership of the underground storage tanks

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Tax or Fee *

Audit Objective

Records

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

Environmental Fees

**Generator Fee
Disposal Fee
Facility Fee**

- Do the amounts reported on returns agree with the total amount of hazardous waste and are the wastes properly classified?
- Did you file your returns on time and make the correct prepayments?
- Are all of your locations that generated more than five tons of waste registered with the Board?
- Have you properly documented exempt waste and waste qualifying for the cleanup rate?
- Does the classification reported on the return agree with the permitted size of the facility?
- Is the facility operating within the requirements of the permit?
- Is your account registered correctly and does it contain current information?

- Copies of returns and reports filed with the Board, including supporting worksheets
- A listing of all past and current EPA numbers assigned for your site locations
- Hazardous waste manifests, with supporting documentation, such as weight tickets and waste profile sheets
- Transporter billings or invoices that support the quantity of waste generated
- Waste stream analysis reports
- Conversion factor computation
- Production reports
- Correspondence with regulatory agencies and copies of site inspection reports, permits, permit modifications and certifications
- Corporate documentation including the officers of record
- For disposal fee exemptions or fee rate determinations: written evidence from the generator citing generator name, site address, and specific explanation of the reason the waste is exempt from the fee or subject to another rate like the cleanup rate

**Occupational
Lead Poisoning
Prevention Fee**

- Did you request a fee waiver and has it been granted by the Department of Health Services?
- Is your account registered correctly and does it contain current information, including the correct SIC code?

- Copies of fee waiver requests and Department of Health Services Responses
- Payroll reports and all other documents listing employees, wages, and hours worked
- SIC code documentation

**Environmental
Fee**

- Did you report the correct number of employees on your return?
- Is your account registered correctly and does it contain current information?

- Payroll reports and all other documents listing employees, wages, and hours worked
- Employee agreements or contracts

**Marine Invasive
Species Fee
(Ballast Water
Fee)**

- Did you report the correct number of vessel voyages on your return?
- Is your account registered correctly and does it contain current information, including the correct owner/operator?

- Copies of ballast water reports
- Ship schedules, ports of call, and routes taken
- Listing of all vessels, Lloyds number, and operator

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Tax or Fee *

Audit Objective

Records

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

- Electronic Waste Recycling Fee**
- Did you properly report all covered Electronic Devices (CEDs) sold or leased from all locations on one return?
 - Did you properly report all sales of self consumed new or refurbished CEDs in the total number of items sold?
 - Did you properly exclude all CEDs sold in interstate or foreign commerce?
 - Did you properly exclude all CEDs sold to other Retailers for the purpose of resale?
 - Did you properly claim number of returned CEDs for a returned merchandise credit?
 - Did you properly report CED's subject to the fee in the appropriate categories?

- Integrated Waste Management Fee**
- Did you report all tonnage of waste accepted into landfill?
 - Did you properly exclude amounts of recycled and inert material waste removed from the waste stream and not disposed of in the solid waste landfill?

- California Tire Fee**
- Did you report all new retail tires sold?
 - Did you properly include all self-consumed tires and company-warranted tires?
 - Did you properly exclude wholesale tires sold?

- Books of account including your income statements, balance sheets, general ledgers, and other summary records of your business operations, including state and federal income tax returns
- Original documents that support the entries to your books, such as sales and purchase invoices, purchase orders, contracts, bank statements, and any other documents that result from your business operations
- Resale certificates, exemption certificates, bills of lading, or other documents supporting claimed exempt sales
- Copies of the returns you have filed with the Board and the working papers and schedules used to prepare the returns
- Inventory records and supporting documentation.

- Books of account, including income statements, balance sheets, general ledgers, and other summary records of your business operations, including federal and state income tax returns.
- Original documents that support the entries to your books, such as billing invoices, settlement sheets, customer service records, and any other documents that result from your business operations.
- Copies of returns filed with the Board and the working papers and schedules used to prepare the returns.

Reports of Waste Received.

- Books of account, including income statements, balance sheets, general ledgers, and other summary records of your business operations, including federal and state income tax returns.
- Original documents that support the entries to your books, such as sales invoices, credit memos, purchase orders, and other documents that result from your business operations.
- Sales or other reports showing the quantity of retail and wholesale tires sold.
- Copies of returns filed with the Board and the working papers and schedules used to prepare the returns.

Inventory records and supporting documentation.

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Tax or Fee *

Audit Objective

Records

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

Excise Taxes

Alcoholic Beverage Tax

Winegrowers and Importers of Beer or Wine

- Did you report removals of wine from internal revenue bond on payment of federal internal revenue tax?
- Did you report imports and exports into or out of California?
- Did you properly report claimed exemptions?

Beer Manufacturers

- Did you report federal tax-paid beer removals from the bonded brewery premises?
- Did you report all imports and exports into or out of California?

Distilled Spirits

- Did you report taxable sales of distilled spirits?
- Did you report exempt sales of distilled spirits?
- Did you report inventory transactions of distilled spirits?
- Did you properly report claimed exemptions?

Cigarette and Tobacco Products Tax

Cigarette Tax

- Did you take actual beginning and ending inventories of cigarettes with stamps affixed and unaffixed?
- Did you properly claim tax-exempt distributions?
- Did you properly deduct unusable stamps for which you have filed a claim?
- Did you report purchases of Non Participating manufacturer (NPM) brands on Schedule F?

- Books of accounts, including income statements, balance sheets, general ledgers, purchase and sales journals, receiving logs, inventory records, and other summary records of your business operations
- Federal excise tax returns
- Original documents that support the entries made in the types of records listed above (such as sales and purchase invoices and bills of lading)
- Copies of returns you have filed with the Board and the working papers and schedules used to prepare the returns

- Books of account, including income statements, balance sheets, general ledgers, purchase and sales journals, receiving logs, inventory records, and other summary records of your business operations
- Original documents that support the entries made in the types of records listed above (such as sales and purchase invoices and bills of lading)
- Copies of returns you have filed with the Board and the working papers and schedules used to prepare the returns

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Tax or Fee *

Audit Objective

Records

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

Tobacco Products Tax

- Did you report the wholesale cost of tobacco products distributed (prior to any discounts or trade allowances)?
- Did you properly claim tax-exempt distributions?

Did you report tobacco products purchased from a supplier outside of California or imported into California from a foreign country?

Did you report Roll Your Own tobacco product on Schedule T?

- Cigarette distributor’s tax reports, Cigarette Distributor’s Stamp and Cigarette Adjustment Tax returns and supporting documents, physical inventory records for stamped and unstamped cigarettes and for fixed and unaffixed cigarette stamps, cigarette tax stamp logs and purchasing records, Tobacco Products Tax returns, invoices and summary records for sales and purchases of cigarettes and tobacco products, list of all tobacco products vendors and their addresses
- Bank statements, canceled checks and cash distributions records, financial statements, balance sheets, general ledgers, and other summary records of your business operations

Emergency Telephone Users Surcharge

- Did you report all charges for intrastate telephone communication service?
- Did you report all charges for intrastate cellular telephone roamer service you provided?
- Did you include all CPUC fees, surcharge reimbursements and billing surcharges or surcredits as charges subject to the surcharge?
- Did you report bad debts related to intrastate telephone communication service (net-of-recoveries)?
- Did you properly exclude interstate cellular airtime charges?
- Did you properly exclude separately stated charges for private communication services?

- Copies of returns filed with the Board and the working papers and schedules used to prepare the returns
- Books of account, including income statements, balance sheets, general ledgers, and other summary records of your business operations, including federal and state income tax returns
- Original documents that support the entries to your books, such as invoices, settlement sheets, customer service records, and any other documents that result from your business operations
- Documents filed with governmental regulatory agencies and other documents describing the telephone communication services provided

Energy Resources Surcharge

- Did you report all kilowatt (kwh) hours of electrical energy sold?
- Did you properly exclude sales to other electrical utilities?
- Did you properly exclude energy used directly or lost in the process of generation, transmission, or distribution?
- Did you properly exclude bad debt adjustments?
- Did you exempt only service users who qualify as exempt from the energy surcharge?

- Books of account, including income statements, balance sheets, general ledgers, and other summary records of your business operations, including federal and state income tax returns
- Original documents that support the entries to your books, such as billing invoices, settlement sheets, customer service records, and any other documents that result from your business operations
- Copies of returns filed with the Board and the working papers and schedules used to prepare the returns

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Tax or Fee *

Audit Objective

Records

The following are examples of the types of information the auditor wants to determine:

The auditor will need to review the following types of records (including records maintained on computer):

Natural Gas Surcharge

- Did you report all therms sold or consumed?
- Did you properly report therms exempt from the surcharge?
- Did you properly apply the correct tax rate for the territory the natural gas was sold or consumed?
- Did you properly apply bad debt adjustments?

- Books of account, including income statements, balance sheets, general ledgers, and other summary records of your business operations, including federal and state income tax returns
- Original documents that support the entries to your books, such as billing invoices, settlement sheets, customer service records, and any other documents that result from your business operations
- Copies of returns filed with the Board and the working papers and schedules used to prepare the returns

Property Taxes

Timber Yield Tax

- Did you report all timber volume from each of your timber operations?
- Did you use the correct timber harvest value?
- Did you properly claim deductions?
- Did you allocate volume to the correct county and Timber Value Area?
- Did you correctly determine the size code for each timber operation?

- Books of account, including income statements, general ledger, accounts payable, accounts receivable, depletion reports, and other summary records for your business operations
- Original documents, including scale tickets and scale summaries, remittance advices, timber harvest plans, governmental timber contracts, purchase/sales contracts, bank statements, and any other documents that result from your business operations
- Copies of tax returns and harvest reports and any working papers used to prepare the returns

Sales and Use Taxes

Sales and Use Taxes

- Did you report all gross receipts from sales of tangible personal property and taxable labor and services?
- Did you report the cost of all business equipment and supplies that you purchased without tax either from out-of-state vendors or for resale for your business or personal use?
- Did you properly claim deductions?
- Did you properly allocate tax?
- Did you use the correct rate of tax when reporting sales in special tax districts?
- Did you properly apply tax to your sales and uses of tangible personal property?

- Books of account including your income statements, balance sheets, general ledgers, and other summary records of your business operations, including state and federal income tax returns
- Original documents that support the entries to your books, such as sales and purchase invoices, purchase orders, contracts, bank statements, and any other documents that result from your business operations
- Resale certificates, exemption certificates, bills of lading, or other documents supporting claimed exempt sales
- Copies of the returns you have filed with the Board and the working papers and schedules used to prepare the returns

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