ASSESSORS' HANDBOOK
SECTION 506

PROPERTY TAX AUDITS AND AUDIT PROGRAM

MARCH 2015

CALIFORNIA STATE BOARD OF EQUALIZATION

FOREWORD

Assessors' Handbook Section 506, *Property Tax Audits and Audit Program* (AH 506), is a new manual that includes topics not previously covered in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

The objective of this handbook is to provide guidance in developing and improving a property tax audit and audit program by presenting and discussing suggested organizational tools and audit practices and procedures. For property tax purposes, business personal property and fixtures are typically valued using the cost approach; therefore, the guidance in this manual is designed to address the property tax audit from the perspective of the cost approach. The information should assist auditors in making an audit complete and accurate, and/or aid the county assessor in the development or improvement of an audit program and audit procedures and manuals, but it is not intended to replace the appraisal experience, training, and sound judgment of the auditor-appraiser.

Section 15606, subdivision (c), of the Government Code directs the State Board of Equalization (Board) to prescribe rules and regulations governing county assessors in the performance of their duties, and subdivision (f) provides that the Board shall issue instructions, such as those set forth in this handbook section. While rules and regulations adopted by the Board are binding as law, Board-adopted handbook sections are advisory only. Nevertheless, courts have held that they may be properly considered as evidence in the adjudicatory process.[1]

The citations and law references in this publication were current as of the writing of the handbook section. Board staff met with members of the California Assessors' Association and industry representatives to solicit input for this handbook section. The Board approved this handbook section on___________________________________

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[1] *Coca-Cola Co. v. State Board of Equalization* (1945) 25 Cal.2d 918; *Prudential Ins. Co. v. City and County of San Francisco* (1987) 191 Cal.App.3d 1142; *Hunt-Wesson Foods, Inc. v. County of Alameda* (1974) 41 Cal.App.3d 163.

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CHAPTER 1: INTRODUCTION

Most business property appraisals are based upon information reported on property statements.[2] For these appraisals to be fair estimates of value, it is imperative that the reported information be accurate and complete. While most assessees report their taxable property in good faith, errors by both the assessee or the county assessor may occur. Audits, and the audit program as a whole, help to:

1. Identify problems;
2. Provide the mechanism for identifying and correcting inaccurate assessments;
3. Increase the likelihood that future assessments will be accurate through improved reporting by the assessee and improved understanding of the property by the county assessor's office; and
4. Establish standard audit procedures and practices as well as a system for tracking and verifying statutorily required audits.

A property tax *audit* is a means of collecting data relevant to the determination of taxability, situs, and value of property.[3] It is used to verify an assessee's reported cost and other information that may influence the assessment of all taxable property under property tax law. A property tax *audit program* provides an outline of the work to be performed including practices and procedures to ensure the audit objectives are achieved. The property tax audit program also provides the county assessor with the tools to monitor audit work in progress, documents completed audits, provides for the appropriate management review to ensure quality work, and ensures appropriate correspondence with assessees.

PURPOSE OF THE PROPERTY TAX AUDIT AND AUDIT PROGRAM

The primary purpose/objective of the property tax audit and audit program is to encourage the accurate and proper reporting of business property on the annual business property statement.[4] The following assists the county assessor in meeting this objective:

- Conducting a minimum number of audits as required by statute.[5]

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[2] Revenue and Taxation Code section 441 requires "Each person owning taxable personal property, other than a manufactured home…having an aggregate cost of one hundred thousand dollars ($100,000) or more for any assessment year shall file a signed property statement with the assessor." All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

[3] Property Tax Rule 191. All references to Rules or Property Tax Rules are to Title 18, Public Revenues, California Code of Regulations.

[4] Section 469, subdivision (a); form BOE-571-L.

[5] Section 469, subdivision (a), provides that the county assessor shall conduct a significant number of audits. See Chapter 2 for additional information.

- Reviewing business records to determine/verify the taxability, situs, and value of business property.[6]
- Providing the taxpayer with the auditor's findings in writing with respect to data that would alter any previously enrolled assessment.[7]

PERFORMANCE OF AUDIT

A property tax audit must be conducted by:

- An employed auditor-appraiser of a county, or city and county;
- An employee of the state if the State Board of Equalization (Board) has selected it for audit; or
- A contract appraiser.

An auditor-appraiser or contract appraiser performing audits must hold a four-year degree with a specialization in accounting, be a licensed accountant in the state, or have passed a government civil service or merit system examination regularly given for the position of accountant or auditor by the testing body of that jurisdiction. A degree with a specialization in accounting consists of 18 semester units or 27 quarter units in accounting and/or auditing courses. Complementary courses such as business law and/or economics do not count toward the required number of units. The auditor-appraiser, and contract appraiser, also must hold a valid appraiser's certificate issued by the Board, in addition to meeting the qualifications described above, before conducting property tax audits.

A certified appraiser who does not qualify to perform audits under section 469 may, however, assist in gathering information used in the audit; the appraiser may verify the market value of real property pursuant to sections 110 and 110.1, and furnish information to the auditor-appraiser on real property escape assessments and new construction. The auditor-appraiser who meets the qualifications to perform audits shall have ultimate responsibility for conducting the audit.

The term *auditor* used throughout this handbook refers to a certified auditor-appraiser in a county assessor's office.

STATUTORY PROVISIONS

Statutes not only authorize the county assessor to conduct audits, but require audits in certain circumstances. Sections 441(d), 469, and 470, and Rule 191, *Property Tax Audits, General*, Rule 192, *Mandatory Audits*, and Rule 193, *Scope of Audit*, provide the county assessor with the basic statutory authority to review an assessee's records. Pursuant to section 469(a)(1), a county assessor is required to annually audit a *significant number of audits* (discussed in Chapter 2).

[6] Rule 191.
[7] Rule 191.

Appendix A includes a list and summary of statutory sections and Property Tax Rules cited throughout this handbook.

CHAPTER 2: AUDIT PROGRAM

AUDIT SELECTION

An important part of the audit program is the selection of taxpayers to be audited. Section 469 requires the county assessor to conduct a significant number of audits which includes an annual minimum number of audits based on two classifications:

1. Taxpayers in the pool of largest assessments; and
2. A pool of all other taxpayers.

Additionally, certain audits may warrant special consideration. The significant number of audits classifications and audits of special consideration are discussed in the following sections.

SIGNIFICANT NUMBER OF AUDITS

A county assessor is required to annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property.[8] A *significant number of audits* means:

> …at least 75 percent of the fiscal year average of the total number of audits the county assessor was required to have conducted during the 2002–03 fiscal year to the 2005–06 fiscal year, inclusive, on those taxpayers in the county that had a full value of four hundred thousand dollars ($400,000) or more of locally assessable trade fixtures and business tangible personal property….[9]

Fifty percent of a county's significant number of audits must be conducted on taxpayers that have the largest assessments of locally assessed trade fixtures and business tangible personal property. The remaining 50 percent of a county's significant number of audits must be selected in a fair and equitable manner from among all taxpayers.

Each county's significant number of audits is a constant number of minimum audits that must be conducted on an annual basis. The significant number of audits for each county, based on the statutory requirement provided in section 469(a)(1), was calculated in 2009 by a combined effort between Board staff and staff in each county assessor's office. (See Appendix B, *Minimum Annual Property Tax Audits*, for a listing of each county's significant number of audits.)

Audits of Taxpayers in the Pool of Largest Assessments

Fifty percent of the annual significant number of audits must be conducted on taxpayers from the pool of taxpayers with the largest assessments in the county.[10] The number of taxpayers in this pool is 50 percent of the county's annual significant number of audits multiplied by four. The

[8] Section 469(a).
[9] Section 469(a)(1).
[10] Section 469(b)(1); Rule 192(c)(1).

taxpayers in this pool are subject to an audit once every four years.[11] Although the number of taxpayers in this pool does not change, the actual taxpayers in the pool may change from year to year as businesses close, open, grow, or reduce. Therefore, it is necessary to compile the listing of taxpayers with the largest assessments annually in order to make the proper audit selections. (See Appendix B, *Minimum Annual Property Tax Audits*, for a listing of each county's number of taxpayers in the pool of largest assessments.)

Ranking of all Taxpayers in the County

On an annual basis, the county assessor is required to rank all taxpayers engaged in a profession, trade, or business in descending order based on the locally assessed value of trade fixtures and business tangible personal property (including taxpayers with vessels or aircraft that are used in a business).[12] The ranking is necessary in order to identify the taxpayers in the pool of taxpayers with the largest assessments.

In terms of organizations eligible for the welfare exemption, it is the county assessor's duty to assess all property in the county. This includes property that may be eligible for exemption, regardless of whether a full exemption or a partial exemption is later applied. If fully exempt, the county assessor is not required to conduct an audit.[13] But a partially exempt taxpayer would be included in the ranking of all taxpayers in the county. Although the assessable value may be offset by a portion of the property that may be exempt, which would reduce the taxpayer's tax liability, the net assessable value of trade fixtures and business tangible personal property is the determining factor in terms of ranking purposes.

Identification of Taxpayers in the Pool of Largest Assessments

After the county assessor ranks all taxpayers, the county assessor identifies the pool of taxpayers with the largest assessments. The county is required to select 50 percent of its annual significant number of audits from this pool of taxpayers. In other words, half of the county's annual minimum audit workload must include taxpayers in this pool. County assessors may audit additional taxpayers as workload permits. However, when determining the additional taxpayers to audit, selecting the additional taxpayers from the pool of taxpayers with the largest assessments may impact the county assessor's ability to meet the minimum number of ***annual audits required*** from the pool of taxpayers with the largest assessments in the following years.

Audits Selected from the Pool of all Taxpayers

The remaining 50 percent of the significant number of audits must be selected from the pool of all taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property. In selecting audit candidates for this half of the significant number of audits, the county assessor must make the

[11] Section 469(b)(1)(B); Rule 192(c)(1)(C).
[12] Section 469(b)(1)(A)(i). See Assessors' Handbook Section 504 (AH 504), *Assessment of Personal Property and Fixtures*, Chapter 2, for information on classification of property for property tax purposes.
[13] Section 469(a)(2).

determination based on a fair and equitable manner and may base the selection on evidence of underreporting.[14] Examples of criteria appropriate for audit selection may include:

- Taxpayers with inconsistent and/or incomplete property statements;
- Taxpayers that do not meet annual property statement filing requirements;
- Taxpayers that request an audit; and/or
- Taxpayers based upon type of business.

The county assessor is not prohibited from auditing any assessee during any period allowed under the statute of limitations. The county assessor may audit a taxpayer every year if it is necessary. However, in most situations this would not be prudent or efficient for either the taxpayer or the county assessor.

OTHER AUDIT SELECTION CONSIDERATIONS

In addition to selection of the county's annual significant number of audits, the county assessor must also consider other taxpayers that may be subject to a property tax audit. For example:

- Rule 1045, *Administration of the Annual Racehorse Tax*, requires the audit of certain racehorse owners;
- The county assessor may consider auditing business entities that are related or associated to a taxpayer selected for audit;
- The county assessor may consider auditing an exempt organization; or
- The assessor may participate in the intercounty cooperative audit program.

Audit of Racehorse Owners

The county assessor is required to audit any racehorse owner who had a gross tax liability that exceeds $4,000 (excluding penalties) for four consecutive calendar years. These taxpayers are subject to audit within five years of the date on which the annual tax first became due. The county assessor may also audit the records of this taxpayer pertaining to other locally assessable trade fixtures and business tangible personal property.[15]

Waivered Audits (Waiver of Statute of Limitations)

In most cases, audits must be completed within four years after July 1 of the assessment year the property escaped assessment. This time period is extended to eight years if conditions exist that warrant the 25 percent penalty application in section 504.[16] This time period is also extended to eight years if property escaped assessment as a result of an unrecorded change in ownership for

[14] Rule 192.
[15] Rule 1045.
[16] Sections 502 and 532(b)(1).

which neither a *Change in Ownership Statement*[17] nor a *Preliminary Change of Ownership Report*[18] is timely filed with respect to the event giving rise to the escape assessment or underassessment.[19]

The statutory time period for making an escape assessment is also extended if the assessee and the county assessor agree in writing to extend the time. Section 532.1(a) provides that:

> If, before the expiration of the period specified in Section 532 for making an escape assessment, the taxpayer and the assessor have agreed in writing to extend the time for making an assessment, correction, or claim for refund, the assessment may be made at any time prior to the expiration of the period agreed upon. The period may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

This written agreement is also known as a waiver of the statute of limitations (waiver). Each county develops its own form; therefore the titles of the forms and the actual agreements may be different.[20] In all cases, however, the waiver should indicate that it extends the time allowed for making an escape assessment, correction, and refund. If the waiver does not specifically state that it extends the time for corrections and refunds, then it only extends the time for making an escape assessment.

Exempt Organization Audits

If property is fully exempt, the county assessor is not required to conduct an audit on the property. However, a partially exempt taxpayer would be included in the ranking of all taxpayers in the county and, therefore, may be subject to audit. Additionally, although the county assessor is not required to audit a taxpayer with property fully exempt from taxation, the county assessor may choose to conduct an audit to verify the eligibility of the property for property tax exemption. For example, if the county assessor conducted an audit of an organization exempt under the welfare exemption, the audit would primarily focus on:

1. Whether the property is used exclusively for religious, hospital, scientific, or charitable purposes per section 214; and

2. Whether the property is owned and operated by the charitable organization.

The relevant items to audit and the extent (thoroughness) of such an audit should be determined in cooperation with the county assessor's Exemption Department.

[17] Section 480; form BOE-502-AH.
[18] Section 480.3; form BOE-502-A.
[19] Section 532(b)(2).
[20] The form with the agreement that extends the time limitation for processing an escape assessment is not a Board-prescribed form.

Related or Associated Entities

As noted in Chapter 3, it may be efficient to audit related entities at the same time a selected taxpayer is audited. The books and records of related business entities should be reviewed to determine if there is ownership of assessable property at the situs of the taxpayer. When associated entities are discovered through the audit process, their status as a separate legal entity can be confirmed either by using the business search tool on the California Secretary of State's website,[21] or by verifying that the related entity has obtained a separate federal Employer Identification Number or other federal Taxpayer Identification Number. The audits performed on related businesses that are confirmed to be separate legal entities should be included on the county's audit tracking schedule, and each of these audits should be counted as a separate audit unit in the application of Rule 192 and section 469.

California Counties Cooperative Audit Services Exchange

Many counties conduct audits through the intercounty cooperative audit program. This program is called the California Counties Cooperative Audit Services Exchange (CCCASE). It can be an efficient and effective means of audit for both the county assessor and the assessee. Using this program, the county assessor's staff in the county where the assessee is headquartered gathers information for the audit for all participating counties, but makes no value judgment. A similar arrangement is used for assessees headquartered out-of-state. One auditor may go to a particular state or city and gather information for all participating counties who have audit accounts there.

AUDIT LOCATION

The county assessor has various options to consider when determining the audit location. In most cases the audit is conducted at a location in California. The audit location may be the taxpayer's principal place of business or a different location mutually agreed upon by the county assessor and the taxpayer. The following provides various options to consider when determining the most appropriate audit location for each taxpayer.

LOCATION OF THE TAXPAYER'S PRINCIPAL PLACE OF BUSINESS

If requested by the county assessor, a person "owning, claiming, possessing, or controlling property subject to local assessment" must make available a copy of their business records at the taxpayer's principal place of business.[22]

If the taxpayer's principal place of business and/or business records are located out of state, the county assessor may use the CCCASE audit program discussed earlier. Additionally, if a taxpayer's principal place of business is outside of California, the statute provides that the county assessor may require the taxpayer to bring the business records to a place in California. Section 1506 of the California Corporations Code provides:

> Upon request of an assessor, a domestic or foreign corporation owning, claiming, possessing or controlling property in this state subject to local assessment shall

[21] http://kepler.sos.ca.gov/.
[22] Section 470.

make available at the corporation's principal office in California or at a place mutually acceptable to the assessor and the corporation a true copy of business records relevant to the amount, cost and value of all property that it owns, claims, possesses or controls within the county.

As an alternative to bringing the records to California, the taxpayer may pay the county for the expenses associated with the auditor traveling to a place outside of California and other reasonable and ordinary expenses associated with conducting the out-of-state audit.[23]

OTHER TAXPAYER LOCATION IN CALIFORNIA

As an option to conducting the audit at the taxpayer's principal place of business, the audit may be conducted at the taxpayer's principal location or principal address in California, or at a place mutually agreeable to the county assessor and the taxpayer.[24] In some cases, a place mutually agreeable to the county assessor and the taxpayer may be the location of the taxpayer's authorized representative because that is the location of the taxpayer's business records.

OFFICE AUDITS

Another alternative for performing audits is to conduct *office audits*. Using this system, the assessee is requested to bring applicable records and information to the county assessor rather than the county assessor going to the taxpayer's location. In some cases, the county assessor may find this has limited use when auditing taxpayers that maintain their records in a file format that is not easily shared on electronic media. Depending on the amount of information needed, it may not be logical for the taxpayer to physically transport the business records.

Good candidates for office audits include taxpayers that maintain accounting records in an electronic format that can be easily shared on electronic media using common software. Office audits using electronic files are an acceptable and expedient method for conducting all or part of the property tax audit. These types of audits can be beneficial to both the county assessor and the assessee. For example, some of the benefits of conducting office audits include:

1. ***Improve time efficiency for both the taxpayer and county assessor staff***. Files are provided electronically; therefore, traditional onsite audits are eliminated. The taxpayer is not tasked with making arrangements to host an outside auditor, including making space and staff available for the auditor. The county assessor benefits from reduction in staff travel time and costs.

   Additionally, the auditor is able to make several requests for office audits at the same time without having to coordinate engagement dates. Taxpayers may be more likely to respond to an audit request more quickly because the arrangements will not include scheduling coordination for an onsite audit.

[23] Section 470.
[24] Section 470.

2. ***Avoid loss in audit productivity***. Office audits avoid the loss in productivity associated with the taxpayer canceling or rescheduling onsite audits due to unforeseen circumstances. Office audits eliminate the wait time associated with missing records that were requested ahead of time but may not have been furnished at the time the auditor arrived on site.

3. ***Improve preparation for additional questions or requests for information***. With an office audit, the auditor is not rushed to review the taxpayer's business records, which is often the case when conducting an audit at the assessee's location. The additional review time inherent in the office audit permits the auditor to better prepare for any additional questions or requests of the taxpayer.

4. ***Engender a spirit of trust and cooperation***. Taxpayers may view the county assessor's willingness to conduct an office audit as one of trust. For example, the taxpayer abides by specific terms of an office audit agreed upon by both the taxpayer and county assessor. The nature of negotiating these terms opens the door of communication and may establish a level of cooperation that may not be achieved during on onsite audit.

TRACKING THE AUDIT WORKLOAD

Part of an effective audit program involves the organization and documentation of the audit workload. An audit tracking schedule that lists the pool of the largest taxpayers that must be audited once at least every four years, as well as taxpayers selected from all assessees, provides management with an effective tool in monitoring assignments, audit completions, and audit results.

An audit tracking schedule provides management with a snapshot of the audit workload and assists in identifying completed and pending audits. Additional benefits include assistance in planning audit workloads for future years, providing management with a tool for verifying compliance with section 469, and facilitating responses on statistical and informational inquiries related to the county assessor's audit program, such as inquiries made as part of the Board's Assessment Practices Survey Program.

An audit tracking schedule designed to organize and document the audit program should contain the following fields:

1. Taxpayer name.

2. Assessment Number(s). Allows for quick query of taxpayer information on the county assessor's property tax software program.

3. Assessor's Parcel Number(s). Allows for quick search of real property record(s).

4. Total Personal Property and Fixtures Assessed Value. Allows for listing the pool of taxpayers with the largest assessments that are subject to a four-year audit cycle.

5. Last Year Audited. Provides for quick identification of when the taxpayer was last audited, and assists in determining the need to request a waiver for the statute of limitation if the taxpayer is subject to a four-year audit cycle. It also provides a tool for forecasting and analyzing future audit workloads.

6. Waiver Requested (yes or no). Provides a quick reference for audits with high priority in conjunction with Last Year Audited field (number 7 above) to alert management of the need to send out a waiver request letter.

7. Assigned to Auditor. Provides a tracking mechanism of assigned audits, to include auditor name and date assigned, and may also be used in conjunction with the Date Completed field (number 10 below) to allow management to track the progress of the current audit workload.

8. Date Completed. Allows management to track the progress of the current audit workload at any time of the audit season.

9. Audit Result—Deficiency/No Change/Offset/Refund. Provides a quick view of the status of the audit for future reference.

CHAPTER 3: AUDIT PREPARATION

GENERALLY ACCEPTED STANDARDS

Property tax audits must be conducted in a professional manner. Auditors are called upon to exercise their highest skill and best and most impartial judgments throughout the performance of their official duties. Sound professional judgment must be exercised in the verification and analysis of records that meet the scope of and achieve the audit objectives.

Auditors should apply generally accepted auditing standards and use generally accepted accounting and property tax appraisal principles when conducting a property tax audit. There may be instances when these concepts are not in full agreement. Application of the trade level requirement of Rule 10, *Trade Level for Tangible Personal Property*, is an example. Under such circumstances, the auditor may need to supplement application of generally accepted accounting principles and generally accepted auditing standards with sound appraisal principles to arrive at a correct assessment as required by law.

Following are standards set forth by the American Institute of Certified Public Accountants (AICPA) as applied to the property tax auditor-appraiser. These standards should guide the auditor in all audit situations.

GENERAL STANDARDS

1. An auditor should have adequate technical training and proficiency as an auditor.[25]

2. In all matters relating to an assignment, independence in mental attitude should be maintained by the auditor.

3. Due professional care should be exercised in the performance of the examination, in the preparation of the report and in the maintenance of confidentiality.

STANDARDS OF FIELDWORK

1. The work should be adequately planned and supervised as appropriate.

2. There should be a proper evaluation of existing internal controls as a basis for reliance. This will determine and restrict the auditing procedures.

3. Sufficient competent evidential matter should be obtained through inspection, observation, inquiry, and confirmation to afford a reasonable basis for an opinion regarding the accounting records and any other information under examination.

[25] This standard, as set forth by the AICPA, does not refer to appraisers. It has been applied to the property tax auditor-appraiser. Certification as an appraiser and auditor-appraiser must be maintained pursuant to sections 670 and 671.

REVIEW OF INFORMATION

An auditor should review all applicable information available prior to an audit appointment in order to become familiar with the taxpayer, the nature of the business, and the potential problems that may be encountered. The review will give the auditor a preview of the audit ahead and will promote a smoother audit engagement. In some cases, the auditor will find no obvious difficulties or areas of concern. In other cases, potential difficulties will be clearly evident. In such cases, the auditor can concentrate on these potential difficulties and discuss them with the taxpayer during the initial phase of the audit.

This review may include, but is not limited to:

1. *Review prior audit* (*if any*). A review of the prior audit allows the auditor to gain an understanding of the nature of the taxpayer's business, type of accounting records, and issues that may warrant closer scrutiny. The auditor may gain insight into the prior audit's conclusions with a review of the audit report. In addition, the prior audit should have a chart of accounts, description of the asset accounts, and indicate if the financial records were maintained according to generally accepted accounting principles. In many cases, the current audit may follow a similar approach as the prior audit.

2. *Review property statements and attachments as filed* (*or Change in Ownership Statements, if applicable*). The business property statements and attachments for the audit period may indicate any reporting problems in asset classification, trade level adjustments, leased equipment, changes in ownership, and reporting inconsistencies. Any correspondence with the taxpayer and the county assessor must be reviewed. The property statements should state the location of the accounting records and the name, address, and telephone number of the contact person. If the taxpayer is represented by an agent, there should be an agent's authorization letter in the file. The appraisal by the county assessor's staff and any study provided by the taxpayer should also be reviewed.

3. *Review real property land and structure records*. The real property land and structure records should be reviewed for potential assessment problems. For example, if a change in ownership has occurred, the auditor should coordinate with the real property appraiser to obtain vital information on the terms of the transfer or sale of the assets. The base year value of the real property will be affected by a change in ownership.

   In addition, the valuation of real property items such as leasehold improvements is a critical issue. The auditor should review the costs reported on Schedule B of the property statement to see if there are improvements assessable as trade fixtures. The classification of leasehold improvements as structure items or fixtures used in the business process or function of a trade, business, or industry must be reviewed.[26] Also, the reported improvement costs in Schedule B, building permits, and inter-office memos sent to the real property division may uncover other issues such as a double assessment of fixtures.

[26] See Rule 122.5, *Fixtures*, for a definition of fixtures.

4. *Review applicable authoritative citations*. See Appendix A for a complete list of relevant Revenue and Taxation Code sections and Property Tax Rules.

5. *Review lessor files for leased equipment, cost, and assessment information if the subject taxpayer leases equipment*. Terms of leases should be reviewed. The disposition of the lease equipment at the maturity date of the lease should be determined. In many cases, the lessee will purchase leased equipment at the end of the lease term. In such cases, the auditor should compare the cost of the formerly leased equipment as previously reported by the lessor to the cost reported by the lessee that recently purchased the equipment to ensure proper assessment.

6. *Review assessment roll for associated entities*. The taxpayer may be part of a family of related businesses. The related businesses should be reviewed to determine if they have assessable property at the situs of the assessee. The auditor needs to review inter-company transfer of assets. In addition, a vertically integrated company may have related companies providing goods, products, and services to the taxpayer. In such cases, the auditor should verify that taxable products and properties purchased by the taxpayer from related businesses were properly reported by the taxpayer. If the taxpayer has multiple accounts or locations within the county, or if property at the situs is owned by others, the audit may include reviewing the records of other business entities. In addition, the auditor may find that associated entities maintain accounting records in a central location. In such cases, it may be efficient to audit associated entities at the same time.

7. *Review prior owner's property statements if the business has undergone a change in ownership recently or if a change in ownership affects the current owner's reported cost and/or value*. The review of the property statements may indicate that a business has been sold or merged with another company. If a change in ownership has occurred during the audit period, the auditor must review the property statements before the change in ownership to gain an understanding of what business assets were at the situs prior to the change. In addition, the auditor should analyze the allocation of the transfer costs or sale price of the business assets. There may have been disposals and transfers of business assets that need to be investigated. In many cases, the recorded acquisition costs on the books of the acquiring entity may be recorded as an allocation of costs or as net book value. The auditor is faced with the decision to determine if the recorded costs in the books of the acquiring entity can properly be used for reporting on the property statements. It is important for the auditor to develop some understanding regarding the basis for the recorded costs.

8. *Review assessment appeal files, correspondence, and other data that identify past and current issues regarding the appraisal and assessment of the property*. The assessment appeals file should be reviewed to identify past and current issues regarding the assessment of the taxpayer's holdings. In addition, the auditor should consider any assessment appeals board ruling on the value of the taxpayer's holdings.

CONTACT ASSESSEE

The auditor assigned to a particular audit should conduct a pre-audit review and be familiar with the audit candidate. Prior to contacting the taxpayer, the auditor should discuss with appropriate management the prospect of conducting part or all of the engagement as an office audit.[27]

The assigned auditor representing the county assessor should contact the taxpayer to inform him/her that an audit will be conducted pursuant to Rule 191. The auditor should take the time to assure the taxpayer that the audit is routine, and that the taxpayer is not suspected of any wrongdoing. If a decision is made to conduct an office audit, this option is also discussed with the assessee during the initial contact and should include an overview of the benefits of an office audit.

OFFICE AUDIT

If the auditor and the taxpayer agree to conduct the entire engagement as an office audit, the auditor should inform the taxpayer that it may be necessary to schedule a visit if the records reveal significant discrepancies or if the auditor determines that it is necessary to make a physical inspection of the property. The auditor should inform the assessee that the records should be sent to the county assessor's office, and an auditor will contact the taxpayer after the records are received to schedule the initial audit interview (see Chapter 4 under the section titled *Initial Audit Interview*). Appendix C, *Sample Office Audit Engagement Letter*, is a document that may be used to draft a letter to send to taxpayers scheduled for an office audit. The auditor will want to tailor the letter to comport with the audit plan discussed with the taxpayer and records the taxpayer has agreed to send as electronic files.

AUDIT LOCATION

If the decision is made not to conduct an office audit, arrange a place and time for where and when the audit will be conducted. It is also helpful to identify the taxpayer's contact person during the initial contact. An audit appointment should be scheduled to give the taxpayer (or the taxpayer's agent) sufficient time to prepare for the visit. Setting an appropriate and convenient date for both parties can help to avoid canceled appointments or second visits to a taxpayer's office.

INFORM TAXPAYER OF RECORDS NECESSARY FOR REVIEW

It is also critical to inform the taxpayer of the records necessary to conduct the audit and to verify that those records will be available for audit prior to the scheduled audit appointment. This allows the taxpayer to prepare for the audit and also avoids unnecessary delays.[28] Basic records to be available onsite should include:

1. Chart of Accounts

[27] See Chapter 2, section titled *Office Audits*, for additional information on these types of audits.

[28] A follow-up letter can also help by confirming the appointment and by providing a more detailed list of the records which will be required.

2. General ledger and subsidiary ledgers supporting the general ledger
3. Trial balance
4. Detailed fixed asset list or depreciation schedule
5. Income tax returns
6. Invoices and other source documents (purchase orders, receiving records, lease agreements, appropriation records, work orders for construction projects, etc.)
7. Financial statements and/or annual reports
8. Accounting procedures manuals
9. Independent audit reports (if any)
10. Insurance policy(ies)
11. Sales tax audit report(s) (if any)
12. Assessee's work papers reconciling books and records to property statement filing(s)
13. Articles of incorporation and amendments, as applicable

This list can be expanded or reduced based on the preliminary audit review, and discussions with the taxpayer. If the assessee has more than one account or location in the county, or if property owned by others is at the location of the business, the list and the audit may include records for more than one company or county assessor's account numbers. If the taxpayer is unique, such as a leasing company, the taxpayer may have "unique" records. These records may be necessary for review in addition to the typical records listed above.

INFORM TAXPAYER OF RELEVANT STATUTORY AUDIT PROVISIONS

It may also be helpful to inform the taxpayer of any relevant statutory provisions authorizing audits under the Revenue and Taxation Code. For example:

- Section 441(d)(1), provides, in part:

  > At any time, as required by the assessor for assessment purposes, every person *shall make available* for examination information or records regarding his or her property or any other personal property located on premises he or she owns or controls….(Emphasis added.)

- Section 470(a), provides, in part:

  > Upon request of an assessor, a person owning, claiming, possessing or controlling property subject to local assessment *shall make* available…a true copy of business records relevant to the amount, cost, and value of all

> property that he or she owns, claims, possesses, or controls, within the county. (Emphasis added.)

- Section 469, provides, in part:

> The assessor *shall annually conduct* a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess or control locally assessable trade fixtures and business tangible personal property in the county to encourage the accurate and proper reporting of property as required by this article….(Emphasis added.)

In some cases, a taxpayer or the taxpayer's agent may be reluctant to show an auditor copies of income tax returns or other documents necessary to conduct the audit. The auditor may cite the following:

- Section 462, provides, in part:

> Every person is guilty of a misdemeanor who, after written request of the assessor, does any of the following:
>
> (a) Refuses to *make available* to the assessor any information which is required by subdivision (d) of Section 441….(Emphasis added.)

- Section 441(d)(1) provides:

> At any time, as required by the assessor for assessment purposes, every person shall make available for examination information or records regarding his or her property or any other personal property located on premises he or she owns or controls. In this connection details of property acquisition transactions, construction and development costs, rental income, and other data relevant to the determination of an estimate of value are to be considered as information essential to the proper discharge of the assessor's duties.

The auditor may also refer the taxpayer to *Lyons v. Estes*[29] where the court held that section 19551[30] authorizes county assessors to inspect tax returns. The court specifically stated that the county assessor is a tax official, as defined by section 19551, who may inspect income tax returns to assist him/her in assessing property. Requests for copies of personal income tax returns must be made by affidavit under penalty of perjury. Appendix D, *Requests for Obtaining State Income or Franchise Tax Return Information*, provides additional information regarding this process.

In extreme cases, where an assessee cannot be persuaded to make records available, records may be subpoenaed. Sections 468 and 454 provide the county assessor the power to subpoena.

[29] (1969) 6 Cal.App.3d 979.
[30] At the time the *Lyons v. Estes* case was decided, section 19551 was section 19286.

- Section 468, provides, in part:

> …if any person fails to furnish any information or records required by this article upon request by the assessor, the assessor may apply to the superior court of the county for an order requiring the person who failed to furnish such information or records to appear and answer concerning his property before such court at a time and place specified in the order….

- Section 454, provides, in part:

> The county assessor may subpoena and examine any person in relation to:
>
> (a) any statement furnished him, or
>
> (b) any statement disclosing property assessable in his county that may be stored with, possessed, or controlled by the person….

Alternatively, the county assessor is authorized to estimate the value of the property. If, after written request, any person has failed to comply with the requirements to make available information on the property statement under section 441 or pursuant to audit under section 470, the county assessor is authorized to estimate value based on the information in his/her possession.[31]

[31] Section 501.

CHAPTER 4: CONDUCTING AN AUDIT

SCOPE OF A PROPERTY TAX AUDIT

In-depth audits are not always required for each year in the four-year period. The auditor is allowed to "sample" one year in the four-year audit period.[32] If no material discrepancy or irregularity is found, there is no requirement to audit the remaining years.

When discrepancies and irregularities are found in the first year selected for audit, the assessor has a mandatory duty to audit the remaining fiscal years for which the statute of limitations for escape assessments has not expired at the time the results of the first year audit are completed. Exceptions to this mandatory duty are contained in Rule 193 which provides:

> (b) When a discrepancy or irregularity is found in the fiscal year first selected for audit, the assessor ***shall*** audit the remaining fiscal years for which the statute of limitations has not expired unless the assessor documents in the audit report his/her conclusion both that:
>
> (1) The discrepancy or irregularity in the fiscal year first selected is peculiar to that fiscal year; and
>
> (2) The discrepancy or irregularity did not disclose: . . . an escape assessment. . . or an error that resulted in property being incorrectly valued or misclassified. . . . [Emphasis added.]

Once an assessor's duty to audit has accrued, the duty does not expire until the audit is completed and the written notice of findings is given to the taxpayer. There is no statute of limitations that limits this duty.

FIELDWORK

Professionalism is important when conducting an audit. The pre-audit review, as discussed earlier, helps to organize the auditor and contributes to a professional attitude and image. In addition, some basic audit rules should always be observed:

1. Maintain confidentiality of any information obtained;
2. Be professional, courteous, and cooperative;
3. Decline offers of gratuity;
4. Avoid conversations unrelated to the audit, such as political, religious, or argumentative discussions;
5. Avoid drawing premature conclusions; and

[32] Rule 193(a).

6. Disrupt the assessee as little as possible. Wait until you have several items to discuss before approaching him/her.

The auditor should accomplish the following during the audit fieldwork:

1. Gather general information regarding the company;
2. Review and verify accounting records pertaining to property tax valuation;
3. Obtain copies of detailed records to provide support of the audit findings; and
4. Conduct a tour of the facility and equipment, if necessary.

INITIAL AUDIT INTERVIEW

A short initial interview with the assessee (or agent) at the beginning of an audit appointment may help to quickly acquaint the auditor with the books and records and the company's concerns. This generally facilitates the remainder of the audit, and allows the assessee to continue business with fewer interruptions. If the engagement is an office audit, the initial interview will likely take place on the telephone.

A pre-audit review and the audit checklist[33] help to determine relevant questions that should be asked at this interview. Such questions may include inquiries pertaining to:

1. ***Ownership type***. Is the property owned by a sole proprietor, partnership, corporation, or other?
2. ***Accounting period***. What is the accounting period? Fiscal or Calendar year?
3. ***Control***. Was there a change in ownership or control during the audit period? This question is in reference to information that must be reported on Part I of the property statement. Review of the entity's state income tax return may assist in verification if there was a change in ownership or control. Additionally, audited financial statements provide valuable information on notable events during the audited period.
4. ***Type of accounting system***. Does the taxpayer use the accrual system or the cash basis for accounting?

   The *accrual system* of accounting gives recognition to economic events during the fiscal period in which economic events are realized although funds may not have been exchanged. For example, expenses are recorded when incurred even though the actual payment has not been made. The accrual system theoretically provides for the timely recording of accounting data by the taxpayer and is generally acceptable for purposes of audit. However, late postings are common. Actual posting practices should be verified.

[33] See sample audit checklist in Appendix E.

The *cash basis* of accounting gives recognition to income and expense only when actually received or paid. When a cash basis system is encountered, the auditor may need to make adjustments to the accounting data for assessment purposes. For example, the assessee may only be capitalizing cash payments actually made instead of the total purchase price.

5. ***Capitalization policy***. What is the capitalization policy (including lease buy-outs)? What is the minimum value for capitalizing assets? (Important in determining if some assets are treated as expense items.) How are cost components treated: sales/use tax, installation charges, freight, trade-in allowance, repairs, etc.?

6. ***Construction in progress***. How is construction in progress treated in the accounting records? Is it reported? What is included? Are expenditures posted when incurred, when invoiced (frequently contractors do not send a bill until weeks or months after some of the work has been completed), or when paid (even "accrual basis" companies sometimes use "cash basis" for construction in progress)? Is overhead recorded? Is construction interest recorded? How are change orders recorded?

7. ***Policy of writing off assets***. How are fully depreciated assets treated? Are they listed on the depreciation schedule and on the books? How are scrapped or sold assets treated? How often are they taken off the books and the depreciation schedule? How often is a physical inventory of fixed assets conducted?

   NOTE: An assessee's policy and schedule for recording disposals aids an auditor in determining how accurately an asset listing represents the assets owned and possessed by the assessee. However, it is important to note that the process of retirement and disposal is generally not as rigid as the purchase. There may be assets on the books that have been disposed. It may be necessary to request supporting documentation from the assessee if this is a contention.

8. ***Situs***. Where are assets located? Are all assets at one location? Are all assets in the county? Are all assets in the state?

9. ***Recording trade in allowances***. How are trade-in allowances treated on the books and on the depreciation schedule?

10. ***Internal control***. Does the assessee have an internal control policy/system? A company's system of internal control, including electronic data processing data entry and retrieval and software controls, is vital evidence in support of the recorded transactions and financial statements. Basic characteristics of sound internal control include: appropriate segregation of responsibilities; reasonable accounting control over assets, liabilities, revenues, and expenses; and sound practices followed by quality personnel in the performance of duties and functions in each department.

These questions may be expanded upon and altered based on the auditor's review of information prior to the audit, the assessee's responses provided during the interview, and as further information is gathered. Answers to these questions will allow the auditor to identify issues that may warrant closer examination.

REVIEWING AND VERIFYING RECORDS: ESTABLISHING THE WORKING PAPERS

A taxpayer is required to make available business records for examination regarding all owned, claimed, possessed, and/or controlled locally assessable property within the county on request by the county assessor or the county assessor's authorized representatives. In this connection, the taxpayer must provide a true copy of business records relevant to the amount, cost, and value of all property owned, claimed, possessed, or controlled within the county.[34]

The business records requested from and provided by the assessee are related to the company's financial statements and position as asserted by management.[35] Once these records are gathered, the auditor must identify all data pertinent to the audit in order to verify full economic cost and/or full cash value on each lien date.

If the taxpayer does not make the business records available to the county assessor or the county assessor's authorized representative, the county assessor may apply to the superior court of the county for an order requiring the person who failed to furnish such information or records to appear and answer concerning the property before such court at a time and place specified in the order.[36]

Verification of Personal Property

Reconciliation of Sources

In the verification of personal property, the auditor is primarily concerned that full economic property costs and years of acquisition were properly reported. This information is normally found in two sets of records:

1. General ledger fixed asset accounts or subsidiary ledgers; and
2. Depreciation schedules or fixed asset listings.

When two sets of records are available, the auditor should reconcile the records. This reconciliation can aid in compiling a complete and accurate asset list, cost summary, or a complete listing of revenue and expenses, as needed, that can be used as a basis for the audit. An example of reconciliation of sources is listed below:

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[34] Sections 441 and 470.

[35] Based on generally accepted accounting principles (GAAP), the financial statements are implied or expressed representations by management. Management makes, in these financial statements, assertions regarding (1) existence and occurrence of assets, obligations, and equities; (2) completeness of the statements; (3) rights and obligations (i.e., assets are the rights of the company and liabilities are the obligation of the company); (4) valuation and allocation (i.e., asset, liability, equity, revenue, and expense have been included in the financial statements at the proper amount under GAAP); and (5) presentation and disclosure (i.e., the financial statements are classified, described, and disclosed properly).

[36] Section 468. See section titled *Inform Taxpayer of Relevant Statutory Audit Provisions* in Chapter 3.

TABLE 4.1 **RECONCILIATION OF SOURCES** **DEPRECIATION SCHEDULE AND GENERAL LEDGER ACCOUNT**	
Total Depreciable Asset Cost Per Depreciation Schedule (FYE 2013)	$ 125,000
Machinery & Equipment Asset Account #XX1 Per General Ledger (FYE 2013)	(100,000)
Difference Depreciation Schedule – General Ledger	$ 25,000
Less: Non-assessable Licensed Vehicles (included in General Ledger Account #XX2)	(15,000)
Goodwill (included in General Ledger Account #XX3)	(5,000)
Disposals Unrecorded on Depreciation Schedule	(5,000)
Difference Depreciation Schedule – General Ledger	$ 0

When both cost totals (cost per depreciation schedule and cost per general ledger fixed asset accounts) are reconcilable, as in Table 4.1 above, the auditor can use the depreciation schedule (which contains specific equipment information) as a basis for the audited cost and make adjustments as necessary. When the cost totals are not reconcilable, the auditor should make an effort to determine why there is a difference between the depreciation schedule and the general ledger before determining which audited cost to use as a basis or before making any adjustments. For instance, in Table 4.1 three adjustments were made to the cost per books. If any one of those had not been identified (non-assessable licensed vehicles, goodwill, or unrecorded disposals), a difference would have resulted. The auditor would then need to (or attempt to) determine what adjustment was missed.

Sampling to Confirm Accuracy

The auditor should also use the compiled asset or cost listing (and/or revenue and expense summary) to select source documents to sample and compare to the booked cost. This may include such items as purchase invoices, transportation invoices, and receiving reports. This sampling serves three purposes. First, it enables an auditor to verify correctness of acquisition date as recorded on the asset listing or accounting records. Second, it allows verification of the description contained in the detailed records in order to ensure proper classification. And, third, it enables an auditor to verify that the property's full economic cost is equal to the cost recorded on the asset listing or accounting records. The recorded cost may not include all cost components necessary to use the cost approach. The cost components (sales tax, freight, trade-in allowances, etc.) should be verified to include all cost items necessary to put the equipment to use.[37]

Other Adjustments

After reviewing the source documents selected for sampling and determining accurate cost and acquisition date information, an auditor should also determine if any other machinery and equipment or other personal property and fixtures exist (including self-constructed assets) that

[37] For additional information, see AH 504, Chapter 4, *Valuation of Personal Property*, Valid Cost Components.

are not on the depreciation schedule or in the fixed asset accounts. Short-lived equipment is an example of equipment that may not be included on the depreciation schedule and in the general ledger asset accounts because this type of equipment may not be capitalized. Equipment such as hand tools are commonly expensed rather than capitalized, depending upon the assessee's capitalization policy. Expense accounts should be reviewed for these types of items as well as leased equipment. Leased equipment may be identified by reviewing accounting records for lease payments noted in Notes Payable and/or Expense Accounts.

Self-constructed or self-manufactured machinery and equipment that are used in the business operation must be adjusted to their proper consumer trade level. Adjustment to booked cost of goods manufactured and sold may include, but is not limited to, the taxpayer's profit margin, sales tax, freight, and installation.

Farm audits require special attention to items that may have been sold, traded-in, junked, or otherwise abandoned which may make asset listings difficult to reconcile. While the assessee should in all situations substantiate any and all changes and deletions not indicated on the books, the auditor should attempt to identify discrepancies and discuss them as soon as possible to assist in compiling a complete and accurate asset list for purposes of property tax assessment.

Classification of Personal Property

The auditor should also verify that the property was classified correctly when reported by the taxpayer. For example, did the taxpayer report computer equipment in the proper column on the property statement? If computer equipment is erroneously reported as office equipment, the assessed value may be improper. For mass appraisal purposes, annual assessment of property is, in part, dependent on how the assessee classifies property on the annual property statement. Therefore, review of proper classification during an audit engagement is important.[38]

[38] For a detailed discussion on classification, see AH 504, Chapter 2, *Classification*.

Classification of equipment should not necessarily be limited to the classification groups provided on the property statement (equipment, office equipment, tools, molds, dies, etc.). The asset listing of a business may include several different groups of equipment and the business may operate distinct units (manufacturing, packaging, warehousing, etc.) whose equipment values fluctuate independently. Thus, it may be necessary for each group of equipment to be classified and valued separately in accordance with information contained in Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).[39]

Verification of Improvements

Verification of improvement and building accounts is similar to verification of machinery and equipment. As with machinery and equipment, the auditor must make sure that reported costs, acquisition dates, and classifications are accurate. Improvements are typically listed with machinery and equipment on the depreciation schedule and will generally be separated in the general ledger accounts.

In addition to review of cost, acquisition date, and classification, the auditor should also verify that (1) improvements were not also assessed with the real property assessment, and (2) all improvements were assessed (i.e., no escape assessments). This typically involves coordination with a real property appraiser and/or review of the real property appraisal record.

Classification of Improvements

Property tax law requires that improvement value be shown separately from land value and personal property value on the assessment roll. However, there is no requirement that fixtures value be shown as a separate category of improvements.[40] Nonetheless, it is necessary for the auditor to make the distinction between fixtures and other improvements because classification may affect the audit procedures and valuation of property.

It is important to properly classify fixtures separate from other improvement items for several reasons:

1. Fixtures are a separate appraisal unit when measuring declines in value;[41]
2. Fixtures are treated differently than other real property (i.e., structure items) for supplemental roll purposes; and

[39] Section 401.5 of the Revenue and Taxation Code requires that the Board issue to county assessors data relating to costs of property and other information to promote uniformity in appraisal practices and in assessed values throughout the state. In an effort to comply with section 401.5, the Board annually publishes AH 581. See AH 581 for index and percent good tables and valuation factors that aid in the mass appraisal of various types of personal property and fixtures. General instructions and pertinent information regarding the use of these tables are included in the text.

[40] Section 602.

[41] Rule 461(e). However, there are exceptions to the general rule that fixtures are a separate appraisal unit for declines in value. For example, see Rule 468, 469(e)(2)(C), Rule 473(e)(4)(C), and Rule 474(d).

3. Fixtures and personal property values are components in the value criterion for identifying the pool of taxpayers with the largest assessments for audit purposes under section 469.

Other than these three areas, fixtures are subject to the same constitutional, statutory, and regulatory provisions affecting the valuation and assessment of other real property.

Fixtures are Generally a Separate Appraisal Unit When Measuring Declines in Value

In 1978, California voters passed Proposition 8, a constitutional amendment to article XIII A that allows a temporary reduction in assessed value when real property suffers a decline in value. A decline in value occurs when the current market value of real property is less than the current assessed (taxable) factored base year value as of the lien date, January 1. Thus, declines in value under Proposition 8 are determined by comparing the current full value (i.e., current market value) of an appraisal unit to the factored base year value of the unit on the lien date.[42]

Appraisal unit is defined in section 51(d) as the unit that (1) persons in the marketplace commonly buy and sell as a unit or (2) is normally valued separately. Land and improvements, for example, are an appraisal unit because improvements are typically bought and sold with land. Fixtures not typically bought and sold separately in the market are also considered a separate appraisal unit under this section because they are normally valued separately. Rule 461(e) provides that fixtures, and other machinery and equipment classified as improvements, are a separate appraisal unit when measuring a decline in value.[43]

Fixtures may be a Separate Appraisal Unit for Supplemental Roll Purposes

Generally, all property that changes ownership or is newly constructed after the lien date is assessed as of the date of change in ownership or date of completion of new construction and is subject to supplemental assessment. An exception to this requirement applies to certain fixtures and certain taxable possessory interests. Section 75.5 removes from the definition of "property" subject to supplemental assessment, "fixtures that are normally valued as a separate appraisal unit from a structure" and taxable possessory interests, as specified.

> "Property" means and includes manufactured homes subject to taxation under Part 13 (commencing with Section 5800) and real property, other than the following:…

With regard to fixtures, this exclusion from supplemental assessment applies only to fixtures that are normally valued as a separate appraisal unit from the land and other improvements on which they are located. It does not apply to fixtures that are included with other property as part of a single appraisal unit that changes ownership or is newly constructed. If an entire property containing land, structures, and fixtures is valued as a single appraisal unit upon a change in

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[42] See also Rule 461(e).

[43] See *County of Orange v. Orange County Assessment Appeals Bd.* (1993) 13 Cal.App.4th 524, where the appellate court held that under Rule 461(e), "the components of taxable property may be separated for valuation purposes," and that section 51, subdivision (e) "states, albeit ungrammatically, that an appraisal unit can be that which are [sic] normally valued separately. Taken as a whole, neither section 51 in general, nor subdivision (e) in particular, mandates appraisal of the property as a single unit."

ownership or new construction, the fixtures included in the unit are subject to supplemental assessment.[44]

Fixture Value Included in Value Criterion for Audit Purposes

The combined total value of personal property and fixtures determines whether a taxpayer is within the pool of taxpayers with the largest assessments for audit purposes under Section 469; the value of structure items is not included in this determination. Section 469(b)(1) states, in part, that:

> Fifty percent of the audits required by subdivision (a) shall be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.

Therefore, verification of proper classification is necessary when conducting an audit. If fixtures are misclassified—notably, if fixtures are classified as structures or vice versa—the value criterion for audits under section 469 in future years cannot be applied properly.

Verification of Supplies

The verification of supplies consists primarily of ensuring that supplies on hand on the lien date have been properly reported by the assessee. The auditor must ensure that (1) exempt inventory items were excluded, and (2) all assessable supply items were included.

If the assessee maintains a supply inventory account in the general ledger, the auditor must verify that the account is properly maintained and contains all purchases received prior to the lien date. The auditor should also review the inventory accounts for supply items to determine if items booked as inventory are supplies for property tax purposes. If supplies are expensed, the auditor must review the supply expense accounts over the prior year. Based on this review, discussions with the assessee regarding the amount of supplies on hand, and observation during the facility tour, an auditor should be able to effectively estimate supplies on hand on the lien date.

Verification of Construction in Progress

The verification of construction in progress (CIP) involves matching expenditures to the existence of physical property as well as properly classifying that property. Where progress payments are being made, the assessee's books may reflect a considerable amount of expenditures in the CIP account. However, the assessee may not yet have possession of the property, or the property may not have existed on the lien date, or, as mentioned earlier, the property may have been received or constructed well before the expenditures were posted. Existence and ownership of the items on the lien date are required elements for proper assessment. For example, if construction has not started as of the lien date, no value is

[44] Section 75.15.

assessable, assuming any material on hand belongs to the contractor and is classified as business inventory. If construction has started, an assessment of CIP is appropriate.[45]

Similar to verification of leasehold improvements, verification of CIP also involves proper classification. Coordination between the auditor and the real property appraiser is necessary to avoid duplicate assessments or escape assessments.

Verification and Identification of Leased Personal Property

Errors in reporting and assessing leased equipment frequently occur; therefore, an audit should include testing for leased equipment.[46] By reviewing the various records and accounts maintained by an assessee, an auditor can discover, identify, and verify all leases. The principal records for obtaining information regarding leased equipment include the following:

1. ***General Ledger***. Accounts such as lease and rental expense, accounts payable, and notes payable in the general ledger will indicate whether the assessee was making lease or rental payments on the lien date.

2. ***Cash Disbursements Journal***. This record will indicate the amounts and payees of lease and rental payments.

3. ***Lease Contracts.*** The monthly lease payment indicated on the lease contract should be compared to the amounts shown in the expense accounts. This will verify that all leases are reported and what costs are included in the lease payment/cost.

4. ***Financial Statements.*** The financial statements may indicate not only the existence of leases but may also give important information associated with such leases. The footnotes give a summary of the rental and lease commitments regarding operating leases (short-term or cancelable leases, for which the risks of ownership lie with the lessor, Financial Accounting Standards Board Statement No. 13 *Accounting for Leases*). The balance sheet gives information regarding leases similar to that found in the general ledger accounts.

5. ***Other Sources.*** Discussions with the assessee and/or physical inspection of the premises may indicate the existence of leased equipment.

After the auditor has identified all leases, a comparison should be made between the lessor and the lessee accounts maintained by the county assessor to confirm accurate reporting (i.e., was the appropriate cost(s) reported at the appropriate trade level?) and assessment (i.e., was the leased property valued correctly, no duplicate assessment occurred, and no proper assessment omitted?).

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[45] Determination of value should be based on market value on the lien date. See AH 504, Chapter 7, *Special Issues*, for further discussion of CIP valuation.
[46] For additional information, see AH 504, Chapter 6.

Items or Audits Requiring Special Attention

Certain items may cause difficulties in reporting and valuations. In reviewing an assessee's records and reported costs, an auditor may avoid some of these difficulties by discovering information sufficient to answer the following questions:

1. Does the reported or booked cost include all property costs? (Sales/use tax, freight, installation, etc.)
2. Is all taxable property listed in the accounting records? (Fully-depreciated equipment, leased equipment, property belonging to other entities, expensed personal property, equipment purchased near lien date, interest during construction, etc.)
3. Do all booked costs contribute to assessable value? (Goodwill, covenant not to compete, unrecorded disposals, exempt property, rental equipment not on rent on the lien date, inventory, licensed vehicles, commercial coaches, etc.)

To determine other items that may require special attention in certain circumstances, reference should be made to the three valuation chapters in AH 504: Chapter 4, *Valuation of Personal Property*, Chapter 5, *Assessments of Improvements Related to Business Property*, and Chapter 6, *Special Issues*.

Special Situations

Equipment located at an assessee's place of business but not owned by the assessee needs special attention and consideration. This equipment may not be capitalized. Vending equipment, loaned equipment, and government-owned equipment are some examples.[47] A discussion regarding auditing for this type of property is discussed below since different audit procedures are necessary in discovery and valuation.

Vending Equipment

Vending equipment may or may not involve a written contract between the owner and the possessor. The possessor does not normally incur any expenses regarding the equipment but may derive income from the source. Therefore, miscellaneous income accounts should be analyzed to obtain information regarding this type of income and property.

Loaned Equipment

Discovery of loaned or borrowed equipment is a particularly difficult area in terms of discovery because the possessor of the property, the assessee under audit, may or may not derive any income or incur any expense from the property. The following items may aid the auditor in the discovery and assessment of such equipment:

1. Capitalized installation charges

[47] Leased equipment is also equipment located at an assessee's business location that may not be owned by them. Verification and identification of leased equipment was discussed earlier in the chapter.

2. Royalty payments for items produced on loaned equipment
3. Expensed maintenance or repairs on the equipment
4. Memorandum entries
5. Insurance policies
6. Contract or other written agreement(s) between the owner and the possessor

Government-Owned Equipment

Another item to consider when conducting an audit is government-owned property. Property owned by the government and used by a taxable entity may be subject to a possessory interest assessment only, but the property remains an item under audit.[48] The primary sources for discovering and obtaining information regarding government-owned property and contracts with the government may include:

1. ***Facilities Contracts and/or Supplies and Services Contracts***. Companies holding government-owned equipment will generally have a Facilities Contract and/or a Supplies and Services Contract with the government. These contracts require the firm to maintain accounting and property controls for the equipment and to make periodic status reports to the controlling governmental agency. These records will generally identify each equipment item and the specific location.

2. ***Physical Inspection of the Premises***. Most government-owned property is required to be tagged, or otherwise visually identifiable as being government property.

3. ***Capitalized Installation or Other Costs***. The assessee may have capitalized installation or other costs in connection with government-owned equipment. An analysis of the structures, leasehold improvement, and equipment accounts may alert the auditor of the existence of government-owned equipment.

When government-owned property is identified, it is imperative that the auditor ascertains which items should be classified as fixtures and which items are personal property. *Only* fixtures and other real property owned by the government but possessed by a taxable entity are subject to assessment (possessory interest).[49] Possessory interests in personal property are not taxable.[50]

Total Property Audits

Total property appraisals refer to appraisals in which the entire property (consisting of land, building, and equipment) is appraised as "one appraisal unit," normally in concert with the real property appraiser. Total property appraisals typically involve the most complex and valuable

[48] See also AH 504, *Leases with Exempt Entities (Government Entities),* in Chapter 6.
[49] *Taxable possessory interests* are defined in section 107.
[50] There is one exception. Section 201.5 specifies that possessory interests in pollution control property—whether real property or personal property—acquired by or for the California Pollution Control Financing Authority are taxable. See AH 504, Chapter 2, for additional information on classification.

properties. A total property audit, therefore, involves the verification of considerably more information than a typical audit that focuses primarily on equipment and supplies. It is important to verify all information that is relevant to the appraisal of the entire property. In addition to basic records, depending on the valuation approach used for the subject property, the auditor will also need to focus on:

1. ***Profit and Loss Statements***. For use in income approach.
2. ***Production Data***. Production capacity, units sold, unit sales price, and production specific expenses; for use in income approach. The auditor should work collaboratively with the assessee in identifying the appropriate income and expense components necessary for developing an income approach model.
3. ***Tenant Improvements***. Costs included in a total property appraisal.
4. ***Lease Agreements.*** Important in certain operations such as shopping centers and office building rentals. The essential terms of the contract must be extracted (lease term, monthly rent, maintenance provisions, tax provisions, etc.). If possible, a copy of the entire contract may be helpful.
5. ***Construction Contracts***. Furnish a general description of the type of construction and also identify any special items such as special foundations not readily discernible through a physical inspection. Also, excess costs of construction, if any, might be indicated.
6. ***Plant Utilization***. Data concerning whether the facilities, especially the structures and fixed equipment, are being used for purposes originally intended. Also, whether there is unused capacity.
7. ***Market Studies and Forecast***. Supplies the expectation of future business for the firm. May indicate how soon any unused capacity might be used.
8. ***Plot Plan***. Detailed plot plans should be received from all total property assessees.

Audits of Leasing Companies

Audits of leasing companies involve unusual and distinct difficulties. The auditor must verify that:

1. All equipment owned by the company located in the county has been reported;
2. The correct location of the equipment has been furnished on the property statement;
3. The correct cost and sales information has been reported by the lessor; and
4. The costs reported reflect the appropriate trade level.

In addition to the books of original entry and property records found in most types of businesses, the following items may be gathered to obtain information necessary for an audit of a leasing company:

1. ***Lease Contracts***. These contracts furnish complete information on lease costs and lease dates. A primary requirement of leasing company audits is that the auditor obtains, at least, several copies of invoices and executed lease contracts including purchase contracts for lessees in the county.

2. ***Audit/Leased Equipment Referrals.*** Referral forms resulting from processing property statements or conducting audits of lessees may be helpful. The referrals will contain information from property statements filed by lessees and information extracted during audits of lessees. This information may be compared to the lessor's records to determine whether the lessor has reported all equipment.

3. ***Control Records.*** In many cases, lessors record their leases at the lessee's headquarters, but in fact the lessee may relocate the equipment to a different situs.

4. ***Accounts Receivable Ledger and/or Billing List***. These records furnish names and other information about customers which may aid in discovery. In some cases, such as short-term leases or rentals, this may be the most reliable source of information.

5. ***Retail Pricing Lists***. These lists furnish current selling prices of similar equipment which may aid in verification of estimated value and determination of proper trade level cost.

The auditor is responsible for establishing the total in-place replacement or reproduction cost new of leased equipment in order to implement the cost approach to value. For review, the total cost may include, but is not limited to:

1. Purchase price of equipment

2. Sales or use tax

3. Freight

4. Installation and set up costs

5. Machinery foundation costs

6. Cost of major repairs that extend the useful life of the equipment or materially increase its capacity

7. Trade level adjustments where applicable

Each of these costs should be verified. It may be necessary to also review the lessee's accounting records to gather all applicable information (for example, situs) and costs and ultimately determine total cost subject to assessment.

In determining this total cost and reviewing an assessee's property statement, an auditor should look for common problems listed below.

1. ***Dates.*** Some companies consider an item leased only when the item is operational or when the monthly billings commence. Monthly billing may not start until after long extensive testing is completed, especially on complex types of equipment. To determine proper treatment on the lien date, it is important to ascertain the various dates used by an assessee (i.e., define the term such as date of installation, rental date, effective date, termination date, shipping date, acceptance date, and date of manufacture).

2. ***Recognition and Reporting of Proper Trade Level.*** A leasing company may be reporting booked cost of an asset that does not correspond to the trade level at which the property is being used on the lien date. For example, when the lessor is also the manufacturer of the leased equipment, the booked (and reported) cost may be the manufactured cost. The actual value of the equipment to the user/lessee on the lien date may be more than that manufacturer's cost (to include profit margin, sales tax, etc.). The auditor should determine the proper trade level and if all components of cost are included.[51]

3. ***Assignment of Leases and Lease Rights.*** An assignment occurs when one lessor (the assignor) "transfers" or sells property on lease to another lessor (the assignee). Assigned leases may not be reported by either party (the assignor or the assignee), and may not be reported by the lessee holding the property. An audit of a leasing company should include a review of records concerning assignments to ensure that all such equipment is reported.

4. ***Lease Purchase.*** A leasing company may or may not report Purchase-Option Leases. These are leases that are essentially sales, rather than true leases. When purchase-option leases are not reported by the leasing company, neither the lessor nor the lessee may be reporting the equipment. A review of the lessor's records may identify such unreported property.

5. ***Sale and Leaseback.*** Many companies advance money to customers using existing equipment as collateral. These leases may or may not reflect the true cost of the equipment because many of these arrangements are based on the lessee's ability to pay, and not on the cost of the equipment. Documents concerning sale leasebacks,[52] including the original purchase documents, should be reviewed to determine the full economic cost. A physical inspection of the property may also be necessary to confirm the appropriate value.

6. ***Service and Warranty Contracts.*** Leases may include costs for non-assessable service items. These costs should be deducted.

[51] See also trade level and leased equipment valuation discussions in AH 504, Chapters 4 and 6.
[52] Rule 462.200(d).

7. ***Computer Software.*** Leases may include costs for non-assessable software. These costs should be deducted.[53]

8. ***Special Leases.*** Many lessors have separate controls for those items that are special purpose leases or are not currently active. The auditor should make certain that the following categories of leases have been accounted for:

   - Leases in litigation
   - Terminated leases
   - Lease purchases
   - Government Service Administration (GSA) leases
   - Education leases
   - Local Government leases
   - Software Leases
   - Subleases

INSPECTION OF PROPERTY

A physical inspection of the facility may be an important part of the audit process. A tour and inspection contributes to the audit in the following ways:

1. Confirms the existence and the location of the property;
2. Confirms the correct classification of the property;
3. Verifies the condition of the property;
4. Verifies that all property is recorded in the books and/or reported on the property statement;
5. Discovers property not in the books and records.
6. Verifies that all property on the books actually exists at the location; and
7. Verifies that valuation of the property as a whole is reasonable and accurate.

It is not necessary for the auditor to specifically identify each and every piece of equipment. It is, however, important to compare and reconcile a sample of the assets compiled based on review of the records against actual existing assets viewed during the tour and vice versa. This sample should be large enough to reasonably conclude the accuracy and completeness of the records being used as a basis for the assessable value.

[53] Section 995 and Rule 152, *Computer Program Storage Media*. For additional information, see AH 504, Chapter 6.

Although the inspection of property can be an important part of the audit process, it may not always be warranted. Physical inspections can be time-consuming for both the assessee and the county assessor. Before scheduling an inspection, the auditor should make an evaluation to determine the need for a physical inspection. For example, the auditor should consider a number of issues, such as:

1. The level of investment the assessee has made in both real and personal property during the lien date years under audit;

2. Results of prior audits; and

3. Significant changes in economic activity such as increase in revenue and/or expenses.

The decision to conduct a physical inspection should be based on attributes specific to the assessee and always in consultation with management. Should the decision be made not to conduct a physical inspection, the justification for the decision should be documented in the audit narrative.

CHAPTER 5: AUDIT REPORT

A comprehensive and organized audit report ensures the retention of important facts that arise from an audit, that the audit results are reasonable, and that the audit is useful for future appraisals and audits. The audit report summarizes the events of the audit and provides for discussion of the audit findings. Each audit report should contain certain basic information in the form of work papers that flow logically to an appraisal and audit summary work paper (see the discussion *Compare Audited Value to Original Assessed Value* for further information on this summary). Regardless of the type of work papers, the audit report should be organized in a logical manner, properly referenced, and clearly indexed. A reader should be able to follow the progression of the audit work papers and use the audit report to determine how the final conclusion was reached.

WORK PAPERS

PURPOSE OF WORK PAPERS

In general, the purpose of audit work papers is to provide support for the audit findings. Work papers should be complete and include support for all audit conclusions reached. Specifically, work papers serve to:

- Aid in the planning, performance, and review of audits.
- Document whether the audit objectives were achieved.
- Provide support in the event that an assessee disputes or appeals the audit results.
- Demonstrate compliance with property tax laws and state guidelines.
- Provide support for adjustments made to costs—including trade level, obsolescence, and other items—to assist in the prevention of reoccurrence of these problems by the assessee and/or county assessor's staff.

CONTENTS OF WORK PAPERS

Audit work papers should consist of all documents necessary to support the audit findings. Work papers will differ from county to county and even between audits. Among other things, audit working papers may include:

- Audit checklist
- Planning documents including list of documents reviewed prior to the audit appointment
- Notes resulting from initial interview and other interviews conducted during the audit
- Information about operating and financial policies
- Sampling method used
- Invoices
- Copies of the assessee's rendition used to report costs on property statements

- Copies of the county assessor's original appraisal
- Cost and valuation schedules and other spreadsheets developed by the auditor to conduct the audit analysis

COST AND VALUATION SCHEDULES

Cost and valuation schedules and other spreadsheets developed by the auditor provide support for the appraisal and audit summary worksheet, which is a document that provides a summation of the audit work papers. It is a schedule that illustrates the audited cost and value compared to the original cost and value and identifies the net differences (escape assessments, corrections, or refunds) for each year.

In general, audit work papers should include schedules that:

1. Summarize audited cost by classification and acquisition dates and compare to reported information;
2. Appraise the property and estimate the audited value as of the lien date; and
3. Compare audit value to original assessed value to summarize the audit difference for each lien date under audit.

Compare Audited Cost to Reported Cost

Comparing summarized audited cost to assessee's reported cost by classification type for each lien date under audit is the first step in the summarization process. This step will determine causes for any audited differences, and will provide insight into how the overall value may be affected.

A reconciliation of audited cost to assessee's reported cost may be appropriate. Table 5.1 provides an example that illustrates how the difference between audited cost and reported cost may be reconciled. The example is for illustration purposes only. In practice, the reconciliation of audited cost to reported cost may include more detailed explanations of the differences, such as acquisition years of property listed under the differences section of the worksheet and audit years affected by the differences. In other circumstances, the cause of a difference may not be identifiable.

TABLE 5.1
RECONCILIATION OF REPORTED COST TO AUDITED COST

	Machinery	Office Equip.	Computers	Fixtures	Total
Reported Cost (FYE 2013)	$ 100,000	$ 25,000	0	$ 25,000	$ 150,000
Audited Cost (FYE 2013)	120,000	20,000	5,000	25,000	170,000
Difference	$ 20,000	<$ 5,000>	$ 5,000	$ 0	$ 20,000
Difference due to:					
Unreported freight & installation	$ 10,000	$ 5,000			$ 15,000
Misclassified equipment		<5,000>	5,000		0
Exempt software		<5,000>			<5,000>
Unrecorded assets acquired and received prior to lien date	10,000				10,000
Total Difference	$ 20,000	<$ 5,000>	$ 5,000	$ 0	$ 20,000

Estimate Audited Value

The auditor should determine the best approach to use in the valuation process. Most often, this is the cost approach and mass appraisal techniques; however, the audit process may disclose other relevant information that may lead the auditor to consider a valuation method other than the cost approach (i.e., comparative sales or income approach), or to consider obsolescence factors (functional, technological, or external) in addition to valuation techniques already used.[54]

The audit process is an opportunity to arrive at or confirm that the assessable value is as close as possible to the constitutionally mandated value. The auditor should exercise care to avoid an audit value that is based on a change in appraisal judgment. If the taxpayer accurately reported the property on the property statement, a county assessor has no authority to correct assessment errors involving the exercise of value judgments (see the discussion *Assessor's Exercise of Value Judgment* for further information on this topic).

Compare Audited Value to Original Assessed Value

After arriving at the audited value for the property, it is compared to the original assessed (enrolled) value. The difference determines the net value change (escape assessment or reduction) appropriate for that year.[55] Table 5.2 following is an example of a format that may be used for this comparison.

[54] For information on methods of recognizing and measuring additional or extraordinary obsolescence for personal property and fixtures, see *Guidelines for Substantiating Additional Obsolescence for Personal Property and Fixtures*.
[55] Roll procedures for processing escape assessments and corrections are discussed in AH 504, Chapter 9.

TABLE 5.2 ASSESSMENT YEAR XXXX APPRAISAL AND AUDIT SUMMARY						
	As Enrolled		Per Audit		Difference	
Asset	Cost	Full Value	Cost	Full Value	Cost	Full Value
CIP						
Machinery/Equipment						
Office Equipment						
Other Equipment						
Tools, Molds, Dies						
Computer Related						
Real Property (except fixtures)						
Fixtures						
Total		*				

*Ties to original tax bill

AUDIT DIFFERENCE

An audit may result in no change, or an underassessment and/or overassessment that may be due to various reasons. If there is a difference between the enrolled and audited value, the auditor is tasked with identifying the reason for the difference (if able), determining if an underassessment or overassessment is applicable, and selecting the appropriate statutory citation that applies to the difference.

The county assessor has the authority to correct roll errors within the prescribed statutory time periods. Errors not involving the exercise of value judgment must be corrected within four years after the making of the assessment that is being corrected. Any error or omission not involving the exercise of county assessor value judgment that is discovered as a result of any audit may be corrected within six months after the completion of the audit.[56]

When correcting such errors, the county assessor has the authority to reduce or increase assessments. In addition, when property has escaped assessment for any reason, the county assessor has a legal authority and duty to assess such property upon discovery and to make appropriate escape assessments within the four-year statute of limitations.

ROLL CORRECTIONS

Pursuant to section 4831(a), within four years after the making of the assessment that is being corrected, the county assessor has authority to correct only those erroneous entries on the roll

[56] Section 4831(b).

that have resulted from errors not involving the exercise of value judgment.[57] Examples of an inaccurate statement filed by the assessee may include the following:

- ***Year of acquisition***. Computer equipment acquired in 2012 but reported as a 2011 acquisition.
- ***Acquisition cost***. Computer equipment purchased from an out-of-state retailer; sales tax and freight was not reported.
- ***Classification***. Computer equipment reported as office equipment on the property statement.

For purposes of business property, if the taxpayer accurately reported the property on the property statement, a county assessor has no authority to make a roll correction involving the exercise of value judgments outside the limited provisions of section 4831(c). Examples of value judgments include the following:

- ***Changing the economic life***. For the lien date years under audit, the county used an average service life of 10 years for coin operated laundry equipment. During an audit of taxpayer with coin operated equipment, the auditor would be incorrect in deciding that the appraisal should have been determined based on an average service life of 12 years and, therefore, calculated the audited value based on an average service life of 12 years.
- ***Changing the valuation methodology***. For the lien date years under audit, the county used the cost approach to value leased equipment owned by the lessor currently under audit. During the audit of the taxpayer, the auditor would be incorrect in deciding that the appraisal should have been conducted using the income approach.

Value judgment excludes errors or omissions resulting from the taxpayer's failure to comply with the requirement that a change in control and ownership statement[58] be filed with the Board. If the audit disclosed that there was a change in control or change of ownership and the taxpayer did not comply with the filing requirements, there are no time limitations on the correction of base year value which does not involve the exercise of a county assessor's judgment; rather the base year value shall be corrected whenever discovered.[59] A taxpayer's failure to timely file a change in control and ownership statement precludes the county assessor from discovering that a change in ownership had taken place and also deprives the county assessor of (1) evidentiary data relevant to the fair market value of the property and (2) notice that an event occurred demonstrating a possible increase in the property's fair market value.

In the case where property has escaped taxation or has been underassessed following a change in ownership or change in control, and the taxpayer failed to file a change in ownership statement,

[57] Section 4831(c) allows declines in the taxable value of real property for judgmental reasons within one year of making the assessment.
[58] Form BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities.*
[59] Section 51.5(a); *Montgomery Ward & Co. v. Santa Clara County* (1996) 47 Cal.App.4th 1122.

an escape assessment will be made for each year in which the property escaped taxation or was underassessed, without time restrictions or limitations.[60]

Under section 51.5(c), an error or an omission involving the exercise of a county assessor's judgment as to value shall not include errors or omissions resulting from the taxpayer's fraud, concealment, misrepresentation, or failure to comply with any provision of law for furnishing information required by sections 441, 470, 480, 480.1, and 480.2, or from clerical errors. *Clerical error* means only those defects of a mechanical, mathematical, or clerical nature, not involving judgment as to value, where it can be shown from papers in the county assessor's office or other evidence that the defect resulted in a valuation error that was not intended by the county assessor at the time it was determined.

In summary, if the taxpayer accurately reported the property on the property statement, a county assessor has no authority to make roll corrections involving the exercise of value judgments.

OFFSET OF AUDIT DIFFERENCES

Although the auditor determines the audit difference for each year audited, it is not appropriate for the county assessor to offset or net audit results among the years covered by the audit, since this is the duty of the county auditor and county tax collector. Section 533 provides that the tax liability for an escape assessment may generally be offset against a tax refund resulting from an audit and that the audited assessee must be notified by the county tax collector of any excess and the procedure for claiming a refund of the excess amount. It is the county assessor's duty to deliver the corrected entry to the county auditor, but it may be appropriate for taxes to be offset by the county auditor and the county tax collector pursuant to section 533.

ESCAPE ASSESSMENT

An *escape assessment* is an assessment made after the completion of the regular assessment roll, as an addition to that roll. Property escapes assessment when property is either not assessed or assessed at a value lower than should have been originally enrolled. An escape assessment results in an increase in the overall assessment and tax liability as a result of the property value added to the assessment roll.

If the net audit value change for any one year indicates that the original assessment was underassessed, the auditor is tasked with selecting the appropriate statutory section(s) that describes the reason for the escape assessment. For any year, it may be applicable to cite more than one section. The appropriate citation is based, in part, on whether the escape is due to an assessee error or a county assessor error.

Escape Assessment Due to Assessee Error

There are multiple statutory sections that address assessee errors that may result with an escape assessment.

[60] Section 532(b)(3).

1. ***Section 531***. Property is deemed to have escaped assessment under this section when its owner fails to file a property statement per section 441 resulting in no assessment or an underassessment.

2. ***Section 531.1***. The section applies to escaped assessments resulting from an exemption incorrectly allowed.

3. ***Section 531.3***. This section applies to escaped assessments resulting from the assessee underreporting or not reporting certain costs.

4. ***Section 531.4***. This section applies to escape assessments resulting from the assessee not reporting property accurately, such as by misclassifying the property on the property statement.

Escape Assessment Due to Assessor Error

An escape assessment may occur due to an error or omission caused by the county assessor or another county official, including those involving the exercise of value judgment, that is discovered as a result of an audit, and the error or omission resulted in an increase to the original entry on the roll. Those escape assessments must be made under section 531. Roll corrections are limited to clerical errors only, and cannot be made for errors or omissions involving the exercise of value judgment[61] except in limited circumstances.[62] The error or omission may be corrected at any time up to the expiration of six months after the completion of the audit.[63]

Property Subject to Escape Assessment

If the auditor discovers property subject to an escape assessment, that fact must be disclosed to the assessee. *Property subject to an escape assessment* means:

> …any individual item of the assessee's property that was underassessed or not assessed at all when the county assessor made the original assessment of the assessee's property, and which has not been previously equalized by an appeals board, regardless of whether the assessor actually makes or enrolls an escape assessment….[64]

Property subject to an escape assessment in terms of "not assessed at all" is self-explanatory. Property subject to an escape assessment in terms of an "underassessment" may be due to:

- Misclassification of the property by the assessee that resulted in an underassessment;

[61] Section 4831(a)(1).
[62] Section 4831(a)(2) and 4831(c).
[63] Sections 4831 and 4832.
[64] Rule 305.3(b)(2). Property shall be deemed previously equalized for the year in question only if the board previously made a final determination of full value for that item, category, or class of property that was the subject of an assessment appeals hearing or was the subject of a stipulated agreement approved by the board and specifically identified. (Rule 305.3(b)(7)).

- The reported cost of the property did not include all market costs, both direct and indirect, necessary to purchase or construct equipment and make it ready for its intended use; or
- A processing error by the county assessor's staff that resulted in an underassessment.

Low-Value Escape Assessment

Generally, all property is taxable unless otherwise provided by the Constitution or the laws of the United States.[65] With respect to property that has escaped assessment, section 531 provides, in part:

> If any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment. It shall be subject to the tax rate in effect in the year of its escape except as provided in Section 2905 of this code….

If an audit discloses that property escaped assessment, the county assessor has a duty to assess and enroll such property regardless of whether the resultant tax will be below the minimum billable amount. An exception to this requirement exists when the county's board of supervisors authorizes an exemption of escape assessments when the cost of assessing and collecting taxes exceeds the amount of proposed taxes. A county may adopt an ordinance to authorize the county assessor not to issue an escape assessment that would result in an amount of taxes that is less than the cost of assessing and collecting the tax; this amount may not exceed $50.[66]

Penalties and Interest

Penalties and interest are applied to escape assessments under certain conditions. For example:

- If the audit discloses an escape assessment as a result of an assessee error, the auditor should recommend interest pursuant to section 506.
- If the audit discloses an escape assessment as a result of the an assessee's error and failure to timely file a property statement, the auditor must recommend application of a 10 percent penalty to the escape assessment pursuant to section 463, and interest pursuant to section 506.[67]
- If the audit discloses an escape assessment and the auditor discovers that the assessee, or the assessee's agent, willfully concealed information that resulted in a lower assessed value, the auditor should recommend a 25 percent penalty pursuant to section 504, and interest pursuant to section 506.[68]

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[65] Section 1, article XIII, California Constitution.

[66] Section 531.9.

[67] The application of the penalty may only be abated by the county board of equalization or assessment appeals board. Therefore, if an assessee does not agree with the penalty and wishes to have the penalty abated, an *Assessment Appeal Application* must be filed. See section 463.

[68] Section 502.

- If the audit discloses an escape assessment due to an assessee's, or the assessee's agent, fraudulent act or omission, or fraudulent collusion between the assessee or the assessee's agent and the county assessor (or any of the county assessor's deputies), the auditor should recommend a 75 percent penalty pursuant to section 503, and interest pursuant to section 506.

The interest and the penalties (if appropriate) of the additional assessed value are added to escape assessments calculated on that additional assessed value.

REFUND

When the audit discloses an overassessment that decreases the amount of taxes because of an error by either the assessee or the county assessor, a refund of the overpayment of taxes is possible. Refunds of taxes paid are authorized solely under the conditions described in sections 5096 through 5180. While a thorough discussion of these sections (sections 5096 through 5180) is not within the realm of this manual, it is important to note that it is the county assessor's duty to deliver the corrected entry to the county auditor, who is required by section 4834 to implement correction procedures. If the correction results in a reduction of an assessment that entitles the assessee to a refund, the county auditor either processes the refund or notifies the assessee in writing of the requirements for obtaining a refund pursuant to section 5097.[69]

It may be appropriate for taxes to be offset by the county auditor and the county tax collector pursuant to section 533. This section provides that the tax liability for an escape assessment may generally be offset against a tax refund resulting from an audit and that the audited assessee must be notified by the county tax collector of any excess and the procedure for claiming a refund of the excess amount.

Refund Due to Assessee's Error

An overassessment may occur due to an incorrect entry on the roll resulting from a defect of description or clerical error made by the assessee in the property statement, or in other information or records, that caused the county assessor to assess taxable tangible property that was not subject to assessment or to assess taxable tangible property at a substantially higher value than would have otherwise been entered on the roll.[70] These errors, which may be discovered during an audit, are caused by the assessee's failure to report the information required by section 441 and must be corrected within four years after making the original assessment.[71]

Refund Due to Assessor's Error

An overassessment may occur due to an error caused by the county assessor or another county official, not involving the exercise of value judgment, that is discovered as a result of an audit and the error resulted in a decrease to the original entry on the roll. Section 4831 provides for such corrections to the roll. No penalties are involved with roll corrections, but when a refund

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[69] Section 4836.
[70] Section 4831.5. Assessee error that results in an addition to the roll is an escape assessment. See sections 501 to 534; see also discussion regarding escape assessments under this chapter.
[71] Section 4831.5.

results from a county assessor's error, the assessee is entitled to interest.[72] The error or omission may be corrected at any time prior to expiration of six months after the completion of the audit.[73]

BASE YEAR VALUE CORRECTIONS

There are unique provisions for making corrections to real property valued under article XIII A of the California Constitution. Because real property includes fixtures, it is important for an auditor to understand the provisions specific to correcting an error or omission of a base year value revealed during an audit. A county assessor can make corrections to a base year value whenever it is discovered that a base year value does not reflect applicable constitutional or statutory valuation standards or that the base year value was omitted.[74]

Base Year Value Corrections not Involving Assessor's Judgment

An error or an omission to a base year value or failure to establish a base year value not involving county assessor's judgment should be corrected in any assessment year in which the error or omission is discovered.[75] Because there is no statute of limitation regarding the correction of a base year value that does not involve county assessor's judgment, there is no restriction on how far back in time a county assessor should grant appropriate cancellations or refunds or appropriate escape assessments.

Base Year Value Corrections Involving Assessor's Judgment

An error or omission to a base year value or failure to establish a base year value involving county assessor's judgment may be corrected only if it is placed on the current roll or roll being prepared within four years after July 1 of the assessment year for which the base year value was first established.[76] Unlike base year value corrections not involving county assessor's judgment, corrections made to a base year value involving the county assessor's judgment is not mandatory and is subject to a four-year statute of limitations. Therefore, in such cases the county assessor may grant cancellations or refunds or may enroll escape assessments.

It is important for the auditor to recognize that a correction involving county assessor's judgment can only be made in cases related to base year value of real property.

DETERMINING THE APPROPRIATE CITATION

After determining the reason(s) for discrepancies discovered during an audit, the auditor is tasked with citing the appropriate statutory section(s) that reflects the reason for the audit difference and penalty and interest, if applicable. Selected citations that comport with the explanation of value differences, with recommendations for penalty and interest if applicable, should be included in the audit narrative of the audit report. (See Appendix A for a list of

[72] Section 5151(c)(1)(A)-(C).
[73] Sections 4831.
[74] Section 51.5.
[75] Section 51.5(a).
[76] Section 51.5(b).

authoritative citations.) Examples 5.1 and 5.2 illustrate audit differences and include a discussion on the selection of appropriate citation(s).

EXAMPLE 5.1
ASSESSMENT YEAR 2013
APPRAISAL AND AUDIT SUMMARY

	AS ENROLLED		**PER AUDIT**		**DIFFERENCE**	
Asset	**Cost**	**Full Value**	**Cost**	**Full Value**	**Cost**	**Full Value**
Construction in Progress (CIP)	100,000	100,000	90,000	90,000	<10,000>	<10,000>
Machinery & Equipment (M&E)	100,000	78,000	150,000	117,000	50,000	39,000
Office Equipment	25,000	18,750	25,000	18,750		
Other Equipment						
Tools, Molds, Dies						
Computer Related	10,000	6,600	10,000	6,600		
Real Property (except fixtures)						
Fixtures	65,000	45,500	75,000	52,500	10,000	7,000
Total		*			50,000	36,000
Reconciliation	**CIP**	**M&E**	**Fixtures**			
Reported Cost (FYE 2013)	100,000	100,000	65,000			
Audited Cost (FYE 2013)	90,000	150,000	75,000			
Difference	<10,000>	50,000	10,000			
Explanation:	(1)	(2)	(3)			
Over-assessed CIP	<10,000>					
Underreported assets		50,000	10,000			

*Ties to original tax bill

Example 5.1 illustrates improper reporting in three different categories which resulted in the following audit differences:

(1) CIP was overreported by $10,000 resulting in an overassessed value of $10,000.

(2) M&E was underreported by $50,000 resulting in an underassessed value of $39,000.

(3) Fixtures were underreported by $10,000 resulting in an underassessed value of $7,000.

To determine the applicable citation, the auditor should net the audited value difference for the year and select the statutory section that describes the reason(s) for the discrepancy. In Example 5.1 the total underassessed audit value of CIP, M&E and fixtures results in a net escape assessment of $36,000. This net escaped audit value is attributable to underreporting by the assessee. In this case, section 531.3 (underreporting M&E and fixtures) is the appropriate section to cite for this escaped assessment. The auditor should also recommend section 506 interest because the escape assessment is attributable to assessee's error of underreporting.

EXAMPLE 5.2
ASSESSMENT YEAR 2013
APPRAISAL AND AUDIT SUMMARY

	AS ENROLLED		**PER AUDIT**		**DIFFERENCE**	
Asset	**Cost**	**Full Value**	**Cost**	**Full Value**	**Cost**	**Full Value**
CIP	100,000	100,000	100,000	100,000		
M&E	100,000	78,000	50,000	39,000	<50,000>	<39,000>
Office Equipment	25,000	18,750	25,000	18,750		
Other Equipment						
Tools, Molds, Dies						
Computer Related	10,000	6,600	25,000	18,000	15,000	11,400
Real Property (except fixtures)						
Fixtures	100,000	85,000	150,000	127,500	50,000	42,500
Total		*			15,000	14,900
Reconciliation	**M&E**	**Comp.**	**Fixtures**			
Reported Cost (FYE 2013)	100,000	10,000	100,000			
Audited Cost (FYE 2013)	50,000	25,000	150,000			
Difference	<50,000>	15,000	50,000			
Explanation:	(1)	(2)	(3)			
Misclassification	<50,000>		50,000			
Under-reported assets		15,000				
Note: under (over) reported/assessed						

*Ties to original tax bill

Example 5.2 illustrates improper reporting in three different categories which resulted in the following audit differences:

(1) M&E was overreported due to misclassification of $50,000 resulting in an overassessed value of $39,000;

(2) Computers were underreported by $15,000 resulting in an underassessed value of $11,400; and

(3) Fixtures were underreported due to misclassification by $50,000 resulting in an underassessed value of $42,500.

Again, to determine the applicable citation, the auditor should net the audited value difference for the year and select the statutory section that describes the reason(s) for the discrepancy. In Example 5.2, the total net underassessed audit value of M&E, computers, and fixtures results in a net escaped value of $14,900. The net escape audit value is attributable to the underreporting and misclassification of property by the assessee. In this case, sections 531.4 (misclassification of fixtures) and section 531.3 (underreporting of computer-related equipment) are the appropriate sections to cite for this escape assessment. The auditor should also recommend section 506 interest because the escape assessment is attributable to assessee's errors in misclassifying property and underreporting property.

AUDIT REPORT CONTENTS

The format and/or order of documents to include in the audit report should be determined by each individual county. But, the contents and format of the audit report should be consistent for each audit within that county. Minimum contents of an audit report should include the following:

1. ***Table of contents***. A table of contents provides a quick and easy reference for documents included in the audit report.

2. ***Correspondence***. Correspondence may include communication from the county assessor to the assessee including, but not limited to, the pre-audit letter, the audit confirmation letter, letter requesting a waiver of statute of limitations, letter informing the assessee of audit findings, ten-day Notice of Proposed Escape Assessment, Notice of Enrollment of Escape Assessment, and any letters related to CCCASE audits. Correspondence may also include communication from the assessee or from any third party related to the audit to the county assessor.

3. ***Audit checklist***. An audit checklist is vital for an audit to be thorough, efficient, and complete. It contains pertinent questions to the assessee as well as reminders to the auditor relating to the various segments of the audit. In the case of an audit that is limited in scope, the checklist clarifies that only specific items were examined. These reminders may be checked off as the tasks are completed. (See Appendix E for a sample Audit Checklist.)

4. ***Audit narrative***. In general, the audit narrative summarizes the events and audit process. The audit narrative explains the appraisal and audit summary, including the areas of

discrepancy and explanations, the auditor's conclusions, and references to appropriate statutory citations.

The narrative must describe in sufficient detail the work performed, the auditing standards and procedures used to support the conclusion(s), and include a discussion related to issues that warrant special consideration or matters that significantly influenced the outcome of the audit. All of these facts must be presented in a concise manner without eliminating significant substantive matter, and should logically follow the sequence of the working papers. It is particularly important to clearly report adjustments to reported cost or valuation procedures to guide the assessee and appraisers for future reporting and assessments.

In summary, the audit narrative is a key feature of an audit that allows the audit to be quickly reviewed or used by others (audit supervisor, assessee, an auditor or appraiser not involved with the audit, an appeals board, etc.) in the future.

5. ***Audit summary/Summary schedules of work papers***. Summary schedules should consist of total cost and total values according to classifications and lien date years as illustrated in Examples 5.1 and 5.2.

6. ***Work papers***. Each audit, regardless of its complexity or its size, should contain certain basic work papers such as a list of assets and corresponding historical cost along with evidence of cost verification.

7. ***Supporting documents***. Examples of supporting documents are purchase invoices, shipment/delivery invoices, authorization for appropriation of capital expenditures, financial records, plant appraisal reports, sales, agreements, etc.

CHAPTER 6: FINALIZING AN AUDIT

AUDIT REVIEW

After the working papers and audit report are completed, the audit is submitted to an appropriate reviewer for verification of technical and legal correctness. The audit report and all working papers are reviewed to ensure:

- Performance of proper audit procedures.
- Evidence and substantiating documents support the appraisal and audit summary.
- Appropriate Revenue and Taxation Code sections are cited in support of the audit conclusion and recommendations.

Upon completion of review, the supervisor (or other designated reviewer) should return the audit to the auditor for corrections deemed necessary. Once the audit is approved, the next step is to notify the assessee of audit findings and process roll corrections.

NOTIFYING THE ASSESSEE OF AUDIT FINDINGS

The county assessor is required to notify the assessee, in writing, of the audit findings with respect to data that would alter any previously enrolled assessment.[77] Rule 305.3(c) states:

> . . . Upon completion of an audit of the assessee's books and records, the assessor shall notify the assessee in writing of the results of the audit as defined in subsection (b)(3) of this rule for all property, locations, and years that were the subject of the audit. . . .

Therefore, whether an audit results in an escape assessment, overassessment, or no change for any particular year under the scope of the audit, the county assessor must notify the assessee of the audit findings in writing. At the request of the assessee, the assessor shall also permit the assessee or his/her authorized representative to inspect or copy all information, documents, and records relating to the audit.[78]

As previously discussed, audit findings should include an explanation of differences found, problems identified, and the net result for each audit year. If there are differences that would change the previously enrolled assessment, the findings should include an audit summary (similar to the summary used in Examples 5.1 and 5.2) that shows a comparison between the original full value assessment of all classifications of equipment and improvements at the location as assessed per the original tax bill, to the audited full value of these classifications of equipment and improvements. In addition, if any individual item was underassessed or not

[77] Section 469(c)(1); Rule 191.
[78] Section 408(e)(1); Rule 305.3(c).

assessed, the audit findings must disclose that escape even in situations where the escape is offset by an overassessment of other property for that year.

Once the assessee receives the audit findings, the assessee is entitled to review the details of the audit. Rule 191 provides, in part, that the taxpayer:

> …shall be given an opportunity to make written and/or oral response thereto, and his written comments shall become part of the audit report….

This exchange allows for the auditor and the assessee to work together so that the assessee has a better understanding of the audit findings and for the assessee to provide information or make suggestions that may result with corrections or adjustments altering the audit findings.

After a reasonable discussion period between the auditor and the assessee regarding the audit findings, the auditor should make warranted adjustments or corrections to the audit findings. Any revision to the original report should be well-documented within the body of the audit report and the audit work papers. The revised audit report should be resubmitted to the supervisor (or other designated reviewer) for review. Once the revised audit findings have been reviewed, a copy of the revised audit findings should be provided to the assessee.

ADDITIONAL NOTIFICATION REQUIREMENTS

In addition to notifying the assessee of the audit findings, if the audit results with an escape assessment or an overassessment for any particular year, the following notification requirements must be met.

- Escape Assessment: Notice of Proposed Escape Assessment and Notice of Enrollment of Escape Assessment.
- Overassessment: Notice of Right to File Claim for Cancellation or Refund.

NOTICE OF PROPOSED ESCAPE ASSESSMENT

County assessors are required to notify assessees of any proposed escaped assessments by sending them a *Notice of Proposed Escape Assessment* at least ten days prior to the entry of a value on the roll. In relevant part, section 531.8 reads:

> No escape assessment shall be enrolled under this article before 10 days after the assessor has mailed or otherwise delivered to the affected taxpayer a "Notice of Proposed Escape Assessment" with respect to one or more specified tax years….

The intent of this provision is to provide assessees with advance notice of an escape assessment before its enrollment, thereby increasing their opportunity to ask questions. The notice may differ in appearance and content from county to county since the form is not Board-prescribed, but certain information must be included in order to meet the statutory requirements. For example, every *Notice of Proposed Escape Assessment* must:

1. Have a prominent heading showing the statutory title of the notice;
2. Show the amount of the proposed escape assessment for each tax year as estimated by the county assessor; and
3. Provide the telephone number of the county assessor's office so the assessee can contact the county assessor's office to voice any concerns with respect to the proposed escape assessment or to submit additional information.[79]

As stated above, this notice must be sent by the county assessor ten days prior to enrolling any escape assessment. Absent such notice, no escape assessment may be levied, and, if levied, is invalid and void. When an audit results in escape assessments, the *Notice of Proposed Escape Assessment* may be attached to the audit findings or may be sent independently along with other sources of information.

Receipt of the *Notice of Proposed Escape Assessment*, however, does not constitute proper notice of the escape assessment for purposes of sections 534(b) through (d) and 1605. Therefore, the county assessor should include express language on the notice as follows:

> You may not file an appeal based on this notice. After this proposed escape assessment has been processed and enrolled, you will be advised that the escape assessment has been enrolled by a *Notice of Enrollment of Escape Assessment*. You will also be provided with information regarding your right to appeal either (1) the enrollment of the escape assessment or (2) the value established for the escape assessment.

NOTICE OF ENROLLMENT OF ESCAPE ASSESSMENT

Unless a county has adopted a resolution pursuant to the provisions of section 1605(a) and (c), (explained below at the end of this section), section 534(b) requires that after an escape assessment is enrolled, the county assessor must notify the taxpayer personally or by United States mail of the enrollment of the escape assessment. The assessment is not considered effective for any purpose, including its review, equalization, or adjustment by the county board of equalization until the assessee has been notified of the enrollment of the escape assessment.[80]

The notice given by the county assessor must be on a form approved by the Board.[81] The Board has developed the form, *Notice of Enrollment of Escape Assessment*, for county assessors to mail to the assessee at the time of enrollment of escape assessments. The notice must include the following information:[82]

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[79] Section 531.8.
[80] Section 534(b).
[81] Section 534(d).
[82] Section 534(c).

- The date of mailing;
- Information regarding the assessee's right to an informal review and the right to appeal the assessment; and
- The assessment appeal filing period—specified as within 60 days of the date of mailing printed on the notice or the postmark date, whichever is later.

The *Notice of Enrollment of Escape Assessment* need not be sent in any county that has adopted a resolution as described in section 1605(a) and (c) which allows a taxpayer to file an assessment appeal based upon receipt of the tax bill. In such counties, the tax bill is the proper notice, provided that specific appeal information is included in the tax bill.[83]

NOTICE OF RIGHT TO CLAIM FOR CANCELLATION OR REFUND

If an audit discloses that property of a taxpayer had been incorrectly valued or misclassified such that the error caused the property to be assessed at a higher value than the county assessor would have entered on the roll had such incorrect valuation or misclassification not occurred, then the county assessor shall notify the taxpayer of the amount of the excess valuation or misclassification, and the fact that a claim for cancellation or refund may be filed with the county as provided by sections 4986 and 5096.[84]

A claim for refund must be filed the later of:

- Four years after making of the payment sought to be refunded; or
- One year after the mailing of the notice as prescribed in section 2635;[85] or
- The period agreed to as provided in section 532.1;[86] or
- Within 60 days of the date of the notice prescribed by section 4836(a).[87]

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[83] See section 534(c)(3).
[84] Section 469(c)(4).
[85] Section 2635 provides, in part, that when the amount of taxes paid exceeds the amount due by more than $10, the tax collector shall send notice of the overpayment to the taxpayer.
[86] Section 532.1(a) provides that if, before the expiration of the period specified in Section 532 for making an escape assessment, the taxpayer and the assessor have agreed in writing to extend the time for making an assessment, correction, or claim for refund, the assessment may be made at any time prior to the expiration of the period agreed upon. The period may be extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.
[87] Section 5097. Section 4836 provides if the correction will result in a reduction of an assessment that would entitle the assessee to a refund, the county auditor shall either process the refund or notify the assessee in writing of the requirements for obtaining a refund pursuant to Section 5097. The notice shall state that the assessee is entitled to a refund and that a claim for a refund shall be filed, pursuant to Section 5097, within 60 days of the date of the notice. Notwithstanding Section 5097, a claim for a refund shall be deemed timely filed if it is filed within 60 days of the date of the notice.

APPEAL AFTER AN AUDIT

In the case where disagreements cannot be resolved and the audit discloses property subject to an escape, the assessee may file an *Assessment Appeal Application*.[88] Rule 305.3(a) states:

> In addition to any rights of appeal of escape or supplemental assessments as described in Rule 305(d)(2) of this subchapter, if the result of an audit discloses property *subject to an escape assessment* for any year covered by the audit, then, pursuant to section 1605 of the Revenue and Taxation Code, an application may be filed for review, equalization, and adjustment of the original assessment of *all property of the assessee* at the *location of the profession, trade, or business* for that year, except any property that has previously been equalized for the year in question. (Emphasis added.)

As discussed in Chapter 5, if the auditor discovers property subject to an escape assessment, that fact must be disclosed to the assessee. If the audit discloses property subject to an escape assessment but an escape assessment is not enrolled due to an offset of an overassessment, the assessee has the right to file an assessment appeal for the original assessment of all property of the assessee at that location for the year that property was subject to an escape assessment. If the county assessor does not present audit work papers to the assessee illustrating that the audit disclosed property subject to an escape assessment, the assessee may present such evidence to the appeals board of the existence and disclosure of property of material value subject to escape assessment.[89] Based on this information the board may determine whether it has jurisdiction to hear the matter.

All property of the assessee means any property, real or personal, assessed to the assessee, or the assessee's statutory or legal predecessor in interest, at the location of the profession, trade, or business for the year of the audit.[90] If computer equipment is discovered (through an audit) that was not previously assessed and the assessee owned the personal property and fixtures at the *location* audited, the assessee has the right to appeal the original assessment of the personal property and fixtures. If the assessee did not own and was not assessed for the land and building, he/she does not have the right to appeal the original assessment of the land and building.[91]

The definition of *location* is:[92]

> "Location of the profession, trade, or business" means a site, as determined by the board, where the property subject to the escape assessment is located. Site

[88] Sections 469 and 1605; Rule 305.3.
[89] See Rule 305.3(b)(2). *Material value* means value of no less than 1 percent of the audited value of the taxpayer's trade fixtures and tangible personal property for the year under audit.
[90] Rule 305.3(b)(5).
[91] See Rule 305.3(e), Examples 1 and 2 for more information on who may file an appeal after an audit.
[92] Rule 305.3(b)(6). In addition, Rule 305.3(e), Examples 3, 4, and 5 provide clarification in regards to what is meant by "location of the profession, trade, or business."

includes all property within the same appraisal unit as the property that is subject to escape assessment.

Site also includes other property not within the same appraisal unit as the property that is subject to escape assessment, when the other property and the property that escaped assessment function as part of the same economic unit of the profession, trade, or business. A "location of the profession, trade, or business" may include multiple parcels of real property, noncontiguous parcels, parcels with separate addressees, and parcels in separate revenue districts within the county.

In situations when the audit discloses property subject to an escape assessment, the assessee can only file an assessment appeal (on the original assessment of all property of the assessee at the location) for the year that the property escaped assessment, not all years covered in the audit period (unless property escaped assessment in all years). If the county assessor discovers property that escaped assessment but not through an audit, the assessee cannot appeal the original assessed value of all property at the location. The right to appeal the original assessment of all property of the assessee at the location applies only when property subject to an escape assessment is discovered through an audit.

NOTICE FOR FILING AN APPLICATION

If the results from an audit disclose property subject to an escape assessment, an *Assessment Appeal Application* must be filed with the clerk within 60 days of the date the notice is mailed to the assessee. (Notice is discussed in the earlier section titled *Notice of Enrollment of Escape Assessment*.) The mailing date of the notice is the date printed on the notice or the postmark on the notice, whichever is later. The notice necessary for filing an application is dependent on whether the county assessor makes an escape assessment and whether the escape assessment is enrolled.

- If an escape assessment is enrolled by counties of the first class or counties that have adopted a resolution pursuant to section 1605(c), the notice is the tax bill. A formal appeal must be filed within 60 days of the date of mailing printed on the tax bill or the postmark date on the envelope in which the tax bill was mailed, whichever is later.
- If an escape assessment is enrolled by counties that are not counties of the first class and not a county that adopted a resolution pursuant to section 1605(c), the notice of escape assessment pursuant to section 534 shall serve as the notice.[93] A formal appeal must be filed within 60 days after the date of the notice or the postmark date on the envelope in which the notice was mailed, whichever is later.
- If an escape assessment is not enrolled, the notice shall be the audit results showing the property subject to an escape assessment. A formal appeal must be filed within 60 days

[93] The notice given by the county assessor as required by section 531.8 shall not serve as the notice required for filing an *Assessment Appeal Application.*

after the date noted on the audit results or the postmark date on the envelope in which the audit results were mailed, whichever is later.

- If an escape assessment is not enrolled because the audit disclosed offsetting overassessments for which a refund would have been due, the notice shall be the audit results showing the property which escaped assessment. A formal appeal must be filed within 60 days after the date noted on the audit results or the postmark date on the envelope in which the audit results were mailed, whichever is later.

For additional information on assessment appeals, see the Board's *Assessment Appeals Manual*.

ASSESSMENT APPEAL APPLICATION

Form BOE 305-AH, *Assessment Appeal Application*, is the form that must be used for an appeal to be considered a valid filing. The form may be obtained from the clerk of the board of the county where the property is located. Note that a separate form must be filed for each parcel, and some counties may charge a fee for filing or processing the application.

CONFIDENTIAL INFORMATION

Certain documents filed by taxpayers contain personal information and are statutorily required to be kept confidential; these include property statements. All information requested by a county assessor or furnished in a property statement must be held secret by the county assessor. The statement is not a public document and is not open to inspection, except as provided in section 408.[94]

Only specific agencies listed in the statutes are allowed access to confidential taxpayer information gathered for tax collection and assessment purposes.[95] There is a public purpose to promoting full disclosure from taxpayers. Since taxpayers are required by the law to provide the information for the particular purpose of taxation, public policy is against revealing that information. Inspection is permitted only if it is necessary in the administration of tax law.[96]

[94] Section 451.
[95] Section 408(b).
[96] *Franchise Tax Board v. Superior Court* (1950) 36 Cal.2d 538.

APPENDIX A: LIST OF AUTHORITATIVE CITATIONS

Revenue and Taxation Code Reference	Remarks
Section 408(e)(1)	***Assessor's Records***. The county assessor shall, upon request, permit the assessee or assessee's authorized representative to inspect or copy all documents, including but not limited to, audit narratives and work papers relative to the appraisal and assessment of the assessee's property.
Section 441(d)	***Property statement; other information***. A taxpayer shall make records available upon county assessor's request.
Section 454	***Examinations.*** The county assessor may subpoena and question a person regarding any statement furnished him, or any statement disclosing property stored, possessed, or controlled by that person.
Section 462	***Refusal to give information***. A person is guilty of a misdemeanor who refuses to make information available as required by section 441(d).
Section 468	***Failure to furnish information; county assessor's remedy***. If a person fails to furnish requested information, the county assessor has the power to subpoena that information.
Section 469	***Audit of profession, trade, or business***. The county assessor shall annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business (See Rules 191, 192, and 193.) With respect to an audit, a county assessor may discover property that is subject to an escape assessment for any year under review. Upon discovery of such escaped property, the assessee has a right to appeal the assessed value of all the property, except property previously equalized, at the location of the profession, trade, or business that is the subject of the audit, regardless of whether the county assessor actually enrolls an escape assessment.[97] If there is a refund only, and there is no property subject to an escape assessment at the location for that year, the assessee has no appeal rights. (See the Board's *Assessment Appeals Manual*.)
Section 470	***Business Records***. A taxpayer shall make records available, upon a county assessor's request, at his or her principal place of business or at a mutually agreeable place. For out-of-state audits, the taxpayer may be required to reimburse the county for reasonable and ordinary expenses incurred performing the audit.
Section 501	***Failure to furnish information***. If after written request by a county assessor, any person fails to comply with sections 441 or 470, the county assessor shall estimate value based on the information available.

[97] Rule 305.3.

Revenue and Taxation Code Reference	Remarks
Section 531	***Escaped Property***. Property is deemed to have escaped assessment when its owner fails to file a property statement per section 441 resulting in no assessment or an underassessment. No willful or fraudulent act is involved.
Section 531.1	***Escaped property; incorrect exemption***. If it is discovered that an exemption was incorrectly allowed, an escape assessment shall be made.
Section 531.3	***Escaped personal property; failure to report cost accurately***. Escape assessment due to assessee non-reporting of cost.
Section 531.4	***Escaped business property; inaccurate statement or report***. Escape assessment due to assessee inaccurate (misclassification of property) business property statement or attachment.
Section 531.5	***Escaped property; business inventory exemption***. Escape assessment due to the application of an incorrect business inventory exemption.
Section 531.8	***Notice of Proposed Escape Assessment***. Requires ten-day notice to taxpayer prior to enrollment of escape assessment.
Section 532	**Statute of Limitations.** Four-year statute of limitations where no penalty or the 10 percent penalty applies. Eight-year statute of limitations where 25 percent penalty applies.
Section 532.1	***Extension of time for making escape assessment***. Extends the time period specified in section 532 for making an escape assessment.
Section 533	***Entry on roll.*** If the assessments are made as a result of an audit which discloses that property assessed to the party audited has been incorrectly assessed either for a past tax year for which taxes have been paid and a claim for refund is not barred by section 5097 or for any tax year for which the taxes are unpaid, the tax refunds resulting from the incorrect assessments shall be offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by the audit.

Revenue and Taxation Code Reference	Remarks
Section 534	***Procedure after assessment***. Tax rate to be applied: same rate as used for year of escape. (See also section 506.) Notification to the assessee of an escape assessment shall be on a form prescribed by the Board.
Section 4831	***Incorrect entries; transfers to unsecured roll***. Any county assessor error resulting in an overassessment due to incorrect entry on the roll or clerical error.
Section 4831.5	***Correction of errors caused by the assessee***. Correction to the roll when information provided by assessee resulted with an overassessment of the property.

Property Tax Rule Reference	Remarks
Rule 191	***Property Tax Audits, General***. Defines the purpose of an audit in general and gives requirements regarding notification of findings to taxpayers and taxpayer's rights following an audit.
Rule 192	***Audit Selection***. Illustrates audit selection process for significant number of audits. (See also sections 469 and 470.)
Rule 193	***Scope of Audit***. Authorizes "sampling" of one year within the four-year audit period. Discusses use of audit findings resulting from a Board assessment practices survey.
Rule 305.3	***Application for Equalization Under Section 469***. Discusses assessment appeal rights if an audit results with property subject to an escape assessment. Includes identification of relevant terms and examples.
Rule 1045	***Administration of the Annual Racehorse Tax.*** Discusses county assessors', tax collectors', and auditor-appraisers' responsibilities concerning the racehorse tax. Requires the county assessor to audit the records of any racehorse owner who had a gross tax liability that exceeds $4,000 for each of four consecutive calendar years.

1 # APPENDIX B: MINIMUM ANNUAL PROPERTY TAX AUDITS

County (1)	* Significant Number of Audits (2)	Pool of Taxpayers with Largest Assessments (3)	Annual Audits Required	
			From Pool of Largest Assessments (4)	From Pool of All Other Taxpayers (5)
Alameda	**387**	774	193 (194)	194 (193)
Alpine	**1**	2	0 (1)	1 (0)
Amador	**6**	12	3	3
Butte	**41**	82	20 (21)	21 (20)
Calaveras	**4**	8	2	2
Colusa	**13**	26	6 (7)	7 (6)
Contra Costa	**175**	350	87 (88)	88 (87)
Del Norte	**7**	14	3 (4)	4 (3)
El Dorado	**22**	44	11	11
Fresno	**220**	440	110	110
Glenn	**4**	8	2	2
Humboldt	**24**	48	12	12
Imperial	**40**	80	20	20
Inyo	**12**	24	6	6
Kern	**139**	278	69 (70)	70 (69)
Kings	**25**	50	12 (13)	13 (12)
Lake	**7**	14	3 (4)	4 (3)
Lassen	**5**	10	2 (3)	3 (2)
Los Angeles	**1,686**	3,372	843	843
Madera	**28**	56	14	14
Marin	**45**	90	22 (23)	23 (22)
Mariposa	**6**	12	3	3
Mendocino	**22**	44	11	11
Merced	**74**	148	37	37
Modoc	**2**	4	1	1
Mono	**2**	4	1	1
Monterey	**77**	154	38 (39)	39 (38)
Napa	**54**	108	27	27
Nevada	**18**	36	9	9
Orange	**1,014**	2,028	507	507
Placer	**61**	122	30 (31)	31 (30)
Plumas	**3**	6	1 (2)	2 (1)
Riverside	**283**	566	141 (142)	142 (141)
Sacramento	**200**	400	100	100
San Benito	**15**	30	7 (8)	8 (7)
San Bernardino	**283**	566	141 (142)	142 (141)
San Diego	**584**	1,168	292	292
San Francisco	**303**	606	151 (152)	152 (151)
San Joaquin	**179**	358	89 (90)	90 (89)
San Luis Obispo	**57**	114	28 (29)	29 (28)
San Mateo	**217**	434	108 (109)	109 (108)
Santa Barbara	**216**	432	108	108
Santa Clara	**675**	1,350	337 (338)	338 (337)
Santa Cruz	**40**	80	20	20
Shasta	**40**	80	20	20

County (1)	* Significant Number of Audits (2)	Pool of Taxpayers with Largest Assessments (3)	Annual Audits Required From Pool of Largest Assessments (4)	 From Pool of All Other Taxpayers (5)
Sierra	**2**	4	1	1
Siskiyou	**10**	20	5	5
Solano	**62**	124	31	31
Sonoma	**107**	214	53 (54)	54 (53)
Stanislaus	**112**	224	56	56
Sutter	**23**	46	11 (12)	12 (11)
Tehama	**11**	22	5 (6)	6 (5)
Trinity	**1**	2	1 (0)	0 (1)
Tulare	**98**	196	49	49
Tuolumne	**8**	16	4	4
Ventura	**128**	256	64	64
Yolo	**59**	118	29 (30)	30 (29)
Yuba	**16**	32	8	8

* When the significant number of audits does not result in an even number, a determination must be made on how to split the odd number audit. For example, in a county with 118 in the pool of taxpayers with the largest assessments and 59 significant number of audits, the county assessor may conduct 29 audits from the pool of the taxpayers with the largest assessments and 30 audits from among any other taxpayer in the county in the first year, or vice versa. In this example, the only issue would be to meet the requirement of auditing 118 of the taxpayers with the largest assessments in the county within a four-year cycle.

APPENDIX C: SAMPLE OFFICE AUDIT ENGAGEMENT LETTER

Date

Dear [*Property Owner*]:

California Revenue and Taxation Code section 469 requires that the County Assessor conduct a significant number of audits of property owners located within the County Assessor's jurisdiction. These audits are conducted to ensure that assessments placed on property are fair and correct. Section 470 provides that a taxpayer shall make records available, upon County Assessor request, at his or her principal place of business or at a mutually agreeable place.

This letter constitutes a formal request to review all books and records containing information regarding property located in this County which was owned, controlled, or possessed by you in the current audit period, January 1, 20XX through January 1, 20XX.

In accordance with your telephone conversation with auditor [*auditor's name*], you agreed to have this audit conducted at our office whereby you will send us the following records:

1. Trial balances as of December 31, 20XX, 20XX, 20XX, and 20XX.
2. Fixed asset lists or depreciation schedules for each of the trail balance periods requested above.

(Continue listing all of the records that the taxpayer previously agreed to send the County Assessor as a condition to conducting an office audit.)

Please note that all information/documentation you provide to the County Assessor will be treated as confidential documents and will not be available for public inspection as required by law. Someone from our office will be contacting you to set up an audit appointment. Thank you in advance for your cooperation. If you have any questions, please contact us at XXX-XXXX.

Sincerely,

APPENDIX D: REQUESTS FOR OBTAINING STATE INCOME OR FRANCHISE TAX RETURN INFORMATION

The Franchise Tax Board (FTB) may provide tax officials of this state (including county assessors) with copies of state income tax returns of individuals, estates, trusts, and partnerships.[98]

Requests for copies of personal income tax returns must be made by affidavit under penalty of perjury. The request must state that the purpose of the request relates to an investigation of the tax specified in the request, and that the information will be used only in the ordinary performance of the applicant's official duties. The tax official (county assessor) must, at the time of making a request, provide the taxpayer with a copy of the affidavit and, upon request, make the information obtained available to the taxpayer.

By policy, FTB releases tax return information only on a "need-to-know" basis. The complete tax return will not be provided unless it can be shown that the tax official needs all such information. Typically, a county assessor would request depreciation schedules, rental income and expense schedules, etc., but has no need to know an individual's wages or list of itemized personal deductions.

Personal income or franchise tax information must be safeguarded as follows:

1. Data must be handled and used by tax employees only, on a need-to-know basis. Procedures must be established to ensure that any confidential data co-mingled with nontax data is not inadvertently disclosed to nontax employees or organizations. However, the taxpayer is entitled to inspect all information relative to his or her assessment.[99] Also, upon request, information obtained from the FTB shall be made available to the taxpayer.[100]

2. Data must be stored in locked storage devices and/or rooms when not in use.

3. Data must be destroyed after it has served its useful purpose. Destruction must be carried out by shredding or other method that fully protects the confidentiality of the data. Employees who are authorized access to and use of confidential state tax return information should be informed of the penal provisions[101] which provide that any unwarranted use of the information provided, or any unwarranted disclosure of the information by the person or agency obtaining it, is a misdemeanor.

To request information on the procedure to request information, contact the FTB's Disclosure Section.

[98] Section 19551.
[99] Section 408(b).
[100] Section 19551.
[101] Section 19552.

APPENDIX E: SAMPLE AUDIT CHECKLIST

AUDIT CHECKLIST
COUNTY ASSESSOR

Name:		Acct./APN #	
Situs Address:			
Auditor:		Audit Date:	
Audit Contact:			
Name:		Title:	
Location of Records:		Phone #	

PRE-AUDIT REVIEW			
☐	Property Statements	☐	Files of Related Entities
☐	Prior Audit	☐	Assessment Appeal Files
☐	Real Property Records	☐	Prior Owners Files
☐	Lessor Files	☐	Applicable R&T Code Sections and Rules
☐	Property Statements	☐	Market Value Calculations
Comments/Notes:			

SITUS INSPECTION
☐ Yes ☐ No
Provide explanation:

RECORDS EXAMINED				
☐	Chart of Accounts		☐	General Ledger
☐	Location list/Coding Chart		☐	Capitalization Policy
☐	Federal/State Tax Returns		☐	Financial Statements
	Change in Ownership		☐	Journals (list):
	☐	Sch. E/FTB Form 100 (Corp)	☐	Purchase Invoices
	☐	Sch. K-1/FTB Form 565 (Prtnr)	☐	Depreciation Schedules
☐	Fixed Asset Schedule with Description,		☐	Description of Leasehold Improvements

	Acquisition Date, and Cost		
☐	BPSs Other Counties	☐	Other (list):
Comments/Notes:			

1. GENERAL COMMENTS FROM ASSESSEE				
A.	Date business started at this situs:			
B.	Number of locations in County:			
C.	Fiscal year end:			
D.	Type of business:			
E.	Type of organization:	☐ Sole Prop.	☐ Partnership	☐ Corporation
F.	Any change in real estate ownership or change in control in the last four years?			☐ Yes ☐ No
G.	Any changes in technology/process?			☐ Yes ☐ No
	If yes, any effect on equipment?			☐ Yes ☐ No
	If yes, explain:			
H.	Capitalization policy:			
I.	Any affiliates or subsidiaries located here or elsewhere within the county?			☐ Yes ☐ No
	If yes, please provide:			
	Name:			
	Address:			
J.	Method of Accounting		☐ Accrual	☐ Cash
K.	Does assessee have improvements/fixtures on leased land?			☐ Yes ☐ No
L.	Is a suspense, clearing or capital account used?			☐ Yes ☐ No
	Comment on its use:			
Comments/Notes:				

2. SUPPLIES			
A.	GL Acct. Numbers:		
	☐ Office	☐ Printing	☐ Pallets/Bins
	☐ Shop	☐ Samples	☐ Photography
	☐ Maintenance	☐ Medical/Dental	☐ Janitorial
	☐ Other (list):		
B.	Are supplies expensed as purchased? ☐	Are supplies expensed as consumed? ☐	
	If expensed when purchased, how many weeks/months are kept on hand?		

C.	What is included in supplies?	
D.	Was a physical inventory of supplies conducted?	☐ Yes ☐ No
	If yes, when?	
E.	Have "supply type" items been classified as inventory?	☐ Yes ☐ No
F.	Have "supply type" items been classified as prepaid accounts?	☐ Yes ☐ No
G.	Does the company have chemical (gasoline, propane, oil, etc.) storage/handling tanks?	☐ Yes ☐ No
	If yes, how are levels on hand determined for reporting purposes?	
Comments/Notes:		

3. OTHER ASSESSABLE ASSETS			
GL Acct. Numbers:			
	☐ Art work, Antiques	☐ Small Tools	☐ Containers
	☐ Molds, Dies, Jigs	☐ China, Glassware, Flatware	☐ Library
	☐ Operational Software	☐ If application software (not assessed), describe:	
Comments/Notes:			

4. EQUIPMENT OUT ON LEASE OR RENT TO OTHERS				
A.	Does this company lease or rent equipment to others?			☐ Yes ☐ No
	If yes: Type of Equipment:			
	Standard lease/rental period:			
	Reported at proper trade level?			☐ Yes ☐ No
	Costs include:	☐ Sales Tax	☐ Freight	☐ Installation
B.	Is the leased equipment reported to applicable California counties?			☐ Yes ☐ No
C.	Does this company lease equipment to "related" entities at a lower value than those unrelated?			☐ Yes ☐ No
D.	Does this company lease equipment originally purchased from a parent or subsidiary company in which they receive a discounted price?			☐ Yes ☐ No
E.	Were lease contract agreements reviewed?			☐ Yes ☐ No
Comments/Notes:				

5. GOVERNMENT-OWNED PROPERTY	
Does the company have any government-owned property?	☐ Yes ☐ No
If yes, was it properly reported on the property statement? Differentiate between personal property, structure, and fixture. Request a copy of the contract between government agency and assessee.	

6. PROPERTY BELONGING TO OTHERS			
Does the company have on its premises property belonging to others?			☐ Yes ☐ No
	If yes, was this property reported on the business property statement?		☐ Yes ☐ No
	Was this property assessed?		☐ Yes ☐ No
	If yes, complete the following:		
		Assessee:	
		Account/APN#:	
	If not assessed, please provide the following:		
		Name:	
		Mailing address:	
		Situs:	
	If government owned, request a copy of contract between government agency and assessee.		
Comments/Notes:			

7. EQUIPMENT		
A.	Is equipment primarily purchased new?	☐ Yes ☐ No
	Verify that full costs have been capitalized: cost, sales tax, freight and installation. *Sample invoices to verify both cost and cut-off.*	
B.	Have any equipment acquisitions involved a trade-in of existing equipment?	☐ Yes ☐ No
C.	Is fully depreciated equipment still on the books?	☐ Yes ☐ No
	If yes, is it reported?	☐ Yes ☐ No
D.	Are disposed/scrapped assets written off the books?	☐ Yes ☐ No
E.	Is equipment that was initially leased and later purchased capitalized at the full original invoice cost and acquisition date based on the inception of the lease?	☐ Yes ☐ No
F.	Does the company manufacture and use its own equipment?	☐ Yes ☐ No
	If yes, are all costs capitalized?	☐ Yes ☐ No
	(equipment depreciation or capitalized interest if project extends beyond one year, labor, overhead, sales tax on materials)	
	If yes, verify/establish proper trade level.	
G.	Is there a vehicle account that includes non-licensed vehicles?	☐ Yes ☐ No
	(or vehicles not covered by an annual license fee – "se" license)	
H.	Do any officers, employees, or any related companies lease or loan equipment to this company?	☐ Yes ☐ No
I.	Does this company have idle equipment on its premises?	☐ Yes ☐ No
	If yes, how is it identified on the general ledger?	
Comments/Notes:		

8. BUILDING, LAND AND LEASEHOLD IMPROVEMENTS		
A.	Was the appraisal record reviewed while on a situs review?	☐ Yes ☐ No
B.	Was a detailed schedule of these items obtained?	☐ Yes ☐ No
C.	Were trade fixtures identified?	☐ Yes ☐ No
D.	Was a determination made whether expensed items should have been capitalized as real property additions or trade fixtures?	☐ Yes ☐ No
E.	Was it noted whether capitalized items were repairs and/or new additions?	☐ Yes ☐ No
F.	Have items been posted to the real property records since the last appraisal?	☐ Yes ☐ No
G.	Do leasehold improvement items left from the previous tenant affect the appraisal?	☐ Yes ☐ No
H.	Are any fixtures included in the real property appraisal?	☐ Yes ☐ No
I.	Have any leased trade fixtures been reflected on the books as purchased after the lease terminated?	☐ Yes ☐ No
J.	If the property is tenant-occupied, does there appear to be trade fixtures that should be reported by the real property owner?	☐ Yes ☐ No
K.	Do you have government-owned fixtures?	☐ Yes ☐ No
Comments/Notes:		

9. CONSTRUCTION-IN-PROGRESS		
A.	Do the books reflect CIP on any of the lien dates?	☐ Yes ☐ No
	If yes, are the payables accrued properly for the lien date cut-off?	☐ Yes ☐ No
B.	Are there periodic progress billings from the contractor?	☐ Yes ☐ No
C.	Were any invoices reviewed that were paid after the lien date?	☐ Yes ☐ No
D.	Was the contract reviewed for new addition(s)?	☐ Yes ☐ No
	What does the CIP represent? ☐ Structure ☐ Fixtures	☐ Equipment
E.	Is CIP self-constructed?	☐ Yes ☐ No
	If yes, are the costs properly capitalized?	☐ Yes ☐ No
	(equipment depreciation or capitalized interest if project extends beyond one year, labor, overhead, sales tax on materials)	
Comments/Notes:		