



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

450 N STREET, SACRAMENTO, CALIFORNIA
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916-324-1825 • FAX 916-322-4530
www.boe.ca.gov

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June 18, 2008

VIA INTERNET

RAMON J. HIRSIG
Executive Director

Dear Interested Party:

The Sales and Use Tax Department (SUTD) Audit Manual (AM) is a guide in conducting sales and use tax audit for its tax auditors. It is also available to the public. The SUTD is proposing partial revisions to AM Chapter 2, *Preparation of Field Audit Reports*, and Chapter 3, *Audit Working Papers*, by incorporating existing changes to policies and procedures, and to governing statutes, as described below, that have occurred since these chapters were last revised. Chapter 2 was last revised in April 2007 and Chapter 3 in January 2000. The full text of the revised sections of Chapters 2 and 3 is displayed on the following pages for the convenience of interested parties who may wish to submit comments or suggestions.

AM Section

- 0215.09** Deletes the erroneous statement that the signing of a Waiver of Limitation for an eight-year period does not hold all periods covered open for filing of claims for refund.
- 0302.05** Updates the procedures for preparing handwritten audit working papers.
- 0306.00** Incorporates procedures for handling electronic audit working papers.
To Source: Tax Policy Division memo dated 7/25/05, which is currently being
- 0306.30** updated. These proposed new AM sections contain the updated procedures.

If you have any comments or suggestions *related solely to the proposed changes described above*, you may contact the Department at AM.RevisionSuggestions@boe.ca.gov, or you may submit your comments or suggestions to:

Ms. Nini McCormack
Sales and Use Tax Department
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0050
Fax: (916) 322-2958

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Your comments or suggestions regarding the proposed changes must be received by **August 18, 2008** in order to be considered by staff. Thank you for your consideration.

Sincerely,

Jeffrey L. McGuire, Chief
Tax Policy Division
Sales and Use Tax Department

JLM:nvm

BENEFITS GAINED FOR SIGNING A WAIVER

0215.09

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

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

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

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

HANDWRITTEN AUDIT WORKING PAPERS

0302.05

Although infrequent, hand written schedules prepared by the auditor will be written on paper furnished by the Board. Only one side of the paper will be used.

Schedules will be prepared ~~by~~ using a black, medium-hard grade, ~~approximately~~ ~~No. 2 1/2~~ pencil. The use of red pencil is permitted for special purposes such as cross and source referencing. ~~The B~~blue pencils ~~will be are~~restricted to the used ~~only of by the Centralized Review Section~~district reviewers and the green pencils ~~are used only by audit control staff.~~

ELECTRONIC AUDIT WORKING PAPERS

0306.00

GENERAL

0306.05

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

NAMING CONVENTION

0306.10

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

AUDITOR RESPONSIBILITIES

0306.20

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

AUDIT CONTROL RESPONSIBILITIES

0306.20

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

LAN COORDINATOR RESPONSIBILITIES

0306.25

The District LAN Coordinator (or a designee) will burn the contents of the "Audits Transmitted" folder to a CD at least once a quarter, no earlier than the seventh calendar day of the month. A backup of that CD will be created during each backup session to ensure proper preservation of the data. The data on the archived CDs must be compared with the data in the "Audits Transmitted" folder to verify that all data was burned onto the CD. Once the data transfer is verified, the information in the "Audits Transmitted" folder will be deleted to preserve LAN space. Files may be archived more frequently than once a quarter but the data from the "Audits Transmitted" folder should not be purged earlier

than the seventh calendar day of each month to ensure proper data backup.

The Technology Services Division (TSD) runs a monthly backup of the LAN data on the last Friday of every month when the last day of the month falls on a Friday, Saturday, Sunday, or Monday (when Monday is a state holiday). When the last day of the month falls on any other day, TSD will run the monthly backup on the first Friday of the following month. Backup tapes are maintained by TSD for two years and provide district offices an additional source of data recovery should both the primary and backup archive disks become corrupted or damaged. If LAN Coordinators encounter a lack of adequate space on the LAN, they should immediately contact a Systems Coordinator or the Supervisor, Compliance and Technology Section.

STORAGE OF CD

0306.30

District Administrators should set the policy for their offices governing the storage of the CD Media. The following guidelines are provided to aid each office in creating a storage policy and are not meant to be all-inclusive.

- A priority should be given to information security. The same precautions given to secure hard copies of confidential taxpayer data (e.g. tax returns and applications for seller's permits) should be applied to the archive CDs. Districts may consider securing the CDs with other software disks required to be controlled within each office.
- The archive CD and its backup should be stored in separate locations. This should minimize external factors affecting the CDs (e.g. heat, moisture, etc.).

The length of retention for archived Electronic AWP's should follow existing policies for retention of the hard copies of the AWP's (see AM section 0117.02).