

# **Audit Manual**

## **Chapter 3**

### **Audit Working Papers**

Business Tax and Fee Division

*California Department of  
Tax and Fee Administration*

*This is an advisory publication providing direction to staff administering the Sales and Use Tax Law and Regulations. Although this material is revised periodically, the most current material may be contained in other resources including Operations Memoranda and Policy Memoranda. Please contact any California Department of Tax and Fee Administration office if there are concerns regarding any section of this publication.*

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**AUDIT WORKING PAPERS****0300.00****INTRODUCTION****0301.00****SCOPE OF CHAPTER****0301.05**

Rigid rules constraining the arrangement and content of all working papers are impractical. Each audit or examination has unique problems, and different auditors have their own ideas as to what constitutes essential information and how it should be presented. Inflexibility in procedures and working papers can discourage initiative, whereas the California Department of Tax and Fee Administration (CDTFA) wants to encourage its tax auditors to take initiative. There are, however, certain features of working papers that can and should be standardized, such as templates, indexing, cross-referencing, and general arrangement of data, which includes the set up and naming of the electronic audit folders and files. This chapter addresses those features of the working papers, along with various types of documents included with them.

**DIGITAL AUDIT DEFINED****0301.07**

A digital audit is a completely paperless audit package containing all of the necessary files and documents to support the audit findings. The basic structure of a digital audit is an electronic file folder containing subfolders for files in Excel, Word, and PDF format. This electronic file folder is known as the “audit case folder” (see section 0302.00). It generally consists of a subfolder containing the audit working papers (AWP), and a series of other subfolders used to organize pertinent information in the audit such as forms and supplementary documents.

**AUDIT WORKING PAPERS DEFINED AND DESCRIBED****0301.10**

The term “audit working papers”(AWP), as used in this chapter, means the worksheets and other pertinent material compiled by the auditor in the course of making a field audit, reaudit, field billing order (FBO), or adjusted field billing order. Other pertinent material may include letters, emails, faxes, memoranda compiled by the taxpayer, scanned copies of letters, reproduced copies of pertinent schedules, information from the prior AWP, forms, etc.

**GENERAL GUIDELINES FOR WORKING PAPERS****0301.15**

AWP serve as the connecting link between the auditor’s fieldwork and the audit report. As such, AWP should contain the evidence accumulated in support of the conclusions and recommendations included in the audit report.

**General guidelines for the preparation of AWP include:**

- a) **Completeness and accuracy** — Working papers must be complete and accurate to provide proper support for findings, conclusions, and recommendations. AWP also document the nature and scope of the examination performed. The test of completeness is whether a third party can review the schedule, understand its purpose, and make use of it, without consulting with the auditor who prepared it.

AWP are examined by the auditor’s supervisor and the reviewing auditors, and may be used by hearing officers, attorneys, the Office of Tax Appeals, or as evidence in courts of law. They are the basis for determinations (billings).

- b) **Clarity and understandability** — AWP must be clear and understandable without supplementary oral explanations. The information they reveal must be clear, complete, and concise. Anyone using the AWP should be able to readily determine their purpose, the nature and scope of the work done, and the auditor’s conclusions. Conciseness is important, but clarity and completeness must not be sacrificed just to save time.

**GENERAL GUIDELINES FOR WORKING PAPERS**

**(CONT.) 0301.15**

- c) **Neatness** — Working papers must be as neat as practicable. Sloppy AWP may lose their worth as evidence. Auditors must use proper grammar, punctuation and correct spelling. In a Word or Excel document, auditors must use the “Spelling and Grammar” command to proofread for spelling and grammar. Auditors should use short sentences with simple, common words to increase readability whenever possible. Some simple guides to follow in this respect are:
- Use captions to separate subjects.
  - Separate subject matter properly.
  - Use descriptive headings.
- d) **Pertinence** — The information contained in the AWP should be restricted to matters that are material, pertinent, and useful with reference to the audit assignment. Auditors should not copy figures from the taxpayer’s books without good reason, but should consider the audit procedure and method of verification so that only necessary data is included. Auditors should avoid extraneous or redundant comments. Auditors should ensure that no schedules are included that do not ultimately support the audit findings.

**BACKUP PROCEDURES**

**0301.20**

All AWP in process will be uploaded as an attachment in the system. Each auditor is responsible for uploading any updated AWP to the system any time updates are made to the AWP. This procedure ensures the data can be restored in case of an equipment failure. In addition, it provides supervisors the ability to review the work in response to taxpayer contact, audit issues, and auditor performance issues.

## AUDIT FOLDER STRUCTURE

0302.00

When an audit is assigned to an auditor in the system, it will appear in their “My Work” list. Auditors create an audit case folder using the “Auditing” tab, Main Menu, in Excel. The AWP Excel folder is automatically created using this process. The auditor then downloads the pertinent transcripts in the system and inserts them into the audit case folder, AWP file. The new audit case folder with the audit case ID and business name are saved in the “My Audits” folder on the auditor’s C drive.

Proper naming of audit files is important when uploading them into the system. Audit files are viewed by many divisions; therefore, proper naming is important when attaching them into the system as it is crucial for efficient viewing and processing of audits. Once created, the Excel AWP file must be attached and checked in and checked out under the CRM Attachments tab in the Audit springboard after each use. The system will retain each file version and a check-in/check-out history of the AWP.

It is important to note that after the AWP are checked out in the system, there are two options; “Check In” and “Overwrite.” “Check In” creates a new version of the AWP. “Overwrite” replaces the version that was checked out. The “Overwrite” option should not be used without supervisor approval.

Before attaching files into the system, auditors must make sure files are saved using the required naming convention (see section 0302.03). The procedure for saving files applies to all field audits, FBOs, adjusted FBOs and reaudits. Auditors should include a clear description in the description field as it allows audit reviewers and anyone else reviewing the audit files to sort them in alphabetical or numerical order in the system by holding down the CTRL function and simultaneously clicking on different column headings one at a time. This sorting method is similar to the sorting by levels that can be done in Excel. Auditors will upload attachments into the system’s Audit springboard, CRM, Attachments, under one of the following category types:

- Audit Plan
- Correspondence
- Forms
- Internal
- Miscellaneous & Documents
- Supplementary Document
- Working Paper

In addition to the above categories, there are also a “General” and a “Proposed Deficiency Assessment” category but these are not used by CDTFA.

<b>“Type” in the system/Folder on C: Drive</b>	<b>What goes in this “Type”/Folder?</b>
Audit Plan	Signed Audit Plan
Correspondence	Letters, e-mails, etc.
Forms	CDTFA forms pertinent to the audit
Internal	Confidential documents that include other parties’ information such as data from CUTS or internal correspondence, such as Fraud Memos
Large Files	Data downloads, CAS files, and other miscellaneous files too large to attach in the system
Miscellaneous & Documents	Miscellaneous documents not directly used in the determination of the audit findings such as Secretary of State data, online review sites, website, etc.
Supplementary Document	Documents that directly support the audit findings such as XYZ Letters, resale certificates, etc. and are used in the determination of the audit findings.
Working Paper	Working Papers and Excel files created by the system Lead Schedules

Once the audit has been posted and billed, auditors should remove the audit case folder, including its contents, from the C drive. Certain subfolders and files are automatically populated by the CDTFA Audit Program. Additional folders may be manually created as needed. See later sections for additional details.

**FILES****0302.03**

Files attached in the system include files and forms pertinent to the audit. In the system, auditors will select the dropdown for the category type to attach the form or file. Auditors should immediately attach completed forms to the system once received.

When naming forms or files on the C drive in preparation to attach to the system, auditors must use the proper naming convention.

The naming convention includes the form case ID number, schedule or letter number, and a date or number and the form number, if applicable, to identify, in succession, when required. The naming structure for the form or file is listed below. Additional forms not listed may be included:



**AUDIT WORKING PAPERS**

**FILES**

**(CONT. 1) 0302.03**

<b>Documents/Forms</b>	<b>File Name</b>	<b>Type</b>
CDTFA 5045 Audit Plan	A12345_MyRestaurant_5045.pdf	Audit Plan (signed only)
Cover Letter for CDTFA 836A	A12345_MyRestaurant_Cover Letter_836A.pdf	Correspondence
Emails	A12345_MyRestaurant_2020_01_23_Description.msg	Correspondence
Letters	A12345_MyRestaurant_2020_01_23_Description.msg	Correspondence
CDTFA 101 Claim for Refund	A12345_MyRestaurant_101_2019_01_23_Date Signed.pdf	Forms
CDTFA 122 Waiver of Limitation	A12345_MyRestaurant_122_2019_01_31.pdf	Forms
CDTFA 122 Waiver of Limitation	A12345_MyRestaurant_122_2019_04_30.pdf	Forms
CDTFA 122 Waiver of Limitation	A12345_MyRestaurant_122_2019_07_31.pdf	Forms
CDTFA 1296 Account Update Information	A12345_MyRestaurant_1296.pdf	Forms - Mandatory
CDTFA 1311 B Bar Fact Sheet	A12345_MyRestaurant_1311B.pdf	Forms
CDTFA 245-COR Corporate update	A12345_MyRestaurant_245_COR.pdf	Forms
CDTFA 392 Power of Attorney	A12345_MyRestaurant_392.pdf	Forms
CDTFA 416 Petition for Redetermination	A12345_MyRestaurant_416.pdf	Forms (In Appeals Case and Audit Case attachments)
CDTFA 472 Sampling	A12345_MyRestaurant_472_Test Area.pdf	Forms
CDTFA 65 Close out	A12345_MyRestaurant_65.pdf	Forms
CDTFA 698A Information Document Request - Initial	A12345_MyRestaurant_698A_2020_01_01_1st.pdf	Forms (unless done in the system)
CDTFA 698A Information Document Request - Second	A12345_MyRestaurant_698A_2020_02_01_2nd.pdf	Forms (unless done in the system)
CDTFA 698B Formal Demand	A12345_MyRestaurant_698B_2020_02_16.pdf	Forms
CDTFA 699 Audit Findings Presentation Sheet	A12345_MyRestaurant_699.pdf (Office preference. Still available on intranet)	Forms

**AUDIT MANUAL**

<b>Documents/Forms</b>	<b>File Name</b>	<b>Type</b>
CDTFA 80 RU Records Update	A12345_MyRestaurant_80RU.pdf	Forms – Mandatory
CDTFA 805 Observation	A12345_MyRestaurant_805.pdf	Forms
CDTFA 82 Authorization of Electronic	A12345_MyRestaurant_82.pdf	Forms
CDTFA 945 Receipts	A12345_MyRestaurant_945.pdf	Forms
CDTFA 836A Report of Discussion of Audit Findings	A12345_MyRestaurant_836A_2020_01_01.pdf (Office preference)	Forms
Fraud Memo	A12345_MyRestaurant_Fraud Memo.pdf	Internal
Change Request Form	A12345_MyRestaurant_Go Back.pdf	AWP
CUTS Documents	A12345_MyRestaurant_CUTS_Confidential	Internal
ABC License Query	A12345_MyRestaurant_ABC.pdf	Miscellaneous & Documents
CA SOS - Statement of Information	A12345_MyRestaurant_CA SOS.pdf	Miscellaneous & Documents
DMV License Query	A12345_MyRestaurant_DMV.pdf	Miscellaneous & Documents
PAPE Memo	A12345_MyRestaurant_PAPE.pdf	Miscellaneous & Documents
Decision	A12345_MyRestaurant_Decision_2020_03_01 (Attach in both Appeals Case and Audit Case)	Miscellaneous & Documents
1099K - From the system Warehouse	A12345_MyRestaurant_12X_1099K_Internal.pdf	Supplementary Document
1099K - Provided by Taxpayer	A12345_MyRestaurant_12X_1099K_Taxpayer.pdf	Supplementary Document
Bank Statements	A12345_MyRestaurant_12X_Bank Statements.pdf	Supplementary Document
CDTFA 503 - ABC (series)	A12345_MyRestaurant_12X_503 ABC.pdf	Supplementary Document
CDTFA 504 - XYZ (series)	A12345_MyRestaurant_12X_504 XYZ.pdf	Supplementary Document
Purchase Invoices	A12345_MyRestaurant_12X_Purchases invoices.pdf	Supplementary Document
Audit Working Papers	A12345_MyRestaurant_WP.xlsm	Working Papers
Reaudit Working Papers	A12345_R1_MyRestaurant_WP.xlsm (Replaces previous “Audit Working Papers” with each successive change and changes file name)	Working Papers

## FILES

(CONT. 2) 0302.03

A copy of the transcript does not need to be attached in forms. However, the AWP should always include the Return Transcript and Schedule A (District Taxes), if applicable. Deductions/Exemptions should also be included if the taxpayer has multiple deductions along with Schedule B, *Detailed Allocation by County of Sales and Use Tax Transactions*, Schedule C, *Detailed Allocation by Location of Sales and Use Tax Transactions*, and any other Schedules or Reports (ADHOC), when applicable. For instance, auditors should always include the Schedule B for a special seller such as a construction contractor, or Schedule C if the taxpayer has multiple locations. Transcripts are obtained in the system under the Audit Case, Other, Transcripts. Team members need to choose the applicable cube view to export data from the system to use the “import” function in the Digital Audit Program under the Auditing tab, Temp TB for transcripts.

All attachments require the “File Name,” “Type” and “Description” in the system. Auditors must provide a detailed description, as well as the file name and type. For example, when attaching bank statements, using “Bank Statements-Bank Name-Year,” i.e., “**Bank Statements-ABC Bank-2018**”, will assist anyone looking at the audit while using the sort functions in the system. The overall format for naming files is **Case Number Taxpayers Name\_Schedule or Form Number**, (if applicable) **Description**, (if applicable) **Date** formatted YYYY\_MM\_DD, (if applicable). The only exception to this order is correspondence which will list the date first and then any description in order to sort by date. See also Supplementary Documents section 0302.45, for additional guidance when multiple files for the same period or multiple lines.

## AUDIT PLAN

0302.10

Signed copies of the audit plan and copies of all amended audit plans, should be scanned and attached in the system as soon as they are received.

An audit plan is required for all audits. Auditors may use the audit plan created in the system under the task/forms or attach another appropriate audit plan.

**CORRESPONDENCE****0302.15**

Correspondence files are files that contain all correspondence pertaining to the audit that are not directly used in the determination of the audit results. Examples include:

- General taxpayer correspondence letters
- Emails saved as files. Use naming convention “Case Number\_Taxpayer Name \_e-mail Date”

**Note:** It is not necessary to save all emails pertaining to an audit. Auditors should use judgment on what emails are important enough to save to an audit folder. It is recommended to save important emails as opposed to copying and pasting the text into CRM Notes. Another option is to zip all of the emails and attach them under the CRM Attachments. If this process is used, the naming conventions must be followed within the zip file, for instance, A12345\_MyRestaurant\_Correspondence.zip. All files within the zip file should also follow the naming conventions but will have a file extension of .msg instead of .zip

In the system, auditors will select the Correspondence dropdown for the category type to upload the file. Correspondence files should be attached in the system immediately after they are created/received.

Audit engagement letters, Audit Results Letters, and other letters created in the system, are located in CRM Letters. No copy needs to be attached in CRM Attachments unless auditors manually print and/or want to attach a signed version.

When naming correspondence files in the C drive in preparation to attach in the system, auditors must use the proper naming convention. The naming convention includes a brief description of the file. See table in section 0302.03 including the notation that correspondence will list the date first and then any description, in order to sort by date.

**FORMS****0302.20**

Form files uploaded as attachments in the system include forms pertinent to the audit. In the system, auditors will select the Forms dropdown for the category type to attach the form file. Auditors should immediately attach completed forms to the system as soon as they are received. When naming correspondence files in the C drive in preparation to attach in the system, auditors must use the proper naming convention. The naming convention includes a brief description of the file. See table in section 0302.03.

**INTERNAL****0302.25**

Internal Document files are files that are only used for internal purposes or include confidential information. These can be various internal items and/or confidential items.

Internal items are internal e-mails with management, headquarters, or similar items. These types of items are related to internal communication within the Department. Below are some examples:

- Fraud or other internal memos.
- Informal Go Backs for FYI items

Confidential items are any files with confidential information. This can be various files, such as PDFs of related schedules in the AWP or other items that include confidential information related to another taxpayer or entity. Below are some examples:

- Confidential information on a successor or predecessor used to support the method or audit findings.
- Confidential information to support whether the seller paid taxes or not before assessing against the buyer as further explained in Audit Manual section 0408.12 – *Audits of Sales Subject to Use Tax*. This can be a PDF of the related schedules in the AWP, the system screen, or other information noted by the auditor to show the other party already reported.
- Confidential information to accept exempt sales when the auditor is allowing reported sales based on other information or to support accepting the XYZ response. This can be a PDF of the related audit, the system screen, or other information to show the other party paid the taxes and/or items were for resale. If the information is from websites or does not include anything confidential, files should be attached under *Supplementary Documents* in CRM Attachments.
- Confidential data received in response to a list sent to the Consumer Use Tax Section (CUTS) to provide forms and paperwork on file with the DMV. DMV copies often include names of other buyers and sellers that are not related to the taxpayer's sales.

For any confidential items, auditors should include “confidential” as part of the file name and in the description field. These files must be redacted to exclude any confidential information before providing them to the taxpayer.

Auditors should immediately attach “Internal” files into the system when they are received or created as a PDF, at the time they are viewed or received. This way any information is readily available to support decisions and comments in the AWP and available to view by management, the reviewer, and/or Appeals, including the Office of Tax Appeals.

When naming internal files in the C drive in preparation to attach in the system, auditors must use the proper naming convention. The naming convention includes a brief description of the file. See the table in section 0302.03.

**LARGE FILES (NO BACKUP)****0302.30**

The *Large Files* folder should contain information used in the audit that does not need to be transmitted with the AWP, such as taxpayer downloads, Computer Audit Specialist (CAS) files, etc. This would include all files too large to attach in the system.

For large audits, auditors often perform an analysis of data with numerous line items. This process includes sorting the data and the multiple steps of refining the data such as removing certain transactions and vendors from the population. If auditors perform these steps in the Excel AWP file, the file could get quite large due to the repeated instances of certain transactions in the file. Thus, to keep the file size within the 25 megabyte limit, such analyses should be done in a separate Excel file and maintained in the Large File subfolder. The Excel working paper file should include the summary of the refined data and reference the steps taken to refine the data, possibly using a pivot table or some other method.

The Large Files subfolder on the C drive should contain information used in the audit that does not need to be included with the AWP, such as taxpayer data as discussed above. Information stored in this folder should not be uploaded or attached into the system. Information stored in this folder cannot be attached in the system if it exceeds 25 megabytes in size.

**MISCELLANEOUS & DOCUMENTS****0302.40**

The *Miscellaneous & Documents* subfolder contains all memos and miscellaneous files pertaining to the audit that are not directly used in the determination of the findings. Examples include memos, website printouts, images, and information from the Secretary of State. In the system, auditors will select the *Miscellaneous & Documents* dropdown for the category type to attach the file. Auditors should immediately attach *Miscellaneous & Documents* files into the system when they receive or generate them.

When naming *Miscellaneous & Documents* files in the C drive in preparation to attach in the system, auditors must use the proper naming convention. The naming convention includes a brief description of the file. See table in section 0302.03.

**SUPPLEMENTARY DOCUMENTS****0302.45**

*Supplementary Document* files are files that directly support the audit findings, such as XYZ letters, invoices, contracts, resale certificates, etc. Auditors should immediately attach *Supplementary Document* files into the system when they are received.

Each file name should be descriptive of the area to which it pertains. If there are multiple files of the same type (e.g. XYZ letters), auditors can attach each file separately or attach them in one file if the file is less than 25 megabytes in size. The other option is to attach a zipped file.

For example:

File Name: A12345\_MyRestaurant 12X\_XYZ\_Buyer 1

File Name: A12345\_MyRestaurant 12X\_XYZ\_Buyer 2

or

File Name A12345\_MyRestaurant 12X\_XYZ\_All Buyers

PDF file sizes should be kept as small as possible. There may be cases where there are too many scanned documents for one PDF file. In such cases, auditors have the discretion to create multiple PDF files.

## SUPPLEMENTARY DOCUMENTS

(CONT.) 0302.45

Examples for multiple lines:

File Name: ABCO\_12X\_XYZ\_Buyer\_001-019

File Name: ABCO\_12X\_XYZ\_Buyer\_020-040

Examples for multiple periods:

File Name: ABCO\_12X\_Bank Statement\_YYYY\_MM\_DD

File Name: ABCO\_12X\_Bank Statement\_YYYY\_XQ

See table in section 0302.03.

The naming method allows files to sort in order of the AWP by first sorting by the schedule number, then the type of document or party (if applicable), and then by either date or line numbers (if applicable). For line numbers, the number of digits is to match the number of lines in order to sort by line number which is why it is shown as 001 instead of just 1. Auditors can verify proper naming of *Supplementary Documents* in the system by sorting to see the attachments are in the same order as the *Working Papers*.

For Excel AWP files that contain hyperlinks to documents which will be attached in the system, auditors can create a zip file of the supplementary documents or particular schedule series if needed, due to the size of the files instead. This method can be used when the hyperlinks to external files break when attached in the system. For specific instructions, see the Hyperlinking information in section 0304.08.

Statistical sample information should be included in *Supplementary Documents*. This generally includes pull sheets, Audit Command Language (ACL) reports, control figures, and other files the CAS provides to the auditor, unless they exceed 25 MB, in which case they would be summarized in the AWP and the original file placed in the *Large Files* folder. The statistical sample random number generator (if used by the auditor) and evaluation should remain in the AWP. Do not include the taxpayer's downloaded records in the digital AWP.

When naming supplementary document files in the C drive in preparation to attach in the system, auditors must use the proper naming convention. The naming convention includes a brief description of the file. See table in section 0302.03 and additional clarification for guidance when there are multiple files for the same period or multiple lines for some supplementary items above.

**AUDIT WORKING PAPER FILE****0302.55**

Each audit case folder contains the Digital Audit Program-generated Excel file with the naming convention “*Case Number\_Taxpayer\_WP.xls.*”

There should only be one copy of the Excel AWP in the *Working Papers* folder. The only exception to this is in the case of large audits where the AWP do not fit into one Excel file. In this case, the two (or more) Excel working paper files must be clearly named and must not contain duplicate information.

The working paper file will have the following tab order:

- Index
- Local and/or District Tax Reallocation, 414L (applicable to sales and use tax)
- Electronic Transcripts (include all download detail). Auditors should choose the applicable cube view to export data from the system in order to use the import function in the *Digital Audit Program* in the *Auditing* tab under *Temp TB* for transcripts.
- Summary of Errors (when more than one error is included in the audit) See section 0303.10
- Schedule Detail: 12A; 12A-1, 12A-2, 12B....12C, etc. For errors that are limited to just Local and District Taxes, auditors should use schedule “A”, “B”, “C” or “F” etc. Meaning, in the Excel AWP, the schedules would be called A for District Taxes, and not 12A. This would match the schedules in the system.



**EXCEL AUDIT WORKING PAPER****0303.00****BASIC DATA****0303.01**

The basic data to be shown on subsidiary schedules should be carefully considered. Figures and other data should not be copied from the taxpayer's records without thought given to their significance or ultimate use. On the other hand, all data which could be used in the section under consideration, as well as in other sections of the audit, should be recorded while the documents are being examined so that there will be no need for pulling them again. Thus, names, dates, invoice numbers, descriptions of items, points of origin, shipping data (for example, ship-to address, types of shipping documents, etc.), district, and accounts charged, should be recorded if any possible use is foreseen. In many cases, certain reference data is required by the taxpayer in examining the schedules for correctness. If such information is not on the schedule, much time is lost while the taxpayer secures the desired documents and makes the examination. If possible, taxpayer records should be scanned and uploaded to the system as attachments to ensure completeness of information throughout the audit.

**SUMMARY OF ERRORS SCHEDULE IN EXCEL AUDIT WORKING PAPER 0303.10**

Auditors must prepare a *Summary of Errors* schedule (12) in the Excel AWP when there is more than one error noted in the audit findings. This schedule is a compilation of each error represented in the Excel lead schedules. The period displayed on the summary will be consistent with other periods identified on the Excel lead schedules. Column headings for each error will be descriptive and consistent with names given to Excel lead schedules in the audit and lead schedules in the system.

Summary (Lead) schedules in the AWP represent the final audited and reported figures, differences and analysis of differences. They are prepared for each main section of the audit where there is a difference between the audited and reported amounts (12A, 12B, 12C, etc). A Summary of Errors (Lead) schedule should be prepared in the AWP in Excel for reconciliation to each of the Lead schedules in the online system. The Summary of Errors schedule (12) should include the totals from all of the other Lead schedules for each error found in the audit. It should also include a column for each of the taxes or fees that are applicable (e.g., Total State Tax, Total Local Tax, Total County Tax, Total District Tax, if applicable, and the Total Tax or Fee). Each column total can then be reconciled to the totals in each of the separate schedules, (A, B, C, etc.), in the Lead schedules and Summary schedule in the system.

In addition to providing tax or fee amounts in the AWP for the taxpayer, the tax or fee amounts also help team members address input errors in the system, address issues when the taxpayer did not report all applicable district taxes, or other items. The above method provides the tax or fee amount by the same categories as the system which allows parties to quickly locate any differences. When a sales and use tax taxpayer has a substantial number of districts and the auditor is accepting reported allocation and using prepop to allocate district taxes, then district tax amounts may be obtained from the system.

**SUBSIDIARY SCHEDULES****0303.15**

Subsidiary schedules support summary (Lead) or other subsidiary schedules in the AWP. The information shown on this schedule is an analysis of the data shown in total, or by quarters, on the summaries. It usually consists of compilations by months to compute quarterly totals, compilations by days, items, or other classifications to determine monthly totals, or data to support calculations of percentages. The basis for computing audited figures are recorded on these schedules. Examples include:

- monthly totals from the sales account,
- individual sales from the cash receipts book,
- a list of individual sales from sales invoices used for test checks, and/or
- lists of individual purchases from purchase invoices used for computing use tax liability.

In a sense, subsidiary schedules are the most important worksheets of the AWP since all essential detailed information is compiled thereon. The data should be so complete that any auditor who did not assist in compiling it could, nevertheless, interpret the results, make the required calculations, or prepare summary schedules.

**COMMENTS ON SUBSIDIARY SCHEDULES****0303.20**

Subsidiary schedules should have descriptive comments noted in a text box, unless the information is self-evident from column headings or is covered by other notations. Subsidiary schedule comments should not be the same as comments on the summary schedules. *It is important for auditors to remember that overall verification comments are for the summary schedules and specific verification comments are for the subsidiary schedules.* The information contained on these subsidiary schedules should show:

- Source of data and a brief description of its nature.
- Extent of verification – specific verification procedures performed.
- Basis of estimating where estimates are used.
- Method of calculating percentages.
- Explanation of differences between reported and audited figures, if not shown on notes column.
- Any other comments pertinent to the method of reasoning used to determine the facts and figures shown on the schedule.
- Any other comments pertinent to why questioned transactions are subject to taxes or fees or exempt from taxes or fees.

**NOTES**

**0303.25**

Notes in AWP, as distinguished from the verification comments, should give the detail of all significant differences affecting taxable sales as well as the reason for the differences. When notes are used, they should be included in a separate column in each schedule. If, for example, certain sales for resale were disallowed, the note on this subject should not only indicate that fact, but also the reason for disallowance. Wherever possible, these notes should appear on the same line on the schedule as the item which is being explained.

**NOTE OF WORK TO BE DONE WHEN THE AUDIT IS DEFERRED**

**0303.30**

It is sometimes necessary to defer a partially completed audit to allow the taxpayer time to secure additional information. In such cases, a CRM Note should be entered outlining the work to be done by the taxpayer and the approximate date of the auditor's return to the job. Whenever completion of an audit is deferred to accommodate a taxpayer, the auditor may need to secure a Form CDTFA-122, *Waiver of Limitation*, unless it is certain that failure to do so will not in any way jeopardize the interests of the State.

**WORKING PAPER TECHNIQUES****0304.00****STANDARDIZED AUDIT SCHEDULES****0304.05****Audit Program**

The Audit Program in Excel consists of a series of menus. Each menu covers a function of the audit program. The Audit Program menus are located in the first tab of the Excel Ribbon which is called "Auditing." The Auditing tab includes the Auditing Program Menus which contain several toolbars as follows:

- **WKS TB Menu:** The "Worksheet and Workbook Toolbar" Menu provides worksheet and workbook level functions.
- **TEMP TB Menu:** The "Template Toolbar" Menu contains Excel templates which are commonly used in audits. Some of these templates are not needed in the system.
- **DATA TB Menu:** The "Database Toolbar" Menu works with Excel Lists (databases).
- **RW TB Menu:** The "Reviewers Toolbar" Menu contains reviewers' templates.
- **TOOLS Menu:** The "Tools" menu includes commonly-used items, which are freeze panes, auto sum, date format, round, add text box and add comment.

Some menus and templates may be listed in the Audit Program, but are no longer available as they are not needed in the system.

The toolbars have several different worksheets available that can be inserted into an active workbook. The *Test of Exempt Sales* worksheet and the *Test of Paid Bills* worksheet have standard column headings that may be helpful in setting up these schedules. The Auditing Program automates many of the routine tasks that need to be done in these worksheets. The automation programs are in a button group at the top of each of the two worksheets.

All of the predefined CDTFA templates come from the blank CDTFA template. Auditors should always use one of the predefined templates if it is applicable, rather than create their own worksheet. If one of the predefined templates does not address the audit task at hand, use the blank CDTFA Worksheet to create a custom audit worksheet. The blank worksheet is located under the Auditing tab, Main Menu, New BOE Worksheet.

If additional information is required, specific columns and descriptive headings can be added to the schedule. This is true for the predefined worksheets as well as the blank worksheets. Column headings are similar in importance to comments and using descriptive words here is important in making the schedule understandable.

The following four main areas should be included on all schedules and templates:

- Schedule number, permit or account number, auditor name and date in the upper, right-hand corner.
- Column references: "B" through "I" are automatically populated at the top of each regular template and "B" through "T" for the exempt sales template and the paid bills template are also automatically populated. Additional columns may be added, as necessary.
- Line numbers down the left-hand side of the schedule body, including totals and comments.
- A general referencing line (above the column headings) and a general reference column (left hand column).

## STANDARDIZED AUDIT SCHEDULES

(CONT.1) 0304.05

The following standards should be used when preparing audit schedules:

- 1) **Font.** Use either **Arial, Times New Roman, or Courier New.** The entire audit should be prepared using the same font. Minimum font size is 10.
- 2) **Schedule Orientation.** Lead schedules should be prepared in portrait orientation whenever possible. Subsidiary schedules should be prepared in either portrait or landscape orientation.
- 3) **Database Schedules.** When it is necessary to print database schedules (for example, schedules detailing tests of sales and purchases), they must be printed with grid lines and with bottom borderlines.
- 5) **Line References.** All schedules must contain line numbers. Line numbers should not start with “11” on each successive page of the same schedule. Line numbers should match up to the related Excel line number and every line of data should be a different line number. In this manner, every line number will identify each scheduled item and on which page it is located (e.g., page 1 numbered 11 thru 30, page 2 numbered 31 through 60, page 3 numbered 61 through 90, etc.).
- 6) **Schedule Titles.** All schedules should have titles that accurately describe the contents of the schedule.
- 7) **Grand Totals –** A grand total should be done at the bottom of every schedule while leaving a blank line before the grand total so the data is in the format required for doing a pivot table. A pivot table should be included on the schedule or a separate schedule showing the amount per quarter or summary by customer, vendor, or other method.
- 8) **Hyperlinking.** Hyperlinking binds together all documents that make up the audit and is *mandatory* for all references from one schedule to another. However, the system does not allow external files to be hyperlinked. Auditors can attach, as attachments, the documents that would have been hyperlinked, without hyperlinking them or they can use the following procedure.

Once files are uploaded into the system, hyperlinked references from the Excel AWP file to files saved in another subfolder such as the *Supplementary Document* subfolder will be broken. The following instructions should be followed to keep hyperlink references in the Excel working papers file intact for review purposes. This procedure should only be used once the audit is ready to be staged to Supervisor review and after the Excel AWP and related supporting audit files are completely attached (checked-in) to the system. Auditors should also verify hyperlinks are valid (i.e. updated for any changes to the name or location) and then do the following:

- Zip the Supplementary Document subfolder containing the supporting documents.
- Upload the newly created zip file to the system. The category type for the file will be Supplementary Documents.

## STANDARDIZED AUDIT SCHEDULES

(CONT.2) 0304.05

To use the hyperlinks in the Excel AWP file:

- Create a temporary folder on their laptop.
- Download the zip file from the system and save it to the temporary folder.
- Unzip the file in the temporary folder.
- Download the most recent version of the Excel AWP file and save it in the same temporary folder (the Excel AWP file and the *Supplementary Document* folder must be in the same directory for the hyperlinks to work).
  - o Auditors will need to create a *Working Papers* folder and save the working papers folder in this folder.
  - o If supplementary documents are zipped as one file, then the unzipped folder will be the same folder location as the original set of folders.
  - o If the zipped files are only portions of supplementary documents due to the size of the attachments, then zip each set of files under the same folder name used directly under the Supplementary Document folder such as 12A, 12B, 12C, etc. Auditors will then need to create a Supplementary Document folder and save the unzipped folders to the Supplementary Document folder so it is located at the same location as the original set of folders.
- Open the Excel AWP file and click the hyperlink.
- The hyperlinked file will be displayed.
  - o Hyperlinks will link to the related file and auditors should use the same naming format in section 0302.45.

When hyperlinking to scanned documents, you cannot link to a specific page within a PDF file. Therefore, it may be more efficient to scan sets of documents into multiple PDFs for ease of referencing and hyperlinking. If files are not split, auditors should reference the related page number for the attachment on the audit schedule. Auditors can also highlight or use other means to emphasize specific numbers used or other items to make it easier for other parties to quickly trace information from the audit schedules to the related attachments.

9) **Scanning Procedures.** A PDF file should be no more than 25 megabytes.

**NOTE:** Different scanners produce different file sizes for the same number of pages.

Documents should always be scanned using the grayscale setting. Do not use the best or highest quality setting when scanning. This dramatically increases the file size without any noticeable increase in quality. The *best* or *highest quality* setting should only be used in instances where the document is not legible when the average quality setting is used. In such cases, the number of documents in that PDF should be kept to a minimum.

Files that are printed directly to the *Microsoft Print to PDF* from Windows applications such as Word or Excel are not as large as scanned PDF files. For example, an entire AWP workbook in Excel may only be 100KB. “**Print** to PDF” files allow inclusion of many more pages than “**Scan** to PDF” files.

**Scanning Tip:** If you have an electronic file (for example, an Excel file or Word document) you can save the document as a PDF by selecting file, print, and select “Microsoft Print to PDF” or “Adobe PDF” as the printer option. Another option is to select the Acrobat tab at the top in Word or Excel and then select “Create PDF.”

**SCHEDULE FOR EACH SUBJECT (ERROR)****0304.10**

A lead schedule is created in the AWP for each area of the audit where there is a difference noted and the auditor has impeached the taxpayer's records. Every subject (difference) of the AWP is assigned an index number, which is used in arranging the schedules when the audit is complete. Each schedule should only include one subject (difference) and not include unrelated data. For example, auditors should prepare each schedule supporting a different category of sales, deductions, or self-consumed merchandise, on a separate worksheet, (12A, 12B, etc.). Data related to other errors should not be put together on one schedule. For instance, a schedule created for an error found in taxable sales would not also include an error found for mandatory tips. This is true even though only a few lines may be required to record the desired information. The cost of preparing separate schedules is insignificant when compared with time wasted in looking for data buried in a schedule relating to some other subject.

**DATA FURNISHED BY TAXPAYER****0304.15**

Taxpayers should be encouraged to furnish data electronically, when possible. These taxpayer-provided schedules, where they have already scheduled their own data or maybe they have exported it from their accounting program, should be identified as "**prepared by taxpayer.**" Such data should have proper headings inserted, be indexed, cross-referenced, and filed with the regular working papers. Unless unusual circumstances warrant otherwise, taxpayer-furnished material on paper, such as statements of account, should not be manually copied or entered into an AWP schedule by hand, but should be scanned and incorporated directly into the system as an attachment(s).

If files are provided from vendor surveys or sources other than the taxpayer, the related letter or e-mail and related files should be attached under Supplementary Documents. Data can be copied and pasted into a CDTFA worksheet the same as explained above for data furnished by the taxpayer.

**CREDIT ITEMS****0304.17**

Credit items, or items which are opposite in sign to other entries on a schedule, will be written with a minus (-) sign in front of the number. Decreases in taxable measure should be preceded by a minus sign (-) on all summary schedules.

**Note:** In the system, lead schedules show negative amounts with a parenthesis. However, negative amounts do not always attribute to a credit. The system displays each adjustment as an increase or decrease to a line item on the return, thus, positive and negative adjustments do not necessarily mean an assessment or credit.

**SCHEDULE HEADINGS****0304.20**

The name of the taxpayer should not appear on either subsidiary or summary schedules unless necessary ( e.g. for the identification of a retailer that does not have a seller's permit). Insert the title of the schedule in the text box provided in the upper, left-hand corner of each schedule describing the type and source of information contained therein, such as *Total Sales per General Ledger*, *Test of Sales for Resales*, etc. Schedule titles must indicate whether the examination was performed on a test or actual basis.

If the schedule refers to some definite period such as month, quarter, or year, this period will appear under the title of the schedule as shown in the following example:

Test of Sales for Resale per Invoices-Actual Basis-July, 20XX

All schedules will have a schedule number, account number, auditor name, and date in the upper right-hand corner.

**COLUMN HEADINGS**

**0304.30**

Column headings should be descriptive. The reference line should indicate the source of data in that column, using <angle brackets> for data from other schedules e.g., <12A-1> and (parentheses) for arithmetic computations e.g., (A + B - C).

**TOTALS**

**0304.35**

Where a schedule lists two or more columns or classifications, vertical footings and cross-footings (horizontal) should be made and the grand totals balanced with each row and column, but only if they are clearly of value in the audit. An example of footings and cross footings is illustrated in the following example:

**Analysis of Sales**

REF	<Per Sales Journal>			(A+B+C)
Period	Taxable	Resale	Freight	Total
1 Jan, 20xx	\$500	\$400	\$100	\$1,000
2 Feb, 20xx	\$600	\$500	\$200	\$1,300
3 March, 20xx	\$700	\$500	\$300	\$1,500
4 1Q-xx Total	<u>\$1,800</u>	<u>\$1,400</u>	<u>\$600</u>	<u>\$3,800</u>

The total may be shown either on the right or left side, depending upon how the data will be used and the convenience in compiling. Underline the last line of data with a single black line, and underline the total with a double black line. Grand totals are required if there are two or more pages in the schedule. Schedules with multiple pages may place page totals on a separate page via a pivot table. To maintain the integrity of the database, the data will be scheduled without skipping a line.

For multiple pages, a grand total should be done at the bottom of every schedule while leaving a blank line before the grand total so the data is in the format required for doing a pivot table. A pivot table should be included on the schedule or a separate schedule showing the amount per quarter or summary by customer, vendor, or other method.

**LAYOUT**

**0304.40**

Auditors should set up the most efficient mechanical arrangement possible before the compilation of data is started. This avoids transcribing figures from taxpayer books and records before the correct arrangement of a schedule has been decided upon and may reduce time adjusting or removing schedules.

When there are insufficient columns for the proper horizontal spread, the months should be placed across the top and the classifications shown on lines, with blank lines left in the proper places for vertical expansion. In many cases when the columns on one schedule are not sufficient, the auditor must break the schedule into two schedules for printing. If there is sufficient space on a schedule, lines should be skipped between subsections and totals. This sets the information out and makes it easier to read. Again, to maintain the integrity of the database and to facilitate the use of a pivot table, no lines should be skipped. The spreadsheet can always be expanded to include additional columns and/or rows.



**INDEXING - GENERAL**

**0304.45**

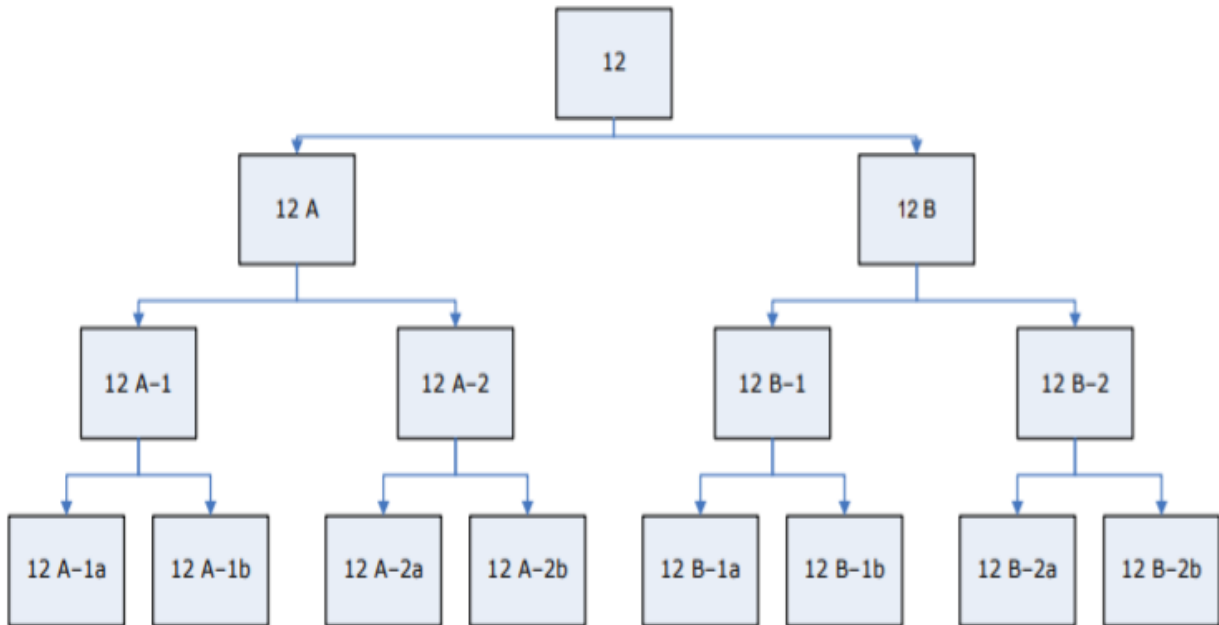
Auditors must index Excel AWP schedules by identifying a schedule with the number 12 and a capital letter (e.g., 12A or for special taxes and fees,, 1, 1A, etc.).

Subsidiary schedules which directly support summary schedules will have the number 12 (or other number for special taxes and fees) and the same capital letter followed by a hyphen and a number, i.e. 12A-1, 12A-2, 12B-1, 12C-1, 12D-1, etc. Subsidiary schedules supporting other subsidiary schedules will have the same capital letters followed by a hyphen and the same numbers followed by adding lower-case letters, i.e., 12A-1a, 12A-1b, 12A-2a, 12B-1a. An example of the indexing system is shown below:

- Schedule 12A (Schedule of First Tax Difference)
- Schedule 12A-1 (Subsidiary Schedule for First Tax Difference)
- Schedule 12A-1a (Subsidiary for Subsidiary Schedule for First Tax Difference)
- Schedule 12B (Schedule of Second Tax Difference)
- Schedule A (Schedule of District Tax errors only)
- Schedule C (Schedule of Local Tax errors only)

Thus, the schedules should be laid out as indicated by the following chart:

**Layout and Assembly of Schedules**



It is not good practice to subdivide subsidiary schedules too finely. There shall be no deviation from this system of indexing.

**INDEXING MEMO**

**0304.60**

Memo schedules will be titled “Memo” on the schedule tab and should be numbered beginning with 1.

**CROSS-REFERENCING****0304.65**

Cross-referencing, as described in 0304.30, is necessary to facilitate tracing figures back to the underlying schedules and to aid in tracing subsidiary schedules forward to the summaries. Cross-referencing should be used on both large and small audits as it makes the audit easier to understand when the audit is being reviewed. Cross references are generally entered into row 7 of the AWP but they can also be entered into the hidden rows 8 and 9, if necessary. If the schedule is vertical, the cross references should be in column B.

References for “To” Items are on the right or bottom. References for “From” items are on the left or top.

**INDEX TO WORKING PAPERS****0304.70**

An audit report contains an index whenever five or more lead and subsidiary schedules are prepared for an audit. The Auditing tab, TEMP TB Menu has an Audit Index template that inserts a hyperlinked index into the audit workbook. The index is used to list and navigate to all the worksheets contained in the active audit workbook and includes all items (tabs) in the workbook.

**ARRANGEMENT****0304.75**

Subsidiary schedules are located to the right of their corresponding lead schedules in the AWP Excel file. The Audit Case should include other documents, such as letters and exhibits of general nature, in the proper CRM Attachment type. A schedule or exhibit important enough to be referred to in the AWP should be included in the *Supplementary Documents* in the CRM Notes, select the type of attachment from the dropdown menu, (e.g., XYZ letters, resale certificates).

A hyperlink to the related document or the name of the file should be listed on the schedule for any items attached under Supplementary Documents.

**MISCELLANEOUS COMMENTS AND NOTES****0305.00****NO RECORDS CASES****0305.05**

In cases where records are incomplete or non-existent, it will be necessary to estimate the tax or fee liability based upon the most reliable information the auditor can obtain. *In these instances, the comments should be very detailed and should clearly indicate the method used in estimating the tax or fee liability, why a particular method was used instead of another, and any additional factors tending to confirm the correctness of the auditor's estimate of the tax or fee liability.*

**FLUCTUATION IN SALES OR DEDUCTIONS****0305.10**

Verification comments should always include an explanation of abrupt fluctuations in sales, markups, or in any of the deductions claimed by a taxpayer.

**PURCHASES SUBJECT TO USE TAX****0305.15**

Comments regarding this issue should indicate whether purchases subject to use tax were properly reported.

Comments should always state the general location of the supplier's business. The comments should be particularly clear and complete in those instances where the purchases subject to use tax were made from a California retailer. Any major purchases reported should be fully described on the subsidiary schedule where such purchases are listed.

Auditors need to verify whether the seller paid taxes or did not pay taxes before assessing a liability against the buyer, as further explained in Audit Manual Section 0408.12 – *Audits of Sales Subject to Use Tax*. This can be a PDF of the related schedules in the AWP, the system screen, or other information noted by the auditor to show the other party already reported the tax.

**PURCHASES SUBJECT TO SECTION 6406 CREDIT****0305.17**

RTC section 6406 Tax Credit states that headquarters records this credit on the transcript.

Comments under this section should indicate if the credit was properly claimed. Differences noted in the audit should be explained.

**SALES TAX INCLUDED IN GROSS SALES****0305.20**

Whether a retailer may add sales tax reimbursement to the sales price of the tangible personal property sold at retail to a purchaser depends solely upon the terms of the agreement of sale. Certain presumptions concerning the addition or inclusion of sales tax reimbursement are created by Civil Code section 1656.1. See Regulation 1700(a)(1)&(2).

**PREPAYMENT OF SALES TAX ON MOTOR VEHICLE FUEL (MVF) 0305.22**

A portion of the sales tax, which is ultimately due on the retail sale of MVF, is prepaid at the time of the first taxable distribution of MVF in this state. These prepayments into the “SG” fund are separate from the sales and use tax program and must be verified as part of routine audits of MVF sellers.

**OVERPAYMENTS 0305.25**

Verification comments should be very specific in audits recommending refunds.

**TAX ERRORS ON RETURNS 0305.30**

Any material unexplained differences between the total tax or fee on the transcript and the tax or fee paid by the taxpayer should be commented upon fully by the auditor under the appropriate section in the Verification Comments in the system. Comments should indicate why the differences cannot be explained and their probable nature.

**SPECIAL EXPLANATION 0305.40**

It may be necessary to make comments or explanations on the summary or subsidiary schedules, which are of a kind other than those previously indicated. This type of comment should be made under a heading, which describes the subject matter as precisely as possible.

For example, rental transactions may affect several items on the tax return such as total sales, purchases subject to use tax, or some other deduction. In commenting on rentals, it will often be simpler to discuss all phases of the transactions under the single heading “Rentals” rather than to discuss it in part under a number of separate headings.

**DATING ENTRIES IN AUDIT REPORTS AND WORKING PAPERS 0305.50**

A uniform method of dating entries is to be used in AWP. Dating entries are as follows:

Specific dates are to be entered as: 1/1/2020, 2/19/2020, etc.

Specific months are to be entered as: May 2020, July 2020, etc.

Specific quarters are to be entered as: 1Q-20, 2Q-20, etc.

Specific years are to be entered as: YR20, YR21, etc.

Specific fiscal years are to be entered as: FY20/21, FY21/22, etc.

**DISALLOWED CLAIMED RESALES BASED ON  
STATISTICAL SAMPLING**

**EXHIBIT 1**

DISALLOWED  
CLAIMED RESALES  
BASED ON  
STATISTICAL  
SAMPLING

SCHEDULE 12A  
999-999999  
J SMITH  
4/15/2021

A	B	C	D	E	F	G	H	I
	Blank	<414M>	<12A-1>	(CxD)	<12A-1>	(CxF)	<12A-1>	(CxH)
REF	Period	Claimed Resales	% of ERROR (SLCST)	Disallowed Resales	% of ERROR (149)	Disallowed Resales (149)	% of ERROR (218)	Disallowed Resales (218)
11	1Q-18	71,230	3.757%	2,676	0.945%	673	1.925%	1,371
12	2Q-18	101,780	3.757%	3,824	0.945%	962	1.925%	1,959
13	3Q-18	102,902	3.757%	3,866	0.945%	972	1.925%	1,981
14	4Q-18	145,637	3.757%	5,472	0.945%	1,376	1.925%	2,804
15	1Q-19	115,555	3.757%	4,341	0.945%	1,092	1.925%	2,224
16	2Q-19	128,892	3.757%	4,842	0.945%	1,218	1.925%	2,481
17	3Q-19	109,764	3.757%	4,124	0.945%	1,037	1.925%	2,113
18	4Q-19	122,716	3.757%	4,610	0.945%	1,160	1.925%	2,362
19	1Q-20	91,989	3.757%	3,456	0.945%	869	1.925%	1,771
20	2Q-20	116,593	3.757%	4,380	0.945%	1,102	1.925%	2,244
21	3Q-20	135,575	3.757%	5,094	0.945%	1,281	1.925%	2,610
22	4Q-20	117,614	3.757%	4,419	0.945%	1,111	1.925%	2,264
	TOTAL	<u>1,360,247</u>		<u>51,104</u>		<u>12,853</u>		<u>26,184</u>

PERCENTAGE OF ERROR-CLAIMED RESALES

EXHIBIT 2

PERCENTAGE OF ERROR-CLAIMED RESALES
---

SCHEDULE 12A-1
999-999999
J SMITH
4/15/2021

A	B	C	D	E	F
REF	Description	<Ref>	SLCST	149	218
11	Disallowed Resales	<12A-2>	958	241	491
12	Sample Dollars	<12A-2>	25,500	25,500	25,500
13	Percentage of Error	(L11/L12)	3.757%	0.945%	1.925%
			<12A>	<12A>	<12A>

**Sample comments for “Percentage of Error-Claimed Resales” schedule:**

“Timely resale certificate on file.”

“Resale certificate on file was not timely – Permit Number. Auditor accepted based on customer’s business and check on permit number.”

“XYZ states taxable.”

“No response to XYZ letter and no seller’s permit number of other information provided to support items were resold.”

“XYZ states for resale - Permit Number. Auditor checked permit number which supported for resale as noted on XYZ letter.”

“Taxpayer provided bill of lading to support items were shipped out of state.”

**AUDIT WORKING PAPERS**

**DISALLOWED LABOR EXEMPTION CLAIMED-BASED  
ON ACTUAL EXAMINATION**

**EXHIBIT 3**

DISALLOWED LABOR EXEMPTION CLAIMED-BASED ON ACTUAL EXAMINATION		SCHEDULE 12B		
		999-999999		
		J SMITH		
		4/15/2021		
	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
		<12B-1>	<12B-1>	<12B-1>
REF	PERIOD	QUESTIONED CLAIMED LABOR	DISALLOWED CLAIMED LABOR (SLCST)	DISALLOWED CLAIMED LABOR – (218)
11	1Q18	410	410	410
12	2Q18	74	74	74
13	3Q18	26	26	26
14	4Q18			
15	1Q19			
16	2Q19			
17	3Q19			
18	4Q19	478	478	400
19	1Q20			
20	2Q20			
21	3Q20	254	254	0
22	4Q20	18	18	18
23	<b>TOTAL</b>	<b><u>1,260</u></b>	<b><u>1,260</u></b>	<b><u>928</u></b>

**NOTE:** This should be done using a pivot table in actual AWP.

**Sample comments for “Disallowed Labor Exemption Claimed-Based on Actual Examination” schedule:**

“Labor is for wrapping plastics for wiring consumed by the customer.”

“Fabrication labor to create part requested.”

“Separately stated materials charges included as labor in error.”

“Materials used in repairs. Repair parts were not separately stated and under 10% so amount included at cost as explained in Sales and Use Tax Regulation 1546.”

“Materials used in repairs. Repair parts were not separately stated and over 10% so tax due on retail selling price as explained in Sales and Use Tax Regulation 1546. Auditor computed based on cost plus 25% based on shelf test on Schedule <12B-2a>.”

TAX ACCRUAL RECONCILIATION

TAX ACCRUAL RECONCILIATION			SCHEDULE 12C			
			999-999999			
			J SMITH			
			4/15/2021			
	B	C	D	E	F	G
		<Sales Journal>	<Sales Journal>	(C+D)	<414M>	(E-F)
REF	PERIOD	RECORDED TAX COLLECTED	RECORDED TAX COLLECTED	TOTAL RECORDED TAX	REPORTED TAX PAID	DIFFERENCE
11	1Q18	1,595	2,393	3,988	3,989	-1
12	2Q18	3,202	4,422	7,624	7,624	0
13	3Q18	2,538	3,653	6,191	6,191	0
14	4Q18	3,127	4,688	7,815	7,814	1
15	1Q19	3,500	4,640	8,140	8,140	0
16	2Q19	3,637	5,021	8,658	8,657	1
17	3Q19	3,144	4,716	7,860	7,860	0
18	4Q19	3,296	4,033	7,329	7,332	-3
19	1Q20	3,567	4,924	8,491	8,490	1
20	2Q20	3,189	4,590	7,779	7,779	0
21	3Q20	2,819	4,409	7,228	7,228	0
22	4Q20	3,498	4,638	8,136	8,136	0
23	TOTAL	<u>37,112</u>	<u>52,127</u>	<u>89,239</u>	<u>89,240</u>	<u>-1</u>

<immaterial>

NOTE: This should be done using a pivot table in actual AWP.



**MARKUP ANALYSIS**

**EXHIBIT 5**

MARKUP ANALYSIS		SCHEDULE 12A-2			
		999-999999			
		J SMITH			
		4/15/2021			
	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
					(D+E)
<b>REF</b>	<b>Description</b>	<b>Ref</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
11	Total Sales Ex-Tax	<414M>	721,217	850,589	1,571,806
12	Cost of Goods Sold	<FITR>	531,886	608,530	1,140,416
13	Gross Profit	(L11-L12)	189,331	242,059	431,390
14	Markup	(L13/L12)	35.60%	39.78%	37.83%

**NOTE:** This should be done using a pivot table in actual AWP.