

Audit Manual

Chapter 7

Reaudit Reports and Revised Audit Reports

Business Tax and Fee Department
*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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REAUDIT REPORTS AND REVISED AUDIT REPORTS

0700.00

INTRODUCTION

0701.00

GENERAL

0701.05

Audit reports and field billing orders are prepared on the basis of the best and most accurate information disclosed or made available to the auditor. As discussed in Chapter 2, the audit findings are set forth in the Report of Field Audit (Form CDTFA-414-A) or Field Billing Order (Form CDTFA-414-B). There are instances in which changes to the original recommendations may be ordered by the proper authority because of additional information furnished. This information at times is supplied by the taxpayer in connection with a protest of the audit findings or it may already be contained in the working papers. Resulting adjustments are set forth in revised audit reports or reaudit reports and revised or adjusted field billing orders.

ADMINISTRATIVE PROCEDURES ON ADJUSTMENTS

0701.10

A number of steps are available to a taxpayer to make known their position on items questioned by the auditor. The administrative procedures to protest an audit recommendation or to appeal a Notice of Determination are listed below in the order they will normally be pursued by the taxpayer:

- 1) Consultation with the auditor.
 - During the audit.
 - After completion of the audit.
- 2) Consultation with the auditor's immediate supervisor.
- 3) Discussion with a local representative.
- 4) Petition for redetermination.
 - Furnishing additional records, documents or evidence to district or Headquarters staff.
 - Conference with an attorney or supervising tax auditor from the Appeals Section.
 - Hearing before the California Department of Tax and Fee Administration.
- 5) Payment and claim for refund.
- 6) Litigation or Legal Action.

It is not required that a taxpayer use all of the available appeal procedures. A protest may be resolved or terminated at any level.

Depending upon the level at which an adjustment is substantiated or ordered, the change may be made in the original audit, a revised audit, or a reaudit report. Required changes at Steps (1) and (2) will be incorporated in the original audit report, field determination or field billing order. Adjustments at Step (3) will result from office discussions with the taxpayer resulting from responses to the Form CDTFA-79-A, Audit Transmittal Letter — Taxpayer Disagrees — 10 Days to Respond, and will be submitted on a revised audit or a revised field billing order.

Recommended adjustments and changes at Steps (4), (5), and (6) will be submitted as reaudit reports or adjusted field billing orders.

**DISTINCTION BETWEEN REAUDITS
AND REVISED AUDIT REPORTS**

0702.00

REVISED AUDIT DEFINED

0702.05

A revised audit is defined as a Form CDTFA-414-A that the auditor revised after the taxpayer received the computer-generated copy of the Report of Field Audit but prior to the complete processing of the audit and final approval by the Centralized Review Section.

REAUDIT DEFINED

0702.10

A reaudit is defined as an audit of a period that has been previously audited and for which a Notice of Determination or Notice of Refund was issued.

REVISED FIELD BILLING ORDER DEFINED

0702.15

A revised field billing order is defined as a Form CDTFA-414-B which has been revised by the district after the taxpayer has received the computer-generated copy of the field billing order but prior to the complete processing of the field billing order and final approval by the Centralized Review Section.

ADJUSTED FIELD BILLING ORDER DEFINED

0702.20

An adjusted field billing order is defined as a district recommendation for the adjustment of amounts previously determined based on recommendations submitted on Form CDTFA-414-B for which either a Notice of Determination or a Notice of Refund has been issued.

“Adjusted field billing orders” will be prepared in accordance with procedures set forth for reaudits except that the district’s report will be submitted on Form CDTFA-414-B and labeled “ADJUSTED.” (See Exhibit 7)

REAUDITS AND ADJUSTMENTS

0702.25

The law provides that a taxpayer against whom a determination was made may petition for a redetermination. A petition for redetermination, late protest, claim for refund or similar action by a taxpayer may result in the preparation of a reaudit or an adjusted field billing order. Reaudit and adjustment recommendations which decrease the proposed determination in excess of \$50,000 in tax must be presented to CDTFA for approval. Increases to non-final determinations are controlled by Revenue and Taxation Code section 6563. Increases to determinations which are final require the issuance of a new determination for periods which have not expired due to the statute of limitations. Therefore, instructions in this chapter should be followed closely so that reaudit reports or adjusted field billing orders will be prepared uniformly in the manner best suited for review by those who must approve them.

TRANSMITTAL AND PROCESSING OF ADJUSTED REPORTS

0702.30

Revised audit reports should be included in the regular audit transmittal as original audit items. Reaudit reports and adjusted field billing orders should be transmitted separately.

Headquarters review and processing of revised audit reports is the responsibility of the Centralized Review Section. Centralized Review is also responsible for the preliminary review of all reaudits and adjusted field billing orders. The Petitions Section is responsible for the final review and processing of reaudit reports involving petitions for redetermination, late protests, and claims for refund accompanying related petitioned cases. Replies to any Headquarters’ request for additional information, or further investigation, should be made directly to the section involved as soon as possible to ensure prompt and efficient handling of all petitions for redetermination and claims for refund.

SOURCE OF REAUDITS**0703.00****PROTEST OF ORIGINAL AUDIT FINDINGS****0703.05**

For the most part, reaudits result from the taxpayer's protest of the original audit findings. When this protest is registered by telephone or personal contact, the taxpayer should be requested to explain the specific basis of protest in writing without delay.

Written protests that may result in a reaudit fall into the following general categories:

- a) **Petition for Redetermination.** Received after issuance of Notice of Determination and prior to the date it becomes final (30 days after Notice). Note that a petition received prior to the Notice of Determination will not be accepted as a valid petition for redetermination. In this case, the taxpayer should be informed to file their petition after the Notice of Determination has been received. In the case of split audit periods or billings (e.g. phone billing for a period expiring under statute), the taxpayer should be informed that it is necessary to file separate petitions for redetermination for each Notice of Determination. This would also include Notices of Determination with respect to dual determinations.
- b) **Claim for Refund.** Received after the determination becomes final and is paid.
- c) **Late Protest.** Received after the determination has become final, but is not paid.

When petitions for redetermination, late protests, or claims for refund are received in the district from taxpayers, the original documents, including the envelope in which they were received, will be forwarded to the appropriate Headquarters section without delay, together with any supplementary information or district recommendations.

HEADQUARTERS RESPONSIBILITY**0703.10**

Control of petitions for redetermination and late protests, establishment of petition files, and initiation of action to withhold collection rests with the Headquarters' Petitions Section. The Headquarters' Refund Section controls claims for refund.

When petitions for redetermination, late protests, or claims for refund are received in Headquarters, either directly from the taxpayer or from the district, the appropriate section will send an acknowledgment to the taxpayer or the taxpayer's representative with a copy to the district office involved. If further information is needed from the district, the request will be made on the district copy.

A request for reaudit may originate in Headquarters by reason of correspondence with the taxpayer, a review of the case by the Petitions Section, or by a recommendation by the Appeals Section. In such cases, Headquarters will write or submit a report (e.g., Decision and Recommendation) to the district, outlining the taxpayer's contentions, commenting on matters relevant to the points at issue, and recommending that a reaudit be made.

DISTRICT RESPONSIBILITY

0703.15

In certain instances, reaudits may originate in a district since information indicating the need for adjustment is sometimes received by the district. In situations where a district discovers information that indicates an audit assessment and related billing may be incorrect, the district must first determine if the taxpayer has submitted a settlement proposal. If the district has received a copy of a settlement acknowledgement letter, or if the Appeals Subsystem PR screen is marked with “Set” in the Appeals Case Type, the district must first contact the Settlement Section before taking any further action (0703.18). If the audit is not being reviewed by the Settlement Section, and in the opinion of the proper district authority, a reaudit is required in a particular case, it will not be necessary to first obtain authorization from Headquarters. However, the original petition letter should be forwarded to the Headquarters’ Petitions Section with a memo explaining that a reaudit action is in process. When the reaudit is initiated by the district before the determination becomes final, a petition for redetermination must be secured and immediately forwarded to the Headquarters’ Petitions Section.

Where the matter is referred to the district by a footnote on the district copy of Headquarters’ petition acknowledgment letter requesting a recommendation, a reaudit may also originate in the district. In such cases, the proper district authority must authorize the reaudit.

SETTLEMENT CASES

0703.18

When district staff has determined that an audit is being reviewed by the Settlement Section, the district must contact the Settlement Section in writing requesting the status of the settlement negotiations. The Settlement Section will decide if it would be appropriate to return the audit to the district office for additional audit/investigation work. The Settlement Section will inform the district office of this decision by written memo. If the Settlement Section determines it is not appropriate to return the audit, no further action will be taken by the district. If it is determined that the audit will be returned, the district should take the proper steps to obtain the AWP’s from the appropriate headquarters section.

CREDITS IN REAUDITS WHEN DETERMINATION IS FINAL

0703.20

If a determination becomes final, a refund of any overpayment(s) disclosed as the result of a reaudit may be barred by the running of the Statute of Limitations. Accordingly, in a reaudit of an account where such a determination has been fully or partially paid before completion of a reaudit recommending a downward revision in the measure of tax, *the auditor should secure a claim for refund as soon as possible to cover any resulting overpayment and make an appropriate entry on Form CDTFA-414-Z, Assignment Contact History.*

CREDITS IN REAUDITS WHEN DETERMINATION IS NOT FINAL

0703.25

If a determination has not become final (e.g., petitioned liability) and a reaudit indicates there is a credit measure either for any individual item or in any period not originally covered by a claim for refund, *a claim for refund should be immediately secured from the taxpayer and an appropriate entry documenting the potential credit and claim should be made on form CDTFA-414-Z.*

SPECIAL CONSIDERATIONS ON A REAUDIT ASSIGNMENT 0704.00

PRIORITY OF REAUDIT ASSIGNMENTS 0704.05

Every effort should be made to complete reaudit assignments promptly. **All auditors receiving reaudit assignments** (normally the auditor who made the original audit) **should give such assignments priority over routine work.**

EXTENT OF WORK ON REAUDITS 0704.10

The extent of reaudit work will vary according to the circumstances. For example, a thorough examination must be made where a different method is being used to calculate total sales; in other instances, it may only be necessary to conduct a brief examination, such as inspecting a contract to determine the place where title passed. In any situation where the auditor is in doubt, the auditor should consult with the auditor's supervisor.

Auditors should review the Decision & Recommendation (D&R) or Report of Discussion for areas authorized for adjustment. In some instances, it may be necessary, obtain a supplemental D&R or Report of Discussion for changes not previously authorized.

REAUDIT FOR SAME PERIOD AS ORIGINAL AUDIT 0704.15

A reaudit **must** cover exactly the same period as the original audit report. A **separate report will be prepared** when an audit of another period is made in conjunction with a reaudit.

ORIGINAL AUDIT PAPERS TO BE UNCHANGED 0704.20

It should be emphasized that all papers prepared in the original audit **must be retained unchanged**, except that the face of the original audit report form should be marked "Superseded by Reaudit dated_____." (See Exhibit 3)

ASSIGNMENT CONTACT HISTORY (FORM CDTFA-414-Z) 0704.25

Immediately upon receiving a petition or claim for refund case in the district which necessitates a reaudit, the respective District Principal Auditor or District Compliance Supervisor, as appropriate, shall initiate preparation of an Assignment Contact History (CDTFA-414-Z). The first date/activity reflected on this report should correspond to the date the case was charged to the district. Once initiated, the Assignment Contact History shall be maintained to provide a chronology of activity/significant events during the course of processing. Supervisors shall continue to monitor progress on these assignments to ensure proper handling and recognition of priority. In addition, District Administrators shall follow-up with their Principal Auditors on a monthly basis to review the progress in processing these cases.

ASSIGNMENT CONTACT HISTORY (FORM CDTFA-414-Z)

(CONT.) 0704.25

Established threshold levels (Section 0221.15) apply only to assignments originating in the districts. They do not apply to petition or claim for refund cases received by districts from either the Petitions Section or Refund Section. Districts will continue to follow both the Petitions Section's and the Refund Section's established procedures and response times for submitting assignments and status reports to these Headquarters sections. If the Petitions Section receives a petition for redetermination and requests that the district investigate the taxpayer's contentions, the district is generally allowed 60 days to complete the assignment (90 days for the Out-of-State District). District management should utilize the Assignment Contact History to ensure timely processing. When a district receives a request for a status report from the Petitions Section, it will attach a current copy of the Assignment Contact History for that case to the status report. The Assignment Contact History will accompany, but not replace, the information normally provided on status reports (i.e. what has been done, what remains to be done, and a reasonable estimated completion date).

If the Refund Section sends an assignment to a district for investigation, the district is generally allowed six months to complete the assignment or provide a status report to the Refund Section. District management should use the Assignment Contact History to ensure timely processing. When a district receives a request for a status report from the Refund Section, it will attach a current copy of the Assignment Contact History for that case to the status report. The Assignment Contact History will accompany, but not replace, the information normally provided on status reports (i.e. what has been done, what remains to be done, and a reasonable estimated completion date).

In further recognition of the importance of processing Petitions and Claims on a priority basis, cases should be prioritized based on the age of the periods involved.

**ARRANGEMENT OF COMPLETED REAUDITS
AND ADJUSTED FIELD BILLING ORDERS**

0704.30

The documents constituting the field reaudit report and adjusted field billing order will be fastened together at the upper left-hand corner in the order shown in the following table. Reaudits and adjusted field billing orders transmitted to Headquarters Centralized Review Section should be broken down into three basic components:

- 1) "Headquarters Packet" that will be forwarded for appropriate billing and distribution. This packet should contain original documents (when available) and be attached to the top of the "Audit Packet" for each individual audit.
- 2) "Audit Packet" that will be returned to the district after processing.
- 3) "Original Audit Packet" that includes all original audit working papers unchanged.

Note that not all forms will be used with every audit. Inapplicable forms may be disregarded.

REAUDIT REPORTS AND REVISED AUDIT REPORTS

**ARRANGEMENT OF COMPILED REAUDITS
AND ADJUSTED FIELD BILLING ORDERS**

(CONT.) 0704.30

Headquarters Packet

Form	Description	Comments
System-Generated Revised Audit Report	Revised Audit Report	Mark "HQ" in red lower right hand corner. Includes 414-A1 — Tax, Interest, and Penalty.
BT-197	Cooperative Hours	
414-A, pg. 2	Discussion of Audit Findings	Separate typed schedule
System-Generated Audit Report	Superseded Audit Report	
None	Administrator's Letter	Fraud or Jeopardy
CDTFA-836-A	Results of Discussion	DPA audit discussion
None	Taxpayer's Petition	If audit phone billed
CDTFA-122	Waiver of Limitation	Power of Attorney
CDTFA-101	Claim for Refund	Expiring periods and net refunds
21-G4	Sales Tax Paid to SG Sellers	MVF Adjustments
FTB	FTB Attachments	System-Generated Report, Transcript, Sch. 12, etc.
CDTFA-414-L	Local Tax Allocation	
CDTFA-526	Managed Audit Program Participation Agreement	
CDTFA-1151	Statistical Sampling Form	

Audit Packet

Form	Description	Comments
System-Generated Revised Audit Report	Revised Audit Report	CDTFA-414-C goes after CDTFA-79 letter in "NO CHANGE" audits. Includes 414-A1 — Tax, Interest, and Penalty.
BT-197	Cooperative Hours	
CDTFA-79 (C1, etc.)	Letter to Taxpayer	
414-A, pg. 2	Discussion of Audit Findings	Separate typed schedule
DIF-DA	Audit Payment Information	
None	Administrator's Letter	Fraud or Jeopardy
CDTFA-836-A	Results of Discussion	DPA audit discussion
None	Taxpayer's Petition	If phone billed
CDTFA-122	Waiver of Limitation	Power of Attorney
CDTFA-101	Claim for Refund	Expiring periods and net refunds
21-G4	Sales Tax Paid to SG Sellers	MVF Adjustments
CDTFA-414-L	Local Tax Allocation	
CDTFA-526	Managed Audit Program Participation Agreement	
CDTFA-1151	Statistical Sampling Form	
CDTFA-495	Index	For ALL Audits
CDTFA-414-Z	Assignment Contact History	Prepared for ALL Audits
CDTFA-414-Z1	Assignment Status Reports	Prepared as needed
R12, etc	Reaudit Working Papers	Arrange in numerical sequence

PREPARATION OF FORMS FOR REAUDITS OR ADJUSTED FIELD BILLING ORDERS **0705.00**

REAUDIT REPORT DEFINED **0705.05**

The term “reaudit report” refers to the report submitted by the district to Headquarters. It normally will consist of the appropriate system generated Report of Field Audit — Reaudit report and Sales Tax Calculation Summary showing the quarterly or monthly tax, interest, and penalty. In addition, the reaudit report sent to Headquarters will include schedules reconciling the reaudit findings with the measure of tax determined in the original audit, prior revised audit, or prior reaudit, together with the auditor’s comments supporting the recommended adjustments. Documents necessary to support the recommended adjustments shall also be included. Supporting work papers detailing the reaudit adjustments should be retained in the district after they are returned by the Centralized Review Section or the Petitions Section.

ADJUSTED REPORT DEFINED **0705.07**

The term “adjusted report” refers to the report submitted by the district to Headquarters. It normally will consist of the Form CDTFA-414-B and schedules reconciling the differences between the original recommendation and the adjusted recommendation. Subsidiary schedules similar to those described in Section 0705.05 shall be included.

COMPLETION OF FORM CDTFA-414-B **0705.08**

When preparing Form CDTFA-414-B, the word “*ADJUSTED*” should be written in red at the top of the preliminary report. Also, the notation, “*This Adjusted Field Billing Order supersedes Field Billing Order dated _____*” should be written in the lower portion of the front of the form. (See Exhibit 7) Since Form CDTFA-414-B is similar to Form CDTFA-414-A, the instructions given for the preparation of Form CDTFA-414-A apply to similar items on Form CDTFA-414-B.

FRONT OF FORM CDTFA-414-A **0705.10**

The front of the reaudit report form will be prepared in the same manner as for regular audit reports. Even when the measure of tax from the original audit is reduced to zero, all category descriptions and item numbers from the original audit must be shown as part of the reaudit. This will facilitate the automated reconciliation of measure of tax between the original and reaudit by non-compliance code. (See Exhibit 1.)

The word “REAUDIT” should be written in red at the top of the preliminary report. The notation “This reaudit supersedes audit dated _____” should be written in the lower portion of the form. When it is necessary to make an additional reaudit, the notation “This (second) reaudit supersedes (first) reaudit dated _____” will be written in the lower portion of the form. (See Section 0709.10 for revised audit notation.)

COMPUTATION OF INTEREST **0705.45**

Interest should be computed in accordance with Chapter 2 Section 0217.00.

BACK OF FORM CDTFA-414-A **0705.50**

Except for the “General Comments” section, the back of the audit report form will be completed according to instructions in Chapter 2 Section 0205.00 and as noted in the following two sections (0705.55 & 0705.60).

REAUDIT HOURS **0705.55**

The space for “No. of Hours” should show reaudit time only. Hours spent on the original audit should not be included.

FURNISHING COPIES OF REAUDIT REPORTS TO TAXPAYERS

0705.60

A copy of the system-generated reaudit report will be mailed to the taxpayer after the reaudit has been completed by the district. In addition, as indicated in Section 0707.05, a copy of the “Reconciliation and Explanation of Reaudit Adjustments” schedule will be sent to the taxpayer. Additionally, the taxpayer should be provided copies of all reaudit schedules, and they should be clearly marked “copy provided/sent to taxpayer on *(date)*.”

In most cases, one of the following CDTFA–89 series form letters should be used for transmitting copies of reaudits or adjusted field billing orders to taxpayers or their representatives:

SITUATION	TRUE PETITION, CLAIM FOR REFUND OR LATE PROTEST ACCEPTED BY HQ	LATE PROTEST NOT ACCEPTED BY HEADQUARTERS
District wants taxpayer to reply to them rather than Headquarters in the event of further protest	CDTFA-89-A	CDTFA-89-A1
Taxpayer disagrees and wants a conference	CDTFA-89-B	CDTFA-89-F
Taxpayer disagrees and does not want a conference	CDTFA-89-E	CDTFA-89-F
Taxpayer concurs and a conference is not desired	CDTFA-89-C	CDTFA-89-C1
Taxpayer is noncommittal or the results were not discussed	CDTFA-89-D	CDTFA-89-F
Adjustment results in an increase in sum of tax and penalty over amount originally determined	CDTFA-89-E	CDTFA-89-E
Reaudit prepared pursuant to instruction in the Decision and Recommendation	CDTFA-89-G	N/A

If one of the above Form CDTFA–89 letters is not appropriate, then a “special” transmittal letter should be sent to the taxpayer and should cover the following areas:

- Confirmation of the district’s understanding of whether or not the taxpayer concurs with the recommendation.
- If the taxpayer’s position is unknown, or a discussion could not be held, the taxpayer should be advised to notify Headquarters of their position by a specific date if the taxpayer does not concur with the recommendation.
- The taxpayer should be advised that the recommendation is subject to Headquarters review. The type of Form CDTFA–89 letter to be used to mail the report should be shown on the back of the Form CDTFA–414–A or CDTFA–414–B. A copy of the transmittal letter sent to the taxpayer should be attached to the reaudit when it is transmitted to Headquarters.

FURNISHING COPIES OF REPORTS TO TAXPAYER’S REPRESENTATIVE 0705.65

A copy of the reaudit report or adjusted field billing order will be furnished to the taxpayer’s representative (attorney, accountant, etc.) in all petition, protest and claim for refund cases. Appropriate mailing instructions should appear at the bottom of the face of Form CDTFA–414–A or CDTFA–414–B, including the representative’s TIN (Taxpayer Identification Number).

AUDITOR’S COMMENTS ON A REAUDIT

0706.00

TYPES OF COMMENTS

0706.05

In the space under “General Comments,” it will not be necessary to rewrite the descriptive comments appearing on the original audit. *However, reaudits require four different general comments.* These general comments, and their acronyms, include:

- Reason for Reaudit (RFR)
- Reference to Authority Authorizing Reaudit (RAA)
- Taxpayer’s Contentions (TPC)
- Reaudit Findings and Related Comments (RFC)

The acronyms are used to identify general comment headings in the processing of the CDTFA–414–A. A complete list of acronyms can be found on the AUD GC screen.

REASON FOR REAUDIT (RFR)

0706.07

This comment identifies the reason for the reaudit. The taxpayer must request a redetermination of a previously issued Notice of Determination before a reaudit can be ordered. Examples of this comment include:

- Taxpayer filed a timely petition for redetermination of liability determined (date of Notice of Determination) as recommended by audit dated (date).
- Taxpayer filed a claim for refund of liability determined (date of Notice of Determination) as recommended by audit dated (date).
- Taxpayer filed a late protest objecting to the liability determined (date of Notice of Determination) as recommended by audit dated (date).

REFERENCE TO AUTHORITY AUTHORIZING REAUDIT (RAA)

0706.10

This comment identifies the authority authorizing the adjustment(s) to be made in the reaudit. An adjustment may be ordered as a result of the discussion. Examples of this comment include:

- Taxpayer discussed the determination with (name of Appeals representative) who ordered changes per Decision and Recommendation dated (date).
- Taxpayer discussed the determination with (name of district representative) who ordered changes per Report of Discussion of Audit Findings dated (date).

TAXPAYER'S CONTENTIONS (TPC)**0706.15**

This comment identifies the item(s) and reason why the taxpayer does not agree with the Notice of Determination. The taxpayer's contentions are generally the issues discussed before the Appeals or district representative. Examples of this comment include:

- Item (number as shown on the face of the report) — Taxpayer obtained additional XYZ responses from customers and is of the opinion that the amount of disallowed claimed sales for resale should be reduced.
- Penalty — The taxpayer is of the opinion that the negligence penalty for incomplete books and records does not apply. The taxpayer claims the records are complete and can be relied upon for sales and use tax purposes.

A reaudit may be ordered as a result of a Decision and Recommendation (D&R). If the D&R identifies the taxpayer's contentions, it is not necessary to restate them. However, the Taxpayer's Contentions comment is still required. If this situation exists, the comment should read:

“See attached copy of Decision and Recommendation for taxpayer's contentions.”

REAUDIT FINDINGS AND RELATED COMMENTS (RFC)**0706.20**

The auditor's findings, upon investigation of the taxpayer's contentions, should be briefly stated under this heading.

When more than one audit adjustment is found to be in order, the detailed comments explaining the reaudit adjustments should be shown on a Reconciliation and Explanation of Reaudit Adjustments Schedule. (See Section 0707.05.) In such instances, a statement similar to the following will be made under this heading:

“Reaudit adjustments with respect to items 1, 2, and 3 above are explained on schedule R(#)-414-A2.” (See sections 0707.15 and 0707.30 regarding numbering either the revision or reaudit.)

If changes are recommended that are not contained in the original Decision and Recommendation or Report of Discussion of Audit Findings (CDTFA-836-A), they must be fully explained. *Care should be taken to obtain either a Supplemental Decision and Recommendation or a Supplemental Report of Discussion of Audit Findings Report from the appropriate authority documenting the adjustments allowed.*

In addition, appropriate comments should be made by the auditor under this heading regarding those items questioned by the taxpayer but not adjusted in the reaudit.

SPECIFIC COMMENTS**0706.30**

Where the auditor's findings cannot be fully explained by means of the standard comments described in the previous sections, additional comments should be included as required. The auditor will provide a title to the additional comment(s) along with the MS1, generic comment, acronym. An example of this type of comment is as follows:

Waiver of Hearing (MS1)

The taxpayer disagrees with the reaudit adjustments and has not previously requested a formal hearing. The taxpayer wishes to waive the right to a formal hearing.

Care must be taken to ensure that all questions and issues raised by the taxpayer or Headquarters are fully covered in the comments area or on supporting schedules.

**DISCUSSION OF REAUDIT FINDINGS AND
REFERENCE TO WAIVER OF HEARING**

0706.35

Upon completion of the reaudit, the results should be reviewed with the taxpayer in the same manner as would be followed upon completion of an original audit. *If the taxpayer is still in disagreement with any portion of the reaudit results, a separate schedule similar to the one used for original audits should be prepared itemizing the taxpayer's contentions and the auditor's position (See Exhibit 6). This schedule should be titled "Results of Discussion of Reaudit Findings."* The information on this schedule is used by the Petitions Section in summarizing the protested items.

Whenever the taxpayer is in agreement with the reaudit findings and had requested a formal hearing in a timely petition for redetermination, the auditor **must comment** on whether a formal hearing is still desired. The auditor will comment as follows (See Exhibit 1):

"The taxpayer agrees with the reaudit adjustments. Taxpayer wishes to waive the right to a formal hearing that was previously requested."

When a taxpayer, who has filed a timely petition for redetermination, does not agree with the reaudit recommendations and did not request a formal hearing in the original petition or by subsequent correspondence, *the auditor is to determine whether a formal hearing is desired concerning the items of disagreement and then proceed as follows:*

- a) *If the taxpayer wants a hearing, a written request should be secured from the taxpayer and forwarded to Headquarters with the reaudit. The taxpayer's specific reasons for disputing the reaudit findings should be noted in general on the back of the reaudit report and in detail on the "Results of Discussion of Reaudit Findings" schedule.*
- b) *If the taxpayer disagrees with the reaudit findings but does not want a formal hearing, the auditor should so state. In addition, the reason why the taxpayer does not concur should be noted in general on the back of the reaudit report form and in detail on the "Results of Discussion of Reaudit Findings" schedule.*
- c) *If the taxpayer is noncommittal, or fails to submit a written request for a hearing at the time of the reaudit, he or she may still be able to request a hearing if it is within 30 days of the date of the letter transmitting the Appeals Section's Decision and Recommendation.*

DISCUSSION OF REAUDIT FINDINGS BASED UPON A LATE PROTEST 0706.40

A ten percent penalty attaches to all determinations not paid before their finality date unless a timely petition for redetermination has been filed by the taxpayer or an extension is granted under Section 6459 of the Law. *In a reaudit of an account where an unpaid determination has become final, the auditor **will advise** the taxpayer that in addition to the amount shown to be due by the reaudit report, a finality penalty in an amount equal to ten percent of the unpaid tax recommended in the reaudit will be added by Headquarters. (See Exhibit 1.)*

RECONCILIATION WITH ORIGINAL AUDIT**0707.00****RECONCILIATION AND EXPLANATION OF REAUDIT ADJUSTMENTS****0707.05**

*In order to reconcile the reaudit findings with the measure of tax determined as the result of the original audit, revised audit, or prior reaudit, a "Reconciliation and Explanation of Reaudit Adjustments" schedule **must be prepared** for every reaudit report with a copy furnished to Headquarters and to the taxpayer (Exhibit 2). It will be used by the auditor as a means of summarizing, reconciling, and explaining the reaudit adjustments. The auditor's detailed comments explaining the basis for both the reaudit adjustments and those areas protested for which no adjustments are recommended will be shown on the reconciliation schedule.*

SUPPORTING SCHEDULES**0707.15**

When the reaudit is complex and many adjustments are necessary, other supporting schedules will be required. These should be grouped and numbered in the same manner as the working papers in the original audit, but with a prefix "R(#)" shown before all schedule numbers. Thus, the first reaudit would use prefix "R1," second reaudit would use prefix "R2," etc. It is to be noted, however, that while the supporting schedules for a reaudit should develop the reaudit adjustments, these adjustments are applied to the original audit differences on the reconciliation schedule [R(#)414-A2 (Exhibit 2)].

Additionally, if any portion of the reaudit liability is based upon either an original or adjusted statistical sample, the auditor will prepare a statistical sample evaluation, both within the audit working papers and also on Schedule CDTFA-1151. Also, upload schedules need to be prepared for uploading reaudit differences in the system. Once the upload disk is prepared, the schedules should be superseded and placed in the back of the reaudit.

WHERE NO ADJUSTMENT MADE TO ORIGINAL AUDIT FINDINGS**0707.20**

If the reaudit develops no basis for adjustment of the original audit findings, it will not be necessary to submit a Report of Field Audit form. *A report should be made to Headquarters' Petitions Section in letter form containing the recommendation that no adjustment be made, and setting forth in detail the reason(s) for the recommendation.*

REAUDITS RESULTING IN A "NO-CHANGE" RECOMMENDATION**0707.25**

When the original recommendations are canceled in their entirety and the findings reduced to "\$O" in the reaudit, the auditor must submit such recommendations on Form CDTFA-414-A rather than on Form CDTFA-414-C.

MORE THAN ONE REAUDIT**0707.30**

When it is necessary to make additional reaudits, supporting schedules will be identified with a prefix of "R1, R2, R3, etc.," ("R1" = first reaudit, "R2" = second reaudit, etc.) depending upon the number of reaudits being performed. (Note: Revised audits should use the prefix (#)R; thus "1R" would be the prefix for the first revised audit, "2R" would be the prefix for the second revised audit, etc.) All supporting schedules should be grouped and numbered in the same manner as the original audit. A reconciliation schedule will be prepared to reconcile the reaudit or revision adjustments with the measure established in the previous reaudit, revised audit, or original audit.

SOURCE OF REVISED AUDITS

0708.00

REVISIONS ORIGINATING IN DISTRICTS

0708.05

Revised audits originate in the district office as a result of instructions issued by the proper authority when in their opinion additional information is available to warrant adjustment(s) to the original audit report. Generally, the information is obtained when the taxpayer responds to the CDTFA-79-A letter. As per Section 0702.05, a revised audit is made only if the original audit report has not been completely processed with final approval given by the Centralized Review Section.

REVISIONS ORIGINATING IN HEADQUARTERS

0708.10

At times, after an audit report has been transmitted by the district, information will come to the attention of Headquarters that will warrant a change in the findings. When this occurs before final approval, Headquarters' Centralized Review Section may return the audit report with instructions to prepare a revised audit.

PREPARATION OF THE REVISED AUDIT REPORTS 0709.00

STANDARDS TO BE USED 0709.05

Revised audit reports should be made by the same standards employed in preparing other audit reports. *Assignments should be completed promptly.*

REVISED AUDIT REPORTS 0709.10

A revised audit report will be submitted to Headquarters as though it were an original audit. It will consist in part of the appropriate Report of Field Audit form, the face of which is to be completed in the same manner as a regular audit. However, when measure from the original audit is reduced to zero, all category descriptions and item numbers from the original audit must be shown as part of the revised audit. This will allow the system to reconcile the measure between the original and revised audit by non-compliance code.

The word "REVISED" should be written in red at the top of the preliminary report. The notation, "This revised audit supersedes audit/revised audit #() dated _____" should be written in the lower portion of the form. (See Section 0705.10.) The balance of the report transmitted to Headquarters will consist of a copy of the original audit report and any schedules or documents already designated for Sacramento, together with the authority for the change such as the district CDTFA-836-A, "Report of Discussion of Audit Findings." The same procedure applies to Revised FBO's.

BACK OF THE FORM CDTFA-414-A, REVISED AUDIT 0709.15

The auditor will enter his or her name in the manner provided in Section 0205.10 and complete all spaces and questions. General comments appearing on the original audit report are not to be repeated. (See Exhibit 4)

AUDIT HOURS 0709.20

The space for "No. of Hours" should show in **total the hours spent on the original audit including the hours spent in making the revision.**

GENERAL COMMENTS — REVISED AUDIT REPORT 0709.25

The auditor will complete this section on the reverse of the CDTFA-414-A under the caption "Reason For Revised Audit (R4R) with a minimum of the following statements:

- a) Reference to the Form CDTFA-79-A letter mailed (dated).
- b) Reference to Report of Discussion of Audit Findings or other authority for change.

Example:

Reason For Revised Audit (R4R)

Form CDTFA-79-A letter mailed 2-4-99.

See CDTFA-836-A, "Report of Discussion of Audit Findings" attached.

Note: When a revised audit is created in the system, the original audit general comments are retained. Since all the general comments will reprint on the revised audit report, auditors only need to add the comment under caption "Reason For Revised Audit (R4R)" described above without making reference to general comments on the original audit report.

ORIGINAL AUDIT PAPERS TO BE UNCHANGED

0709.30

When preparing a revised audit, *it should be emphasized that all working papers prepared in the original audit must be retained and unchanged. However, the original Report of Field Audit and CDTFAs-414-A should be marked "Superseded by Revised Audit dated_".* (See Exhibit 6)

Any adjustments to the original audit will be shown on a reconciliation schedule similar to that prepared for reaudits. This schedule will be retained with the revised audit work papers. (See Exhibit 5)

SUPPORTING SCHEDULES

0709.35

If the revision is complex, and many adjustments are necessary, other supporting schedules will be required. These should be identified with an "(#)R" prefix (as previously mentioned in section 0707.30). Prefix "1R" would be for the first revised audit, "2R" for the second revised audit, etc. The revised audit schedules should be grouped and numbered to conform with the original working papers.

REVISED FIELD BILLING ORDERS

0709.40

The same general instructions and procedures that apply to the completion of revised audit reports apply to revised FBOs.

ARRANGEMENT OF COMPLETED REVISED AUDITS AND FBOS

0709.50

Revised audits and FBOs transmitted to Headquarters' Centralized Review Section should be broken down into three basic components:

1. "Headquarters Packet" that will be forwarded for appropriate billing and distribution. This packet should contain original documents (when available) and be attached to the top of the "Audit Packet" for each individual audit.
2. "Audit Packet" that will be returned to district after processing.
3. "Original Audit Packet" that includes all original audit working papers unchanged.

Note that not all forms will be used with every audit. Inapplicable forms may be disregarded.

Table of Exhibits

Sample Sales Tax Reaudit Reports.....	Exhibit 1
Reconciliation and Explanation of	
Reaudit Adjustments [R(#)-414-A2]	Exhibit 2
Form CDTFA-414-A-1 — Original Audit.....	Exhibit 3
Sample Sales Tax Revised Audit Reports	
Form CDTFA-414-A-Revised Audit.....	Exhibit 4
Reconciliation and Explanation of	
Revision Adjustments [(#)R-414-A2]	Exhibit 5
Form CDTFA-414-A- Original Audit & Schedule 414-A,	Exhibit 6
Sample Adjusted Field Billing Order	
Form CDTFA-414-B — Adjusted Field Billing Order.....	Exhibit 7

REAUDIT REPORTS AND REVISED AUDIT REPORTS

SAMPLE SALES TAX REAUDIT REPORTS
FORM CDTFA-414-A-REAUDIT REPORT

EXHIBIT 1
PAGE 1 OF 3

FIRST REAUDIT

California Department of Tax and Fee Administration

**REPORT OF
FIELD AUDIT**

USE TAXES

SOURCE	ACCOUNT NUMBER	CASE ID	STATUS	
1	SR GH 026-725321	23733	<input checked="" type="checkbox"/> <input type="checkbox"/>	0-01 1-01

B.A.	2362 Winchester Blvd., Suite 153	DATE OF REPORT	AREA CODE	BUS. CODE
		September 30, 1999	43060-038-0002	86
FIRM NAME	XYZ Computers	EXTRA COPIES		
OWNER	Megabytes and Gigabytes Inc.			
M.A.	Post Office Box 1527			
	San Jose, CA 95322-1527			

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1998	TAX	INTEREST TO - 11-30-99	PENALTY **	TOTAL
TOTAL	11,423.28		1,142.33	
CREDITS/DEBITS:				
BALANCE				

** Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED
 (SEE R1-414-A FRONT, PAGE 2 ATTACHED)

This Reaudit supersedes audit dated 2-19-1999.

N-A	VAR. BLURB	SCHED	I. M. Goode	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH
			NAME OF AUDITOR				

AUDIT MANUAL

SAMPLE SALES TAX REAUDIT REPORTS FROM CDTFA-414-A - REAUDIT REPORT

EXHIBIT 1
PAGE 2 OF 3

FIRST REAUDIT

CDTFA-414-A (FRONT) PAGE 2

PERMIT NO. SR GH 026-725321
CASE ID. 23733
AUDITOR: I. M. Goode
DATE OF REPORT: September 30, 1999

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>SCCT</u>	<u>SCGF</u>
1. Purchases of Fixed Assets from Out-of-State vendors subject to use tax - actual basis.	0201	\$82,987	\$96,988	\$19,852
2. on 5.35% of error as developed by statistical sample.	0201	0	0	0
3. Sales for resale >\$5,000 disallowed - actual basis.	0403	54,313	32,147	0
4. Cost of self-consumed merchandise subject to tax - actual basis.	0202	9,263	9,263	1,241
TOTAL		<u>\$146,563</u>	<u>\$138,398</u>	<u>\$21,093</u>

REAUDIT REPORTS AND REVISED AUDIT REPORTS

SAMPLE SALES TAX REAUDIT REPORTS FROM CDTFA-414-A - REAUDIT REPORT

**EXHIBIT 1
PAGE 3 OF 3**

ACCOUNT NUMBER		CASE ID.
SR	GH	026-725321
		23733
I.D.	CLASS	AUDIT MADE BY
1234	3	I. M. Goode

LEGAL TAX CLEARANCE

Office Making Audit Code GH

Recovery Group Year 99

Cell 4D Recovery Group Code C

Supervisor: _____

Reviewed By: _____

Date of Review: _____

8.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 23512

Name and title of taxpayer or representative with whom discussed _____ Mr. Charles L. Pierson, President

Telephone (408) 296-5369

Did he/she concur? Yes A copy of this report was Furnished Mailed With CDTFA-89-C letter. If not, explain below.

If close-out, give name and account no. of successor _____

If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? _____ If so, is waiver attached? Yes No Period _____ Expires _____

No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? Yes No BT-502 prepared? Yes No

List other Related accounts None

Have concurrent audits or waivers been made? _____ if not, explain below.

Unverified tax payments (AM 0205.6) _____

Directives (_____) sent (_____) handed to taxpayer _____

Cigarette Indicia Inspection No cigarettes purchased or sold

General Comments:

REASON FOR REAUDIT (RFR):
The taxpayer filed a timely Petition for Redetermination of liability determined March 10, 1999 as recommended by audit dated February 19, 1999.

REFERENCE TO AUTHORITY AUTHORIZING REAUDIT (RAA):
Mr. Charles L. Pierson, President and representative Sylvania L. Bulb, CPA, discussed the determination with Appeals Staff Counsel, J. M. Fisher, who ordered changes per Decision and Recommendation Report dated June 15, 1999.

TAXPAYER'S CONTENTIONS (TPC):

- All of the supplies included in the test (Audit item 2) were tax-paid to the vendor or directly to the State. Purchase invoices have been located to substantiate that tax was paid to a permitized vendor. Also, the general ledger, sales tax return working papers, and copies of the sales and use tax returns were located to substantiate tax was paid directly to the State.
- Two of the disallowed resales (Audit item 3) should be allowed based upon XYZ letter responses received since the original audit was completed.
- The 10% negligence penalty should not apply.

REAUDIT FINDINGS AND RELATED COMMENTS (RFC):
Reaudit adjustments with respect to items #1 and #2 above are explained on Schedule R1-414-A2. No adjustment was made for item #3, the negligence penalty per the Decision and Recommendation.

WAIVER OF HEARING (MS1):
The taxpayer agrees with the reaudit adjustments. Taxpayer wishes to waive their right to a formal hearing that was previously requested.

DO NOT WRITE BELOW THIS LINE

AUDIT MANUAL

**RECONCILIATION AND EXPLANATION OF
REAUDIT ADJUSTMENTS [R(#)-414-A2]**

EXHIBIT 2

Megabytes and Gigabytes Inc.
Reconciliation and Explanation of Reaudit
Adjustments State, Local, County, & STTI

R1-414A-2
SR GH 26-725321
I. Goode
9/27/19

	A	B	C	D	E	F
		<12>	<R1-12B>	<R1-12C>	(C+D)	(B+E)
			Adjustments			
REF	Period	Measure per Original Audit"	Purchases of Supplies"	Disallowed Sales for Resale"	Total	Measure of Tax per First Reaudit
1	1Q-09	1,267	-100	0	-100	1,167
2	2Q-09	6,789	-511	0	-511	6,278
3	3Q-09	9,823	-658	0	-658	9,165
4	4Q-09	21,590	-1,112	-9,500	-10,612	10,978
5	1Q-10	2,359	-1,120	0	-1,120	1,239
6	2Q-10	16,987	-5,096	0	-5,096	11,891
7	3Q-10	17,800	-498	-15,225	-15,723	2,077
8	4Q-10	29,876	-1,234	0	-1,234	28,642
9	1Q-11	10,523	-521	0	-521	10,002
10	2Q-11	18,903	-1,180	0	-1,180	17,723
11	3Q-11	16,506	-592	0	-592	15,914
12	4Q-11	31,769	-282	0	-282	31,487
		<u>184,192</u>	<u>-12,904</u>	<u>-24,725</u>	<u>-37,629</u>	<u>146,563</u>

<R1-414-A1>

Explanation of Reaudit Adjustments

Purchases of Supplies

The taxpayer provided additional purchase invoices substantiating that use tax had been paid to registered out-of-state vendors, which reduced the computed percentage of error and projected measure. Additionally, taxpayer provided their general ledger, sales and use tax working papers and copies of sales and use tax returns to substantiate that tax was paid directly to the State on all remaining items questioned.

Sales for Resale

Two additional XYZ responses were received which indicated that the purchasers had self-assessed the tax on their own returns. This was verified with accounting staff of each firm who returned the XYZ letters.

Note:

Separate pages will be prepared for each transit tax.

Copy to Taxpayer

Date: _____

REAUDIT REPORTS AND REVISED AUDIT REPORTS

FORM CDTFA-414-A-1 — ORIGINAL AUDIT

California Department of Tax and Fee Administration

**REPORT OF
FIELD AUDIT**

SALES AND
USE TAXES

SOURCE 1		ACCOUNT NUMBER SR GH 026-725321	CASE ID 21713	STATUS <input checked="" type="checkbox"/> ACTIVE <input type="checkbox"/> C.O.	0-01 1-01
B.A.	2362 Winchester Blvd., Suite 153	DATE OF REPORT February 19, 2019	AREA CODE 43060-038-0002	BUS. CODE 86	
FIRM NAME	XYZ Computers	EXTRA COPIES			
OWNER	Megabytes and Gigabytes Inc.				
M.A.	Post Office Box 1527				
	San Jose, CA 95322-1527				

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-2009 TO 12-31-2011	TAX	INTEREST TO - 04-30-2019	PENALTY **	TOTAL
TOTAL	14,231.88		1,423.19	
CREDITS/DEBITS:				
BALANCE				

** Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED

(SEE 414-A FRONT, PAGE 2 ATTACHED)

Superseded by Reaudit dated 9-30-2019.

N-A	VAR. BLURB	SCHED	I. M. Goode	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH
			NAME OF AUDITOR				

AUDIT MANUAL

FORM CDTFA-414-A1- ORIGINAL AUDIT

**EXHIBIT 3
PAGE 2 OF 3**

CDTFA-414-A (FRONT) PAGE 2

PERMIT NO. SR GH 026-725321
CASE I.D. 21713
AUDITOR I.M. GOODE
DATE OF REPORT FEBRUARY 19, 2019

TAXABLE MEASURE UNDERSTATED	Error Code	State, Local, County & STJ	SCCT	SCGF	Total Transit
Purchases of Fixed Assets from Out-of-State vendors subject to use tax - actual basis.	0201	\$82,987	\$96,988	\$19,852	\$116,840
Purchases of supplies subject to use tax based on 7.25% of error as developed by statistical sample.	0201	12,904	13,587	2,514	16,101
Sales for resale >\$5,000 disallowed - actual basis.	0403	79,038	32,147	0	32,147
Cost of self-consumed merchandise subject to tax - actual basis.	0202	9,263	9,263	1241	10,504
TOTAL		\$184,192	\$151,985	\$23,607	\$175,592

'CDTFA-414-A FRONT (PAGE 2)

REAUDIT REPORTS AND REVISED AUDIT REPORTS

FORM CDTFA-414-A1- ORIGINAL AUDIT

ACCOUNT NUMBER		CASE ID.	
SR	GH	026-725321	21713
I.D.	CLASS	AUDIT MADE BY	HOURS
1234	3	I. M. Goode	31

31.0
TOTAL HOURS

LEGAL TAX CLEARANCE

Office Making Audit Code GH
 Recovery Group Year 99
 Cell 4D Recovery Group Code C
 Supervisor: _____
 Reviewed By: _____
 Date of Review: _____

Reported Measure of State Tax - Thousands of \$ 23512
 Name and title of taxpayer or representative with whom discussed Mr. Charles L. Pierson, President
 Telephone (408) 296-5369

Did he/she concur? No A copy of this report was Furnished Mailed With BOE-79-A letter. If not, explain below.

If close-out, give name and account no. of successor _____

If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? Yes If so, is waiver attached? Yes Period 1-1-96 to 9-30-96 Expires 1/31/2000

No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? Yes No BT-502 prepared? Yes No

List other Related accounts None

Have concurrent audits or waivers been made? _____ if not, explain below.

Unverified tax payments (AM 0205.6) All payments verified.

Directives (_____) sent (x) handed to taxpayer Pamphlets #70 & #76, Regulation 1668

Cigarette Indicia Inspection No cigarettes purchased or sold

General Comments:

TYPE OF BUSINESS ORGANIZATION (TBO):
 Corporation. Charles L. Pierson, President; Mary Pierson, Vice-President; Chris Dromedary, Secretary, and David Southgate, Treasurer. Started 1-1-96. No prior audit.

CLASS OF BUSINESS (COB):
 One retail store specializing in personal computers and canned software. Minor amount of repair labor and optional warranty contracts. No custom programming.

BOOKS AND RECORDS (BR):
 Double entry set of records supported by some original documents such as sales invoices, purchase invoices, cancelled checks, and Federal Income Tax Returns for 1996 and 1997. Books and records were incomplete, as the taxpayer has not been diligent in filing sales invoices and apparently has lost a significant portion. Electronically prepared sales journal appears to be complete, as all pre-numbered sales invoices are accounted for. Not all purchase invoices and cancelled checks were available. Taxpayer has not shown the diligence in keeping records that would be expected of an average prudent business person.

PRESENT FINANCIAL CONDITION (PFC):
 Fair. Although the taxpayer suffered operating losses during 1996 and 1997, they seem to be able to pay their bills in a timely fashion and are now operating at a small profit. Bank at Bank of Silicon Valley, Cupertino Branch; account number 124657-98767.

PENALTY (PEN):
 A 10% penalty for negligence is recommended. The taxpayer did not maintain the records that would be expected of a prudent business person and the records that were available were in total disarray.

FRANCHISE TAX BOARD (FTB):
 N/A

Note:
 Results of Discussion comments for this account would be similar in format to Exhibit 6, page 4.

DO NOT WRITE BELOW THIS LINE

AUDIT MANUAL

**SAMPLE SALES TAX REVISED AUDIT REPORTS
FORM CDTFA-414-A-REVISED AUDIT**

EXHIBIT 4

PAGE 1 OF 3

FIRST REVISED AUDIT

STATE BOARD OF EQUALIZATION

REPORT OF FIELD AUDIT	<input checked="" type="checkbox"/> SALES AND USE TAXES	SOURCE 1	ACCOUNT NUMBER SR KH 028-123456	CASE ID 6341	STATUS <input checked="" type="checkbox"/> ACTIVE <input type="checkbox"/> C.O.	0-01 1-01
	B.A. 18902 Folsom Blvd, #17		DATE OF REPORT February 29, 1999	AREA CODE 22987-023-0002	BUS. CODE 51	
FIRM NAME	Nuts & Bolts Plumbing & Hardware		EXTRA COPIES			
OWNER	EFG Enterprises Inc.					
M.A.	Post Office Box 36					
	Sacramento, CA 91211-0036					

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1998	TAX	INTEREST TO - 04-30-1999	PENALTY * *	TOTAL
TOTAL	4,338.45			
CREDITS/DEBITS:				
BALANCE				

**

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED
(SEE 1R-414-A FRONT, PAGE 2 ATTACHED)

This Revised Audit supersedes audit dated 2-1-1999.

N-A	VAR. BLURB	SCHED	Lisa Carr			
			NAME OF AUDITOR	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE BATCH

CDTFA-414-A FRONT REV. 26 (11-92)

REAUDIT REPORTS AND REVISED AUDIT REPORTS

SAMPLE SALES TAX REVISED AUDIT REPORTS FORM CDTFA-414-A REVISED AUDIT

CDTFA-414-A (FRONT) PAGE 2

PERMIT NO.	<u>SR KH 028-123456</u>
CASE ID.	<u>6341</u>
AUDITOR:	<u>Lisa Carr</u>
DATE OF REPORT:	<u>February 29, 1999</u>

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>STAT</u>
1. Taxable delivery charges by use of company owned vehicles per test of 2Q-97.	1003	\$8,452	\$8,452
2. Purchases of supplies from out-of-state vendors developed by statistical sample.	0201	13,596	13,596
3. Claimed sales for resale disallowed based upon block sample of May 1996, August 1997, and October 1999.	0401	0	0
4. Cost of material withdrawn form resale inventory and self-consumed based upon taxpayer estimate of \$500 per quarter.	0202	6,000	6,000
5. Taxable sales understated - difference between recorded and reported sales tax per the accrual account.	0302		
		<u>27,932</u>	<u>27,932</u>
TOTAL		<u><u>\$55,980</u></u>	<u><u>\$55,980</u></u>

AUDIT MANUAL

SAMPLE SALES TAX REVISED AUDIT REPORTS FORM CDTFA-414-A REVISED AUDIT

EXHIBIT 4
PAGE 3 OF 3

ACCOUNT NUMBER		CASE ID.	
SR	KH	028-123456	6341
I.D.	CLASS	AUDIT MADE BY	HOURS
0656	2	Lisa Carr	44

LEGAL TAX CLEARANCE

Office Making Audit Code KH
 Recovery Group Year 99
 Cell 11 Recovery Group Code D
 Supervisor: _____
 Reviewed By: _____
 Date of Review: _____

44.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 515
 Name and title of taxpayer or representative with whom discussed Mr. Charles Smith, President
 Telephone (916) 983-9255

Did he/she concur? Yes A copy of this report was Furnished Mailed With CDTFA-79-(letter. If not, explain below.

If close-out, give name and account no. of successor _____
 If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? Yes If so, is waiver attached? Yes No Period 1-1-96 to 9-30-96 Expires 1/31/2000
 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? Yes No BT-502 prepared? Yes No

List other Related accounts None
 Have concurrent audits or waivers been made? _____ if not, explain below.
 Unverified tax payments (AM 0205.6) All payments verified.
 Directives (_____) sent (x) handed to taxpayer Pamphlets #70 & #76.
 Cigarette Indicia Inspection No cigarettes purchased or sold
 General Comments:

REASON FOR REVISED AUDIT (R4R):
 Form CDTFA-79-A letter mailed 2-4-99.

In response to the 79-A letter, Mr. Smith discussed the findings of the original audit with District Principal Auditor, Joe Diamond, who ordered changes as set forth in the Report of Discussion of Audit Findings (CDTFA-836-A & B) dated February 12, 1999 (copy attached).

DO NOT WRITE BELOW THIS LINE

CDTFA-414-A BACK REV.26 (11-92)

REAUDIT REPORTS AND REVISED AUDIT REPORTS

**RECONCILIATION AND EXPLANATION OF
REVISION ADJUSTMENTS [(#)R-414-A2]**

EXHIBIT 5

EFG Enterprises Inc.

Reconciliation and Explanation of Revision Adjustments

State, Local, County, STTI & STAT

	A	B	C	D	E	F
		<12>	<R1-12B>	<R1-12C>	(C+D)	(B+E)
			Adjustments			
REF	Period	Measure per Original Audit"	Taxable Delivery Charges	Disallowed Sales for Resale"	Total	Measure per First Revised Audit
1	1Q-96	4,398	-50	-1,299	-1,349	3,049
2	2Q-96	9,877	-123	-2,432	-2,555	7,322
3	3Q-96	6,955	-89	0	-89	6,866
4	4Q-96	3,987	-76	-159	-235	3,752
5	1Q-97	4,599	-98	-2,222	-2,320	2,279
6	2Q-97	9,912	-166	-597	-763	9,149
7	3Q-97	4,232	-49	-366	-415	3,817
8	4Q-97	5,876	-106	-882	-988	4,888
9	1Q-98	3,239	-43	-639	-682	2,557
10	2Q-98	16,230	-762	-8,659	-9,421	6,809
11	3Q-98	2,734	-19	-1,239	-1,258	1,476
12	4Q-98	8,999	-888	-4,095	-4,983	4,016
		<u>81,038</u>	<u>-2,469</u>	<u>-22,589</u>	<u>-25,058</u>	<u>55,980</u>

<1R-414-A1>

Explanation of Reaudit Adjustments

Taxable Delivery Charges

The taxpayer provided additional freight bills from common carriers which reduced the computed percentage of error and projected measure for delivery charges by their own vehicles.

Sales for Resale

Two additional XYZ responses were received which indicated that the purchasers had self-assessed the tax on their own returns. This was verified with accounting staff of each firm who returned the XYZ letters.

Penalty

Discussion of the penalty with District Principal Auditor, Joe Diamond, indicated that, while the taxpayer had been careless, they had not actually been negligent in preparing the Sales and Use Tax returns. Mr. Diamond verbally ordered that the penalty not be applied in this case.

Note: Separate pages will be prepared for each transit tax. No separate pages are required in this instance, as only one (1) district involved and measure for State,Local,County, & STTI are identical.

Copy to Taxpayer

Date: _____

AUDIT MANUAL

FORM CDTFA-414-A- ORIGINAL AUDIT & SCHEDULE 414-A,

EXHIBIT 6

PAGE 1 OF 4

California Department of Tax and Fee Administration

**REPORT OF
FIELD AUDIT**

USE TAXES

SOURCE 1	ACCOUNT NUMBER SR KH 028-123456	CASE ID 6341	STATUS <input checked="" type="checkbox"/> <input type="checkbox"/> 0-01 1-01
B.A. 18902 Folsom Blvd, #17	DATE OF REPORT February 1, 1999	AREA CODE 22987-023-0002	BUS. CODE 51
FIRM NAME Nuts & Bolts Plumbing & Hardware	EXTRA COPIES		
OWNER EFG Enterprises Inc.			
M.A. Post Office Box 36			
Sacramento, CA 91211-0036			

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1998	TAX	INTEREST TO - 04-30-1999	PENALTY **	TOTAL
TOTAL	6,280.44		628.04	
CREDITS/DEBITS:				
BALANCE				

** Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED
(SEE 414-A FRONT, PAGE 2 ATTACHED)

Superseded by Revised audit dated 2-29-1999.

N-A	VAR. BLURB	SCHED	Lisa Carr			
			NAME OF AUDITOR	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE BATCH

CDTFA-414-A FRONT REV. 26 (11-92)

REAUDIT REPORTS AND REVISED AUDIT REPORTS
FORM CDTFA-414-A- ORIGINAL AUDIT & SCHEDULE 414-A

CDTFA-414-A (FRONT) PAGE 2

PERMIT NO. SR KH 028-123456
CASE ID. 6341
AUDITOR: Lisa Carr
DATE OF REPORT: February 1, 1999

<u>TAXABLE MEASURE UNDERSTATED</u>	ERROR CODE	STATE, LOCAL, COUNTY & STTI	STAT
1. Taxable delivery charges by use of company owned vehicles per test of 2Q-97.	1003	\$10,921	\$10,921
2. Purchases of supplies from out-of state vendors developed by statistical sample.	0201	13,596	13,596
3. Claimed sales for resale disallowed based upon block sample of May 1996, August 1997, and October 1999.	0401	22,589	22,589
4. Cost of material withdrawn from resale inventory and self consumed based upon taxpayer estimate of \$500 per quarter.	0202	6,000	6,000
5. Taxable sales understated - difference between recorded and reported sales tax per the accrual account.	0302	27,932	27,932
TOTAL		<u>\$81,038</u>	<u>\$81,038</u>

AUDIT MANUAL

FORM CDTFA-414-A- ORIGINAL AUDIT & SCHEDULE 414-A

Form CDTFA-414-A - Original Audit

**CHAPTER 7
Exhibit 6
Page 3 of 4**

ACCOUNT NUMBER			CASE ID.
SR	KH	028-123456	6341
I.D.	CLASS	AUDIT MADE BY	HOURS
0656	2	Lisa Carr	36

Office Making Audit Code KH
 Recovery Group Year 99
 Cell 11 Recovery Group Code D
 Supervisor: _____
 Reviewed By: _____
 Date of Review: _____

36.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 515
 Name and title of taxpayer or representative with whom discussed Mr. Charles Smith, President
 Telephone (916) 983-9255

Did he/she concur? No A copy of this report was CDTFA-79-A letter. If not, explain below.

If close-out, give name and account no. of successor _____
 If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? Yes If so, is waiver attached? Period 1-1-96 to 9-30-96 Expires 1/31/2000
 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? BT-502 prepared? Yes No

List other Related accounts None
 Have concurrent audits or waivers been made? _____ if not, explain below.
 Unverified tax payments (AM 0205.6) All payments verified.
 Directives (_____) sent (x) handed to taxpayer Pamphlets #70 & #76.
 Cigarette Indicia Inspection No cigarettes purchased or sold
 General Comments:

TYPE OF BUSINESS ORGANIZATION (TBO):
 Corporation. Charles Smith, President; Linda Smith, Vice-President; Robert Brown, Secretary; and Susan Brown, Treasurer. Started 1-1-96. No prior audit.

CLASS OF BUSINESS (COB):
 Retail store specializing in hard to find hardware such as nuts, bolts, and specialty plumbing. Minor amount of repair labor.

BOOKS AND RECORDS (B&R):
 Double entry set of records supported by original source documents, cash register tapes, cancelled checks and Federal Income Tax Returns for 1996, 1997 and 1998. Electronically prepared sales journal was verified to be complete, as all pre-numbered sales invoices are accounted for. Sales Tax reimbursement is added to all taxable sales.

PRESENT FINANCIAL CONDITION (PFC):
 Good. The taxpayer maintains a minimum cash balance of \$25,000 and all payables are current. The taxpayer has virtually no competition and demand for their products has been increasing dramatically. Banks at Wells Fargo Bank, Rancho Cordova Branch; account number 124321-236. No collection problem is anticipated.

PENALTY (PEN):
 A 10% penalty for negligence is recommended. The taxpayer was careless in preparing the returns as sales tax was billed, collected, and posted to the sales tax accrual account but not reported. The taxpayer made no attempt to reconcile recorded sales tax to reported tax.

FRANCHISE TAX BOARD (FTB):
 N/A - Item 5 does not represent additional sales as the additional taxable sales were claimed as exempt labor.

DO NOT WRITE BELOW THIS LINE

REAUDIT REPORTS AND REVISED AUDIT REPORTS

FORM CDTFA-414-A- ORIGINAL AUDIT & SCHEDULE 414-A

TAXPAYER CONTENTIONS (TPC):

Results of discussion of the audit findings with Mr. Charles Smith, President, are summarized as follows:

<u>Item</u>	<u>Taxpayer</u>	
	<u>Agrees</u>	<u>Disagrees</u>
1.		10,921
2.	13,596	
3.		22,589
4.	6,000	
5.	27,932	
Penalty		\$923.76

TAXPAYER'S POSITION

Item #1. Mr. Smith is of the opinion that delivery charges are not subject to tax. He believes delivery charges are exempt regardless if the delivery is made by a company truck or a UPS truck. Also, he believes the company should be relieved from the tax because he was never informed that deliveries made by company vehicles are subject to tax.

Item #3. Mr. Smith is of the opinion that all claimed sales for resale are properly supported. He believes that a copy of a customer's seller's permit qualifies as a valid resale certificate.

Penalty Mr. Smith believes the company was not careless in preparing returns and that the negligence penalty does not apply. He is of this opinion because the amount of unreported taxable sales are small when compared to reported measure. Also, he believes the penalty should not apply because this is the company's first audit.

AUDITOR'S POSITION

Item #1. Taxing delivery charges for deliveries made by company owned vehicles is established under Regulation 1628 -Transportation Charges. A review of the taxpayer's file indicated that Mr. Smith was provided a copy of Regulation 1628 when he acquired a seller's permit for the corporation.

Item #3. Disallowed resales represent resales where the taxpayer's only support consists of copies of customer's seller's permits. No other documentation for the disallowed resales exist. Copies of customer seller's permits do not qualify as valid resale certificates per Regulation 1668 - Resale Certificates. Mr. Smith was provided "XYZ" questionnaires but he declined to send any to customers.

Penalty Mr. Smith reviewed the general ledger and financial statements monthly. The credit balance of the Sales Tax accrual account increased throughout the entire audit period and no inquiry or reconciliation was made. Also, the accrual account was not used in preparing the sales tax returns.

AUDIT MANUAL

**SAMPLE ADJUSTED FIELD BILLING ORDER
FORM CDTFA-414-B — ADJUSTED FIELD BILLING ORDER**

EXHIBIT 7

ADJUSTED

California Department of Tax and Fee Administration

FILED BILLING ORDER

SALES AND
USE TAXES

SOURCE 1	ACCOUNT NUMBER SR AC 097-983126	CASE ID 9031	STATUS <input type="checkbox"/> ACTIVE <input checked="" type="checkbox"/> C.O.	0-01 1-01
--------------------	------------------------------------	-----------------	---	----------------------------

B.A.	186 Washington Blvd., #92	DATE OF REPORT July 18, 1999	AREA CODE 19050-036-0001	BUS. CODE 22
FIRM NAME	ABC Liquor and Mini-Mart	EXTRA COPIES		
OWNER	Fred Ainslee			
M.A.	Post Office Box 1726			
	Van Nuys, CA 90621-1726			

LIABILITY (OR CREDIT) DISCLOSED BY AUDIT

PERIOD 01-01-1996 TO 12-31-1996	TAX	INTEREST TO - 09-30-1999	PENALTY **	TOTAL
TOTAL	24,918.22		2,491.82	
CREDITS/DEBITS:				
BALANCE				

** Penalty of 10% has been added for negligence.

ANALYSIS OF MEASURE OF TAX BY CLASS OF TRANSACTION

TAXABLE MEASURE UNDERSTATED

(SEE 414-A FRONT, PAGE 2 ATTACHED)

This Adjusted Field Billing Order Supersedes Field Billing Order dated 5-15-1999.

N-A	VAR. BLURB	SCHED	A. M. Wilkinson	APPROVED BY	APPROVAL DATE	INTEREST CALC. DATE	BATCH
			NAME OF AUDITOR				

CDTFA-414-A FRONT REV. 26 (11-92)

REAUDIT REPORTS AND REVISED AUDIT REPORTS

**SAMPLE ADJUSTED FIELD BILLING ORDER
FORM CDTFA-414-B- ADJUSTED FIELD BILLING ORDER**

**EXHIBIT 7
PAGE 2 OF 3**

CDTFA-414-A (FRONT) PAGE 2

PERMIT NO. SR AC 097-983126
CASE ID. 9031
AUDITOR: A. M. Wilkinson
DATE OF REPORT July 18, 1999

<u>TAXABLE MEASURE UNDERSTATED</u>	<u>ERROR CODE</u>	<u>STATE, LOCAL, COUNTY & STTI</u>	<u>LACT</u>	<u>LATC</u>
1. Purchase of a refrigeration unit and two computers from Out-of-State vendors subject to use tax - actual basis.	0201	\$298,439	\$298,439	\$298,439
3. Self-consumed taxable items - based upon estimate.	0202	3,600	3,600	3,600
TOTAL		<u>\$302,039</u>	<u>\$302,039</u>	<u>\$302,039</u>

AUDIT MANUAL

**SAMPLE ADJUSTED FIELD BILLING ORDER
FORM CDTFA-414-B- ADJUSTED FIELD BILLING ORDER**

**EXHIBIT 7
PAGE 3 OF 3**

ACCOUNT NUMBER		CASE ID.	
SR	AC	097-983126	9031
I.D.	CLASS	AUDIT MADE BY	HOURS
983	4	A. M. Wilkinson	28

LEGAL TAX CLEARANCE

Office Making Audit Code AC
 Recovery Group Year 99
 Cell 17 Recovery Group Code C
 Supervisor: _____
 Reviewed By: _____
 Date of Review: _____

28.0
TOTAL HOURS

Reported Measure of State Tax - Thousands of \$ 256
 Name and title of taxpayer or representative with whom discussed Mr. Fred Ainslee, Owner
 Telephone (760) 923-1207

Did he/she concur? No A copy of this report was Furnished Mailed With CDTFA-89-I letter. If not, explain below.

If close-out, give name and account no. of successor _____
 If credit involved, has claim for refund been secured from taxpayer? _____ Claim previously submitted to HQ? _____

Statute of limitations involved? No If so, is waiver attached? Yes Period _____ Expires _____
 No 1st Tax Change: Period _____ Measure _____

Date BT-523 was prepared clearing delinquencies for returns not filed _____

If local tax is involved, is BT-414-L attached? Yes No BT-502 prepared? Yes No

List other Related accounts None
 Have concurrent audits or waivers been made? _____ if not, explain below.
 Unverified tax payments (AM 0205.6) All payments verified.
 Directives (_____) sent (x) handed to taxpayer Pamphlets #70 & #76.
 Cigarette Indicia Inspection No inspection, as business closed out.
 General Comments: _____

REASON FOR ADJUSTMENT (RFA):
 In response to the 235-A letter, Mr. Ainslee discussed the findings of the original field billing order with District Principal Auditor, Donald McDonald, who authorized changes as set forth in the Report of Discussion of Audit Findings (CDTFA-836-A & B) dated July 2, 1999 (copy attached).

ADJUSTMENT FINDINGS & RELATED COMMENTS (AFR):
 An adjustment was made to the estimated self-consumed taxable items set up in the original field billing order. The taxpayer provided additional documentation, which reduced the estimate used by the auditor. The taxpayer provided the invoices for the two out-of-state vendors in question to show that he had paid the sales tax. After reviewing the invoices, it was determined that the out-of-state companies did not have a permit with California to collect the sales or use tax. No adjustment was recommended by Mr. McDonald. Mr. Ainslee still believes that an adjustment is warranted on the purchases from the out-of-state vendors and has requested a hearing.

DO NOT WRITE BELOW THIS LINE