

Compliance Policy and Procedures Manual

Chapter 10

Statewide Compliance and Outreach Program

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.

COMPLIANCE POLICY AND PROCEDURES MANUAL

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STATEWIDE COMPLIANCE AND OUTREACH PROGRAM

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STATEWIDE COMPLIANCE AND OUTREACH PROGRAM (SCOP)

1000.000

GENERAL OVERVIEW OF SCOP

1005.000

INTRODUCTION TO SCOP

1005.010

The purpose of the Statewide Compliance and Outreach Program (SCOP) is to educate business owners regarding their sales and use tax reporting responsibilities, make sure businesses have the required state tax and fee permits, provide a field presence for the California Department of Tax and Fee Administration (CDTFA), and address the tax gap that exists between sales and use tax revenue due under existing laws and the actual amount that is reported and paid. Many businesses that comply with the law and pay their taxes are being competitively undercut by the underground economy.

SCOP is intended to address the tax gap by:

- Identifying and registering entities that are actively engaged in business in California who are selling merchandise without a seller's permit or need any other type of permit or license required by the CDTFA.
- Educating business owners and specific industries on their registration, reporting and tax payment requirements.
- Providing guidance on proper reporting for registered businesses by making sure reported sales are consistent with observed business operations.
- Identifying and bringing problem industries into compliance.
- Enhancing the public's awareness of tax evasion and its consequences.
- Coordinating with city, local and other state agencies, including the Employment Development Department (EDD) and the Franchise Tax Board (FTB), to share information.
- Increasing CDTFA data accuracy through registration information updates obtained from permit and license verifications.

SCOP representatives generally in the Business Taxes Compliance Specialist (BTCS) or Business Taxes Representative (BTR) classifications conduct door-to-door visits to non-residential businesses. The SCOP teams are located in several field offices and spend approximately 80 percent of their assigned time in the field visiting businesses. Permit holders in identified ZIP codes are sent notifications informing them of the upcoming SCOP business visits and the purpose and benefits of the program. During these visits, members of the SCOP teams have tablets along with a database of known businesses they will visit. Detailed comments about the business visit, account maintenance issues, and potential underreporting referrals should be noted while out in the field.

The goal of the program is to educate business owners on their reporting responsibilities and to increase compliance in all facets of the sales and use tax law and any other laws or professional codes administered by the CDTFA. Information obtained from these visits may be shared with other agencies and municipalities including local jurisdictions, the EDD and the FTB.

The main function of SCOP is to provide outreach, educate, and advise business owners regarding the sales and use tax law. As areas of non-compliance are identified by SCOP team members, potential underreporting referrals may be generated. However, a SCOP representative's performance may not be rated upon the basis of revenue recovery, which is prohibited by law.

INTERACTION WITH BUSINESS OWNER

1005.020

SCOP team members are expected to observe the CDTFA's guidelines set forth in the mandatory training course, Ethics for State Officials. SCOP team members are expected to perform their duties with dignity and courtesy and with the same level of professionalism regardless of the size of business under review, the sophistication of records, or any other consideration. SCOP team members should also follow any applicable procedures outlined in Compliance Policy and Procedures Manual (CPPM) section 130.000 and Audit Manual (AM) section 0101.20.

TAXPAYER'S BILL OF RIGHTS

1005.030

The Harris-Katz California Taxpayers' Bill of Rights guarantees that the rights, privacy, and property of taxpayers are protected during the course of assessment and collection activity. SCOP team members should be familiar with the provisions of the law found in Revenue & Taxation Code (R&TC) sections 6593.5, 6832, 6964, 7080 through 7099.1, and 7156.

SCOP OBJECTIVES

1005.035

SCOP team members must identify areas where general non-compliance exists. Potential areas of non-compliance include types of businesses that may not have a clear understanding of how the sales and use tax law applies to their business transactions, may be operating without a seller's permit, or are suspected of under-reporting taxable sales. Once the areas of non-compliance are identified, SCOP representatives must make sure these areas are explored and addressed in an efficient and timely manner.

RESPONSIBILITIES OF THE SCOP REPRESENTATIVE

1005.040

To achieve the program's objectives, all SCOP representatives must:

- Understand the SCOP program purposes, expectations and goals.
- Understand the SCOP policies, procedures and guidelines.
- Be fully trained in the use of the SCOP equipment and system operations (i.e., using the tablet, the Centralized Revenue Opportunity System, referred herein as "the system," tax and fee programs administered by the CDTFA, etc.).
- Be aware of specific areas of non-compliance that have been identified.
- Maintain a professional demeanor during business visits and contacts.
- Be familiar with SCOP forms as well as those used under other related programs, which may be utilized within SCOP.
- Analyze business operations in comparison to reported revenue and business expenses.
- Analyze the information contained within CDTFA data systems.
- Analyze information obtained through outside sources.
- Work effectively and efficiently, both individually and as a team, to achieve the program's desired goals.
- Organize and coordinate day-to-day work activities, both individually and as a team, with minimal supervision.
- Handle issues that may develop while in the field and report them timely to the SCOP supervisor or designee as needed.

NEW PERMITS

1005.050

The main purpose of the program is to educate business owners regarding their sales and use tax reporting responsibilities and to help close the tax gap by identifying and registering entities who are actively engaged in business in California and selling merchandise without a seller's permit.

EXISTING PERMITS

1005.060

Although a business may be operating with a valid seller's permit, this should not lessen or diminish the importance of a SCOP business visit. A component of the program is to visit businesses operating with valid seller's permits to verify that business owners understand their tax responsibilities and are reporting properly. This also provides an opportunity for the business owners to ask sales and use tax related questions to the SCOP representatives. SCOP representatives will also update the CDTFA account information, such as the mailing addresses, telephone numbers, ownership information, etc.

STATEWIDE COMPLIANCE AND OUTREACH PROGRAM

ZIP CODE PROCEDURES **1010.000**

ZIP CODE PROCEDURE OVERVIEW **1010.010**

Each SCOP supervisor or designee is responsible for selecting the ZIP code(s) they plan to visit

ZIP CODE SELECTION **1010.020**

When selecting ZIP codes, SCOP supervisors or their designees should analyze data of each ZIP code (see CPPM section 1010.030). Justification of the selected ZIP code should be added to the SCOP Selection case notes. SCOP supervisors or their designees must review the ZIP codes for each mailing date to confirm that SCOP representatives have sufficient work.

SUGGESTED CRITERIA FOR ZIP CODE SELECTION **1010.030**

The following factors should be considered when selecting a ZIP code:

- Number of sites within a ZIP code
- SCOP Density Heat Map
- SCOP ZIP Code History Map
- Geographical areas where the business locations are concentrated
- Geographical areas with a history of non-compliance
- Number of businesses operating out of a residential home with no storefront
- Number of SCOP representatives available to make business visits
- Time it would take to complete visits within the ZIP code (3-6 visits per representative per hour)
- Weather
- Travel to and from the ZIP code

Once the ZIP codes have been selected, they must be entered in the system as individual SCOP Selection cases and tracked in the Excel spreadsheet titled “*Zip Code Tracking Sheet*,” located in each team’s SharePoint page.

SCOP SELECTION CASE UPDATES **1010.040**

The SCOP coordinators review the ZIP codes and mailing dates selected by SCOP teams. Once approved, SCOP coordinators will send an email to the SCOP supervisors or designees notifying them their selection case(s) is ready for “clean up” in the system.

The *SCOP Selection* case must be reviewed by each SCOP team to verify all business addresses are correct, residential businesses are identified, and applicable sites are excluded from the selection case. The review must be completed by the due date assigned by the SCOP coordinators.

CONTACT LETTER TO TAXPAYERS (CDTFA-1322-A) **1010.050**

Before visits begin in a specific ZIP code, an individual CDTFA-1322-A, *Letter to Taxpayer Re: Business Visits – SCOP* is sent to each business owner notifying them of the SCOP teams’ upcoming visits. These notifications are sent anywhere from two to four weeks before the business visits in the selected ZIP code begin. SCOP coordinators will work to coordinate the timely delivery of the CDTFA-1322-A notifications.

OUTREACH EFFORTS - LOCAL JURISDICTIONS**1010.060**

Working and coordinating with cities and municipalities is vital in order to identify problem areas prior to making business visits. It is important SCOP team members devote enough resources and time to establishing a cooperative working relationship with local municipalities.

As part of SCOP's outreach efforts, the SCOP supervisor, SCOP BTS I, or designee should contact by phone or in person local licensing/governmental agencies for the ZIP code they plan to canvass to notify them of our upcoming business visits. The contact should be made **prior** to visiting the businesses. During the contacts with each city agency, the following information must be obtained:

- Name of contact person
- Title
- Direct phone number
- Confirmation of their mailing address

SCOP staff will also need to notify the chambers of commerce and law enforcement organizations in the ZIP codes they will be canvassing **prior** to visiting a particular area. The same contact information should be requested for all city/town halls, chambers of commerce, municipalities, etc. The contact information must be collected and maintained using the Excel spreadsheet titled, *City-County Contacts* located in each team's SCOP SharePoint page.

During each contact with a city/county representative, the SCOP supervisor, SCOP BTS I, or designee must:

- Provide an overview of SCOP and explain what a SCOP business visit may entail.
- Provide an estimated time frame of how long a SCOP team should be in their area conducting business visits.
- Advise them that during a visit to a business, a SCOP representative will verify whether the business holds a valid city/county business license if required.
- Notify them that a letter and report showing businesses found operating without their business licenses will be sent to their designee once all business visits in the selected ZIP code are complete.
- Discuss the AB 990 program. If the city has not already signed a contract with the CDTFA, the SCOP supervisor, SCOP BTS I, or designee should provide information regarding the benefits and notify the city representative how to participate (See CPPM section 909.000 for more information on AB 990 program).

CDTFA-1322-B, *Letter to Cities Re: Business Visits – SCOP*

Each SCOP team is responsible for sending the CDTFA-1322-B to the selected ZIP code's jurisdiction. The CDTFA-1322-B should be sent two weeks prior to the first day of canvassing each ZIP code. Each SCOP supervisor will be the contact person listed on the letter.

CDTFA-1322-C, *Potential Businesses Operating Without a Business License Report – SCOP*

Each SCOP team is responsible for sending the CDTFA-1322-C letter to the selected ZIP code's local jurisdictions. The SCOP supervisor will generate the report within the system to enclose with the CDTFA-1322-C when appropriate. For city/county representatives who request the *Potential Businesses Operating without a Business License* report to be sent electronically, the SCOP supervisor or designee can send the report as an attachment through email.

PRESCREENING PROCEDURES**1015.000****OVERVIEW****1015.010**

The purpose of prescreening is to gather information on each account prior to the visit. For every business SCOP representatives plan to visit, representatives should prescreen the account and make notes on each *SCOP Visit* case within the system prior to entering the business. Since information in the system is not static and can change frequently, it is recommended that prescreening not be performed too far in advance of the visit. It is at the discretion of each SCOP team which methods should be used to do the prescreening work. At a minimum, the Pre-Visit Research tab on the *SCOP Visit* case and corresponding springboards should be reviewed prior to entering a business.

Prescreening accounts will generally identify:

- Business owners that may have a misunderstanding of the Sales and Use Tax Law
- History of underreporting
- Reported low total sales
- Low taxable sales percentage
- Unusual/questionable deductions
- Outstanding balances
- Revoked accounts or delinquent returns
- Prior audit

Prescreening accounts will help formulate the type of assistance business owners may need at the time of the business visits. It will help identify any issues SCOP representatives should review with the business owners as they are conducting their business visits.

PRE-VISIT REVIEW TAB**1015.020**

The Pre-Visit Review tab in the system can assist SCOP representatives by compiling pertinent information of an account on one screen. The Pre-Visit Review tab encompasses information from each of the following springboards:

- Account springboard – Identifies ownership, ownership type, account type, commence date, number of sites, business owner’s history of reporting, and deductions taken.
- Audit springboard – Identifies any prior audit date.
- Collection springboard – Last collection action date, balances, and delinquencies (**Note:** If the collections case is assigned to a collector, SCOP representatives should provide the collector’s contact information to the business owner at the time of the visit.).

INTERNET USE

1015.030

The Internet is a useful resource that can be used to obtain information about a specific business. It can be used to:

- Review business websites
- Gain knowledge about specific business industries
- Skip trace

It is the policy of the CDTFA to encourage the responsible use of the Internet to achieve the agency's business goals and mission. As with all state-provided resources, the use of the Internet is limited to legitimate state business and is governed by the same rules of conduct applicable to the use of other information technology resources (CMAP section 8022). Personal use should be "incidental and minimal."

FIELD VISIT PROCEDURES

1020.000

OVERVIEW

1020.010

A SCOP team includes SCOP representatives who routinely make business visits. Each SCOP team may be divided into groups as needed and will develop their method for visiting a ZIP code and what areas will be assigned to each group.

NOTE: SCOP teams will need to track their own street assignments as the system does not track this information.

Prior to canvassing a ZIP code, a representative from the SCOP team should contact the appropriate law enforcement agency or watch commander, as determined by that law enforcement agency, to notify them of the SCOP team's presence in a particular area.

SCOP representatives need to:

- Log into their tablet, open the system database, and any other necessary programs.
- Always have CDTFA-issued identification visible.
- Be professional in appearance and demeanor.
- Wear comfortable shoes and clothing appropriate for weather conditions.
- Be prepared for health conditions that warrant use of personal protective equipment (e.g., masks, hand sanitizer).

SCOP representatives are responsible for visiting all the storefront businesses in the designated areas in the most efficient manner, including those businesses not listed within the *SCOP Selection* case. All visits to businesses must be conducted in a manner that results in minimal disruption to the businesses' daily operations.

SCOP representatives will usually be working in groups in a specific area. However, when it is deemed appropriate by the SCOP supervisor or designee, SCOP representatives may conduct business visits without a partner(s).

SAFETY ISSUES

1020.020

Safety concerns should be discussed with the SCOP supervisor or designee to determine how to conduct the business visits. If SCOP representatives visit a business (whether working in a group or working alone on a designated street) and feel their personal safety is threatened, the SCOP representatives should immediately leave and contact their SCOP supervisor and the rest of their team.

If a law enforcement escort is needed, the local law enforcement agency should be contacted to schedule a date and time to accompany the group(s). In this case, the business visits will generally be arranged at the convenience of the law enforcement agency.

If SCOP representatives are asked to leave the premises of a business or feel their safety is threatened, they should immediately leave the business. The SCOP representatives should contact their SCOP supervisor or designee to report the incident. In a safe location, the SCOP representatives should stage the *SCOP Visit* case to *Post-Visit*, enter the details of what transpired on the *SCOP Visit* case notes, and then continue to the next business. In case of emergency, a call to 9-1-1 should be made.

PRE-VISIT WORK**1020.030**

Prior to entering a business, SCOP representatives should review the Pre-Visit Review tab on the *SCOP Visit* case. SCOP representatives should review any additional springboards in the system as needed. If SCOP representatives encounter an account with confidential indicators, they must contact their supervisor or designee for guidance prior to entering the business.

Accounts Selected for Audit

If the account has been selected for audit, that information is confidential and the SCOP representative should be sensitive to the situation. Information that the account is selected for audit should not be disclosed to anyone, including the business owner, as they may never actually get audited.

For businesses selected for audit, but have not been assigned to an auditor, SCOP representatives should enter detailed notes of any reporting discrepancies on the *SCOP Visit* case in the system. If warranted, a *Memorandum of Potential Tax Liability* case should be added to the *SCOP Visit* case noting any potential discrepancies in the reported taxable sales based on the SCOP representative's observations. If there are no discrepancies noted at the time of visit, the information should be shared with an audit supervisor.

SCOP representatives should also be sensitive to accounts already selected and assigned to an auditor as the business owner may be questioning a visit from another CDTFA team member. The SCOP representative should notify the assigned auditor of the visit and provide the *SCOP Visit* case number. Detailed notes should be entered on the *SCOP Visit* case, including any items discussed and/or potential discrepancies in reported taxable sales based on the SCOP representative's observations. SCOP observations and notes can be valuable information for the auditor.

Accounts with Delinquencies and Revoked Accounts

If the account has a delinquency, the collection case should be reviewed prior to entering a business to verify if the account has been assigned to a collector.

If the account has been assigned to a collector, SCOP representatives should notify the business owner at the time of the visit of the delinquencies, offer to assist the business owner in filing returns through CDTFA's online services, and refer them directly to the collector and/or CDTFA office handling the account. Any discussions with the business owner should be noted in the *SCOP Visit* case.

If the account has not been assigned to a collector, SCOP representatives should offer to assist the business owner with filing returns and making payments through online services.

BUSINESS VISITS**1020.040**

All assignments will be performed in a professional manner. It is the CDTFA's policy to administer its laws and policies fairly and efficiently, with the expectation that employees will conduct themselves with dignity, integrity and courtesy. In addition, discretion must be exercised to avoid disclosing confidential information to unauthorized parties. (See CPPM section 722.020)

Upon entering a business, the SCOP representative should identify themselves by showing CDTFA identification and stating the purpose of the *SCOP visit*. For example:

“Hello, I am Name with the California Department of Tax and Fee Administration, Statewide Compliance and Outreach Program (SCOP). I am here to check your seller’s permit and licenses, ask some questions about your business, and answer any questions you may have in relation to your business.”

SCOP representatives should request to speak to the business owner, or person in charge if the owner is not present. SCOP representatives should make reasonable attempts to speak to the business owner or manager instead of an employee, due to the following issues:

- The employee may feel intimidated.
- The employee may not be able to provide accurate information about the business operations, customers, vendors, method of recording sales or reporting tax, etc.
- Employees are generally not authorized to discuss confidential information about the business’ tax reporting.
- The business owner or manager may receive inaccurate or incomplete information from the employee about matters discussed during the *SCOP visit*.

The SCOP representative should note the name, title, and phone number of the person they spoke with on the General Business Info tab of the *SCOP Visit* case.

If permits and licenses are not displayed, SCOP representatives should request to see them and inform the business owner of the requirement to display them. Permits and licenses (seller’s permit, cigarette and tobacco license, city/county business license, ABC license, etc.) should be visible to their customers. If the business owner or employee is not familiar with a seller’s permit, SCOP representatives should show them a sample seller’s permit. In municipalities where a Business License is required but the business owner does not have a valid/posted license, the SCOP representative should select No for the *Valid Business License on Site Selector* button on the Inspection Details tab.

SCOP representatives should verify the following with the business owner:

- Ownership
- Business name (DBA)
- Mailing address
- Phone number
- Current business operations (used to verify NAICS)
- Information, including start and cease dates, for all active and closed business locations, if any

If there are any account maintenance discrepancies, a *SCOP Account Maintenance* work item should be added on the *SCOP Visit* case. Notes of all discussions with the business owner or representative should be entered in the *SCOP Visit* case.

SCOP representatives can assist business owners with making payments through online services, but under no circumstances should SCOP representatives collect any payments in the field.

BUSINESS VISITS

(CONT.) 1020.040

At each visit, SCOP representatives must leave publication 164, *Statewide Compliance and Outreach Program*, the *SCOP How are We Doing?* survey card (SCOP representatives should not leave the survey card if the business was closed), and any other information relevant to the business. A business card or contact information should be left if further information is needed and should be offered as a courtesy to all business owners.

EXISTING ACCOUNTS WITH PROPER SELLER’S PERMITS

1020.050

SCOP representatives should compare sales reported to observed business operations. The observations should be noted in detail in the *SCOP Visit* case and should include information on:

- Ownership Type.
- Nature of the Business and Business Hours – Business basics: industry type, hours, and days of operation should be noted on the General Business Info tab of the *SCOP Visit* case.
- Number of Employees.
- If there are over 10 employees at the location, the SCOP representative should select Yes on the 10+ Employees at Location selector within the Inspection Details tab.
- If there are over 50 employees under the same ownership, Yes should be selected on the corresponding selector within the Inspection Details tab.
- Size of the Operation - Estimated sales volume based on observation, etc.
- Sales Flow - Observation of customer traffic flow and nature of the sales must be documented.
- Tax Exemptions - Reported tax exemptions should be appropriate for the business operation.
- Operating Expenses - Business expenses such as number of employees, cost of goods sold, wages, etc. should be estimated.
- Forms of Payment Accepted- Note if the business accepts cash, checks, and/or credit cards.
- If there is a POS system being used, Yes should be selected on the Point of Sale System selector within the Inspection Details tab. POS System brand should be noted, when possible.
- If the business is Cash Only, Yes should be selected on the Cash Only selector on the Inspections Detail tab.
- Online Sales - Notes should be made if the business has a website where customers can make purchases.
- Sales Tax Reimbursement – Notes should detail whether the business adds sales tax reimbursement to the sales price or if the price listed is tax included.
- Any other important observations while conducting business visits (e.g., new piece of equipment recently purchased and sitting in the hallway).

Special Tax and Fee Accounts

Some programs administered by the CDTFA do not issue a physical permit/license. SCOP representatives should observe the business operations and make a note on the *SCOP Visit* case of other CDTFA tax and fee program licenses or permits that may be needed for the business. SCOP representatives should complete the Inspection Details on the *SCOP Visit* case and mark Yes on all applicable selector buttons for other programs administered by CDTFA that may pertain to the business.

STATEWIDE COMPLIANCE AND OUTREACH PROGRAM

EXISTING ACCOUNTS WITH PROPER SELLER'S PERMITS

(CONT.) 1020.050

Example: If the business sells cigarettes or tobacco products and doesn't have a valid cigarette and tobacco license, the appropriate selector button under Special Taxes should be marked Yes. If the business is a gas station, the *Underground Storage Tank* selector button under Fuel Taxes should be marked Yes.

BUSINESSES OPERATING WITHOUT PROPER PERMITS

1020.060

If a business is found to be operating without a seller's permit, a search should be done in the system to make sure there is no valid permit for the location in question. If a seller's permit is not located in the system, SCOP representatives should manually add *SCOP Visit* case to record the business visit in the system and select Yes on the New Customer/Account selector button on the Inspections Details tab. SCOP representatives will need to obtain the business owner's name, business name (DBA), address, name of person providing information, phone number, start date, and enter the information in the Pre-Visit Review tab on the *SCOP Visit* case. Once the information is saved, the *SCOP Visit* case should be staged to Visit and the visit conducted as usual. See CPPM section 1040.000 for more information on unregistered customer procedures.

SCOP representatives should verify:

- Ownership – It is imperative that the correct ownership be recorded. If it cannot be verified at the time of the visit, it should be noted to verify later.
- Suppliers – The business owner will need to provide the names, addresses and phone numbers of suppliers on their sales and use tax application.
- Size of the Operation – Estimated sales volume from the owner, corroborated by observation, number of employees, etc.
- Operating Expenses – A detailed note of observations of the business operations and an estimate of the operating expenses such as approximate rent, cost of goods sold, wages, etc. should be made on the *SCOP Visit* case.
- Start Date – The start date of a business may be found on the city/county business license, the lease agreement, date of occupancy issued by the local fire department, or other reliable written verification.

NOTE: SCOP team members should be careful to only back date a start date within the statute of limitations. While exceptions exist, generally the CDTFA cannot require a business owner to file original returns for periods over eight years old.

Providing Registration Information to the Business Owner

After obtaining all information needed, SCOP representatives will provide seller's permit online registration information to the business owner. Options available to the business owner include:

- SCOP representatives may walk the business owner through the online registration process on the business owner's computer.
- The business owner may go to the nearest CDTFA office to complete the online registration.
- SCOP representatives should inform the business owner that a SCOP team member is able to assist them in completing the online registration process and may provide the name(s) and phone number(s) of the SCOP team member.

BUSINESSES OPERATING WITHOUT PROPER PERMITS

(CONT. 1) 1020.060

It is mandatory for SCOP representatives to note in the system and explain to the business owner it is *“illegal to sell tangible personal property subject to sales tax without a valid seller’s permit.”* It is mandatory for SCOP representatives to document the conversation on the *SCOP Visit* case notes as it will serve as evidence should the matter result in a citation and subsequent prosecution. The business owner must also be informed of the consequences of not obtaining the required seller’s permit. An expected follow-up date will be established and noted, usually within ten business days (see CPPM section 1040.000 for more information regarding unregistered customer procedures).

Filing Prior Returns

In addition to the requirement for a seller’s permit, SCOP representatives must notify the business owner of prior periods for which sales and use tax returns must be filed. All delinquent sales and use tax returns must be filed upon issuance of the seller’s permit.

The business owner should be informed of the requirement to maintain supporting documentation in the event of an audit. When requesting prior sales and use tax returns, SCOP team members should be mindful to follow CDTFAs policy regarding statutes of limitations. All discussions with the business owner should be noted in the *SCOP Visit* case.

Unregistered Business Locations (Sites)

If the business has a valid seller’s permit, but the specific site being visited is not registered, SCOP representatives should record the visit in in the system by manually adding a *SCOP Visit* case and associating the visit case to the existing account number.

Once the visit is completed, the request to add the site to the existing account needs to be completed on the *SCOP Visit* case by adding a record under the SCOP Account Maintenance section. This adds a work item for a SCOP team member to complete for the location to be added as a site to the existing permit.

SCOP representatives must verify that all sales for unregistered sites have been reported on the business owner’s sales and use tax returns. This should be verified by performing a review of business operations observed during the business visit compared to amounts reported to CDTFAs.

- If the business owner has been reporting the sales made at the site(s) and no additional tax is due, SCOP representatives must notify the business owner the Schedule C - *Detailed Allocation by Location of Sales and Use Tax Transactions* portion of their return(s) will need to be amended.
- If, at the time of the business visit, it appears the sales made at the site may have been overlooked by the business owner or it is determined that additional tax may be due, SCOP representatives should:
 - o Notify the business owner of the potential discrepancy.
 - o Ask the business owner to review their records and amend any necessary sales and use tax returns.
 - o Notify the business owner that a subsequent contact by a SCOP team member will be made to request amended returns and/or documents to support what is reported.

Notes should be entered on the *SCOP Visit* case to record all conversations and observations. In addition, the *SCOP Visit* case should be staged as an underreporting lead to document the potential underreporting issue. The *SCOP Visit* case will later be reassigned and reviewed by the SCOP supervisor or SCOP BTS I to determine the next course of action.

BUSINESSES OPERATING WITHOUT PROPER PERMITS

(CONT. 2) 1020.060

Service Businesses – No Seller’s Permit Needed

Service businesses are generally not visited by a SCOP representative; however, if SCOP representatives enter a business and determine that the business does not require a seller’s permit, a business visit should still be conducted. SCOP representatives should verify the business owner holds a valid city/county business license, if required, and provide information to the business owner on use tax.

These visits should be recorded in the system using a manually added *SCOP Visit* case. The following information must be gathered during the visit and recorded on the Pre-Visit Review tab within the *SCOP Visit* case:

- Owner name or DBA
- Contact name
- Phone number
- Number of Employees

MISCELLANEOUS CIRCUMSTANCES

1020.070

Closed Businesses

If SCOP representatives arrive at a business that is closed, they should make note of their observations on the *SCOP Visit* case. SCOP representatives should leave publication 164, *Statewide Compliance and Outreach Program*, and their contact information at the location. Once in the office, the representative should follow up with a call to the business owner to provide outreach and review any possible discrepancies and/or add a *SCOP Account Maintenance* work item, as appropriate. This is considered a field visit.

Multiple Businesses at One Address

If SCOP representatives arrive at a business that appears to be a mail center with multiple post boxes, a virtual office, or any other location with multiple accounts at the same address, unless the business owners are at the location, the SCOP representative should choose one account on the list to mark as a field visit. Follow up on that account can be made in the office. The other accounts in that mail center, virtual office, or at the same address can be conducted as in-office investigations. SCOP representatives should select Yes on the *In-Office* selector button on the Inspection Details tab, add the appropriate event code, and event date on the *SCOP Visit* case. Any information gathered through the investigation and follow up should also be noted in the *SCOP Visit* case.

ANALYSIS OF BUSINESS PROCEDURES**1020.080**

At the time of the business visit, SCOP representatives should:

- Determine if the business owner holds a valid seller's permit if one is required.
- Determine if the business owner appears to understand their reporting responsibilities.
- Determine if the business appears to be properly reporting their sales and use tax liability based on their observation of business operations.
- Address any potential discrepancies and educate on proper reporting to the business owner.

To determine if potential reporting discrepancies exist, SCOP representatives must understand the nature of each business and the regulations that may apply.

Requesting Business Records

SCOP representatives should **not** request financial statements, receipt books, tax returns, or similar documents during the first business visit. Only when a business owner questions whether they are collecting and reporting correctly, can SCOP representatives offer to review records. This should only be done in situations where the business owner is willing and open to presenting records during a business visit. Any discussions with the business owner should be noted on the *SCOP Visit* case.

Although generally requesting to view records at the first visit is not appropriate, when SCOP representatives visit a business with a revoked account they may request a copy of an invoice showing sales tax has been collected.

Business Questions and Discrepancies

At the time of the business visit, SCOP representatives should ask the business owner if they have any questions related to their sales and use tax responsibilities. Information about the business operations should be gathered at the time of the visit to make sure the business owner understands their reporting requirements.

If during a business visit, SCOP representatives recognize any possible discrepancies in reporting, they should address their findings with the business owner. The SCOP representative must document all findings and conversations about the discrepancies (i.e., size of business location, foot traffic, quantity and type of inventory sold, number of employees, number of locations, number of bays, number of tables, prices, questionable exemptions based on the nature of the business, supplier information, hours of operation, etc.) within the *SCOP Visit* case notes.

SCOP representatives should make the business owner aware that a SCOP team member will be following up with the business owner regarding the possible discrepancies. The business owner may be given the option to schedule a future appointment with the SCOP supervisor, SCOP BTS I, and/or designee. This eliminates any surprise to the business owner should they receive another phone call or letter about the possible underreporting issue.

STATEWIDE COMPLIANCE AND OUTREACH PROGRAM

ANALYSIS OF BUSINESS PROCEDURES

(CONT.) 1020.080

In situations where it is evident that the business owner is reporting sales taxes incorrectly, SCOP representatives can advise the business owner to file amended returns; or if the business has overpaid taxes, they will direct the business owner to file a claim for refund. SCOP representatives should never threaten or intimidate a business owner with an audit, but should inform the business owner that in some instances, businesses are referred to audit.

If, during a routine business visit, it appears reported sales are insufficient to cover expenses, the business owner should provide reasonable explanation/support. An underreporting lead which includes detailed analysis and a Summary Research note should be added on the *SCOP Visit* case if the discrepancies in sales reported still exist.

When requested by the business owner to work directly with their representative, such as a bookkeeper, CPA, or attorney on subsequent account inquiries, SCOP team members should honor that request. If a written power of attorney is not provided, guidance for verbal authorization by the taxpayer under CPPM section 722.028 should be followed. In addition, when requested by the business owner, copies of all correspondence should also be sent to the representative (see Audit Manual section 0222.40 for additional information).

IN-OFFICE INVESTIGATIONS**1025.000****OVERVIEW OF IN-OFFICE INVESTIGATIONS****1025.010**

In-office investigations are case reviews initiated in the office and require preapproved event code information entered on the *SCOP Visit* case in the system. In-office investigations may include:

- Special events (e.g., shows, fairs, swap meets)
- Complaints received from the Investigations Bureau, from the AB 990 program, or other business complaints
- Outlier accounts (accounts not canvassed in person due to cost effectiveness)
- Focused efforts (see CPPM section 1030.000)
- Residential account reviews

In-office investigations must include a documented review of the account information in the system, including return information, account history, balances, audits and collection activity. In addition, any other research that is deemed necessary such as External Access Tracking (EAT) system, CLEAR, and Internet searches should be documented in the case. If upon investigation sales appear to be questionable or account maintenance is necessary, a SCOP representative must contact the business owner or their representative.

“Prescreening” accounts prior to canvassing is **not** considered an in-office investigation. The case should **not** be staged to *Visit* and the *In-Office Investigation* selector button should **not** be marked Yes. (Information on prescreening accounts prior to canvassing is in CPPM section 1015.000.)

RESIDENTIAL BUSINESS**1025.020**

Businesses operating out of a home-based location with no storefront will not be visited by SCOP; however, if warranted, in-office investigations can be conducted. SCOP teams may work residential cases as a special focused effort. When working the residential accounts, event code 075 and the event date must be entered on the Pre-Visit Review tab and the *In-Office Investigation* selector must be marked Yes on the Inspection Details tab on the *SCOP Visit* case. All investigation findings should be documented in notes on the *SCOP Visit* case.

If an in-office investigation is **not** being conducted for the residential location and it needs to be designated as *Residential* for future mailings, the *Residential – No Work Done* selector button should be marked Yes on the Inspection Details tab on the *SCOP Visit* case. No notes need to be made on the *SCOP Visit* case. The investigation will not be documented as an inspection for cases where this selector button is marked Yes. Once the account is saved and completed, it will be marked as completed on the *SCOP Selection* case.

STATEWIDE COMPLIANCE AND OUTREACH PROGRAM

FOCUSED EFFORTS

1030.000

SPECIAL EVENTS

1030.010

SCOP teams should spend approximately 20 percent of their time working on focused efforts, such as attending trade shows, fairs, and swap meets; working miscellaneous leads; participating in joint efforts with other state agencies; or working on specific industry projects.

Prior to working a focused project or attending an event, the SCOP supervisor should create a Special Event work item in the system for the SCOP coordinators to review and approve. SCOP supervisors should complete all necessary fields which include:

- General size and scope of the event
- Estimated number of businesses to be visited/contacted
- Event details
- Notes indicating whether the event will be worked in-person or in-office
- Number of SCOP representatives working/attending
- Cost analysis if traveling overnight to the event

SCOP coordinators will review each Special Event work item. If approved, the work item will be completed and an event code created. The event code will be available to the SCOP team the following business day. The assigned event code should be added to all records generated for that project or event.

A CDTFA-1322-T, *Letter to Cities RE: Special Event Visits-SCOP* will be sent to the local municipality informing them of the upcoming SCOP visits/contacts regarding the special event in their city/county.

A CDTFA-1581, *Listing Request Letter* will be sent to the event coordinator per Revenue and Taxation Code (RTC) section 6073.

INVESTIGATIONS BUREAU LEADS

1030.020

The Investigations Bureau (IB) receives complaints from various sources. IB will add *SCOP Visit* cases and will forward the cases to the SCOP coordinators for review and processing. The complaints will either involve a seller of tangible personal property without a valid seller's permit or a seller that is not collecting the applicable sales or use taxes. After a complaint is received, the SCOP coordinators will review the lead for viability and will forward the *SCOP Visit* case to the corresponding SCOP team supervisor or designee for distribution to their team. When conducting research on IB leads, SCOP representatives should use event code 011 and note the findings of the investigation on the *SCOP Visit* case.

LABOR ENFORCEMENT TASK FORCE PROCEDURES

1030.030

At inception, SCOP was mandated by the California state legislature to join efforts with the Employment Enforcement Coalition which is now the Labor Enforcement Task Force (LETF), under the direction of the Department of Industrial Relations (DIR). LETF is a coalition of California State government enforcement agencies that work together and in partnership with local agencies to combat the underground economy. SCOP has elected to participate in joint investigations with LETF for only certain industries.

An LETF representative will contact the SCOP coordinators with the date and location of joint investigations approximately one week prior to a planned investigation. The SCOP coordinators will contact the appropriate SCOP team to request the name and contact information of the SCOP representative(s) who will participate.

When SCOP representatives attend an LETF investigation, the following guidelines must be followed:

- In most cases, SCOP representatives are expected to visit other nearby businesses while they wait for the other LETF team members to complete their investigations. An exception to this would be if the LETF team leader instructs the SCOP representative to stay with the LETF team and not canvass on their own due to safety reasons. SCOP representatives should always remain in contact with the LETF team leader.
- For tracking purposes, SCOP representatives should record all LETF visits in the system as they would any other *SCOP Visit* case. All findings should be documented on the *SCOP Visit* case.
- All visits conducted while participating in the LETF investigation should have the event code 232 and the event date added on the Pre-Visit Review tab on the *SCOP Visit* case.
- SCOP supervisors should review and compile LETF stats for their team. LETF stats should be sent via email to the SCOP coordinators by the fifth business day of each month following the LETF investigations.

ACCOUNT MAINTENANCE**1035.000****ACCOUNT MAINTENANCE PROCEDURES****1035.010**

If SCOP representatives determine that a registration update needs to be made to an account, a *SCOP Account Maintenance* work item will be created by adding a record to the Account Maintenance section on the *SCOP Visit* case. Even when SCOP representatives can immediately update account information in the system, a SCOP Account Maintenance record should be added for each update.

Notes and recommendations on a *SCOP Account Maintenance* work item should be clear and concise. In the event the *SCOP Account Maintenance* work item has any inconsistencies or errors that team members are unable to resolve, the *SCOP Account Maintenance* work item may be reassigned to a SCOP representative for further investigation or clarification.

ACCOUNT MAINTENANCE TYPES**1035.020**

Information noted in the SCOP Account Maintenance request should have the effective date of the change and source of the information. The following are potential maintenance items:

- Business address change
- Mailing and/or books and records address change
- Phone number change
- Legal or business name change
- Entity type or ownership change:
 - o SCOP representatives must try to obtain all applicable information regarding the new ownership, such as an effective date and the new owner's name. If the business was sold, request information about selling price and escrow information.
 - o If the new owner does not already have a permit, SCOP representatives should provide online registration information and advise the new owner of the type of documentation needed in order to register for a permit (e.g., copy of driver license, articles of incorporation). **NOTE:** a *SCOP Visit* case staged to *Unregistered Customer* should not be added in the system for this situation.
- Adding new site(s), obtain the following information:
 - o Business name (DBA)
 - o Business address
 - o Phone number
 - o Commence date (must be verified and verification method documented in the case note, such as landlord, business license, neighbor, etc.)
 - o Total number of sites to be added, if applicable
- Commence and/or cease date change:
 - o SCOP representatives should try to determine if the business relocated or discontinued operating. Representatives should talk to neighboring businesses and/or the business landlord for information if the taxpayer is not available.

ACCOUNT MAINTENANCE TYPES

(CONT.) 1035.020

- o If the business is closed and the site must be closed in the system, SCOP representatives must specify and document the following:
 - New owner's name, phone number and DBA (if applicable)
 - New/forwarding address
 - Effective date
 - If fixtures and equipment were retained or sold and their value
 - If inventory was retained, sold, or sold for resale (must indicate new owner's account)
 - If there was an escrow involved and if so, name of escrow holder
- Reinstatement of account
- Add/change other miscellaneous customer or account information (e.g., contacts, bank, NAICS code, escrow, links)

Note: Requesting copies of seller's permits is not considered account maintenance and a work item should not be added for this type of request.

UNREGISTERED CUSTOMERS PROCEDURES

1040.000

VISITS STAGED TO UNREGISTERED CUSTOMER

1040.010

When SCOP representatives complete a visit to a business operating without a permit, they should stage their *SCOP Visit* case to *Unregistered Customer*. This will create a record of the *Unregistered Customer* in the SCOP reports. This staging should be completed soon after being staged to *Post-Visit* as the SCOP team members must complete their follow up within 10 days. Staging the visit to *Unregistered Customer* will immediately remove the case owner and place the *SCOP Visit* case in a work queue available to all SCOP team members.

Follow up on *SCOP Visit* cases staged to *Unregistered Customer* should be completed within 10 days of the visit. Follow up should include verifying a permit was issued, assisting the business owner in registering for a permit, and/or making a phone call and sending a letter with the possible consequences for not registering for a permit. All SCOP actions should be documented on the *SCOP Visit* case. Once the seller's permit is issued, the necessary information on the *SCOP Visit* case should be completed, including adding a recovery tracking indicator to the account.

CHANGES IN OWNERSHIP

1040.020

A manually added *SCOP Visit* case does NOT need to be staged to *Unregistered Customer* if there is only a change in ownership entity type, whether or not a new account number has been issued (i.e., business has been incorporated, adding/dropping partners, etc.). In this case, SCOP representatives should obtain the new account number from business owners and record the visit in the system.

REINSTATING CLOSED OUT ACCOUNTS

1040.030

When SCOP representatives discover a business operating and their seller's permit has been closed, a manually added *SCOP Visit* case should only be staged to *Unregistered Customer* if the business owner is required to register for a new seller's permit (see CPPM section 635.010 regarding the policy for reopening an account closed in error). Otherwise, SCOP representatives should record the visit by manually adding a *SCOP Visit* case in the system through the closed-out account. In this case, a SCOP Account Maintenance work item should be added to request the account be reinstated. The business owner should be notified to file all past due returns with payment in full within 10 days of the account having an active status. When a seller's permit is reinstated, recovery tracking indicators should be added to the account. All findings and discussions with the business owner should be added to the *SCOP Visit* case.

FINDINGS OF UNDERREPORTING**1045.000****SUSPECTED UNDERREPORTING LEADS****1045.010**

Reporting discrepancies and underreporting leads may involve understated gross sales, questionable deductions claimed (e.g., sales to other retailers for purposes of resale, nontaxable sales of food products, nontaxable labor), and understated purchases of tangible property that may be subject to use tax. It is important to consider the following regarding business operations compared to their reported sales:

- Size and scope of business
- Number of sites
- Customer traffic flow
- Number of employees
- Days and hours of operation

When SCOP representatives find significant potential reporting discrepancies, they should document their observations in detail and record their analysis and recommendations on the *SCOP Visit* case using the note type Summary Research. The owner of the *SCOP Visit* case should be changed to the SCOP BTS I to review for materiality and proper action. When the SCOP BTS I reviews cases, they determine if the lead will be pursued and will forward it to their SCOP supervisor to complete the case if no further action is needed.

SCOP BTS I RESPONSIBILITY**1045.020**

When the SCOP BTS I decides to pursue an underreporting lead, they stage the case in the system to *Request Amended Returns* or *Audit Referral*. This will create a record of the underreporting lead in the SCOP reports. This staging should be completed within two weeks of the case being staged to *Post-Visit* and the owner changed to the SCOP BTS I.

The SCOP BTS I can switch between *Request Amended Returns* and *Audit Referral*, as needed. In most cases, all efforts to resolve discrepancies by obtaining amended tax returns should be exhausted.

The SCOP BTS I can request supporting documents such as invoices, purchase orders (for inventory and other tangible items that show whether sales tax was paid), supplier information, and descriptions of merchandise sales to substantiate the reporting issues. All investigations and findings should be noted in detail on the *SCOP Visit* case.

Review Process

The status of all underreporting leads should be reviewed on a monthly basis to make sure they are completed timely and accurately. The SCOP BTS I should keep the SCOP supervisor informed of the status of the underreporting leads. If an assignment is not complete and it is determined the assignment cannot be resolved with the submission of amended returns, the SCOP supervisor or designee will determine the appropriate action to complete the assignment; for example, completing the case, proceeding with a field billing order (FBO), and/or an audit recommendation.

Investigation Resources

SCOP BTS Is should access and use the information in the Data Warehouse in the system as needed. Other sources of information that can be requested or reviewed include the EAT system, CLEAR, and Westlaw. Federal Tax Information (FTI) should be requested only when necessary and should adhere to current CDTFA policy for FTI usage and tracking. For more information on FTI, see CPPM section 720.031.

AMENDED RETURN PROCEDURES**1045.030**

When discrepancies in the reported sales of a business are discovered, the SCOP representative should first attempt to obtain amended sales and use tax returns to correct the discrepancies for all eligible periods. If the business owner asks for team members to communicate directly with a representative, the request should be honored. In cases where the CDTFA-1322-D, *SCOP – Letter to Business- Follow-up* is mailed, a copy should be sent to the representative if one has been designated (see Audit Manual section 0222.40).

Contact with Business Owners

If it is determined amended returns are needed, a SCOP team member should explain the apparent discrepancies between the taxable sales reported on the sales and use tax returns filed and the actual business operations to the business owner. The SCOP BTS I should advise the business owner of the proper application of the law. Business owners should be afforded the opportunity to voluntarily comply by reporting their sales and use taxes correctly and providing the amended returns and supporting documents. All discussions with business owners should be documented in the system notes.

The business owner should be given sufficient opportunity to voluntarily amend their returns or satisfactorily explain and document the reason for the discrepancy. If the business owner indicates they have been filing correctly and the SCOP findings suggest significant underreporting, the business owner should be given the opportunity to support their claim by submitting additional documents such as income tax returns, sales tax return worksheets, invoices, etc.

The business owner should be informed that filing amended returns does not prevent further CDTFA activity, such as an audit or refund, for the same period(s) in question.

Deadlines

The SCOP BTS I should establish clear deadlines for business owners and explain that if an amended return results in additional taxes due, interest will be due and additional penalties may apply. Prompt payment of the liability should be made to prevent the accrual of additional interest and penalty. Business owners should be referred to publication 117, *Filing a Claim for Refund*, for information on how to file a claim if their amended returns result in overpayments.

The CDTFA-1322-D should be mailed to notify the business owner of the potential discrepancy in reported taxable sales and to request they review their records and amend any applicable returns. The SCOP BTS I should follow up with the request for the amended returns. A date should be given for the business owner to respond and should be entered in the case notes.

If amended returns are not received by the initial deadline, the SCOP BTS I should make every possible attempt to contact the business owner. If no response is received, the CDTFA-1322-I, *SCOP – Request to Furnish Information*, should be sent to request the amended returns and provide a due date.

If there is no response received from the business owner or the documentation presented (including amended returns) does not support SCOP findings, other methods to resolve tax compliance issues may be taken, such as assessing an FBO and/or recommending an audit. Decisions should be made in a time-efficient and cost-effective manner. All actions should be justified and documented in the case notes.

AMENDED RETURN PROCEDURES**(CONT.) 1045.030****Filing Amended Returns**

Business owners can file amended figures using the Online Services portal on the CDTFA website. Instructions for taxpayers are available on the CDTFA website by searching “amend a return.”

Amending a return can be done online for periods with due dates after May 7, 2018, with the exception of FY18. For returns where online filing is not available, blank paper returns corresponding to the specific period(s) should be used, with the words “SCOP AMENDED RETURN – DO NOT PROCESS AS ORIGINAL” written at the top of the page.

The business owner should be instructed to verify all amended returns and resolve any district tax shortages or computational errors prior to submitting the amended returns. The SCOP supervisor or SCOP BTS I should review and verify that all returns and schedules needed are received. When the SCOP supervisor or SCOP BTS I accepts the amended returns, the returns should then be forwarded to the Return Analysis Unit. All corresponding notes should be added to the case in the system.

NOTE: Determinations for corrected returns must be made within three years from the date the original return was filed (RTC section 6487).

AUDIT REFERRAL PROCEDURES**1045.040**

If the underreporting lead provides enough information to support an audit, the SCOP BTS I must justify the recommendation by detailing their investigation and providing supporting documentation. Notes must be entered in the case and supporting documents uploaded into the system. The SCOP BTS I will add a *Memorandum of Potential Tax Liability* case to the *SCOP Visit* case. The SCOP supervisor will review the case and if a recommendation for audit is approved, the audit referral case will be assigned in the system to an audit supervisor for review. Once the case has been staged to *SCOP Audit Referred*, it will be recorded as “referred to audit” for the purpose of SCOP reports.

If the account is selected for audit and the audit is added from the *Memorandum of Potential Tax Liability* case, a revenue tracking indicator will automatically be added to the account. Please note, the sub type field on the revenue tracking indicator must be updated to designate the appropriate SCOP team. The audit case must be completed before the *SCOP Visit* case can be completed.

Accounts Referred to Another Field Office for Audit

When an audit referral is made to a non-SCOP office, the SCOP supervisor should request the Compliance Principal notify the appropriate Audit Principal that the audit referral has been added to the system. All applicable information and supporting documents should be noted and added to the *SCOP Visit* case.

SCOP team members should follow up with the other field office for the status of actions taken. The status should be reviewed on a monthly basis until all outstanding issues are resolved.

FIELD BILLING ORDER (FBO) PROCEDURES

1045.050

Only the SCOP BTS Is can issue FBOs in the system. In general, FBOs should only be assessed when the SCOP BTS I has exhausted all other means to gain voluntary compliance, and/or it is impossible or impractical to obtain amended returns from the business owner. In addition, an FBO should only be used in circumstances where a liability is disclosed, and it has been determined that a more in-depth audit investigation is not warranted. See Audit Manual Chapter 2 for additional FBO guidelines.

Once an FBO has been prepared and submitted in the system, the SCOP supervisor should make every effort to process and approve the FBO within three business days of receipt. If needed, the SCOP supervisor should consult with an audit supervisor or the Audit Principal for guidance. After approval, the FBO will be forwarded to the field office's audit reviewer for review and billing.

If the business owner disagrees with the FBO, the normal appeals process applies and the business owner has appeals rights as outlined in publication 17, *Appeals Procedures*. The SCOP supervisor is responsible for conducting the 10-day meeting. All findings, actions and discussions should be noted in the *SCOP Visit* case.