

2008 FTA Motor Fuel Tax Annual Conference

- Accounting & Tax Systems Audits
- Audit Quality and Efficiency Standards

Focusing On Planing

- Pre Audit Interviews
 - Documenting ISP Procedures
 - Establishing Timeframes
 - Technical resources
 - Establishing need for test data and additional data
 - Establish control accounts
- System Review
- Procedures manuals
- Internal Controls
 - Data Integrity
- Data Reviews /Access to all data
 - Images
 - Electronic data
 - Non-electronic paper records

E-Audit Survey



PRE-AUDIT AND ELECTRONIC AUDIT SURVEY

DATE: _____

TO:
ADDRESS: _____

AUDIT NUMBER: _____

Dear Taxpayer:

You have received a Notice of Intent to Audit Books and Records (Form DR-840) for determining voluntary compliance of taxes. We have modified our audit program to include using computerized accounting data to determine voluntary compliance and consider your firm to be eligible to participate in this program.

Whereas, there are mutual benefits of reduced or limited business interruption, audit time savings and conserving resources associated with this modified program, we plan to expand our use of this program and request some preliminary data on your computerized accounting system and your firm. This information would help us to determine if an electronic audit could be conducted on your company.

We are requesting your cooperation by completing and returning this questionnaire. After we receive and review your response, we will contact you to discuss if your firm qualifies for an electronic audit.

Please Answer the Following:

- 1.) Audit information: Contact person: _____
Title: _____
Phone: _____
- 2.) Computer information: Contact person: _____
Title: _____
Phone: _____
- 3.) Computerized records are maintained at a detail transaction level for:
 Ledger/Journals Sales Expenses Fixed Assets
- 4.) What data format can your system download records in:
 Excel 97(8.0) DB-5/DB-4 ASCII Text Print Files Other _____
- 5.) What storage media can you use to provide this information to us?
 Floppy Diskette CD JAZZ Disk Other _____
- 6.) Please attach any additional information that may be relevant for this process (i.e., change in computer systems, length of time computerized records are maintained, type of accounting system software, etc.).

- 7.) What is the organizational structure of this company (i.e., sole proprietorship, corporation, partnership)? If a corporation, is it a "C" or "S" corporation? If a partnership, is it a general partnership or a limited partnership? If a limited partnership, what is the name of the general partner?

PRE-AUDIT AND ELECTRONIC AUDIT SURVEY

Page 2

8.) Was there a name change or a change in ownership during the audit period? If yes, list the previous and current name and/or the previous and current owner(s).

9.) Identify the type of product or activity sold in Florida.

10.) Does your company own or lease/rent real property in the State of Florida? If you lease/rent, list the landlord(s) name(s).

Own Lease/Rent Both

11.) List all of the counties you have sales locations in.

12.) How are the monthly sales invoices stored or filed?

- In numerical sequence by month
 By customer name or number
 Other - Please explain

13.) What are the average sales in invoice dollar amount?

- Under \$100
 \$100 - \$ 1,000
 \$1,000 - \$10,000
 \$10,000 or more

14.) What tax reports are filed with the State of Florida?

- Sales and Use Tax Intangible Tax
 Solid Waste Fee Documentary Stamp Tax
 Corporate Income Tax Gross Receipt Tax
 Unemployment Comp Tax Other - Please explain

Prepared by: _____

You can mail or fax this questionnaire to the address or fax number listed below. If you have any questions, please contact me at the telephone number listed below. Your cooperation certainly will be appreciated.

Tax Auditor:

Address: Florida Department of Revenue
General Tax Administration, Compliance Review
6302 E. Martin Luther King Blvd., Suite 100
Tampa FL 33619-1166

Phone: (813) 744-6328
FAX: (813) 744-6889

Samples of Interview Questions

ELECTRONIC AUDITING INTERVIEW TRAINING QUESTIONS

Taxpayer Name: _____
FEI # _____ Audit # _____ Period: _____ Group# _____

The computer assisted audit interview should ensure that appropriate control systems are in place, maintained and actively exercised by the entity. The objective of the computer assisted audit interview is to determine prevention techniques and detection techniques which are in place to minimize the occurrence of errors, omissions or defalcations which could affect the validity of the data to be processed by the Department of Revenue.

Prevention techniques are designed to provide reasonable assurance that only valid transactions have been recognized and processed. Examples of prevention techniques are:

- Supervisory authorization of transactions and adjustments
- Password procedures to restrict access to on-line terminals, computer programs and files
- Transaction by transaction balancing in an on-line system
- Verification and validation (i.e., key verification or check digits) of data entered into the system
- Scanning of data for reasonableness before entry into the system
- Segregation and rotation of input and processing duties
- Clearly defined processing and exception procedures.

Detection techniques are designed to provide reasonable assurance that error and irregularities are discovered. Examples of detection techniques are:

- Reconciliation of batch balance reports to control logs maintained by the originating department
- Reconciliation of cycle inventory counts with perpetual records
- Accounting for usage of prenumbered forms
- Review and approval of master file maintenance (was/is) reports
- Internal auditing by the operating entity
- Comparison of reported results with plans and budgets
- Reconciliation of subsidiary ledger balances with the general ledger
- Reconciliation of interface amounts exiting one system with the amounts entering another
- Review of on-line access and transaction logs

A computer assisted audit interview should be designed to provide reasonable assurance to the Department of Revenue that the originating entity does have appropriate internal controls in place to protect the validity and integrity of the data provided for review.

An example is attached.

ELECTRONIC AUDITING INTERVIEW TRAINING QUESTIONS

- What computer systems are in place for each of the following and have there been any changes during the audit period of _____ through _____:

Sales:
Purchases:
Fixed Assets:
General Ledger:
Commercial Rental Expense:
Commercial Rental Income:
Tangible Personal Property Expense:
Tangible Personal Property Income:
Sales Tax Return Reports:

- Inquire if each system has an export capability.

Sales:
Purchases:
Fixed Assets:
General Ledger:
Commercial Rental Expense:
Commercial Rental Income:
Tangible Personal Property Expense:
Tangible Personal Property Income:
Sales Tax Return Reports:

- Describe how a sales transaction is initiated and the accounting flow of the transaction through to the General Ledger system.

- Describe the sales system processing. How are sales transactions reflected in journal or point of original entry and the General Ledger? How are records updated and how frequently, i.e., sales batches daily to G/L, G/L updated simultaneously when sale is entered.

- Does the sales system support separation of state sales tax and county tax?

- Describe how a customer is setup in the system. Is there a master file with customer name, number, social information, tax exempt status (Y or N), sales tax resale number, county, and tax rate.

- How is the sales tax rate determined for each customer and at what point? Can the data entry employee override this?

Preparing For Systems / EAuditing

- Ability to access filed tax returns electronically in detail and create downloads of data.
- Filter and Sort data by schedule type
- Database(s) of taxpayer licenses
- Standard matching by taxpayer designation simple mapping tools & header creation
- Procedures for documenting tax decision rules
- Procedures for testing tax decision matrix
- Data Import requirements and abilities
- Data Integrity testing requirements
- Standardized work paper preparation software (inc.TPI)
- Up-load of results, amended returns

Preparing For Systems / EAuditing

- Test to determine transaction situs
- Tests to determine adherence to procedures
- Tests to determine effectiveness of controls
- Tests to determine the application of tax rates
- Tests analyzing exemptions
- Tests analyzing credits Claimed
- Evaluation accounting adjustments.
- Establishing the use of Test results to determine scope of work and potential adjustments
- Materiality

WinFMT



- Audit Quality and Efficiency

- Section 1 – Definitions for Pre-Audit Planning, Analysis and Audit Scope
 - Subsection 1.01 Performed pre-audit planning and analysis
 - Subsection 1.02 The auditor prepared and completed an industry specific audit plan and pre-audit interview questions
 - Subsection 1.03 Communication with PGM to discuss audit scope

Section 2 – Field Work, Write Up and Documentation

- Subsection 2.01 Evaluation of taxpayer's accounting system, accounting procedures, and internal controls
- Subsection 2.02 Data integrity tests were utilized and all records were examined for adequacy
- Subsection 2.03 All records were analyzed for tax exposure
- Subsection 2.04 Auditing methods utilized were appropriate, valid, properly applied, and explained

- Section 2 – Field Work, Write Up and Documentation (continued)
 - Subsection 2.05 Estimation method utilized was appropriate, valid, properly applied, and explained
 - Subsection 2.06 Exhibits and workpapers are clear and mathematically correct
 - Subsection 2.07 Materiality was considered throughout the audit
 - Subsection 2.08 Taxpayer and PGM were updated throughout the audit

- Section 2 – Field Work, Write Up and Documentation (continued)
 - Subsection 2.09 All audit procedures and all audit issues were clearly identified and referenced throughout the audit file
 - Subsection 2.10 Taxpayer organizational structure, accounting records, and Florida activity are clearly identified in the SAR
 - Subsection 2.11 All unagreed issues were fully explained and appropriately documented
 - Subsection 2.12 DR-815 was properly documented

- Section 3 – Application of Tax Law to Issues and Circumstances
 - Subsection 3.01 Technical research was performed for all audit issues
 - Subsection 3.02 Issues were properly supported with applicable statutes and rules
 - Subsection 3.03 Request for Technical Advice was completed for unique and/or disputed issues, if applicable

- Section 4 – Administrative and Case Management

- Subsection 4.01 Auditor protected all statutory deadlines
- Subsection 4.02 ACM entries are accurate and agree to audit file information
- Subsection 4.03 Scheduling of audit work was managed effectively

■ Section 5 – Efficient Time Utilization

- This section scores how efficiently the audit was conducted. The measurement for efficient time utilization is based on the relationship between the actual hours charged to audit and the adjusted budgeted hours for the assignment. Adjusted budgeted hours are defined as budgeted hours plus or minus any adjustments approved by the PGM.

The End