

# Notice of Routine Audit

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## How Your Audit Will Proceed

The Texas Comptroller of Public Accounts has scheduled a routine audit of your business records. Our auditors will contact you to set up a mutually agreeable time for the audit. We audit many taxpayers regularly, so you shouldn't feel that we have singled out your account.

The law authorizes us to examine the books, records, papers and equipment of a business to determine if the correct tax was paid to the State.

The Texas tax process involves several steps. After the Texas Legislature passes tax laws, the Comptroller of Public Accounts is responsible for implementing and administering those laws. During implementation of these law changes, which could include the development of tax systems and training of staff, the Tax Policy Division develops policy in the form of rules, special publications and letters. Audits will be conducted for both assessments and refunds for all periods within the statute of limitations and **audit fieldwork will be held to strict deadlines.**

Our auditors are accounting professionals familiar with the application of Texas tax laws to your business. The auditor will conduct

an impartial examination of all necessary records. While the audit is in progress, the auditor will answer any questions that may arise. When the audit is completed, the auditor will explain the procedures available to you if you disagree with the results.

### The Audit Process

Once an audit is assigned, the division will automatically send an audit notification letter and an audit questionnaire to the entity selected for audit. The taxpayer should be contacted by the auditor within **thirty (30) days** after the date of the audit notification letter or within two weeks after receiving the completed questionnaire back from the taxpayer. If the audit questionnaire has not been returned to the auditor within **thirty (30) days**, the auditor will have the taxpayer complete the questionnaire during the entrance conference. If the taxpayer does not return the questionnaire, or if contact cannot be made, a liability may be established by the best available method, including estimation.

Like audits, refunds should be assigned to an auditor within **120 days** of receipt of the claim

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from the taxpayer or another division within the agency. Once assigned, the taxpayer should be contacted by the auditor within **thirty (30) days** after the assignment of the refund.

Under no circumstance should statute waivers be requested before the audit has been started unless the taxpayer is requesting an unusually long delay and the auditor is ready to start the audit. The request from the taxpayer to delay the start of the audit must be written and must include the reasons for the requested delay and the duration of the requested delay.

In the past, some taxpayers have not allowed the auditor to begin a follow-up audit until the previous audit had been completed.

If the fieldwork on the previous original audit has been completed and the previous audit has been billed or is in the pre-hearing, hearing, or amended audit stages, it is deemed to be complete. The current audit will no longer be delayed until the issue in the prior audit is resolved in the hearings process.

### Managed Audit Process

If the taxpayer is planning to request a managed audit, the request must be submitted to the Audit Manager within **thirty (30) days** of the date on the Audit Notification Letter. Audit Division will approve or deny the managed audit request within **thirty (30) days** of the request.

Once the request has been approved, the taxpayer must submit a signed managed audit

agreement, an audit plan describing audit procedures for each area in the audit, and an audit completion timeline to the auditor within **forty-five (45) days** of receiving the managed audit approval. Thereafter, taxpayers and the auditor should adhere to the approved timelines.

### Fieldwork and Timelines

Once the audit fieldwork and/or refund verification has been started, the goal is to complete the audit/refund in a timely manner with few interruptions. Auditors are instructed to avoid period lapses longer than **thirty (30) days** with no audit activity. If the taxpayer has not provided the records

necessary to complete the audit or refund, the auditor will issue the taxpayer a request in writing listing the specific records needed to perform the audit/refund and giving the taxpayer **thirty (30) days** to produce the records.

If the records are not provided within the requested time then the audit will be estimated and/or the refund will be denied. If the taxpayer requests an extension of time and the request is reasonable, a second **thirty (30) days** or reasonable time not to exceed **ninety (90) days**, at the sole discretion of the auditor, can be given. A second extension request should not be granted unless the taxpayer has experienced a problem or hardship that the auditor deems to be beyond the taxpayer's control. **All extension requests from the taxpayer and extensions granted by the**



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**auditor must be documented in writing to avoid any misunderstandings or confusion.**

Once all records have been provided, the auditor should work continuously on the assignment until completed.

Sometimes, there is a continuing disagreement between a taxpayer and the state, and the audit may go through the Administrative Hearings process as well as District Court. In the past, some contested issues have taken months, if not years, to reach conclusion. The underlying goal of these deadlines is to keep issues moving toward a timely resolution.

### Examination of Records

To perform an audit, the auditor must examine certain records. These may include but are not limited to:

- Sales invoices;
- Purchase invoices for supplies;
- Capital asset invoices and journals;
- Current files of resale and exemption certificates;
- Accounting books, general ledgers, other ledgers and subsidiary journals;
- Charts of accounts and financial statements reflecting profit and loss;
- Federal income tax information;
- Bank statements;
- Working papers and accounting data used to prepare tax reports;
- Computer records;
- Documentation supporting unaudited refunds; and



- Documentation supporting credits taken on returns.

Often, the size and complexity of a business determines what records will be examined during the audit. Therefore, the law requires the taxpayer to furnish all records requested by the auditor that are necessary for conducting a complete audit.

### Auditing Methods: Detailed vs. Sampling

Generally, the auditor will first examine a portion of the business records to determine if there are errors in compliance with tax laws.

If errors are found, the following types of audits can be performed:

#### *Detailed Audit*

The auditor will examine all business records for the entire audit period.

#### *Sample Audit*

The auditor will use sampling

methods by which errors found in representative samples of business records are projected throughout the entire audit period. Sampling provides accurate results at a significant savings of time and manpower for both the taxpayer and the State.

#### *Estimation*

If records are inadequate or not provided, the audit will be based on the best information available.

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### Computer Auditing

In performing tax audits, auditors have various audit tools available, including computers and computer audit software. In addition to using hard copy records, the Comptroller's office employs audit methods using any and all taxpayer data files. Performing computer audits enhances audit accuracy and saves time and energy for the taxpayer and the auditor.

### Statute of Limitations

The statute of limitations is four years for all taxes due the State of Texas. The audit normally will cover the most recent four-year period. However, tax may be assessed for any period if:

- A false or fraudulent return was filed with intent to evade the tax;
- A return was filed erroneously and the tax due would increase by 25% or more; or
- A return was not filed.

### Questions About Your Account

Questions should be directed to the auditor who performs the audit.

If assistance is needed before the audit begins or if concerns arise during the audit, please contact the Comptroller's audit office at the phone number listed on the attached cover letter.

## We're Here To Help! *Call Toll-Free!*

If you have questions or need information on a specific tax, please call our toll-free numbers:

#### (800) 252-5555

911 Emergency Service/Equalization Surcharge  
Automotive Oil Fee  
Battery Fee  
Boat and Boat Motor Sales Tax  
Customs Broker  
Fireworks Tax  
Mixed Beverage Tax  
Off-Road, Heavy-Duty Diesel Equipment Surcharge  
Oyster Fee  
Sales and Use Taxes  
Telecommunications Infrastructure Fund

#### (800) 531-5441

Cement Tax  
Inheritance Tax  
Local Revenue  
Miscellaneous Gross Receipts Taxes  
Oil Well Servicing Tax  
Sulphur Tax

#### (800) 531-5441, ext. 3-3630

WebFile Help

#### (800) 252-1381

Bank Franchise  
Franchise Tax

#### (800) 252-7875

Spanish

#### (800) 531-1441

Fax on Demand (Most frequently requested Sales and Franchise tax forms)

#### (800) 252-1382

Clean Vehicle Incentive Program  
Manufactured Housing Tax  
Motor Vehicle Sales Surcharge,  
Rental and Seller Financed Sales Tax  
Motor Vehicle Registration Surcharge

#### (800) 252-1383

Fuels Tax  
IFTA  
LG Decals  
Petroleum Products Delivery Fee  
School Fund Benefit Fee

#### (800) 252-1384

Coastal Protection  
Crude Oil Production Tax  
Natural Gas Production Tax

#### (800) 252-1387

Insurance Tax

#### (800) 252-1385

Coin Operated Machine Tax  
Hotel Occupancy Tax

#### (800) 252-1386

Certificates of Account Status/Good Standing  
Officer and Director Information

#### (800) 862-2260

Cigarette and Tobacco

#### (888) 4-FILING (888-434-5464)

TELEFILE: To File by Phone

#### (800) 252-1389

GETPUB: To Order Forms and Publications

#### (800) 654-FIND (800-654-3463)

Treasury Find

#### (800) 321-2274

Unclaimed Property Claimants  
Unclaimed Property Holders  
Unclaimed Property Name Searches  
(512) 463-3120 (Austin)

#### (877) 44RATE4 (877-447-2834)

Interest Rate

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