

# Audit 2015

California Franchise Tax Board



Vision and Strategic Plan – January, 2006

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# Executive Summary

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## Audit 2015 A Blueprint of Innovation and Change

Our mission is to encourage self-compliance by administering the income tax audit program in a timely, responsible, and fair manner. We are an innovative and dedicated organization continuously improving our administration of the income tax audit programs. Our efforts contribute to the overall mission of the Franchise Tax Board (FTB). We see a future that includes:

- Applying the best technologies to enhance the Audit Program.
- Maximizing the talents of our diverse, dynamic, and creative team.
- Enhancing our environment that actively supports the FTB's Missions and Values, the Statement of Principles of Tax Administration, the Taxpayer Bill of Right and the audit regulations.
- Working cooperatively with all those affected by our actions.

Dramatic events continue to transform the landscape for California businesses individuals, and government. Technological innovations and changes in the way that people communicate and interact with their government have reshaped the expectations of our audit customers and created opportunities for partnering with taxpayers, the tax practitioner community, areas throughout FTB and other governmental agencies.

Over the next 10 years, we will continue to expand on the critical information we provide that allows taxpayers to self-comply and allows us to focus our resources on those who fail to voluntarily comply. We seek to become an organization that uses cutting-edge technologies to expand our ability to deal in an electronic environment with taxpayers. We will continue to emphasize our one-touch audit policy of 'one and done', redefine timeliness in an electronic age, and use all available data to ensure compliance while protecting taxpayer information and minimizing intrusiveness. We will continue to be an organization that values its greatest asset – its people and an organization that is fluid and responsive. We will mobilize our resources to address noncompliance as it emerges and increase taxpayer confidence in the self-compliance system. By 2015, our goal is to evolve into an organization with the following attributes:

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## Executive Summary (cont'd)

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### Quality Customer Relationships

We are an integrated part of FTB's effort to maximize voluntary compliance, while insuring taxpayers pay the correct amount of tax. We use technology to minimize intrusiveness and increase efficiencies for both FTB and taxpayers. We foster open communication and proactive partnerships both internally and externally.

### Efficient, High Quality Business Results

We deliver high quality business results through innovative management, the integration of enterprise IT applications, and application of best audit business practices. We use real time costing and revenue information to evaluate assignment of resources and maximize overall benefit to the state. Our organization, staff, and programs are fluid to address the most productive workloads.

### Enhanced Information Technology Infrastructure and Data Management Techniques

We use enterprise technology and data sources to increase self-compliance by focusing our audit efforts on those who did not voluntarily comply. Our efforts also allow us to identify trends and aggressive strategies and address education and legislative solutions.

### A Strong Staff and Organization

We view staff as our most valuable resource. We seek to maximize staff potential and meet the goals and expectations of our dynamic workforce as we approach 2015 and beyond. Over the next 10 years, the audit organization will address emerging issues, trends, and stakeholder concerns.

# Introduction

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This Vision and Strategic Plan describes our future. In developing this plan, we focused on a series of questions:

- Where do we want to be in the future?
- How do we get there?
- What are the barriers we face in achieving our vision?

This vision is something for us to set our sights on and attaining it will take cooperative effort and expertise from all of us within the division, FTB, and our stakeholders. This vision will guide and inspire those efforts so that we move closer to our goal of achieving our vision and satisfying our stakeholders.

In implementing our vision, we will focus on the needs of those individuals, organizations, and other business partners whom we serve. Business decisions are made based on customer needs and on any internal, administrative needs, or requirements we may have.

In implementing our vision, we will communicate with our customers to better understand their concerns and needs, and continue to improve the way we do business. We will measure how well we are meeting our customers' expectations and judge our success on consistently meeting or exceeding those expectations.

In implementing our vision, we view our primary role as providing information and assistance so taxpayers are able to comply with the State's tax laws. Each taxpayer is fairly treated while we work to ensure the overall fairness of the tax system by vigorously addressing noncompliance in the least intrusive manner. We envision taxpayers having access to the same information that we have to facilitate understanding and communication. Having this information allows taxpayers to resolve their tax issues in a non-intrusive way and without causing undue hardship.

In implementing our vision, we value our staff and strive to invest in their growth by offering training for job and leadership skills needed now and in the future, and most importantly providing staff challenging job opportunities. Staff assists in determining our future and then is empowered to decide how best to achieve desired outcomes.

We have already begun our journey on the road leading to change and the realization of our vision. To assist and lead us in our efforts, we have established Steering Committees and Resolution Teams, each of which will ensure we continue moving forward. Information on our vision, plans, and specific tasks can be found in the following pages of this document.

# Quality Customer Relationships

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We are an integrated part of FTB's effort to maximize voluntary compliance, while insuring taxpayer's pay the correct amount of tax. We use technology to minimize intrusiveness and increase efficiencies for both FTB and taxpayers. We foster open communication and proactive partnerships internally and externally.

## Goal #1

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**We are an organization that understands and responds to the needs of our stakeholders that include taxpayers, tax professionals, enterprise peers, overseers, staff members, and other interested parties or advocate groups.**

- Communicate with the tax community in a proactive manner and establish partnership relationships.
- Establish focus groups with the taxpayer and tax professional community to identify areas where we can improve our operations to minimize taxpayer burden.
- Identify and support statutory changes to address statutes that lack specific clarity to ensure compliance or produce inequitable results.



## Goal #2

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**We partner with other areas of FTB regarding our respective activities to leverage resources and technology applications.**

- Contribute to department non-cost benefit ratio (CBR) initiatives (i.e., tax gap).
- Evaluate internal and external efficiencies that can be gained by integrating the strengths of our legal, fraud detection, and compliance programs.

## Goal #3

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**We offer members of the taxpayer and tax professional communities choices in how they interact with audit staff during the course of an audit or other interaction. Communication can be via electronic channels, telephone, paper, or in person.**

- Ensure operating systems and communication channels are secure and confidential.
- Ensure electronic communication channels are accessible and convenient.

# Quality Customer Relationships (cont'd)

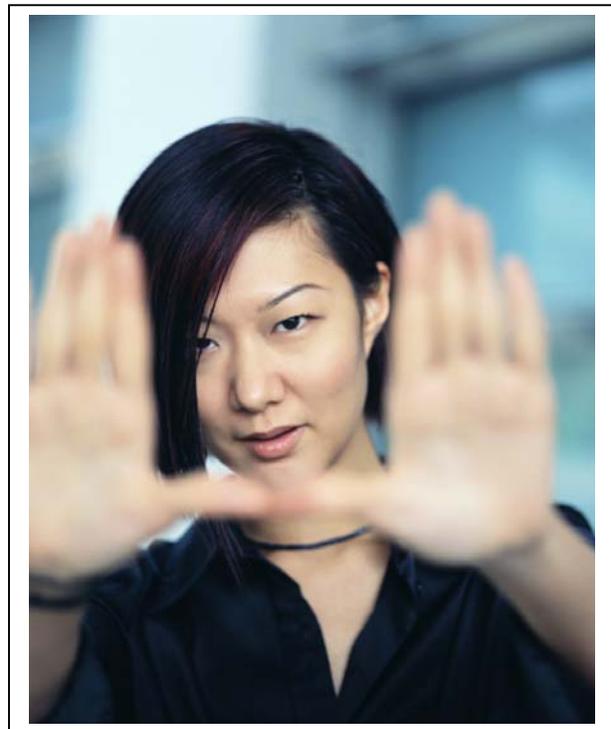
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## Goal #4

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**We partner externally with peer agencies (Employment Development Department, Board of Equalization, Internal Revenue Service), and other state tax agencies, to improve efficiency, maximize resources, and minimize taxpayer compliance burden.**

- Establish or enhance partnership relationships with peer agencies.
- Evaluate 'one and done' audits with peer agencies.
- Exchange information with these peer agencies to enhance filing and compliance programs.



# Efficient High Quality Business Results

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We deliver high quality business results through innovative management, the integration of enterprise IT applications, and application of best audit business practices. We use real time costing and revenue information to evaluate assignment of resources and maximize overall benefits to the state. Our organization, staff, and programs are fluid to address the most productive workloads.

## Goal #1

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**We evaluate our success based not only on current CBR, but long range increases in voluntary compliance.**

- Evaluate and develop programs addressing e-economy, tax gap, and underreporting of income issues.
- Identify, evaluate, and integrate alternative audit approaches (compliance letter, settlement of taxpayer case at audit, offer or conform to IRS settlement initiatives, prefiling program, etc.).
- Conduct discovery audits where CBR is below the accepted ratio and conduct compliance examinations on carryover issues.
- Establish an investigative program focusing on current year tax schemes and scams to understand marketed tax planning techniques and address, if necessary, by the issuance of a Legal Ruling or FTB Notice.
- Focus on Preparer/Promoter audits to enhance enforcement and educational activities.

## Goal #2

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**Our organization culture is founded on an expectation of “change is appropriate and necessary” in how we conduct our examinations and communicate with taxpayers and tax professionals. Enhancements to the audit program, whether they focus on the timing of an audit, why we conduct an audit, or how we conduct an audit, are necessary to ensure fair and effective administration as we move toward the future.**

- Identify non-specialized workloads (credits etc.) that can be assigned to any staff member regardless of program and tax return type to create a fluid audit program.
- Evaluate feasibility to conduct joint audits with Employment Development Department or Board of Equalization to address all potential compliance issues.



## Efficient High Quality Business Results (cont'd)

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### Goal #3

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**Our best audit practices and tools continue to evolve and improve in response to innovations in technology and changing business environments.**

- Evaluate and develop efficient audit tools utilizing state of the art technology including tools designed to facilitate sampling, conducting a computer-based audit of the taxpayer's data systems, or evaluating an audit candidate.
- Evaluate and develop a program allowing taxpayers access to their audit files including information such as outstanding information document requests, access to evidentiary information included in the audit file, and contact information.

### Goal #4

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**We seek to begin and complete audit activities as soon as relevant information is available.**

- Create a model for and initiate audits during processing to allow for completion of audits in time for the taxpayer's next year filing.
- Complete audits in compliance with Regulation 19032 & the Taxpayer Bill of Rights.
- Complement, not replace, IRS compliance activity.

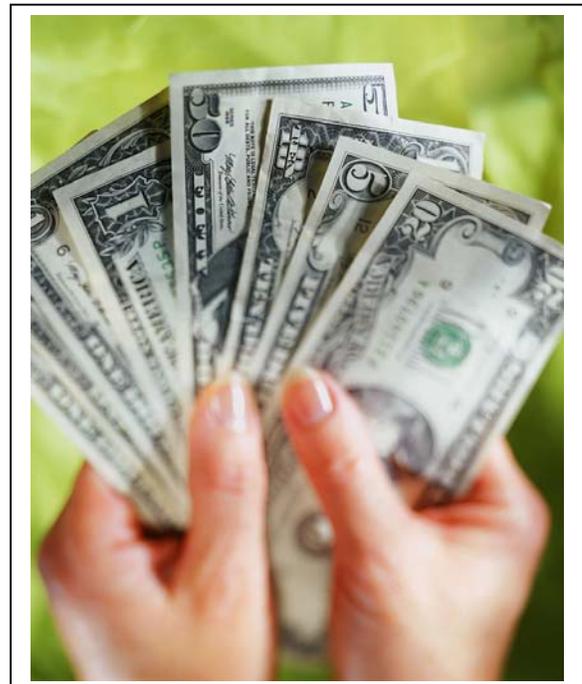
- Emphasize a one-touch audit policy.
- Eliminate statute of limitation waivers.
- Use penalties provided by statute as appropriate.

### Goal #5

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**We support a streamlined audit process.**

- Improve processes and eliminate those that are repetitive.
- Evaluate work plans midyear.



# Enhanced Information Technology & Data Management Techniques

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Our ability to use enterprise technology and data sources enables audit to increase self-compliance by focusing audit efforts on those that did not voluntarily comply. These efforts also allow us to identify trends and aggressive strategies and address education and legislative solutions.

## Goal #1

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**We use state of the art technology applications with optimal data sources to determine the best cases for audit as soon as possible after the return is filed. This technology also allows staff to further evaluate return data during the course of the audit.**

- Use enterprise data sources and business intelligence to access and use a variety of available data.
- Acquire or develop necessary technology applications/hardware to effectively select noncompliant taxpayers for audit.
- Use of artificial intelligence and best practice data mining techniques for analysis of data for case selection.
- Evaluate and obtain additional third party data sources necessary to effectively conduct our audits including obtaining federal return data for large corporate taxpayers.

## Goal #2

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**Our best audit practices and tools continue to evolve and improve in response to innovations in technology and changing business environments.**

- Evaluate and develop a program allowing taxpayers access to their audit files including information such as outstanding information document requests, access to evidentiary information included in the audit file, and contact information.

## Goal #3

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**We use technology based audit tools to allow us to audit a taxpayer through their own data programs and systems.**

- Evaluate and implement technology programs allowing us to audit a taxpayer through their computer system.

## Enhanced Information Technology & Data Management Techniques (cont'd)

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### Goal #4

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**We use appropriate and easy to use electronic communication channels to facilitate our audit documentation requests and other communications.**

- Establish an external communication link (secure) to transmit data between FTB, taxpayers, and tax professionals.

### Goal #5

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**We support efforts to ensure we receive correct and complete data from filers at the time of filing.**



# A Strong Staff and Organization

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We view staff as our most valuable resource. We seek to maximize staff potential and meet the goals and expectations of the dynamic workforce as we approach 2015 and beyond. Over the next 10 years, the audit organization will address emerging issues, trends, and stakeholder concerns.

## Goal #1

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**We foster a division culture that is supportive of staff and focuses on maximizing staff potential by encouraging and providing multiple and diverse training opportunities to expose staff to multiple workload issues, career opportunities, and enterprise perspectives.**

- Identify core competencies necessary for staff and provide training. Staff is trained in multiple workloads to allow a fluid division structure to address workload and staff development opportunities.
- Identify core competencies necessary for enterprise managers and leaders and provide training.
- Develop a long-term training plan, specific to managers and supervisors, to incorporate training that assists in the adaptation of change, education of technological changes in our work aids, and understanding of complex technical issues.
- Focus on mentor type and team audits to facilitate timely completion of audits and enhance on the job training activities.
- Develop and support a multidisciplinary staff that can operate anywhere in the country (e-workforce or teleworking) allowing audit staff to address appropriate

and productive audit cases without being limited by a physical location.

- Support a division that works to broaden the perspective of staff and management.
- Understand unique staff perspectives, particularly perspectives of Generation X and Y employees.
- Develop training necessary to assist staff in using all available information sources and technological tools needed for auditing in 2015 and beyond.
- Develop an e-training environment.

## Goal #2

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**We seek to hire and retain multidisciplinary, competent, and innovative individuals to work in the Audit Division. Emphasis should be placed on hiring other fields of expertise with knowledge in accounting such as marketing, economics, psychology, etc.**

- Evaluate and offer advancement opportunities as appropriate.
- Obtain approval to hire at the Program Specialist level.

## A Strong Staff and Organization (cont'd)

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### Goal #3

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**We emphasize an environment where change is accepted and managed and where we assist staff in the transition activities associated with change.**

- Study and address pending issues such as consolidation, benefit changes, and furloughs.
- Study and address potential external proposals to the state or national system of taxation as it would impact staff and the audit program.



# Appendix I

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## Steering Committees

### Customer Relationships

Tom Kawasaki  
Marian Mckenna  
Brad LaCour  
Paula Strompos

### High Quality Business Results

Rick Mitchell  
Forrest Pendleton  
Debbie Salvino  
Desmond Prass

### IT & Data Management

Rafael Ixta  
Mike Duffel  
Pat Reppen  
Jeanne Harriman

### Staff/Organization

Larry Berger  
Ed Romano  
Lisa Garrison