

1000 INTRODUCTION & GENERAL INFORMATION

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1010 INTRODUCTION

The **Multistate Audit Procedures Manual** (MAPM) contains procedures and guidelines pertinent to Multistate Tax Audits. The manual is meant to be the primary reference for current audit procedures. However, it does not cover all possible audit situations.

As explained in FTB Notice 1994-8, manuals provided for the guidance of the audit staff are not authoritative, and may neither be cited to support an audit position nor relied upon by a taxpayer. Instead, the manuals should be used as an initial step in understanding multistate audit procedures and guidelines.

Auditors should use discretion in deciding what techniques should be used in a particular audit. Furthermore, auditors are strongly encouraged to use their creativity and initiative to develop additional techniques. The audit techniques utilized in a case should be the best audit practices for that particular case. Consistent application of certain techniques such as the use of opening conferences, single question IDRs, and AIPS are generally required in all field cases. However, audit techniques will vary based on what is needed to efficiently resolve the case.

Finally, the audit process is continually evolving as the tax law changes, as new SBE and court cases are decided, and as audit policies and techniques are developed and refined. Statements of law found within a section reflect the law as of the revision date of that section. To ensure the continued relevance of this manual, it is important that it be updated to reflect these changes. Any suggestions or corrections are welcomed and should be referred to MSA Technical Resource Section.

Reviewed: January 2006

The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated.

CALIFORNIA FRANCHISE TAX BOARD

Internal Procedures Manual
Multistate Audit Procedures Manual

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1020 TO ORDER THE MULTISTATE AUDIT PROCEDURES MANUAL

FRANCHISE TAX BOARD STAFF

The Multistate Audit Procedures Manual is available on the Franchise Tax Board ((Inside)) Net. Consequently, FTB staff should seldom require hard copies. On those rare occasions when printed copies are needed, they may be ordered from the MSA Publications Manager.

PUBLIC CUSTOMERS

The Multistate Audit Procedures Manual is available on the Franchise Tax Board Website at www.ftb.ca.gov.

Printed copies of the latest version of the Multistate Audit Procedures Manual may be ordered by sending a check or money order payable to the Franchise Tax Board to:

**FRANCHISE TAX BOARD
TECHNICAL DESIGN MS B-4
P O BOX 1468
SACRAMENTO CA 95812-1468**

The cost of furnishing a copy of this manual is the actual cost incurred by the department. For the current price, call (916) 845-3280 or write to the above address.

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1030 AUDIT OBJECTIVES

The primary responsibility for determining the correct amount of tax rests with taxpayers. In accordance with California Revenue and Taxation Code (R&TC) sections 19501 - 19504, the department has developed an audit program. The goal of the department is to complete cases within two years of initial contact, four years from the date filed, or within a reasonable period as dictated by the circumstances of the case.

Purpose of an Audit

The purpose of an audit is to effectively and efficiently determine the correct amount of tax based on an analysis of relevant tax statutes, regulations and case law as applied to the taxpayer's facts. The procedures and techniques needed to successfully complete an audit assignment will depend on the circumstances in each case. In all cases, established audit objectives and resource considerations govern how the procedures and techniques are used and also the manner in which they are applied. Experience has shown that the best results are achieved through cooperation, effective communications, and setting and adhering to goals throughout the audit process. The Best Audit Practices Audit Techniques Team, made up of our most successful and experienced auditors, developed the tools in the following areas to assist auditors in incorporating ((Best Audit Practices)) into their workloads. In this package you will find techniques for optimizing your use of:

- Opening Conference (MAPM 5015)
- Audit Plan (MAPM 4070)
- Status Conferences (MAPM 5050)
- Information Document Requests (MAPM 5030)
- Audit Issue Presentation Sheets (MAPM 5065)
- Position Letters (MAPM 5080)
- Closing Conferences (MAPM 5090)

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1035 AUDIT STANDARDS

As recognized professionals, auditors are expected to conduct themselves and their work in a manner that is both fair and effective. Auditors are expected to correctly apply and administer the tax laws in a reasonable, practical, fair and impartial manner. Audits should be conducted in a reasonable manner within the bounds of law, with sound administration, efficiency, courtesy, professionalism, and respect to taxpayers. To achieve these objectives, auditors should conduct audits in a manner, which is not unnecessarily burdensome, costly or intrusive to taxpayers. Our goal is to continually strive for quality and excellence in the services provided to taxpayers.

The audit process consists of identifying issues, obtaining, evaluating, documenting information, and arriving at the correct determination, which is supported by a reasonable interpretation of the tax laws. Auditors should strive for clear and timely communication with taxpayers throughout all phases of the audit process. Audits are to be conducted in adherence with the following audit standards in all cases:

- **Legality** – Audit activities and conclusions must agree with established laws and legal interpretations.
- **Objectivity** – An objective examination of all relevant, available factual data will be made in a fair and unbiased manner.
- **Timeliness** – Audits must be conducted and completed promptly, with a minimum of inconvenience to taxpayers.
- **Supportability** – Recommendations must be adequately supported, consistent with both the facts and the law.

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1040 RESOURCE CONSIDERATIONS

The resources available to the department are set through the budget process. The department expects auditors to use these limited resources efficiently and effectively. The following general resource guidelines apply in all cases:

- Use a limited scope audit when appropriate.
- Taxpayers carry the burden of supporting overassessments.
- Workpaper files and documentary evidence must adequately support the audit recommendations. This is necessary to sustain the proposed audit adjustments at the protest and appeals level.

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1050 AUDIT PRIORITIES

Auditors must determine the relative priority of each of their assignments and conduct their activities accordingly. The criteria used in establishing these priorities, in addition to the Resource Considerations in **MAPM 1040**, include the following:

- Statute of Limitations will expire in the near future. All cases must be submitted to review at least four months before the expiration date.
- Collection of tax is in jeopardy: Bankruptcy. (See MAPM 14000 for Bankruptcy information.)
- Taxpayer is subject to suspension.
- There are indications that the taxpayer may be leaving the state.
- Tax clearances (to permit dissolution or withdrawal).
- Post-dissolution audits. (See **MAPM 15000**.)
- Claims for refund. (See **MAPM 10000**.)
- Protest cases. (See **MAPM 11000**.)
- Cases started by another office or auditor and forwarded for completion.

These audit priorities are general in nature and may vary slightly with each MSA Program Office.

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1060 TERMS AND DEFINITIONS

There are terms and definitions used extensively in all phases of multistate audits, and in many cases the terms are statutorily defined. Auditors should develop a working knowledge of these terms and definitions. See MATM 0500 for a compilation of these terms and definitions, as well as commonly used abbreviations.

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