

SO, YOU'RE BEING AUDITED

What It's All About





HOW A BUSINESS IS SELECTED

➤ Randomly

- An account number is chosen by chance through a computer generated random number list.
- You may have filed all returns perfectly, but ethics require a randomly selected audit to be performed, regardless.





HOW A BUSINESS IS SELECTED, CONTD

➤ Remedial

- Errors, including
 - Un-named deductions
 - Deductions don't fit business type as registered
 - Repetitive mathematical
- Failure to file notices
 - Pattern of failure to file
 - Numerous failures to file





HOW A BUSINESS IS SELECTED, CONT'D

➤ Remedial, continued

- Zero returns
 - Consistent filing of zero use tax
 - Company size
 - Line of business
 - Consistent filing of zero sales tax by a retailer
- Odd patterns in returns
 - Reported amounts appear to recycle
 - Consistent rounded numbers





HOW A BUSINESS IS SELECTED, CONT'D

➤ Industry focus

- An industry with known compliance problems may be selected for random audits within it.
 - Manufacturing
 - Services reliant on large volumes of supplies or equipment
- You may have filed all returns perfectly, but ethics require that audit be performed if your business was selected, regardless.





WHAT HAPPENS

➤ Contact

- The auditor may call to pre-schedule.

➤ Engagement letter

- Audit period
- Time, date, location
 - If no previous contact, there will be a tentative date and time which you may call to reschedule if needed.
- Required records listed





WHAT HAPPENS, CONT'D

➤ Tour and interview

- The first day of the audit, the auditor will ask to be shown your Wheat Ridge facility.
- The auditor will also ask you, and any employees you authorize, general questions about your business.
- This allows the auditor to gain some familiarity with your business and operating procedures.





WHAT HAPPENS, CONT'D

➤ Field work

- Records examination
 - The requested records should be available and ready on the first day.
 - If this is not possible, call the auditor at least a week in advance to notify them of what will be ready on time.
 - Additional records may be requested.
 - Records provided may not provide sufficient information for a fair audit.
 - Time to assemble them will be allowed.





WHAT HAPPENS, CONT'D

➤ Analysis

- Information gathered during initial field work
 - Refine entries in work papers
 - Organize work papers
 - Compare to industry norms
- Requests to you
 - Additional information
 - Additional visits
 - Clarifications





WHAT HAPPENS, CONT'D

➤ Audit report

- Restates the audit period
- Details records examined
- Summary of business activity, organization, history and cooperativeness during audit





WHAT HAPPENS, CONT'D

➤ Audit report, cont'd

- Tax summaries
 - Examination and analysis methods
 - Findings, in general
- Recommendations to achieve better tax compliance
- Supporting work papers





WHAT HAPPENS, CONT'D

➤ Notice of Deficiency

- More common
- Tax found owed
- 10% penalty (some waiver may be allowed)
- 1% interest per month past due (no waiver)
- Taxpayer protest rights and procedures

➤ Notice of Refund

- Less common
- No interest paid





PREPARING FOR AUDIT

- Well in advance, ensure these records are readily available
 - Information used in preparing returns
 - Fixed asset/ depreciation schedules
 - General ledger
 - Chart of accounts
 - Sales and/or purchase invoices
 - Cooperation with pre-audit requests may shorten the auditor's stay on location.





PREPARING FOR AUDIT, CONT'D

- Be prepared to provide additional records
 - Banking statements
 - Check register
 - Financial statements
 - Income tax records
 - Product taxability lists
 - Property tax records





WHEN IT'S ALL OVER

➤ Deficiency

- Due in 30 days
- May be protested within 30 days
 - In writing – first step
 - City hearing – next step
 - Colorado Department of Revenue appeal – final recourse outside court
- If unable to pay, contact your auditor immediately to make arrangements.
 - Non-payment results in legal process.





AUDITORS ARE PEOPLE, TOO

➤ We do

- Want a cordial working relationship
- Care about the well-being of your business
- Wish to avoid drastic solutions, such as subpoena for records
- Need a reasonably comfortable work space
- Avoid over-imposing on your routines as much as possible
- Want to see you stay in business AND in compliance

➤ We can

- Refer you to valuable business services offered by the City
- Provide tax training and informational materials

➤ We will not

- Inappropriately share your confidential information with anyone





RESOURCES

- Auditors are always glad to answer your questions, but if a Wheat Ridge audit has started, questions should be directed to the auditor conducting it.
- Wheat Ridge auditor
 - Bohdan Chyr (303) 235-2818
- Tax Division Supervisor (audits as well)
 - Kathy Franklin (303) 235-2825





Thank you for your attention!

