

Texas Comptroller of Public Accounts (/)

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Glenn Hegar

Texas Comptroller of Public Accounts

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Introduction

Section 151.0231 defines "managed audit" to mean a review and analysis of invoices, checks, accounting records, or other documents or information to determine a taxpayer's liability for tax under Texas Tax Code, Chapter 151. A managed audit may be limited to certain categories, including tax on:

- Sales of one or more types of taxable items;
- Purchases of assets;
- Purchases of expense items;
- Purchases under a direct payment permit; or
- Any other category specified in an agreement authorized by this section.

While the statute allows for the managed audit to be done on parts of the taxpayer's reporting responsibility, Audit Division's policy is that all reporting categories be included in the managed audit. This is done to insure that the audit period is timely closed for all reporting responsibilities for all report periods included in the managed audit and to speed the completion of the audit. Whenever a taxpayer indicates that they only want to perform a managed audit on one reporting category, serious consideration should be given to disallowing the managed audit request.

Audit Division has been performing managed audits since October 1, 1999. The goal of the program is to save the auditor's time, complete audits in a shorter period of time, and bring closure to the audit period for both the State and the taxpayer. The auditor takes on the role of an audit supervisor in conducting the managed audit. The auditor should not only work with the taxpayer to help develop the procedures but must continually monitor the progress of the audit. The auditor oversees the work that the taxpayer is conducting on a step-by-step basis.

Unless the managed audit discloses fraud or a willful evasion of the tax, the Comptroller may not assess a penalty and may waive all or part of the interest that would have otherwise been due. These waivers do not apply to an amount of tax if it was collected but not remitted. The taxpayer is entitled to a refund of any tax overpayment disclosed by the managed audit. The taxpayer must detect and request refund of any overpayments during the completion of the managed audit or before the managed audit becomes administratively final. The terms of the managed audit contract are intended to bring closure to the audit period and in general do not allow the Comptroller or the taxpayer to assess or request additional refunds after the managed audit becomes final. The taxpayers do maintain their full rights to all of the administrative remedies available to all taxpayers in contesting the results of an audit.

General Policies and Procedures

The first step to begin the managed audit process is the taxpayer's request for a managed audit. The request should be made to the field audit manager via letter or email. The taxpayer's request must be received within 30 days of the date that the Audit Notification Letter was sent to the taxpayer. A managed audit will not be approved if the fieldwork has already started or if a prior audit took 80 hours or less. Other factors that will be considered to determine if a managed audit will be allowed include:

- The taxpayer's qualifications to perform a managed audit – the taxpayer's taxability knowledge
- The taxpayer's history of compliance
- The amount of time and resources available to the taxpayer for dedication to the audit
- Availability of the taxpayer's records (managed audits are not allowed for periods when records are not available)
- Ability of the taxpayer to pay an assessment

If it is determined that a managed audit will be considered, the audit manager will contact the taxpayer for a preliminary meeting in order to discuss the managed audit process. The proper Agency Work Manager

documentation must be performed. Additional meetings at the taxpayer's location will be held with the taxpayer and taxpayer's personnel in order for the auditor to familiarize himself/herself with the business and accounting systems. A plant tour, if applicable, should also be performed.

If the managed audit will proceed, a letter will be sent giving the taxpayer 45 days to submit all necessary forms and information. The taxpayer should include the following items in the package to be delivered to the field offices within the 45 days:

- Completed managed audit agreement signed by a corporate officer, corporate director, or owner of the taxpayer under audit. Taxpayer representatives empowered via a power of attorney may not sign the managed audit contract.
- Audit plan describing audit procedures for each area in the audit
- Timeline outlining prescribed audit activities and their expected completion dates
- Original data tapes containing sales and/or purchase information
- Statute waiver, if needed, protecting and extending statute periods ninety days beyond the timeline completion date listed in the managed audit contract

The managed audit contract and the managed audit package, with proper signatures on applicable forms, are mailed back to the audit office. When the contract is approved at the audit office level, the contract is forwarded to Audit Headquarters for signature.

If the taxpayer has failed to submit the necessary information within the 45-day period, a second letter will be sent. This second letter allows an additional 10 days, but it warns the taxpayer that a failure to submit the necessary information within the 10 days will result in the managed audit request being denied.

Once the managed audit agreement has been accepted and signed, the managed audit timelines must be met. The taxpayer is required to update timelines as they change. If an extension of the original completion date is required, it must be approved by the audit office manager. If the taxpayer fails to comply with the audit timeline, this may result in the assessment of interest or the denial of credit interest from the date that the audit should have been completed. If the taxpayer continues to fail to abide by a reasonable timeline, this could result in the assessment of interest or a denial of all credit interest for the audit. Or, the managed audit agreement could be revoked.

Timelines for Calculating Completion Date

To be consistent, the time allowed on a managed audit should be calculated by taking the hours charged on the prior audit multiplied by 140%. That result should then be divided by 140 in order to determine an approximate number of months to complete. Company growth, acquisition of other companies, the sale of business divisions, and other applicable factors should be considered in the calculation of the completion date. If the taxpayer has never been audited, similar audits or other reasonable criteria may be used to calculate the completion date.

Selection of Sample

The managed audit program allows the taxpayer to perform a sample audit. However, the managed audit contract requires the Comptroller to select the sample. It is very important for the auditor and the taxpayer to communicate effectively in order to determine an appropriate sampling approach to the managed audit. The development of a sampling approach will include:

- Identification of populations

- Identification of accounts of interest
- Verification of population bases
- Selection of samples in accordance with Comptroller guidelines
- Analysis of samples in accordance with Comptroller guidelines
- Approval of sampling approach
- Issuance of Notification of Sampling Procedures

The sample may be analyzed by both the auditor and the taxpayer; however, the final sample selection will be determined by the auditor.

Schedules

Schedules prepared and submitted by the taxpayer must be in Excel format specified by the Comptroller. The taxpayer will be instructed on how the Excel spreadsheet must be prepared. The auditor will periodically review the taxpayer's schedules for any errors in decision-making or data entry. If errors are found and the taxpayer does not correct the procedures, the managed audit contract could be revoked.

Timelines for Calculating Extended Completion Date

Circumstances could arise resulting in the taxpayer needing more time to complete the managed audit. If the taxpayer requests additional time to complete the managed audit and if the taxpayer has made reasonable progress, a letter will be sent allowing an additional 20% of the original time given. If the audit is still not finalized by this extended period, interest waiver and any credit interest will cease as of the date indicated by this letter. Any delay caused by Comptroller personnel will be added to an extension without any loss of interest waiver or credit interest.

Any additional requests for extensions may be granted if the taxpayer is still progressing with the managed audit but has not been able to meet the previous timelines. However, interest waiver or credit interest may be denied for the entire audit period.

Whenever an extension is granted, the taxpayer is required to submit a new timeline for approval by the audit office.

Failure to Progress in a Reasonable Manner

If the taxpayer fails to meet the numerous objectives in the managed audit agreement and the delays are unreasonable, a letter will be sent to the taxpayer. The letter will document the delays and will allow the taxpayer 30 days to show significant improvement in the progress of the audit. **Or**, the managed audit may be revoked.

Important Miscellaneous Information

- Interest for the managed audit will restart 30 days after the billing date on all managed audits
- If the taxpayer intends to process a refund while the managed audit is in progress, then all refunds will be processed with the managed audit. Refunds requested outside the managed audit will be denied and included in the managed audit.
- If the taxpayer submitted a refund for a period encompassing the managed audit and the refund has been paid, the credit interest paid on the refund will be offset against the managed audit results

Exhibits

Exhibit A - Letter Sent to Taxpayer with Agreement Package

Letterhead
Date
Company Name Company Address
RE: Managed Audit Agreement TP# 12345678901
Dear Taxpayer,
To recap our meeting on DATE, we met with (taxpayer names/representatives) to discuss executing a managed audit agreement on the above-mentioned taxpayer. We discussed the general criteria and guidelines. In order to proceed, a signed managed audit agreement should be sent to the _____ Office for review and submission. An audit plan that addresses the completion timeline of the prescribed audit activities should be included with the agreement; it is subject to approval by the Comptroller's office. Original data tapes containing sales/purchase information should also be provided in order that we may begin reviewing and reconciling population amounts.
Enclosed are the statute waivers that will preserve the audit period. These should be signed by an authorized person such as an officer or director of the company and returned with the agreement package. <i>These statute extensions must extend the period of limitations for the managed audit period 90 (ninety) days beyond the completion date listed in item four of the managed audit contract.</i>
Your managed audit agreement request will be considered if you provide the requested information within 45 days of the date of this letter.
Sincerely,
Manager Name Manager, Audit Office

Exhibit B - Additional 10 Day Letter

Letterhead
Date
Company Name Company Address
RE: Managed Audit Agreement TP# 12345678901
Dear Taxpayer,
As requested in our letter DATED (use Exhibit A letter date), we have not received the documentation needed to proceed with a managed audit agreement.
You have 10 days from the date of this letter to provide the signed managed audit agreement, audit plan, statute waivers and original data tapes to the _____ Office. Failure to provide this information will be considered a withdrawal of your original request and an auditor will contact you for an appointment to start the audit.
Sincerely,
Manager Name Manager, Audit Office

Exhibit C - Calculation of Estimated Completion Date

Prior audit took 1 year 4 months to complete and took 1120 hours.

$1120 \times 140\% = 1568$ hours

$1568 \text{ hours} / 140 \text{ hours}^* = 11.2$ months.

Approximate completion date: 12 months*

***Note:**

The taxpayer would be allowed 12 months to complete the managed audit. Always use 140 hours/month and always round up the number of months.

Exhibit D - Extension Request

Letterhead

Date

Company Name
Company Address

RE: Managed Audit Agreement
TP# 12345678901
Extension Request

Dear Taxpayer,

Your request for an extension in the above-referenced managed audit agreement has been granted. You have been provided an additional _____ days to complete the agreement. As stated in the managed audit agreement, time is of the essence. Interest waiver will continue to apply unless the managed audit cannot be completed by the date set forth in this letter. If the extension deadline of (DATE) is not met, interest will begin accruing from the point forward. Likewise, credit interest will cease from that point forward.

Sincerely,

Manager Name
Manager, Audit Office

Exhibit E - Additional Extension Request

Letterhead

Date

Company Name
Company address

RE: Managed Audit Agreement
TP# 12345678901
Extension Request

Dear Taxpayer,

Your second request for an extension in the above-referenced managed audit agreement has been granted. You have been granted an additional _____ days to complete the agreement. As mentioned in the letter dated (use Exhibit D letter date), interest waiver will cease on **DATE** (use extension deadline date per Exhibit D).

If additional extensions are granted, interest waiver may be denied for the entire audit period and/or credit interest will not be allowed for the audit period.

As discussed in the managed audit agreement, the Comptroller reserves the right to accept or reject an alternate completion date. The Comptroller may terminate the managed audit agreement immediately if it is determined that a taxpayer has not put forth a good faith effort to complete the agreement.

Sincerely,

Audit Manager
Manager, Audit Office

Exhibit F - Letter Documenting Failure to Meet Timelines

Letterhead
Date
Company Name
Company Address
RE: Managed Audit Agreement TP# 12345678901 Extension Request
Dear Taxpayer,
The timelines as set forth in the Managed Audit Agreement have not been met. At this time (list items or tasks which should have been completed) should have been completed. However, they have not been completed. Unless significant progress is made in the next 30 days, the managed audit agreement will be cancelled and my staff will conduct the audit fieldwork.
Sincerely,
Audit Manager Manager, Audit Office

Exhibit G - Letter Revoking Managed Audit

Letterhead
Date
Company Name
Company Address
RE: Managed Audit Agreement TP# 12345678901
Dear Taxpayer,
Due to your non-compliance with audit timelines as set forth in the letter <u>dated</u> (use Exhibit F date) your managed audit agreement has been revoked. A good-faith effort has not been made to complete the agreement. You will be contacted by the assigned auditor to perform the fieldwork.
Sincerely,
Audit Manager Manager, Audit Office

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[Link Policy \(/linkpolicy.php\)](/linkpolicy.php)

[Public Information Act \(/pia.php\)](/pia.php)

[Texas Veterans Portal \(http://veterans.portal.texas.gov/en/Pages/default.aspx\)](http://veterans.portal.texas.gov/en/Pages/default.aspx)

[Compact with Texans \(/comptrol/compact/\)](/comptrol/compact/)

State Government

[Texas.gov \(http://texas.gov\)](http://texas.gov)

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[State Link Policy \(http://www.dir.texas.gov/pubs/pages/weblink-privacy.aspx\)](http://www.dir.texas.gov/pubs/pages/weblink-privacy.aspx)

[Texas Homeland Security \(http://www.texashomelandsecurity.com/\)](http://www.texashomelandsecurity.com/)

[Report Fraud \(/fraud.php\)](/fraud.php)

Other Comptroller Sites

[Texas Transparency \(http://www.texas Transparency.org\)](http://www.texas Transparency.org)

[Texas Ahead \(http://www.texasahead.org\)](http://www.texasahead.org)

[SECO \(http://seco.cpa.state.tx.us\)](http://seco.cpa.state.tx.us)

[FASTexas \(http://fastexas.org\)](http://fastexas.org)

[Every Chance Every Texan \(http://www.everychanceeverytexan.org/\)](http://www.everychanceeverytexan.org/)

[Keeping Texas First \(http://www.keepingtexasfirst.org\)](http://www.keepingtexasfirst.org)

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