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Texas Comptroller of Public Accounts

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MANAGED AUDIT TIME GUIDELINES

The following are general time guidelines for Managed Audits. As with any guidelines, there are possibilities for unique situations that may warrant adjustments to the timelines. However, every effort should be made to use these timelines when possible to ensure a high level of consistency with all taxpayers.

Timelines for Accepting a Managed Audit Request:

The initial step in a managed audit is the taxpayer's request for a managed audit. This request should be made to the field manager via letter or email. The request must be received within 30 days of the date that the Audit Notification Letter was sent in order for a managed audit to be considered. Managed audits will not be approved if the fieldwork has already begun or if the prior audit took 80 hours or fewer. Other factors that should be considered in determining if a managed audit will be allowed include:

- The taxpayer's qualifications to perform a managed audit
 - sole proprietor auditing him/herself, taxability knowledge.
 - The taxpayer's history of compliance.
- Amount of time and resources available to the taxpayer for dedication to the audit.
 - Availability of the taxpayer's records.
 - Ability of the taxpayer to pay an assessment.

If it is determined that a managed audit will be considered, a letter will be sent after the initial meeting, giving the taxpayer 45 days to submit all necessary forms and information. The package should include:

- Signed managed audit agreement.
 - 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/extending statute ninety days beyond the timeline completion date.

The Managed Audit Contract and the managed audit package should be mailed to the audit office. Once approved at the office level, the contract will be forwarded to Audit Headquarters for signature.

If the taxpayer fails to submit all information within the 45-day period, a second letter should be sent, allowing 10 additional days. This letter will warn the taxpayer that failure to have all information submitted within the 10 days will result in denial of the Managed Audit request.

Once the Managed Audit Agreement has been accepted and signed, the managed audit timelines must be met. The intent of this program is to reduce the time it takes to complete an audit. The taxpayer is required to update timelines as they change. There

should be documented periodic reports reviewing the progress of the audit. If extension of the completion date is required, it must be approved by the **manager of the audit office**. Failure to comply with the audit timeline may result in the assessment of interest and denial of credit interest from the date the audit should have been completed. Further failure to abide by a reasonable timeline may result in the assessment of interest and denial of all credit interest for the audit; in some cases, the Managed Audit could be revoked.

Timelines for Calculating Completion Date:

Calculating a completion date can be difficult. For consistency, the time allowed should be calculated by taking the hours charged on the previous audit times 140%. The resulting hours should then be divided by 140 to determine an approximate number of months to complete. Company growth, acquisition of other companies, the sale of business divisions, and other factors should be considered and completion dates should be adjusted accordingly. For taxpayers with no prior audit, similar audits or other reasonable means may be used to calculate the date.

Selection of Sample:

Communication between the auditor and the taxpayer is essential when determining an appropriate sampling approach. The managed audit contract requires the Comptroller to select the sample. Developing 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 and Issuance of Notification of Sampling Procedures.

The analysis of any sample will be conducted jointly by the taxpayer and the auditor, but final sample selection decisions rest with the auditor.

Schedules:

Schedules submitted by the taxpayer must be in a format specified by the Comptroller. The taxpayer will be required to submit the information in Excel format. Instructions for spreadsheet preparation will be provided to the taxpayer. As the taxpayer prepares the schedules, the auditor will review them. If numerous errors in decision-making or data entry are found, the taxpayer will be asked to review the invoices again. If appropriate corrections to procedures are not implemented, the contract is subject to revocation. Rights to the administrative process are still available to taxpayers, whether a managed audit is used or not.

Timelines for Calculating Extending Completion Date:

There will be circumstances where the taxpayer has worked diligently, but due to a variety of problems, needs more time to finish the audit. If an extension is requested by the taxpayer and reasonable progress has been made, we should send the taxpayer a letter allowing an additional 20% of the original time given as an extension to the deadline. At the end of the extension, if the audit is still not finalized, waiver of interest and credit interest will cease as of the date indicated in this letter. It should be noted that any delay caused by Comptroller personnel will be added to an extension, if needed, without any loss of interest waiver or credit interest.

Any additional requests for extensions may be granted if it is apparent that the taxpayer is still progressing but has just not been able to keep up with timelines laid out. However, interest waiver or credit interest may be denied for the entire audit period.

Any time an extension is granted, the taxpayer will be required to submit a new timeline for approval by the audit office.

Failure to Progress in a Reasonable Manner:

If it is determined that the taxpayer has failed to meet numerous objectives as set forth in the Managed Audit Agreement, and the delays are determined to be unreasonable, a letter will be sent to the taxpayer. The letter will outline the delays and allow the taxpayer 30 days to show significant improvement in its performance or the Managed Audit may be revoked.

Other Important Information:

- Interest for the managed audit will restart 30 days after billing.
- If the taxpayer intends to process a refund while the managed audit is in progress, then all refunds will be processed with the managed audits.
- 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.

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

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

State Government

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

[Search from the Texas State Library \(https://www.tsl.texas.gov/trail/index.html\)](#)

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

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

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

Other Comptroller Sites

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

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

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

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

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

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

[Reshaping Texas \(http://reshapingtexas.org\)](#)

[Fiscal Notes \(http://fiscalnotes.org\)](#)

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