LOCAL AUDIT PROGRAM

Loudoun County Commissioner of the Revenue

August 2, 2002 VALTA Meeting

Interview Questions

- Legal name of entity
- Federal Employer Identification Number
- Start date in jurisdiction
- Principal owner(s)
- Nature of business operations

Interview Questions

- Do you enter into written agreements/contracts with your customers?
  - If yes, what percentage of income is generated from contracted sources?
- Are 1099's issued to your customers?
- Who are your customers?
- Where is the business headquartered?

Interview Questions

- If more than one location, what activities are conducted at each location?
- What is your trade name?
- In what form are gross receipts collected?
- Are all gross receipts deposited into bank accounts?

Interview Questions

- Do you maintain documents to identify the source of each deposit?
- What method of accounting (cash or accrual) was used to determine gross receipts?
- What accounting period (calendar year or fiscal year) did you use for BPOL reporting?

Interview Questions

- Were any nontaxable sources of income received during the tax year(s)?
- Were these nontaxable funds deposited to the business bank account(s)?

Interview Questions

- Will you describe your accounting system?
  - Income Transactions
  - Asset Acquisition Transactions
  - Expense Transactions
- What is your policy for expensing vs. capitalizing assets?
- Does the company write off fully depreciated assets?

Interview Questions

- How are upgrades to equipment recorded?
- Does the company lease any equipment or real estate?
  – Operating Leases
  – Capital Leases

Concluding the Interview

- Review audit notification letter with the taxpayer
- Additional records necessary

Indirect Methods of Auditing Gross Receipts

- Bank Deposit Analysis
  - The Bank Deposits Analysis is based on the principal that all income is deposited into the taxpayer's bank account(s). Net deposits (gross deposits less certain adjustments) represent taxable gross receipts. When gross receipts have been accurately reported, net deposits should match gross receipts on the tax return. This indirect method of auditing gross receipts is generally most effective for non-cash businesses.

Indirect Methods of Auditing Gross Receipts

- Cash “T” Analysis
  – The Cash “T” Analysis is based on the principal that funds expended cannot exceed funds available. This indirect method of auditing gross receipts compares total funds available during the taxable period to total cash expenditures during the same period. When cash expenditures exceed available funds, gross receipts have been understated. This method is most effective when auditing sole proprietorships and cash businesses.

Forms to Address Specific Issues

- Business Profile
- Statement of Confidentiality
- Notice of Taxpayer's Appeal Rights

Questions and Comments

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