Computer Assisted Audits

Introduction

In an effort to increase the efficiency and accuracy of our audit program, the Multistate Tax Commission's preferred method of conducting audits is the use of Computer Assisted Audits (CAA). Advances in computer hardware and software have given us the ability to be more efficient than ever before.

CAA is an accelerated and sophisticated method of reviewing taxpayer data in an electronic format. It can also utilize statistical methods in the analysis of taxpayer data, which produces more reliable results.

Using CAA for an audit allows the Commission to obtain, review, analyze, and output the results more quickly and accurately. The process usually allows for reduced auditor time and the amount of fieldwork at your location. The result is a more efficient and accurate completed audit with the added benefit of reducing the usage of your valuable resources.

Overview

Many, if not most taxpayers, maintain their accounting records on some type of computer system. This has the benefit of allowing access to this data in an electronic format. The electronic transfer of this data reduces the voluminous paper transfer and review that would otherwise be necessary in a traditional audit.

Our CAA unit has the ability to accept and read virtually all output files. We can also accept data on some of the most widely used mediums in industry today. Our Computer Audit Specialist (CAS), after receiving the data can prepare it for usage by our field auditors. The use of CAA also allows for the use of statistical sampling rather then the traditional block sampling techniques. Statistical sampling, our preferred method of sampling, generally provides a more reliable result that also can be evaluated mathematically for accuracy (a mathematical computation of accuracy cannot be made using traditional block sampling techniques).

In summary, use of CAA has benefits for both the Commission and the taxpayer. It generally reduces the hours you devote to the audit and it often reduces the time spent at your location by our field auditors. It assures us of a timely, efficient, and accurate audit.

CAA Audit Process

1. Pre-Audit Evaluation

The CAA process begins with the pre-audit evaluation. Once the field auditor notifies the taxpayer that it has been selected for audit, the taxpayer is provided with a questionnaire, which will help the CAS determine whether or not a Computer Assisted Audit (CAA) is possible. This pre-audit evaluation may require the CAS communicate with the IS/EDP department. This is always done through, or with the permission of the primary taxpayer contact.

2. Data Evaluation

Having determined that an audit can be conducted using CAA, the next step in the process is to determine the validity and accuracy of the data. After receiving the data, the CAS will test it to insure that it is valid. Next the CAS will prepare reports for the field auditor that can be used to determine its accuracy and completeness. This is accomplished by tracing/tying the CAS reports, based on the original data, to the taxpayer's general ledger or other appropriate accounting records. Reconciling the download to the actual records, done by the auditor, is considered a crucial and necessary step.

3. Sampling Procedures

During this stage of the CAA the CAS, field auditor, and taxpayer will discuss and agree upon the sampling methodology deemed most appropriate for the audit. Sampling involves the following steps:

- Determine the audit population to be examined.
- Determine size of population.
- Draw the sample.
- Audit the sample.
- Evaluate the sample using either statistical or non-statistical methods depending on the agreed upon sampling methodology.
- Project the results of the sample.

Confidentiality

Confidentiality laws that protect the sensitive nature of information, which includes electronic records obtained during an audit, restrict what the Multistate Tax Commission and its employees can do with that data. These laws ensure that confidential and proprietary information must be secured and safeguarded. This data can be used for audit purposes of the taxpayer. No disclosure of any kind – including written, verbal, or electronic disclosures – can be made of this information to anyone inside or outside the Commission, except:

1. To those employees in the Commission involved in the audit,
2. To the taxpayer contact personnel for the company audited, and

3. Within the official Commission audit report(s) of the audit examination.[1]

Preferred Data Formats

Data can be supplied in numerous data formats, although some formats are preferred. For all downloads, totals for amount fields and record counts are requested, if this is not supplied directly within the download itself. The following table details acceptable data formats, in order of preference:

Data Format	Comment
PC Compatible plain ASCII fixed width (flat file)	Please request record layout
PC Compatible delimited text	Please request record layout
dBase	Please request a data dictionary to explain columns
Mainframe ASCII	Please request record layout – flat file preferred
Mainframe EBCDIC	Please request record layout – flat file preferred
PC Compatible Text Reports	Commonly outputted from programs such as VERTEX, SAP, and other accounting programs – please discourage Excel files converted from text reports – often the conversion process to Excel by Excel's data import wizards will not make uniform decisions in the importation process, often rendering the results useless!
Microsoft Access Files / FoxPro	
Excel Files	Excel files are the least preferred, and if the data can be provided in plain text, this is best. Most importantly, Excel files that were manually created from an intermediate from text output often will be highly problematic, or even useless.

Data provided in PDF format will often not be acceptable, due to problems in the conversion process.

Audit Trail and Accounting Fields

Audits on a transaction level can be generally classified into two types, purchases or sales examinations. The accounting fields in the download must be sufficient to trace the transactions through the records, and provide information on the location of the source documents (often source documents might also be stored electronically). The following are suggested fields that can be requested.

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[1] Note that the official audit report will be forwarded to the proper state agency employee, and as such, this person (and/or other designated state agency personnel) may also have access to this data in summary form. The state agencies participating in the audit also have access to the COMMISSION audit workpapers, which might include this electronic data.

Sales Data:

General Type	Field	Comment
Date	General Ledger Date or Period(s)	Date entered to the books of account (a minimum of posting year & month)
	Transaction Date or Period(s)	
	Posting Date or Period(s)	
	Invoice Date	
	Sales Order Date	
Customer Identification	Bill-To Name	
	Bill-To Customer #	
	Ship-To Name	
	Ship-To Customer #	
Transaction #	Invoice #	Any posting # that uniquely identifies the transaction through the books of account
	Sales Order #	
	Job (work order) #	
	Batch #	
Location Sourcing	Bill-To Ship Address	Request both bill-to and ship-to fields
	Bill-To Ship City	
	Bill-To Ship State	
	Bill-To Ship Zip	
	Ship-To Address	Ship-to fields are usually used for sourcing a transaction for tax purposes
	Ship-To Ship City	
	Ship-To Ship State	
	Ship-To Ship Zip	
Product or Service Descriptions	Sales Order Description	Line item descriptions are preferred
	Invoice Description	
	Product # (including SKU)	
Product or Service Charges	Invoice Line Charge	At line item (or invoice level if line item unavailable)
	Tax Charge	
	Discount	
	Freight/Shipping/Handling	
Sales Tax Computation Fields	State & Local Tax Split	If available and needed
	Tax Rate	
	Tax Coding	
	Line Item Tax Code	Identifies each line item as to whether it was included in the invoice tax calculation
	Tax Jurisdiction Codes	
Other	General Ledger Account Name / #	Sales are sometimes assigned to detailed G/L accounts
	Tracing #	Any field that can be used to trace the source document storage location
	?	Any field that identifies tax status if the item sold is exempted – such as the existence of a resale certificate or other certificate
	?	Any other field required for audit purposes

Purchase Data:

General Type	Field	Comment
Date	General Ledger Date or Period(s)	Date entered to the books of account (a minimum of posting year & month)
	Transaction Date or Period(s)	
	Posting Date or Period(s)	
	Invoice Date	
	Purchase Order Date	
	Check Date	
	Paid Date	
	Inventoried Date	Date placed into stores or inventory
	Inventory Distribution Date	Date taken out of stores or inventory
	Transfer Date	Internal company transfers
	Voucher Date	
Identification of Product/Service Provider	Vendor #	
	Vendor Name	
	Internal Transfer Source	Internally produced items or items from sales or stores inventory
Transaction #	Batch #	Any posting # that uniquely identifies the transaction through the books of account
	Check #	
	Job # (work order #)	
	Invoice #	
	Purchase Order #	
	Voucher #	
	Fixed Asset #	
Costing and/or Location Used	General Ledger Account Name / #	Identifies the location of use or the location that the cost is assigned for book purposes
	Division Name / #	
	Plant Name / #	
	Cost Center Name / #	
	Other Location Used Name / #	
Product or Service Description	Purchase Order Description	
	Invoice Description	
	Work Order Description	
	Transfer Item Description	
Transaction Costs	Invoice Line Item Amount	
	General Ledger Line Item Amount	
	Distribution Line Item Amount	
	Costed Amount	
	Voucher Amount	
	Check Amount	
	Transfer Amount	
	Sales Tax Paid	
	Use Tax Accrued	
	Shipping/Handling Amount	
	Cash Discount	
Other	Tax Accrual Coding	
	Tracing #	Any field that can be used to trace the source document storage location
	?	Any other field required for audit purposes

Available Mediums for Data Transfer

The Commission has some tape drive capabilities. Before transferring the data on tape, please verify that the media type is acceptable. Otherwise, data transferred by CD-ROM, DVD, or Jump Drives is preferred. Iomega Zip Disks and email attachments are acceptable;

The Commission has recently adopted the use of Tumbleweed technology for transmitting taxpayer sensitive data in a secure environment. Tumbleweed is the same technology in use by the IRS for transmitting confidential taxpayer information. We are able to accept file sizes of 100 MB when using Tumbleweed. If you anticipate sending files larger then this please speak with one of our Computer Audit Specialist before doing so.

Conclusion

We strongly believe that a CAA will reduce the time of the audit, while still providing both the Commission and the taxpayer the desired reliability of the audit results. This sort of undertaking requires that the taxpayer and the auditor work together. If in the process, any concerns or questions arise, please do not hesitate in getting in touch with auditor in charge, the audit supervisor, or the senior audit supervisor for the CAS.