



DEPARTMENT OF FINANCE AUDIT DIVISION

94-1-AU May 6, 1994

STATEMENT OF AUDIT PROCEDURE

STATUTE CONTROL - DESK AUDIT

I. Scope

While desk audits of general corporation tax (GCT) returns and unincorporated business tax (UBT) returns are generally completed within the three year period allowed by law for review of original filings, there are instances in which an auditor may require additional time. The law allows, with consent of the taxpayer, an extension of the initial three year period. This Statement of Audit Procedure provides guidelines and procedures for the control of the statute, so that all desk audits are completed before the expiration of the statutes of limitations.

II. Responsibility for Statute Protection

For all personnel engaged in audits, statute protection is a paramount responsibility. Group Chiefs, Unit Heads, and Branch Chiefs have equal responsibility for ensuring that the statute is protected, and that all systemic controls are instituted and maintained. The primary responsibility for protecting the statute lies with the individual who has been assigned the audit of the tax return.

III. Procedure: Statute Control System

A. File System Overview

A desk auditor shall maintain two chronological filing systems. A computer should be used to maintain the two filing systems, wherever possible.

One file system (File-A) shall be maintained for the cases in inventory with fifteen months or more before the expiration of the statutes of limitations. A second file system (File-B) shall be maintained for at-risk cases with less than fifteen months before the expiration of the statutes of limitations. File-B shall also contain any case for which an extension of the statute of limitations has been requested from the taxpayer.

B. Auditor's Role

1. File-A:

- a. The auditor shall review File-A on a monthly basis to determine that no case exists in the file with less than fifteen months left on the statute of limitations.
- b. The auditor shall bring any case with less than fifteen months left on the statute of limitations to the attention of the Group Chief.
- c. The auditor shall, with his Group Chief, develop a strategic plan for closing that case.

2. File-B:

- a. For cases with less than fifteen months before the expiration of the statutes of limitations, the auditor shall summarize the approved strategic plan for each case in the contact sheets and present it to the Group Chief for his or her signature.
- b. The auditor shall then file each case in a separate, special chronological filing system for problem cases, File-B.

3. Report on File-B

The auditor shall review the at-risk case file, File-B, on a weekly basis, e.g., every Monday, and prepare a report of all the cases in the file and their statute expiration dates. The report should consist of the name of the taxpayer, the case number, the tax year under desk audit and the statute of limitations expiration date. The weekly report shall be given to the Group Chief.

4. Closing File-B Audit Cases

The auditor is expected to complete cases identified at the fifteen-month marker within two months. Thus the auditor is expected to submit the case to the Group Chief to review by the beginning of the thirteenth month.

5. Special Cases

Cases pending within the fifteenth-month period that are not expected to close with at least thirteen months left on the statutes of limitations shall, with approval of the Group Chief, be deemed special cases. The auditor, with the Group Chief's and the Unit Head's approval, shall request an extension of each statute of limitations from the taxpayer. The contact sheet shall summarize the basis for requesting an extension of the statute of limitations and shall be submitted to the Group Chief and the Unit Head for their signatures.

For a special case, the desk auditor shall request that the taxpayer extend the statute of limitations so that the auditor can complete the desk audit and transfer the case to the Quality Review Unit at least twelve months prior to the expiration of the statute of limitations.

Desk audit cases with signed waiver documents extending the statutes of limitations continue to be designated special cases. All special cases shall be maintained in File-B.

C. Group Chief's Role

1. The Group Chief is responsible for reviewing the auditor's filing system on a quarterly basis. The Group Chief will check for accuracy and compliance with all the procedures.
2. For cases with less than fifteen months before the expiration of the statutes of limitations, the Group Chief will approve the strategic plan for each case and sign the contact sheet with the written summary of the strategic plan.
3. The Group Chief shall review the weekly report submitted by the auditor to ensure that the cases are being closed in a timely manner. The Group Chief shall certify the auditors' File-B reports to the Unit Head each week for review.
4. If the Group Chief determines that a case requires an extension of the statute of limitations, the Group Chief will immediately arrange a meeting with the Unit Head to obtain approval for the extension. A report listing all desk audit cases for which extensions of the statute have been requested or received from the taxpayer shall be prepared and certified to the Unit Head.

D. Unit Head's Role

1. The Unit Head shall review the auditor's report on File-B and the report on all cases for which an extension of the statute of limitations was requested or received from the taxpayer.
2. The Unit Head shall sign the contact sheet of the audit case after giving approval to extend the statute of limitations.
3. The Unit Head shall certify to the Branch Chief or the Assistant Commissioner the accuracy of the reports filed by the audit staff.