



ARIZONA DEPARTMENT OF REVENUE

TRANSACTION PRIVILEGE TAX ("TPT") AUDIT SECTION

GENERAL AUDIT MANUAL

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LIMITATIONS OF THE AUDIT MANUAL

Manuals serve a useful purpose but they cannot provide an answer to every problem that will be encountered. All taxing jurisdictions will be confronted with new businesses that will require new ways of thinking. A good example is the evolution of the internet and its various components – from the connection fees and advertising charges, to the point of ordering a product and having it delivered to an Arizona residence.

Unusual problems will be encountered that have not been addressed in this manual or by other staff members. This manual cannot be a substitute for experience, training in accounting and auditing, or good judgment and supervision. In many situations, the auditor will need to use his or her education and research skills, and consult with other audit team members to develop an opinion on how an item should be handled.

FOREWORD

The auditor serves the interests of the taxpayer and all taxing jurisdictions. Compliance with the Arizona Revised Statutes (“ARS”) and ordinances of the Model City Tax Code (“MCTC”) are expected. The taxpayer should always be treated with the utmost respect, a high degree of professionalism, and be well advised of its rights, exclusions, and exemptions within the law. Taxation is not a punitive one-way road for the taxpayer. Rather, it is a two-way road, with mutual rights and courtesies for both the taxpayer and jurisdiction representatives.

All auditors have the duty to enforce compliance with the law, and taxpayers expect equity in the administration of those same laws. The auditor is encouraged to step into the role of the business owner and provide the same flexibility the auditor would seek if the tables were turned.

TPT AUDIT SECTION GOALS

There are three all-encompassing goals of the TPT Audit Section. The primary and foremost goal is that of taxpayer education. When taxpayers are informed, the taxing jurisdictions realize many benefits including an increase in voluntary compliance, public involvement with government, and a sustained revenue stream. The jurisdictions pride themselves on the delivery of outstanding customer service, and the willingness to go the extra mile to provide the type of service citizens and taxpayers expect.

The secondary goal applies to the technical competence of the individual auditor, in that the auditor is expected to determine the correct measure of tax. This is the core concept of auditing. Audits will be assigned to auditors based on ability and experience. The assignments will be placed in the auditor's inventory as shown within their audit plan.

The third goal is to ensure the taxpayer has remitted the proper amount of tax during the audit period. If the audit results in an over payment of tax, the taxpayer shall receive a refund.

SUPERIOR AND DISTINCTIVE SERVICE

Every audit is performed by an auditor who has the responsibility for delivering superior and distinctive service, and the full decision making authority to fulfill this responsibility. Auditor autonomy maximizes creative and individualized service. Taxpayers appreciate this approach because it favors innovation, and allows for expeditious and effective problem solving. The auditor is involved in every aspect of the audit, from the initial planning to the ultimate completion. This approach recognizes that each taxpayer is unique; and therefore, each audit must be tailored to maximize its effectiveness.

The quality of service provided by the TPT Audit Section and taxing jurisdictions depends on the quality of its employees. Management recognizes the importance of selecting outstanding individuals, training them thoroughly, and giving them increasing responsibility based on accomplishments and demonstrated potential for further progress. All audits are reviewed and approved by supervisors or authorized senior personnel to ensure quality and accuracy.

AUDIT OBJECTIVES

Objectives can be divided into two major groupings, qualitative and quantitative. The qualitative objectives include following General Accepted Accounting Principles (“GAAP”) and Generally Accepted Auditing Standards (“GAAS”).

Quantitative objectives should have impartial characteristics. As such, quantitative objectives may tend to be limited and narrow in relation to the overall goals and policies of the audit program. Quantitative objectives can be classified as either staff or management oriented.

APPROACH TO AUDITING

The auditor must approach an audit with the goal of establishing a true tax liability on an equitable and impartial basis. The auditor should obtain a copy of the General Audit Program developed by the TPT Audit Section.

Every taxpayer has the right to be reviewed on the same basis as other taxpayers engaged in the same (or similar) type of business. Although the circumstances may vary from audit to audit, the fundamental ideas and principles which underlie the law must be applied in a uniform and consistent manner.

The auditor must not be influenced by the following factors:

1. How much additional tax might result from an audit
2. The audit may result in a refund
3. How influential the taxpayer may or may not be
4. The taxpayer's apparent inclination to accept or protest an assessment

In all cases, the auditor must afford the taxpayer the opportunity to disagree with the findings and present additional information that may help clarify the point in dispute. If after analyzing all information the auditor is confident the determination is valid, sufficiently documented, and supported in the audit workpapers, the audit should be submitted.

In respect to the amount of time devoted to conducting an audit, this is largely a question of judgment on the part of the auditor. The following points may aid the auditor when considering the justification of time:

1. The number of transactions to be audited
2. The different types of transactions
3. The business classification
4. The materiality (significance) and impact on the liability
5. The overall complexity of the business
6. The clarity of the taxpayer's books and records

In short, the amount of time that is required in establishing an accurate liability will vary widely, depending on the above factors.

PROFESSIONAL STATUS

Accounting is a constructive process. It starts with original document sources and follows the accounting process where the data is recorded, classified, summarized, analyzed, and ends with the production of financial or other statements.

Auditing is a critical review process, which generally follows the opposite direction of the accounting process. Auditing starts where accounting ends (i.e. begins with the financial statements and finishes with the original document sources). However, the direction of auditing can vary, as the auditor may start a particular verification and follow the same direction as the accounting process.

In a restrictive sense, auditing refers to specialized procedures recognized as essential in acquiring sufficient information necessary to make a specified determination, or to permit the expression of an informed opinion. In our unique audit environment, the focus is on whether or not the taxpayer remitted the proper amount of tax.

Auditors for the taxing jurisdictions are engaged in professional assignments. They are called upon to exercise their highest skills and most impartial judgments throughout the performance of their official duties. To assure that audit methods and techniques are appropriate for the specific assignment, sound professional judgment must be exercised in making tests that are representative in scope and character. By doing so, the auditor can be confident that the results are indicative of the actual business operations during the period covered by the audit. Under all circumstances, tax auditors are expected to conduct themselves in a professional manner.

The Auditing Standards Board (“ASB”), a division of the American Institute of Certified Public Accountants (“AICPA”), sets the professional standards by which audits should be performed. Generally Accepted Auditing Standard (“GAAS”), AU Section 150 provides the measure of audit quality and the objectives to be achieved in the audit. Auditing procedures differ from auditing standards. Auditing procedures are the acts that the auditor performs during the course of an audit to comply with auditing standards (AICPA, 2013).

1. General Standards

- a. The audit is to be performed by a person or persons having adequate technical

- training and proficiency as an auditor.
- b. In all matters relating to the assignment, independence in mental attitude is to be maintained by the auditor or auditors.
- c. Due professional care is to be exercised in the performance of the audit and the preparation of the report.

2. Standards of Field Work

The general quality criteria for the actual conduct of the audit, including the proper design and execution of the auditing procedures.

- a. The work is to be adequately planned and assistants, if any, are to be properly supervised.
- b. There is to be a proper study and evaluation of the existing internal controls as a basis for reliance thereon, and for the determination of the resulting extent of the tests to which auditing procedures are to be restricted.
- c. Sufficient evidential matter is to be obtained through inspection, observation, inquiry, and confirmation to afford a reasonable basis for an opinion regarding the financial statements under audit.

3. Reporting Standards

Reporting standards provide guidance for the ultimate objective of auditing the audit report.

- a. The report shall state whether the financial statements are presented in accordance with Generally Accepted Accounting Principles.
- b. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.
- c. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
- d. The report shall contain either an expression of opinion regarding the financial statements taken as a whole, or a statement as to why an opinion cannot be expressed. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the

auditor's work, and the degree of responsibility the auditor is taking.

The only standards that do not directly apply to tax audits are 3(a) and 3(b) due to the nature of tax audits, but all other standards should be taken into consideration during the performance of tax audits.

EVIDENTIAL MATTER

In auditing, evidential matter consists of underlying accounting data and corroborating information available to the auditor.

1. Underlying Accounting data consists of:
 - a. Book of original entry
 - b. General and subsidiary ledgers
 - c. Related accounting manuals
 - d. Informal and memorandum records, such as worksheets, computations, and reconciliations
2. Corroborating information consists of:
 - a. Documents such as checks, invoices, contracts, etc.
 - b. Confirmations and other written representations
 - c. Information from inquiry, observation, inspections, and physical examination
 - d. Other information obtained or developed by the auditor

MATERIALITY

Certain accounting assumptions, accepted principles, and modifying conventions are also applicable to tax audits. The important accounting concept used throughout auditing is materiality.

An attempt must be made to arrive at an accurate determination of the tax liability with the least amount of time expended. These two opposing conditions obviously require that some compromises in auditing technique be made. The auditor must take into account how an item of income or deduction will influence the total tax liability for the audit period. Some of the more common factors auditors' uses in making materiality judgments are explained below.

1. Absolute Size - The dollar amount of one specific error may be important irrespective of any other considerations

2. Relative Size - The relation of potential error to a relevant base is often used
3. Nature of the Item or Issue - An important qualitative factor is the descriptive nature of the item or issue. Some errors are generally more important than others are and some tax issues are more clearly defined than others are.
4. Circumstances - The matters that relate to the audit and particular issue which could impact on the auditor's judgment of materiality.
5. Cumulative Effects - Auditors must evaluate the sum of known or potential errors. The absolute size of one error may not be material, but the sum of several errors may be material.

The concept of materiality is used by auditors in three ways:

1. Guide to Planning the Audit Program - directing attention and audit work to the important, uncertain, or error-prone items and issues
2. Guide to Evaluating the Evidence – obtaining sufficient documentation.
3. Guide for Making Decisions Regarding Compliance with the Arizona Revised Statutes and Model City Tax Code - such as deciding whether the taxpayer made a material misstatement on the tax returns or whether the matter can be considered immaterial and disregarded

SUMMARY OF AUDIT WORK

An audit must be adequately planned to meet the overall audit objective and to determine the methods of achieving it in an efficient manner. The plan should be based on an understanding of the taxpayer's business, its information system and control environments, and the nature of its transactions. The plan should be documented as part of the workpapers and should be revised as needed. The auditor should understand, evaluate and obtain evidence of the effective operation of any control when determining the nature, extent, and timing of other audit procedures.

The auditor should obtain sufficient competent information to provide a reasonable basis for the audit results. This evidence should be properly documented in the workpapers and should include a record of the planning and supervision of the audit, the evidence relied upon, and the reasons underlying any significant decisions made during the audit. The audit report or

determination letter should provide a clear expression of the conclusions reached per the ARS and MCTC sections that relate to the tax imposed and the period covered by the audit. The following paragraphs address some of the key standards in more detail.

The auditor is required to maintain independence when performing a professional engagement. The auditor shall not audit a business in which the auditor has a conflict of interest, such as a financial or personal relationship. The auditor shall not audit a business where the auditor has a relationship with a competitor of the business under audit. Use of common sense can help maintain the role of independence. If a conflict of interest of this nature occurs, the auditor must disclose the conflict to the Department.

The auditor is to possess integrity and objectivity in performing the professional assignment. The auditor should not knowingly misrepresent facts. When engaged in an assignment, the auditor shall not subordinate his or her judgment to others, but will render judgments within the confines of the laws, rulings, and procedures. Ideally, different auditors will come up with a similar result if objectivity is properly maintained.

The auditor shall not undertake any engagement, which cannot be reasonably expected to be completed with professional competence. Until the auditor has the required experience working with a particular type of business, an experienced auditor or a supervisor should accompany the auditor. Although several audit tools are available to assist the auditor, experience is gained only by performing the actual tasks.

The auditor shall not disclose any confidential information obtained in the course of an audit to the public, except with the written consent of the taxpayer in the form of the General Disclosure/Representation Authorization Form (“AZ 285”). The auditor should not discuss any confidential matter or even mention taxpayer’s names in a public setting where confidentiality could be at risk. Any knowledge gained through the audit examination should remain confidential. This includes discussing issues with family members and employees outside of the TPT Audit Section. When performing audit work with an agent or representative of the taxpayer, such as outside accountants or attorneys, a properly executed AZ 285 form is required before confidential information may be discussed with such representatives. Without an AZ 285 form, information can be accepted but not discussed.

The auditor shall not induce offers of services or employment from taxpayers or accounting firms while on a professional engagement. In addition, unsolicited offers of employment should be refused if proposed on a professional assignment.

The auditor shall not commit an act discreditable to the taxing jurisdictions. Such an act may result in disciplinary action up to and including termination. All auditors are expected to maintain professionalism.

The auditor shall not seek to obtain personal clients by solicitation while on a professional assignment for the taxing jurisdictions. The auditor may perform individual professional services if prior written approval has been received by their supervisor, and that such services do not conflict with those performed while representing the taxing jurisdictions. If approved, the auditor must observe all standards of conduct and ethics pertinent to those personal services provided.

PUBLIC RELATIONS

Each auditor is responsible for developing positive public relations. What the public thinks of an organization depends largely on contacts made by the employees of the organization.

Consistent with the purpose of tax auditing, it is unnecessary for the auditor to imply that the audit objective is to find errors in the taxpayer's reporting. The taxpayer should be assured that the auditor's function is to determine whether the amount of tax has been reported correctly. The auditor should emphasize taxpayer education and should explain that auditors are not evaluated based on taxes assessed or collected. Care should also be taken to inform the taxpayer of their rights and privileges in connection with such determinations. The auditor should administer the tax laws fairly and uniformly, with minimum disruption to the taxpayer's business affairs.

The auditor must keep in mind the aspects of public relations involved in any tax audit and demonstrate the following qualities:

1. The auditor should attempt to establish a good rapport with the taxpayer.
2. The auditor should uphold an objective attitude, while maintaining a professional interpersonal relationship with the taxpayer. To the extent possible, the auditor should:
 - a. Maintain an arms-length relationship with the taxpayer.

- b. Never argue with or be condescending to a taxpayer.
- c. Avoid humorous remarks, since they are frequently misinterpreted.
- d. Avoid political or religious discussions.
- e. Do not use remarks or engage in conduct, which could be interpreted, as sexual harassment.

A key ingredient of public relations is communications. The following guidelines help establish good communications:

- 1. Listen with understanding
- 2. Ask questions designed to uncover taxpayer needs and concerns
- 3. Share meaningful information
- 4. Explain reasons for policies
- 5. Ask taxpayer to take another look at the problem
- 6. Refrain from forcing the taxpayer to accept the auditor's position on an issue – let them make their own decision, regardless of the outcome

GENERAL TPT INFORMATION

TPT is imposed directly on the person conducting taxable activities within the State of Arizona. A true sales tax imposes the tax on the actual consumers rather than the business activity. Therefore, under the transaction privilege tax, the seller remains liable for the tax, whether or not the seller passes the tax on to the customer or consumer. There will be situations where the customer claims to be exempt, but the taxpayer remains liable for the tax until the exemption is substantiated.

Taxable business activities have been placed into more than twenty different categories or classifications. The sections pertaining to each classification include statements concerning the basic nature of the businesses included within that classification and a general statement of taxability. Each section will define any exemptions or deductions applying to that category of business. For those classifications for which it is required, regulations are provided to offer additional clarification regarding the applicability of the tax in unusual circumstances or situations.

Each classification is independent of the others. Therefore, the laws and regulations, which

govern business activities in one classification, do not necessarily apply to businesses in other classifications.

USE TAX

Most taxing jurisdictions also impose a use tax on items that are purchased, leased, or rented without paying a privilege or sales tax. These items may become subject to use tax when they are used, stored or consumed within a taxing jurisdiction.

STATUTE OF LIMITATIONS

Every person conducting business in the State of Arizona is required to maintain appropriate records as are necessary to determine the tax for which the taxpayer is liable. Such books, invoices, and other records are to be available for examination by the taxing jurisdictions during normal operating hours of the taxpayer. Any books and records of the taxpayer, which are to be open for examination, shall be kept for a minimum of forty-eight (48) months (ARS 42-1104 / MCTC Section 550). If the auditor encounters delays, which are caused by the taxpayer, a waiver of limitation form should be proposed to the taxpayer to allow them more time to obtain additional information. The waiver needs to be signed by the taxpayer prior to the expiration date of the first month of the audit period. If a taxpayer has underreported gross receipts of 25% or more, the audit period may be extended to six years (A.R.S. §42-1104.B.2 / MCTC Section 550). If the audit is extended an additional two years as noted above, each reporting period stands on its own. Therefore, for every reporting period within the extended 2-year window the auditor must review each return to determine if the period has gross receipts underreported by 25% or more. If not, the period must be excluded from the audit.

If a person is doing business in a taxable activity and has no license, the four-year limitation does not apply and there is no limitation. If no waiver of limitation form can be obtained, the auditor should consult their supervisor for direction.

TAX RATES

The privilege tax is applied at a combined (State, County and City) tax rate as indicated in the tax tables.

AUDIT ASSIGNMENT

Audits will be assigned through the Arizona Department of Revenue. If a business is

approved for an audit, the Department will enter the account into the audit database. A request will be sent to all formerly self-reporting cities to provide all relevant reporting histories. These histories will be combined with the Department's reporting histories and indexed into an Arizona Automatic Tax Calculator ("AATC") file. This file will be electronically forwarded to the auditor performing the audit. If a taxpayer has been selected for an audit in the past, the auditor(s) who performed the prior audit(s) shall not perform any subsequent audits on the same taxpayer, where applicable. If a City or Town only has one auditor on staff, the auditor may perform a repeat audit if approved by the Department.

AUDIT PROGRAMS

Once an audit is assigned, the auditor should begin to plan the audit. Information gathered by initial research, taxpayer interview, general questionnaire, and general review of the books is used to formulate the audit plan. The auditor should now create the General Audit Program from the AATC. The auditor will check the completion boxes in the general audit program as the audit progresses. The auditor is required to complete audit programs for each separate TPT classification encountered in the audit. The auditor will check the completion boxes in each TPT classification audit program as the audit progresses.

GENERAL SCOPE OF AUDIT—Historical Information & Analytical Review

Before beginning an audit, the auditor should become familiar with the business operations in order to determine what areas of taxability may exist. This will permit the auditor to get an idea of the overall scope of the audit.

In making a general analysis of the business, the auditor should determine:

1. Records needed
2. Relative importance of the different areas to be checked
3. Different approaches that can be used in establishing the tax liability

The auditor may also find it useful to question the taxpayer or the taxpayer's representative to acquire a general overview of the business.

The auditor will inquire about the person responsible for preparing the transaction privilege tax documents, from what source the auditor can obtain the reported figures, and exactly how the preparation is done.

PRE-AUDIT WORK

The auditor should review:

1. The taxpayer's license application
2. Any correspondence in the taxpayer's file
3. The taxpayer's tax payment history
4. The tax code
5. Related audit classification guidelines and audit programs
6. Any prior audits or audits of similar entities
7. Building permits, recorded documents, improved real property sales history

To ensure that the audit progresses as originally planned, an audit program should always be followed. When this information is gathered, the auditor will have finished the first stage of the audit. If no other items need to be addressed, the auditor will send the "Notice of Intent to Audit" letter. At times, it is difficult to schedule audits, and for this reason, it is good to have several audits in process at one time to reduce the auditor down time.

TAXPAYER'S COOPERATION

If the auditor experiences difficulty in obtaining the necessary records during the course of the audit, the auditor should give the taxpayer reasonable time to produce the required records. If, after a reasonable time, the documentation has not been obtained, the auditor should refer the account to the supervisor. The supervisor may then attempt to procure information from the taxpayer, through either telephone or personal contact. If a taxpayer fails or refuses to furnish any information requested in writing by the auditor, a written request may be sent to the taxpayer by certified mail under the authority of A.R.S §42-1125(C) and Section 555 of the Model City Tax Code. If the request is not successful, a subpoena may be completed and served on the taxpayer. Prior to the issuance of a subpoena, approval must be granted from the Department of Revenue.

In cases where the taxpayer appears to have a legitimate reason for delaying the audit for an extended period, the auditor must have the taxpayer sign a waiver covering the period of audit.

SETTING INITIAL AUDIT APPOINTMENT

The auditor will contact the taxpayer for an appointment to begin the audit. An appointment confirmation letter showing date, time, and records to be examined shall be sent. If the auditor cannot obtain a firm commitment from the taxpayer after reasonable attempts have been made, the auditor will consult with his or her supervisor to determine the next steps.

OPENING INTERVIEW

Once the auditor arrives at the taxpayer's location, the auditor should provide a business card and explain the audit process. The auditor should ask if someone will be representing the taxpayer, and determine if such person is able to furnish the records and information needed, and be able to discuss the auditor's findings at the appropriate time. The Standard Interview Questionnaire should be used during the opening interview.

The auditor should also become acquainted with the taxpayer's accounting system, tax worksheets, and internal controls. Such information will allow the auditor to select the proper sources for verifications, as well as to make judgments regarding the types of tests to be conducted during the audit.

After conducting an opening interview, the auditor should know how the related transactions are processed, recorded, and summarized in order to select the best approach and technique in conducting the detailed tests to support the various recorded amounts.

The taxpayer should be able to guide the auditor through the monthly tax return process and point out the key documents relied upon to prepare the tax returns. It is important to ask about the source of various reported items and gain an understanding of how the various transactions flow through the accounting system.

The best way to accomplish the preliminary audit for each tax category depends on the auditor's discretion. Some auditors prefer to first obtain general information about the operational methods and the accounting system, and then get more specific details of the audit trail. Other auditors find that obtaining all the necessary information at the beginning is better. Auditors must use their best discretion and adapt to the amount of information available, without being overwhelmed if the information supplied by the taxpayer is voluminous

INTERNAL CONTROL

The auditor should make a proper study (compliance test) of internal controls to verify the degree of reliance on such controls, and to determine need for substantive testing based on the results. Tax audits are not focused on the entire internal control structure. The tax auditor's concern with internal control is focused on determining:

1. Was the tax law interpreted correctly?
2. Do the tax reporting procedures result in an accurate determination of tax?

General compliance testing procedures produce evidence of whether control techniques are being performed and applied by company employees. Tax auditing compliance tests produce evidence of whether the taxpayer's knowledge of the tax code is sufficient and reporting procedures are accurate. In contrast to compliance testing which produces evidence regarding the taxpayer's control of taxes, substantive testing will produce evidence regarding the dollar measurement of inaccurate tax reporting controls.

LIMITATIONS OF INTERNAL CONTROL

Compliance tests should reveal any limitations of internal (tax) control, which could result in:

1. Misunderstandings of the tax laws, rulings, licensing requirements, and reporting procedures
2. Mistakes of judgment involving arbitrary and/or contrary interpretation of the tax laws and administrative rulings
3. Carelessness with regard to tax control and reporting procedures
4. Fraud or intentional disregard of the tax laws and administrative rulings

INTERNAL CONTROL EVALUATION

In addition, the auditor can utilize transaction sampling to determine tax compliance. Two types of transaction sampling techniques are Acceptance Sampling and Discovery Sampling.

1. Acceptance Sampling

When the acceptance-sampling plan is used, a sample is taken or drawn. If no more than a certain number of errors are found, the universe examined is considered acceptable.

If more than that number is found, the universe is rejected as unacceptable.

This plan is more useful for the control of errors.

2. Discovery (Exploratory) Sampling

When using this plan, the auditor tries to disclose the existence of evasion of regulations, avoidance of the internal control system or other critical departures. If further action is warranted based on the results of this sampling, the auditor may execute an estimation sampling plan (variable sampling).

The evaluation of internal control and transaction sampling should confirm, either in whole or in part, the taxpayer's correct tax interpretation and accurate reporting, or misinterpretation and noncompliance. Any errors in tax interpretation should result in substantive testing to determine the dollar measurement of noncompliance.

SAMPLING FOR AUDITING - GENERAL INFORMATION

In general, the use of sampling methods for testing is necessary due to two elements:

1. The time spent to conduct the audit
2. The total cost of performing the audit.

The concept of a sampling audit (test basis audit) is the opposite of a detail audit as far as the use of original sources for verification purposes.

The ideal starting point in an audit is to review the tax worksheets and final data sources (including any intermediate data sources such as the general journal, auxiliary journals), because the data is summarized or condensed. This approach represents a relatively easy method to verify how totals in the intermediate and final sources were calculated, and to verify aspects and details that may be found only in the original documents, as the auditor will eventually have to verify the original documents as well.

CLASSIFICATION OF SOURCES FOR TAX AUDITS

For audit purposes, sources for data may be classified as follows:

1. Original Source Documents

These sources include any original documents that initiate accounting entries and reflect an original transaction. Examples include, sales invoices, cash sales tickets, cash register tapes, purchase orders, purchase invoices, original contracts, canceled checks, etc.

When reference is made to a test or sampling, these are the document sources used.

2. Intermediate Document Sources

These sources are found in the middle of the accounting process, after the original documents have been recorded. Examples include general journal, auxiliary journals, daily summaries of sales, collections, etc.

3. Final Document Sources

These sources represent the final product of the accounting process and are represented by financial statements and tax returns.

4. Other Sources

These sources are third party in nature and exist outside of the taxpayer's accounting process. Examples include vendors, customers, governmental agencies, publications, etc.

GENERAL AUDITING PROCEDURES

The following sections briefly describe the books, records, and detail that the auditor will normally encounter in performing an audit. All or a portion of these records may be relied upon in performing the audit, and they may be used in either compliance or substantive testing.

1. Examination of the General Ledger

The general ledger accounts must be examined for debits and credits, which may represent unreported taxable transactions. For example, sales of merchandise at cost may have been credited to the purchase or inventory accounts; sales of by-products may have been credited directly to profit and loss, surplus or expense accounts; sales of furniture, equipment and other capital assets may have been credited to equipment, depreciation or other accounts. Debits to general ledger equipment and supply accounts may represent unreported purchases subject to use tax. Additionally, accrued tax liabilities may indicate the taxpayer has accrued use tax but failed to remit the same.

2. Examination of the General Journal

Transactions not disclosed by examination of other records may be disclosed by examination of the general journal. The auditor should examine journal entries, specifically noting those, which may indicate unreported taxable transactions.

Documents should be examined to determine whether the entry represents an unreported taxable transaction. Examples include correspondence, contracts, invoices, etc.

3. Examination of the Cash Receipts Records

The cash receipts records should be examined to determine that receipts from cash transactions have been credited to the proper sales or revenue accounts. Care should be exercised not to duplicate taxable transactions disclosed in the examination of other records.

4. Examination of the Accounts Receivable Ledger

Accounts receivable entries from the owners, partners, officers, or employees of the company should be examined for evidence of taxable transactions not otherwise recorded in the sales or revenue accounts. All drawing accounts and employees' advance accounts should be examined.

5. Examination of the Purchase Journal

Entries may be made in the purchase journal for sales at cost or for returned merchandise. Inventory withdrawals, which should have been reflected in the inventory accounts, may appear as credits in the purchase journal. These postings should be scrutinized for taxable transactions.

6. Schedule of Sales or Revenue

In some cases, it is more practical to trace the reported figures to the sales or revenue journal or general ledger by period. If frequent differences are found, it would be advisable to schedule total sales or revenue. If there are only a few isolated differences, the periods where the differences occur should be scheduled. A detailed schedule of total sales may be advisable when the recorded figures can be used for tying several items such as total sales and several deductions. Amounts may be scheduled from the sales journal if the segregation between taxable and nontaxable sales is not discernable in the general ledger. Where sales are scheduled from the sales journal or other detailed sources, the scheduled figures should be reconciled with the general ledger.

7. Examination of Sales or Revenue Invoices

Sales or revenue invoices usually represent the original record of a transaction after an order execution (purchase order) has been provided. It is a necessary part of the audit procedure to examine a representative number of these invoices to determine how the transactions are recorded and on what basis the tax was accrued. The following is an itemization of the various functions involved in the examination of this original detail:

a. Postings

A review of postings is the first step necessary to verify the accuracy of the books of original entry. The sales or revenue invoice is vouched directly to the sales or revenue journal for accuracy of posting relative to amount and classification in the journal.

b. Tax

Invoices subject to taxation often have the tax stated separately. If so, the amount of tax should be recalculated to verify the correct amount of tax was charged.

c. Deductions

At the time the invoice is being reviewed for posting accuracy, etc., it should also be reviewed for evidence of exemption. For example, if the sale is being claimed exempt as a sale for resale, the resale certificate could be examined at that time.

d. Form of the invoice

The auditor should examine the form of the invoice and check to see if charges are segregated or shown as a lump sum. The importance of segregation will vary by a particular tax category. For example, under the retail classification, labor charges are deductible only if segregated on all books, records and customer billings or invoices.

8. Examination of Income Tax Returns

Federal of State Income Tax Returns may also be used as a source document to help determine if there are problems with the transaction privilege tax returns. Auditors should understand that the definitions and rules for income taxes are different so the use of the income tax returns is merely a “sanity test”. For example, sales of tangible

personal property are sourced for income tax purposes to the ultimate destination and sales of other than tangible personal property are sourced to the state with the predominant cost of performance. These are not necessarily identical or even similar to the transaction privilege tax rules. If the gross receipts on the income tax returns are significantly different from those reported on the TPT returns, and there is no obvious reason, the differences should be discussed with the taxpayer.

9. Administration of Exemptions

The auditor will review identifying information the taxpayer has received from their customer and the reason for claiming a tax exemption at the time of purchase. The taxpayer shall maintain proper records of exempt transactions. If the taxpayer has not obtained an exemption certificate or all relevant data elements as provided in ARS §42-5009 the auditor will provide the taxpayer with 45 days subsequent to a request for substantiation, to either:

- a. Obtain a fully completed exemption certificate from the customer, (i) was statutorily available on the date of the transaction in the jurisdiction where the transaction is sourced, (ii) be applicable to the item being purchased, and (iii) is reasonable for the purchaser's type of business; or
- b. Obtain other information establishing that the transaction was not subject to the tax.

If the taxpayer obtains the information described above the auditor shall relieve the taxpayer of any liability for the tax on the transaction unless it is discovered through the audit process that the taxpayer had knowledge or had reason to know at the time such information was provided that the information relating to the exemption claimed was false. If the taxpayer does not obtain a properly completed exemption certificate, taxpayer shall have the burden of proof to establish the required information.

TAX FACTORING/TAX COLLECTED

When additional gross receipts or disallowed deductions are discovered, and the auditor has verified that no tax was separately charged, the auditor should allow the appropriate factored

TAXPAYERS WITH POOR TAX ACCOUNTING PROCEDURES

If weaknesses in the tax accounting procedures make it impossible for the auditor to rely on those procedures, the auditor should accomplish the audit objectives by other means including:

1. Request the taxpayer to reconstruct records so that either gross receipts or deductions may be allowed based on tests of those records.
2. Tax the gross receipts of the taxpayer or disallow the specific deductions for which the records are inadequate.
3. Perform a detailed audit if the potential tax liability would offset the time and cost restraints. Before a detailed audit is undertaken, the audit supervisor should be consulted.

TAXPAYERS WITHOUT RECORDS

The auditor will encounter some cases where the taxpayer has no records of any kind, or perhaps only fragmentary records. The first step is to offer the taxpayer reasonable time to reconstruct their records based on available information. If the taxpayer is unwilling, or refuses to provide any information, a written request may be sent to the taxpayer by certified mail under the authority of ARS §42-1125(C) and Section 555 of the MCTC.

FIELD WORK

The evidential matter required by the third standard of fieldwork is obtained through two general types of auditing procedures. Collectively, these procedures are substantive tests and include:

1. Tests of Transactions and Balances

These procedures are designed to obtain evidence as to the validity and propriety of the accounting treatment of transactions and balances. Conversely, the tests may also be used to determine the existence of any unintentional monetary errors or irregularities (deliberate distortions and misrepresentations). The auditor uses tests of transactions and balances to determine the dollar measurement of noncompliance.

2. Analytical Review Procedures

These procedures are designed to verify the reasonableness of relationships among data and identify unusual fluctuations in such data. These procedures include:

- a. A comparison of current financial information with comparable information for corresponding previous periods
- b. A comparison of the financial information with anticipated results (i.e., tax forecast);-
- c. A study of the inter-relationship between elements of financial information that would generally be expected to conform to a predictable pattern based on the entity's history or experience
- d. A comparison between the taxpayer's financial information and information regarding the industry in which the taxpayer operates
- e. A study of the inter-relationships between financial information and relevant non-financial information

AUDIT TECHNIQUES

The techniques below serve as useful guidelines; however, the auditor's ingenuity and judgment play a crucial role in the audit process. Each audit may present a unique challenge that can be solved only by applying and adapting different techniques and improvising as the situation warrants.

The manner by which the auditor examines accounting evidence is known as an audit technique. There are various audit techniques available to the auditor. The auditor may use one technique instead of another depending on the audit objective. Several audit techniques are listed below:

1. Analyzing

This requires careful consideration of each item. The purpose of analyzing is to separate the whole into meaningful component parts. In tax audits, this technique is used to analyze claimed exemptions or deductions, or to determine the tax impact related to deductions such as bad debts. Another example would be reviewing the miscellaneous income accounts for possible taxable transactions.

2. Inquiry

This technique can be a formal process or a simple oral question. Although inquiry by itself does not directly allow the auditor to obtain sufficient evidence it can, and often

does, lead to areas that provide the needed support. The audit questionnaire and checklist provide good guidance in developing inquiries.

3. Observing

This involves more than merely looking. The auditor's observations are designed to gather audit evidence. In public accounting, this technique is used with the audit of inventories to determine the accuracy of the inventory account. Observation requires preexisting knowledge of the process being observed. By inspecting the taxpayer's premises, the auditor is likely to observe new capital additions or remodeling work, which could lead to unreported use tax due or spin-off audits of the contractors who were involved in the remodeling work. Additionally, the auditor can review newspaper or magazine articles that may indicate higher sales than reported by the taxpayer, or the intent to sell improved real property, such as a speculative building.

4. Re-computing

This is based on a selective process performed by the auditor on some of the taxpayer's mathematical calculations. An example of this technique would be the recalculation of tax on a guest folio at a hotel in order to determine if tax was properly charged.

5. Scanning

This technique is used to examine a considerable amount of evidence in order to locate an exception. Scanning may be applied on original documents, as well as on journal entries or ledger postings. The auditor may scan the journal or ledger in order to locate any unusual transactions. Although all entries for a given period are scanned, only those appearing unusual, in either amount or composition, will be given additional attention. The scanning technique is often used when the auditor conducts a discovery sampling using sales invoices. The sampling is conducted to disclose exceptions related to deductions taken, or to identify sales invoices where no tax was charged. The tax auditor may also use this technique on the adjusted journal entries at the end of the taxpayer's fiscal year.

Additionally, this procedure may also be used when reviewing the vendor invoices for potential use tax. In this case, the scanning technique saves time, as every vendor file is not reviewed in detail (i.e.: payroll fees, utility bills, or accounting fees are not subject to use tax, so they generally are not reviewed).

6. Tracing

Tracing requires the auditor to follow a transaction through the accounting system. Generally, tracing links an original transaction with all subsequent processing to determine the accuracy of the recording process. This technique is frequently applied in tax auditing to trace the debit entries posted in the fixed asset accounts back to the original purchase invoices. By doing so, the auditor may uncover potential use tax, or verify deductions claimed on the original sales invoices or similar documents.

7. Vouching

Vouching requires that a transaction be supported by adequate evidence or documents. The auditor should examine these documents for their apparent authenticity and validity. An example is the examination of a taxpayer's resale certificates received from their customers.

8. Comparison

This technique involves various comparisons including those of ratio and trend analysis. The auditor should expect certain relationships to be in existence, as provided by the evidence gathered through comparison.

In summary, auditing techniques are the means by which the auditor arrives at the most accurate conclusion in the most efficient time. Each examination requires the auditor to exercise originality and ingenuity in determining techniques that will best accomplish the goal.

DETAIL AUDIT - VS - SAMPLE BASIS AUDIT

Before the audit is initiated, the auditor must determine the adequacy of the taxpayer's records. If a detailed audit is not feasible, a block sample or statistical sample may be performed.

To decide if a sample audit should be conducted, a test must first be made using a tentative block sample. A block sample consent form may be executed **only** after the test has been completed and determined to be applicable. The taxing jurisdictions are bound by the results

of a properly executed block sample consent agreement. The taxpayer may, at any time, terminate the agreement. If the taxpayer does so, a detailed audit or other appropriate review should be performed.

The auditor must discuss the selection of sample periods with the taxpayer. If a block sample is selected, the taxpayer must sign a Sampling Agreement. The agreement should indicate the sample periods and any other factors that are pertinent. Generally, three or more different months from separate years are used for the test.

Before a statistical sample is used, the Department of Revenue must be consulted.

SAMPLE PERIOD SELECTION

The decision of whether to conduct an expanded sample is based on the results of the preliminary tests. In certain instances, due to the size of the business, it may be necessary to conduct a formal controlled sample as a preliminary test. Some critical points to be considered in the use of sampling include:

1. Use of a Sample Period

- a. Units of sale or the dollar amounts of claimed deductions are uniform as to their size and distribution throughout the audit period
- b. Basic characteristics of the business and the methods of reporting remain the same throughout the audit period. Should the basic characteristics of the business change during the audit period, separate samples or tests should be made for each specific period with separate percentages of error for each. This is called a stratified sample.
- c. The sample-audited detail contains sufficient items to make an accurate percentage calculation. If the sample tested has only a few transactions, errors may not lend themselves to a percentage calculation of reasonable accuracy.
- d. The sample period must be representative of the business activity being tested

2. The Sample Base

- a. The auditor must establish what is being tested.
- b. The sample base must be representative of the business activity being tested.

It is important that a firm sample be established so that a percentage of error can be computed and applied. This base is represented as the denominator, with the differences found in the denominator being represented as the numerator. For example, if sales for resale are to be tested for a selected month, all recorded and

claimed resales must be examined for that month, with exceptions or disallowed

resales being specifically noted. Alternatively, what is tested may be a combination of various deductions. In this case, the base would be all the deductions recorded and claimed. Other block sample methods are permitted as long as the auditor, supervisor, and taxpayer agree as to the method of sampling to be used.

3. Size of Sample Period

The auditor must exercise his or her experience and judgment in determining the size of the sample periods. The following principles should be considered in selecting a sample period:

- a. The size should be adequate to ensure reasonable accuracy.
- b. The auditing time required should not be excessive in relationship to the materiality of the issue.

In general, when auditing a business with good internal controls and a good accounting system, the sample period may be a relatively small portion of the total audit period.

However, when auditing a business with little or no internal controls, the sample period should cover a larger proportion of the audit period. If records are available, the periods selected for sampling should be spread over the entire audit period, while ensuring that samples are taken from all years and address any seasonal or other ongoing fluctuations in business activity. The size of each sample period, in addition to the above considerations, will depend on the number of documents to be examined. Usually, the sample periods will consist of complete months or quarters. However, periods of less than a month may be selected if the number of transactions is voluminous, and if daily or weekly control can be established. Statisticians have established that several short samples over the audit period are superior to one long period. For instance, a sample of three scattered months throughout the audit period will give better results than a one-quarter sample.

4. Elimination of Non-Recurring Items

In making a test of the taxpayer's records to determine their accuracy, differences are sometimes found which are unique, either in the dollar amount of the transaction, type of product sold, omission due to an unusual situation or other reason. These should not

be used in computing a percentage of error. These are normally items of considerable size, and the opposition to including them in the percentage of error is quite strong. Before handling these items as non-recurring errors, they should be carefully scrutinized to determine if they meet the requirements to be classified as non-recurring errors. It is suggested that an error of this nature should meet one or more of the following conditions:

- a. The amount of the sale or purchase exceeds the amounts of normal sales or purchases and occurs only in rare intervals
- b. The sale or purchase was omitted or included due to some unusual circumstance
- c. The product sold or purchased is a type not ordinarily sold or purchased in the taxpayer's normal course of business.
- d. In an instance where a sample item would result in a distorted result, and appears to be extraordinary in nature, it may be considered as non-recurring. However, the fact that no other sales were made to a particular customer would not qualify the transaction as a non-recurring item. Sufficient tests should be conducted in additional periods in order to verify that items of a similar nature did not occur.

5. Sample Detail

Some taxpayers file their sales invoices alphabetically on an annual basis, with the sales being posted to the books of original entry chronologically. In this situation the auditor can trace the sales for resale backward from the sales journal, to the invoice, and finally to the resale certificate. This is a time consuming process and may be minimized by:

- a. Spot testing the accuracy of posting as a sale for resale
- b. Determining a test base by relating to dollar volume (i.e., a one-month test may be estimated in terms of dollars by dividing total claimed resales by the number of months)
- c. Selecting every third, fourth, fifth, or other letter of the alphabet as appropriate to arrive at the desired number of dollars or customer/supplier transactions
- d. Scheduling exceptions noted and scheduling invoice amounts for each invoice

examined; thereby establishing a firm base for the calculation and application of a percentage of error

- e. If the auditor is performing the audit soon after the start of the taxpayer's accounting year, the alphabetical invoice file may provide a reasonable size test period

6. Application of the Sample Results

The percentage of error obtained in the sample period may be calculated and applied to the entire audit period in the following manner:

If taxable sales of a non-recurring nature are disclosed when auditing on a sample basis, those sales should be excluded from the calculations of a percentage of error. For example, if a claimed resale was found to be taxable and is of a non-recurring nature, all sales of a similar nature should be examined for the entire audit period and the total of such sales deducted from claimed resales in the appropriate reporting periods and shown as a separate amount in the measure of additional tax. The percentage of error developed in the sample periods should then be applied to the adjusted resales claimed for all periods in the audit not covered by the sample (i.e.: sample periods should be considered on an actual basis – the error percentage should be applied to all other periods within the audit). For example:

Total claimed resales in sample periods	\$ 10,000.00
less: Non-recurring taxable sales excluded (exceptions)	<u>\$ 4,000.00</u>
Adjusted resales	\$ 6,000.00
Other claimed resales disallowed	\$ 1,200.00
Percentage of disallowance of adjusted resales (\$1,200/\$6,000)	20%*
*To be applied to reported resales.	

One of the best ways to obtain general knowledge of the tax reporting system is to review the tax worksheets directly with the person responsible for preparation of the worksheets. By doing so, the auditor can ask about exceptions and more readily identify potential omissions when reviewing the taxpayer's general ledger and supporting journals. A worksheet that fails to address potential use tax or has not been updated with the addition or deletion of new

accounts should trigger the auditor to perform a more in-depth review of these areas.

If a taxpayer has had, an independent audit performed that covered the same period as the jurisdiction's review period, the auditor can gain more assurance that income amounts and asset balances were properly reflected. These audited amounts can be tied to the audited amounts in most cases. It is also important to review the notes of the financial statements, which may uncover related party transactions, material fixed asset additions, financing arrangements or other significant events, which could affect the privilege tax audit.

It may also be beneficial to review the audits of unrelated businesses that operate in the same industry. These may provide guidelines, issues, and determinations that could be helpful in the privilege and use tax review. For instance, in order to assess use tax, an auditor may need to determine the cost of food provided to managers or owners of a restaurant. A review of similar restaurants may reveal the cost of food percentage used throughout the industry. Another example could include the review of a similar speculative sale, such as an apartment building, to ensure the same types of exclusions in each situation were allowed.

AUDIT DETERMINATIONS

Upon completion of audit fieldwork, there are three possible determinations:

1. **Assessment**

This concludes there has been an underpayment of taxes. There should be adequate evidence supporting the conclusion with specific ARS and MCTC sections cited.

2. **Credit**

This concludes there has been an overpayment of taxes. There should be adequate evidence supporting the conclusion with the stated reason by the auditor as to how the credit was established.

3. **No Change**

This concludes there have been no overpayments or underpayment of taxes. There should be adequate evidence supporting the conclusion.

Regardless of the audit result, each audit file should be neatly prepared and determined as accurately as possible. Any authorized individual should be able to pick up the audit file and readily determine the results and the reasons, which support the determination.

The supervisor or senior personnel who review the audit files, and the judges who make determinations of law, can make a more informed judgment on the issues at hand if the

relevant facts are presented clearly in the audit file. The auditor should assume that each audit file would be examined by a judge or other external body. The auditor should make every effort to ensure the completed audit could withstand these types of examinations.

AUDIT CLOSING

When the audit is complete, the preliminary findings must be sent to the taxpayer. The auditor must attempt to have a closing conference with the taxpayer, either in person or by telephone, depending on the situation. The Preliminary Audit Findings letter should be presented during the closing conference or mailed depending on the circumstances. The letter allows the taxpayer fourteen days to review the results and provide additional information before the audit is finalized. If the taxpayer needs additional time to review the findings, the auditor may grant any reasonable request for an extension.

If the taxpayer has any questions, this is the time to provide an answer. Any warranted adjustments to the determination should also be made at this time.

After the fourteen-day period has expired and all possible adjustments have been made, the Notice of Proposed Assessment is to be issued. The auditor must inform the taxpayer of its protest rights prior to issuing the assessment.

AUDIT WORKPAPERS

The audit workpapers include all evidence that supports the work performed, methods and procedures followed, assumptions made, and conclusions drawn by the auditor. As this would indicate, the workpapers are the connecting link between the taxpayer's records and the audit findings.

An audit includes the systematic preparation of a series of workpapers, in such form and with such context, that the auditor may use them to prepare a report on the activities of the business audited.

Each detailed test may result in the production of additional audit workpapers. It is important that the auditor take time to plan the contents of the workpapers and the best way to record information to document the findings appropriately.

FUNCTIONS OF WORKPAPERS

There are two basic functions served by workpapers, the first is operational and consists of the following:

1. Support for the Auditor's Determination

One of the auditing standards concerns the collection of sufficient, competent, and relevant evidence in order to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations. The workpapers become the vehicle to establish that the evidence obtained was sufficient.

2. Assist in Preparing the Audit Findings

In providing support for the report. The workpapers facilitate the preparation of the findings. During the audit engagement, many analyses, schedules, and notations are prepared and documented.

3. Assist in Performing the Audit

Workpapers serve as a tool to help in documenting the work performed and aid the auditor in organizing and coordinating all phases of the audit engagement. As the work progresses, the workpapers provide a record of the work already completed, and that yet to be done. Verification procedures and analyses are made and retained in the workpapers, which are later compared with the other phases of the audit.

4. Assist in Coordinating the Work

Workpapers can help to coordinate the work when a taxpayer may be engaged in different types of businesses. Separate parts of the audit program or different audit programs may be followed for different types of business.

5. Provide a Permanent Record

It is important that the records developed during the audit be available and accessible. The workpapers provide a permanent record of the auditing procedures used and the taxpayer data examined. If questions arise concerning the adequacy or the accuracy of the audit examination, the auditor is able to, by referring to this record, establish what tests and other procedures were employed.

6. Use as a Guide for Subsequent Examinations

If a taxpayer has been previously audited. An essential requirement of the pre-audit research is a review of the prior audit's workpapers. The program that was followed

and the suggestions or change-in-procedure notes for the next audit will be particularly important for the next auditor. Since parts of the previous audit may be applicable to the current audit, and as some of the workpaper formats will be repeated, these documents may be copied and prepared at a more convenient time before the audit begins. Data sources noted on the prior workpapers and explanatory comments about unusual accounting system features will guide new or inexperienced auditors on subsequent examinations.

7. Link Original Transactions to Financial Statements

As noted previously, much of the auditor's work consists of tracing a transaction's trail from its original recording to the final destination in the financial statements. By examining the underlying evidence, the auditor verifies that the transaction actually did take place and was originally recorded in the appropriate manner. The workpapers that the auditor prepares will include various summaries of these types of transactions. The analyses of these transactions, and the recording of the same, will provide a link between the original documents and the financial statements.

8. Provide a Basis for Further Work

During an audit, certain situations or conditions may come to the attention of the auditor. These usually involve changes in the accounting system that necessitates further investigation. The information accumulated in the audit workpapers may prove helpful or even essential in completing this task.

9. Provide a Basis for Evaluating Personnel

Workpapers provide an important basis for the supervisor's evaluation of the audit staff. Some of the factors considered in judging the effectiveness of the workpapers include completeness, clarity, arrangement, adequate cross-referencing, and the absence of unnecessary information. Workpapers provide evidence that the auditor was able to decide what information should be accumulated, how well the auditor understood the accounting system and flow of documents, and how the auditor was able to assess the situation and conduct adequate testing. Personality, ability to work with client personnel, and other factors are also evaluated, but the workpapers provide a tangible starting point for the overall evaluation.

The second overall function of the audit workpapers is to establish credibility of the work performed. After completion of the audit, the workpapers should clearly show the nature and extent of the work done, the audit procedures followed, assumptions made, and conclusions reached. If differences of opinion exist with the taxpayer, the disposition of these points should be clearly detailed. In addition, the parties should be named and the basis for any issues clearly identified. It is important that the workpapers do not contain any unanswered questions, inconsistent statements, or unwarranted or unexplained changes in conclusions. The finished workpapers must be complete, clear, consistent, and conclusive.

There are certain aspects of the audit workpapers that are both legal and professional in nature; they include:

1. Confidentiality

Whether oral or written, the data should be protected closely by the auditor. In many cases, taxpayer data is also confidential to the taxpayer's staff. Frequently, analyses are made or questions asked during the audit, which should be restricted to the taxpayer's authorized representative(s). The auditor should take care that this information is not divulged, either directly or indirectly, to anyone other than the taxpayer's representative(s). During the course of the auditor's engagement, many disclosures are made which eventually enter into the workpapers. These types of disclosures are also to be considered confidential. Whether the audit is in the planning stage, in process, or has been completed, the workpapers should be protected from unauthorized use and disclosure at all times.

2. Ownership of Workpapers

The workpapers developed during the course of an audit are the property of the taxing jurisdiction. The workpapers should be kept under strict control at all times in the taxpayer's office, while the audit work is in progress, and in the taxing jurisdictions' offices after the audit is completed. While in the taxpayer's office or away from the workplace, the workpapers should be placed in a locked file. This control is necessary to prevent unauthorized disclosure. Moreover, the workpapers contain information about

the conduct of the audit itself, the scope or methods to be used, and items selected for testing. Lastly, workpapers should be safeguarded because the data they contain may be impossible or impractical to reproduce.

WORKPAPER PREPARATION

Verification and investigation procedures are the essence of an audit. Each work paper should provide summarization and analysis of data and indicate the investigative steps performed. The following common items should be included in all workpapers:

1. Taxpayer Name
2. TPT License Number
3. Subject matter of work paper
4. Date
5. Reference to supporting or summary schedules
6. Auditor's name

The name of the taxpayer and the subject matter of the work paper should also appear on each individual work paper footed at the bottom.

WORKPAPER STANDARDS

1. Completeness

Maximum usefulness should be the standard for decisions in preparing workpapers.

The auditor's professional skill is reflected in the workpapers the auditor prepares. The workpapers should be complete, but free of unessential data, and should be carefully organized for easy reference.

2. Accuracy

Workpapers must be accurate and technically correct. Cross-footings and additions of columns (footings) should be proofed and all amounts tied with other workpapers when appropriate. All related amounts must tie, unless the difference is inconsequential, in which case it should be noted on the audit workpaper with the related reason. The use of proper grammar is also imperative. Therefore, audit notes, chronology of events, and other narratives should be reviewed to ensure they are grammatically correct and have no errors or misspellings, especially company names, officers, employees, and other similar items.

3. Clarity and Understandability

The scope of the examination must be clearly defined by indicating the facts discovered, and the conclusions reached as a result of examining the records. The form and content of each workpaper should be constructed so that a person technically competent, but unfamiliar with the work, will readily understand the results. The audit trail and significant stopping points should be clear to the reader. The various schedules and sub-schedules should be arranged to indicate their importance and purpose. Totals should be easily understood and, where applicable, easily traceable to other workpapers. The language of comments and other narratives should be accurate yet concise.

4. Legibility and Neatness

The general appearance of the workpapers should be neat. The main element contributing to neatness is evidence of orderly preparation. Only one side of the paper should be used since the papers are bound and writing on the backside of the paper may be overlooked or be inconvenient for reference.

5. Relevance and Detail

All items included in the final workpapers should have a purpose related to the assignment. No general rule may be stated, but the amount of data to be included in the workpapers may include detailed listings of items, photocopies of original documents, an auditor's initials beside a program item, or a notation indicating that certain supporting documents have been examined. Unnecessary analyses and narrative should not be prepared, but if they exist and are found to be relevant, they should be retained in the miscellaneous section and noted as not pertinent to the audit. If the auditor concludes that a certain analysis is required, thought should be given on how to arrange the data efficiently. Generally, a summary is preferable to a list of details and an analysis of several related accounts in one schedule is preferable to duplicated schedules. Preparing memorandums and narratives can be overdone. Although some preparation is essential, the unnecessary and redundant should be avoided. Detail material such as adding machine tapes, tab runs, inventory lists, and other miscellaneous papers should be retained in the workpapers only as long as they

serve a purpose. If supplementary information is bulky, but has value in support of the workpapers, it should be referenced and filed separately. Documents that have been superseded should be removed unless a change is being made subsequent to an assessment being finalized.

6. Attention to Design and Layout

Audit workpapers must be designed and prepared so that supervisors and senior personnel may efficiently and effectively review the work performed. Excel audit templates are available and provide the necessary elements of all workpapers. If schedules are added they should follow the same format as the templates. The schedules and analyses should be carefully planned and constructed before and during the course of the audit.

7. Other Preparation Standards

Each work paper should be self-explanatory. No questions, open points, incomplete notes, or other indications of unfinished work should remain on the work paper. If items on one work paper tie to those on another work paper, both should be carefully cross-referenced and referenced in the index. In any event, a separate sheet should be started for each topic and the sheet (with continuation sheets if necessary) should be accurately described in the work paper header.

ESSENTIAL ELEMENTS OF AUDIT NOTES

Before writing the audit notes, the auditor should carefully consider the content to be used in the findings. A brief outline enables the auditor to consider all pertinent facts and conclusions and provides a logical arrangement of the material to be included in the findings. In addition, an outline demonstrates whether all the necessary elements are present in order to support the findings. The audit notes should fully explain the audit process and conclusions drawn so that any authorized person could pick up the file and understand the issues of the assessment.

Well-prepared audit finding contain the following four basic elements, which should always be considered:

1. Condition

Condition is a statement of what the auditor observed. In the broad sense, “observed”

includes not only what the auditor saw, but also what was reviewed through scheduling, analysis, and other techniques. The condition of the various areas can be deemed as either highly efficient or deficient. If there are deficiencies, the condition alerts the reader to examine the degree of review the audit required.

2. Cause

Underlying cause is the reason things have gone awry and the modifications which must be made to prevent recurrence of the adverse condition.

3. Effect

Effect represents the result of the condition the auditor finds and can be either beneficial or undesirable. Effect is the error factor described in terms of assessment value.

4. Conclusion

When the findings have been developed in the manner set out, the conclusion represents the auditor's summation of the condition, cause, and effect.

RECORD OF TAXPAYER CONTACTS

Any contact with the taxpayer must be documented in the Record of Taxpayer Contacts. Taxpayer contacts include phone calls, incoming e-mail, faxes, letters, in-person visits, and any other contact with the Taxpayer, employees, representatives or other related parties. Date, person contacted, contact source, and any relevant detail should be included.

AUDIT COMPLETION

When an audit is completed, the taxpayer shall be furnished with a copy of the results via certified mail. Any additional tax is due within forty-five days after the taxpayer receives the Notice of Proposed Assessment.

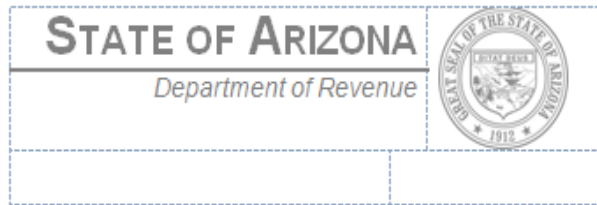
Upon receiving a Notice of Assessment, the taxpayer may request an informal conference with the auditor, audit supervisor, and DOR protest unit. The Taxpayer also has the option of appealing the assessment by requesting a formal hearing at the Office of Administrative Hearings. Such request is to contain the objections to the assessment, the amounts in question, and the basis of each objection on the Taxpayer Response Form.

APPENDIX

REFERENCE

AICPA. (2013). *Generally Accepted Auditing Standards*. Retrieved 12 19, 2013, from American Institute of Certified Public Accountants (AICPA):
<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00150.pdf>

Intent to Audit Letter



[DATE]

[
Attn:
]

RE: Notice of Intent to Audit

TAX TYPE: Transaction Privilege & Use Tax

[LICENSE #:]

To Whom It May Concern:

The Arizona Department of Revenue (“Department”) has selected your business for a Transaction Privilege (Sales) & Use Tax Audit. The purpose of this audit is to review your books and records to verify compliance with the Arizona Revised Statutes (“A.R.S”) and the Model City Tax Code (“MCTC”).

The Department may have to disclose confidential information to fully discuss tax issues with, or respond to tax questions by, the Appointee. A Taxpayer may use Arizona Form 285 to authorize the Department to release confidential information to the Taxpayer’s Appointee.

Additional information can be accessed from the Department’s website (www.azdor.gov) and publications for a basic overview of your rights as a Taxpayer. Links and QR Codes are provided below for your convenience.

The Arizona Form 285 and the page containing all Department publications can also be retrieved by utilizing the QR Codes or webpage links at the bottom of the letter.

An auditor will be conducting the audit on behalf of all taxing jurisdictions within Arizona as required by A.R.S. §42-6002 (C)(5).

The assigned auditor’s contact information is listed below. You will be contacted by the auditor to schedule an opening interview.

Auditor Name:	ADOR Auditor Number:
Auditor Address:	Auditor Phone Number:
	Auditor Fax Number:
	Auditor E-Mail:

Arizona Form 285 Page: <http://www.azdor.gov/Forms/PowerofAttorneyDisclosure.aspx>

ADOR Publication Page: <http://www.azdor.gov/Publications.aspx>



1600 W. Monroe St. Division Code 16 Phoenix, AZ 85007

Audit Questionnaire

ARIZONA DEPARTMENT OF REVENUE
TRANSACTION PRIVILEGE, USE, AND SEVERANCE TAX
GENERAL QUESTIONNAIRE
TO BE COMPLETED BY TAXPAYER

Taxpayer Name: <<Taxpayer_Legal_Name>> License: <<TP_License>>
Auditor: <<Auditor_Name>>

Complete and return this questionnaire to the auditor prior to the initial audit appointment.

Entity Legal Name: _____
DBA: _____
Address: _____
City/State: _____
Federal ID/SSN: _____
Website Address: _____

Additional names or licenses being used by the company for reporting and/or conducting transactions (list below):

Please list all current officers/members of the business (attach additional documentation if necessary):

President:	
Vice President:	
Secretary:	
Treasurer:	

If your company does not currently file an Arizona Income Tax return, provide explanation below:

In your own words, describe your principal business activities within the State of Arizona:

Has your business been audited by any Arizona taxing authority during the tentative audit period?

- No
- Yes (please list): _____

ARIZONA DEPARTMENT OF REVENUE
 TRANSACTION PRIVILEGE, USE, AND SEVERANCE TAX
GENERAL QUESTIONNAIRE
 TO BE COMPLETED BY TAXPAYER

Has your company ever filed for bankruptcy protection? Yes No

Bankruptcy Number: _____

Chapter Class: _____

Petition Date: _____

Effective Date of Plan: _____

State/District: _____

What accounting method does your business use to prepare Arizona TPT returns?

- Cash Accrual Hybrid of the two

If your business uses a "Hybrid" approach, please describe the techniques used below:

Does your company conduct internet sales transactions with Arizona customers? Yes No

What would you estimate the annual sales activity within Arizona during the audit period to be: \$

What is the company's annual number of sales invoices/sales transactions in Arizona during the audit period?		
<input type="checkbox"/> Under 100	<input type="checkbox"/> 101-250	<input type="checkbox"/> 251-500
<input type="checkbox"/> 501-1000	<input type="checkbox"/> 1001-2500	<input type="checkbox"/> Greater than 2500

What type of accounting software does your company use for accounting/reporting purposes?

Check all of documents that are available for review:

<input type="checkbox"/> General Ledger	<input type="checkbox"/> A/P Journals	<input type="checkbox"/> Bank Statements
<input type="checkbox"/> Chart of Accounts	<input type="checkbox"/> Purchase Requisitions	<input type="checkbox"/> Arizona/Federal Tax returns
<input type="checkbox"/> Sales Invoices/Journals	<input type="checkbox"/> Purchase Orders	<input type="checkbox"/> Exemption Certificates
<input type="checkbox"/> Job Costing Journals	<input type="checkbox"/> Cash Disbursements	<input type="checkbox"/> Contracts/Escrow Papers
<input type="checkbox"/> A/R Journals	<input type="checkbox"/> Paid Vendor Invoices	
<input type="checkbox"/> Cash Receipts Journals	<input type="checkbox"/> Fixed Asset Schedules	

List the primary contact for audit purposes:

Name and Title: _____

Phone: _____

Fax: _____

Signature of Taxpayer or Representative: _____

Title: _____

Audit Appointment Confirmation Letter

STATE OF ARIZONA

Department of Revenue



DATE

[
Attn:
]

RE: Field Audit Appointment Confirmation Letter

TAX TYPE: Transaction Privilege & Use Tax

[LICENSE #:]

Dear Taxpayer:

This letter is to confirm our appointment [on at] to conduct a Transaction Privilege (Sales) and Use Tax audit [of for] the audit period [beginning through]

This audit will be conducted in accordance with the provisions of the Arizona Revised Statutes and the Model City Tax Code and will be conducted on behalf of all taxing jurisdictions as required by A.R.S. §42-6002 (C)(5).

If you wish to be represented by an attorney, accountant, company employee, or others during the course of the audit, please complete and sign an Arizona Form 285, General Disclosure/Representative Authorization Form. A taxpayer may use Form 285 to authorize the department to release confidential information to the taxpayer's Appointee. The department may have to disclose confidential information to fully discuss tax issues with, or respond to tax questions by, the Appointee. A taxpayer may also use Form 285 to grant additional powers to the Appointee, up to and including a power of attorney.

Enclosed is a list of required documentation required for the audit. However, additional information may be requested in the future if it is necessary for the completion of the audit.

If you have any questions regarding this audit, please contact the auditor at the contact information below.

Sincerely,

[
ADOR Auditor Number:
Phone:
Fax:
E-mail:]

Request For Taxpayer Information Form



ARIZONA DEPARTMENT OF REVENUE

FIELD EXAMINATION

REQUEST TO SUPPLY INFORMATION

Taxpayer Name:	<<Taxpayer Legal Name>>
License Number:	<<Taxpayer License Number>>
Audit Period:	<<Beginning Audit Period>> through <<Ending Audit Period>>
Due Date:	_____

Item Requested	Date Received
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	

PLEASE SIGN as acknowledgement of receipt only.

_____ Auditor	/ / 20 Date	_____ Taxpayer (Representative)	/ / 20 Date
------------------	----------------	------------------------------------	----------------

Please Note: Failure to provide information by date above may result in an assessment being issued based upon available information. In addition failure to provide information may result in the imposition of additional penalties under ARS 42-1125c.

Request For Original Taxpayer Documents

STATE OF ARIZONA

Department of Revenue



Receipt for Original Financial Records

Business Name: <<Taxpayer_Legal_Name>>

License Number: <<TAXPAYER_LICENSE_NUMBER>>

The following Financial Records were provided on _____, 20____.

Itemized List	Check/Date
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	
11.	
12.	

Offered By: _____ Date _____
Taxpayer or Representative – Name & Title

Received By: _____ Date _____
Department of Revenue Representative - Name & Title

The above records were returned in good order.
Those items above, that are not checked and dated, have not been returned.

Received By: _____ Date _____
Taxpayer or Representative – Name & Title

Returned By _____ Date _____
Department of Revenue Representative – Name & Title

Block Sample Agreement Template



SAMPLING AGREEMENT

Taxpayer Name:
 Audit Period: through
 License No:
 Classification:
 Tax Type:

The Arizona Department of Revenue and the undersigned taxpayer hereby consent and agree to accept the findings of this sampling for the purpose of applying the results of the test to the current Transaction Privilege and Use Tax audit on the books and records of the undersigned taxpayer.

Records Sampled/Periods Used:

Technique Used:

Exceptions:

By signing this agreement, the taxpayer does NOT waive the right to appeal any assessment.	
Dated this ____ day of _____, 20__.	
	Arizona Department of Revenue
Signature: Taxpayer/Representative	Signature
Title	Title

Revised June 2014

www.azdor.gov

Statute of Limitations Waiver



Taxpayer Name: []
 DBA: []
 Transaction Privilege Tax License #: []
 Waiver Expiration Date: []
 Audit period: [] through []

The Arizona Department of Revenue and the undersigned taxpayer hereby consent and agree that, for the mutual convenience of the parties, the amount of any tax under Title 42 Taxation, Chapters 5 & 6, and any other privilege excise tax administered by the Department, due as a result of any audit or examination of the books and records of the undersigned taxpayer for the period indicated above may be assessed at any time on or before the waiver date indicated above and the provisions of Arizona Revised Statutes, Section 42-1104, and the Model City Tax Code, Section 550, limiting the time for correction, assessment, reassessment or determination of addition amounts due are hereby specifically waived. This consent agreement includes taxes due for any and all cities and towns.

By signing this agreement, the taxpayer does NOT waive his rights to appeal any assessment.

Dated this _____ day of _____, _____]

[_____] ARIZONA DEPARTMENT OF REVENUE

 Signature: Taxpayer/Agent

 Title

 Signature

 Title

ADDITIONAL EXTENSIONS:

The above-described audit or examination period may be assessed at any time on or before: _____.

Dated this _____ day of _____, _____]

[_____] ARIZONA DEPARTMENT OF REVENUE

 Signature: Taxpayer/Agent

 Title

 Signature

 Title

Arizona Form 285A Instructions**Audit Disclosure Authorization Form Instructions****PURPOSE OF FORM**

Form 285A enables any individual, sole proprietorship, joint filers, corporation, group of consolidated or combined corporations, partnership, estate, trust, or other organization, association, or group thereof ("Taxpayer") to designate a person ("Appointee") to whom the Arizona Department of Revenue can release confidential information, if the release of such information is not otherwise authorized by A.R.S. § 42-2003. The disclosure of such confidential information may be necessary to fully discuss tax issues with, or respond to tax questions by, such Appointee.

INSTRUCTIONS**Section 1- Taxpayer Information.**

Enter Taxpayer's name, address, and daytime telephone number on the lines provided. Taxpayer may attach a supplemental page to the form if section 1 does not provide sufficient space for the required information. If Taxpayer is a consolidated or combined group of corporations, Taxpayer must attach a federal Form 851 or a supplemental sheet, as applicable, containing the names of each member of the consolidated or combined group for which the signator of Form 285A is a principal corporate officer.

An individual taxpayer, sole proprietorship, or joint filers must provide a Social Security number(s), Withholding number, or Transaction Privilege Tax License number, as applicable. Taxpayers which are corporations, partnerships, or trusts must provide their Federal Employer Identification number and a Withholding or Transaction Privilege Tax License number, if applicable. Taxpayers which are estates must provide either the decedent's Social Security number or the estate's Federal Employer Identification number, as well as a Withholding or Transaction Privilege Tax License number, if applicable.

Section 2- Appointee Information.

Enter the name of the person you are appointing to be authorized to receive Taxpayer's confidential information. The Appointee must be an individual. For an Appointee Identification Number, please provide Appointee's Social Security number, CPA number, State Bar number, Alternative Preparer Tax Identification Number, or any other identification number including one assigned to Appointee by Taxpayer.

Section 3- Tax Matters.

You may use this form for more than one tax type. Please check applicable boxes and specify the tax year(s) or tax period(s) for which Appointee is authorized to receive Taxpayer's confidential information. A general reference to "all years", "all periods", or "periods or years "to present" will be accepted as applying only to tax years (periods) ending prior to the date this form is signed. A general reference to "all future" years or periods will be subject to a four year

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limitation. Also, check the box that properly describes the form of ownership of Taxpayer.

Section 4- Revocation of Earlier Authorizations.

This Disclosure Authorization Form **does not revoke** any earlier authorizations or Powers of Attorney on file with the Arizona Department of Revenue. If you want to revoke all prior authorizations and Powers of Attorney, please check the box. If you wish to revoke only some prior authorizations and/or Powers of Attorney, please check the box and list those authorizations and Powers of Attorney that you wish to remain in effect.

Section 5- Signature.

Type of Entity	Who must sign
Individuals, Joint Filers, and Sole Proprietorships	The individual/sole proprietor must sign the authorization. If Taxpayers are a husband and wife (or former husband and wife), both spouses (or former spouses) must sign the authorization form.
Corporations	A principal corporate officer within the meaning of A.R.S. § 42-2003(A)(2) must sign the authorization.
Partnerships & Limited Partnerships	A partner having authority to act in the name of the partnership must sign the authorization.
Trusts	A Trustee must sign the authorization.
Limited Liability Companies	A member having authority to act in the name of the company must sign the authorization.
Governmental Agencies	An officer having authority to act on behalf of the governmental agency must sign the authorization.

HOW TO FILE FORM

Please submit this form to the specific auditor or audit section of the Department that Taxpayer is currently working with.

Arizona Form 285A

ARIZONA FORM

285A

Effective February 29, 2000

Audit Disclosure Authorization Form

ARIZONA DEPARTMENT OF REVENUE

1. TAXPAYER INFORMATION: Please print or type.			<i>Enter only those that apply:</i>		
Taxpayer Name(s)			Employer Identification Number		
Present Address - number and street, rural route		Apartment/Suite No.	Arizona Withholding Number		
City, Town or Post Office	State	Zip Code	Arizona Transaction Privilege Tax License Number		
Daytime Telephone Number (with area code)			Social Security Number(s)		

2. APPOINTEE INFORMATION			2nd APPOINTEE INFORMATION (if applicable)		
Name			Name		
Address (if different from taxpayer's address above)		Apartment/Suite No.	Address (if different from taxpayer's address above)		Apartment/Suite No.
City, Town or Post Office	State	Zip Code	City, Town or Post Office	State	Zip Code
Daytime Telephone Number (with area code)			Daytime Telephone Number (with area code)		
Social Security or Other ID No. Type			Social Security or Other ID No. Type		

3. TAX MATTERS: The appointee is authorized to receive and discuss confidential information for the tax matters listed below.					
TAX TYPE	YEAR(S) OR PERIOD(S)	TYPE OF RETURN/OWNERSHIP			
<input type="checkbox"/> Income Tax		<input type="checkbox"/> Individual Joint Return	<input type="checkbox"/> Individual Single Return	<input type="checkbox"/> Corporation	
		<input type="checkbox"/> Partnership	<input type="checkbox"/> Fiduciary-Trust	<input type="checkbox"/> Fiduciary-Estate	
<input type="checkbox"/> Transaction Privilege and Use Tax		<input type="checkbox"/> Individual/Sole Proprietorship	<input type="checkbox"/> Partnership	<input type="checkbox"/> Corporation	<input type="checkbox"/> Trust
		<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Limited Liability Partnership	<input type="checkbox"/> Estate	
<input type="checkbox"/> Withholding Tax					
<input type="checkbox"/> Other (specify tax type):		Specify type of return(s)/ownership:			

4. REVOCATION OF EARLIER AUTHORIZATION(S)

Check this box if you wish to revoke any earlier authorizations or Powers of Attorney on file with the Arizona Department of Revenue. The revocation will be effective as to ALL earlier authorizations and Powers of Attorney (even those relating to a different tax type) on file with the Department of Revenue except those specified (please specify):

5. SIGNATURE OF OR FOR TAXPAYER

I hereby certify that the Arizona Department of Revenue is authorized to release any and all confidential information concerning the above-mentioned Taxpayer. By signing this form, I certify that I have the authority, within the meaning of A.R.S. §42-2003(A), to execute this authorization form on behalf of the above-mentioned corporation(s), limited liability company(ies), trust(s), estate(s), partnership(s), and/or individual(s). I understand that to knowingly prepare or present a document which is fraudulent or false is a class 5 felony pursuant to A.R.S. §42-1127(B)(2).

→ _____ SIGNATURE DATE	→ _____ SIGNATURE DATE
_____ PRINT NAME	_____ PRINT NAME
_____ TITLE	_____ TITLE

ADOR 10953 (1/11)

[Print Form](#)

[Reset Form](#)

Arizona 285 Instructions Page 1**General Disclosure/Representation
Authorization Form****Arizona Form
285****Phone Numbers****For information or help, call one of the numbers listed:**

Phoenix (602) 255-3381
 From area codes 520 and 928, toll-free (800) 352-4090

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's Internet home page at www.azdor.gov.

Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our home page and click on *Legal Research* then click on *Procedures* or *Rulings* and select a tax type from the drop down menu.

Publications and Brochures

To view or print the department's publications and brochures, go to our home page and click on *Publications*.

Purpose of Form

A taxpayer may use Form 285 to authorize the department to release confidential information to the taxpayer's Appointee. The department may have to disclose confidential information to fully discuss tax issues with, or respond to tax questions by, the Appointee. A taxpayer may also use Form 285 to grant additional powers to the Appointee, up to and including a power of attorney.

Who Can Use Form 285?

Any of the following may file Form 285.

- An individual
- Individuals that file joint returns
- A sole proprietorship
- A corporation
- A group of consolidated or combined corporations
- A partnership
- A limited liability company
- An estate
- A trust
- A governmental agency
- Any other organization, association, or group

NOTE: *A fiduciary (trustee, executor, administrator, receiver, or guardian) stands in the position of a taxpayer and acts as the taxpayer. A fiduciary does not act as a representative and should not file Form 285. If a fiduciary wants to authorize an individual to represent or perform certain acts on behalf of the entity, the fiduciary must file a signed power of attorney naming that person to act in the position of the taxpayer.*

Filing Instructions

If the taxpayer is working with a specific section or employee of the department, the taxpayer should mail Form 285 to that section or employee. Otherwise, the taxpayer should mail Form 285 to:

Arizona Department of Revenue
 Taxpayer Information and Assistance
 P.O. Box 29086
 Phoenix, AZ 85038

The taxpayer may file an original, a photocopy, or a facsimile transmission (Fax) of Form 285. If the taxpayer is filing a facsimile, and is working with a specific person, the taxpayer should Fax Form 285 to that person. Otherwise, the taxpayer should Fax Form 285 to (602) 542-2072.

Specific Instructions**Section 1 - Taxpayer Information**

Enter the taxpayer's name, address, and daytime telephone number on the lines provided. If more space is needed, attach an additional page.

Foreign Address

If the taxpayer has a foreign address, enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. Do not abbreviate the country name.

For income tax purposes, each individual signing this form must enter his or her social security number (SSN). A corporation, partnership, trust or estate must enter its Employer Identification number (EIN).

For withholding tax purposes, an individual, corporation, partnership, trust or estate must enter the EIN.

For transaction privilege tax (TPT) purposes, an individual must enter the TPT license number. A corporation, partnership, or trust must enter its EIN and its TPT license number. An estate must enter the decedent's SSN, the estate's EIN and the estate's TPT license number.

Section 2 - Appointee Information

Enter the name and address of the person the taxpayer is appointing to receive confidential information and/or to act on the taxpayer's behalf. The Appointee must be an individual.

If the Appointee has a foreign address, enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. Do not abbreviate the country name.

Enter the Appointee's ID number. This may be an SSN, CPA number, State Bar number, Alternative Preparer Tax ID number or other ID number that is unique to the Appointee.

If the taxpayer wants to name more than one Appointee, please attach an additional sheet that contains the required information for each Appointee.

Arizona 285 Instructions Page 2

Arizona Form 285

Section 3 - Tax Matters

You may use this form for more than one tax type. Please check the box or boxes to specify the tax type covered by this authorization. Also enter the tax year(s) or tax period(s). A general reference to "all years", "all periods", or periods or years "to present" will be accepted as applying only to tax years (periods) ending prior to the date the form is signed.

A general reference to "all future" years or periods will be subject to a four year limitation. Also, check the box that properly describes the form of ownership of the taxpayer.

NOTE: When you sign this form, you are authorizing the department to release confidential information to the named Appointee. If you would like to grant additional authority to the Appointee, complete section 4 of this form.

If you want to grant a power of attorney, skip section 4 and complete section 5.

Section 4 - Additional Authorization

Items 4a through 4h allow the taxpayer to grant additional authorization to the Appointee. Please check all boxes that apply. The items specified in Items 4a through 4f are administrative matters with the department. Any other authorization that involves negotiating legal rights or responsibilities or filing documents on the taxpayer's behalf is also an administrative matter.

In order to represent a taxpayer in an administrative matter, the Appointee must be an Arizona attorney or must meet the requirements of Rule 31(d)(13) of the Arizona Rules of the Supreme Court. The following individuals are authorized pursuant to Rule 31(d)(13) to represent taxpayers in administrative matters, authorized by the taxpayer.

1. Any individual, IF the total amount in dispute, including tax, penalties, and interest, is less than \$5,000.00.
2. A full-time officer, partner, member or manager of a limited liability company, or employee, if all of the following apply:
 - The taxpayer is a legal entity, such as a corporation, a formal partnership, a limited liability company, or a trust.
 - Representation of the entity is not the Appointee's primary duty to the legal entity, but secondary or incidental to other duties relating to the management or operation of the legal entity.
 - The person is not receiving separate or additional compensation (other than reimbursement for costs) for representation.

If either 1 or 2 do not apply, then only the following individuals can represent a taxpayer when the taxpayer authorizes:

1. An active member of the State Bar of Arizona;
2. An Arizona Certified Public Accountant; or
3. A "Federally Authorized Tax Practitioner" within the meaning of Arizona Revised Statutes § 42-2069(D)(1). This includes:
 - An enrolled agent authorized to practice before the IRS.
 - An out-of-state attorney or out-of-state certified public accountant, if the person is not currently under suspension or disbarment from practice before the IRS and if the person has filed with the IRS a written declaration that he or she is currently qualified as an attorney or a CPA.
 - An individual practicing with a federally authorized tax practitioner and who is subject to the same standards of practice and ethics requirements of that person.

Section 5 - Power of Attorney

By checking the box on line 5, the taxpayer grants the Appointee power of attorney. A power of attorney authorizes the Appointee to perform any and all acts that the taxpayer can perform with regard to the tax matters and tax year(s) or period(s) specified. This includes, but is not limited to, the powers listed in items 4a through 4h. Any limitation to this power of attorney must be specified.

The use of a power of attorney must be in accordance with Rule 31 of the Arizona Rules of the Supreme Court. (See Section 4.)

Section 6 - Revocation of Earlier Authorization(s)

This authorization **does not revoke** any earlier authorizations or powers of attorney on file with the Arizona Department of Revenue. If you want to revoke all prior authorizations and powers of attorney, please check the revocation box. If you wish to revoke only some prior authorizations and/or powers of attorney, please check the box and list those authorizations and powers of attorney that you wish to remain in effect.

Section 7 - Corporations Having Controlled Subsidiaries

The department may disclose confidential information relating to a corporate taxpayer to a designee of the taxpayer who is authorized in writing by the taxpayer. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary.

A principal corporate officer of a parent corporation that wants to designate a person to receive confidential information regarding the corporation's controlled subsidiaries must either: (1) Attach a list of each controlled subsidiary that the parent wants to include in the disclosure authorization (federal Form 851 may be used for this purpose) or (2) complete Section 7 of Form 285.

Arizona 285 Instructions Page 3

Arizona Form 285

Section 8 - Signature

Type of Entity	Who must sign
Individuals, Joint Filers and Sole Proprietorships	The individual/sole proprietor or a joint filer must sign. In the case of a joint return, if both husband and wife (or former husband and wife) want to authorize the same Appointee, both spouses (or former spouses) must sign.
Corporations	A principal corporate officer within the meaning of A.R.S. § 42-2003(A)(2) or any person designated by a principal corporate officer or any person designated in a resolution by the corporate board of directors or other similar governing body, must sign.
Partnerships & Limited Partnerships	A partner having authority to act in the name of the partnership must sign.
Trusts	A trustee must sign.
Estates	An Executor/Executrix or the personal representative of the estate must sign.
Limited Liability Companies	A member having authority to act in the name of the company must sign.
Governmental Agencies	An officer having authority to act on behalf of the governmental agency must sign.

Section 9 - Declaration of Appointee

If the Appointee has been given authority under any of Section 4a through 4h or Section 5 or is otherwise authorized to practice law as defined in Rule 31(a) of the Arizona Rules of the Supreme Court, the Appointee must sign and date this declaration and enter a designation from 9a through 9e. The persons who are authorized to practice law before the Department of Revenue include active Arizona attorneys and those authorized under Rule 31(d)(13) of the Arizona Rules of the Supreme Court. An Appointee indicating authorization under 9d who is engaged in practice with a federally authorized tax practitioner, must provide the name of the practitioner with whom he or she works and that person's CAF number in the place provided.

Arizona 285 Page 1

**ARIZONA FORM
285**

General Disclosure/Representation Authorization Form
ARIZONA DEPARTMENT OF REVENUE

1. TAXPAYER INFORMATION: Please print or type.				Enter only those that apply:
Taxpayer Name			Social Security No.	
Spouse's Name (if applicable)			Spouse's Social Security No.	
Present Address - number and street, rural route		Apartment/Suite No.		Employer Identification No.
City, Town or Post Office	State	ZIP Code	Daytime Phone (with area code)	AZ Transaction Privilege Tax License No.

2. APPOINTEE INFORMATION				Enter one of the following identification numbers:
Name			State and State Bar No.	
Present Address - number and street, rural route		Apartment/Suite No.		State and Certified Public Accountant No.
City, Town or Post Office	State	ZIP Code	Internal Revenue Service Enrolled Agent No.	
Daytime Phone (with area code)			Social Security or Other ID No. Type	

3. TAX MATTERS: The appointee is authorized to receive confidential information for the tax matters listed below. By signing this form, I authorize the Department to release confidential information of the taxpayer(s) named above to the appointee named above for the tax type and tax year(s)/period(s) specified below. To grant additional powers, please see section 4. To grant a Power of Attorney, please skip section 4 and go to section 5.

TAX TYPE	YEAR(S) OR PERIOD(S)	TYPE OF RETURN/OWNERSHIP		
<input type="checkbox"/> Income Tax		<input type="checkbox"/> Individual Joint Return	<input type="checkbox"/> Individual Single Return	<input type="checkbox"/> Corporation
		<input type="checkbox"/> Partnership	<input type="checkbox"/> Fiduciary-Trust	<input type="checkbox"/> Fiduciary-Estate
<input type="checkbox"/> Transaction Privilege and Use Tax		<input type="checkbox"/> Individual/Sole Proprietorship	<input type="checkbox"/> Partnership	<input type="checkbox"/> Corporation
		<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Limited Liability Partnership	<input type="checkbox"/> Trust
<input type="checkbox"/> Withholding Tax				
<input type="checkbox"/> Other (specify tax type):		Specify type of return(s)/ownership:		

4. ADDITIONAL AUTHORIZATION: Items 4a through 4h allow the taxpayer(s) to grant additional authorization to the appointee named above. Please check the boxes accordingly. An additional authorization must be in accordance with Arizona Supreme Court Rule 31. See instructions.

- 4a Appointee shall have the power to sign a statute of limitations waiver on Taxpayer's behalf.
- 4b Appointee shall have the power to execute a protest of a deficiency assessment or a denied refund claim or to execute an agreement on Taxpayer's behalf.
- 4c Appointee shall have the power to request a formal hearing on Taxpayer's behalf.
- 4d Appointee shall have the power to represent the taxpayer in any administrative tax proceeding.
- 4e Appointee shall have the power to execute a closing agreement on Taxpayer's behalf.
- 4f Appointee shall have the power to represent the taxpayer in any collection matter including an Offer-in-Compromise.
- 4g Appointee shall have the authority to delegate to others any or all authority granted to appointee by this document.
- 4h Other (please specify):

5. **POWER OF ATTORNEY:** By checking the box on line 5, the taxpayer grants the above-named appointee a Power of Attorney to perform any and all acts that the taxpayer can perform with regard to the above-mentioned tax matters and tax year(s) or period(s). This Power of Attorney includes, but is not limited to, the powers listed in items 4a through 4h. The use of a Power of Attorney must be in accordance with Arizona Supreme Court Rule 31. Please specify any limitation to the Power of Attorney:

6. **REVOCAION OF EARLIER AUTHORIZATION(S):** This authorization does not revoke any earlier authorizations or Powers of Attorney on file with the Arizona Department of Revenue unless the revocation box to the left is checked. The revocation will be effective as to all earlier authorizations and Powers of Attorney on file with the Arizona Department of Revenue except those specified (please specify):

Arizona 285 Page 2

AZ Form 285

Page 2 of 2

7. CORPORATIONS HAVING CONTROLLED SUBSIDIARIES: A.R.S. §42-2003(A)(1) provides that confidential information relating to a corporate taxpayer may be disclosed to a designee of the taxpayer who is authorized in writing by the taxpayer. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. A principal corporate officer of a parent corporation that desires to designate a person to receive confidential information regarding the corporation's controlled subsidiaries must either attach a list containing the names of each controlled subsidiary that the parent company wants included in the disclosure authorization (a federal Form 851 may be used for this purpose) or taxpayer may complete the following to include all controlled subsidiaries in the disclosure authorization. In addition, there is space provided to exclude specific controlled subsidiaries from the disclosure authorization.

Please check one of the following:

Include all controlled subsidiaries. A controlled subsidiary, for purposes of A.R.S. §42-2003, is defined as more than 50% ownership or control.

Include all controlled subsidiaries except the subsidiaries named below. The following controlled subsidiaries are specifically excluded:

Table with 3 columns: NAME, EMPLOYER I.D. NO., TAX YEARS (if not all years). Rows 7a through 7f.

8. SIGNATURE OF OR FOR TAXPAYER: I hereby certify that the Arizona Department of Revenue is authorized to release any and all confidential information concerning the above-mentioned taxpayer. By signing this form, I certify that I have the authority, within the meaning of A.R.S. §42-2003(A), to execute this authorization form on behalf of the above-mentioned corporation(s), limited liability company(ies), trust(s), estate(s), partnership(s), and/or individual(s). I understand that to knowingly prepare or present a document which is fraudulent or false is a Class 5 felony pursuant to A.R.S. §42-1127(B)(2).

Signature and Date lines for Taxpayer and Appointee.

9. DECLARATION OF APPOINTEE: Complete if Appointee has been given authority under any Section 4a through h or Section 5 or is otherwise authorized to practice law as defined in Rule 31(a) of the Arizona Rules of the Supreme Court.

Under penalties of perjury, I declare that I am one of the following:

9a A full-time officer, partner, member or manager of a limited liability company, or employee if the individual qualifies under Rule 31(d)13 of the Arizona Rules of the Supreme Court.

9b Attorney - an active member of the State Bar of Arizona.

9c Certified Public Accountant - duly qualified to practice as a Certified Public Accountant in Arizona.

9d Federally Authorized Tax Practitioner within the meaning of A.R.S. § 42-2069(D)(1). If appointee is engaged in practice with a federally authorized tax practitioner, provide the practitioner's name and CAF number below:

PRACTITIONER'S NAME CAF NUMBER

9e Other - This may be any individual, providing the total amount in dispute, including tax, penalties, and interest is less than \$5,000.00.

If this Declaration of Appointee is not signed and dated, the representation authorization will be returned.

Table with 4 columns: DESIGNATION, JURISDICTION (State), SIGNATURE, DATE. Includes checkboxes for 9a-9e.

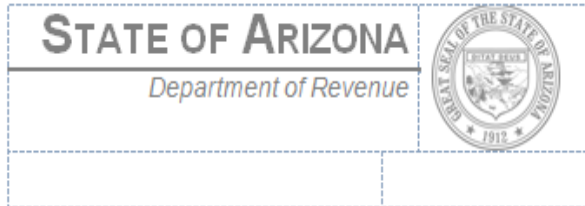
ADOR 10952 (7/13)

Print Form

Audit Notice of Proposed Assessment

DATE

Attn:



License No.: and Non Program City Licenses Listed on Page 2
 Audit Period: through
 Federal ID:]

Dear Taxpayer,

The Arizona Department of Revenue is issuing this **Notice of Proposed Assessment** under A.R.S. § 42-1108, as detailed below, based on an audit of your records that encompassed all taxes imposed under Chapters 5 and 6 of Title 42 of the Arizona Revised Statutes and the Model City Tax Code. Schedules substantiating the audit findings were previously provided with the Tentative Audit Assessment.

Corrected Total Tax per Audit	\$		
Less: Tax as Previously Reported			
Additional Tax Due			
Penalties			
Interest Through			
Total Deficiency	\$		
Daily Interest	\$		

Note: If payment is made PRIOR to the interest through date, please deduct the daily interest amount for each day prior to the interest through date.

This deficiency becomes final forty-five (45) days from the receipt of this notice (ARS § 42-1108B) unless an appeal is submitted to the Department as indicated on the enclosed Taxpayer Response Form. If payment is not made within the 45 day period, a lien may be filed with the County Recorder for all real property owned and with the Secretary of State for all personal property owned. If changes need to be made, please submit documentation with an informal conference request in writing to the Department. An informal conference consists of meeting with a Taxpayer and/or their representative and a Departmental representative. A formal hearing may also be requested. An Administrative Law Judge of the Office of Administration Hearings will preside over a formal hearing which includes a Taxpayer and/or their representative and a Departmental representative. The Administrative Law Judge renders a written decision after both sides have presented their positions.

IMPORTANT

All **unprotected** amounts **must** be paid at the time any protest is filed (A.R.S. § 42-1251A). Send any checks or money orders made payable to: ARIZONA DEPARTMENT OF REVENUE
 Attn: Audit Processing
 1600 West Monroe Street Division Code 9
 Phoenix, AZ 85007-2650

Date

ADOR Auditor Number: Phone #

Date

ADOR Supervisor Number: Phone #

No Change Audit Letter



[DATE]

[

Attn:

Audit Period: through

License #:

Dear:]

This letter is to inform you that the Department has concluded its audit **[of]** After reviewing the books and records of your business, the Department has concluded that your filings are correct and has accepted the returns as filed.

You may consider this letter an official notification that the Department's audit is final. A.R.S. §42-2059(A) and Model City Tax Code Section 556(a) states that no additional audit may be conducted for the stated period, unless:

1. A review is conducted pursuant to a refund claim filed by you for this period for purposes of verifying that refund claim.
2. You have failed to disclose material information during the audit, have falsified books and records, or engaged in an action that prevented the Department from conducting an accurate audit.

Thank you for your cooperation during the audit.

Sincerely,

[

ADOR Auditor Number:

Phone:

Fax:

E-mail:

CC:

]

Taxpayer Response Form Instructions**ARIZONA DEPARTMENT OF REVENUE
Transaction Privilege & Use Tax Division
Taxpayer Response Form Instructions**

IF YOU AGREE WITH ALL OF THE PROPOSED ASSESSMENT

Complete PART A only if you agree with the Proposed Assessment. When the Department receives your signed response, the Proposed Assessment becomes final, and the full amount becomes due and payable. To avoid additional interest charges, you may send your check or money order made payable to the Arizona Department of Revenue for the total amount due along with the completed Taxpayer Response Form. If you are unable to pay the total amount due, you may be able to enter into a payment plan with our Collection Section.

IF YOU DISAGREE WITH PART OR ALL OF THE PROPOSED ASSESSMENT

You must complete and return the signed Taxpayer Response Form within **forty-five (45)** days of the date of receipt of the Notice of Proposed Assessment. Arizona Statutes require you to identify the dollar amount of the tax, penalty and interest that you disagree with, as well as, the reason you disagree (ARS § 42-1251A). Please contact the Department's auditor if you need assistance in calculating these amounts.

Be sure to complete all of the information requested in PART B of the Taxpayer Response Form. Please provide documentation to support your disagreement when you return the response form. This will allow the Department to resolve your protest more quickly. Return the signed response form.

Be sure to provide a phone number where you may be reached during the day. Please write your Transaction Privilege License Number on all correspondence.

If you disagree with part of the Proposed Assessment, the portion you agree with becomes due and payable when you return the response form (ARS § 42-1251). To avoid additional interest charges, you may send your check or money order for the total amount due with the completed Taxpayer Response Form.

IF THE PROTEST DUE DATE HAS PASSED

If the Taxpayer Response Form is not received by the Department or postmarked on or before the **forty-fifth** day after the date of receipt of the Notice of Proposed Assessment, you forfeit the right to protest and collection activity will begin. If the Protest Date has expired, you must first pay the total assessment plus any additional accrued interest and then file a claim for refund to reinstate your appeals right.

APPOINTING SOMEONE TO REPRESENT YOU

If at any time you wish to appoint someone to represent you, send a completed Power of Attorney form to the Department. If you wish for your representative to sign the Taxpayer Response Form on your behalf, the Power of Attorney Form must have already been filed with the Department or is enclosed with the response form. The Department cannot discuss your case with a representative, or accept this response form signed by a representative, until a completed Power of Attorney Form is provided. Many representatives have a copy of the Power of Attorney form available. You may request a Power of Attorney form by calling (602) 542-4260 in Phoenix or 1-800-352-4090 if you live outside the Phoenix area. Forms can be obtained from the Internet at the Department's web site of: www.AZDOR.GOV

IMPORTANT INTEREST INFORMATION

Interest continues to accrue on any unpaid balance. You may pay the protested amounts to stop interest from accruing. Any amount determined to be overpaid as a result of your protest will be refunded, with interest, after the protest is resolved (ARS § 42-1123).

Taxpayer Response Form

**ARIZONA DEPARTMENT OF REVENUE
Transaction Privilege & Use Tax Division
Taxpayer Response Form**

Mail To:
**Arizona Department of Revenue
Transaction Privilege and Use Tax**
Room 620 - Audit Section
1600 W. Monroe
Phoenix, AZ 85007-2650

PART A **I AGREE with this PROPOSED ASSESSMENT and do NOT WISH to FILE a PROTEST.**
Checking this box indicates that you agree with all of the changes shown on the Notice of Proposed Assessment. Checking this box also waives your right to appeal and the Proposed Assessment becomes due and payable.

SIGNATURE of the TAXPAYER or AUTHORIZED REPRESENTATIVE _____
Date

PART B **I DISAGREE with this PROPOSED ASSESSMENT and WISH to FILE a PROTEST.**
For areas with which you disagree:

(1) List the specific tax classification(s) : _____
(2) List the specific jurisdiction(s) : _____
(3) Enter the amount of tax (if any) : _____
(4) Enter the amount of penalty (if any): _____
(5) Enter the amount of interest (if any): _____
(6) Identify the specific issues and/or income adjustments you disagree with and explain why you disagree (attach additional pages if needed):

(7) Check one of the following boxes:
 I request an **INFORMAL CONFERENCE** with a representative of the Transaction Privilege & Use Tax Division. NOTE: If you select this option, you may still request a formal hearing at a later date.
 I request a **FORMAL HEARING** in the Office of Administrative Hearings and elect to bypass the opportunity for an informal conference.

SIGNATURE of the TAXPAYER or AUTHORIZED REPRESENTATIVE _____
Date

IMPORTANT INSTRUCTIONS
Remember that this form must be submitted within **FORTY-FIVE (45) days** of the date of the receipt of the Notice of Proposed Assessment if you are filing a protest. If no response is received by that date, the Proposed Assessment will become final, due and payable.

- (1) Be sure to **READ ALL OF THE INFORMATION** on the following page before completing this form.
- (2) Complete all of the blank spaces at the top of this form.
- (3) If you agree with the Proposed Assessment, complete Part A only. If you disagree with the Proposed Assessment, complete Part B only. Be sure to complete Lines 1 through 6 of Part B. Attach all available documentation to expedite the resolution of your protest. Please call the Department's auditor if you have any questions or want help with the calculations of the protested tax, penalty and interest.

Version History

- .05 – Combined State and Scottsdale
- 1.1 – Final Revised Version by subcommittee
- 1.2 – Edits by Tom Johnson
- 1.3 – Edits by Lisa Neuville
- 1.03- Edits by Laura Robichaud
- 1.04- Edits by Laura Robichaud
- 1.05- Edits by Laura Robichaud
- 2.00- Edits by Robb Swanson and Karen Rounsberg
- 2.01- Edits requested by Business Community and Edits by Zac Sharp
- 2.02- Added Audit Letters
- 2.3 – UAC Flagstaff Changes
- 2.4 – Technical Corrections
- 2.5 – Removed Administrator titles