

FLORIDA DEPARTMENT OF REVENUE  
TRAINING MANUAL

**BASIC ELECTRONIC AUDITING  
MANUAL  
(eAuditing)**

# PREFACE

The purpose of this manual is to provide employees with an understanding of auditing in an electronic environment and to serve as a guide for auditors and computer audit analysts. This manual is intended to provide the necessary tools to Department of Revenue employees to use in performing audits using taxpayers' electronic data.

The materials in this manual will assist you as you encounter the increasingly sophisticated computer technology employed by taxpayers. Although the emphasis is upon sales and use tax, the same procedures may be used for audits of other taxes administered by the Florida Department of Revenue.

SEPTEMBER 2002

*BASIC ELECTRONIC AUDITING MANUAL*

FLORIDA DEPARTMENT OF REVENUE

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GLOSSARY

UPDATING SHEET

# OBJECTIVES

*Upon completion of this module, you will be able to:*

- *list the benefits of an electronic audit;*
- *cite the legal authority for electronic auditing;*
- *explain confidentiality of data;*
- *identify electronic audit candidates;*
- *explain the process of obtaining, converting, and testing taxpayer data;*
- *determine which electronic audit technique to use;*
- *list the considerations for a stratified statistical sample candidate; and*
- *complete eAudit case file documentation.*

# INTRODUCTION

Electronic auditing is the same as computer-assisted auditing where electronic records are used to complete all or part of the audit. This manual will list the benefits of performing electronic audits, cite the legal authority for electronic auditing, explain steps to ensure confidentiality, identify electronic audit candidates, explain the process of obtaining, converting and testing taxpayer data (along with several sample letters and forms), review the three electronic audit techniques and when they should be used, identify the additional considerations for a stratified statistical sample, refer you to the eAuditing website, and review the documentation required for an electronic audit case file.

# BENEFITS

The decision of whether the Department can pursue an electronic audit instead of a hard copy audit is based on the nature of the taxpayers' records. Electronic audits generally reduce the collective effort needed by the taxpayer and the Department to complete the audit. In many instances detail audit procedures can be performed using the electronic data in the same amount of time as it takes to perform a sample, making the audit results more accurate.

In addition, stratified statistical sampling can be performed on electronic records. Stratified statistical sampling allows for measurement of audit risk and is therefore more defensible in court.

# LEGAL AUTHORITY

Every audit has the potential of being an electronic audit. If any electronic data is available in any form, it may be used. Section 213.35, Florida Statutes (F.S.), states:

*“Each person required by law to perform any act in the administration of any tax enumerated in s. 72.011 shall keep suitable books and records relating to that tax, such as invoices, bills of lading, and other pertinent records and papers, and shall preserve such books and records until expiration of the time within which the department may make an assessment with respect to that tax pursuant to s. 95.091(3).”*

Part II of Rule Chapter 12-24, Florida Administrative Code (F.A.C.), addresses a taxpayer's recordkeeping and retention responsibilities. This rule chapter describes the requirements when “all or a part of the taxpayer's records are received, created, maintained or generated through computer, electronic, and imaging processes and systems.” Rule 12-24.023, F.A.C., states, in part:

*“(2) If a taxpayer maintains records required to be retained under this chapter in both machine-sensible and hardcopy formats, the taxpayer shall make the records available to the Department in machine-sensible format upon request of the Department.”*

Rule 12-24.026, F.A.C., addresses a taxpayer's responsibilities concerning Department access to machine-sensible records. Rule 12-24.026, F.A.C., provides:

*“(1) The manner in which the Department is provided access to machine-sensible records as required in subsection 12-24.023(2), F.A.C., may be satisfied through a variety of means that shall take into account a taxpayer's specific facts and circumstances, as determined through consultation with the taxpayer.*

*(2) Departmental access will be provided in one or more of the following manners:*

*(a) The taxpayer may arrange to provide the Department with the hardware, software and personnel resources to access the machine-sensible records;*

*(b) The taxpayer may arrange for a third party to provide the hardware, software and personnel resources necessary to access the machine-sensible records;*

*(c) The taxpayer may convert the machine-sensible records to a standard record format specified by the Department, including copies of files, on a magnetic medium that is agreed to by the Department; or,*

*(d) The taxpayer and the Department may agree on other means of providing access to the machine-sensible records.”*

## CONFIDENTIALITY OF DATA

The confidentiality of all tax information is required by Section 213.053, F.S. Electronic data is considered confidential information. Any violation of confidentiality is considered a misdemeanor of the first degree and punishable under Sections 775.082 or 775.083, F.S.

As noted, the Florida Statutes guarantee confidentiality of taxpayer data. If a taxpayer is concerned about the confidentiality of their data when sending by common carrier or the U.S. Mail, they may send their data with no return address and a unique identifying number on the CD or tape. In addition, the file layout can be sent

separately from the data. This procedure will maintain taxpayer anonymity in the unlikely event that you do not receive the data.

If the data requires conversion by Applied Technology, you may follow these same steps when sending the data and file layout to Applied Technology. This arrangement may not be necessary for all taxpayers, but is available when needed.

## ELECTRONIC AUDIT Candidates

Candidates for electronic audits include taxpayers that use a computer for recording their business activity and that maintain this data in machine-readable format. As such, many taxpayers are candidates for an electronic audit.

When the Notice of Intent to Conduct an Audit (form DR-840) is mailed to the taxpayer, the following documents should also be mailed:

- Cover Letter (Exhibit 1)
- Electronic Audit Survey (Exhibit 2)
- Electronic Audit and Stratified Statistical Sampling Brochure (Form GT-800050)
- Taxpayer's Bill of Rights Brochure

After the survey is returned, you will need to determine whether or not an electronic audit should be pursued. If it is determined that electronic auditing techniques will be used, the taxpayer is contacted to request the data in the appropriate format. (see Exhibit 3 for suggested letters requesting sales data and purchases data).

It is not necessary to have electronic data for all areas to be audited (sales, purchases, fixed assets, leases, etc.) If electronic data is available only for purchases, and not for sales, this taxpayer can still be considered a candidate for electronic auditing of purchases.

All taxpayer data should be requested for the audit period, including sales, fixed asset purchases, expense purchases, and rental transactions, along with any other data that is necessary to properly conduct the audit.

### *electronic data interchange (edi) taxpayers*

The computer-to-computer exchange of business transactions is known as EDI (Electronic Data Interchange). For taxpayers who operate in an EDI environment, there will be very little, if any, hard copy records available for examination since this is a paperless environment. These types of taxpayers can only be audited using electronic audit techniques.

As noted previously, Part II of Rule Chapter 12-24, F.A.C., addresses a taxpayer's recordkeeping responsibilities. Rule 12-24.024, F.A.C., states, in part:

*“(2) Electronic Data Interchange Requirements.*

*(a) Where a taxpayer uses electronic data interchange processes and technology, the level of record detail, in combination with other records related to the transactions, must be equivalent to that contained in an acceptable paper record. For example, the retained records should contain information including vendor name, invoice date, product description, quantity purchased, price, amount of tax, indication of tax status, and shipping detail. Codes may be used to identify some or all of the data elements, provided that the taxpayer provides a method which allows the Department to interpret the coded information.*

*(b) The taxpayer may capture the information necessary to satisfy these rules at any level within the accounting system and need not retain the original EDI transaction records provided the audit trail, authenticity, and integrity of the retained records can be established. For example, a taxpayer using electronic data interchange technology receives electronic invoices from its suppliers. The taxpayer decides to retain the invoice data from completed and verified EDI transactions in its accounts payable system rather than to retain the EDI transactions themselves. Since neither the EDI transaction nor the accounts payable system captures information from the invoice pertaining to product description and vendor name (i.e., they contain only codes for that information), the taxpayer must retain other records, such as his or her vendor master file and product code\_description lists and make them available to the Department. In this example, the taxpayer need not retain its EDI transaction for tax purposes.*

*(3) Electronic Data Processing Systems Requirements. The requirements for an electronic data processing accounting system should be similar to those of a manual accounting system, in that*

*an adequately designed accounting system should incorporate methods and records that will satisfy the requirements of this chapter.”*

### **acceptable data FORMAT and supported media**

If a taxpayer uses a mainframe computer system, a flat file (non-relational) should be requested. The format of the files can be EBCDIC, ASCII, Comma Delimited, Tab Delimited, or Space Delimited.

Acceptable data format and media are shown in Table 1.

**TABLE 1**

Data Format	Supported Media
<ul style="list-style-type: none"> <li>• Mainframe data EBCDIC, ASCII (Comma delimited, tab delimited, or space delimited)</li> <li>• Text file</li> <li>• Print file</li> <li>• Spreadsheet files (Excel, Quattro-Pro, Lotus, etc.)</li> <li>• Database files (dBase, Access, etc.)</li> <li>• Quickbooks files (QBW or QBB)</li> <li>• Peachtree files (PTB)</li> </ul>	<ul style="list-style-type: none"> <li>• 3480/3490 tape cartridges</li> <li>• 9 track</li> <li>• 4 mm DAT (4GB capacity)</li> <li>• Compact Disc</li> <li>• 1 or 2 gig JAZ disk</li> <li>• 100 meg ZIP disk</li> </ul>

*NOTE: Most field offices have the ability to read compact discs and 1 gig JAZ disks. All other media can be converted with assistance from Tallahassee.*

Completion of an electronic file layout form is required for conversion of flat files. A suggested file layout form is shown in Exhibit 4, however, the taxpayer may provide this information printed from their system, instead of filling out this form.

If flat files are not available from the taxpayer’s computer system, print files of the taxpayer’s data should be requested. These print files can be converted to a dbf file by using the appropriate software. If neither flat files nor print files can be obtained, you may request the required records in a spreadsheet or database format (i.e., Excel, Access, etc.)

We prefer that the tapes do not contain labels, however, if a label

must be included, it should be a standard label.

### **CONVERSION Steps**

For most audits, taxpayers will mail the requested data in any of the acceptable formats directly to you at your local service center, along with a file layout (if needed for conversion). If conversion is required by Applied Technology, the local computer audit analyst (CAA) is the contact person who will coordinate sending the data to Applied Tech. The data and file layout information should be sent to Tallahassee at the following address:

Florida Department of Revenue  
Applied Technology  
5050 West Tennessee Street  
Building I  
Tallahassee, FL 32399-0100

In addition to the data and file layout, the following information should be sent (if not included in the file layout):

- name of the service center performing the audit,
- name and phone number of the auditor
- name and phone number of the computer audit analyst,
- taxpayer name,
- audit number, and
- requested media for return of the converted data (CD-Rom, Jaz disk, Zip disk, or modem transfer between computers).

If there are questions or problems with the data, you will be contacted by Applied Technology. After conversion, your data will be returned in the requested media. If you request to transfer the data from Tallahassee to your computer via a modem, a user account and password will be required. These can be obtained from Applied Technology.

### **DATA INTEGRITY TESTS**

According to the Report of the Steering Committee Task Force on EDI Audit and Legal Issues for Tax Administration, "Auditing Electronic Data", Federation of Tax Administrators, January 1997,

*"First, and foremost, a proper study and evaluation of the existing*

*internal controls for the accrual and reporting of tax liabilities may be necessary. Such a study forms the basis to measure the degree of reliance placed on the internal controls in determining the scope of the audit program: objectives, techniques, procedures and tests. In the absence of good internal control, any document – be it physical or electronic – is subject to alteration, forgery and falsification. The degree of auditor taxpayer trust has not changed; the nature of the source document has changed. In an electronic record keeping environment, more weight must be given to the internal controls installed to support the tax accrual and reporting systems.”*

When establishing the integrity of the electronic data received from the taxpayer, the following *minimum* tests for data integrity should be performed:

- A random number of electronic transactions are traced to the taxpayer’s source documents to verify that the data matches the source documents. The number of transactions selected for review will depend on your judgment; a minimum of thirty transactions, however, is recommended.
- A random number of the taxpayer’s hard copy (source) documents are vouched to the electronic data to verify that information in the source documents is found in the electronic data. The number of documents selected for review will depend on your judgment; a minimum of thirty source documents, however, is recommended.
- Summary totals from the taxpayer’s data are compared to the taxpayer’s general ledger balances, tax returns, profit and loss statements, or other appropriate financial reports. Dollar amounts often may not match up perfectly. In most cases, the differences are simply caused by accounting timing issues, manual adjustments, etc. Any differences between the totals of the electronic data and the taxpayer’s general ledgers or reports need to be discussed with the taxpayer.
- In order to match totals with the taxpayer’s general ledger balances, tax returns, or other appropriate financial reports, adjusting entries are normally requested to be included in the data, since the check totals will not match without these entries. The adjusting entries may be removed from the population after verification.
- A chart of accounts should be obtained from the taxpayer in

either paper copy or electronic format. The chart of accounts will be useful when verifying taxpayer data and comparing summary totals.

- The electronic data received may also be used to verify the apportionment factor for corporation income tax, if a corporate income tax (CIT) audit is in progress. If a CIT audit has not been assigned and problems are found with the apportionment factor, a CIT audit may be requested.

When data integrity cannot be established, the auditor should work with the taxpayer's representatives to attempt to resolve any data integrity problem. Resolving this problem may include:

- another attempt to obtain the requested data from the taxpayer, or
- taxpayer assistance with reconciliation of the electronic records to accounting records or reports.

When the integrity of the records cannot be established, the records are not considered "adequate." The records can be audited electronically, but cannot be statistically sampled. You may be able to use the data as the best information available for a judgmental sample. You and your manager must determine which judgmental sampling method would be appropriate to complete the audit.

## electronic AUDIT TECHNIQUEs

After the data has been obtained and data integrity tests have been completed, a decision will need to be made on which electronic audit technique to use for conducting the audit. Alternative electronic audit techniques include:

- electronic detail audit
- stratified statistical sample
- electronic judgmental sample

It is common to use more than one approach in the same audit. For example, sales and fixed assets could be audited using the electronic detail approach, while expenses could be audited using stratified statistical sampling.

## SALES DATA

The following fields should be requested to be included in the data from the taxpayer. The following fields or some variation are normally used to conduct an electronic audit of sales transactions, although they may vary from audit to audit:

- List of resale certificates on file
- Customer name
- Invoice date
- Invoice number
- Any identifying number needed by the taxpayer to locate the source documents
- Ship to name
- Ship to address
- Ship to city
- Ship to state
- Ship to zip code
- Invoice line item information including:
  - Line item number
  - Product number
  - Product description
  - Quantity
  - Taxable status of product
  - Amount
  - Tax collected (either in total or split by state and county, if available)

For sales data, an electronic detail is generally the preferred technique.

When performing an electronic audit, it may be possible to review every transaction in a file, precluding the need for sampling. If a detail can be performed within approximately the same amount of time as a sample, a detail should be performed.

The following are examples of detail audit procedures that can be performed on sales transactions:

- Compare total tax invoiced to the DR-15's and general ledger
- Recalculate total tax due and compare with the total tax invoiced
- Export all taxed sales transactions into a separate file to review for applicable Discretionary Sales Surtax (DSS) tax rates

- Export exempt sales transactions to a separate file to examine for exempt products and/or resale certificates
- Create a unique index of customers to compare with the resale certificate file
- Create a unique index of products to verify taxable and exempt products

When auditing sales for resale/exemptions, a unique list of customers can be obtained to verify the validity of the taxpayer's resale certificates.

***EXAMPLE 3-1***

A taxpayer has 100,000 sales invoices. Out of the 100,000 sales invoices, there are 1,000 customers. You verify the resale certificates and create a detail exhibit in WinFMT, importing the transactions not supported by a valid resale certificate. Provide the taxpayer with actual results, rather than estimated results from a judgmental sample. Little time is required to import the data from the taxpayer's file to WinFMT.

If a list of the resale certificates on file is available electronically, it can be matched to the unique customer list using the Department audit software. The exceptions can be examined in detail, and the customers that match the resale certificate list can be sampled to verify that the resale certificates on the list are actually valid.

After identifying the transactions that will be included in the audit workpapers as exceptions, an exhibit can be set up in Department's audit software and the appropriate transaction detail imported from the data base file into the audit exhibit. The audit software will calculate additional tax due for the entire audit period, including applicable penalty and interest on the transactions. (See Exhibit 6 for importing steps.)

If the sales data is too voluminous to be audited using detail audit techniques, stratified statistical sampling may be used. Stratified statistical sampling allows for a detail examination of all large dollar invoices above a certain threshold amount, with the remaining small dollar invoices being randomly sampled.

### **PURCHASES DATA**

Purchases data may include fixed assets, expense purchases, and

rental transactions. The following fields or some variation are normally used to conduct an electronic audit of purchases:

- Chart of accounts
- Vendor name
- Invoice date
- Accounting journal entry date (or date paid)
- Vendor's invoice number
- Any identifying number needed by the taxpayer to locate the source documents (voucher number, batch number, etc.)
- Division or cost center making the purchase
- Expense account
- Description of item(s) purchased
- Expensed Amount
- Total invoice and/or voucher amount
- Sales tax paid or accrued information, if available

### **FIXED ASSETS**

You are required by statute to conduct a detail examination of fixed assets. If fixed asset data is captured by the taxpayer in specified general ledger account(s), the data in these fixed asset accounts can be filtered and imported as a audit exhibit for audit verification (see Exhibit 6 for importing instructions). Those transactions where tax was correctly paid to the vendor or accrued can be deleted, leaving the records scheduled where additional tax is due or overpaid.

Taxpayers normally do not record tax separately on fixed asset purchases. Many times the amount charged to the fixed asset account includes tax, especially when tax is paid to the vendor. Sales tax is a transaction tax, and tax paid or accrued on each transaction must be verified. Therefore, it will usually be necessary for the taxpayer to provide the source documents to verify proper tax treatment of fixed asset purchases.

### **EXPENSE PURCHASES**

Generally, when auditing expense purchases, stratified statistical sampling is the preferred electronic audit technique. As with fixed assets, taxpayers generally do not separately capture tax paid or accrued on expense purchases. For this reason, source documents must be provided by the taxpayer to verify proper tax treatment. Stratified statistical sampling works well for expense purchases

due to the large volume of these transactions and the necessity to review the source documents. Stratified statistical sampling allows all expense items over a certain dollar threshold to be examined in detail, with the smaller dollar items randomly sampled.

### **rental transactions**

Real property rental transactions are generally separated into general ledger accounts that may be filtered from the data and audited in detail. An exhibit may be set up in the Department's audit software and the rental transactions imported into the exhibit. Any transactions that are verified as correct may be deleted from the exhibit, leaving transactions where additional tax is due or overpaid.

Voluminous tangible personal property rental transactions may be included in the expense purchases population to be sampled.

## **STRATIFIED STATISTICAL SAMPLE CANDIDATES**

Candidates for stratified statistical sampling include taxpayers with adequate electronic records where sampling will be used to conduct any portion of the audit. If a detail examination of the electronic records can be performed in the same amount or less time than a sample, a detail audit should be performed. If the electronic records provided are adequate and a detail audit is not practicable, stratified statistical sampling should be used.

Other considerations for stratified statistical sampling candidates include taxpayers that are undergoing refund verification audits and taxpayers who report use tax using an alternative reporting method. In addition, taxpayers are requesting stratified statistical sampling as an alternative to judgmental sampling.

### **adequate and voluminous ELECTRONIC records**

In order to employ stratified statistical sampling procedures, the taxpayer's records must be adequate. It is possible for a taxpayer to have adequate records that are not available electronically, but stratifying paper copy records by dollar amount would not be cost

effective. For stratified statistical sampling, each item in a population must be stratified by dollar amount. Other sampling techniques should be employed for taxpayers with adequate paper copy records.

The taxpayer's records should be sufficiently large in quantity so that a detail audit would not be practicable for either the taxpayer or the Department. In making this determination the time needed to perform a detailed audit versus a sample must be considered.

Taxpayer data is normally found in one of the following formats:

- electronic
- paper copy
- combination of electronic and paper copy

When electronic data is obtained for the entire audit period, stratified statistical sampling can be used and the results can be projected to the entire audit period and will be statistically valid. When only paper copy records are available, other sampling techniques should be used.

When electronic data is obtained for only a portion of the audit period, stratified statistical sampling can be used for that period of time where data is obtained and the results will be statistically valid. If the results of this stratified statistical sample are used to project to the period of time where electronic data is not available, this is an acceptable judgmental application, although not statistically valid.

If it is determined that the results of the stratified statistical sample are the best information available to project to the period where electronic data is not available, two separate exhibits are prepared to document the sample findings. One exhibit contains the stratified statistical sample results; a separate exhibit contains the projection of the statistical sample results to the remaining audit period.

If the taxpayer's records are inadequate for the period where electronic data is not available, you cannot project a refund to the period where records are inadequate. It is important to remember that the results of any judgmental exhibit are not statistically valid; only the results for the period where adequate data is available are statistically valid.

The type of taxpayer data obtained and the sampling procedures

used must be explained in the Explanation of Items for the exhibit.

### **refund verification audits**

If the taxpayer's electronic records are adequate, stratified statistical sampling may be the most efficient method for completing a refund verification audit. You and your manager must assess performing a detail examination versus a stratified statistical sample.

### **alternative reporting of use tax**

Several large taxpayers have adopted an alternative reporting method for calculating use tax on expense purchases. This method involves applying a set taxable percentage to total expense purchases for the month and then applying the applicable tax rate to the result. Taxpayers do not need special authorization from the Department to use an alternate method of reporting use tax. In accordance with section 212.07(8), F.S., however, if a taxpayer uses an alternative reporting method then the taxpayer remains liable for the correct tax on all transactions.

When reporting use tax in this manner, the ability to verify the amount of use tax paid on each transaction is lost. However, stratified statistical sampling procedures may be used to reconstruct the amount of use tax that should have been paid. This is compared to the use tax that was accrued and remitted to determine a deficiency or an overpayment.

### **requests for statistical sampling**

Many states are performing compliance audits using statistical sampling. If a taxpayer has been previously audited by one of these states, the taxpayer may request a statistical sample. Again, to be favorably considered, the taxpayer's electronic records must be adequate and available electronically.

## **CASE FILE DOCUMENTATION**

The following documentation is required in the case file for an electronic audit:

- Capture the electronic audits and stratified statistical sampling

audits information on the DR806AR.

- The electronic audit survey and any other letters to the taxpayer or Applied Technology regarding data conversion should be included in the internal workpapers.
- The electronic audit technique(s) used should be noted in the Explanation of Items for the exhibit(s).
- Sampling Agreement and Attachment (if sampling is used to perform the audit).

## summary

This manual has covered auditing in an electronic environment (eAuditing). The benefits of electronic auditing were covered along with the legal authority and confidentiality steps. Electronic audit candidates were identified, and the process of obtaining, converting and testing taxpayer data was explained. Three electronic audit techniques were discussed and examples of when each technique should be used were reviewed. Additional considerations for a stratified statistical sample were listed and the documentation required for an electronic audit was listed.



EXHIBIT 1	COVER LETTER TO ACCOMPANY DR-840
EXHIBIT 2	ELECTRONIC AUDIT SURVEY
EXHIBIT 3	LETTERS REQUESTING ELECTRONIC DATA: SALES LETTER PURCHASES LETTER
EXHIBIT 4	ELECTRONIC DATA FILE LAYOUT
EXHIBIT 5	CAA CASE ACTIVITY RECORD
EXHIBIT 6	WINFMT IMPORTING INSTRUCTIONS

**EXHIBIT 1 COVER LETTER TO ACCOMPANY DR-840**

Date

Taxpayer Name  
Street address  
City, State, Zip

RE: Audit #:  
FEI #:

Dear Taxpayer:

Your company has been assigned to me for conducting an examination of your books and records as authorized under the Florida Statutes.

Please review the enclosed documents:

- *Notice of Intent to Audit Books and Records (Form DR-840)*
- *Electronic Audit Survey*
- *Electronic Auditing and Stratified Statistical Sampling Brochure*
- *Florida Taxpayers' Bill of Rights Form*

The *Electronic Audit Survey* should be returned completed to this office within 30 days. Conducting your audit using electronic transaction data will benefit your company as well as the Department by reducing the collective effort required to perform your audit.

Thank you in advance for your assistance and cooperation. Please feel free to call me at (phone number) if you have any questions.

Sincerely,

Tax Auditor

**EXHIBIT 2**

**ELECTRONIC AUDIT SURVEY**

The Department uses state of the art computer technology to perform electronic audits where transaction data is available in a machine-sensible format.

Company name		
Computer Audit Analyst	Service Center	Phone number
Auditor	Audit Number	Audit period
Audit contact name	Title	Phone number
Computer contact name	Title	Phone number

- Computerized records are maintained at the detail transaction level for:  
 \_\_\_\_\_ Ledgers/Journals      \_\_\_\_\_ Sales      \_\_\_\_\_ Expenses/Fixed Assets
- Type of accounting system software used (SAP, Peachtree, Quickbooks, etc.):  
 \_\_\_\_\_
- Select all media types that your system is capable of producing:  
 Tape:    \_\_\_ 9-track reel                      \_\_\_ 3480 or 3490 cartridge  
 Disk:    \_\_\_ Zip / Jaz                              \_\_\_ CD-ROM  
 Other (specify): \_\_\_\_\_
- How long are computerized records maintained?      Online \_\_\_\_\_ Archived  
 \_\_\_\_\_
- Have you changed your computer system during the audit period?       Yes      
 No
- Do you utilize Electronic Data Interchange (EDI)?       Yes       No  
 If Yes, in what areas?       Sales                       Purchases
- Do you maintain a retention agreement with the IRS?       Yes       No



**EXHIBIT 3**  
**DATA**

**LETTER REQUESTING ELECTRONIC SALES**

Date

Taxpayer Name and Address  
Or Fax Number

RE: Sales and Use Tax Audit # \_\_\_\_\_

Dear :

Your company has been selected as a candidate for using electronic auditing procedures to perform the sales portion of your sales and use tax audit. The use of electronic auditing procedures will benefit your firm as well as the Department by reducing the collective effort required to perform your audit.

The data files needed for electronic auditing should be a copy of your transaction data for the specified period. Acceptable data format and supported media are listed below:

Data Format	Supported Media
<ul style="list-style-type: none"><li>• Mainframe data EBCDIC, ASCII (Comma delimited, tab delimited, or space delimited)</li><li>• Text file</li><li>• Print file</li><li>• Spreadsheet files (Excel, Quattro-Pro, Lotus, etc.)</li><li>• Database files (dBase, Access, etc.)</li><li>• Quickbooks files (QBW or QBB)</li><li>• Peachtree files (PTB)</li></ul>	<ul style="list-style-type: none"><li>• 3480/3490 tape cartridges</li><li>• 9 track</li><li>• 4 mm DAT (4GB capacity)</li><li>• Compact Disc</li><li>• 1 or 2 gig JAZ disk</li><li>• 100 meg ZIP disk</li></ul>

In addition to the data, a file layout is required for each EBCDIC, ASCII or text file. You may send a computer-generated file layout or use the enclosed form, *Electronic Data File Layout*. The information provided in the file layout is essential for the correct translation of your data.

In order to proceed with your audit, please send the following electronic records and file layout to my attention at the address above:

General Description

Period

Requested Data Fields:

The following fields are requested to be included in the download:

- List of resale certificates on file
- Customer name
- Invoice date
- Invoice number
- Any identifying number needed by the taxpayer to locate the source documents
- Ship to name
- Ship to address
- Ship to city
- Ship to state
- Ship to zip code
- Resale certificate numbers
- Invoice line item information including:
  - Line item #
  - Product number
  - Product description
  - Quantity
  - Taxable status of product
  - Amount
  - Tax collected (either in total or split by state and county, if available)

The Florida Statutes guarantee confidentiality of all your data. If you have confidentiality concerns about your data, please feel free to call. After the close of your audit, your data will be returned to you.

Please note that once the download information has been provided and reviewed, the integrity of the data must be verified. For example, yearly sales totals as reported in the data will be compared to the sales totals as reported on the sales and use tax returns filed, the general ledger, and the Florida corporate income tax returns. Any discrepancies should be supported by relevant documentation such as credit memos, journal entries, etc. If control records are maintained in an electronic data format, you may also provide these records along with the sales download information identified above.

Thank you for your assistance and cooperation. If you have any questions, please feel free to call me at \_\_\_\_\_.

Sincerely,

Tax Auditor

Enclosure

cc: Tax Audit Supervisor

**LETTER REQUESTING ELECTRONIC PURCHASES**

**DATA**

Date

Taxpayer Name and Address  
Or Fax Number

RE: Sales and Use Tax Audit # \_\_\_\_\_

Dear :

Your company has been selected as a candidate for using electronic auditing procedures to perform the purchases portion of your sales and use tax audit. The use of electronic auditing procedures will benefit your firm as well as the Department by reducing the collective effort required to perform your audit.

The data files needed for electronic auditing should be a copy of your transaction data for the specified period. Acceptable data format and supported media are listed below:

Data Format	Supported Media
<ul style="list-style-type: none"><li>• Mainframe data EBCDIC, ASCII (Comma delimited, tab delimited, or space delimited)</li><li>• Text file</li><li>• Print file</li><li>• Spreadsheet files (Excel, Quattro-Pro, Lotus, etc.)</li><li>• Database files (dBase, Access, etc.)</li><li>• Quickbooks files (QBW or QBB)</li><li>• Peachtree files (PTB)</li></ul>	<ul style="list-style-type: none"><li>• 3480/3490 tape cartridges</li><li>• 9 track</li><li>• 4 mm DAT (4GB capacity)</li><li>• Compact Disc</li><li>• 1 or 2 gig JAZ disk</li><li>• 100 meg ZIP disk</li></ul>

In addition to the data, a file layout is required for each EBCDIC, ASCII or text file. You may send a computer-generated file layout or use the enclosed form, ***Electronic Data File Layout***. The information provided in the file layout is essential for the correct translation of your data.

In order to proceed with your audit, please send the following electronic records and file layout to my attention at the address above:

General Description

Period

Purchases Detail Transactions

10/01/1995 – 09/30/2000

Requested Data Fields:

The following fields are requested to be included in the download:

- Vendor name
- Invoice date
- Accounting journal entry date (or date paid)
- Vendor's invoice number
- Any identifying number needed by the taxpayer to locate the source documents (voucher number, batch number, etc.)
- Division or cost center making the purchase
- Expense account
- Description of item(s) purchased
- Expensed Amount
- Total invoice and/or voucher amount
- Sales tax paid or accrued information, if available
- Chart of accounts

The Florida Statutes guarantee confidentiality of all your data. If you have confidentiality concerns about your data, please feel free to call. After the close of your audit, your data will be returned to you.

Please note that once the download information has been provided and reviewed, the integrity of the data must be verified. For example, yearly expense account totals as reported in the downloads will be compared to the expense purchase totals as reported in the trial balances, accounts payable journals (or similar records), and the general ledger. Any discrepancies should be supported by relevant documentation such as credit memos, journal entries, etc. If control records are maintained in an electronic data format, you may also provide these records along with the purchase download information identified above.

Thank you for your assistance and cooperation. If you have any questions, please feel free to call me at \_\_\_\_\_.

Sincerely,

Tax Auditor

Enclosure

cc: Tax Audit Supervisor

**EXHIBIT 4**

**Electronic Data File Layout**

Company name		
Computer Audit Analyst	Service Center	Phone number
Auditor	Audit Number	Audit period
Audit contact name	Title	Phone number
Computer contact name	Title	Phone number

**Please complete the following information for each file submitted.**

FILE INFORMATION	FILE 1	FILE 2	FILE 3	FILE 4
FILE NAME or #				
TAPE FORMAT				
BLOCK SIZE				
RECORD SIZE				
NO. OF RECORDS				

**FIELD INFORMATION**

Field information is required for each file sent. You may make additional copies of this form, if needed, or you may send your own computer-generated file layouts, instead of this form.



TAPE FORMAT	EBCDIC or ASCII
BLOCK SIZE	Number of records per block
RECORD SIZE	Number of bytes per record
NO. OF RECORDS	Number of records on the tape or disk

***Field Information***

FIELD NAME Amount, etc.	Name of the Field, e.g. Invoice Number, Sales
FIELD TYPE	Type of Field, e.g. CHARACTER, BINARY, PACKED, ZONED, NUMERIC, MICRO, UNISYS, UNSIGNED
STARTING POSITION	Field starting position in the record
LENGTH	Length of the Field
COMMENTS	Any additional comments (Include any data dictionaries, if necessary)



**EXHIBIT 6****WINFMT IMPORTING INSTRUCTIONS**

The following steps should be followed to import taxpayer electronic data into the WinFMT audit program:

1. Identify the appropriate field names in the taxpayer's data to be imported into WinFMT
2. Create the exhibit in WinFMT
3. Import the transactions using the template below
4. Verify individual transactions where the \$5,000 DSS cap applies. After importing the transactions replace the field CAP with the constant TRUE. This will activate the DSS cap on all records over \$5,000.
5. Import invoice amounts and taxable amounts only, letting WinFMT compute the correct state and county taxes based on the county, date, and taxable amount of each transaction
6. Import tax paid in total, if necessary; WinFMT will split tax paid automatically between state and DSS

Taxpayer Data Field Name

WinFMT Field Name

	FROM COUNTY
	TO COUNTY
	VENDORNAME
	TRANS. NO
	TRANS. DATE
	TRANS. AMT.
	TTAXABLE
	TTAXPAID
	TRANS. DESCRIPTION
	REFERENCE 1
	REFERENCE 2
	REFERENCE 3

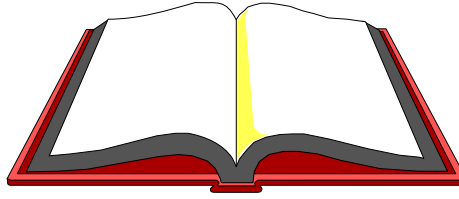
**The Basic Electronic Auditing Manual is the result of the hard work and dedication of several GTA Teams including the Statistics Team, FERAS Team, WinFMT User Group, and the original work from the FCAAS Manual.**

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## GLOSSARY

### **ASCII**

Acronym for “American Standard Code for Information Interchange.” Special coding convention for characters and the native character set of most minicomputers and personal computers.

### **Audit Tracking System**

A system that is used to determine the cost and performance of audit activity, capture audit information based on data provided by the auditor, and support improved automation of case selection.

### **Computer-assisted audit**

A field compliance audit that is conducted using electronic records provided by the taxpayer in place of hard copy books and records.

### **Computer audit survey**

A form used by the auditor to gain information about the taxpayer’s computerized accounting system and help determine the feasibility of performing a computer-assisted audit.

### **Data Integrity**

The confidence that data supplied by the taxpayer is complete and accurate.

### **DSS**

Acronym for “Discretionary Sales Surtax.” Tax imposed by local county governments. The tax percentage is between .25% and 2.5% and is in addition to the state tax rate of 6%.

### **Electronic data interchange (EDI)**

The computer-to-computer exchange of business documents in a structured format. EDI transactions generally do not have hard copy records available for examination.

### **EBCDIC**

Acronym for Extended Binary Coded Decimal Interchange Code.

### **FERAS**

Acronym for “Florida’s Electronic Records Audit System.” A Department of Revenue

developed software database program which is one of the tools used to conduct electronic audits.

### **GTA**

Acronym for “General Tax Administration.” The Department of Revenue process that is responsible for conducting field audits.

### **Monarch Software**

A data access tool that lets you view, print, analyze and extract data from existing computer reports. Whenever a computer produces a report, it creates something called a report file that contains all the characters and control codes that are sent to the printer to produce the actual printout. Monarch reads the same report file, but instead of producing a hard copy printout with words and numbers frozen on the page, Monarch creates a softcopy of the report on screen, with live data you can work with.

### **WinFMT**

Acronym for “Windows Florida Multi-Tax Compliance System.” A Department of Revenue developed software program used by audit personnel to record the results of all audits. This software program is another tool used to conduct electronic audits.