

NAME: _____

**AUDITS SELF-STUDY SESSION
REVIEW QUESTIONS**

1. A property tax audit is a means of collecting data relevant to the determination of taxability, situs, and value of property.
 True
 False

2. A property tax audit must be conducted by [mark all that apply]?
 An auditor-appraiser of a county, or city and county.
 An employee of the State Board of Equalization.
 A certified property tax appraiser of a county, or city and county.
 A contract appraiser of the State Board of Equalization or a county, or city and county.
 All of the above.

3. An auditor-appraiser or contract appraiser performing audits must [mark all that apply]:
 Hold a four-year degree with a specialization in accounting.
 Be a licensed accountant in the state.
 Have equivalent experience of conducting audits in a county, or city and county.
 Have passed a government civil service or merit system examination for the position of accountant or auditor.
 Any of the above.

4. Pursuant to Revenue and Taxation Code section 469, a county assessor must annually audit a _____.

5. An important part of a county audit program is the selection of taxpayers to be audited. The annual selection of audits is based on:
a. _____
b. _____

6. The significant number of audits for a county is annually based on the average number audits conducted in the prior year.
- True
- False
7. Fifty percent of the annual significant number of audits must be conducted on taxpayers from the pool of taxpayers with the largest assessments in the county. The actual taxpayers in this pool does not change.
- True
- False
8. After a county assessor ranks all taxpayers for potential audit, the county assessor identifies the pool of taxpayers with the largest assessments.
- True
- False
9. A county assessor must consider other taxpayers that may be subject to audit in addition to the selection of the county's annual significant number of audits. Provide two examples.
- a. _____
- b. _____
10. Most audits must be completed within [mark all that apply]:
- Eight years if property escaped assessment as a result of an unrecorded change in ownership for which neither a *Change in Ownership Statement* nor a *Preliminary Change of Ownership Report* is timely filed.
- Four years after July 1 of the assessment year the property escaped assessment.
- Six years if conditions exist that warrant the 25 percent penalty application in Revenue and Taxation Code section 504.
- The time period for making an escape assessment unless that period is extended by the assessee and assessor in writing.
- All of the above.
11. If property is fully exempt, the county assessor may not conduct an audit on the property.
- True
- False

12. Many counties conduct audits through the intercounty cooperative audit program called the California Counties Cooperative Audit Services Exchange (CCCASE). Under this program, the county assessor's staff in the county where the assessee is headquartered gathers information for the audit for all participating counties and makes a value judgment for the property.
- True
 False
13. If a taxpayer's principal place of business is outside of California, the county assessor may require the taxpayer to bring the business records to a place in California.
- True
 False
14. An alternative for performing audits is to conduct _____. Using this system, the assessee is requested to bring applicable records and information to the county assessor rather than the county assessor going to the taxpayer's location.
15. An audit _____ provides management with a snapshot of the audit workload and assists in identifying completed and pending audits.
16. Auditors should apply generally accepted auditing standards and use generally accepted accounting and property tax appraisal principles when conducting a property tax audit. There may be instances when these concepts are not in full agreement.
- True
 False
17. During the review of information prior to an audit, any related businesses should be reviewed to determine if they have assessable property at the situs of the assessee.
- True
 False
18. If the auditor and taxpayer agree to conduct the entire engagement as an office audit, it always eliminates the need for a physical inspect of the property thereby saving the county time and money.
- True
 False

19. Basic records that a taxpayer should have available for an audit should include [mark all that apply]:
- Accounting procedures manual.
 - Insurance policy(ies).
 - Detailed fixed asset list or depreciation schedule.
 - Articles of incorporation and amendments, as applicable.
 - Income tax records.
 - Subsidiary ledgers supporting the general ledger.
 - Appraisal records for all real property.
 - If any, independent audit reports.
 - Trial balance.
 - Chart of accounts.
 - Financial statements and/or annual reports.
 - General ledger.
 - All of the above.
20. A person is guilty of a misdemeanor who refuses to make available to the assessor any information which the assessor has requested in writing pursuant to Revenue and Taxation Code section 441(d).
- True
 - False
21. If a taxpayer refuses to furnish information or records required for an audit, the assessor's only option then is to seek a subpoena pursuant to Revenue and Taxation Code section 454.
- True
 - False
22. When a discrepancy or irregularity is found in the fiscal year first selected for audit, the assessor shall always audit the remaining fiscal years for which the statute of limitations has not expired.
- True
 - False
23. The _____ helps to organize the auditor and contributes to a professional attitude and image.

24. The auditor should accomplish the following during the audit fieldwork [mark all that apply]:
- Review and verify accounting records pertaining to property tax valuation.
 - Establish the value for all property subject to the audit.
 - Obtain copies of detailed records to provide support of the audit findings.
 - Gather general information regarding the company.
 - All of the above.
25. The _____ of accounting gives recognition to economic events during the fiscal period in which economic events are realized although funds may not have been exchanged.
26. Basic characteristics of sound internal control include [mark all that apply]:
- Sound practices
 - Reasonable accounting control over assets, liabilities, revenues, and expenses
 - Quality personnel
 - Appropriate segregation of responsibilities
 - All of the above.
27. A taxpayer is required to make available business records for examination regarding all owned, claimed, possessed, and/or controlled locally assessable property within the state on request by the county assessor or the county assessor's authorized representatives.
- True
 - False
28. The auditor should use the compiled asset or cost listing to select source documents to sample and compare to the booked cost. The recorded cost may not include all cost components necessary to use the cost approach.
- True
 - False
29. Short-lived equipment is an example of equipment that may not be included on the depreciation schedule and in the general ledger asset accounts because this type of equipment may not be capitalized.
- True
 - False

30. Classification of equipment should be limited to the classification groups provided on the property statement (equipment, office equipment, tools, molds, dies, etc.).
- True
- False
31. It is important for the auditor to make the distinction between _____ and other _____ because classification may affect the audit procedures and valuation of property.
32. A decline in value occurs when the current market value of real property is more than the current assessed (taxable) factored base year value as of the lien date, January 1.
- True
- False
33. The combined total value of personal property, fixtures, and structures determines whether a taxpayer is within the pool of taxpayers with the largest assessments for audit purposes under Section 469.
- True
- False
34. If supplies are expensed, the auditor must review the supply expense accounts over the prior year.
- True
- False
35. The principal records for obtaining information regarding leased equipment include [mark all that apply]:
- Balance sheet of financial statements
- Inspection of the premises
- Monthly lease payments
- Cash disbursement journal
- General ledger
- All of the above

36. The possessor of vending equipment does not normally incur any expenses regarding the equipment but may derive income from the source.

True

False

37. Property owned by the government and used by a taxable entity may be subject to a _____
_____.

38. Possessory interests in personal property and fixtures are not taxable.

True

False

39. Match the following items by definition.

1	Market Studies and Forecast
2	Plant Utilization
3	Construction Contracts
4	Production Data
5	Total Property Audit
6	Lease Contracts
7	Accounts Receivable Ledger/Billing List
8	Retail Pricing Lists

	These lists furnish current selling prices of similar equipment which may aid in verification of estimated value and determination of proper trade level cost.
	Furnishes a general description of the type of construction and also identifies any special items such as special foundations not readily discernible through a physical inspection.
	Data concerning whether the facilities are being used for purposes originally intended.
	These records furnish names and other information about customers which may aid in discovery.
	These contracts furnish complete information on lease costs and lease dates.
	Provides production capacity, units sold, unit sales price, and production specific expenses.
	Supplies the expectation of future business for the firm.
	An appraisal in which the entire property (consisting of land, building, and equipment) is appraised as one appraisal unit.

40. Many companies advance money to customers using existing equipment as collateral. These leases may or may not reflect the true cost of the equipment.
- True
- False
41. A physical inspection of the property should always be part of the audit process.
- True
- False
42. A comprehensive and organized audit report ensures [mark all that apply]:
- The audits results are reasonable
- The retention of important facts that arise from an audit
- The audit is useful for future appraisals and audits
- All of the above
43. Audit work papers should consist of all documents necessary to support the audit findings.
- True
- False
44. The auditor should determine the best approach to use in the valuation process. Most often, this is the income approach and mass appraisal techniques.
- True
- False
45. Errors not involving the exercise of value judgment must be corrected within four years after the making of the assessment that is being corrected.
- True
- False
46. When property has escaped taxation or has been underassessed following a change in ownership or change in control, and the taxpayer failed to file a change in ownership statement, an escape assessment will be made for each year in which the property escaped taxation or was underassessed without time restrictions or limitations.
- True
- False

47. An error or an omission involving the exercise of a county assessor's judgment as to value shall not include [mark all that apply]:
- Clerical errors
 - Taxpayer's fraud
 - The county used the wrong average service life for equipment properly reported on the property statement
 - Taxpayer's failure to comply with any provision of law for furnishing information required by sections 441, 470, 480, 480.1, and 480.2
 - All of the above
48. An _____ is an assessment made after the completion of the regular assessment roll, as an addition to that roll.
49. Section 531 applies to escaped assessments resulting from an exemption incorrectly allowed.
- True
 - False
50. If an audit discloses that property escaped assessment, the county assessor has a duty to assess and enroll such property regardless of whether the resultant tax will be above the minimum billable amount.
- True
 - False
51. A county may adopt an ordinance to authorize the county assessor not to issue an escape assessment that would result in an amount of taxes that is less than \$100.
- True
 - False

52. Match the correct code section.

1	Section 506
2	Section 463
3	Section 504

	If the audit discloses an escape assessment and the auditor discovers that the assessee willfully concealed information that resulted in a lower assessed value, the auditor should recommend a 25 percent penalty pursuant to section ?
	If the audit discloses an escape assessment as a result of an assessee's error and failure to timely file a property statement, the auditor must recommend interest pursuant to section ?
	If the audit discloses an escape assessment as a result of an assessee error, the auditor should recommend interest pursuant to section ?
	If the audit discloses an escape assessment and the auditor discovers that the assessee willfully concealed information that resulted in a lower assessed value, the auditor should recommend interest pursuant to section ?
	If the audit discloses an escape assessment as a result of an assessee's error and failure to timely file a property statement, the auditor must recommend application of a 10 percent penalty to the escape assessment pursuant to section ?

53. Section 533 provides that a tax liability for an escape assessment may generally be offset against a tax refund resulting from an audit.

- True
- False

54. No penalties are involved with roll corrections, but when a refund results from a county assessor's error, the assessee is entitled to interest.

- True
- False

55. Base year value corrections involving the county assessor's judgment is subject to a four-year statute of limitations.

- True
- False

56. The standardized format and order of documents to include in an audit report are determined by statute.

- True
- False

57. The _____ is a key feature of an audit that allows the audit to be quickly reviewed or used by others in the future.
58. Examples of supporting documents for an audit include [mark all that apply]:
- Plant appraisal reports
 - Shipment invoices
 - Purchase invoices
 - Authorization for appropriate of capital expenditures
 - Delivery invoices
 - Financial records
 - All of the above
59. Audit findings should include an explanation of differences found, problems identified, and the net result for each audit year.
- True
 - False
60. The *Notice of Proposed Escaped Assessment* is the same in appearance in all counties since it is a Board-prescribed form.
- True
 - False
61. An escape assessment is not considered effective for any purpose, including its review, equalization, or adjustment by the county board of equalization until the assessee has been notified of the enrollment of the escape assessment.
- True
 - False
62. If an escape assessment is discovered during an audit, an assessee has a right to file an appeal of the escape assessment only after it has been enrolled.
- True
 - False

63. When an audit discloses property subject to an escape assessment, the assessee can file an assessment appeal for all of the years subject to the audit, regardless of whether an escape was found in all the years audited.

True

False

64. If an escape assessment is enrolled by counties of the _____ or counties that have adopted a resolution pursuant to section 1605(c), the notice is the tax bill.

65. All information requested by a county assessor or furnished in a property statement must be held secret by the county assessor.

True

False