

Audit Program

Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

[Section 469](#) provides that the assessor shall annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well managed assessment program.

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with [section 469](#) and risks the possibility of allowing taxable property to permanently escape assessment.

Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

[Section 532](#) provides that assessments must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to [section 532.1](#), a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

A waiver of this nature protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is found. By failing to obtain waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit.

Remove incorrect language advising taxpayers of their appeal rights from the *Notice of Proposed Escape Assessment*.

In [Letter to Assessors No. 2008/021](#), dated March 10, 2008, the BOE advised county assessors and the county clerks of the board that an assessment made outside of the regular filing period is not effective for any purpose until proper notice is given to the taxpayer in accordance with [sections 534](#) and 1605. The *Notice of Proposed Escape Assessment* is not a valid notice within the meaning of [sections 534](#) and [1605](#). Therefore, an *Application for Changed Assessment* filed solely upon receipt of a *Notice of Proposed Escape Assessment* and filed prior to receipt of a *Notice of Enrollment of Escape Assessment* or a tax bill reflecting the escape assessment is invalid.

The assessor's current *Notice of Proposed Escape Assessment* provides taxpayers with misleading information regarding their rights to appeal an escape assessment because an appeal based on this notice would be invalid.

Send a *Notice of Enrollment of Escape Assessment* as required by section 534.

Before an escape assessment can be enrolled, taxpayers must first receive a *Notice of Proposed Escape Assessment*. According to [section 531.8](#), no escape assessment shall be enrolled before ten days after the assessor has mailed or otherwise delivered to the affected taxpayer a *Notice of Proposed Escape Assessment*. Once the minimum ten-day delay period prior to enrollment of the escape assessment has passed, the assessor may enroll the escape assessment. However, [section 534](#) states that no assessment shall be effective until the assessee has been notified of the escape assessment personally or by mail.

The notice of enrollment must include the following information: (1) the date of mailing, (2) information regarding the assessee's right to an informal review and the right to appeal the assessment, and (3) that the assessment appeal must be filed within 60 days of the date of mailing printed on the notice or the postmarked date, whichever is later. [Section 534\(d\)\(2\)](#) expressly provides that the *Notice of Proposed Escape Assessment* required by [section 531.8](#) does not satisfy the notice requirements of [section 534](#).

[Section 534\(c\)\(3\)](#) provides that receipt of a tax bill by an assessee shall suffice as notice under [section 534](#) only for those counties in which the board of supervisors has adopted the provisions of section 1605(c). To assist in meeting the requirements of [section 534](#), the BOE provides a *Notice of Enrollment of Escape Assessment* ([BOE-66-A](#) and [BOE-66-B](#)) for use by assessors.

The assessor's practice of not sending a *Notice of Enrollment of Escape Assessment* as required by [section 534](#) does not adequately inform taxpayers of the right to an informal review of the escape assessment and the right to file an appeal contesting the escape assessment.

Require a situs inspection as a standard component of the audit process.

A situs inspection is an essential aspect of any complete audit. [Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures \(AH 504\)](#), discusses the importance of physical inspections in an audit program. An inspection should be standard procedure, especially for audits involving large commercial and industrial operations or in situations involving excess capacity, functional obsolescence, idle plants, or other unusual circumstances.

By foregoing the physical inspection of the property, the assessor risks missing assets that have dropped from the books and the assessor cannot gain a full appreciation of the overall condition of the taxable property. A physical inspection is a fundamental component of the audit process and can be a pivotal step in reaching an informed value conclusion.

Enroll the audit results for each year of a multiple-year audit.

In a multiple-year audit, there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in others. [Section 533](#) provides that if assessments are made as a result of an audit, any tax refunds resulting from the incorrect assessments shall be an offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by the audit.

While [section 533](#) requires the offset of tax refunds against tax liabilities for each year, it does not authorize the assessor to offset assessments. To accurately determine the correct tax liability, the proposed tax liabilities and the tax refunds must be made in the correct year.

Enroll all escape assessments discovered during the course of an audit unless there is an ordinance in place prohibiting escape assessments under a certain amount.

Some assessors do not enroll escape assessments if the amount of the assessment is less than a certain minimum amount. While [section 531.9](#) allows a county board of supervisors, by ordinance, to prohibit the assessor from making escape assessments of appraisal units where the amount of taxes due is less than the cost of assessing and collecting the tax, absent such an ordinance all escape assessments should be enrolled.

Without the required ordinance, an assessor does not have the authority to exempt low-value escaped property discovered by audit. An assessor's failure to enroll some escape assessments makes it difficult for the assessee to exercise that right of appeal and conflicts with the intent of [Rule 305.3](#).

Consistently inform taxpayers of their right to appeal the results of an audit as required by Rule 305.3.

Some assessors fail to notify taxpayers of their appeal rights in cases where the audit discloses there was an overassessment or no net value change, even though the audit may have disclosed escape assessments for individual items for the year under audit. Furthermore, [section 469\(c\)\(3\)](#) provides that if the result of an audit for any year discloses property subject to escape assessment, the assessee is entitled to appeal the assessment of all the property at the location of the trade, profession, or business for that year.

[Section 469](#) generally provides that the assessor shall provide the taxpayer with the results of an audit in writing. In implementing [section 469](#), [Rule 305.3\(d\)\(2\)](#) provides that the taxpayer must be informed of their appeal rights, regardless of whether or not an escape is actually enrolled, if the audit discloses property *subject to an escape assessment*. In instances where taxpayers are not advised of their appeal rights in these situations, they may have no knowledge of their right to equalization on the entire property for the year of such escape.

Audit or visit property owners who fail to file BPSs for three or more consecutive years.

[Section 501](#) requires the assessor to estimate the value of business property belonging to anyone who does not comply with the reporting requirements. If a property statement was received for the previous year, it is usually reasonable to use this as a basis for estimating the current year's value. However, when allowing estimated assessments to continue for several years without any new information, the values become increasingly susceptible to error. This practice can lead to inaccurate assessments and loss of tax revenue due to the expiration of the statute of limitations for possible escape assessments. Therefore, estimated assessments based on prior years' reporting should be limited to three consecutive roll years.