



Certified Audit Program Pre-Audit Analysis

This Pre-Audit Analysis is the starting point for development of a customized audit plan and procedures to be used by a qualified practitioner to perform a tax compliance review of a taxpayer participating in the Certified Audit Program. As a qualified practitioner, you must document your review of the business operations of the participating taxpayer using the work steps outlined in this Pre-Audit Analysis. The combination of required actions and questions is designed to gather the information necessary to prepare the audit plan and procedures for conducting the tax compliance review. The purpose of this preliminary review is to gain an understanding of the taxpayer's business operation and books and records, including revenue and expense accounts and internal controls.

Once you have completed the Pre-Audit Analysis, you must prepare a proposed Audit Plan customized for the participating taxpayer. You must submit the completed Pre-Audit Analysis, the proposed Audit Plan, and procedures to conduct the tax compliance review within 30 calendar days after receipt of the Department's approval of your *Request to Conduct a Certified Audit* (Form DR-342000).

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AP.100. Taxpayer Information

Objective: Gather information to be used in preparing both the Request to Conduct a Certified Audit and the Pre-Audit Analysis.

- AP.100.1. Taxpayer's contact information and entity type.
- AP.100.2. State and federal tax returns.
- AP.100.3. Prior audit files, including any related protests of final determinations or settlement agreements.
- AP.100.4. Any claim for refund filed during the audit period.
- AP.100.5. Verify the ownership of the taxpayer's business during the audit period.

AP.200. Identify Audit Scope

- AP.200.1. Review taxpayer website for an understanding of business practices, social media, clientele, etc.
- AP.200.2. Search the Revenue Law Library for any references which may be applicable.
- AP.200.3. Request the administrator of the Certified Audit Program provide any additional issues that may be within the audit scope.

AP.201. Pre-Audit Interview

Objective: The pre-audit interview with the taxpayer will assist the auditor in determining the audit methodology to be used as well as the scope of the audit.

- AP.201.1. Provide Florida Taxpayer's Bill of Rights.
- AP.201.2. Tour taxpayer's facilities.
- AP.201.3. Discuss taxpayer's accounting practices (see AP.202.).
- AP.201.4. Discuss taxpayer's records and recordkeeping system (see AP.203.).
- AP.201.5. Discuss the taxpayer's system for identifying, recording, and reporting taxes (see AP.204.).
- AP.201.6. Discuss the taxpayer's internal control risks (see AP.205.).
- AP.201.7. Review the availability of the taxpayer's records (see AP.206.).

AP.202. Understanding Operations and Accounting System

Objective: Gain an understanding of the taxpayer's business operations. Provide relevant explanations in the comments section.

- AP.202.1. Does the taxpayer sell or rent tangible personal property?
- AP.202.2. Does the taxpayer lease, rent or license real property?
- AP.202.3. Does the taxpayer lease, rent or license living or sleeping or housekeeping accommodations?
- AP.202.4. Does the taxpayer perform any services?
- AP.202.5. Are there cash sales?
- AP.202.6. Are there credit sales?
- AP.202.7. Are sales made to out-of-state buyers?
- AP.202.8. Is there a source of other income?
- AP.202.9. Are all purchases paid for by check?
- AP.202.10. Are merchandise, goods, or services purchased without an invoice?
- AP.202.11. Does the taxpayer fabricate tangible personal property for themselves or for others?
- AP.202.12. What is the allowable purchase amount for petty cash?

AP.203. Taxpayer Records

AP.203.1. General

- AP.203.1.a. Identify the location of the records to be examined.
- AP.203.1.b. Determine the volume of those records.
- AP.203.1.c. Are the records electronic?
- AP.203.1.d. What software applications are used?

AP.203.2. Federal Tax Returns

- AP.203.2.a. Does the taxpayer file a consolidated federal tax return?
- AP.203.2.b. Is the taxpayer a parent company or a subsidiary company to others?
- AP.203.2.c. Does the taxpayer claim bad debts on the return?
- AP.203.2.d. Does the taxpayer claim rental income or rental expense on the return?

AP.203.3. Sales and Use Tax Returns

- AP.203.3.a. Who is responsible for preparing the Florida sales and use tax returns?
- AP.203.3.b. Does the taxpayer file a consolidated Florida sales and use tax return?
- AP.203.3.c. Where is the supporting documentation filed?
- AP.203.3.d. If the taxpayer is a member of a consolidated group, who is responsible for filing the returns: parent or each subsidiary?

AP.204. Analysis of Sales and Use Tax Reported and Paid by the Taxpayer

- AP.204.1. Select a sample of Florida sales and use tax returns to review the accounting process from the source documents (e.g., invoices) to the compilation of the sample of sales and use tax returns.
- AP.204.2. Is sales and use tax recorded in a separate account?
 - AP.204.2.a. Is use tax being accrued?
 - AP.204.2.b. Is use tax accrued in a separate account?
- AP.204.3. How is the sales tax compiled and reported on the return (e.g., source documents, summary documents, sales reports, general ledger accounts)?
- AP.204.4. Does the taxpayer report lawful deductions on the sales and use tax return for:
 - a. Bad debt?
 - b. Returned merchandise?
 - c. Repossessions?
- AP.204.5. Does the taxpayer's business require reporting at an effective tax collection rate?
- AP.204.6. Does the amount of sales tax due on the return equal the amount of sales tax collected?
- AP.204.7. Does the taxpayer's business include the sale of any items not required to be reported (e.g., gasoline sales) on the Florida sales and use tax return?
- AP.204.8. Does the taxpayer report on the accrual or cash basis?

AP.205. Assess Internal Control Risk

- AP.205.1. Has there been any turnover of personnel in key positions?
- AP.205.2. Are new employees provided correct sales tax-related training?
- AP.205.3. Are records kept in a secure area?

AP.205.4. Sales Related Controls

AP.205.4.a. Are sales documents (e.g., invoices, sales slips, cash register tapes) readily available?

AP.205.4.b. Are source documents numbered sequentially or by using another method?

AP.205.4.c. How are sales recorded (e.g., sales journals, cash register tapes, daily sales reports, invoices)?

AP.205.4.d. Is sales tax recorded in a sales tax accrual or sales tax payable account?

AP.205.4.e. Does the taxpayer have tax-exempt sales?

AP.205.4.e.1. How are exempt sales identified, documented, and recorded?

AP.205.4.e.2. Are employees properly trained to identify and document tax-exempt sales?

AP.205.4.e.3. Can a list of tax-exempt sales be provided for the audit period?

AP.205.5. How are payments for sales recorded?

AP.205.5.a. Are cash payments recorded?

AP.205.5.b. How are cash payments recorded?

AP.205.6. Purchase Related Controls

AP.205.6.a. Are the purchase documents readily available (e.g., invoices, bill of lading, receiving documents, purchase orders, purchase requisitions, payment vouchers, check registers)?

AP.205.6.b. Are source documents numbered sequentially or by using another method?

AP.205.6.c. How are the source documents filed?

AP.205.6.d. Are key areas clearly identified (e.g., the vendor, ship to address, mode of shipment, F.O.B. origin/destination)?

AP.205.7. How are purchases recorded (e.g., purchase journals, check registers, acquisition reports, depreciation schedules)?

AP.205.8. Are there tax-exempt purchases?

AP.205.8.a. Are employees properly trained to identify and document tax-exempt purchases?

AP.205.8.b. Can a list of tax-exempt purchases be provided for the audit period?

AP.205.9. Is the accrued tax marked on the purchase invoices as being accrued?

AP.205.10. Is use tax recorded in a sales tax accrual or sales tax payable account?

AP.205.11. Can controls be overridden? If so, who can override the controls for the purchase of any item or service?

AP.205.12. Identifying Controls

AP.205.12.a. How are the source documents for sales filed (e.g., monthly, weekly, numeric order, customer name)?

AP.205.12.b. Does the taxpayer have documentation to support tax-exempt sales (e.g., exemption certificates, annual resale certificates or authorization codes, exportation documents)?

AP.205.12.c. Which of the following are included in the taxpayer's accounting system?

- Sales journals
- Bank deposit records
- Cash reconciliations
- Sales tax reconciliations
- Sales tax schedules

AP.205.13. How are the source documents for purchases filed (e.g., monthly, weekly, numeric order, vendor name)?

- AP.205.13.a. Are the source documents coded for inventory or expense?
- AP.205.14. Which of the following documents are included in the taxpayer's accounting system?
- Purchase journals
 - Check register
 - Bank statements
 - Cash reconciliations
 - Use tax reconciliations
 - Use tax schedules
 - Sales tax accrual or sales tax payable account
- AP.205.15. Fixed Asset Acquisitions
- AP.205.15.a. How does the taxpayer determine when an item should be classified as a fixed asset?
- AP.205.15.b. How are the documents for asset acquisitions filed?
- AP.205.15.c. At what amount are items capitalized and at what amount are items expensed?
- AP.205.16. Which of the following documents are included in the taxpayer's accounting system?
- Fixed asset schedules
 - Depreciation schedules
 - Purchase orders or contracts
 - Capital and operating lease agreements
- AP.205.17. Lease agreements for tangible personal property, real property, or transient accommodations
- AP.205.17.a. Tangible personal property: Determine if the lease is a capital lease or an operating lease
- AP.205.17.b. Real property: Determine if the lease is a capital lease or an operating lease
- AP.205.17.c. Transient accommodations: Determine if the lease is a capital lease or an operating lease
- AP.205.18. Job cost records (fabrication for use in performing real property improvements)
- AP.205.18.a. How are job cost records filed?
- AP.205.18.b. How are direct or indirect labor costs and direct or indirect materials calculated?

AP.206. Determine Availability of Records

- AP.206.1. Which of the following records are available?
- Bank statements
 - Financial statements
 - Subsidiary ledgers
 - Acquisition reports
 - Depreciation schedules
 - Accounts receivables and account payable journals
 - General ledgers
 - Invoices
 - Vouchers
 - Purchase orders
 - Check registers
 - Sales reports
 - Shipping documents
 - Lease agreements: tangible personal property, real property, and transient accommodations
- AP.206.2. List all other accounting records in comments section.

AP.210. Analysis of Revenue Accounts

- AP.210.1. Sales
- AP.210.1.a. Does the taxpayer have any unreported sales?
- AP.210.1.b. Is the taxpayer missing any sales invoices?

- AP.210.2. Admissions
- AP.210.2.a. Does the taxpayer make charges for admissions?
- AP.210.2.b. How are these charges documented?
- AP.210.3. Tax-Exempt Sales
- AP.210.3.a. Does the taxpayer make tax-exempt sales?
- AP.210.3.b. Are the tax-exempt sales for the purpose of resale?
- AP.210.3.c. Are the tax-exempt sales for other statutory exemptions? If so, list each exemption.
- AP.210.3.d. Are the tax-exempt sales for export?
- AP.210.3.e. Are the tax-exempt sales to entities holding a Florida Consumer's Certificate of Exemption?
- AP.210.3.f. Does the taxpayer have any undocumented tax-exempt sales?
- AP.210.4. Tax Reported
- AP.210.5. Reported Tax Rate
- AP.210.5.a. Is sales tax reported at a flat rate?
- AP.210.5.b. Is sales tax reported at an effective rate?
- AP.210.6. Are sales subject to a discretionary sales surtax?

AP.211. Revenue Accounts for Rent, Lease, or License to Use Real Property

The \$5,000 limit for discretionary sales surtax does not apply to commercial rentals.

- AP.211.1. Does the taxpayer report the rental, lease or licensing of real property for any of the following?
- Commercial buildings or realty
 - Booths
 - Concessions
 - Billboards
 - Placement of amusement machines or vending machines
 - Parking, docking or storage of motor vehicles in parking lots, garages, or storage facilities
 - Docking or storage of boats in boat docks or marinas
 - Tie-down or storage of aircraft at airports
- AP.211.2. Does the taxpayer report sales from subleasing real property?
- AP.211.3. Is tax being pyramided or inverse pyramided?
- AP.211.4. Does the taxpayer receive any of the following considerations in addition to base rent?
- Percentage of sales
 - Arms-length transactions between related entities
 - Leasehold improvements
 - Management fees
 - Insurance protecting the landlord
 - Ad valorem taxes paid on owner's behalf
- AP.211.5. Are there any other considerations required to be paid for the right to occupy (e.g., common area maintenance fees, utility charges, repairs, waste collection, security services)?

AP.212. Revenue Accounts for Rent, Lease, or License to Use Living or Sleeping or Housekeeping Accommodations

The \$5,000 limit for discretionary sales surtax does not apply to transient accommodations.

- AP.212.1. Does the taxpayer report the rental, lease, or licensing of transient accommodations?
- AP.212.2. Does the taxpayer charge for any of the following in addition to a room rate or rental charge?
- Meals and beverages
 - Consumable items (e.g., toiletries)
 - Lost items (e.g., bedding)
 - Damages
 - Laundry service
 - Maintenance assessment
- AP.212.3. Does the taxpayer enter in to leases or rentals for accommodations for periods longer than six months (e.g., full-time postsecondary students, active duty military personnel traveling under official orders, governmental employees, representatives of organizations holding a Florida Consumer's Certificate of Exemption, anyone renting an accommodation continuously for more than six months)?
- AP.212.4. Does the taxpayer collect deposits or prepayments to reserve accommodations?

AP.213. Revenue Accounts for Rent, Lease, or License to Use Tangible Personal Property

- AP.213.1. Does the taxpayer report sales from any of the following?
- Tangible personal property
 - Trucks weighing in excess of 10,000 lbs. (commercial motor vehicles)
 - Equipment as bare rental
 - Equipment with operator
 - Billboards and signs
- AP.213.2. Does the taxpayer receive any of the following considerations in addition to base rent?
- Tangible personal property taxes paid on owner's behalf.
 - Any other considerations required to be paid for the right to use (e.g., insurance, repair).

AP.214. Revenue Accounts for the Sale of Assets

- AP.214.1. Has the taxpayer reported sales of assets?
- AP.214.2. Were the asset sales isolated sales?
- AP.214.3. Were any of the asset sales the sale of a motor vehicle?

AP.215. Revenue Accounts for Amusement Machines or Vending Machines

- AP.215.1. Are amusement machines or vending machines located at the taxpayer's place of business?
- AP.215.2. Terms of an Agreement
- AP.215.2.a. Is the agreement for a license to use real property?
- AP.215.2.b. Is the agreement for a license to use tangible personal property?
- AP.215.3. Operators and Owners
- AP.215.3.a. Is the lessee the operator of the machine?
- AP.215.3.b. Is the lessor the operator of the machine?

AP.216. Revenue Accounts for Fees

- AP.216.1. Does the taxpayer charge for any of the following fees?
- Green fees
 - Participation fees
 - Management fees
 - Handling fees
 - Restocking fees
 - Delivery fees

AP.217. Revenue Accounts for Services

- AP.217.1. Does the taxpayer have any of the following taxable services?
- Commissions
 - Barter Transactions
 - Sales to Employees
 - Other miscellaneous income

AP.220. Analysis of Expense Accounts

AP.221. Expense Accounts for Purchases

- AP.221.1. Does the taxpayer purchase any of the following items tax exempt?
- Promotional items
 - Advertising
 - Packaging materials or supplies
 - Office supplies
 - Consumable or expendable items
 - In-house fabrication for own use
 - In-house printing of advertising materials
 - Imported items for use – no tax paid to the vendor
 - Awards
 - Uniforms
 - Materials and supplies purchased by a contractor for use in real property improvement contracts
 - Shop fabrication for own use
 - Jobsite fabrication for own use
 - Repairs and maintenance
 - Service warranties
 - Vehicles
 - Equipment
 - Landscape or lawn maintenance materials or supplies

AP.222. Expense Accounts for Rent, Lease, or License to Use Real Property

AP.222.1. Does the taxpayer make payments for the rent, lease, or license of any of the following?

- Commercial buildings or realty
- Booths
- Concession stands
- Billboards or the land on which it is located
- Placement of amusement machines or vending machines
- Parking lots, garages, or storage facilities for motor vehicles
- Docking or storage facilities for boats
- Tie-down or storage in airports for aircraft

AP.222.2. In addition to base rent, are there any payments or other considerations for the following?

- Percentage of sales
- Arms-length transactions between related entities
- Leasehold improvements
- Insurance protecting the landlord
- Management fees
- Allocated lease of unimproved real property and payments at other than fair market value
- Ad valorem taxes paid on owner's behalf
- Any other considerations required to be paid for the right to occupy (e.g., common area maintenance, repairs, waste collection, security services)

AP.223. Expense Accounts for Rent, Lease, or License to Use Tangible Personal Property

AP.223.1. Does the taxpayer make payments for the rent, lease, or license of any of the following?

- Tangible personal property
- Amusement machines or vending machines
- Equipment as bar rental
- Equipment with operator
- Signs

AP.224. Expense Accounts for Services

AP.224.1. Does the taxpayer make purchases of any of the following taxable services?

- Protective services
- Nonresidential pest control services
- Nonresidential cleaning services

AP.300. Complete Pre-Audit Analysis

Objective: All identified audit risks will be addressed by specific audit procedures in the audit plan.

AP.301. Materials and Documentation to be included in the Pre-Audit Analysis

AP.301.1. The Pre-Audit Analysis must include documentation showing each step from AP.100. to AP.224 has been addressed.

- A written reconciliation of the Florida sales reported on the taxpayer's federal income tax returns to the sales reported on the taxpayer's Florida sales and use tax returns.
- Identification and documentation of all revenue sources.

- A comprehensive written narrative of the taxpayer's operations.
- A review of the current chart of accounts and the year-to-date general ledger activity for the last year in the audit period.
- Copies of the federal income tax returns for the audit period.
- Sales and use tax return information as reported to the Department on returns filed during the audit period.
- Identification and disclosure of any known tax issues where the tax returns subject to the certified audit reflect an interpretation of applicable Florida Statutes and rules that is different from an interpretation presented in one or more of the following previously published documents:
 - Technical Assistance Advisement
 - Attorney General Opinion
 - Declaratory Statement
 - Tax Information Publication
 - Training Update Bulletin
 - Internal Technical Advisement
 - General Tax Administration Bulletin
- A review of invoices for both sales and purchases during the audit period, which is sufficient for understanding the accounting system for recording and reporting Florida sales and use tax transactions and the associated internal accounting controls.
- Any information or materials necessary to clarify AP.301.2 through AP.301.9.

AP.302. Submitting the Pre-Audit Analysis

AP.302.1. The Pre-Audit Analysis must be signed and dated.

AP.302.2. Submit the Pre-Audit Analysis to
Florida Department of Revenue
Certified Audit Program MS 1-4600
PO Box 5139
Tallahassee, FL 32314-5139

References

*The following document was mentioned in this form and is incorporated by reference in the rule indicated below.
The form is available online at floridarevenue.com/forms.*

Form DR-342000

Request to Conduct a Certified Audit

Rule 12-25.037, F.A.C.