

So you have received an audit engagement letter and now have questions on what this means to you. This document is intended to: outline the audit process; discuss the documents that will be reviewed and why we ask for them; set forth a general timeline; and most of all, assure you that your information will be kept confidential.

### **Audit Statute of Limitations**

In most cases, the City may audit up to 36 months (3 years) from the date the taxes were due or returns were filed, whichever is greater. The audit period becomes fixed and the statute of limitations is tolled as of the date of the City's notice of audit, which is mailed first class-certified to the taxpayer. The City may conduct an audit of a taxpayer that has been in business for fewer than 3 years. If the taxpayer has filed a false or fraudulent return, has failed to file a return, or has not obtained a City of Louisville sales/use tax license, the City may collect taxes for a period greater than 3 years.

### **Location of Audit**

Audits are generally conducted by the City's tax auditors who are familiar with generally accepted accounting principles and auditing standards. Occasionally, it is necessary to use professional accounting services to conduct City audits. These entities are versed in the requirements of the Louisville Municipal Code (LMC) and the ethical and professional standards required by the City. Audits are usually conducted at the location where the taxpayer's records are maintained. This can be the taxpayer's place of business, headquarters, or an accountant's office. Records can also be examined at City Hall if space is an issue, or electronically if records are not available locally. Every effort will be made to conduct the audit at a time and location that is mutually convenient.

If a taxpayer does not wish to make records available within the City, the taxpayer must enter into a binding agreement with the City to reimburse the City for all expenses incurred to travel to the location where records are located. In addition, the City is entitled to charge an additional hourly fee for excessive time spent locating, pulling, copying, or in any way assembling taxpayer records for audit.

### **Required Records**

The engagement letter includes a general list of records required to conduct the audit. Your own records may vary from these depending on your accounting system. The City auditor will be in touch with you before the audit begins to review the documents needed and to answer any of your questions.

### **Generally, the records requested may include the following:**

- Chart of accounts and other accounting system legends describing department codes, locations codes, commodity codes, tax codes, or other codes necessary to understand your accounting system and data
- Reports detailing how City tax returns were calculated
- Detailed ledgers of sales and/or purchase transactions

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- Trial balances, income statements, or profit and loss reports

**Records specific to Sales and Lodging Tax for sampling purposes may include:**

- Sales invoices, billings, or receipts detailing the items purchased, the purchase price, the tax collected and the delivery address
- Documentation supporting exempted sales

**Records specific to Use Tax for sampling purposes may include:**

- Purchase invoices for supplies and services not held in inventory for resale
- Purchase invoices for capital assets
- Fixed asset listings or depreciation schedules

**Third-Party Representation**

At any time during the audit, you have the right to suspend a meeting or interview for a reasonable amount of time in order to retain representation. Any person representing you must have the proper written authorization, such as Power of Attorney, to act on your behalf.

**Audit Results**

Once the auditor has finished examining your records, they will prepare preliminary workpapers and provide you, either in person or electronically, the workpapers and a general summary of what they found. You will be given sufficient time to review the findings and to provide any additional information requested or that you deem pertinent to the audit. Once the review is complete, the auditor will compute any adjustments and issue a formal audit conclusion letter and assessment. The final documents are generally sent to the taxpayer via certified mail.

If the audit concludes that additional tax is due, a Notice of Final Determination, Assessment and Demand for Payment will be issued which will summarize the total deficiency plus penalties and interest. If you believe that good cause can be demonstrated for a waiver of the penalties, a written request to the Finance Director should accompany full payment of the tax and interest. The LMC prohibits the waiver of interest.

If the audit concludes that a refund is due, a Claim for Refund form will need to be completed, signed and submitted. A refund check will generally be issued within two weeks. If you believe the amount of the refund calculated should be more, then documentation should be submitted to the auditor who will review the information and provide a written summary of the new overpayment amount, if any.

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### **Coordinated Audits**

If you have a sales/use tax license in at least four other Colorado home-rule municipalities, you may request that an audit by all cities be conducted at the same time. You must contact all cities involved within 14 days of the date of your audit notice or engagement letter. For additional information, please contact the Louisville Sales Tax and Licensing Division.

### **Audit Philosophy**

The audit procedures used by the Sales Tax & Licensing Division shall at all times be unbiased, confidential, and shall reach the highest standards of audit procedures. It is our priority to provide every person with assistance, information and guidance regarding the City's licensing and taxation processes, rules and regulations in a concise and professional manner. Thank you in advance for your cooperation and assistance throughout the audit.

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