



How to Prepare for an Audit

Guidance for Business and Financial Professionals

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John Ricketts, Audit Manager
Michael Ward, Audit Supervisor

Who We Are

- **Mission**

Department of Revenue's mission is to make public services possible.

- **Vision**

Our vision is to maximize voluntary compliance through transparency, innovation, and engagement.

- **Values**

To conduct our work with the highest levels of integrity, professionalism, and service.

What We Do

- Collection and apportionment of ~\$26.5 billion in revenues annually
- Administration of Tennessee's motor vehicle title and registration, and insurance verification laws
- Promotion of voluntary compliance with Tennessee tax laws through taxpayer education and customer service
- Compliance-focused audits of taxpayers across all tax types
- Investigation of criminal tax fraud cases and assisting district attorneys with criminal tax fraud prosecutions
- Other activities that help the Department drive compliance with state and local tax laws and regulations

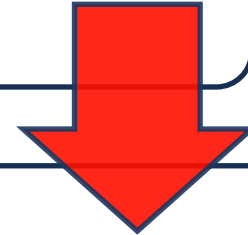
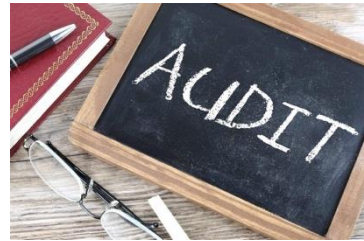
Why am I selected for an audit?

- Selection can come from various avenues:
 1. Data matching projects
 2. Random selections
 3. Audit referrals or leads
 4. Return discrepancies
 5. High-risk industries
- Primary purpose for an audit is to promote compliance with Tennessee tax laws

Tax Types Audited by TN Revenue

TN DOR administers over 40 tax and fee types

- Common tax types audited are Sales Tax, F&E Tax, and Business Tax



A field audit typically covers all tax types that the taxpayer is registered and has a 3-4-year lookback period.



Initial Communication For an Audit

- Audits typically begin by phone once the taxpayer is selected
- An Audit Selection Letter is sent stating the audit scope, records required, and audit period.
- Taxpayers should promptly respond to set up a realistic timeline for audit
- Taxpayers should assign a contact point and can decide if a 3rd party is involved



Key Documentation to Prepare



Exemption certificates for audit period



General ledgers and financial statements



Detailed sales records and daily logs



Bank statements and schedules

Organizing Records Effectively

- Use a clear folder structure
 - For example, sorted by tax type, month, fiscal quarter/year
- Maintain complete audit trails of financial records
- Standardize a file naming convention for consistency and quick retrieval
- Store digital files in secure, searchable formats
- Update both physical and digital records regularly.

Best Practices for a Smooth Audit

- Being prepared for an audit ensures smoother process, reduces audit stress, and helps minimize compliance issues.
- Some best practices include:
 - Knowing all tax types applicable to your business,
 - Organizing records including financial records,
 - Clearly labeling documents,
 - Designating a staff contact, and
 - Responding quickly and transparently

Entrance Conference

- Establish expectations and logistics of the audit
- Outline how returns are handled with Revenue
- Have requested records available



Audit Fieldwork Review Process

- Comparison of records/documents provided to the returns filed with Department
- Verification of tax collected versus remitted for all registered tax types
- Questions or interviews with staff responsible for bookkeeping, invoicing, or tax filing for any clarity

Preliminary Audit Findings

- Meeting to discuss initial findings based on information provided
- Auditor and taxpayer review of workpapers and tax laws
- Opportunity for additional records or clarification to the audit findings

Exit Conference

- If any changes from preliminary findings, the auditor will provide updated audit findings
- At the exit conference, an Audit Summary Report is provided with a complete summary of all audit findings
- Any disagreements with the audit findings should be provided in writing

Post Audit Process

- Department issues the Notice of Proposed Assessment (NOPA) showing tax owed or refund due
 - Includes Tennessee Taxpayer Bill of Rights
- Agree with the audit results?
 - Pay assessment or set up a payment plan with Collection Services
- Disagree with the audit results?
 - Continue to work with Audit staff
 - Informal Conference – request in writing within 30 days from the date of the Notice of Proposed Assessment
 - Filing suit in chancery court

Tennessee Taxpayer Bill of Rights



Tennessee Department of Revenue Taxpayer Bill of Rights (Tenn. Code Ann. Section 67-1-110)

You, as a taxpayer, have certain rights that are protected by state law.

As a taxpayer of Tennessee, you have a right to:

1. Receive fair and courteous treatment from all Department of Revenue employees;
2. Receive tax forms and information written in plain language;
3. Receive prompt and accurate responses to all questions and requests for tax assistance;
4. Request public records;
5. Be assured that the Department will keep confidential the financial information you give it;
6. Know the Department's policies with respect to use and retention of personally identifiable information;
7. Receive tax notices that provide an explanation of the amount being billed;
8. Receive a clear set of rules and procedures to resolve tax problems that arise from the interpretation and administration of Tennessee's tax laws;
9. Dispute any proposed assessment by filing a timely request for an informal conference;
10. Know that the Department's employees are not paid or promoted as a result of money billed to or collected from taxpayers;
11. Suggest ideas about how the Department can better serve you;
12. Prompt notification by the Department of any refund to which you are entitled;
13. Attend annual meetings held by the Department in convenient locations to voice your suggestions;
14. A 10-day notice before a levy on assets is enforced;
15. A 30-day notice before seized assets are liquidated;
16. A speedy, informal and inexpensive review of a proposed assessment in an informal conference with an impartial representative of the Department and to be represented by an attorney, certified public accountant or other representative; and
17. Any other rights the Commissioner of Revenue deems necessary and appropriate.

Preparing for Future Compliance

Apply

- Apply lessons learned from audit results
- Identify causes for discrepancies
- Document areas that work well and areas that need improvement

Strengthen

- Strengthen internal controls
- Implement clear work approvals and workflows
- Increase oversight on high-risk areas like cash activity

Preparing for Future Compliance (cont'd)

Improve

- Improve documentation and recordkeeping processes
- Standardize data formats, templates, and schedules
- Use of digital tools for automation and assistance

Establish

- Establish ongoing compliance routines
- Periodic self-audits to stay “audit ready”
- Monthly/quarterly reconciliation efforts

Key Takeaways

Preparation is the best defense against audit issues

- Being audit-ready reduces stress, errors, and surprises

Strong recordkeeping is essential

- Clear, organized, and consistent documentation creates a clean audit

Communication drives smoother, faster audits

- Prompt responses, transparency, and designated contact streamlines the process

Continuous improvement strengthens future compliance

- Audits can provide insights that help refine processes and reduce future risks

Published Guidance

- www.tn.gov/revenue
- Tax Manuals
- Important Notices
- Legislative Summaries
- Zendesk Articles
- Tax Webinars





Questions?

John Ricketts

✓ John.Ricketts@tn.gov

Michael Ward

✓ Michael.Ward@tn.gov