



**BUREAU OF AUDITS
LIQUID FUELS DIVISION**



AUDIT MANUAL

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The purpose of these guidelines is to establish a uniform procedure for International Fuel Tax Agreement (IFTA) audit procedures. This includes procedures and techniques for planning and conducting audits, and reporting the audit findings. An effective and uniform audit program is necessary to verify the integrity of IFTA fuel tax returns. It is essential that the basic audit program be uniform and thorough to insure accuracy.

PA200

Preliminary Activity

PA210 Issue Initial Contact Letter

Each region must notify the licensee in writing prior to beginning the audit. The tentative audit period and starting date shall be indicated and a copy of this letter must be made part of the audit package¹. To be included is the REV-554 EO, COMMONWEALTH OF PENNSYLVANIA, [DEPARTMENT OF REVENUE DISCLOSURE STATEMENT OF THE DEPARTMENT'S AND TAXPAYERS' RIGHTS AND OBLIGATIONS.](#)

PA220 Pre Audit Planning

.100 Licensee History

Preliminary audit research should be conducted by the auditor using the Department's "Information Management System" (IMS). The information obtained will relate to the licensee's return filing history, general account information, credit/refund history, and prior assessments' status. The auditor should be familiar with all of the above prior to the actual conduct of the audit. The standard audit period of IFTA accounts is four (4) years, (16 quarters).

.200 IMS Inquiry Codes

The following IMS inquiry codes and descriptions are most pertinent to the information needed by the auditor.

.005 MCGEN + 11 digit account number - General Information. This inquiry consists of four pages.

- Page one provides the account name, address, current status, number of decals issued by type (PA and/or IFTA) for the current year plus the two preceding years, and other pertinent account dates.
- Page two basically indicates fuel types.
- Page three shows the account activity dates.
- Page four lists the jurisdictions operated in and bulk storage sites.

.010 MCDEH + Account number/Year - This will show when and how many decals were purchased for each year indicated.

.015 MCBNM + Licensee name - This will identify the licensee's account number.

.020 MCTXR + Account number – This will provide the tax return information by period. Page 1 will show the IFTA 100 information while Page 2, etc., will show IFTA 101 information.

.025 MCTRS + Account number - Tax return summary. Shows all periods by line and status, i.e., original/amended, on time, late, delinquent, OOB.

¹ **Note:** Any additional correspondence between the Department and licensee must also be made part of the audit, for example, starting date confirmation, request for preliminary records/information, notice of selected test periods/units, etc.

- .030 **MCCRH** + Account number - Credit history - Individual period's credit amounts as filed and subsequent disposition, i.e., refunded, used against debit period.
- .035 **MCCRS** + Account number - Credit summary - Lists all periods on one line and net credit amount per period.
- .040 **MCRFS** + Account number - Refund history - Shows by period and refund amount.
- .045 **MCALS** + Account number - Assessment summary
- .050 **MCALF** + Account number - Assessment case, payments, balances, current appeal status is indicated.

.300 Additional IMS Inquiry Codes

Other IMS codes that may be researched are:

- .005 **CDREF** – This command is used to determine the Corp Tax Box Number, which in turn can be used to determine the date of incorporation (via **CTMS** + Box Number) or other useful information. The date of incorporation can also be established via the inquiry code: **CTEIN** + EIN.
- .010 **AASTART** - This command is used to identify prior audit history.
- .015 **MIMENU** - This command is used to determine the microfiche roll and frame number of previous audits.

Additionally, Board of Appeals decisions are on the Bureau/Division web site and prior audits are stored on the LAN.

.400 Analysis of Return Data

System downloads of reported information are to be utilized to ensure the accuracy of the reported information included in the audit. All periods of the audit are required to be downloaded from the IMS.

Once the reported information is imported into the audit application, Schedule 1, Reported Miles & Fuel – IFTA 101, should be reviewed. Things to look for during this review relate to non reported periods, reported miles, fuel, and MPG. Any of these items may have a bearing on the procedures used to conduct the audit including test period selection, projection periods, and/or audit period stratification.

.005 Non-Reported Periods

The reported information must be examined to verify that all quarters within the audit period were reported. If there are delinquent returns or if an IFTA 101

was not filed, there will be no record shown on Schedule 1. The reasons for the non-reported periods must be investigated during the course of the audit.

After the selection of test periods the missing periods must be added by creating a record for the period and entering the jurisdiction of PA. All amounts will be zero (-0-).

.010 Miles

The miles must be examined to determine if there are differences between Jurisdictional Total Miles and Taxable miles. Additionally, periods where the licensee reported Non IFTA activity should be noted and checked during the audit to verify that the miles were traveled in a Non IFTA jurisdiction. If either of these items is found, the auditor must review the IFTA Jurisdiction Information from the [“IFTA Annual Reports.”](#) These reports show Jurisdictional exempt activity, as well as, the jurisdiction’s IFTA implementation date. Annual Reports are accessible through the audit application. Select **“Audit Reports”** - **“Annual Reports”** - enter 2 letter code or use drop down box to select the jurisdiction then push the enter key.

Other changes to look for include large increases or decreases in total miles, significant change in number of jurisdictions, or any other item that does not appear to be consistent with the reporting history.

If any of these occur, they should be addressed during the audit process.

.015 Fuel

The fuel must be examined to determine if there are questionable areas. One example would be if the taxable gallons equal the tax paid gallons in multiple jurisdictions. This would indicate that tax paid gallons are not accurate.

.020 MPG

One area of concern is a constant reported MPG factor, which may indicate that the licensee is using a predetermined MPG and creating either fuel or miles. Another area of concern is extreme variations in the reported MPG, which may indicate timing differences or other record keeping difficulties.

PA230 Contacting the Licensee by Telephone

After the analysis of reported information, the next step in the Preliminary Activity is to contact the licensee by telephone. It is during this conversation that considerable information can be obtained, such as:

- .100** Contact Name(s) – this includes the name of the individual responsible for the audit, as well as the name of the individual that will actually be working with the auditor. There also may be a third party involved, i.e. CPA, Attorney, or Reporting Service. When this occurs a power of attorney must be acquired, discussed in narrative, and

exhibited in the audit. If necessary, the Department of Revenue [Power of Attorney and Declaration of Representative](#) form should be sent with an accompanying [Power of Attorney Letter](#).

- .200** Establish the date that fieldwork is to begin.
- .300** Reaffirm/establish the audit period.
- .400** Determine where the records are maintained and where the audit will be conducted.
- .500** Define the business activities:
 - .005** Activities past and present relative to the audit.
 - .010** Number of vehicles in the licensee's fleet.
 - .015** Composition of the licensee's fleet, in general.
 - .020** Use - local delivery or over-the-road vehicles.
- .600** Identify changes in the licensee's operations during the audit period, i.e., mergers, divestitures, bankruptcy filings, etc.
- .700** Discuss the record keeping system, for example:
 - .005** Trip reports, Driver's Logs, etc.
 - .010** Fuel Invoices, Fueling Service, Bulk Fueling.
 - .015** Summary Records.
 - .020** In general, how were reported miles and fuel determined?
- .800** Establish information that may affect the selection of test periods:
 - .005** Seasonal Activity.
 - .010** Changes in accounting system, fleet composition, etc.
- .900** Get directions to the audit site.

If the licensee cannot be contacted by telephone, i.e., no answer, telephone disconnected, number unknown, etc., the following general guidelines should be used:

- .1000** Verify licensee's telephone number using the telephone book, directory assistance, other tax systems, prior audits, the Internet, and/or an examination of recently filed documents via the imaging system on Bureau's web site.

- .1100 Establish the licensee's location by visiting the address listed. If necessary, determine actual location from the local Post Office.
- .1200 A Regional Contact Letter may be sent requesting that the licensee contact the Regional Office. This letter is to be sent via Registered Mail. The licensee should be allotted 10 days from the issuance of the letter to make contact. If the licensee fails to make contact within the prescribed period, an Order to Appear shall be sent immediately thereafter. It is also possible that the licensee may be reached by telephone, i.e. a message left on voice mail, but does not return the call. In such cases, the order to appear letter is also appropriate.
- .1300 Send an "[Order to Appear](#)" letter via "Certified – Return Receipt Requested" mail
- .1400 When it is not possible to conduct an audit due to an inability to contact the licensee, there are usually two courses of action. An estimated deficiency may be prepared for assessment, or, under certain circumstances, an assignment may be cancelled. The audit supervisor should contact Headquarters for additional information.

PA240 [Confirmation Letter](#)

Confirmation Letters must be sent to the licensees for all out-of-state audits. This letter is used to confirm the date the appointment was made, the type of audit(s) to be conducted, the start date of the field work and the auditors name. It should be addressed to the contact person with whom the arrangements were made. This letter may also be used for in-state audits. When used, a copy must be included in the audit package as an Exhibit.

If a Confirmation Letter is used it should be sent as soon as possible after the telephone contact.

PA250 [IFTA Out of State Expense Letter](#)

An IFTA audit will only be conducted at an out-of-state location at the request of the licensee. Before an out-of-state audit can be conducted, the licensee must provide written confirmation of their agreement to assume the out-of-state expenses. In the absence of this written confirmation, the records required for conducting the audit must be made available within the Commonwealth of Pennsylvania. The records could be made available at a Pennsylvania location or sent to the Revenue Regional Office.

The Out of State Expense letter should be addressed to the contact person with whom the arrangements were made. The letter must be signed and returned by the licensee to verify the assumption of the out of state expenses. When used, a copy must be included in the audit package as an Exhibit.

At the conclusion of the out-of-state work, a copy of the Out of State Expense letter and completed copies of auditor(s) expense vouchers, including related receipts, must be sent to Liquid Fuels Tax Division for billing purposes.

PA300**Communication with the Licensee**

Establishing and maintaining open lines of communication with the licensee's representative throughout the engagement is beneficial to the audit process. The benefits may include the following:

- .100** Provide a better understanding of the reporting process (audit trail), and internal controls,
- .200** Solve minor problems early in the audit thus expediting the review,
- .300** Develop an understanding of what documents the licensee has available,
- .400** Make it possible for the auditor to provide more timely and specific recommendations for correcting areas of deficiency.

A documented pre-audit conference is required on all audits. This conference shall be held in person with the licensee, or the licensee's representative, prior to beginning the field work. In the case of audits where the records are sent to the Regional Office, a pre-audit conference by telephone is acceptable. This discussion should include outlining the licensee's overall business operation, the operations relative to the audit to be conducted, general audit procedures, records to be examined, sample periods, sampling procedures, etc. The licensee and auditor should determine who has the responsibility for the final acceptance of audit findings and who should be involved in the Post Audit conference.

IFTA audits are to be conducted at the licensee's place of business or designated record location. However, there may be reasons to deviate from this procedure. Valid reasons would be if the licensee **specifically requests** that the examination be conducted at the regional office or if there are unusual circumstances in which it would not be prudent for the auditor to perform the audit at that location. Auditors should contact their supervisors for direction in this area.

Prior to removing any records, the auditor is to acquire the Regional Manager's approval, through the audit Supervisor. Also, the auditor is to give the licensee a **detailed** receipt of all records removed (sample [Record Removal Form](#)). This receipt is to be signed by both auditor and licensee. When the records are returned, the auditor is to acquire a receipt verifying that the removed records were returned to the licensee. The receipts are to be included as an Exhibit to the audit report, and a thorough explanation of the reason for the removal of the records must be included in the audit narrative.

The auditor should be aware of the following provisions of the "Taxpayers' Bill of Rights," as they pertain to audits.

72 P.S. § 3310-203

(b) Safeguard.-

(1) An officer or employee of the department shall, before or at an initial interview, provide the following to the taxpayer:

(i) In the case of an in-person interview with the taxpayer relating to the determination of any tax, an explanation of the audit process and the taxpayer's rights under such process.

Accordingly, during all Pre-Audit Conferences, it shall be verified that the taxpayer has received and understands the REV-554 EO, COMMONWEALTH OF PENNSYLVANIA, [DEPARTMENT OF REVENUE DISCLOSURE STATEMENT OF THE DEPARTMENT'S AND TAXPAYERS' RIGHTS AND OBLIGATIONS](#). It must also be thoroughly documented in the audit narrative that this information was provided to the taxpayer.

PA410 Business Activities

During the Pre Audit Conference, the auditor should obtain a significant amount of information pertaining to the licensee's Business Activities. Some of this information will have a direct bearing on how the audit is conducted. Other items have less of an impact on the audit, but are required in the audit narrative. The recommended information that should be obtained prior to beginning actual audit activities is as follows:

- .100** Business activities past and present relative to the audit -- especially area of operations, products transported, etc.
- .200** Principle business location and any locations relevant to the audit.
- .300** Discrepancies discovered during the Analysis of Return Data.
- .400** Number of vehicles in the licensee's fleet, including any material changes in the number of vehicles in the fleet throughout the audit period.
- .500** Composition of the licensee's fleet relative to the following:
 - .005** The number of company-owned and/or leased vehicles.
 - .010** Vehicle types – i.e., truck tractor, straight truck, other.
 - .015** Fuel type, to also include Dyed Fuel if allowed by Federal Regulations.
 - .020** Use – i.e., local delivery or over-the-road vehicles.
- .600** Compare the number of decals purchased to the number of vehicles reported. This must be done for the current period and every period of the audit. Discrepancies shall be sufficiently explained or documented.
- .700** Fuel facilities: licensee's owned/leased bulk storage facilities; service station purchases - cash, credit card, etc.; commercial fuel service.
- .800** Changes in the licensee's operations during the audit period -- i.e., mergers, divestitures, bankruptcy filings, etc.

Much of the above information will have already been determined during the initial telephone contact. If so, it must be confirmed at the pre audit conference. This information may affect many audit decisions, i.e. do a test or complete examination, stratify projections, different procedures for miles and fuel, etc. Pursuant to the Audit Narrative requirements, additional Business Activity information that must be obtained prior to the completion of the audit:

- .900** Type of business organization; -- i.e., foreign or domestic corporation, partnership, sole proprietorship, or other.
- .1000** Date and state of incorporation, if applicable.

.1100 Date business started in Pennsylvania, the effective date(s) of the account being audited and, if applicable, the date that operations ceased in Pennsylvania.

.1200 Principal business activity of the licensee.

PA420 System Survey

After the Pre Audit Conference the auditor should conduct the System Survey. This is also known as the Evaluation of Internal Control². This study and evaluation of the licensee's internal accounting control system has several identifiable phases:

.100 Review and Documentation:

The review of the record-keeping system is an information-gathering phase in which the auditor, through inquiry and observation, determines the licensee's accounting policies and procedures. The objective is to obtain an understanding of the flow of transaction processing. This is also known as the Audit Trail. The purpose of this process is to:

- .005** Determine if there have been changes in the licensee's accounting procedures or business operations during the audit period;
- .010** Identify the records that the licensee has to support his reports or any additional available records pertinent to fleet activity;
- .015** Determine if any pre-auditing of support documentation is done prior to data entry; and
- .020** Document an understanding of the licensee's system of internal controls by completing the IFTA Audit Records Evaluation within the application and describing the flow of transactions in the audit narrative.

To clarify this understanding, the auditor should select a few transactions of each transaction type and trace them through the accounting system from initiation to ultimate recording.

.200 Preliminary Evaluation

By studying and evaluating the internal control procedures, the auditor identifies apparent weaknesses in the internal control system.

.005 Tests of Compliance

If controls are inadequate to permit reliance, the auditor may make a more extensive review and perform tests of compliance. If weaknesses identified in the preliminary evaluation preclude reliance, or if the auditor believes that more efficient or effective audit tests are possible without reliance, the auditor

² As adapted from the IFTA Audit Manual § A640 Evaluation of Internal Control.

will plan audit procedures without any further study and evaluation of accounting control.

.010 Report on Weaknesses

The extensiveness of the review of the system and whether tests of compliance are made are matters of the auditor's judgment. Any serious weaknesses identified should be reported promptly to the licensee rather than at completion of the audit.

.300 Supporting Documentation

The licensee's system must include mileage data on each individual vehicle for each trip and be recapped in monthly fleet summaries. Supporting documentation should include the following information:

- .001** Date(s) of trip (starting and ending);
- .002** Trip origin and destination;
- .003** Route(s) of travel;
- .004** Beginning and ending odometer or hubometer readings of the trip;
- .005** Total trip miles;
- .006** Mileage by jurisdiction;
- .007** Unit number or vehicle identification number;
- .008** Vehicle fleet number; and
- .009** Licensee name.

The licensee's system must also include fuel data on each individual vehicle for each trip and be recapped in monthly fleet summaries. Supporting documentation should include the following information:

- .010** Date of purchase;
- .011** Name and address of the seller;
- .012** Number of gallons or liter's, converted to gallons, purchased;
- .013** Type of fuel purchased;
- .014** Price per gallon or liter;
- .015** Unit number of the vehicle into which the fuel was placed; and

.016 Purchaser's name.

Any licensee who maintains a bulk fuel storage facility must also maintain records to verify fuel data. Supporting documentation should include the following information:

.020 Date of withdrawal;

.021 Number of gallons or liters withdrawn;

.022 Fuel type;

.023 Unit number of the vehicle into which the fuel was placed;

.024 Purchase and inventory records to substantiate that tax was paid on all taxable fuel disbursements.

.025 Cash disbursement and other normal business records.

Also, anyone using a bulk storage facility to fuel its vehicles must maintain receipt and disbursement records for such activity.

PA430 Audit Planning

Established IFTA guidelines allow for test audits to be conducted. The one over-riding concern expressed by IFTA, which is also shared by the Department, is that any samples selected for testing be representative of the total population. In addition, the Department must conform to the [Testing Regulation](#), Title 61 Pa Code § 8a., "Enforcement."

The following are the applicable areas that are addressed by the regulation:

.100 Determination of Audit Method

This regulation authorizes the Department to conduct a test audit when the review of each transaction would be unduly burdensome on the Department to conduct an audit in a timely and efficient manner or when a licensee does not have complete records. When deciding whether to conduct a test audit the auditor should consider factors such as:

.005 Volume of activity in the population;

.010 Whether the business is cyclical or seasonal;

.015 Whether significant changes in the licensee's business or activities occurred during the audit period; and

.020 Other relevant factors.

.200 Test Period/Sample Unit Selection

When a test audit is performed the following factors must be considered and addressed in the audit narrative when describing the population to be tested:

- .005** The average fleet mileage as reported by the licensee;
- .010** Whether the vehicles are company-owned, permanently leased from owner operators, or a combination of both;
- .015** The types of vehicles that make up the fleet;
- .020** The type of fuel used to power the vehicles;
- .025** The geographical area(s) in which the vehicles operate;
- .030** The type of commodities being hauled;
- .035** The total number of vehicles in the licensee's fleet;
- .040** The adequacy and availability of the licensee's records;
- .045** Whether the licensee's business is cyclical or seasonal;
- .050** Whether significant changes in the licensee's business or activities occurred during the audit period, such as discontinuing or adding a line of business; and
- .055** Other relevant factors.

.300 Test Periods

- .010** Number of test periods required:
 - .001** For PA IFTA audits with an audit period of four (4) quarters or less, one (1) representative test quarter is to be selected and audited. All three months of the selected test quarter are to be audited.
 - .002** For an audit period of over four (4) quarters, two (2) representative quarters should be selected for testing. With a multiple quarter test, at least one (1) month in each quarter is to be examined. See explanation below.
 - .003** If records are only available for one (1) quarter of the audit period, all three months of the available test quarter are to be audited. A Request for Financial Records form must be executed by the licensee to document the unavailable periods' records.

.020 Stratification of the audit period for test period selection (with no change in the projection period) may have to be considered, based upon the following types of additional criteria:

- .001 Significant fleet size increase/decrease.
- .002 Seasonal business operations (changing levels of activity) that may affect fleet activity.

When an audit period is stratified for these circumstances there is no change to the projection periods.

.030 Stratification of the audit period for test period selection, (with multiple projection periods) may have to be considered, based upon the above factors and additional information established during the analysis of the licensee's operations.

Examples of some additional criteria are:

- .001 Major changes in the licensee's record-keeping/reporting system during the audit period;
- .002 Major personnel changes involving the licensee's tax reporting department that have affected the records or procedures used to compile or report the IFTA activity;
- .003 Significant change in licensee's operations;
- .004 A major change in the physical composition of the licensee's fleet;

When an audit period is stratified for multiple projection periods, there are additional considerations pertaining to the number of test periods selected. For any projection period that exceeds seven (7) quarters, including the test period, there must be at least two (2) test periods. For example, for a 10 period audit, where there was an accounting change in the final 2 periods, there should be 2 test periods for quarters 1 through 8, and a third test period for the final 2 quarters. The test periods may still be based on a month if monthly summaries are available³.

.040 The overriding factor for representativeness of the test periods within each stratum will be the average of reported total miles. Other factors to be considered include number of jurisdictions traveled and the percentage of travel within the jurisdictions for the audit period. The general guidelines are:

- .001 The periods selected should be within the four closest to the average total miles reported,

³**Note:** *This reduction to individual months for testing is predicated on there being monthly summaries of unit activity. A copy of the monthly summaries must be included in the audit. When there are not monthly summaries for multiple quarter tests, full quarter examinations will have to be conducted.*

- .002 Periods selected should not be consecutive,
- .003 Periods should not be within the same calendar year (when auditing multiple years),
- .004 The same period in different years should not be selected unless approved by the audit supervisor. Approval must be thoroughly documented and explained in the audit narrative.
- .005 Every effort should also be made to select periods that maximize the jurisdictions that were traveled within during the audit period.

Any deviations to the above guidelines must be approved, in advance, by the supervisor.

Where the licensee does not have auditable source documents for the selected test period(s), the auditor may have to test a current period. Again, if only one quarter is being tested, all three months of that quarter must be examined. A "Request for Financial Records," form must be prepared and submitted with the audit package to document the missing periods' records.

.400 Test Units

The test vehicles must be selected in a manner that will result in a sample that is representative of the licensee's fleet. Test vehicles should also be selected on a nondiscriminatory basis. Prior to selecting any test vehicles the auditor must first thoroughly review the licensee's fleet to determine:

- .005** Whether the vehicles were company owned, permanently leased from owner operators, or a combination of company owned and permanently leased.
- .010** The type of vehicles that make up the fleet.
- .015** The type of fuel used to power the vehicles.
- .020** The geographical area of operations.
- .025** Commodities hauled.
- .030** The total number of vehicles in the fleet and within each subgroup, if subgroups are present.

Utilizing the above information, the auditor will determine whether test vehicles can be selected from the total population or whether the population must first be stratified.

The minimum number of test units selected will be the total fleet population up to eleven (11) units. Total fleet populations over eleven (11) will utilize the formula:

Sample Size = 10 + 6% of the population, up to, and including, 500 units. For fleets over 500 units, the minimum is 40 plus three percent (3%) of the fleet in excess of 500. The maximum number of test units recommended is 175 for any one test period.

Analysis will be conducted of the selected test units for representativeness using an allowable tolerance of + or - fifteen percent (15%) deviation between the entire fleet's average total miles and the selected sample units' average total miles.

An additional consideration is the number of jurisdictions in which the licensee operated. The analysis of reported activity for test period selection schedule shows the number of jurisdictions reported for each reporting period. While no numeric criteria have been established for the sample to meet, auditor discretion will have to be exercised. The object of the sample unit selection is to audit the activity of, either, all jurisdictions of operation, or at the least a majority of the jurisdictions of operation.

Any deviations from established guidelines **must** be fully explained and documented.

The selected test periods and units should be reviewed with the licensee to make sure the representativeness cannot be compromised by any unknown factor(s).

.500 Test Audit Plan

The testing regulation requires that *prior* to conducting a test audit, the Department will set forth in writing a test audit plan and provide the licensee with an opportunity to comment on the plan. The Bureau of Audits utilizes the "[Taxpayer's Concurrence With Test Audit Plan](#)" to address the requirements established by the provisions of Title 61 Pa Code § 8a., "Enforcement."

The form's purpose is to secure written acknowledgement that the licensee discussed the activities of the business with the auditor in order to arrive at a representative period(s) for testing. The licensee acknowledges that the theory of performing test audits and the projection of any deficiency resulting from this test period was thoroughly explained. Finally, the licensee has the option to comment on the selection of the test period(s) and may also state reasons for non-concurrence. **This form is to be completed and signed at the time it is discussed with the licensee prior to beginning the test examination.** If the licensee declines to sign the form, the auditor must note so on the form along with pertinent details.

.600 Test Audit Plan Definitions

The form is for use in conducting all test audits and is necessary for each type of test conducted in the audit. Following are explanations of the information that is to be entered on the form:

.005 Audit Period: The period covered by audit.

.010 Type of Test: This area should always contain the wording "**block sample.**"

- .015 Test Objective:** State the overall purpose for performing the test, such as, the verification of total miles, jurisdiction miles, total fuel, jurisdiction fuel, or for any other segment of the business that a test audit would be applicable.
- .020 Population to be Tested:** This is the segment of the business that is involved in the test, such as, total miles, all jurisdiction miles, total fuel, or all tax paid gallons for the audit period.
- .025 Test Period(s):** Indicate/List the selected test periods.
- .030 Basis for Selecting Test Period(s):** Include statements that explain the reasons for the selection of certain period(s). Schedules, workpapers, or exhibits that were used to determine the test period(s) should be referenced. A brief statement should also be made relative to **unit selections** and basis. Further detail on the testing basis and procedures should be more fully explained within the audit narrative.
- .035 Test Procedure:** Indicate, in general terms, how the test will be performed. Include unit selection information, number of units, stratification considerations, projection intentions, etc.
- .040 Taxpayer's Comments:** Self-explanatory. Included in this section are the check boxes concerning cyclical or seasonal business activity, and the question on significant changes. The auditor shall request that the licensee check the appropriate boxes. The status of these boxes (checked or unchecked), or if the licensee makes specific comments, the information must be documented in the audit report.

The audit of the licensee's distance and fuel records will be conducted using the IFTA Audit Program. The Department must audit on a consistent basis. The use of a standardized program will assure consistency in the accumulation of audited data, expression of the resulting findings through schedules, and dissemination of these results to IFTA jurisdictions.

PA510 Auditing Miles

The primary objective for the audit of miles traveled is to determine the level of compliance by the licensee in the area of recorded and reported miles for every member jurisdiction based upon the licensee's actual travel activity. The method that the licensee uses to determine mileages should be thoroughly reviewed by the auditor. IVMR's ("Individual Vehicle Mileage Record," IFTA 300), drivers logs, dispatch records, trip reports, bills of lading, travel routes and all other related documents should be examined in the audit.

.100 Supplemental Mileage Documentation

In cases where the above documentation is not available, there are other possible sources of mileage information that could be used to verify/determine Total Activity, for example:

- .005** Vehicle maintenance or state inspection records may contain odometer readings;
- .010** IRP (International Registration Plan) filings/records are to include miles by jurisdiction for apportioned vehicles. (The reported miles may be estimated.)
- .015** Insurance records may indicate expected annual total miles for the vehicles;
- .020** Federal form 1120 may indicate company total miles.

Once the source documents are identified, the process of auditing the miles may begin. There are different methods available to accomplish this. The PC mileage software programs (MileMaker or Prophecy) are to be **used as tools** to verify the level of compliance for reported miles by jurisdiction. Where applicable, use the same system that the licensee uses -- i.e. if the licensee uses MileMaker, the auditor will also use MileMaker. To ensure consistency, only one (1) mileage program is to be used on any one audit.

If the licensee uses a computerized mileage program other than MileMaker or Prophecy, adjustments should only be made when inaccuracies in the licensee's system can be verified, i.e., unreported stops, or inaccurately reported routes.

If the licensee does not utilize a software mileage program, discretion will have to be exercised when comparing recorded/reported miles to the mileage software program in use. All determinations by the auditor must be based on the specific circumstances of each licensee.

Hard documentation such as IVMRs, trip records, odometer readings and other records **used** by the licensee to substantiate its actual mileage records must be considered by the auditor in determining acceptable mileage and reporting. Since there are numerous methods available to the licensee for accounting and reporting miles traveled, the auditor must adapt the audit procedures to the types of records encountered.

IFTA recommends that the auditors be given the latitude to use their own discretion during the audit. Also discussed by IFTA is an independence in mental attitude being maintained by the auditor. A certain amount of discretion can be, and is encouraged to be exercised by the auditor. Since Pennsylvania is ultimately responsible for the auditor's actions, issues that have a material affect on the audit findings should involve the auditor's supervisor and may also include input from the Headquarters.

.200 Mileage audit procedures

The first step is to reconcile reported to recorded mileages. At a minimum this reconciliation should be done for the test periods. If material differences are found, additional examinations must be conducted to account for the errors and to examine the other periods under audit for differences. The next step of the audit of miles is to verify reported total and jurisdictional miles.

.300 Odometer Readings

If odometer readings are available they must be verified by using the PC Mileage programs for jurisdictions or trips. Once accepted, the odometer readings must be used in the audit.

.005 For intrastate trips, beginning and ending odometers should be used to determine total miles. For each vehicle, a sample of odometers must be verified, by attaching the computer mileage report or by listing locations and routes of travel.

.010 For interstate trips, the computer mileage program will be used to verify jurisdictional and total odometer miles. This must be documented by attaching the computer mileage reports. If the total odometer miles are accepted as accurate, then the sum of the audited jurisdictions' miles must equal total odometer miles. In situations where jurisdictional miles do not equal total miles, the mileage difference should be allocated to the jurisdictions within that trip⁴.

⁴ **Note:** The Audited Unallocated field should only be used when there are large differences that cannot be identified to a particular trip or jurisdiction.

.400 No Odometer Readings

Auditors are encouraged to utilize the mileage program to establish Jurisdictional and Total Miles when odometer readings are not available. Other resources may also be used, such as State maps, Road Atlas, etc.

.500 No mileage records available

In circumstances where the licensee's records are insufficient to determine audited total or jurisdictional miles, the **recommended** approach is to accept the miles as reported and adjust Total Fuel by applying the statutory MPG of 4.00. This is accomplished within the audit application using the sequence from the main menu: Projection Options – Statutory MPG – 4 MPG Adj Gallons (check the box for all applicable periods).

.600 Auditing Non-IFTA Miles

Non-IFTA Miles – these are miles traveled in Non-IFTA Jurisdictions -- currently these are Washington DC, Mexico, Alaska, Hawaii, and the Yukon Territories. These miles are audited as usual because the application automatically recognizes Non-IFTA Jurisdictions.

.700 Auditing Non-Taxable Miles

The various types of non-taxable miles that may be on the tax return, and the applicable auditing procedures, are as follows:

.005 Exempt miles – these are usually miles that are traveled by an exempt vehicle. These miles are non-taxable per jurisdictional statute or regulation, as verified through the annual reports. This activity is included in Total Miles but not in Taxable Miles. An example would be “Buses” in Ohio.

.010 Non-Taxable Miles - these miles are non-taxable per jurisdictional statute or regulation, as verified through the annual reports. This activity is included in Total Miles but not in Taxable Miles. For example, the MT (Montana) Annual Report shows the following: Exempt Miles: “Private property and Forest Service Development roads.”

.015 Further, many jurisdictions state that “off highway” miles are non-taxable.

In the case of Exempt Miles or Non-Taxable miles, the trips are audited as usual but the appropriate Non-Taxable box is marked in the Test of Miles Add/Edit form. This may be for the entire trip or just the individual jurisdiction. In many cases, total adjustments may be made in the Recorded Information Add/Edit form.

.800 Annual Reports

When non-taxable miles are reported, the auditor should review the IFTA Jurisdiction Information derived from the [“IFTA Annual Reports”](#) filed by every

member jurisdiction. This information is basic in nature and relates to specific individual jurisdiction's rules governing such things as point of fuel taxation, exempt miles, exempt fuel, exempt vehicles, and any pertinent additional information. This information is accessible through the "**Annual RPTS**" button from the Miles/Fuel Add/Edit form as well as from the Audit Reports section of the audit application, as previously discussed.

PA520 Auditing Fuel

The licensee must maintain complete records, supported by fuel receipts, of all fuel purchases. Fuel purchases may consist of gasoline, diesel, kerosene, gasohol, liquid petroleum gas, CNG, etc. Separate totals must be compiled for each fuel type. Fuel obtained from bulk storage and retail outlet purchases are to be accounted for separately.

Because member jurisdictions have various regulations regarding the taxability of over-the-road and bulk fuel, the auditor should check the IFTA Annual Reports before allowing the tax paid fuel credit in an audit.

Depending on the licensee's record-keeping system, a sample of the fuel purchases/disbursements may be examined within the test periods. Receipts may be kept by vehicle rather than batched by the jurisdictions in which fuel was purchased. If this is the case, only the fuel relating to the sample units need be examined. However, the licensee should also have a summary recap of fuel purchases/disbursements in each jurisdiction, by unit, before this audit approach can be utilized.

It must be emphasized that the retail and bulk fuel purchase verification portion of an audit should be as complete as possible. This phase of the audit has a direct effect on the amount of additional tax liability or the amount of credit available for refund.

.100 Auditing Total Fuel

All fuel placed in the supply tank of a qualifying motor vehicle must be audited as part of determining an accurate mile-per-gallon (MPG) factor. Basically, there are two sources of fuel for most motor carriers: retail outlets; or bulk storage. Audited total fuel should be established from fuel receipts/billings, recorded on IVMR's, entered on summary documents, or merely reported. There is no requirement for individual invoices or a verification of tax-paid status.

Audited total fuel can only be decreased with **irrefutable** evidence, such as, duplicate receipts, math errors, non qualifying vehicle, etc. Audited total fuel is not reduced simply because the receipt is not valid for Tax Paid Credit.

Note: The results of an analysis of the audited MPG may indicate a change to total fuel is needed. This may require the auditor to add additional fuel per trip or per vehicle based on the statutory MPG provision.

.200 Audit Tax Paid Credit

Fuel purchased and placed into qualified vehicles within each IFTA jurisdiction must be audited to determine the amount of credit that can be allowed for in-state purchases.

.010 Retail Stations:

At retail locations, most jurisdictions' fuel tax is usually charged at the pump. As mentioned in the record keeping sections of this text, in order for a licensee to be allowed credit for purchases of fuel at retail stations, the receipts must contain:

- .001** Date of purchase;
- .002** Name and address of the seller;
- .003** The number of gallons (or liters) purchased;
- .004** The type of fuel purchased;
- .005** The price per gallon or total amount of sale;
- .006** The unit number or license number into which the fuel was placed;
and
- .007** The purchaser's name.

All fuel purchased at retail should be audited for each sample quarter or sample unit selected, and summarized by jurisdiction and fuel type. Fuel on which fuel taxes were not paid should be included in the total audited fuel amount, but not in the jurisdiction's credit gallons amount. As an example, purchases from certain Indian reservations, where state fuel taxes are excluded, should be included in Total Fuel, but no tax paid credit is to be allowed.

Sales made out to "cash" are **not** acceptable. Also, receipts that have been altered or indicate erasures are not acceptable for tax paid credit **unless** the licensee can demonstrate the receipt is valid. When any fuel purchase is disallowed, the reason should be noted in the "Comment" section of the Fuel Add/Edit form. Photocopies of some of the disallowed receipts should be exhibited in the audit.

The licensee is permitted to maintain records on microfilm or microfiche, including Fuel Receipts. However the definition of microfilm/fiche does not include photocopies. As a general rule photocopies of fuel receipts are not acceptable **unless** the licensee can demonstrate the receipt is valid. Some of the factors to consider are; Company Owned vehicle or permanently leased owner/operator ; was the unit in that area on the date of the fuel

purchase; was this an isolated purchase or was fuel purchased regularly from that location; is the purchase recorded on the trip report; is there supporting documentation for the purchase, i.e. expense reimbursement records, petty cash expenditure, etc. This is not an exhaustive list. Auditor discretion and Supervisor input should be used in determining the validity of photocopied fuel receipts.

.020 Fueling services credit card systems:

A Fueling Service System works just like a credit card. The driver and/or unit is issued a fuel card and/or credit card. This allows the driver to charge fuel at many retail locations. In lieu of maintaining individual fueling receipts, the licensee may use the fueling service's statements to substantiate tax paid credit. The statements may even summarize the fuel purchased by vehicle and jurisdiction. For audit purposes these statements must include the information required for a purchase from a retail station. To be acceptable they must be third party records, not licensee prepared computer summaries. When these records are available, auditors may make summary entries by unit and jurisdiction.

.030 Bulk Withdrawals:

There are also bulk withdrawals, upon which the jurisdictions' fuel tax is usually paid when the licensee's vendor delivers the fuel, or when the licensee files fuel tax returns and reports the applicable tax. Check the IFTA Annual Reports for each jurisdiction's laws. In the case of withdrawals from bulk storage, records must be maintained to distinguish fuel placed in qualified vehicles from other uses. The bulk withdrawal logs or tickets must show:

- .001** Date of withdrawal;
- .002** Number of gallons withdrawn (or liters);
- .003** Fuel type;
- .004** Unit number or license number of the vehicle into which the fuel was placed; and
- .005** Purchase and inventory records to substantiate that tax was paid on all bulk purchases.

Bulk fuel is normally delivered into fuel storage facilities maintained by the licensee. Copies of all delivery tickets and/or receipts must be maintained by the licensee. As the tracking of bulk fuel differs from licensee to licensee, this use must be examined by the auditor. If the carrier has bulk fuel in other jurisdictions, the usage figures should be verified in order to account for total fuel.

If qualifying and non-qualifying vehicles fuel from the same bulk storage facility, it is essential that individual fueling records be maintained. If detailed records are not maintained, tax-paid credit will not be allowed.

The auditor will need to analyze out-of-jurisdiction fuel storage, as it pertains to the total fuel calculation and the tax-paid credit gallons. If the carrier has bulk fuel storage in a jurisdiction, and is required to report to that jurisdiction its taxable use, the auditor needs to review those reports. If analysis shows unaccounted-for gallons, for which the licensee did not pay the tax through its filed reports, credit cannot be given in the jurisdiction for those gallons. However, the gallons may become part of the total fuel calculation.

A fuel tax audit may have been performed by a jurisdiction and may reveal that the tax was paid to the jurisdiction for those unaccounted-for gallons. Thus, the auditor may request any fuel use audits performed by the member jurisdiction. Of course, if the licensee pays the tax directly to its supplier, and it under-reports IFTA vehicle use from that facility, an adjustment to credit gallons may be necessary for that jurisdiction.

.040 Trip Permits:

If the licensee has purchased trip permits in any IFTA Jurisdiction, the jurisdictional miles traveled under that trip permit are to be excluded from the taxable jurisdictional mileage calculations. Any gallons purchased in the jurisdiction during the time of the trip permit are included in the credit gallons. The trip permit miles and fuel are included in the total miles and total fuel calculations to reflect an accurate M.P.G.

PA600

Analysis of Sample Results:

When a test audit is conducted, the results must be analyzed. The areas to be examined during this analysis include, but are not limited to, Outliers, Error Factors, large changes to tax reported, number of transactions examined, number of Jurisdictions tested, and audited MPG. Based on the results of these examinations, additional audit procedures may be necessary. The following sections will address some of these issues.

PA610 Outliers

The first step of this analysis is the test for **Outliers**, as required by the Testing Regulation. This is completed for the test of miles and the test of fuel. An outlier is a statistical observation that appears to deviate markedly from other members of the sample from which it came. A statistical analysis is automatically conducted by the audit application to determine if the test sample contains a confirmed outlier. This analysis is conducted by the audit application in the following manner:

.100 Suspected Outliers

The first step is the identification of suspected outliers:

- .005 The audited difference (+/-) for each unit is determined, i.e. Audited Miles/Fuel less Reported Miles/Fuel.
- .010 For each unit, the Audited Difference is compared to the Absolute Value of 2% of total Audited Miles/Fuel.
- .015 If the difference is greater than the 2%, the unit is a Suspected Outlier

The application then conducts the test to confirm the **Outlier**:

- .020 The Mean is determined -- this is the average of the Audited Difference excluding the suspected outlier.
- .025 The Range is determined -- this is the numerical difference between the High and Low of the Audited Difference, also excluding the suspected outlier.
- .030 The Range is divided by four (4) - this value, one-fourth of the range, is needed in the calculation.

The following test formula is used to determine the Ratio:

- .035 The suspected outlier less the mean, divided by one-fourth of the range.
- .040 If the Absolute Value of the ratio, as determined by the above formula is greater than 4, the unit is a Confirmed Outlier.

If there is more than one suspected outlier, the above test is applied sequentially to all suspected outliers. If the population is stratified, for projection purposes, the above process is completed for each stratum in which sampling has been done.

.200 Confirmed Outliers

If the program confirms that one or more of the test units is an outlier, it will have to be determined what action should be taken so that the units at issue do not remain confirmed outliers. The options to be considered are to isolate specific trips for the affected test units, or to isolate the test units entirely. After making any changes to the audited miles/fuel, you will need to rerun the test for outliers to verify that all confirmed outliers have been eliminated from the audit projections.

The following steps shall be taken with respect to all confirmed Outliers.

- .005** If the auditor is unable to eliminate the outlier through standard auditing procedures, the licensee shall be notified concerning the outliers and requested to furnish evidence that should be considered by the auditor in determining the audited finding. If, upon examining such further evidence, the auditor agrees that a smaller difference between the reported amount and the audited amount is justified, the auditor shall replace the original transaction by the adjusted finding.
- .010** If sufficient evidence is not provided, the outlier will be eliminated from the sample and audited independently. The audit finding on the outlier will be computed separately and the audit finding will be added to or, if negative, subtracted from the result of the projection for the remaining sample.
- .015** The sample values, adjusted for outliers as provided in subparagraphs (.005) and (.010), will be used for projection of the total audit finding.
- .020** The licensee may appeal a test audit by providing evidence that the method used for selecting a sample or determining the taxability is erroneous, lacks a rational basis or produces a different result when the complete records are considered. The audit report must fully demonstrate that the selected test audit sample is representative of the population being tested, and must fully describe the computation of the error rate and the projection results.

The fact that a transaction is a Confirmed Outlier does not automatically mean that the unit must be isolated. For example, many times an outlier is created due to audit procedures. If a single adjusting entry is made to properly account for reported information, an outlier may be created. In this case the transaction is not isolated and the projections proceed. Also, rather than isolation, an outlier may show the need for a particular unit or segment of the population to be incorporated into a separate fleet. Then a complete examination would be conducted for that separate fleet.

PA620 Error Factors

Another area to be examined is the Margins of Error Schedules for miles and fuel. The items to be considered are the size of the error factor(s), whether the errors are consistent between test periods, fleets, and/or jurisdictions, etc. If any error factor appears to be unusual in nature, i.e., excessively large or inconsistent, further examination is necessary.

One available tool is the audit review schedule, Comparison Audited to Reported Tax Due – AR7⁵. The parameters for this schedule are “Changes in Tax greater than \$5,000 or [Percentage change greater than 10% and the change in Tax greater than \$1,000]”. For any jurisdiction that meets the parameters, the number of **Non-Isolated** mileage and fuel records examined is shown. The purpose is to prevent excessive changes to a jurisdiction where a relatively small number of records were examined. Due to the nature of auditing, an exact number of records that should be examined cannot be stated. This can be explained by the following examples:

- .001 A large change to fuel may occur where only two (2) records were entered. However, the two (2) records may represent summary entries made from bulk fueling logs that show a significant decrease in tax paid fuel. Under that scenario, two (2) records would be sufficient.
- .002 A large change to mileage may occur where twenty (20) records were entered. However, of that number there was only one (1) entry where additional miles were found. If that single discrepancy created a large error, the number of records examined may be insufficient. Additional investigations must be conducted and/or other factors must be considered.

As shown above, many factors must be considered when examining error rates. Of course one available option is Isolation. Of concern are when, where, what, why, and how to isolate. Every situation may be different and it is difficult to set an exact procedure that will fit all occurrences. Also, there may be times when isolation should occur even though there are no outliers. In these cases, the decisions should be based on the circumstance and/or discussions between the auditor and supervisor.

If isolation is warranted, the auditor must decide specifically what should be isolated, i.e., a single occurrence, a single type of event, or a particular series of events that created the questionable error factor. For miles, the auditor can isolate one jurisdiction within a trip, the entire trip, or the complete vehicle. For fuel, the auditor can isolate one fuel ticket to jurisdiction only, total fuel only, or jurisdiction and total fuel.

Since isolation can have a significant impact on the audit results, all isolations must be thoroughly explained and documented in the audit report.

⁵ **Note:** *The Audit Summary must be generated prior to generating any Audit Review Schedules.*

PA630 Mile Per Gallon Factor

The MPG factor is a major component in determining the fuel used in each jurisdiction. Fuel consumption is determined by dividing each jurisdiction's taxable miles by the MPG⁶. It is extremely important that the MPG average is a true and accurate figure, as the end result will determine the number of taxable gallons used in each jurisdiction and the tax liability.

An analysis of the MPG factors for audit period, test quarters, and test units is required in order to determine whether the reported MPG is reasonable for the type of operations. A significant variation in MPG factors may require additional auditing of miles and fuel. This analysis is accomplished by comparing the average MPG for the audit period with each period's MPG, and each period's MPG with the proceeding and succeeding period for significant variations.

Significant variations are defined as multiple findings of differences greater than +/- 1 MPG. With respect to the review of the licensee's reported MPG factors for the test units and samples, an analysis of the total miles/total fuel for the test quarter(s) and corresponding MPG factors for each test unit should be performed. For any significant variations noted, an explanation must be provided in the audit report.

An MPG Analysis should also be conducted on the audit results. There are two (2) audit review schedules available to assist in this examination. The first review schedule, Comparison of Reported Total Activity To Audited Total Activity - AR 3, is used to compare the Audited Average MPG to the Reported Average MPG. This report also shows the audited MPG by fuel, type, by fleet. In addition, the report indicates whether or not the Odometer box was marked in the recorded information and if Statutory MPG was assigned.

The next review schedule is MPG Analysis of Audited Miles & Fuel – AR10. This report shows the Audited Total Miles, Audited Total Fuel, and MPG by test unit. This report is helpful in determining if only limited segments or fleets are contributing to an apparently inaccurate MPG factor.

Many factors could cause the MPG to be deviant. For example:

- .005** Timing differences in the posting and reporting of miles in one period and the corresponding fuel in another period;
- .010** Understated/overstated miles and/or fuel;
- .015** Miles/Fuel reporting errors, inclusions of non-qualified vehicles;
- .020** Mathematic calculation errors; and/or
- .025** Licensee use of estimated/fixed MPG factors.

The auditor should also keep in mind when reviewing the guidelines that other factors could have a bearing on MPG that are unique to the licensee being audited, such as road

⁶ Note: MPG calculations are rounded to two (2) decimal places.

conditions, age of trucks, gross registered weight, routes traveled, type of trucks, commodity being hauled, tandem tractors versus single axle units.

Not all errors necessarily result in a MPG adjustment factor. For instance, although jurisdictional miles might not be correct since domicile local miles were not picked up, total miles could still be accurate if taken from beginning and ending odometer readings. Additionally, if some trips were missed on a summary, the corresponding fuel might also be missed.

In cases where the results of the miles and fuel examination do not support an acceptable MPG, the statutory MPG shall be applied. The statutory MPG may be applied per trip, per vehicle, per individual period, or across the entire audit period. The **recommended** approach is to adjust Total Fuel by applying the statutory MPG of 4.00 to miles. This is accomplished by accepting the reported miles and dividing by 4.00 to determine the total fuel.

PA700**Communication of Audit Findings**

The licensee shall be given copies of the miles and fuel detail schedules for review prior to finalizing the audit. This is particularly important if there are numerous areas of discrepancy. If the licensee requests additional time to resolve audit issues, it is recommended that the time allotted should not exceed thirty (30) calendar days. Additional time may be granted after discussion with the supervisor.

PA800

Post Audit Conference

A documented post audit conference is required on all audits. This conference should be held in person with the licensee, or the licensee's representative. The requirements for the post audit conference are as follows:

PA810 Post Audit Requirements

.100 Post Audit In Person

- .005** Explain all audit schedules and worksheets. Review the audit findings and answer any questions that might arise.
- .010** Inform the licensee of the audit findings including tax, interest, and applicable penalties.
- .015** Determine any areas of disagreement and reasons for such disagreement. The auditor should explain in the audit narrative the licensee's reasons for disagreement as they relate to the various audit findings.
- .020** Provide corrective recommendations for the areas of deficiency.
- .025** Explain the appeal procedures. Reference the Disclosure Statement discussed at the beginning of the audit, as this form contains appropriate appeal procedures.
- .030** Present the licensee with a Taxpayer's Acknowledgement of Post Audit Conference form. This form will identify the audit period, tax liability, areas of deficiency and recommendations for correcting the areas of deficiency.
- .035** Request the licensee complete the post audit conference form and signify agreement, disagreement in part, or disagreement entirely with the audit findings. The licensee may elect to leave the form blank and merely sign. If the licensee declines to sign the form, the auditor is to note on the form and in the narrative the date, time, and the fact that the licensee refused to sign the form. The licensee must be informed that the completion of the post audit conference form does not waive any rights to appeal.
- .040** If warranted, the Inadequate Records Letter should be presented for signature. (See Contact/Correspondence Letters section)
- .045** For the audit narrative: record the date, starting time, location of the conference, and the names and titles of those participating in the conference.

.200 Post Audit Conference by Telephone

A Post Audit Conference by Telephone is only allowable when conducting an in person conference is not possible. In addition to the preceding requirements for a post audit conference held in person, the following must also be performed:

- .005 Prior to a post audit conference by telephone, the licensee must be provided with all schedules and worksheets necessary to explain the audit findings. During the conference, it must be verified that the licensee received and reviewed the schedules and worksheets. Any response should be referenced in the audit narrative.
- .010 After the post audit conference, the licensee must be sent a [Post Audit Conference by Telephone Letter](#), signed by the regional manager, and the original [Taxpayer's Acknowledgement of Post Audit Conference](#) form with a self-addressed stamped envelope. The licensee should be instructed to complete the form and return it to the regional office. The post audit letter will state the names of those who participated in the post audit conference by telephone, the date of the conference, and the deficiency. A copy of the form should be retained for the audit report. Also, a copy of the letter must be exhibited in the audit.

.300 Inability to Schedule a Post Audit Conference

A Post Audit Conference by mail may only be conducted after a reasonable effort has been made to conduct the conference in person or by telephone. All efforts to contact the licensee (including telephone calls, faxes, in person visits, and mailed correspondence) to conduct the conference, in person or by telephone, must be documented and included in the audit report. Such documentation will include a chronological listing of attempts made by the auditor, supervisor, or regional manager.

An "[Inability to Schedule Post Audit Conference Letter](#)," signed by the regional manager must be sent to the licensee along with all pertinent worksheets and schedules necessary to explain the audit findings. A "Taxpayer's Acknowledgment of Post Audit Conference," should be completed and included with the letter. The post audit conference date recorded on the form should be the date of the scheduled conference. A copy of the form should be retained for the audit report. The letter must:

- .005 Explain that the subject audit has been completed.
- .010 Formally notify the licensee of the time and date that the post audit conference will be conducted in the Revenue Regional Office.
- .015 Inform the licensee that the deficiency, interest, and the licensee's right to appeal will be included on the assessment.
- .020 Specifically identify the schedules that are included with the letter.
- .025 Reference the post audit conference form.
- .030 Indicate that the letter will be considered the close of the audit in the event the licensee fails to attend the scheduled post audit conference.

PA910 Motorbus Refund Credits

During the period July 1, 1987 through September 30, 1997, the Commonwealth of Pennsylvania imposed a surtax on fuel consumed in qualified motor vehicles, which did not include motorbuses. Effective October 1, 1997, the surtax was repealed; and in its place an increase of 55 mills was added to the Oil Company Franchise tax on the purchase of Fuels, as defined by 75 Pa.C.S. § 9002, when used as a motor fuel to propel a vehicle on the public highways. As a result of this change the fuel tax on motorbuses was increased by approximately five cents per gallon.

To alleviate any undue hardship imposed on the motorbus industry resulting from the 55-mill tax increase, 75 Pa.C.S. § 9805 was amended December 21, 1998, to allow for a refund of the 55 mills per gallon of Fuel, on which the tax has been paid, to anyone operating a motorbus⁷, as defined by 75 Pa.C.S. § 9802, within the Commonwealth. The tax will be included in the Pennsylvania Fuels Tax paid at the time of purchase, or paid through IFTA (International Fuel Tax Agreement) on undyed diesel fuel and undyed kerosene that is consumed on Pennsylvania highways. To receive this refund the licensee must file the REV 642 MF, [Bus Company Reimbursement Request](#), quarterly.

When auditing a bus company, the auditor should ask the licensee if Bus Company refunds were requested. If requests were filed, obtain copies. If the licensee cannot provide the copies, contact headquarters. If refunds were received, an examination of the licensee's supporting documentation will be conducted as part of an IFTA audit. If the Bus Company refunds were not requested, they **cannot** be made part of the audit.

If the licensee's IFTA fleet was comprised of both motorbuses and other qualified vehicles, the motorbuses should be identified as a separate fleet. A discussion of examination procedures and any supporting schedules are to be included in the audit report. The audit findings shall include any deficiency/credit resulting from the refund examination.

To determine the maximum number of gallons available for refund, divide the audited PA miles for the refund period by audited MPG for the motorbus fleet. If multiple fleets exist, Audit Review Schedule 3 shows the audited MPG by fleet; otherwise, use the audited MPG from the Audit Summary. The audited refund gallons are based on the fuel consumed in Pennsylvania.

.100 Reimbursement cannot be claimed for the following:

- .005** Any dyed diesel fuel or dyed kerosene;
- .010** For any excess gallons of undyed diesel fuel or undyed kerosene purchased in Pennsylvania but not used on Pennsylvania highways;
- .015** Gallons for which a refund or credit has been recognized under IFTA.

⁷ *The definition of a motorbus excludes school buses.*

.020 Also, Tax-Exempt fuel is not eligible for reimbursement.

The audited refund amount is computed by multiplying the audited refund gallons by \$0.049. The audited refund amount should be compared to the refund amount received.

The same procedures established for production credit on audits that include 102 credits are to be utilized for auditor production on IFTA audits when there are increases or decreases to motorbus refund amounts.

These procedures are shown on a sample [Motorbus Refund Audit Procedures](#) exercise.

PA920 IFTA Audits - Use of Dyed Fuel

When conducting a Bus Company audit, additional procedures must be employed if the licensee fuels with Dyed Low Sulfur Diesel Fuel, as permitted by Federal Law or Regulation. Dyed Low-Sulfur Diesel fuel is not taxable in PA. For other jurisdictions, check the IFTA Annual Reports.

The determination of audited non-taxable miles attributable to dyed fuel used must be computed on a supplemental **“Use of Dyed Fuel”** worksheet.

Through pre-audit discussions, the auditor should determine if the licensee is reporting fewer taxable miles to PA than Total PA Miles, due to the use of dyed fuel. If that occurred, an adjustment must be made in the audit application prior to the test of miles.

The adjustment is made in the “Recorded Information” add/edit form. For every period of the audit, the Taxable PA Miles should be set to equal the Total PA Miles. Then follow the usual procedures for the audit of jurisdiction miles. This adjustment should only be made for the nontaxable miles attributed to the use of dyed fuel. If nontaxable miles were reported for other exempt activity, no adjustment is made for that activity. No further adjustments to miles are made until **after** the test of fuel is completed.

When the fuel portion of the examination is conducted, it will be determined if dyed fuel is purchased anywhere, including PA⁸. The determination of dyed fuel purchased may be the most difficult part of the process. Where practical, a complete audit of fuel is preferred. This ensures that the exact number of dyed fuel gallons is determined. If this is not possible, a projection may be made against Audited Total Gallons. This would need to be done on a supplemental worksheet.

Next determine the audited Total PA miles and the percent of dyed fuel purchased. The audited Total PA miles are determined by running the Audit Summary Report. The percent of dyed fuel purchased is calculated for every period where dyed fuel was used by dividing Dyed Fuel purchased everywhere by Total Fuel purchased everywhere.

⁸ For PA, dyed fuel belongs in Total Fuel but there is no tax paid credit, this applies even if there was tax paid on that fuel. The licensee must contact the BMFT for refund procedures for tax paid on dyed product.

This percent is then applied to the Audited PA Miles from the Audit Summary, to determine the Audited Non-Taxable PA Miles per period. These non taxable miles must then be entered into the audit program. This is accomplished by using the "Recorded Information" add/edit form. For every period where dyed fuel was used, the non taxable miles are included in the results by creating a second (or additional) fleet. For this additional fleet, zeros are entered for Fleet IFTA Miles, Fleet Non IFTA Miles, and Fleet Total Gallons. On the Jurisdiction form for that fleet, enter **PA** as the jurisdiction, the **PA Total Miles** are zero (-0-), in the **PA Taxable Miles** field enter the number of non-taxable miles as a negative entry (-000). There should be a zero (-0-) for **Tax Paid Gallons**.

The final results should indicate that PA Total Miles are more than the PA Taxable Miles. The difference is equal to the negative entry made for the second fleet, these are the Non-Taxable PA Miles.

The above procedures can be examined on the sample [Bus Company IFTA Audits](#) exercise.

PA930 Employer Withholding:

As part of every audit, an examination of Employer Withholding must be conducted. The minimum requirements are shown in the Sales & Use Tax Manual, Chapter 3 § F,6 a, [Employer Withholding Of Pennsylvania Personal Income Tax](#), Minimum Requirements.

PA940 Bankruptcy Audits:

When a field audit request is issued on a bankrupt licensee, it must be given PRIORITY status. The appropriate bankruptcy court must be contacted to obtain the bar date, which is the last date to file a claim. The audit must be submitted at least 30 days prior to the first bar date.

Any tax liabilities established must be separated into both pre and post bankruptcy audits. Therefore, the audit period must be separated in accordance with the date the licensee is declared to be in a bankruptcy status (the date of adjudication). If a liability is to be assessed, then two separate audit reports and two separate assessments will be issued.

Should it be discovered that a licensee has declared bankruptcy on any assignment currently in inventory, advise headquarters of the bankruptcy status so that the Bureau of Compliance and Office of Attorney General may be informed.

PA1010 Annual Reports

Every IFTA jurisdiction is required to submit an annual report by March 1 for the preceding calendar year to the repository for distribution to each member jurisdiction. The report shall be for each calendar year. The contents of the report shall include:

.100 IFTA Annual report Information

- .005** Number of IFTA accounts;
- .010** Number of cancellations and suspension/revocations;
- .015** Number of audits;
- .020** Number of audits with assessments;
- .025** Current tax rates; and
- .030** Unusual activities within a member jurisdiction that could affect an audit.

It is item **.030**, above, that is of most concern to the Bureau. In order to make that information available, the relevant areas of the annual reports are incorporated in the audit application program. These reports can be accessed through the Reports Menu, the Test of Miles Add/Edit Form, and the Test of Fuel Add/Edit Form. The reports are generated by individual jurisdiction and include each available annual report filed by that jurisdiction. The information provided is as follows (also refer to sample Annual Report):

.200 Application Annual Reports

- .005** IFTA Implementation Date;
- .010** Report Year;
- .015** Exempt Miles;
- .020** Exempt Fuel;
- .025** Exempt Vehicles;
- .030** Non Tax Bulk Fuel (can licensee purchase tax-free bulk fuel); and
- .035** Notes (additional relevant audit information).

PA1020 Indian Reservation Fuel Stops

Also included with the annual reports is information concerning fuel sold on Indian reservations on which state fuel taxes were not collected. This fuel is included in Total Fuel but no tax paid credit is granted for this fuel. This information is available on the Test of Fuel Add/Edit Form, by using the **Rsv Fuel** button. The information is provided in a data sheet view that the auditor can use to determine if the fuel stop in question is on the list. See the example [Indian Reservation Fuel DSV](#).

PA1110 Forms

There are various forms and letters that are available for IFTA audits. Some of the forms are required for every audit, while the others are utilized on an as needed basis. This section provides a summary description of all available forms. All of the forms are included in the application program. The letters are shown as examples that should be prepared at the regional level.

.100 Audit Report and Basis of Assessment

This form capsulates, in general terms, the more detailed contents of the audit report. All data elements are to be completed by appropriate field personnel prior to submission. The upper left-hand portion documents information regarding the licensee. Particular emphasis must be placed on determining the type of entity and recording the proper legal name as well as any trade names (D/B/A, T/A). Audit Assessment Findings should indicate audit results, i.e. Additional Tax Due – debit or (credit), and/or any adjustment due to Bus Company Refund examinations. The lower portion serves to summarize all of the data relating to the auditor(s) and audit production. Processing dates are also to be posted.

.200 Indexes, Department and Taxpayer copy

An index must be submitted with each audit report. It provides a listing of all Bureau forms, schedules, worksheets, exhibits, and other documents enclosed with the completed audit report. Since certain audit report information is not made available to the licensee, the index for the department's copy of the audit report will vary from the licensee's.

.300 Audit Request

This form is prepared by the Audit Assignment Section of the Bureau, and is used to record the official intention of the Department to perform an audit on a specific licensee. An audit is not to be undertaken without a formally issued audit request.

Any information specifically stated or requested as special instructions on this form must be resolved and thoroughly explained in the narrative report or on the Conflict of Interest Statement and Auditor's Comments. Audit assignments are sequentially numbered by Bureau headquarters for accountability and control. Audit requests with a "P" priority code are to be given a priority status by the auditor.

.400 Conflict of Interest Statement and Auditor's Comments

The Conflict of Interest Statement is to be signed by the auditor on all audits conducted. The completed form must be included within the Department's copy only. This form also enables the auditor to relate unsubstantiated findings and/or comments which have a bearing on the audit findings. These comments and

recommendations may prove useful in subsequent penalty decisions and in appeal stages.

This form is confidential and is for Department use only. The contents of the form are not to be discussed with the licensee or included in the licensee's copy of the audit report.

.500 Taxpayer's Acknowledgement of Post Audit Conference

This form is used to secure the licensee's written acknowledgement that the auditor has discussed the audit findings with the licensee. It also acknowledges that the auditor explained the procedures for assessment, appeal, and the statutory provisions concerning interest, penalties, and the abatement of penalties.

The licensee has the options of agreeing completely, agreeing in part, disagreeing entirely, or omitting these three parts, and merely signing his name to acknowledge the post audit conference. The completion of this form by the licensee does not waive his rights of appeal. This form must accompany every audit report. If the licensee or his authorized representative declines to sign, the auditor must note on the form the licensee's refusal, the time, date, and the person involved. The licensee is to be provided a copy of the executed form.

At the conclusion of the audit, the audit findings and a copy of the work papers must be provided to and discussed with the licensee. The licensee is to be given an opportunity to respond in writing.

.600 Request for Financial Records

Recorded on this form are the auditor's specific requests for records to conduct the audit and the licensee's written statement of reasons for his failure to furnish the records. Proper use of the form could eliminate the possibility of misunderstandings concerning certain record requests. It can also serve as a documentary foundation to support the audit procedures applied where adequate records were not available.

When the requested records are not provided, the auditor should make every effort to have the licensee provide an explanation in the appropriate section of the form.

.700 Agreement To Extend Time Limit For Assessment/Determination Of Tax And To Extend Period Of Time For Record Retention - Waiver

The Revenue Regional Manager is responsible for obtaining the waiver and the timely completion of the assignment. The waiver must be signed by the Revenue Regional Manager. The form must be signed by the licensee prior to the expiration date of the statute. In Part V, the agreement date is the date on which the licensee signs the form. If more than one waiver covers the same period of time, all such forms should be retained together by the regional manager. Copies of all executed waivers are to be included in the audit report.

A Waiver is used to extend the four (4) year record retention period, if needed, or to extend the five (5) year statutory assessment period. A waiver shall be used when the licensee requests an excessive delay in starting the audit.

.005 Signature by licensee:

The licensee must sign the form. If the licensee is a corporation the duly authorized officer must sign the form. An attorney or an agent acting under "power of attorney" authorization may also sign the form.

.010 Copies:

The form is to be completed in triplicate and the first copy will be retained by the manager. The second copy is the licensee's copy and the remaining copy should be included with the Department's copy of the audit report. If the waiver is to be forwarded through the mails to the licensee, it is suggested that a letter be enclosed.

.015 Other requirements:

The correct legal name of the licensee completing the waiver must be indicated on the form. If a trade name is involved, then this information should also be included. The waiver is only to be completed by an owner, partner, corporate officer, or someone who is permitted to exercise a power of attorney on behalf of the licensee. The accountant, lawyer, controller, or tax manager will not suffice for the proper completion of this form.

The auditor's awareness of the waiver policy, the region's control of each waiver executed, and the audit supervisor's monitoring of the progress of each audit on which a waiver was issued, will avoid substandard audit procedures.

.800 Contact/Correspondence Letters

All audit candidates will be notified in writing of the Department's intention to conduct an audit(s). The [Initial Contact Letter](#) is general in nature and will afford the licensee the written notification prior to being audited. This letter should then be followed up with a telephone call. Once the call has been completed, a Confirmation Letter should be sent.

Post audit conferences held by telephone will require a [Post Audit by Telephone](#) letter. All information pertinent to the audit should be included.

While conducting the audit, it may be determined that the records are poorly kept and do not comply with record keeping requirements. An [Inadequate Records Letter](#) is available to officially notify the licensee of the areas of non-compliance. This letter informs the licensee that the Mileage and/or Fuel records are not in compliance with record keeping requirements. The licensee is also informed that in the future a Revenue Enforcement Agent may be contacting them to verify compliance with the

record keeping requirements. This letter should be presented and executed during the Post Audit conference.

Additional correspondence with the licensee should be issued as needed.

.900 IFTA Audit Records Evaluation

This form must be completed for all IFTA audits. The information requested is relative to the licensee's records maintained and/or used to compile reported information. The form is completed by using the Add/Edit form in the audit application. At the completion of every audit, this form will be sent to every affected jurisdiction.

.1000 IFTA Audit Narrative Summary

This document must also be completed for every IFTA audit. This is essentially the highlights of the audit by category and should not be longer than two pages. This form will also be sent to every affected jurisdiction.

PA1120 Schedules

The following Schedules are currently included in the application program. The system determines which schedules are required to be included the audit. All standard schedules are automatically numbered in the appropriate order in which they should appear in the audit. The schedules, including brief description, are as follows:

.100 Reported Miles & Fuel - IFTA 101

This report shows return data as captured by the Department. The report is ordered by Period, Fuel Type, and Jurisdiction.

.200 Analysis of Reported Activity for Test Period Selection

This report provides totals and averages by Group ID. Through the use of the Group ID field, users can stratify the reported periods into like groups and have the report provide totals and averages for each group.

.300 Reconciliation of Taxpayer Summary Data to the IFTA 101

This report compares the licensee's recorded fleet summary data to the summary data on the tax report. The primary purpose for this report is to reconcile the licensee's recorded data to the reported data, when the return data is segmented into multiple fleets. This report is not needed if there is only one fleet and the recorded data reconciles to the reported data.

.400 Reconciliation of Taxpayer Jurisdiction Data to the IFTA 101

This report compares the licensee's recorded jurisdiction data to the jurisdiction data on the tax report. The primary purpose for this report is to reconcile the licensee's recorded data to the reported data, when the return data is segmented into multiple fleets. This report is limited to periods where differences exist. This report is not needed if there is only one fleet and the recorded data reconciles to the reported data.

.500 Sample Unit Selection/Unit Mileage Analysis

The purpose of this report is to demonstrate the representativeness of each sample. Initially this report should be generated to provide a review of the reported MPG factors for the test units and to show the jurisdictions reported for the test period. Then it must be generated after the test of miles to show which reported jurisdictional activity was examined in the test.

.600 Test of Miles Detail

This report details all mileage activity captured during the test of miles.

.700 Computer Mileage Reports for Mileage Test

The purpose of this report is to support the audit findings for mileage errors. Each computer mileage record has a reference number which links the mileage reports to the Test of Miles Detail report. This report is not required to be printed for inclusion in the audit report.

.800 Summary of Test of Miles by Unit/Jurisdiction

This report summarizes the test of miles by unit number and jurisdiction, where more than one sample unit exists. Within each jurisdiction, the report differentiates between isolated errors and non-isolated errors. This report will not be generated if there is only one test unit.

.900 Summary of Test of Miles by Jurisdiction

This report summarizes the test of miles by jurisdiction. Within each jurisdiction, the report differentiates between isolated errors and non-isolated errors.

.1000 Sample Analysis of Miles to Test for Outliers

This report analyzes the audited miles for each test unit to determine whether one or more test units is a confirmed outlier. The analysis is completed by projection period.

.1100 Margin of Error Calculation - Miles (Net of Isolated Errors)

This report calculates a margin of error and a percent of sample for non-IFTA miles, by test period. For all IFTA miles tested the report calculates a margin of error and a percent of sample for each jurisdiction tested, by test period. When there are multiple sample periods within a projection period, a weighted average margin of error and percent of sample will be calculated. Additionally, the report will calculate a margin of error for unallocated miles (audited unallocated miles/reported sample miles), by test period. When there are multiple sample periods within a projection period, a weighted average margin of error will be calculated. The percent of sample error factor is used with the Alternative Projection option.

.1200 Total Jurisdiction Miles Adjustment Factor

This report will show a total miles adjustment factor for all periods except the test periods. A total miles adjustment factor limits the changes in jurisdictional miles to the change in total miles in the test periods. In effect, it's the same as saying total miles are fixed by odometers, only in this case, total miles are fixed by the change in total miles in the test periods.

.1300 Test of Fuel Detail

This report details all fuel activity captured during the test of fuel.

.1400 Summary of Test of Fuel by Unit/Jurisdiction

This report summarizes the test of fuel by unit number and jurisdiction, where more than one sample unit exists. Within each jurisdiction, the report differentiates between isolated errors and non-isolated errors. This report will not be generated if there is only one test unit.

.1500 Summary of Test Fuel by Jurisdiction

This report summarizes the test of fuel by jurisdiction. Within each jurisdiction, the report differentiates between isolated errors and non-isolated errors.

.1600 Sample Analysis of Fuel to Test for Outliers

This report analyzes the audited total fuel for each test unit to determine whether one or more test units is a confirmed outlier. The analysis is completed by projection period.

.1700 Margins of Error Calculations - Fuel (Net of Isolated Errors)

This report calculates a margin of error and a percent of sample for each IFTA jurisdiction tested, by test period. When there are multiple sample periods within a projection period, a weighted average margin of error and percent of sample will be calculated. Additionally, the report will calculate a margin of error for total fuel, by test period. When there are multiple sample periods within a projection period, a

weighted average margin of error will be calculated. The percent of sample error factor is used with the Alternative Projection option.

.1800 Projected Tax Paid Jurisdiction Gallons Adjustment Factor

This report is required whenever the sum of audited tax paid gallons exceeds audited total gallons. Adjustments are made to audited tax paid jurisdictional gallons and/or total gallons to ensure that the sum of tax paid jurisdictional gallons do not exceed total gallons.

.1900 Audit Summary

This report shows the audited values for total IFTA miles, total non-IFTA miles, total gallons, and the audited MPG for each reporting period and fuel type. Additionally, the report shows the total and taxable miles for each IFTA jurisdiction, by period and fuel type. Using the audited MPG and the taxable miles, the report computes the taxable fuel (fuel consumed) in each jurisdiction. Tax paid gallons are subtracted from the taxable gallons and an audited tax due is computed on the net taxable gallons. The audited tax is compared to the reported tax to calculate any additional tax due the jurisdiction or credit due the licensee.

PA1130 Exhibits

For audit purposes, an Exhibit is any document produced as evidence in the audit. Generally these are documents provided by the licensee for audit purposes. This also includes documents sent or given to the licensee on the Bureau of Audits' letterhead. The items below that are parenthetically noted "if applicable" need only be included when necessary, i.e., if they do not conform to what would reasonably be accepted as adequate records. An indication would be when unusual audit procedures were required to conduct the audit. This includes but not be limited to the following:

- .100** All correspondence with the licensee (required),
- .200** List of PA business locations, if more than one (1) (required),
- .300** Vehicle/Equipment list (recommended),
- .400** Copy of Mileage/Fuel Summary records (recommended),
- .500** Copy of miles and/or fuel source documents (if applicable),
- .600** Third party documentation (if applicable), i.e. commercial fuel service reports providing required tax paid fuel credit information
- .700** Any unusual documentation relevant to the audit findings (if applicable).

When exhibits exceed more than 1 page include the first page, last page, and any relevant pages in between. All pages of the exhibit must be discussed in the audit narrative.

PA1140 Worksheets

Any supplemental worksheets created should be of a nature that is essential to determining the audit results. If the same information can be determined by utilizing the database, the application program must be used.

PA1150 Audit Narrative

The written narrative report is the most important section of the completed audit. When properly written, the audit narrative will explain in detail each licensee's business activities, records maintained, audit procedure and, most importantly, the audit findings and basis for the audit findings.

The narrative report will be used during the audit review in order to verify that the auditor has employed proper audit procedures and has established a basis for the recommended assessment. The report will also be used by each review board and the courts to determine if the audit findings should be sustained. Finally, the report will be used by each licensee or his representative to determine whether to appeal or satisfy the audit findings by payment.

The narrative report shall be written in clear, concise, and fully understandable fashion and prepared in typed format. The report must be written so that the audit can be understood by those that are not in the accounting or auditing profession, which is the case with the principals of most companies and some of the authorized personnel assigned to review the completed audits.

The report provides a written explanation detailing the procedures employed by the auditor in conducting the audit. This narrative, when read in accompaniment with various supporting Bureau forms, schedules, work papers, and other documents, will further substantiate the auditor's findings. Also, the following guidelines apply:

.100 General Narrative Guidelines

- .005 All Schedules, Worksheets, and Exhibits** shall be discussed in the narrative;
- .010** There should not be any name dropping such as "quoting from a letter from the Chief Legal Counsel," etc.;
- .015** In general, narratives will not be written in the first person singular (I or myself), but will be written in the third person singular; and
- .020** To be emphasized, narratives must (when applicable) be outlined as follows to ensure that the completed audit is well documented.

.200 Pre-Audit Conference

- .005** Conference date and starting time of conference.
- .010** Location of the conference.

- .015 Names and titles of those in attendance.
- .020 Type of audit being conducted and the audit period.
- .025 Collateral assignments.
- .030 Topics discussed; i.e., accounting system, audit procedures, business activities, etc.
- .035 Reference all exhibits of correspondence with the licensee prior to the start of the audit. Specifically discuss the Disclosure Statement as required by the Taxpayer's Bill of Rights.

.300 Licensee's Business Activities

- .005 Business organization; i.e., foreign or domestic corporation, partnership, sole proprietorship, or other.
- .010 Date and state of incorporation, if applicable.
- .015 Date business started in Pennsylvania, the effective date or dates of the account being audited and, if applicable, the date operations ceased in Pennsylvania.
- .020 Principal business activity of the licensee.
- .025 Business activities past and present relative to the audit, if not the same as above, including area of operations, products transported, etc.
- .030 Principle business location and any locations relevant to the audit. Include effective dates of operations for each location. Reference any schedule, workpaper or exhibit prepared or obtained which delineates the above information. If the licensee has no Pennsylvania locations, this should be stated.
- .035 Present number of vehicles in the licensee's fleet. Explain any material changes in the number of vehicles in the fleet throughout the audit period.
- .040 Compare the number of decals purchased to the number of vehicles in the fleet and explain any material differences.
- .045 Composition of the licensee's fleet relative to the following:
 - .001 Company owned or leased.
 - .002 Vehicle type - truck tractor, straight truck, other.

.003 Fuel type.

.004 Use - local delivery or over-the-road vehicles

.050 Fuel facilities - i.e., licensee owned/leased bulk storage facilities; service station purchases - cash, credit card, commercial fuel service.

.055 Changes in the licensee's operations during the audit period; i.e., mergers, divestitures, bankruptcy filings, etc.

.060 Tax return filing history.

.400 System Survey

To reemphasize IFTA's position on the evaluation of internal controls, the auditor's objective in making a preliminary evaluation is to determine the reliability of the licensee's records.

The review of the system is an information-gathering phase in which the auditor, through inquiry and observation, determines the licensee's prescribed policies and procedures. The auditor's objective is to obtain an understanding of the flow of transaction processing. To clarify this understanding, the auditor may select a few transactions of each type and trace them through the accounting system from initiation to ultimate recording. The auditor should document his understanding in his work papers by completing the IFTA Audit Records Evaluation form designed for this purpose and by describing the flow of transactions in narrative form.

The auditor should also include the following:

.005 General statement regarding the records maintained by the licensee. This statement should identify those records used by the licensee for reporting purposes and those records which will be used by the auditor in the verification process.

.010 The type of record keeping system maintained by the licensee, i.e., computerized, manual or combination.

.015 Material changes that occurred in the licensee's record keeping system during the audit period.

.020 Procedures used by the licensee to capture, verify, record and summarize all information reported on the tax return. Relevant exhibits must be referenced and included in the report.

.500 Audit Procedures

- .005** Audit period and the basis for its length. The standard IFTA audit period is four years. In some situations the period is other than four years, for example: previously audited or new licensee; entity changes; extended audit period due to executed waiver(s) or delinquent tax returns.
- .010** Type of audit being conducted, test, complete or mixed, and reason for performing a test or a complete examination.
- .015** Test audit only:

 - .001 Test period selection - basis for selection; schedules, workpapers and exhibits referenced.
 - .002 Unit selection - number of units; selection method; schedules, workpapers, and exhibits referenced.
 - .003 Representativeness - comparison of the sample mean to the population mean of the activity being tested; comparison of the composition of the sample to the population - i.e., the percentage of straight trucks in the sample approximates the percentage of straight trucks in the population, number of jurisdictions tested versus reported in the audit, etc.; schedules, workpapers and exhibits referenced.
 - .004 Projection of test results.
 - .005 Licensee advised of test procedures. Concurrence with Test Audit Plan completed.
- .020** Analysis of the licensee's mile-per-gallon factor for the audit period, with reference to relevant schedules, workpapers, or exhibits. This should include the following:

 - .001 Computation of audit period average;
 - .002 Comparison of the audit period average to individual periods;
 - .003 Comparison of each period to prior and successive periods;
 - .004 Statement in respect to the industry in general; and
 - .005 Results of analysis and conclusion should be stated.
- .025** Total miles/total fuel - records reviewed from source documents to summary records, procedures utilized during the review process, types of errors found, and any conclusions drawn based on the results of this review. Test audit only, margin-of-error and projection procedures included. Reference

summary schedules, as well as any supporting schedules and/or workpapers prepared and/or exhibits obtained.

.030 Mile-per-gallon changes:

.001 After the audit of total miles and total fuel, a detailed explanation shall be included as to how the changes affected the licensee's mile-per-gallon factor. Reference summary schedules, as well as any supporting schedules and/or exhibits obtained.

.002 Use of statutory mile-per-gallon factor – The basis for using the statutory mile-per-gallon factor must be explained; A Request for Financial Records must be completed and included in the report. P.S. 75 § 9609 of Vehicle Code must be cited. The procedures used to develop the audited mile-per-gallon factor shall be indicated. Summary schedules, supporting schedules, workpapers, and exhibits must be discussed.

.003 In addition to the above, the auditor should examine audit review Schedule 10 – MPG Analysis of Audited Miles & Fuel. This review schedule provides the audited MPG for each test unit. Any unusual findings should be discussed.

.035 Jurisdiction miles/Jurisdiction fuel - records reviewed from source documents to summary records, procedures utilized during the review process, types of errors found, and any conclusions drawn based on the results of this review. Test audit only, margin-of-error and projection procedures. Reference summary schedules, as well as any supporting schedules and/or workpapers prepared and/or exhibits obtained.

.040 Audit findings summarized - changes delineated with respect to additional tax liability, reduction in credits and refund chargebacks. Pertinent schedules and workpapers referenced.

.600 **General Discussion:**

.005 Any unusual areas or findings not pertinent to the above areas. Also, highlight information or problems encountered.

.010 Employer withholding - periods and records reviewed, results of the review explained. Reference the summary schedules, supporting schedules and/or workpapers prepared and any exhibits included, if obtained.

.015 Items of a sensitive nature should be noted on the Conflict of Interest Statement and Auditor's Comment form.

.700 Post Audit Conference

- .005** Conference date and starting time of conference.
- .010** Location of the conference.
- .015** Names and titles of those in attendance.
- .020** Audit findings and corrective recommendations.
- .025** Licensee agreement or disagreement with the audit findings.
- .030** Licensee's right of appeal and appeal procedures.
- .035** Inadequate Records Letter.
- .040** Taxpayer's Acknowledgment of Post Audit Conference form explained.
- .045** Post audit conference via telephone - notification letter sent to the licensee and a copy included as an exhibit.
- .050** Note: When corrections are made subsequent to the post audit date, the licensee must be informed of the changes, a new Post Audit Conference form must be completed and, if the licensee is notified by telephone, a notification letter must be sent and a copy is to be included in the audit report. The date the licensee is advised of the corrected audit findings should be listed as the date of the post audit conference.