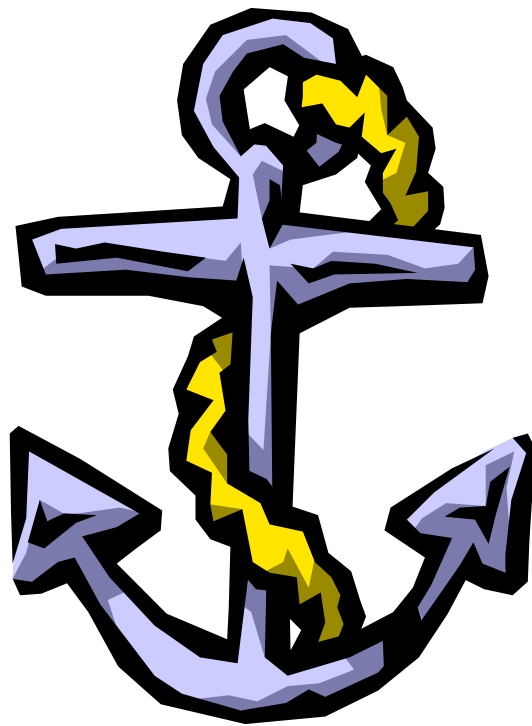


# IETA



## **Best Practices Audit Guide**

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## I. INTRODUCTION

IFTA - Section Reference: R130, R140, R150, R305, R1310, A100, R600, R610, R620, R625, R630, R635, R640, R800, R810.100, R810.200, R820, R830.100, R830.200, R840

The focus of the International Fuel Tax Agreement (IFTA) audit program should be to determine if the licensee is in compliance with the terms of the agreement and with jurisdictional statutes.

The IFTA is a multijurisdictional fuel tax agreement that simplifies the reporting of fuel taxes by interjurisdictional motor carriers. The IFTA establishes a single uniform system for administering and collecting fuel consumption taxes from interjurisdictional carriers. Under IFTA, motor carriers register with their base jurisdiction, and receive credentials, which allow them to travel through other IFTA member jurisdictions. Carriers then file a single quarterly return with a single payment to their base jurisdiction that covers all of their travel in other IFTA member jurisdictions. The base jurisdiction processes the IFTA tax return and forwards funds to each jurisdiction or requests funds for net fuel taxes.

**The base jurisdiction is required to audit the motor carriers representing not only their own interests, but also the interests of all other member jurisdictions.** An audit program is therefore an important and essential compliance measure and ensures that proper revenues are being collected by each jurisdiction.

## II. ELIGIBILITY / EXEMPTIONS

**Eligibility under IFTA:**

### A. **Vehicles - R245.100, R245.200, R245.300, R221, R305**

Qualified motor vehicle means a motor vehicle used, designed or maintained for transportation of persons or property and:

- Having two axles and a gross vehicle weight or registered gross vehicle weight exceeding 26,000 pounds or 11,797 kilograms, or
- Having three or more axles regardless of weight, or
- Is used in combination, when the weight of such combination exceeds 26,000 pounds or 11,797 kilograms gross vehicle or registered gross vehicle weight.

Qualified motor vehicle does not include recreational vehicles.

Any person based in a member jurisdiction operating a qualified motor vehicle(s) in two or more member jurisdictions is required to license under this Agreement, except as indicated in IFTA Articles of Agreement, Sections R310, and R500.

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## B. Fleet

Fleet means one or more vehicles.

Under IFTA, a carrier may be registered in more than one base jurisdiction if its operations in each jurisdiction meet the criteria for IFTA licensing and reporting. When a carrier has several fleets, which would otherwise be based in two (2) or more IFTA jurisdictions, the commissioners of the affected jurisdictions may allow the consolidation of the fleets for reporting purposes. The carrier must apply to each jurisdiction for permission to consolidate the fleets.

### **Exemptions under IFTA - R830.100, R830.200**

- All vehicles under 26,000 pounds or 11,797 kilograms gross vehicle weight, or
- Trailers, those vehicles not used for propulsion
- Those vehicles traveling only intra-jurisdictionally, regardless of weight, or
- Recreational vehicles

Also, each jurisdiction may designate exempt vehicles (as well as miles and/or fuel) i.e. municipal vehicles, farm vehicles. A list of the jurisdictional exemptions may be perused at the IFTA, Inc. website.

Exempt fuel and/or distance must be included in total reported fuel and/or distance in determining the MPG. Refer to each jurisdictional exemption to determine how to claim the exemption. (See IFTA Articles of Agreement sections R1000 and R1100)

- A Licensee who qualifies as an IFTA carrier, but does not wish to participate in the IFTA
- Program must obtain fuel tax permits to travel through member jurisdictions.

## III. **LICENSEE RESPONSIBILITIES - R700**

Every licensee shall maintain records to substantiate information reported on the quarterly tax returns. Operational records shall be maintained or be made available for audit in the base jurisdiction. Recordkeeping requirements shall be specified in the IFTA Procedures manual.

### **A. Distance Records - P540.100, P540.100.005 - -.015, P540.200, P540.200.005 - -.050**

Licensees shall maintain detailed distance records, which show operations on an individual-vehicle basis.

The Operational records shall contain, but not be limited to:

- Taxable and non-taxable usage of fuel;
- Distance traveled for taxable and non-taxable use; and
- Distance recaps for each vehicle for each jurisdiction in which the vehicle operated.

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An acceptable distance accounting system is necessary to substantiate the information reported on the tax return filed quarterly or annually. A licensee's system, at a minimum, must include distance data on each individual vehicle for each trip and be recapitulated in monthly fleet summaries. Supporting information should include:

- Date of the trip (starting and ending)
- Trip origin and destination
- Route of travel (may be waived by the base jurisdiction)
- Beginning and ending hub odometer/odometer reading of the trip (may be waived by the jurisdiction)
- Total trip miles/kilometers
- Miles/kilometers by jurisdiction
- Unit number or vehicle identification number
- Vehicle fleet number
- Licensee's name, and
- May include additional information at the discretion of the base jurisdiction.

**B. Fuel Records - P550.100, P550.200, P550.300, P550.400.005 - -.025, P560.100, P560.200, P560.300.005 - -.035, P570.100, P570.200, P570.300, P570.400.005 - -.025, P570.500, R1000.100, R1000.200, R1010, 100, R1010.200, R1010.300, R1020.100, R1020.200, R1020.300**

The licensee must maintain complete records of all motor fuel purchased, received, and used in the conduct of its business.

Separate totals must be compiled for each motor fuel type,

Retail fuel purchases and bulk fuel purchases are to be accounted for separately.

The fuel records shall contain but not be limited to:

- The date of each receipt of fuel
- The name and address of the person from whom purchased or received
- The number of gallons or liters received
- The type of fuel, and
- The vehicle or equipment into which the fuel was placed.

Retail purchases must be supported by receipt or invoice, credit card receipt, automated vendor generated invoice or transaction listing or microfilm/microfiche of the receipt or invoice. Receipts that have been altered or indicate erasures are not accepted for tax-paid credits unless the licensee can demonstrate the receipt is valid.

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Receipts for retail fuel purchases must identify the vehicle by the plate or unit number or other licensee identifier, as distance traveled and fuel consumption may be reported only for vehicles identified as part of the licensee's operation. An acceptable receipt or invoice must include, but shall not be limited to, the following:

- Date of purchase
- Seller's name and address
- Number of gallons or liters purchased
- Fuel type
- Price per gallon or liter or total amount of sale
- Unit numbers, and
- Purchaser's name (see R1010.300 of the IFTA Articles of Agreement)

Bulk fuel is normally delivered into storage facilities maintained by the licensee, and fuel tax may or may not be paid at the time of delivery. Original delivery tickets and/or receipts must be retained by the licensee. Receipts that have been altered or indicate erasures are not accepted for tax-paid credits unless the licensee can demonstrate the receipt is valid. Bulk inventory reconciliations must be maintained. For withdrawals from bulk storage, records must be maintained to distinguish fuel placed in qualified vehicles from other uses. To obtain credit for withdrawals from licensee-owned, tax-paid bulk storage, the following records must be maintained:

- Date of withdrawal
- Number of gallons or liters
- Fuel type
- Unit number, and
- Purchase and inventory records to substantiate that tax was paid on all bulk purchases.

Upon application by the licensee, the base jurisdiction may waive the requirement of unit numbers for fuel withdrawn from the licensee's own bulk storage and placed in its qualified motor vehicles. The licensee must show that adequate records are maintained to distinguish fuel placed in qualified vs. non-qualified motor vehicles for all member jurisdictions.

To obtain credit for tax-paid purchases, the licensee must retain a receipt, invoice, credit card receipt, or automated vendor generated invoice or transaction listing, showing evidence of such purchases and taxes paid. These records may be kept on microfilm, microfiche, or other computerized or condensed record storage system which meets the



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legal requirement of the base jurisdiction. Licensees are not required to submit proof of tax-paid purchases with their tax returns. Receipts that have been altered or indicate erasures are not accepted for tax-paid credits unless the licensee can demonstrate that the receipt is valid.

The retail purchase of fuel which is placed into the fuel tank of a qualified vehicle, and upon which tax has been paid to a jurisdiction shall qualify as a tax-paid retail fuel purchase. The receipt must show evidence that tax was paid directly to the applicable jurisdiction or at the pump. Specific requirements for these receipts are outlined in the IFTA Procedures Manual section P560. No member jurisdiction shall require evidence of such purchases beyond what is specified in the Procedures Manual. In the case of a lessee/lessor agreement, receipts for tax-paid purchases may be in the name of either the lessee or the lessor provided a legal connection can be made to the reporting party. Storage fuel is normally delivered into fuel storage facilities by the licensee and fuel tax may or may not be paid at the time of delivery. Motor fuel which is placed into the fuel tank of a qualified motor vehicle from a licensee's own bulk storage, and upon which tax has been paid to the jurisdiction where the bulk fuel storage tank is located, shall be considered a tax-paid bulk fuel purchase. The licensee's records must identify the quantity of fuel taken from the licensee's own bulk storage and placed in its qualified motor vehicles. Record keeping requirements for tax-paid bulk fuel purchases are provided in IFTA Procedures Manual, section P570.

### **C. Trip Permits - R315, R263, R650**

In lieu of motor fuel tax licensing under this Agreement, persons may elect to satisfy motor fuels use tax obligations on a trip-by-trip basis.

**Temporary Permit:** Means a permit issued by the base jurisdiction or its agent to be carried in a qualified vehicle in lieu of display of the permanent annual decals. A temporary permit is valid for a period of 30 days to give the carrier adequate time to affix the annual permanent decals. The base jurisdiction may charge an administrative fee to the licensee to cover the cost of issuance. Temporary permits must be vehicle specific and show the expiration date. The temporary permit need not be displayed but shall be carried in the vehicle.

### **D. Monthly / Quarterly Summaries - P540.100.015**

Licensees shall maintain detailed distance records, which show operations on an individual vehicle basis. The operational records shall contain, but not be limited to, distance recaps for each vehicle for each jurisdiction in which the vehicle operated.

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### **E. Supporting Information for IVDRs (Individual Vehicle Distance Records) - A540.-.200**

The information recorded on the IVDRs must be accurate and legible. The distance figures to be entered on IVDRs can be obtained from various sources such as odometer and/or hubodometer readings, DOT logs, provincial/state maps, a standard distance guide or a household goods distance guide, a computer software or a global positioning system (GPS) as long as the method used is accurate and consistent. The primary concern is that the percentage of total distance allocated to affected jurisdictions is accurate. Licensees should accumulate IVDRs and prepare monthly/quarterly recaps. -. It must be stressed that distance figures supported by IVDRs can be used in numerous areas where a licensee is required to file some type of distance report, such as IRP registration applications, third structure taxes, -fuel usage, - etc.

**A540.400** If the base jurisdiction utilizes a distance reporting software program to verify the records of the licensee, it shall be used as an audit tool. The auditor must use discretion when verifying the licensee's records. Documentation such as trip records, odometer readings and other records used by the licensee to substantiate its actual distance records must be considered by the auditor in determining an acceptable distance reporting system.

### **F. Lessor Responsibility - R230, R233, R510.100.005 - -.010, R510.200, R520.100, R520.200, R530.100, R530.200, R540**

**Lessor** - means the party granting the use of equipment, with or without a driver, to another.

**Lessee** - means the party acquiring the use of equipment, with or without a driver, from another.

**Short-term leases.** In the case of a short-term motor vehicle rental, by a lessor regularly engaged in the business of leasing or renting motor vehicles without drivers, for compensation, to licensees or other lessees of 29 days or less, the lessor will report and pay the fuel use tax unless the following two conditions are met,

1. The lessor has a written rental contract which designates the lessee as the party responsible for reporting and paying the fuel use tax; and
2. The lessor has a copy of the lessee's IFTA fuel tax license which is valid for the term of the rental.

**Long-term leases.** A lessor regularly engaged in the business of leasing or renting motor vehicles without drivers, for compensation, to licensees or other lessees may be

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deemed to be the licensee, and such lessor may be issued a license if an application has been properly filed and approved by the base jurisdiction.

In the case of a household goods carrier using independent contractors, agents or service representatives, under intermittent leases, the party liable for motor fuel use tax shall be the:

1. Lessee (carrier) when the qualified motor vehicle is being operated under the lessee's jurisdictional operating authority. The base jurisdiction, for purposes of this Agreement, shall be the base jurisdiction of the lessee (carrier) regardless of the jurisdiction in which the qualified motor vehicle is registered, for vehicle registration purposes, by the lessor or lessee.
2. The lessor (independent contractor, agent or service representative) when the qualified motor vehicle is being operated under the lessor's jurisdictional operating authority. The base jurisdiction, for purposes of this agreement, shall be the base jurisdiction of the lessor, regardless of the jurisdiction in which the qualified motor vehicle is registered for vehicle registration purposes.

### **Independent Contractors:**

**Short-term leases:** In the case of a carrier using independent contractors under short-term leases of 29 days or less, the trip lessor will report and pay all fuel taxes.

**Long-term leases:** In the case of a carrier using independent contractors under long-term leases (30 days or more) the lessor and lessee will be given the option of designating which party will report and pay fuel use tax. In the absence of a written agreement or contract, or if the document is silent regarding responsibility for reporting and paying fuel use tax, the lessee will be responsible for reporting and paying fuel use tax. If the lessee (carrier) through a written agreement or contract assumes responsibility for reporting and paying fuel use taxes, the base jurisdiction, for purposes of this Agreement, shall be the base jurisdiction of the lessee, regardless of the jurisdiction in which the qualified motor vehicle is registered for vehicle registration purposes by the lessor. No member jurisdiction shall require the filing of such leases but such leases shall be made available upon request of any member (see IFTA Procedures Manual section P520).

### **G. Program Compliance Reviews - P1210, P1230**

Member jurisdictions shall permit periodic program compliance reviews to be performed to assure they are in compliance with the provisions of the Agreement. At the expense of the member jurisdictions conducting such reviews, they will be performed after the

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first year of implementation of the Agreement. The expenses of such reviews may be paid through the International Fuel Tax Association if funds are available. Beginning January 1, 1997, the Program Compliance Reviews will be conducted according to a schedule developed by IFTA, Inc. Jurisdictions will be required to participate in their appropriate share of program compliance reviews each year. No member jurisdiction will be required to participate in more than two compliance reviews per year.

## **H. Records Retention - P510.100, P510.200, P510.300, P550.100, P550.200, P550.300**

The licensee is required to preserve the records upon which the quarterly tax return is based for four years from the return due date or filing date, whichever is later, plus any time period included as a result of waivers or jeopardy assessments. Failure to provide records demanded for audit purposes extends the four year record retention requirement until the records are provided. Records may be kept on microfilm, microfiche or other computerized or condensed record storage system acceptable to the base jurisdiction. The licensee must maintain complete records of all motor fuel purchased, received, and used in the conduct of its business. Separate totals must be compiled for each motor fuel type. Retail fuel purchases and bulk fuel purchases are to be accounted for separately.

Records may be kept on microfilm, microfiche, or other computerized or condensed records storage system which meets the requirements of the base jurisdiction.

## **IV. GENERAL ACCOUNTING AND AUDITING STANDARDS**

### **A. Standards - A510, A210.100, A210.200, A210.300, A220.100, A220.200**

For an audit to be acceptable to all member jurisdictions, it must be conducted in a professional manner and the results be clearly documented. Standard terminology is to be used in reporting audit findings. Acceptable audit standards provide that several procedures may be employed. However, it is necessary that each audit reflect adequate information necessary to satisfy the commissioners of the various member jurisdictions. The examination is to be performed by a person or persons having adequate technical training and proficiency in auditing. In all matters relating to the assignment, an independent mental attitude is to be maintained by the auditor. The independent auditor must be without bias with respect to the licensee under audit to ensure the impartiality necessary for the dependability of the findings. However, this independence does not imply the attitude of a prosecutor, but rather a judicial impartiality that recognizes an obligation to fairness. Due professional care is to be exercised in performing the examination and preparing the report. The auditor is to make a proper study and

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evaluation of the licensee's internal accounting controls to determine their reliability and the extent to which auditing procedures are to be restricted. The work is to be adequately planned, and assistants, if any, are to be properly supervised.

## **B. Audit Responsibilities - A410.100, A410.200, A410.300, A410.400, A410.500, A420.100, A420.200, A420.300, A420.400**

Member jurisdictions are responsible for the staffing of auditors who meet the qualifications of the jurisdiction's personnel guidelines. Member jurisdictions are responsible for proper training of audit and audit supports staffs in audit planning and procedures. Member jurisdictions are responsible for the actions of their auditors. Member jurisdictions should allow auditors to discuss any discrepancies with licensees. Member jurisdictions should allow auditors to make preliminary recommendations to licensees. Auditors must give all licensees equal consideration. There must be no preferential treatment given. Auditors should audit all licensees under a uniform program unless special circumstances dictate otherwise. Auditors should conduct themselves in a manner, which would promote cooperation and good relations between the base jurisdiction and the licensee.

## **V. AUDIT PLAN**

### **A. Audit selection and assignment - A310, A320.100, A320.200, A320.300**

The base jurisdiction must complete audits of an average of 3% per year of the IFTA accounts reported by that jurisdiction on the annual report from the previous year. This count includes carriers who are registered and report no activity.

At least 15% of the audits shall involve low distance accounts, 25% shall involve high distance accounts, while the remaining 60% will cover accounts of any size.

### **B. Audit Preparation**

Any preparation that can be done prior to arriving at the licensee's place of business should be done. This will reduce the time needed to conduct the audit at the licensee's office.

#### **1. Audit Package and Permanent Office File Review:**

- a. Past audits and areas of discrepancies.
- b. IRP application and equipment list.
- c. Consider sending out a pre-audit questionnaire.
- d. Review IFTA application.
- e. Review number of decals issued each year in the audit period.

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- f. Review reported returns for:
  - i. Constant or extreme MPG/KPL
  - ii. Large fluctuations in distance or fuel
  - iii. Size of operation
  - iv. Number of jurisdictions traveled
  - v. Non-IFTA distances
  - vi. Calculation errors
  - vii. Seasonal fluctuation
  - viii. Review billing and refunds
  - ix. Tax paid fuel
- g. Other related information.

## **2. Audit Period Determination**

The audit period will cover at least one registration year, and up to four registration years.

## **3. Selection of Representative Sample Period for Testing Purposes - A530, A530.100, A530.200, A530.300, A530.400**

Unless a specific situation dictates, all audits will be conducted on a sampling basis. Sample period(s) must be representative of the licensee's operations. Sample period(s) may be different for member jurisdictions due to seasonal operations. The licensee should be allowed input into sample selection if legitimate reasons exist. An agreement, that the sampling methodology is appropriate, should be signed by the licensee and the auditor.

## **4. Audit Notification - A610.100, A610.200, A610.300, A620.100, A620.200**

At least 30 days prior to conducting a routine audit, the licensee should be contacted in writing and advised of the approximate date that an audit is to be conducted and the time period the audit will cover. The notification will provide the licensee the opportunity to make the required records available and provide assurance the tentative schedule is acceptable. For purposes of documentation and to avoid misunderstanding, a copy of the notification letter should be incorporated into the audit file detailing the tentative audit date and the documentation the licensee is required to furnish. For just cause, notification requirements may be waived. All pre-audit contact should be confirmed in writing. Jurisdictions may contact each other prior to the audit to obtain pertinent information. Copies of correspondence between the licensee and member jurisdictions that have a bearing on a tax liability and

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special instructions that may affect the audit should be forwarded to the base jurisdiction.

## **VI. CONDUCTING THE AUDIT**

### **A. Background**

#### **1. Understanding the Emphasis of the Audit - A520**

The audit emphasis should be placed on the evaluation of the licensee's distance and fuel recording system to determine if the system can be relied upon.

Based on the study and evaluation of internal controls, along with other relevant factors, the auditor needs to determine the nature and extent of procedures necessary to test the system or controls.

The auditor can draw an unbiased sample of source documents of distance and fuel records and follow them through the accounting system to check the reliability of the recording system. The uses of a random, systematic, or haphazard selection process are acceptable. Summary/recap records must be available to trace the source documents for trips for a particular vehicle through the accounting system into the proper reports. Summaries/recaps may be prepared on a monthly or, at minimum, a quarterly basis.

If summaries/recaps are not available, the auditor may request that the licensee compile such recaps, or choose to compile the information him/herself, depending on the number of vehicles.

Once the degree of reliance on the accounting system is established and supported by test results, the auditor can determine the extent of additional testing required. Additional testing should verify that the data reported accurately reflect the data recorded in the licensee's distance and fuel accounting system.

#### **2. Pre-audit Conference - A630**

The auditor should hold a pre-audit conference with the licensee. The purpose of this meeting is to explain the audit and to gain an understanding of the licensee's distance and fuel reporting system, equipment registration system (including leased vehicles, owner-operated vehicles, non-IFTA equipment), and internal control structure. A Pre-Audit Questionnaire may be used at this time or prior to the commencement of the pre-audit conference.

In addition, the pre-audit conference should outline the licensee's operation, audit procedures, records to be examined, sample period, sampling procedures, etc. The

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licensee and auditor(s) should determine who has the responsibility for the final acceptance of audit findings and who should be involved in the exit conference. During the interviews, talk to the people involved with processing the information, explain the audit process, and discuss the unique aspects of their business. During all discussions, remember to think about the best and most efficient approach to auditing the licensee's records. Consider management philosophy and control methods, competence of personnel, other influences on the distance and fuel reporting system, such as payroll, and your audit objectives.

Many licensees will not understand what is required of them during the audit process. Take this opportunity to educate them.

Some factors to review when conducting the pre-audit conference are as follows:

- a. Licensee's Operations:
  - i. Determine what the licensee's business is.
  - ii. Determine the organizational structure of the company.
- b. General Information:
  - i. Identify whom to talk to about obtaining records, discussing errors, attending closing conferences.
  - ii. Determine what the working hours of the office are and the individuals' work schedules.
- c. Records: (A540, A550)
  - i. Determine if the requested records are available for audit. For record keeping requirements, review Section III of this manual.
  - ii. Determine if the licensee has complete records for the periods under audit.
  - iii. Determine whether the records are maintained in a timely fashion. Determine whether the information contained on the IVDR's is sufficient to allow the audit of reported distance and fuel.
  - iv. Review pertinent lease agreements to determine the licensee's responsibility.
  - v. Discuss whether distance is reported by odometer readings (or other type measure), by routes, or by standard distance chart (including maps). (If odometer/hub odometer is not used, how is total distance accurately determined?)
  - vi. Discuss whether fuel is reported based on fuel receipts, fuel invoices, bulk fuel withdrawals, or some other process.
  - vii. Review how the records are kept; determine whether they are turned in after



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- each trip, weekly, or monthly.
- viii. Determine how trips and/or trip sheets are numbered; i.e., pre-numbered, numbered by the driver, same as shipment number, numbered upon completion of trip.
- ix. Determine how the licensee records and reports distance and fuel when a trip overlaps months/quarters.
- d. Internal Controls: (A640)
  - i. Make inquiries about the system by interviewing personnel involved with the reporting process.
  - ii. Walk through the system - trace one or two IVDR's through the process.
  - iii. Determine the extent of automation within the licensee's system of record keeping;
  - iv. Determine if the distance and fuel reporting system is a stand-alone system or integrated with the company's financial or other systems.
  - v. Determine if a review or edit is performed of the IVDR's and distance and fuel compiled, including who does the review and whether the review is documented.
  - vi. Determine if a review or edit is performed of the monthly or quarterly summaries, including who does the review and whether the review or edit is documented.
  - vii. If edits are performed, obtain a pre-edit version of the documentation.
  - viii. Determine if a third party (service agent, accountant, etc.) prepares the IFTA tax return.
  - ix. Determine if there have been any changes in the record keeping or reporting system during the audit period. (If there has been a change, you will want to sample the system before and after the change.)
- e. Gathering Information about the System:
  - i. Information about a licensee's record keeping system is obtained through discussion with the personnel involved in order to find out each individual's role in the system and their knowledge. This is an important step and is accomplished by exercising professional judgment in evaluating the information obtained. The auditor has a responsibility to report any weaknesses to the licensee.
  - ii. The auditor should identify the strengths and weaknesses of the licensee's

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system to determine the nature and extent of auditing procedures employed:

- **Strengths** – A strength is a control or a procedure the auditor intends to rely upon to reduce testing. For example, if the auditor believes that controls for assigning distance and fuel among the jurisdictions are adequate the auditor can reduce, not eliminate, the testing.
  - **Weaknesses** - A weakness in the system can be defined as the absence of a control, which makes the auditor's expectations of error greater than would normally be found in a system with adequate internal control.
- iii. Internal control evaluation guides or questionnaires may be used as a reminder to list points to be considered.
- f. Walk-Through of the System:
- i. The auditor should select one or more documents of each transaction type and follow some action through the entire accounting process.
  - ii. As part of the walk-through, the auditor should ask to review each point where some action is taken, such as a check of clerical accuracy, a review, or an approval. Example; if an individual is to have initialed or signed the document before passing it along to another department, the auditor may ascertain that this was done by inquiring whether the initials or the signature appearing on the documents is that of the employee being interviewed. The auditor may observe how the current documents, flowing through the control system, are being handled by the individual interviewed. The auditor may also check on information received by asking each individual to describe the work being done under the prescribed procedures.

The walk-through enables the auditor to obtain a better understanding of the detailed operations.

- g. Document the System:
- i. Has the system been audited before?
  - ii. Documentation of the system can range from identifying source documents to a narrative or flow chart.

Documentation of working papers is discussed in more detail later in this chapter. Flow-charting could be used.

It is important during each of these steps, to consider all possible error types, determine the controls, which should detect the errors, and decide if the licensee's procedures contain those controls.

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It is at this point that the auditor must determine whether the system can be audited, determine the scope of the audit, and establish specific audit procedures.

- iii. If the auditor has determined that the licensee's record keeping system is sufficient to enable good records to be maintained, the auditor must next determine if the individual records are sufficient for audit.

One of the auditing standards of fieldwork is that sufficient competent evidential matter is to be obtained to afford a reasonable basis to support the accuracy of the report filed by the licensee.

### 3. Understanding of the Fleet and Lease Agreements - R510-R540

The auditor should have acquired a clear understanding of the licensee's fleet(s) during the opening conference.

The auditor needs to know the number of vehicles in a licensee's fleet and if the licensee has any lease agreements with owner-operators. The lease agreements need to be examined.

**Short-term leases.** In the case of a short-term motor vehicle rental, by a lessor regularly engaged in the business of leasing, or renting motor vehicles with or without drivers, for compensation to licensees or other lessees of 29 days or less, the lessor will report and pay the fuel use tax unless the following two conditions are met:

- a. The lessor has a written rental contract which designates the lessee as the party responsible for reporting and paying the fuel use tax; and
- b. The lessor has a copy of the lessee's IFTA fuel tax license which is valid for the term of the rental.

**Long-term leases:** A lessor regularly engaged in the business of leasing or renting motor vehicles without drivers for compensation to licensees or other lessees may be deemed to be the licensee, and such lessor may be issued a license if an application has been properly filed and approved by the base jurisdiction.

In the case of a household goods carrier using independent contractors, agents, or service representatives, under intermittent leases, the party liable for motor fuel use tax shall be:

- a. The lessee (carrier) when the qualified motor vehicle is being operated under the lessees' jurisdictional operating authority. The base jurisdiction for purposes of this Agreement shall be the base jurisdiction of the lessee (carrier), regardless of

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the jurisdiction in which the qualified motor vehicle is registered for vehicle registration purposes by the lessor or lessee;

- b. The lessor (independent contractor, agent or service representative) when the qualified motor vehicle is being operated under the lessor's jurisdictional operating authority. The base jurisdiction for purposes of this Agreement shall be the base jurisdiction of the lessor, regardless of the jurisdiction in which the qualified motor vehicle is registered for vehicle registration purposes.

**Short-term leases.** In the case of a carrier using independent contractors under short-term/trip leases of 29 days or less, the trip lessor will report and pay all fuel taxes.

**Long-term leases.** In the case of a carrier using independent contractors under long-term leases (30 days or more) the lessor and lessee will be given the option of designating which party will report and pay fuel use tax. In the absence of a written agreement or contract, or if the document is silent regarding responsibility for reporting and paying fuel use tax, the lessee will be responsible for reporting and paying fuel use tax. If the lessee (carrier) through a written agreement or contract assumes responsibility for reporting and paying fuel use taxes, the base jurisdiction for purposes of this Agreement shall be the base jurisdiction of the lessee, regardless of the jurisdiction in which the qualified motor vehicle is registered for vehicle registration purposes by the lessor.

No member jurisdiction shall require the filing of such leases but such leases shall be made available upon request of any member (see IFTA Procedures Manual, Section P520).

The auditor also needs to understand the methods used to arrive at the distance and fuel recorded on IVDR's, (i.e., odometers, map distance, a software package, fuel invoices, fuel receipts, bulk fuel withdrawal records, etc.). The methods used by the licensee will affect the test procedures.

### **B. Determining Quality of Source Documents**

Most of the auditor's work in determining the accuracy of the IFTA quarterly report consists of obtaining and evaluating distance, fuel, and equipment records.

#### **1. Nature of Evidence**

There are several types of records that may be used as evidence during the audit. They consist of trip records, vehicle maintenance records, driver daily logs, employee time cards or earning records, maintenance records, dispatch reports, bills

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of lading, cash disbursement records, cash receipt records, leases, titles, and reports filed with the jurisdictions, fuel receipts, fuel invoices, and bulk fuel withdrawal records.

## **2. Verifying Equipment List**

The auditor needs to determine that all qualified vehicles are included on the equipment list.

The equipment list for fuel tax should also be examined as it may differ from the equipment list for IRP. The auditor must be sure to compare both equipment lists against the licensee's records carefully and completely.

## **3. Distance Recaps - P540**

The auditor should request the licensee's summaries to support the quarterly IFTA tax report. This is a necessary starting point since it will help determine if the auditor is working with the records that were used to prepare the report.

The auditor should verify enough summaries and recaps to determine if the quarterly returns are being filed properly. The auditor must also verify that the total distances and tax paid credit gallons have been properly allocated to the various jurisdictions. If the testing of the summaries to the report is unsatisfactory, consider expanding the sample. Any difference between the summaries and the IFTA tax return should be considered an error.

For IFTA, a quarterly summary is required for each quarter in the audit period. The summary must show the total and jurisdictional distance and fuel for the total fleet and for each vehicle in the fleet.

## **4. Computerized Distance System - P610 - P670**

If a licensee is using a computerized distance system, they still have to maintain individual trip reports to support the route the vehicle actually traveled. A computerized distance summary is not acceptable as the sole source document. On board recording devices, vehicle tracking systems or other electronic data recording systems may be used (at the option of the carrier) in lieu of or in addition to handwritten trip reports for fuel tax reporting. Other equipment monitoring devices that transmit data or may be interrogated as to vehicle location or travel may be used to supplement or verify handwritten or electronically generated trip reports. Any device or electronic system used in conjunction with a device shall meet the requirements stated in this Section. On-board recording or vehicle tracking devices

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may be used in conjunction with manual systems or in conjunction with computer systems.

All recording devices must meet the requirements stated in IFTA Procedures manual, Section P640 and P660.

When the device is to be used alone, printed reports must be produced which replace handwritten trip reports. The printed trip reports shall be retained for audit. Vehicle and fleet summaries which show miles and kilometers by jurisdiction must then be prepared manually. The entire system must meet the requirements stated in IFTA Procedures Manual, Sections P640, P650, and P660. If the printed reports will not be retained for audit, the system must have the capability of producing, upon request, the reports indicated in IFTA Procedures Manual, Section 640. When the computer system is designed to produce printed trip reports, vehicle and fleet summaries which show miles and kilometers by jurisdiction must also be prepared. To obtain information needed to verify fleet distance and to prepare the "Individual Vehicle Distance Report," the device must collect the following data on each trip: date of trip (starting and ending); trip origin and destination (location code is acceptable); routes of travel or latitude/longitude positions used in lieu thereof (may be waived by the base jurisdiction). If latitude/longitude positions are used, they must be accompanied by the name of the nearest town, intersection or cross street. If latitude/longitude positions are used, jurisdiction crossing points must be calculated or identified; beginning and ending odometer or hubodometer reading of the trip (may be waived by the base jurisdiction); total trip distance; distance by jurisdiction; power unit number or vehicle identification number; vehicle fleet number and licensee's name. Optional trip data (may be included at the discretion of the base jurisdiction) driver ID or name and intermediate trip stops. For purposes of fuel tax reporting, the device must collect the following data: date of purchase; seller's name and address (vendor code acceptable); number of gallons or liters purchased; fuel type ( may be referenced from vehicle file); price per gallon or liter or total amount of sale (required only for purchases from vendors); unit number and purchaser's name (in the case of lessee/lessor agreement, receipts will be accepted in either name, provided a legal connection can be made to reporting party).

For purposes of bulk fuel tax, the device must collect, in addition, the following data: date of withdrawal; number of gallons or liters; fuel type; unit number and purchase and inventory records to substantiate that tax was paid on all bulk purchases.

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The following reports may be prepared by an electronic computer system –that accepts data from on-board recording or vehicle tracking devices rather than the recording device itself. The system shall be able to produce the following reports: an Individual Vehicle Distance Record (IVDR) report for each trip that includes the information required in IFTA Procedures Manual, Section P640. (Note: this report may be more than one page); monthly, quarterly and annual summaries of vehicle trips by vehicle number showing miles or kilometers by jurisdiction; monthly, quarterly and annual trip summaries by fleet showing the number of miles or kilometers by jurisdictions.

Exceptions that identify all edited data, omissions of required data (see IFTA Procedures Manual, Section P640), system failures, non-continuous life-to-date odometer readings, travel to noncontiguous jurisdictions and trips where the location of the beginning trip is not the location of the previous trip must be identified.

In cases where speed/rpm sensors or odometer/speedometer interface devices are providing pulse inputs to the on-board computer, the system will record the calibration factors used in calculating mileage at time of download from the vehicle to the base computer. The fleet shall also keep accurate records of all Engine Control Module calibrations.

The carrier must obtain a certificate from the manufacturer certifying that the design of the on-board recording or vehicle tracking device has been sufficiently tested to meet the requirements of this provision. The on-board recording or vehicle tracking device and associated support systems must be, to the maximum extent practicable, tamper-proof and must not permit altering of the information collected. Editing the original information collected will be permitted. All editing must be identified and both the edited and original data must be recorded and retained

The on-board recording or vehicle tracking device shall warn the driver visually and/or audibly that the device has ceased to function. The device must time and date stamp all data recorded. The device must not allow data to be overwritten before the data has been extracted. The device shall warn the driver visually and/or audibly that the device's memory is full and can no longer record data. The device must automatically update a life-to-date odometer when the vehicle is placed in motion or the operator must enter the current vehicle odometer reading when the on-board recording or vehicle tracking device is connected to the vehicle. The device must provide a method for the driver to confirm that the entered data is correct (e.g.

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a visual display of the entered data that can be reviewed and edited by the driver before the data is finally stored).

It is the carrier's responsibility to recalibrate the on-board recording device on mechanical or electronic installations when the tire size changes, the vehicle drive-train is modified or any modifications are made to the vehicle which affect the accuracy of the on-board recording device. The device must be maintained and recalibrated in accordance with the manufacturer's specifications. A record of recalibrations must be retained for the audit retention period. It is the carrier's responsibility to maintain a second copy (back-up copy of the electronic files either electronically or in paper form) for the audit retention period. At the data transfer. It is the carrier's responsibility to assure its drivers are trained in the use of the computer system. Drivers shall be required to note any failures of the on-board recording or vehicle tracking device and to prepare manual trip reports of all subsequent trip information until the device is again operational. It is the carrier's responsibility to assure the entire record-keeping system meets the requirements of IFTA. It is suggested that the carrier contact the base jurisdiction IFTA Audit Section for verification of audit compliance prior to implementation.

### **5. Fuel records:**

The retail purchase of fuel which is placed into the fuel tank of a qualified motor vehicle, and upon which tax has been paid to a jurisdiction, shall qualify as a tax-paid retail fuel purchase. The receipt must show evidence of tax paid directly to the applicable jurisdiction or at the pump. Specific requirements for those receipts are outlined in the IFTA Procedures Manual, Section P560. No member jurisdiction shall require evidence of such purchases beyond what is specified in the Procedures Manual. In the case of a lessee/lessor agreement, receipts for tax-paid purchases may be in the name of either the lessee or the lessor provided a legal connection can be made to the reporting party. Retail purchases must be supported by a receipt or invoice, credit card receipt, automated vendor generated invoice or transaction listing, or microfilm/microfiche of the receipt or invoice. Receipts that have been altered or indicate erasures are not accepted for tax-paid credits unless the licensee can demonstrate the receipt is valid. Receipts for retail fuel purchases must identify the vehicle by plate or unit number or other licensee identifier, as distance traveled and fuel consumption may be reported only for vehicles identified as part of the licensee's operation. An acceptable invoice or receipt must include, but shall not be



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limited to, the following: date of purchase; seller's name and address; number of gallons or liters purchased; fuel type; price per gallon or liter or total amount of sale; unit numbers; and purchaser's name (see R1010.300 of the IFTA Articles of Agreement)

Bulk fuel is normally delivered into fuel storage facilities by the licensee and fuel tax may or may not be paid at the time of delivery. Motor fuel which is placed into the fuel tank of a qualified motor vehicle from a licensee's own bulk storage, and upon which tax has been paid to the jurisdiction where the bulk fuel storage tank is located, shall be considered a tax-paid bulk fuel purchase. The licensee's records must identify the quantity of fuel taken from the licensee's own bulk storage and placed in its qualified motor vehicles. Record-keeping requirements for tax paid bulk fuel purchases are provided in IFTA Procedures Manual, Section P570.

Original delivery tickets and/or receipts must be retained by the licensee. Receipts that have been altered or indicate erasures are not accepted for tax-paid credits unless the licensee can demonstrate the receipt is valid. Bulk fuel inventory reconciliations must be maintained. For withdrawals from bulk storage, records must be maintained to distinguish fuel placed in qualified motor vehicles from other uses. To obtain credit for withdrawals from licensee-owned, tax paid bulk storage, the following records must be maintained: date of withdrawal; number of gallons or liters; fuel type; unit number; and purchase and inventory records to substantiate that tax was paid on all bulk purchases. Upon application by the licensee, the base jurisdiction may waive the requirement of unit numbers for fuel withdrawn from the licensee's own bulk storage and placed in its qualified motor vehicles. The licensee must show that adequate records are maintained to distinguish fuel placed in qualified vs. non-qualified motor vehicles for all member jurisdictions.

### **6. Inadequate Records – A550, R1210-R1230, R1270**

If the licensee's records are lacking or inadequate to support any report filed by the licensee or to determine the licensee's tax liability, the base jurisdiction shall have authority to estimate the fuel use upon (but is not limited to) factors such as the following:

- a. Prior experience with the licensee.
- b. Licensees with similar operations.
- c. Industry averages.
- d. Records available from fuel distributors.

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e. Other pertinent information the auditor may obtain or examine.

Unless the auditor finds substantial evidence to the contrary by reviewing the above, in the absence of adequate records, a standard of 4.00 MPG/1.7KPL will be used.

When tax paid fuel documentation is unavailable, all claims for tax paid fuel will be disallowed.

## C. Sampling – A530

It is not always necessary to conduct an audit of all of the records maintained for the licensee's vehicles. The vehicles to be audited can be chosen by using a sampling method. Representative samples must be selected from the population. Sampling introduces an element of risk into auditing. The auditor continually decides how extensive the procedures must be to avoid excessive risk. The auditor considers the effectiveness of systems of internal control, the number and size of items to be tested, and the probabilities that groups of items, numbers of vehicles, total distances, distance allocation, total fuel, or tax paid credit gallons will be misstated in significant amount. As with materiality, judgment plays an important role in determining the acceptable risk. Non-statistical sampling is the standard approach used by IFTA auditors. The auditor determines a sample size and evaluates the results of the sample based on the sound reasoning and judgment of the auditor. This differs from statistical sampling in that sampling risk is not measured.

Regardless of what sampling methodology used, the auditor should discuss the proposed sample with the licensee in accordance with IFTA A530.

### 1. Types of Sampling:

There are several approaches for non-statistical sampling, including haphazard, random, systematic, judgmental, and block.

**a. Haphazard sampling** - Items have been selected without regard to size, source, or other attributes. This is an attempt by the auditor to select a sample without bias. For IFTA auditors, this is the most common method used to select units for testing.

**b. Random sampling** - Each unit in the population has an equal chance of being selected, without bias. This can be accomplished by using a random number table or a computer program, which generates random numbers. It is likely that the licensee's vehicle numbering system will be unique for internal purposes and not consistent with random number tables or computer software. Therefore, it may be necessary to number the vehicles starting with 1, in order to use a table

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or computer to generate the sample.

- c. **Systematic sampling** - Auditor selects every "nth" item. When an auditor is in the field, systematic selection is a convenient method of selecting a sample, as long as the population is in random order.
- d. **Judgmental sampling** - The sample is selected based on the sound reasoning and judgment of the auditor. For IFTA auditors, this method is common when there are unusual relationships, and the auditor feels errors could exist in a specific area.
- e. **Block sampling** - Items are selected in a sequence. For IFTA auditors, this is the most common method used. The sequence is usually three consecutive months within a quarter.

## 2. Sample Size:

IFTA does not have any quantitative guidelines established when selecting the number of vehicles for the sample size. The size of the sample will depend upon the results of the auditor's preliminary review of the factors such as:

- a. The internal control of the licensee's overall accounting system.
- b. The internal control of the licensee's reporting system.
- c. Flow of paperwork within the licensee's system.
- d. System of calculating distances.
- e. System of calculating total fuel consumption.
- f. System of reporting tax paid credit gallons.
- g. Record retention system.
- h. Consistency of reporting systems.

- (R1310): The base jurisdiction shall audit its licensees on behalf of all member jurisdictions. The auditor should make every effort to choose a sample period in which all jurisdictions through which the licensee traveled is represented.

When selecting the different vehicles from the months selected for audit, try to get a cross-section (i.e. a representative sample). If you are confident that the sample is valid, do not be concerned if the sample does not represent distances in all IFTA jurisdictions. You may request distance information for a specific unit and time period to review to at least validate that distance not represented within the sample is correct.

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## 3. Sampling Source Documents - A520

It is suggested, but not required, that fleet miles/kilometers be verified to source documentation for at least three representative quarters. To determine if the licensee's distance accounting system properly accumulates all distance generated by units identified to the licensee's operation, not less than three representative months should be selected for audit with respect to computations of jurisdiction distance via routes traveled and to assure that all miles/kilometers are reported into the system.

The most effective method of tracing distance from IVDRs to the summaries is through a method of sequential audit. Using this method, the auditor tracks the beginning trip sheet odometer's readings and/or location to the ending of the period trip sheet. This catches the most common error, failure to include deadhead or inter-jurisdiction distances. For example, deadhead distances might not be properly accounted for if the end of the prior trip is Tucson and the next trip starts in Phoenix. A540.400. If the base jurisdiction uses a distance reporting software program to verify the records of the licensee, it shall be used as an audit **tool**. The auditor must use discretion when verifying the licensee's records. Documentation such as trip records, odometer readings, and other records used by the licensee to substantiate its actual distance records must be considered by the auditor in determining an acceptable distance reporting system.

## 4. Accountable Distances - P710

The IFTA tax return shall cover the previous calendar quarter and shall include the following information: total distance traveled during the reporting period by qualified motor vehicles in the licensee's fleet, regardless of whether the miles or kilometers are taxable or non-taxable by a jurisdiction.

## 5. Practical Aspects of Sampling

In conducting the sampling program, the auditor should also consider the following practical aspects:

- a. If you selected 15 vehicles for testing and have tested eight vehicles and found no errors, consider discontinuing testing - what is the risk of error?
- b. If you select a sample and find errors, consider whether the errors are isolated or reoccurring. A recurring error should be projected over the audit period.
- c. If there is a situation where isolated errors are occurring, discontinue sampling and audit in detail for the isolated errors. Do not include isolated errors in the

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sample projection.

- d. If you selected a sample and found errors, consider whether the error factor is reasonable. Sit down with the licensee and discuss the problems. Try to get acceptance from the licensee that they will accept the projection of the sample error factor over the entire population. It is not always necessary to expand your sample.

## **6. Some Pointers Regarding Sampling**

- a. Sample periods should be chosen in such a manner as to prevent biased results.
- b. Sample period may be adjusted to accommodate the licensee's reporting system(s) or record retention design(s) as long as the results remain representative, valid, and reliable.
- c. A sample size is acceptable, providing the auditor documents the procedure used to secure the items in the sample. (size recommendations in table "j")
- d. The auditor is to consider the effects of multiple weight classes as well as long haul vs. local in regard to the design and selection of the sample period or sample items.
- e. The auditor is to consider the effects of multiple operating divisions and/or fleets, which may have different vehicle types and reporting systems, in regard to the design and selection of the sample period or sample items.
- f. Sampling periods may be changed, modified, and deleted at the auditor's discretion based upon documentation and the licensee's environment (internal control, distance reporting system, and record retention).
- g. The licensee may request the sample period be changed because of some extraordinary event (fact). This request may be allowed, but the auditor would have to audit the "exception period" as well as the new period. An error in the exception period may be isolated to that period. If the exception period could not be audited, the auditor should provide an explanation and possibly isolate the effect of unacceptable record keeping.
- h. Any sampling procedure that deviates from the examination of all items in a sample period must be documented as to the reason for the deviation and for the new sampling procedure.
- i. The auditor should use solid professional judgment and common sense in applying sample period results in the audit situation.

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- j. General idea of the sample size to be chosen:

Fleet Size	Sample Size
1,000 + units	30 +
1,000 units	20-30
500 units	15-20
100 units	10-15
50 units	6-8
10 units	2-3

When selecting the sample size, the auditor should consider the effectiveness of systems of internal control, the number and size of items to be tested, number of vehicles, total distances, etc. Auditor's judgment plays an important role in determining the risk accepted.

## 7. Evaluating Sampling Results

After the audit procedures have been performed for the sample periods, the auditor must evaluate the results to determine whether the findings should be projected over the audit period (recurring errors).

Below is a list of several commonly occurring errors to look for during the audit process.

- a. Incorrect time period (distance year) reported
- b. Total distance reported does not match odometer readings
- c. Failure to record deadhead or bobtail distances
- d. Failure to record base jurisdiction distances
- e. Failure to operate interjurisdictionally
- f. Clerical errors in distance calculations/reporting
- g. Errors in transcribing distance/fuel from IVDR to recap, including:
  - General transcription errors
  - Picking up route number rather than distance
  - IVDR distance not included on recap
  - Some IVDR's missing
  - Page of driver's notebook missing
  - IVDR does not break out distance by jurisdiction
  - Vehicle eliminated from fleet and not reflected in distance figures

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- All log sheets not available at end of month and person in office estimates distance for remaining timeframe
- Pick up 250 miles for trip as South Carolina when should be 160 in North Carolina and 90 in South Carolina
- Pick up wrong jurisdiction from IVDR - especially similar names, such as New York and New Jersey
- Odometer gaps - beginning odometer reading does not agree with prior ending odometer reading
- Increasing all distance by a percentage to make sure enough distance is reported
- Origin, destination and, possibly, fuel stops are identified and the route is run via software without log consideration.
- Trip locations are identified via technology but route is adjusted by a quality control editor.
- IRP distance does not match IFTA distance.
- Fuel purchase allocated to the wrong jurisdiction.
- Fuel units reported in dollars rather than gallons/liters.
- Non-taxed fuel reported as tax paid.

Analyzing and isolating errors will help the auditor focus on possible problems.

There are two major reasons for the analysis:

## 8. Projecting Errors

When the auditor uncovers errors during the audit, there are several courses of action that can be taken.

- a. Isolate the reason for the error and, using the facts and circumstances of that particular situation, estimate the error. For example, if the reason for the error is that base jurisdiction distance is not reported, determine the interjurisdictional distance per day, week, or trip. Then, determine the applicable number of days, weeks, or trips and multiply to arrive at the total error.
- b. If the sample results can be representative of the population, project the error based on sample results. For instance, if distance for one vehicle is omitted from the application and it runs a similar route throughout the year, use your three-month sample, and project the results to each quarter in the audit period.
- c. If the sample is not representative of the population, expand the sample size to an extent that is representative of the population up to 100%. However, if

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relatively minor errors or isolated errors are noted, it might not be necessary to expand sample.

- d. If an isolated non-recurring error is noted, do not project sample results, but use the actual error amount.
- e. If the type of error that is occurring cannot be determined, expand the audit in the particular area. The auditor can then determine the total error or better project the error based on facts and circumstances. For instance, if the error is an end-of-month cut-off, expand the audit to cover the end-of-month cut-off problem.
- f. Use the sample error to project the error in the population.
- g. If errors are minor, consider them immaterial.
- h. If a type of error can reoccur due to a lack of internal control, but that type of error can occur in non-sampled vehicles in other jurisdictions or at other distances, the zeroing out of refunds should be considered.\*

When the auditor uses sampling as an audit tool, and if any errors are projected to the population, the projection may result in significant distance discrepancies and tax recalculation. If a member jurisdiction disagrees with the audit, it may request additional information, including the working papers, to determine whether the base jurisdiction audit is sufficient to support the refund/assessment request.

If determined through audit that the system does not have the checks and balances to support compliance, positive variances could be posted, but negative variances could be zeroed. \*

\* IFTA does not have specific provisions for or against this type of adjustment. The theory that an audit should make the licensee whole should only be applicable when acceptable documentation is maintained. In cases where internal controls are lacking or source documents do not give sufficient indication of the movement of the vehicles or auditor creation of distances is necessary, rewarding the licensee with a refund from any jurisdiction should be discouraged.

## **D. Distance / Fuel Verification**

### **1. Testing the Distance / Fuel Recorded on Licensee's System**

Examine the selected IVDRs to determine if:

- a. They contain all basic information required.
- b. Trip distance recorded is reasonably accurate and properly allocated among all jurisdictions. A distance program can be used as a tool to determine the accuracy of the reported distance.



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- c. Vehicle movement is continuous (odometer readings are sequential, preceding trip destination is same as next trip's origin).
- d. No unusual time lapses exist between recorded trips.
- e. They contain fuel purchase information.
- f. Fuel receipts are attached.
- g. Fuel receipts contain all of the required information.
- h. Bulk fuel withdrawals are documented.
- i. Fuel receipts/invoices are compiled in some other system.

As the auditor reviews licensee distance and fuel records, situations will be encountered where audited figures differ from those reported. These differences need to be discussed with the licensee to determine why the difference occurred.

## **2. Accuracy of the Distance and Fuel Information on the IVDR's**

The distance and fuel on an IVDR (which should include routes of travel) must be verified by the auditor. There are several ways to verify these distances.

- a. Odometer or hub odometer.
- b. Sources of distance information:
  - i. Official jurisdiction highway map.
  - ii. Household goods carriers' distance record book.
  - iii. Automated distance software systems.
  - iv. Commercial road atlas.

The fuel purchases and tax paid credit gallons on an IVDR, or monthly fuel summary, must be verified by the auditor. To verify fuel purchases and tax paid credit gallons:

- a. Review original fuel receipts
- b. Review original vendor invoices (These should list vehicle specific fuel purchases)
- c. Review Bulk fuel withdrawal records and reconciliations

## **3. Relevance and Frequency of Differences in IVDR Distances / Fuel**

One of the main functions of the audit will be to determine the relevance and frequency (isolated or recurring) of the differences found in the IVDR distances/fuel, and to decide if the application of changes to a licensee's system as a whole is warranted.

Factors that may cause differences between reported and audited distance and fuel that should be reviewed during the audit, might include:

- a. Failure to include all deadhead and interjurisdictional distances:

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- i. Beginning odometer reading does not agree with previous trip ending reading.
  - ii. Different locations for one trip's end point and the next trip's beginning.
- b. Missing IVDR's:
  - i. Unexplained period of time or distances;
  - ii. Valid IVDR not entered in monthly recaps.
- c. IVDR does not include all necessary information:
  - i. Distance by jurisdiction not broken out;
  - ii. In-city delivery/local area distance not noted.
- d. Inaccurate distance data on the IVDRs:
  - i. Broken or miss-calibrated odometers.
  - ii. Distances according to recorded routes do not match map distances
  - iii. The licensee and auditor may be using different automated distance systems.
  - iv. Obviously estimated or rounded distances.
- e. Inaccurate fuel information:
  - i. Missing fuel receipts.
  - ii. Fuel receipts allocated to the wrong jurisdiction.
  - iii. Fuel receipts discovered for purchases in jurisdictions with no reported distance.
  - iv. No bulk fuel withdrawal records or reconciliation.
  - v. Non-IFTA vehicles fueled from bulk fuel storage.
  - vi. No fuel purchases documented for a vehicle that has reported distance traveled.
  - vii. Review resulting MPG/KLM for each vehicle to make sure they are reasonable. Extremely high or low MPG/KLM may indicate errors in reporting fuel.

When the audited distance for an individual jurisdiction is different from the jurisdiction's distance recorded on the IVDR, the auditor needs to consider whether the licensee dropped or picked up any loads within the jurisdiction or if travel was straight through a jurisdiction. It may not be possible to determine this from the IVDR. If a licensee traveled across a jurisdiction and made no stops, the distance recorded for that jurisdiction should be at least the minimum map distance for the particular route taken.

If the test results in numerous errors and irregularities, the auditor might consider

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expanding the sample or testing a second sample, if there is doubt about the sample being representative of the population.

If the test does not reveal any material differences, and the sample was representative of the population, the auditor can place reliance on the licensee's distance and fuel recorded on the IVDRs.

#### **4. Tracing IVDRs to the Recaps**

It is required that the auditor trace back from the licensee's monthly and quarterly recaps to a sample of the IVDRs for a minimum of three representative months. If the test reveals any major discrepancies, a more thorough or, possibly, a complete audit of the licensee's distance and fuel records for the entire audit period.

#### **5. Testing the Accuracy of the Licensee's Recaps / Schedules**

The auditor should add the monthly recaps, comparing totals with the reported figures on the quarterly IFTA tax return. This will give the auditor an idea that these were the records used to prepare the IFTA tax return. If the totals do not agree, the auditor should determine where the differences occurred, and whether this was an isolated or recurring error.

#### **6. Relevance and Frequency of Recap Differences**

One of the main functions of the audit will be to determine the relevance and frequency (isolated or recurring) of the differences, and to decide if the application of changes to a licensee's system as a whole is warranted.

Factors that could cause differences between licensee and auditor distance and fuel summaries/recaps, which should be reviewed during the audit, might include:

- a. Information not properly transcribed from IVDR's to recaps.
- b. Clerical or transposition errors.
- c. Distance and/or fuel given to jurisdiction with similar abbreviation.
- d. Non -IFTA units included.
- e. Estimated distance reported.
- f. Fuel purchase units reported in dollars rather than gallons.
- g. Tax free fuel reported as tax paid fuel.

If the test results in numerous errors and irregularities, the auditor might consider expanding the sample or testing a second sample if there is doubt about the sample being representative of the population. If the test does not reveal any material differences and the sample was representative of the population, the auditor can place reliance on the licensee's recapped distance/fuel.

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## 7. Odometer Readings:

If a licensee uses odometer readings as the source for determining distance, and the accuracy of the licensee's IVDRs has been tested, the auditor may want to obtain beginning and ending odometer readings for the entire fleet. Care should be taken when relying on odometer readings. Odometers can be inaccurate.

Total fleet distance can be calculated from the odometer readings and compared to the total distance used in the IFTA distance calculation.

## 8. Distance and Fuel adjustments:

On the surface, distance and fuel adjustments appear to be easy to determine. However, in companies that do not use traditional IVDRs in their distance and fuel reporting system, verifying the reported distance and fuel, let alone calculating the adjustment, can be difficult.

After the tests are completed, the errors should be analyzed before computing the distance and fuel adjustment factor. When making a projection, the auditor must determine the best method to apply the adjustment factor from the sample to the entire population. Analyzing the errors provides the means of making such a projection, which might be more than a mere mathematical procedure.

When applying an audit adjustment factor, the auditor must properly account for exceptions in the adjustment. The following are examples of exceptions:

- a. A unit with poor reporting results stopped running during the audit's reporting period. Break the sample into two parts and look at the effect of both:
  - Include unit in period
  - Exclude unit from period
- b. Unusual clerical error - do not include in the error adjustment factor but correct as a separate stand-alone adjustment.
- c. If an error was found and is corrected in a subsequent period by a licensee, this would have an effect on the periods in which the error adjustment factor would be applied.
- d. If the reason for an error is known and the error can be easily calculated, the sample should not be used for error projection purposes. For instance, if the licensee missed local distance and the distance can be calculated, a separate error rate/adjustment is needed.
- e. While auditing IVDRs, if the audited distance and fuel is different than the distance and fuel recorded by the licensee, the auditor should discuss the

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difference with the licensee. The licensee may have an explanation. When these differences are discovered, the auditor should consider the nature of the differences if the licensee dropped or picked up any loads, if fuel was purchased, or if the travel was straight through a jurisdiction. The auditor may not be able to determine this from the IVDR.

If a licensee traveled across a jurisdiction and made no stops, the distance recorded for that jurisdiction should be at least the minimum audit distance for the particular route.

- f. When the licensee reports distance and fuel in excess of the minimum for a trip, the auditor will accept this distance and fuel as reported unless the distance and fuel reported is completely out of line with the trip route.

Distance overstatements are accepted because only the driver really knows which route or side route was taken, or when and where fuel was purchased. The exception given for the standard distance system is based on the fact that the primary error of such a system is that the distance table may be wrong. However, be careful - the truck may have operated out of route and the system has correctly reported that trip.

- g. Omitted distances or trips are picked up in an audit. The auditor should check the adjoining period's activity to ensure that the trip has not been reported in another period.

Complications may result from poor internal control, insufficient records or sample sizes, or licensee complexities, such as record keeping systems, lease vehicles, and different fleets in different locations. Certain complications can be resolved by treating the sampled period as an "exception period," which means treating those findings separately from the balance of periods.

## **9. Isolated Errors**

Certain errors in distance/fuel can be treated as isolated errors, which mean correcting those findings separate from the error factor calculation. Isolated/non recurring errors should not be projected and should be corrected outside of the error factor calculation.

## **10. Sampling vs. Full Audit of Records**

If sampling procedures satisfy the auditor that distance and fuel has been properly reported, the schedule of distance and fuel may be prepared. If the testing reveals major discrepancies, a more thorough examination will be necessary. This could

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include a complete audit of the licensee's distance and fuel records for the entire audit period.

The auditor must be satisfied that the licensee has not incurred significant unreported distance and fuel through failure to comply with laws and regulations.

**The most important thing for the auditor to remember when conducting an audit of the IVDRs is that the IFTA audit is being conducted on behalf of all member jurisdictions. A licensee may have reported all the distance operated and fuel purchased, but the auditor must be sure that the distance and tax paid credit gallons are distributed to the jurisdictions properly.**

## 11. Determining Audited Distance and Fuel

After auditing the IVDRs for the sample period and determining if the reported trip distances and fuel purchases are correct, the auditor now totals the audited and reported distance and fuel for each jurisdiction for the sample period.

Review the example below for an error factor calculation:

Unit 101	Reported	Audited	Factor
AZ	345	370	1.072
NV	400	300	0.75
UT	285	400	1.404
CO	300	345	1.15
NE	80	80	0
SC	150	175	1.167

In this example only one unit is shown. In an audit, all audited units would be included to calculate an error factor for each jurisdiction based on the sampled units. In reviewing the error factor, the auditor should determine if there are any errors that should not be included in error factor calculation. For example, assume that in the audit above the only distance for the jurisdiction of Utah was the distance generated by Unit 101 with an error factor of 1.404%. The auditor needs to review that trip and determine if it is an isolated error, something that only happened once or maybe a recording error by the driver. An auditor must exercise due care in reviewing error factor calculations and not just apply a 1.404% error factor to all reported distance for the jurisdiction of Utah.

Once an error factor is determined, the error factor is applied per jurisdiction, per month/quarter to recap/summary distance and fuel to calculate audited distance and

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fuel to report on the quarterly IFTA tax return.

Error factors should not be determined based on reported distance and fuel unless the auditor is sure that the reported distance and fuel is correct. Error factors are normally determined from recap distance and fuel after recap distance and fuel has been verified.

## **E. Equipment Verification**

1. Verify the entire equipment list against the licensee's recaps to determine if they contain the same vehicles. This step is vital to conducting the audit, as it is the foundation for testing distance figures.
2. Verify the unit number, vehicle owner's name, and date added/deleted to the fleet, vehicle identification number, registration number, year and make of the vehicle.

## **F. Audit Results**

This section will deal with a variety of issues during the audit finalization steps. Some of the issues will include:

- A method of projecting findings from a sample over a full audit period.
- The types of discrepancies that might warrant adjustments.
- Handling of incomplete or inadequate licensee records.
- Steps in concluding the field work, closing out the audit, and documenting audit results.

### **1. Determining Results**

An audit can result in no changes, changes resulting in assessments/credits, or a notification that an audit could not be conducted (inadequate records) but an assessment was prepared based on estimates.

#### **a. "No Change" Audit**

A "no change" audit means that the audit findings did not materially indicate a difference in distance or tax paid credit in any jurisdiction or in total distance or fuel when compared to the distance and fuel reported on the licensee's quarterly IFTA tax return.

#### **b. Change Audit**

There are several types of problems that can be uncovered during the audit, which would result in an assessment to the licensee, including:

- i. Missing records on various units
- ii. Incorrect distance and/or fuel reporting
- iii. Missing Records

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It is the responsibility of the licensee to maintain accurate records. There will be situations when vehicle records are completely missing or missing between trips (gaps). The auditor must make adjustments for these situations.

Recalculate total distance and jurisdiction distance percentages, total fuel consumed and jurisdictional tax paid credit percentages.

In the event that an auditor is unable to determine any reasonable method to assign or allocate unreported distance or fuel, such distance or fuel should be assigned to all jurisdictions on the basis of each jurisdiction's audited percentage of the total distance and tax paid gallons (A520). Due care should be taken when allocating unaccounted distance.

#### iv. Incorrect Distance and fuel Reporting

There will be cases when the licensee has misreported distance and/or fuel, either through omission or clerical errors. In either case, the distance and fuel should be adjusted, new percentages calculated, and new tax liability determined for each affected jurisdiction.

In any audits resulting in changes, R1220 provides for the assessment of penalties and interest as follows:

#### **Penalty:** R1220

The base jurisdiction may assess the licensee a penalty of \$50.00 or 10% of the tax liability, whichever is greater, for failing to file a return, filing a late return, or underpaying taxes due. Penalties paid by the licensee shall be retained by the base jurisdiction. Nothing in the Agreement limits the authority of a base jurisdiction to impose any other penalties provided by the laws of the base jurisdiction.

#### **Interest:** R1230

The base jurisdiction, for itself and on behalf of the other jurisdictions, shall assess interest on all delinquent taxes due each jurisdiction except taxes collected directly by other jurisdictions in accordance with P1000 and P1120.300.

For a fleet based in the US, interest shall accrue at a rate of one percent per month.

For a fleet based in Canada, interest shall accrue at a rate equal to the Canadian Federal Treasury Bill rate plus two percent and adjusted every calendar quarter.

## **2. Exit Conference and Audit Finalization – A650**

An exit conference should be held with the licensee to review the preliminary findings, including applicable penalty and interest, recommendations for



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improvement, rights of appeal, and to whom the audit report should be addressed. In addition, the licensee should be notified as to the results of the audit. As part of the exit conference, the auditor should summarize any findings, highlighting both strong and weak areas of the licensee's record keeping or distance and fuel accounting system. The auditor should inform the licensee of problem areas as the audit progresses. There should not be any surprises or controversy at this stage of the audit.

During the exit conference, there are a few general areas that should be covered, including:

- An overview of the total audit.
- Listing of specific problem areas, with an indication of the priority of the problems.
- Auditor recommendations for record keeping improvement.
- Audit findings.
- Payment/billing of the audit.
- How the appeal process is initiated.

It is recommended that the exit meeting be attended by the licensee's staff management with the authority to implement the recommended changes.

It is also recommended that work-level employees familiar with the specific system problems be involved. However, the final decision regarding attendance at the meeting lies with the licensee; and that decision can be based on such factors as licensee's perception of what the dollar value of the findings will be. The auditor must be prepared for varying numbers and different levels of people at the meeting. Some general suggestions for preparing for and conducting the final review with the licensee are:

- a. Schedule the review of the audit results as far in advance as possible to allow maximum licensee participation.
- b. Have a presentation outline prepared to cover important areas.
- c. Make extra copies of important documents and calculations so all in attendance will be able to follow the discussion.
- d. Mention areas of strength as well as weaknesses in the licensee's system.
- e. Let the licensee know what to expect in the final audit report, including hints on how to interpret potentially confusing documents, and identification of documents that may be most applicable to the licensee's results.

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- f. Explain due process and outline the appeal process.
- g. Ensure the licensee understands how the audit was performed; for example, how samples were chosen and how results were applied.
- h. Listen to the licensee's questions and comments to gauge how effectively and clearly the auditor has "gotten the point across".
- i. Be open to additional evidence and information provided by the licensee during the review.
- j. When possible, provide the applicable jurisdictional statutes/regulations, IFTA Agreement and Section reference, etc., on which the findings are based. It's important that the licensee knows that he/she was treated fairly, and that the laws and rules, not the auditors, determine record keeping requirements.

## **G. Audit Report and Working Paper File – A660**

### **1. Audit Report**

After completing the audit work, the auditor must prepare an audit report to describe and explain the results. The audit report is not intended to document each step performed during the audit work, but rather to provide an overview of the process for the licensee. A copy of the audit report shall be kept in the audit file.

A complete report documenting the audit must be prepared by the auditor and shall contain, but not be limited to, the following information:

- Name and address of the licensee.
- Account number.
- Audit period.
- Types of records audited.
- Description of audit techniques employed.
- Net distance adjustment.
- Net tax paid fuel purchases adjustment.
- MPG/KPL as reported.
- MPG/KPL as a result of the audit.
- Net fuel tax adjustment per jurisdiction.
- Remarks and recommendations; and
- Signature of the auditor or reviewing jurisdictional official and date.

The audit report must contain enough information, including detailed schedules, for the licensee to verify adjustments made.

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## 2. Working Papers

The function of the auditor's working papers is to provide evidence of auditing standards and adherence to the audit requirements under IFTA. The audit report should cover:

- The review and evaluation of the licensee's system of internal control.
- The auditing procedures followed.
- The evidence obtained and scope of testing.
- The support for the auditor's conclusion regarding the fairness of the licensee's submitted records and the basis for the assessments rendered.

All working papers pertinent to the audit should be maintained in the permanent audit file including, but not limited to:

- Distance sample information.
- Total fuel and tax paid credit sample information.
- Distance adjustment calculations.
- Fuel and tax paid credit adjustment calculations.
- Comparison of audited and reported distance, total fuel and tax paid credit.
- Notice of audit.
- Audit report.
- Calculation of tax due including penalty and interest assessment per jurisdiction.

The content of the working papers depends on the situation encountered and the type of audit. The majority of audits fall into two basic categories:

**a. Good Records** - Records are in good order with acceptable documents, with no errors on the report and no assessment to be made. In this case, only minimal documentation is necessary, such as:

- Licensee identification items.
- Source documents maintained.
- Items reflected on source documents.
- Procedures performed and the scope of procedure such as period(s) tested.
- Auditor's evaluation of the Licensee's records.
- Recap or summary schedule.
- Licensee correspondence.
- Licensee contact log (pre, during and post).
- Vehicle/equipment list.

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- Accounting of decals acquired/used.
- Internal control questionnaire/evaluation.
- Pre audit questionnaire (if used).
- Sample source documents.
- Sample projections.
- Opening and Closing conference notes.

**Note: On a “no change audit,” retain sufficient documentation to satisfy the base jurisdictional and IFTA responsibilities.**

**b. Poor Records** - For poor or incomplete records, document the problem areas.

The supporting documents may not be acceptable; or no source documents are available. In these cases it is important to carefully document the findings. This could include, but not be limited to, the following:

- A list and example of all improperly completed documents.
- Sample copies of improperly completed documents.
- Samples by copy or reference of situations that are improper.
- Each point of contention supported by the statute or rule governing that situation.
- The method used to make an assessment.
- The identity of those present for the audit, including the name and title of the person(s) representing the jurisdiction and the name and title of the person(s) representing the licensee.
- Comments regarding unusual items or transactions.

**3. Permanent Audit File - A680**

The Audit file will contain, but not be limited to the following:

- a. Summary Schedules - Summary schedules shall include reported and audited fuel and distance for each effected jurisdiction. They shall also include the assessment or refund for the jurisdictions and the net total assessment or refund due for the audit, including all penalties and interest.
- b. Supplementary Schedules - Supplementary schedules shall provide additional details for results on the summary schedules. Supplementary schedules will contain, but not be limited to, schedules showing how audited fuel and distances were calculated and in the computation of adjustment factors determined from a

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sample, if applicable.

- c. Detail Information - Detail information is documentation of actual records reviewed which support the audit results. Detail information includes, but is not limited to, the following:
- Detail of bulk or retail purchases;
  - Detail of bulk fuel withdrawals;
  - Analysis of trips audited, showing audited distance in total and per jurisdiction.

This information may be maintained on a workpaper or electronically, on a database.

- d. Listing of Records Maintained - A listing of records maintained shall indicate what records are maintained and presented by the licensee and whether the records comply with the Agreement. A synopsis of noted from the opening and closing conferences with the licensee indicating the dates held and the persons in attendance.

Following the close-out conference and any review period deemed necessary, the base jurisdiction will furnish the licensee with the Licensee Audit Report and its customary notice of assessment, billing or other notification which would signify the beginning of the licensee's appeal period.

Member jurisdictions may request copies of the audit reports and work papers. A copy of the audit report, work papers, supporting documentation and any pertinent post-audit communications must be maintained by the base jurisdiction as part of the audit file for a period of four years from the completion of the audit.

## **4. Indexing Working Papers**

Working papers should be retained to support the audit. Any pending matters addressed in the working papers should be resolved. The arrangement of the audit working papers will vary depending upon the needs of a particular audit. However, the working paper files for each audit engagement should be arranged according to jurisdiction guidelines.

## **5. General Working Paper Preparation**

The following information is provided as recommendations in preparing working papers.

- a. Headings

Each working paper should be properly identified by its heading. The heading

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should include the name of the licensee, a description of the contents or purpose of the working papers, and the date of the audit. All working papers should be cross-referenced, where applicable.

### b. Signing and Dating

When possible, each page of the working papers should be signed (or initialed) and dated by the preparer. Working papers should be dated with the date of completion of the underlying work.

### c. Narrative Comments and Tick Marks

The working papers should contain a clear record of the scope of the audit, the conclusions reached, and an indication of the sources of information cited.

Working paper comments vary from a simple statement of fact to rather lengthy discussions. No rules can be made to cover such widely varying situations, but all comments should comply with the following general principles:

- i. They must be clear, concise, and understandable.
- ii. They must indicate clearly the sources of any factual information and the names and positions of any employees whose opinions are quoted.
- iii. They must reach a conclusion - under no circumstances should open questions remain in the papers, either in the form of a "?" on the schedule, or of a note which leaves the writer's opinion to the reader's imagination.
- iv. Notes appearing in the working papers must not be inconsistent with each other. Any inconsistencies noted on review must be reconciled and corrected or amplified appropriately.

If the original conclusion is changed upon review because of additional information or for other reasons, the note must be amplified so the reconsidered conclusion is supported properly. A notation such as "O.K.," "No," or "Too small," alongside comments is not sufficient explanation.

Summaries of figures, narrative comments, conclusions, and use of tick marks are generally more efficient techniques for indicating the degree of auditing than listing voluminous details.

### d. Legibility

It is essential that working papers be written legibly since they are the evidence of audit of the licensee's reports. Particular care should be taken with printing or writing names. Only one side of the paper should be used.

### e. Taxpayer Prepared Information

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When possible, analyses and schedules prepared by the licensees for their own use should be included. Such working papers should bear an indication that the licensee prepared them. The extent of test-checks of licensee-prepared information will depend on the nature of the information and the appraisal of the system of internal control.

f. Unnecessary Working Papers and Information

Schedules merely copying information readily available in the licensee records should not be prepared. When working directly with licensee records, only summary schedules, statements of work done, clear identification of items selected for testing, unusual items noted and conclusions reached need to be documented in the working papers. It is necessary to document those items needed to reference the test information, such as: the truck number, period tested and the procedures performed, trailer number, trip numbers, routes traveled, etc. Advantages of using photocopies of licensee's records include:

- i. Eliminates writing by hand.
- ii. Helps defend.
- iii. Reduces clerical error.
- iv. Easier to review.

g. Record of Items Tested

Working papers must contain a record of, or provide a clear trail to, the items selected for testing. This can be accomplished in a number of ways, and techniques will vary by audit area and licensee. At a minimum, it is desirable to maintain a simple list, identifying the document number for each item tested; i.e., trip sheet number, month, truck number, etc.

There are many situations where details for each item selected for testing should be recorded on schedules to enable an orderly completion of multi-step tests and to provide information necessary to enable an effective review by those in charge of the examination. In these cases, the records of items will be clearly established.

## 6. Review of the Audit

The audit report and supporting schedules shall be reviewed by an audit manager/supervisor. The purpose of this review is to determine that:

- a. The audit was performed in accordance with IFTA and jurisdictional standards.
- b. The report is mathematically correct.

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- c. Evidence supports the conclusions drawn and assessments made.
- d. The auditor's judgments, methods, and approach were appropriate.
- e. The audit is defensible and there are no unanswered questions, ambiguous conclusions, or inconsistent evaluations.

## **7. Netting Of Audit Adjustments**

When the - audit result is a net underpayment by the licensee, the base jurisdiction shall collect the amount of the underpayment from the licensee, pursuant to the base jurisdiction's laws and procedures. When the result is a net overpayment by the licensee, the base jurisdiction shall refund the amount of overpayment to the licensee.

\*The theory that an audit should make the licensee whole must be applicable when acceptable documentation is maintained and netting should take place. This theory should also take into consideration the other affected jurisdictions and the licensee's competition. In cases where internal controls are lacking or source documents do not give sufficient indication of the movement of the vehicles or auditor creation of distances is necessary, the rewarding of the licensee with a refund from any jurisdiction should be discouraged. Rewarding a licensee, through refund, could put that licensee at a competitive advantage over their competition, who took the time and resources to calculate the distance, fuel usage and taxes correctly the first time. Auditors should ask themselves, "Under these conditions, would I refund my own money?"

## **8. Communications With Other Jurisdictions - A690, A660**

Within 45 days of furnishing the licensee with the finalized Licensee Audit Report and its customary notification of assessment or billing, the commissioner shall send an Interjurisdictional Audit Report to all affected member jurisdictions notifying those jurisdictions of the accuracy of the records of said licensee and any resulting adjustment of fuel taxes. An affected jurisdiction is any jurisdiction in which the licensee reported or accrued miles/kilometers, fuel or experiences any changes in the reported vs. audited calculations during the audit period.

The Licensee Audit Report shall be considered to be finalized when the notification of assessment or billing issued to the licensee triggers the right to appeal such assessment or billing. Where a licensee does not agree with the initial notification of audit findings and the base jurisdiction has granted more time to review the audit



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results and/or review additional records before the formal appeals process begins, the Licensee Audit Report will not be considered finalized.

The base jurisdiction shall prepare an Interjurisdictional Audit Report that shall contain, but not be limited to, the following information:

- a. Name of the base jurisdiction.
- b. Name and address of the licensee.
- c. Federal Employer Identification Number or equivalent.
- d. Reported tax by jurisdiction.
- e. Audited tax by jurisdiction.
- f. Penalty.
- g. Interest by jurisdiction.
- h. Total by jurisdiction.