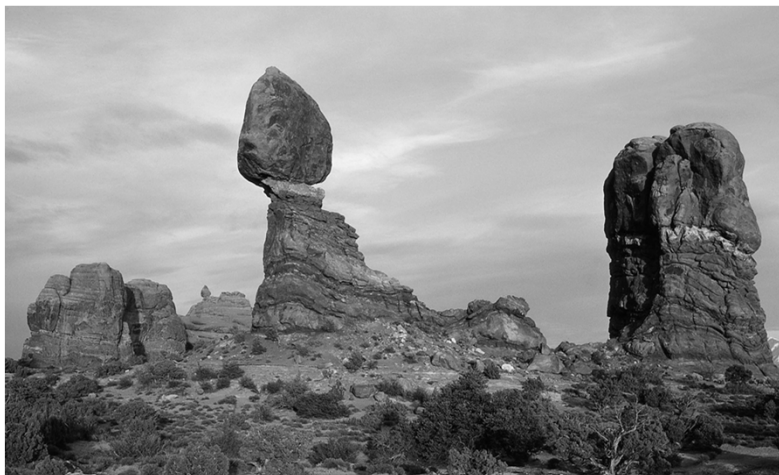


THE AUDIT REPORT



Too Much - Not Enough
The Balancing Act

Why?

IFTA: AM - A660

.100 Licensee

.200 Interjurisdictional

IRP: APM: Article 8 (through 6/30/2013)

802 Registrant

803 Interjurisdictional

APM: Article 6 (7/1/2013 forward)

601 Audit Report



Effective Communication

Achieves the desired or intended results



Effective Communication

➤ Organized

- Taxpayer Information
- Pre-Audit Contact
- Evaluation of Internal Controls
- Sampling Methodology
- Mileage Analysis
- Fuel Analysis
- Exit Conference
- Summary



Example...

On February 14, 2011, Mr. XXX was contacted by phone and informed of the pending IRP/IFTA audit. On February 16, 2011, an audit confirmation letter, pre-audit questionnaire and Alabama Taxpayers' Bill of Rights were mailed to his attention. The audit notification letter stated that operational records were due for examination by March 16, 2011. On that date, the taxpayer asked for and was granted a two (2) week extension to submit the operational records. After the two (2) week extension expired, the taxpayer still had not yet submitted the operational records.

Example (cont'd)...

Consequently, on April 12, 2011, an audit submission deadline letter was mailed to Mr. XXX. The letter stated that the records must be submitted within seven (7) days or the audit would be submitted to the Motor Carrier Audit Manager for review. On April 19, 2011, Mr. XXX called and stated that he would be personally delivering the operational records. On April 22, 2011, at 3:00 p.m., an opening conference was held with Mr. XXX and his brother, XXX at the Gordon Persons Building in Montgomery, AL (where the audit was conducted).

Example (cont'd)...

On February 14, 2011, Mr. XXX was contacted by phone and informed of the pending IRP/IFTA audit. On February 16, 2011, an audit confirmation letter, pre-audit questionnaire and Alabama Taxpayers' Bill of Rights were mailed to his attention. On April 22, 2011, at 3:00 p.m., an opening conference was held with Mr. XXX and his brother, XXX at the Gordon Persons Building in Montgomery, AL (where the audit was conducted).

Effective Communication

➤ Accurate



Effective Communication



➤ **Clear &
Understandable**

Effective Communication

➤ **Correct tone**



Alabama Department Of Revenue
International Fuel Tax Agreement (IFTA)
International Registration Plan (IRP)
Audit Report

MVA-1
310

IFTA License Number: N/A
 IFTA License Period(s): N/A
 IRP Account Number: 4-0001
 IRP License Period(s): 2011 & 2012 (7/1/2008 - 6/30/2010)

Blountville, AL 35031

RECORDS EVALUATION

Type of Operation:
 Common Carrier
 Contract Carrier
 For Hire Exempt
 For Hire Rental
 For Hire
 Private

Commodity Class:
 All
 Exempt
 Household Goods
 Logs
 Passengers

Source Documents Maintained in Support of Miles:
 Driver Trip Reports (IVMR's)
 Driver Pay Records
 Driver Logs
 Freight Bills or Manifest
 Receiving Contract
 Other: _____

Items Reflected in Mileage Source Documents:
 Date of Trip (Begin & End)
 Routes of Travel
 Begin & End Odometer Reading
 Total Trip Distance
 Trip Origin & Destination
 Vehicle Unit Number
 Distance by Jurisdiction
 Carrier Name
 Fleet Number
 Driver Name

Source(s) Used by Carrier To Determine Miles:
 Odometer Readings
 State Maps
 Other: _____
 Hubodometer Readings
 Standard Mileage Guide
 Distance Software
 Estimated

Summaries Maintained in Support of Mileage:
 Monthly Summaries by Vehicle
 Monthly Summaries by Fleet
 Quarterly Summaries by Vehicle
 Quarterly Summaries by Fleet
 Annual Summaries by Vehicle
 Annual Summaries by Fleet

Source Documents Maintained in Support of Fuel:
 Individual Purchase Invoices
 Vendor Summary Invoices
 Other: _____
 Bulk Storage Purchase Invoices
 Bulk Fuel Reconciliation
 Vehicle Fuel Logs
 Bulk Storage Withdrawal Logs

Items Reflected in Fuel Source Document(s):
 Date of Purchase
 Purchaser Name
 Date of Withdrawal
 Other: _____
 Fuel Type
 Vehicle Unit Number
 Price Per Gallon
 Seller Name and Address
 Number of Gallons Purchased
 Tax Paid

Summaries Maintained in Support of Fuel:
 Monthly Summaries by Vehicle
 Monthly Summaries by Fleet
 Quarterly Summaries by Vehicle
 Quarterly Summaries by Fleet
 Annual Summaries by Vehicle
 Annual Summaries by Fleet

Auditor's Evaluation of Maintenance of Operational Records:
 Adequate
 Inadequate

Comments on Evaluation: The registrant's records were adequate for the periods addressed by this audit report. The reader's attention is directed to the auditor's comments and recommendations included in the narrative section of this report.

1

Comment (R13): He operates as a d/b/a, which should be noted here as it is on the bill.

AUDIT NARRATIVE

Taxpayer Information: During the subject audit period the registrant, [redacted] operated five (5) vehicles, all leased to [redacted] Channahon, IL, for the period July 1, 2008 through June 30, 2009. Four (4) were leased to [redacted] and another leased to [redacted] Minneapolis, MN for the period July 1, 2009 through June 30, 2010. All vehicles operated under the lessee's IFTA authority. These vehicles traveled throughout the continental U.S. hauling construction materials. The registrant currently has seven (7) vehicles registered under the IRP. This is the registrant's initial IRP audit.

Pre-audit Contact: The auditor first contacted [redacted] by telephone on September 23, 2011. [redacted] was informed of the audit, the records needed, the thirty (30) day notification provisions of IRP, and his rights of appeal. The auditor explained that the registrant would receive an audit notification letter, pre-audit questionnaire, and Alabama Department of Revenue "Alabama Taxpayers' Bill of Rights" pamphlet. He was asked to sign the letter, complete the questionnaire, and return both in the pre-addressed envelope. [redacted] brought his records, along with the requested correspondence, to the Jefferson Shelby Taxpayer Service Center on November 7, 2011.

Evaluation of Internal Controls: The drivers complete individual vehicle mileage records (IVMR's) that are complete in all respects. The IVMR's are turned in to the lessee's personnel who verify the mileage and enter it directly into the lessee's fuel and mileage reporting system. Monthly, quarterly, and annual mileage summaries detailing mileage traveled by each vehicle were provided to the auditor. The internal controls [redacted] seemed adequate to allow for sampling.

Sampling Methodology: The auditor audited all mileage traveled by each vehicle for the fourth quarter of 2009 for the records provided by [redacted] and the second quarter of 2010 and the third quarter of 2008 for the records provided by [redacted]. Allowing for the quality of the records and that no significant errors were noted in the performance of the initial mileage tests, mileage testing was limited to the miles traveled for all vehicles in one month in each of sampled quarters.

Mileage Analysis: The jurisdictional mileage from one month of IVMR's was scheduled and totaled for each of the subject vehicles [redacted] for each of the subject mileage years. The scheduled mileage was traced to the monthly summary mileage for each vehicle. The monthly summary mileage was scheduled for each of the vehicles and traced to the quarterly summary mileage for the subject vehicles. The quarterly summary miles were scheduled and traced to the annual summaries in the same manner. The only error noted occurred in the third quarter of 2008 where the mileage traveled by truck 3625 July 3-21, 2008 [redacted] was not recorded correctly. An additional 1,120 miles were picked up by the auditor, affecting seven (7) jurisdictions. The mileage for the scheduled IVMR's was tested using the [redacted] software. The only significant error occurred again in the third quarter of 2008 where the driver of truck 4257 [redacted] to Packing recorded 207 MO miles as KY miles [redacted] dated July 23, 2008. Adjustments were made to the records provided to correct these errors. The auditor scheduled the summaries used by registrant to prepare his license year 2011 and 2012 registrations. The mileage from these summaries was recorded as the actual miles on the registrations with the only exception being the [redacted] miles by reporting [redacted] rather than the correct 901 MN miles shown in the summaries. It was further noted that the registrant used a mileage summary provided by Admiral, dated 10/1/2008-2/28/2010, rather than one [redacted] from 8/1/2008-7/31/2010. This resulted in a significant understatement (58,113 miles) affecting all jurisdictions for which actual miles had been reported for license year 2012. The attached IRP Audit Invoice and schedule IRP Jurisdiction Audit Fees Dual reflected the adjustments for the audit period.

Exit Conference: A telephone conference was held with [redacted] on December 13, 2011. A complete copy of the audit was mailed to him from the Jefferson Shelby Taxpayer service center that same day. The audit findings were explained and the following [redacted] and provided:

- The registrant must verify that the mileage reported corresponds with the mileage traveled during the mileage period requested on the registration.

The taxpayer has expressed no contentions with the audit findings. It was explained that the audits may be appealed in accordance with the Alabama Taxpayers Bill of Rights, which requires a written request within thirty (30) days of the serving of this notice. Any such request should be mailed to the following address:

Billy Phillips, Audit Manager
 Motor Vehicle Division
 P. O. Box 227020
 Montgomery, AL 36132-7020

2

Comment (R12): All "I" letters should be caps

Comment (R13): Insert "ta"

Comment (R14): Since we are talking past time zone, "time" is a better option

Comment (R15): Add a comma for a brother

Comment (R16): Insert a comma

Comment (R17): Next number is ()

Comment (R18): Insert "ta"

Comment (R19): See #7

Comment (R110): Unnecessary word, please delete

Comment (R111): You do not usually mention specific vehicles in these reports. Are you doing so here for the carrier or leasee personnel? I only ask because it cost money to do it for each your summary year. You could more simply indicate use of vehicle "in place of the usual language - just an observation to consider

Comment (R112): Should be present and you should indicate the "reference used"

Comment (R113): In line with #11, this could be combined to "date a date"

Comment (R114): Didn't you indicate earlier that all were leased to [redacted] during this time period? If so, this should be consistent because it suggests a contradiction.

Comment (R115): I think specifically requested, the request and qualifications do not get out work papers so we should include them such differences - please delete

Comment (R116): would delete this as unnecessary, but the date is good

Comment (R117): I am assuming beginning here would help to link up the date.

Comment (R118): Insert "ta"

Comment (R119): Insert a comma

Comment (R120): Should be "I word like 'understatement'" in future.

Comment (R121): Please delete or add "ta" before reporting, unless you are paid.

Comment (R122): Delete extra space

Comment (R123): See #7

Comment (R124): Is this your attention - correct reporting period dates are 07/01/2008 - 06/30/2010.

Comment (R125): This is fine, but since the file should be part of the review, a more concise option for this is "and reporting schedule?"

Comment (R126): If you make the #25 change, this should be "make"

Comment (R127): Should be placed

Comment (R128): You should add "having as a state of ability"

Comment (R129): Should be singular

Comment (R130): Should be "was"

In accordance with IRP provisions, a copy of the audit report has been submitted to all affected member jurisdictions. Affected member jurisdictions will have forty-five (45) days from the date they are notified to appeal the audit. All audit findings will be considered final as to both member jurisdictions and the taxpayer, if they do not act as specified above.

Summary: The IRP audit resulted in a total liability of \$72,971. The attached IRP Audit Invoice summarizes the effect of the audit. Interest has been applied in accordance with International Registration Plan provisions and §40-13-44, Code of Alabama 1975. Please note that penalty and/or interest may be individually assessed by affected IRP member jurisdictions. Please return the completed signed IRP Audit Invoice with your payment within thirty (30) days from the receipt of this report.

Please note, failure to remit payment as directed may result in the assessment of additional penalties and/or interest as well as the application of liens against the taxpayer's property for any unpaid liability. Additionally, all future IRP transactions may be suspended.

December 13, 2011
Date

[Redacted Signature]

3

Comment (R1C3): May change with the delivery date change for 2011. Also, per R1C1's request, you should indicate the position relative to each year ending.

Comment (R1C2): Should be underlined.

Comment (R1C3): Please change to date. It seems to me you are including parties with this agreement since the 30-days begins with the date of the report and the date is incorrect.

Comment (R1C4): Finally, please change all date references to 2011 - if the printer will not pick up the correct font as clearly.

Questions / Observations



CLOSING CONFERENCE



Explaining and Discussing in a
Non-Confrontational Manner



Ways & Means

- ▣ In person
- ▣ Telephone
- ▣ Fax
- ▣ E-mail



Ways & Means



The Closing

- ▣ Overview of the audit
- ▣ A review of any issues found
- ▣ A review of the results
- ▣ Recommendations
- ▣ Audit payment(s)
- ▣ Appeal rights & processes



Attendees

- ▣ The carrier and/or their representative



- ▣ Anyone else they choose

The Delivery

BE...

- ▣ Prepared
- ▣ Professional
- ▣ Confident
- ▣ Patient
- ▣ Courteous
- ▣ Open to New Information





Questions / Comments?



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