

IFTA - IRP AUDITS

PRE-AUDIT PLANNING

&

OPENING CONFERENCES

Webinar

Conference Dial in number: 1-866-939-8416

Participant code: 7685145#



FACILITATORS

- Thom Rabaglia
 - Audit Supervisor Wisconsin DOT
 - Former IFTA Audit Committee Chair
 - Current IRP Audit Committee Member
- Rick LaRose
 - Tax Unit Assistant Manager, CT DRS Excise Unit
 - Asst. IFTA Commissioner Connecticut
 - Vice-Chair IFTA Dispute Resolution Committee
 - Former IFTA Audit Committee Chair



Webinar Logistics

- Presentation will run for approximately one hour
 - 40 minutes of presentation
 - 20 minutes of “Q&A”
- Questions and comments can be sent to the facilitators during the Webinar.
 - To pose a question or offer a comment, simply type a question in the question box and we will attempt to get to it as soon as possible.



PRE-AUDIT PLANNING

- Initial steps
 - Auditor is given an assignment
 - Review of Quarterly IFTA Tax Returns (IFTA Audit Manual Section A220.100, “Shall”)
 - Distance and Fuel Analysis
 - Seasonal trends
 - Fluctuation in activity
 - Reported exemptions
 - Rounded figures, repeated figures
 - Selection of periods (representative nature)
 - Representative Jurisdictional coverage
 - Comparisons with reported IRP activity
 - MPG/KPL Analysis
 - Consistency versus sporadic results
 - Seasonal trends
 - Anomalies
 - Rounded figures, repeated figures



PRE-AUDIT PLANNING

- Initial Steps (cont'd)
 - Review of IRP Applications (IRP APM 203)
 - Estimated distance
 - Omitted jurisdictions
 - Representative nature of sample periods
 - Jurisdictional coverage
 - Comparisons with reported IFTA activity



PRE-AUDIT PLANNING

- Initial steps (cont'd)
 - Making contact with the licensee or registrant (IFTA Audit Manual Section A610, “Should”; IRP APM 601 “Shall”)
 - Introduction Letters
 - Phone contact
 - Purpose
 - To inform the licensee or registrant that they have been selected for audit and what the audit will entail
 - To inform them of the audit’s scope (periods to be examined)
 - To discuss and determine what records will need to be furnished for the review (test periods, documents, etc.)
 - To explain the authority under which the audit is being performed and what may happen in instances of non-compliance



A SAMPLE INTRODUCTORY LETTER

July 30, 2010

Double XX Enterprises Inc.
N6808 CTH XX
Holymen, WI 54333

IFTA/IRP Audit
IFTA Account (FEIN): 4368055401
IRP Account: WI-010060

Dear Motor Carrier:

Your firm has been selected for an International Fuel Tax Agreement (IFTA) / and International Registration Plan (IRP) audit. Mr. Steven, the auditor assigned to your audit, will contact you to schedule a specific date and time to conduct the audit. He will examine the distance and fuel use records you kept from July 1, 2003 through June 30, 2007.

Please complete the attached questionnaire and mail or deliver it to Mr. Steven within the next 30 days. Please have the following information available at the time of the audit:

1. The distance source documents and fuel receipts pertaining to your vehicles from July 1, 2003 through June 30, 2007.
2. Monthly/quarterly summaries that indicate the total miles traveled and fuel obtained in each jurisdiction by each vehicle from July 1, 2003 through June 30, 2007.

After you have received the initial results, should you choose to furnish additional relevant records, a subsequent visit fee will be assessed. The audit unit will charge actual and necessary expenses incurred by the auditor, including wages, to examine these additional records. If you have any questions regarding this audit, please contact Mr. Steven at (608) 267-0000.

Sincerely,

Thom, Lead
Motor Carrier Audit Unit



SAMPLE FORMAT FOR INITIAL TELEPHONE CONTACT

- Calling the licensee or registrant
 - Ask to speak with whomever is responsible for the filing of either the IFTA tax returns, the IRP applications, or is responsible for any audit of the business activity
 - This may be the owner(s) of the entity
 - This may be a financial officer (Controller, Treasurer, Tax Director or Manager, etc.)
 - This may be an accounting person within the company
 - This may be an outside accountant, attorney, reporting service, or other party (this may require the acquisition of Power of Attorney)



SAMPLE FORMAT FOR INITIAL TELEPHONE CONTACT

- Once you have established that you are speaking with the proper responsible party and secured (if applicable) Power of Attorney:
 - Introduce yourself
 - Inform the party that the business has been selected for audit
 - Explain what is being audited and why
 - Explain what periods the audit will cover
 - Discuss any requirements regarding waiver of the statutes of limitations (subject to base jurisdictional law and policy)
 - Discuss what appointment date is agreeable to the parties (IFTA and IRP suggest that the auditee be contacted at least 30 days before the tentative audit date)
 - Briefly discuss what the company does, what kind of vehicles they have, where they travel
 - Discuss what test periods you will initially examine
 - Discuss what records will be required for the examination
 - Inform the party that this discussion will be followed-up in writing (Confirmation Letter); ask for an email address for any follow-up communications



UH, OH!!!

- What happens when the licensee or registrant requests that the audit be conducted in an office located outside of your jurisdiction?
 - IFTA and IRP provide for the base jurisdiction to charge for the per diem and travel expenses associated with conducting audits outside of the base jurisdiction. Your jurisdiction's policy will determine if and how this is handled. (IFTA Procedures Manual Section P520.200, IFTA Audit Manual Section A540.100; IRP 1020)



UH, OH!!!

(DATE)

(ADDRESSEE)
(TAXPAYER NAME)
(TAXPAYER STREET ADDRESS)
(TAXPAYER CITY, STATE, ZIP CODE)

Dear (ADDRESSEE):

(TAXPAYER NAME) has been selected for an International Fuel Tax Agreement (IFTA) audit. The Connecticut IFTA examiner has already contacted you and scheduled an appointment for the examination. In accordance with IFTA and as a Connecticut-based licensee, you have elected to have the audit examination conducted at the office of your tax practitioner at (LOCATION).

Under IFTA Sections R325 and P520.200, the Connecticut Department of Revenue Services (DRS) will bill you for the reasonable per diem and travel expenses associated with the audit examination. At the conclusion of the audit, you will be notified in writing of the total expenses to be reimbursed to the State of Connecticut.

Sign below and return this original to Department of Revenue Services,
Attn.: Excise Tax Subdivision 17th Floor, 25 Sigourney St, Hartford CT 06106.

Agreement to Comply With Sections R325 and P520.200 of IFTA

I, the duly authorized representative of the above-named IFTA licensee, do hereby consent and agree:

That in accordance with Sections R325 and P520.200 of the International Fuel Tax Agreement the above named IFTA licensee agrees to pay for the reasonable per diem and travel expenses associated with the audit examination.

Signature of Authorized Representative _____ Date _____

Name of Representative (print) _____ Title _____

Sincerely,



Rick LaRose
Revenue Services Tax Supervisor
860-541-3216
Cc: DRS Business Office
AU-657 (Rev. 04/08)

UH, OH!!!

- What happens if the licensee or registrant does not respond to the introductory letter or telephone calls?
 - Both the IFTA and IRP provide for the issuance of Best Information Available Assessments for failure to provide records upon written request by the base jurisdiction. (IFTA Articles of Agreement Article R1210, IFTA Audit Manual Sections A540.200 and A550; IRP 1065 IRP APM 603)



SAMPLE CONFIRMATION LETTER

October 16, 2009

CT. Tax Reg. No. 1111111-000

**John Doe President
Doe's Trucking
1 Main Street
Hartford, CT 06106**

Dear Mr. Doe:

You have been selected and scheduled for an **International Fuel Tax (IFA)** tax audit by the Audit Division of the Connecticut Department of Revenue Services (DRS) for the audit period commencing **10/1/06 and ending 6/30/09**. An Audit Division employee has already contacted you to schedule the preliminary audit meeting. Listed below is the confirmation of your audit appointment and additional information concerning your audit.

Audit Appointment

Date:	December 1, 2009	Time: 8:30 a.m.
Location:		
Name:	Ima Taxman	Telephone: (860) 541-3216

At the preliminary audit meeting you will receive summary information on your rights and obligations as a Connecticut taxpayer and what to expect during your audit. You will also be requested to provide tax documents and records for use in verifying items on your tax returns. These items include, but are not limited to, federal and state tax returns, books, journals, and invoices to support reported tax return information and appropriate certificates to substantiate any deductions taken. We have also enclosed a copy of "Your Rights as a Connecticut Taxpayer" and, if required, a copy of the Power of Attorney form. These will be further explained to you by the examiner.

Enclosed is a "Consent to Extend the Statute of Limitations" form. It should be signed and dated by the taxpayer or corporate officer and mailed to the examiner's attention not later than 10/30/09. Your cooperation and assistance in providing the necessary records will greatly assist us in completing the audit examination as rapidly as possible.

Very truly yours,



Richard LaRose
Revenue Services Tax Supervisor
Excise Tax Unit
Audit Division
AU-16 (Issued 12/93)

SAMPLE QUESTIONNAIRE

- In addition to introductory letters, some jurisdictions use questionnaires to develop a greater understanding about the licensee or registrant
- These questionnaires can provide the following:
 - Basic company information
 - Scope of operations
 - Changes in operations during the selected audit period
 - Establish who is responsible for the audit and its results
 - Determine needs for Power of Attorney and/or Waiver of the Statutes of Limitations



PRE-AUDIT PLANNING

- Several jurisdictions conduct IFTA and IRP audits at the same time
 - Consider running comparisons between what was reported for IRP with the IFTA Tax Returns
 - Verify that what was sent by the carrier is what the processing system shows
 - Verify addresses, contacts, USDOT numbers, etc.



PRE-AUDIT PLANNING

- Vehicle Analyses (IRP APM 701)
 - Vehicle lists (from the carrier)
 - IRP vehicles
 - Adds and/or deletes
 - IFTA vehicles
 - Vehicle types (tractors, straight trucks, etc.)
 - Company owned vehicles
 - Leased vehicles
 - Owner operators
 - Weights
 - Fleet age



THE OPENING CONFERENCE

(IFTA Audit Manual Section A630, “Shall”; IRP APM 601 “Shall”)

- Introduce self and any other audit personnel present; identify who the audit team will be and a tentative outline and timeline of the process for the examination
- Review and verify the questionnaire responses
- Review and verify notes taken from the telephone contact
- Discuss the entity’s operations
 - How many locations? Terminals? Regional centers? Regional operations?
 - Perform a “walk through” of the operations
 - Determine and verify information about the customer base, routes taken, commodities carried, load capacities (i.e. truckload versus less than truckload)
 - Auditor’s observations
 - Have the representative explain the flow of information, data, records from origin to the tax return or application
 - Discover who is responsible for certain tasks (i.e. filing of returns, assembly of records, etc.); identify any delinquencies, deficiencies in reported data
 - Who are the drivers? Are they employees? Are they owner operators?
 - Discuss the composition of the fleet (age, size, operations type (Line Haul/P&D), use of off road fuel)



THE OPENING CONFERENCE

- Discussion of company policies
 - Hiring/Release of owner operators
 - Credentials security (license and decals)
 - Trip permit usage
 - Lease agreements
 - How are the drivers paid?
- Discussion of accounting procedures
 - Transaction flow
 - Date cutoffs
 - Personnel/Systems changes
- Discussion of recordkeeping procedures
 - Manual?
 - Electronic?
 - GPS?
 - Combination of systems?
 - Records retention policies
 - Are records maintained by vehicle?



THE OPENING CONFERENCE

- Discussion on distance recordkeeping
 - What documents are kept? What do they look like? What information is retained? Any exemptions claimed?
 - Is the information driver based? Distance software? GPS? Standard routes?
 - Are odometers maintained?
 - How are routes of travel established? Are they recorded?
 - Do the drivers take vehicles home?
 - Does the entity perform “backhauling” services?
 - How is the data summarized? How does it get to the return or application?



THE OPENING CONFERENCE

- Discussion on fuel recordkeeping
 - Establish sources of fuel
 - Bulk fuel (where, what capacity, what vendor(s), card lock systems, any off road or non-QMV fuel, who has access to the bulk fuel supply)
 - Retail fuel (Receipts, fuel reporting services, wet fueling, draw down accounts, cash purchases, off road or non-QMV fuel)
 - What documents are kept? What do they look like? What information is retained? Any exemptions claimed?
 - How is the data summarized? How does it get to the return?



THE OPENING CONFERENCE

- Discussion of fleet MPG/KPL
 - Does the licensee “self audit”?
 - Are anomalies addressed (i.e. unusually high or low factors, distance w/o fuel, fuel w/o distance)? If so, how?



THE OPENING CONFERENCE

- Discussion of audit policies
 - How recurring errors are handled
 - How non-recurring errors are handled
 - Discuss sample selection and seek agreement
 - Possibility to expand sample and require additional records
 - How extensions of time are granted the carrier to explore questions, secure records
 - Closing the audit, preview the billing and appeals policies and regulations



REVIEW

- Proper pre-audit planning enables the auditor to become familiar with the entity and what was reported for either the IFTA or IRP
- The initial contact and use of a questionnaire provides vital information that will enable the auditor to more clearly understand the operational and recordkeeping practices of the licensee or registrant. This also enables the licensee or registrant to understand more about the audit process and what information will be needed for the examination.



REVIEW

- A thorough analysis of reported returns and applications provides needed information to effect a relevant and representative choice of sample periods and documents for the review. This analysis may provide an indicator of certain weaknesses in the reporting system that will require attention.



REVIEW

- Effective communications with the licensee or registrant about the proposed appointment date, the scope of the audit, and required documentation enables the auditee to more fully understand the process and provide the auditor with the information to result in a more efficient and expeditious review of the records. With proper planning, the Opening Conference should be primarily a review of what has already been discussed but in greater detail with more specifics presented.



FINAL THOUGHTS

- A thorough and complete pre-audit analysis coupled with a clearly presented dialogue at the Opening Conference will greatly enhance the chances that the audit examination will go smoothly. While no amount of planning can ensure that issues will not be encountered or an impasse with the licensee or registrant on those issues will not occur, effective and clear communication between the parties will result a better understanding of the carrier's operations and the reporting of fuel use taxes and registration fees to the affected member jurisdictions.



FACILITATORS Contact Information

- Thom Rabaglia
 - Thomas.Rabaglia@dot.wi.gov
- Rick LaRose
 - Richard.Larose@po.state.ct.us



QUESTIONS

