



BUREAU OF AUDITS LIQUID FUELS DIVISION

PENNSYLVANIA



AUDIT MANUAL

July 2020

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PA100 Introduction

The purpose of this manual is to establish a uniform procedure for International Fuel Tax Agreement (IFTA) audits conducted by the Commonwealth of Pennsylvania. This includes procedures and techniques for planning and conducting audits; and reporting the audit findings. An effective and uniform audit program is necessary to verify the integrity of IFTA returns. It is essential that the basic audit program (TaxMaster) be uniform and thorough to ensure accuracy.

PA200 Preliminary Activity

PA210 Issue Initial Contact Letter

Each region must notify the licensee in writing prior to beginning the audit. A copy of this letter must be made part of the audit package¹.

To be included is the [REV-554 \(PO\) 06-19, Commonwealth of Pennsylvania, Department of Revenue, Your Rights as a Taxpayer Disclosure Statement](#).

PA220 Pre-Audit Planning

.100 Licensee History

Preliminary audit research should be conducted by the auditor using the Pennsylvania Department of Revenue Bridges and Pennsylvania Tax Hub (PaTH). The information obtained will relate to the licensee's return filing history, general account information, credit/refund history, and prior assessments' status. The auditor should be familiar with all of the above prior to the actual conduct of the audit. The standard audit period of IFTA accounts is based on the following information.

[Title 75, §9610](#) provides that "Every motor carrier shall keep such records, and all such records shall be safely preserved for a period of four years."

Additionally, [Title 75, §9616](#) provides that, "All determinations shall be made so that notice thereof shall reach the parties against whom made within five years after the due date of the tax".

As of January 2017, the standard IFTA audit period is one year. We will be auditing the most recent calendar year where all returns have been filed, based on the due date of the IFTA Quarterly Fuel Tax Report (IFTA-100). A typical audit period will run on a calendar year, January to December.

¹ **Note:** Any additional correspondence between the Department and licensee must also be made part of the audit, for example, starting date confirmation (confirmation letter), request for preliminary records/information (Request for Financial Records Form), notice of selected test periods/units (Taxpayer's Concurrence with Test Audit Plan), etc.

If the taxpayer has inadequate or no records for the most recent calendar year due to going out of business prior to the audit start date, the audit period will be the last calendar year filed. Any deviation from the standard audit period needs prior Headquarters approval.

With this change, it is anticipated that an audit should be turned around in 90 days or less from the date of the pre-audit conference. If an audit takes longer than 90 days due to taxpayer delays, the audit period will be extended to include the additional quarters that are due, prior to the audit being concluded.

A waiver (Agreement to Extend Time Limit for Assessment/Determination of Tax and to Extend Period of Time for Record Retention) shall be executed whenever an agreed upon audit period has to be changed or altered to accommodate the taxpayer, and such a change results in expiration of period(s) prescribed for record retention or assessment of the tax. It should be noted that if the auditor is the cause for the delay, the taxpayer should not be required to sign a waiver.

Any information specifically stated or requested as special instructions can be found in the Notes section or as a Referral or Reason in CRM (Customer Relationship Management).

.200 PaTH and Bridges

The following descriptions are most pertinent to the information needed by the auditor: MCGEN, MCDEH and imaged returns can be located in PA DOR BRIDGES in Audits Home page. Account information and imaged returns can also be located under the springboards, tabs and subtabs in PaTH, the Pennsylvania Tax Hub².

.005 General Information:

PaTH: Customer Springboard>Registration Tab>Accounts Subtab (Figure 1), Attributes Subtab (Figure 2), Summary Subtab (Figure 3), IDs Subtab (Figure 4), Names Subtab (Figure 5), Addresses Subtab (Figure 6) and Contacts Subtab (Figure 7). The hyperlinks available under the Subtabs provide detailed information for that subject.

² **Note:** PaTH will be listed as primary research tool, Bridges will be listed as secondary.

Figure 1:

DoR Internal/System Image Removed for Publication Purposes

Figure 2:

DoR Internal/System Image Removed for Publication Purposes

Figure 3:

DoR Internal/System Image Removed for Publication Purposes

Figure 4:

DoR Internal/System Image Removed for Publication Purposes

Figure 5:

DoR Internal/System Image Removed for Publication Purposes

Figure 6:

DoR Internal/System Image Removed for Publication Purposes

Figure 7:

DoR Internal/System Image Removed for Publication Purposes

Bridges: General Information is under MCGEN (Figures 8 & 9); including account name, address, current status, number of decals issued by type (PA and/or IFTA) for the current year plus the two preceding years, and other pertinent account dates.

Figure 8:

DoR Internal/System Image Removed for Publication Purposes

Figure 9:

DoR Internal/System Image Removed for Publication Purposes

.010 Decals:

PaTH: Customer Springboard>Account Springboard>Financial Tab>Invoices Subtab (Figure 10)>Invoice hyperlink. This will display the Inventory Invoice Springboard (Figure 11) that details the decal information; including the Issued (Created) date, Decal Count, and Id (range).

Figure 10:

DoR Internal/System Image Removed for Publication Purposes

Figure 11:

DoR Internal/System Image Removed for Publication Purposes

Bridges: MCDEH (Figures 12 & 13) shows when and how many decals were purchased for each year indicated as well as the numerical range of decals issued.

Figure 12:

DoR Internal/System Image Removed for Publication Purposes

Figure 13:

DoR Internal/System Image Removed for Publication Purposes

.015 Accounts:

PaTH: Accounts Springboard (Figure 14): The Account springboard is where you can view detailed information on balances, returns, payments, refunds, and transactions for each period that pertains to a customer's account.

Figure 14:

DoR Internal/System Image Removed for Publication Purposes

.020 Tax Return:

PaTH: Account Springboard>Financial Tab>Returns Subtab (Figure 15). The Returns Subtab identifies the individual returns, their status, and the return received date (filing date).

For returns highlighted red, please contact Headquarters. This issue needs to be resolved before starting the audit.

Figure 15:

DoR Internal/System Image Removed for Publication Purposes

Bridges: IMG (Figures 16 & 17) provides the imaged tax return by period.

Figure 16:

DoR Internal/System Image Removed for Publication Purposes

Figure 17:

DoR Internal/System Image Removed for Publication Purposes

.025 Tax Return Summary:

PaTH: Account Springboard>Returns Subtab (Figure 18)>Return hyperlink. The Return hyperlink displays the Return Springboard (Figure 19) that identifies the Due date, Original Received date (filing date), Received date and Reason (cause for multiple filed returns). The Return Springboard includes the Financial Summary Subtab and Tax Details Subtab for the latest version of the filed return. All versions of the filed returns are available under the Return Springboard.

Figure 18:

DoR Internal/System Image Removed for Publication Purposes

Figure 19:

DoR Internal/System Image Removed for Publication Purposes

Bridges: MCTRS (Figures 20 & 21) shows the status of the returns filed by period.

Figure 20:

DoR Internal/System Image Removed for Publication Purposes

Figure 21:

DoR Internal/System Image Removed for Publication Purposes

.030 Credit History

PaTH: Account Springboard>Financial Tab>Refunds Subtab (Figure 22)>Refund hyperlink. The Refund hyperlink displays the Refund Springboard (Figure 23) that identifies Requested Amount, Posted Amount, Issued date, and Redeemed date.

Figure 22:

DoR Internal/System Image Removed for Publication Purposes

Figure 23:

DoR Internal/System Image Removed for Publication Purposes

Bridges: MCCRH (Figures 24 & 25) shows the account credit history by period.

Figure 24:

DoR Internal/System Image Removed for Publication Purposes

Figure 25:

DoR Internal/System Image Removed for Publication Purposes

Additionally, Board of Appeals decisions are on the Revenue Appeals Processing System (RAPS). Prior audits are stored on the P Drive>Storage_TM folder and can also be accessed through the Audit Information Page under the Audit Images tab.

.300 Analysis of Return Data

System downloads of reported information are to be utilized to ensure the accuracy of the reported information included in the audit. All periods of the audit are required to be downloaded from PaTH. If PaTH identifies a return error (noted in red) for any period of your audit, please contact Headquarters to have the return error(s) corrected prior to performing an audit download.

Use [IFTA TaxMaster Download PaTH](#) for download instructions.

Once the download is imported into the audit program (TaxMaster), the Reported Returns period Subtabs should be reviewed. Things to look for during this review relate to non-reported periods, reported distance, fuel, and MPG. Any of these items may have a bearing on the procedures used to conduct the audit including test period selection and projection periods; or for an audit period greater than one year, a potential audit period stratification.

.005 Non-Reported Periods

The reported information must be examined to verify that all quarters within the audit period were reported. For delinquent and non-reported IFTA-101 returns, no record will be shown on the Reported Returns Tab and the period will be listed in the Missing Returns section in the Returns Summary Tab. The non-reported periods must be corrected prior to starting the audit. Keep in mind, four (4) quarters are needed to comply

with IFTA audit requirements. Any audits with less than four quarters are not in compliance and will not be counted as an audit.

.010 Distance

The distance must be examined to determine if there are differences between Jurisdictional Total Distance and Taxable Distance. Additionally, periods where the licensee reported Non-IFTA activity should be noted and checked during the audit to verify that the distance was traveled in a Non-IFTA jurisdiction (Alaska, Hawaii, District of Columbia, Northwest and Yukon Territories and all of Mexico). If either of these items are found, the auditor must review the IFTA Jurisdiction Information from the IFTA Annual Reports. These reports show Jurisdictional exempt activity, as well as the jurisdiction's IFTA exemption implementation date. Annual Reports are accessible through the IFTA Inc. website (www.iftach.org).

Other changes to look for include large variances in total distance, significant change in number of jurisdictions, non-contiguous jurisdictions or any other item that does not appear to be consistent with the reporting history.

If any of these occur, they should be addressed during the audit process and discussed in the audit narrative.

.015 Fuel

The fuel must be examined to determine if there are questionable areas. Examples include taxable gallons equaling tax paid gallons in multiple jurisdictions or tax paid gallons in jurisdictions with no miles. This may indicate that tax paid gallons are not accurate.

.020 MPG

One area of concern is a recurring MPG factor, which may indicate that the licensee is using a predetermined MPG and calculating either fuel or distance. Another area of concern is extreme deviations in the reported MPG, which may indicate timing differences or other record keeping deficiencies.

PA230A Contacting the Licensee by Telephone

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

- .100 Contact Name(s)** – this includes the name of the individual responsible for the audit, as well as the name of the individual that will actually be working with the

auditor. There also may be a third party involved, i.e. CPA, Attorney, or Reporting Service. When this occurs a Power of Attorney must be acquired, discussed in audit narrative, and exhibited in the audit. If necessary, the Department of Revenue Power of Attorney and Declaration of Representative form should be sent with an accompanying Power of Attorney letter.

If the taxpayer directs the auditor to work with a specific individual, the Power of Attorney is not required. However, documentation must be maintained to support this direction and included in the audit as an exhibit.

- .005** If applicable, email addresses for taxpayer representatives.
- .200** Establish the date that the field work is to begin.
- .300** Establish the audit period calendar year, January to December, of the previous year.
- .400** Determine where the records are maintained and where the audit will be conducted.
- .500** Define Business Activities:
 - .005** Activities past and present relative to the audit.
 - .010** Number of vehicles in the licensee's fleet.
 - .015** Composition of the licensee's fleet; vehicle types, gross vehicle weight, number of axels, and company-owned versus owner-operators.
 - .020** Use - local delivery or over-the-road vehicles.
- .600** Identify changes in the licensee's operations during the audit period, i.e., mergers, divestitures, bankruptcy filings, etc.
- .700** Discuss the record keeping system, for example:
 - .005** Trip reports, Driver's Logs, ELDs, GPS, etc.
 - .010** Fuel invoices, Fueling Service, Bulk Fueling
 - .015** Summary Records
 - .020** In general, how were reported distance and fuel determined?
- .800** Establish information that may affect the selection of test periods:
 - .005** Seasonal Activity
 - .010** Changes in accounting system, fleet composition, etc.

Note: Starting July 15, 2020, the Pre-Audit Conference Questionnaire – IFTA (Taxpayer) and Pre-Audit Conference Questionnaire – IFTA (Auditor) must be completed for all audits. These questionnaires can be found under

TM>Help>Guides>IFTA. Copies of the questionnaires must be included in the audit package as an exhibit.

PA230B Failure to Contact the Licensee by Telephone

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

- .100** Verify licensee's telephone number using the internet, other tax systems, prior audits, and/or an examination of recently filed documents in PaTH.
- .200** Establish the licensee's location by visiting the address listed. If necessary, determine actual location from the local Post Office.
- .300** A Regional Contact letter may be sent requesting that the licensee contact the Regional Office. This letter is to be sent via Certified Mail. The licensee should be given up to 30 days from the issuance of the letter to make contact. The letter should state the contact by date and failure to reply by this date will result in the issuance of an Order to Appear.

If the licensee fails to make contact within the prescribed period, an Order to Appear shall be sent immediately thereafter. It is also possible that the licensee may be reached by telephone, i.e. a message left on voice mail, but does not return the call. In such cases, the order to appear letter is also appropriate.

- .400** Send an Order to Appear letter via Certified – Return Receipt Requested or delivery confirmation allowing 10 days for a response.
- .500** When it is not possible to conduct an audit due to an inability to contact the licensee, there are usually two courses of action. If there is no reply after 10 days of the Order to Appear, a Request for Financial Records form should be issued with an estimated deficiency, allowing 30 days for response. Taxpayer's failure to respond results in the audit being finalized at this time with the Notice of Pending Assessment letter sent to the licensee. Under certain circumstances, an assignment may be cancelled. The audit supervisor must contact Headquarters for further instructions.

PA240 Confirmation Letter

Confirmation letters **must** be sent via mail or email to the licensees for **all** audits. This letter is used to confirm the date the appointment was made, the type of audit(s) to be conducted, the start date of the field work and the auditor's name for audits scheduled more than 7 days from the telephone conference. It should be addressed to the contact person with whom the arrangements were made. A copy must be included in the audit package as an exhibit.

The confirmation letter should be sent as soon as the audit start date/pre-audit conference date has been established.

PA250 IFTA Out of State Expense Letter

An IFTA audit will only be conducted at an out-of-state location at the request of the licensee. Before an out-of-state audit can be conducted, the licensee must provide written confirmation of their agreement to assume the out-of-state expenses. There may be exceptions if the auditor is not in overnight status. Approval must be granted by the regional manager or Headquarters. In the absence of this written confirmation, the records required for conducting the audit must be made available within the Commonwealth of Pennsylvania. The records could be made available at a Pennsylvania location or sent to the Regional Office.

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

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

PA300 Communication with the Licensee

Establishing and maintaining open lines of communication (telephone, email, face-to-face) with the licensee's representative throughout the engagement is beneficial to the audit process. The benefits may include the following:

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

PA400 Pre-Audit Conference

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

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

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

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

72 P.S. § 3310-203

(b) Safeguard-

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

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

Accordingly, during all Pre-Audit Conferences, it shall be verified that the taxpayer has received and understands the [REV-554 \(PO\) 06-19, Commonwealth of Pennsylvania, Department of Revenue, Your Rights as a Taxpayer Disclosure Statement](#). It must also be thoroughly documented in the audit narrative that this information was provided to the taxpayer.

PA410 Business Activities

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

- .100** Business activities past and present relative to the audit -- especially area of operations, products transported, etc.
- .200** Principle business location and any locations relevant to the audit.
- .300** Discrepancies discovered during the Analysis of Return Data.

- .400** Number of vehicles in the licensee's fleet, including any material changes in the number of vehicles in the fleet throughout the audit period.
- .500** Composition of the licensee's fleet relative to the following:
 - .005** The number of company-owned and/or leased vehicles; lease agreements should be included as an exhibit.
 - .010** Vehicle types – i.e., truck tractor, straight truck, other; include CAB cards as an exhibit.
 - .015** Fuel type – i.e., diesel, gasoline, CNG, to also include Dyed Fuel if allowed by Federal Regulations.

Refer to the [International Fuel Tax Agreement and Motor Carrier Road Tax Compliance Manual](#) to identify qualified IFTA motor vehicles.

- .600** Compare the number of decals purchased to the number of vehicles reported. This reconciliation, at a minimum, must be done for the current period of the audit. Discrepancies shall be sufficiently explained or documented.
- .700** Fuel facilities: licensee's owned/leased bulk storage facilities; service station purchases - cash, credit card, etc.; commercial fuel service.
- .800** Changes in the licensee's operations during the audit period -- i.e., mergers, divestitures, bankruptcy filings, etc.

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

- .900** Type of business organization; – i.e., foreign or domestic corporation, partnership, sole proprietorship, or other.
- .1000** Date and state of incorporation, if applicable.
- .1100** Date business started in Pennsylvania, the effective date(s) of the account being audited and, if applicable, the date that operations ceased in Pennsylvania.
- .1200** Principal business activity of the licensee.

PA420 System Survey/Evaluation of Internal Control

After the Pre-Audit Conference the auditor should conduct the System Survey. This is also known as the Evaluation of Internal Control³. The auditor must provide a summary description of the licensee's distance and fuel accounting systems.

.100 Review and Documentation:

The auditor should compare the distance and fuel summaries provided by the licensee to the tax returns and document any differences. An example of the licensee's records examined by the auditor should be included in the audit file.

The auditor must:

- .005** Identify the records the licensee maintains to support the tax returns;
- .010** Attempt to determine if there have been changes in the licensee's distance or fuel accounting procedures or operations during the audit period;
- .015** Document the existence of any internal controls;
- .020** Review and test the reliability of the licensee's internal controls;
- .025** Determine if sampling techniques are appropriate based on the effectiveness of the internal controls.
- .030** When sampling, the reliability of the licensee's internal controls should determine the degree to which the records are tested.
- .035** The above items, and the strengths and weaknesses identified in the licensee's distance and fuel accounting systems, must be documented in the audit report.
- .040** Document an understanding of the licensee's system of internal controls by completing the IFTA Audit Records Evaluation within TaxMaster and describing the flow of transactions in the audit narrative.

.200 Supporting Documentation

The licensee's system must include distance data provided manually or through a vehicle tracking system (GPS) on each individual vehicle for each trip and be recapped in monthly fleet summaries. Supporting documentation (i.e. trip reports, activity detail daily reports) shall include the following information:

- .001** Date(s) of trip;
- .002** Trip origin and destination;
- .003** Route(s) of travel/GPS location;
- .004** Beginning and ending odometer or hubodometer, engine control module (ECM) or any similar device for the trip;

³ **Note:** as adapted from the IFTA Manual § A320 Evaluation of Internal Control.

- .005 Total trip distance;
- .006 Distance by jurisdiction;
- .007 Unit number or vehicle identification number;
- .008 Vehicle fleet number; and
- .009 Licensee name.

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

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

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

- .017 Date of withdrawal;
- .018 Number of gallons or liters withdrawn; meters and/or totalizers
- .019 Fuel type;
- .020 Unit number of the vehicle into which the fuel was placed;
- .021 Purchase invoice and inventory records to substantiate that tax was paid on all taxable fuel disbursements.
- .022 Cash disbursement and other normal business records.

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

PA430 Audit Planning

Established IFTA guidelines allow for test audits to be conducted. The one over-riding concern expressed by IFTA, which is also shared by the Department, is that any samples selected for testing be representative of the total population. Unless a specific situation dictates, all audits will be conducted on a sampling basis. For audits with less than 25,000 miles; a complete audit examination should be considered. However,

auditor discretion still applies. Factors such as the records available and the completion time needed should be considered when deciding between conducting a complete audit examination and test audit. The licensee should be allowed input into sample selection if a legitimate reason exists. An agreement that the sampling methodology is appropriate should be signed by the licensee and the auditor. In addition, the Department must conform to the Testing Regulation, [Title 61 Pa Code § 8a, "Enforcement."](#)

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

.100 Determination of Audit Method

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

- .005** Volume of activity in the population;
- .010** Whether the business is cyclical or seasonal;
- .015** Whether significant changes in the licensee's business or activities occurred during the audit period; and
- .020** Other relevant factors.

.200 Test Period/Sample Unit Selection

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

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

.055 Other relevant factors.

.300 Test Periods

.010 Number of test periods required:

.001 For PA IFTA audits with an audit period of seven (7) quarters or less, one (1) representative test quarter is to be selected and audited. All three months of the selected test quarter are to be audited.

.002 For an audit period of over seven (7) quarters, two (2) representative quarters should be selected for testing. Due to the reduction to a one-year audit period the necessity of doing (2) test quarters would be limited to the following:

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

.001 Significant fleet size increase/decrease.

.002 Seasonal business operations (changing levels of activity) that may affect fleet activity.

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

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

Examples of some additional criteria are:

.001 Major changes in the licensee's record-keeping/reporting system during the audit period;

.002 Major personnel changes involving the licensee's tax reporting department that have affected the records or procedures used to compile or report the IFTA activity;

.003 Significant change in licensee's operations;

.004 A major change in the physical composition of the licensee's fleet;

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

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

Every effort should also be made to select periods that maximize the jurisdictions that were traveled within during the audit period. However, the periods selected must adhere to the above guidelines. Any exceptions must be approved by the Supervisor, or through Headquarters, prior to conducting the test. In cases where the period selected is beyond the above guidelines, for the purpose of maximizing jurisdictional travel, a complete examination of the period must be conducted. Periods with zero (0) reported distance should be excluded from the average distance calculation and be given a different Group Number (i.e. #2).

If a taxpayer does not have records available for the current year (e.g. as a result of flood, fire, or theft), the region can keep the audit open an additional quarter for the taxpayer to maintain necessary records and extend the audit period to include that quarter as the test period. If an audit remains open and encompasses greater than seven (7) quarters, a second test period will need to be examined. If an extremely high negative error rate is discovered in the single test period examination, please consult with Headquarters as to whether or not an additional test period should be examined, and a weighted average margin of error utilized. A Request for Financial Records form must be prepared and submitted with the audit package to document the missing periods' records.

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

.400 Test Units

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

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

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

The minimum number of test units selected will be the total fleet population up to eleven (11) units. Total fleet populations over eleven (11) will utilize the formula: Sample Size = 10 + 6% of the population, up to, and including, 500 units. For

fleets over 500 units, the minimum is 40 plus three percent (3%) of the fleet in excess of 500. The maximum number of test units recommended is 175 for any one test period.

Analysis will be conducted of the selected test units for representativeness using an allowable tolerance of + or - fifteen percent (15%) deviation between the entire fleet's average total distance and the selected sample units' average total distance. This can be accomplished through the use of the Sample Unit Selection and Unit Distance Analysis form. This form can be found in the TaxMaster audit program; right click on Attachments, select add and then followed by the IFTA folder (C>RSI>TaxMaster>PA>Attachments>IFTA) and double click on the [Sample Unit Selection and Unit Distance Analysis.xlsm](#).

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

Any deviations from established guidelines **must** be fully explained and documented in the audit narrative.

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

.500 Test Audit Plan

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

The form's purpose is to secure written acknowledgement that the licensee discussed the activities of the business with the auditor in order to arrive at a representative period(s) for testing. The licensee acknowledges that the theory of performing test audits and the projection of any deficiency resulting from this test period was thoroughly explained. Finally, the licensee has the option to comment on the selection of the test period(s) and may also state reasons for non-concurrence. **This form is to be completed and signed at the time it is discussed with the licensee prior to beginning the test examination.** If the licensee declines to sign the form, the auditor must note so on the form along with pertinent details (i.e. taxpayer's statement, auditor initials, and date circled). If the test period is changed during the audit process, a new [Taxpayer's Concurrence with Test Audit Plan](#) form must be completed.

.600 Test Audit Plan Definitions

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

- .005 Audit Period:** The period covered by audit.
- .010 Type of Test:** This area should always contain the wording “**Block sample.**”
- .015 Test Objective:** State the overall purpose for performing the test, such as, the verification of total distance, jurisdiction distance, total fuel, jurisdiction fuel, MPG factors, or any other segment of the business that a test audit would be applicable.
- .020 Population to be Tested:** This is the segment of the business that is involved in the test, such as, total distance, all jurisdiction distance, total fuel, or all tax paid gallons for the audit period.
- .030 Basis for Selecting Test Period(s):** Include statements that explain the reasons for the selection of certain period(s). Reports, schedules, work papers, or exhibits that were used to determine the test period(s) should be referenced. A brief statement should also be made relative to **unit selections** and basis. Further detail on the testing basis and procedures should be more fully explained within the audit narrative.
- .035 Test Procedure:** Indicate, in general terms, how the test will be performed. Include unit selection information, number of units, stratification considerations, projection intentions, etc.
- .040 Taxpayer’s Comments:** Self-explanatory.

Included in this section are the check boxes concerning cyclical or seasonal business activity, and the question on significant changes. The auditor shall request that the licensee check the appropriate boxes. The status of these boxes (checked or unchecked), or if the licensee makes specific comments, the information must be documented in the audit report.

Note: Starting July 15, 2020, all audits must follow the IFTA Compliance Audit Procedures established the Department. These procedures can be found under [TM>Help>Guides>IFTA](#).

PA500 Audit Procedures

The audit of the licensee’s distance and fuel records will be conducted using the TaxMaster IFTA Audit Program. The Department must audit on a consistent basis. The use of a standardized program will assure consistency in the accumulation of audited

data, expression of the resulting findings through reports, schedules, and dissemination of these results to IFTA jurisdictions.

PA510 Auditing Fuel

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

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

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

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

.100 Auditing Total Fuel

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

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

Note: The results of an analysis of the audited MPG may indicate a change to total fuel is needed. This may require the auditor to add additional fuel per trip, per vehicle, or per quarter based on the statutory MPG provision. When the statutory MPG has been applied, the Inadequate Records Letter should be issued, where appropriate. The taxpayer should be provided with a final Request for Financial Records form asking for all available fuel receipts to support the issuance of the Inadequate Records Letter.

.200 Auditing Tax Paid Credit

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

.010 Retail Stations

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

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

All fuel purchased at retail should be audited for each sample quarter or sample unit selected and summarized by jurisdiction and fuel type. Fuel on which fuel taxes were not paid should be included in the total audited fuel amount, but not in the jurisdiction's credit gallons amount. As an example, purchases from certain Indian reservations, where state fuel taxes are excluded, should be included in Total Fuel, but no tax paid credit is to be allowed. The Current List of Indian Reservations and the New York Indian Reservation list can be found under TM>Help>Guides>IFTA.

Sales made out to "cash" are **not** acceptable. Also, receipts that have been altered or indicate erasures are not acceptable for tax paid credit **unless** the licensee can demonstrate the receipt is valid. When any fuel purchase is disallowed, the reason should be noted in the Comment section in the Fuel Tab>Receipt Tab>Fuel Receipt Detail on bottom of the tab and explained in the audit narrative. Photocopies of some of the disallowed receipts should be exhibited in the audit.

As a general rule, photocopies of fuel receipts are not acceptable **unless** the licensee can demonstrate the receipt is valid. Some of the factors to consider are; Company Owned vehicle or permanently leased owner/operator; was the unit in that area on the date of the fuel purchase; was this an isolated purchase or was fuel purchased regularly from that location; is the purchase recorded on the trip report; is there supporting documentation for the purchase, i.e. expense reimbursement records, petty cash expenditure, etc. This is not an exhaustive list. Auditor

discretion and Supervisor input should be used in determining the validity of photocopied fuel receipts.

.020 Fueling Services credit card systems:

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

.030 Bulk Withdrawals:

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

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

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

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

The auditor will need to analyze out-of-jurisdiction fuel storage, as it pertains to the total fuel calculation and the tax-paid credit gallons. If the

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

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

.040 Trip Permits:

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

PA520 Auditing Distance

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

.100 Supplemental Distance Documentation

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

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

- .020** Safer Web (<https://safer.fmcsa.dot.gov/>) may provide previous distance reports by searching using the USDOT number found under Customer Springboard>Registration Tab>IDs Subtab in PaTH.

Note: A report isn't provided for all vehicles.

Once the source documents are identified, the process of auditing the distance may begin. There are different methods available to accomplish this. The mileage software program, PC Miler, is to be **used as an auditing tool** to verify the level of compliance for reported distance by jurisdiction.

If the licensee uses a computerized mileage program or GPS system with jurisdictional distances by trip, adjustments should only be made when inaccuracies in the licensee's system can be verified, i.e., unreported stops, or inaccurately reported routes.

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

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

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

.200 Distance Audit Procedures

The first step is to reconcile reported distance to the taxpayer's documentation; i.e. summary records, tax returns. This reconciliation should be done for all periods under audit. When differences are found, changes must be made on the Projections Tab as Distance Pre-Adjustments and documented in the audit narrative. The next step of the audit of distance is to verify reported total and jurisdictional distance.

.300 Odometer Readings

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

- .005 For intrastate trips, beginning and ending odometers should be used to determine total distance. Odometers must be verified, where available, by attaching the computer mileage report or by listing locations and routes of travel for each vehicle.
- .010 For interstate trips, the computer mileage program will be used to verify jurisdictional and total odometer distance. This must be documented by attaching the computer mileage reports. If the total odometer distance is accepted as accurate, then the sum of the audited jurisdictions' distance must equal total odometer distance. In situations where jurisdictional distance does not equal total distance, the mileage difference should be allocated to the jurisdictions within that trip.

.400 GPS Records

Distance records (i.e. Activity Detail Daily Report) produced wholly or partly by a vehicle-tracking system, including a system based on a global positioning system (GPS) must contain:

- .005 The original GPS or other location data for the vehicle to which the records pertain.
- .010 The date and time of each GPS or other system reading, at intervals sufficient to validate the total distance traveled in each jurisdiction.
- .015 The location of each GPS or other system reading.
- .020 The beginning and ending reading from the **odometer**, hub odometer, engine control module (ECM), or any similar device for the period to which the records pertain.
- .025 The calculated distance between each GPS or other system reading.
- .030 The route of the vehicle's travel.
- .035 The total distance traveled by the vehicle.
- .040 The distance traveled in each jurisdiction.
- .045 The vehicle identification number or vehicle unit number.

.500 No Odometer Readings

Auditors are encouraged to utilize the PC Miler mileage program to establish Jurisdictional and Total Distance when odometer readings are not available.

Other resources may also be used, such as Google Maps, Map Quest, Bing Maps, Road Atlas, etc.

.600 No Distance records available

In circumstances where the licensee's records are insufficient to determine audited total or jurisdictional distance, the **recommended** approach is to accept the distance as reported and adjust Total Fuel by applying the statutory MPG of 4.00. The audit period (normally four quarters) will be placed on a **4.00 MPG** with a complete examination of fuel, as we do not project tax paid credits under these circumstances. If during the complete audit of fuel, fuel receipts are found from jurisdictions that have no distance reported in that quarter, it will be left to the auditor's discretion to accept this fuel receipt, based on the auditor's understanding of the taxpayer's operations. If the receipt is accepted, one method of accounting for the distance is to multiply gallons times 4 to derive mileage to be added to the jurisdiction in which the fuel was purchased. A second method of accounting for the unreported fuel is to route a trip from the last known location of the vehicle, or the home base of operation, to the fuel stop reflected on the fuel receipt and back to the last known location or home base. All jurisdictions traveled through will have the derived mileage divided by 4 and additional total fuel will be added for each jurisdiction covered by the trip. No jurisdictional credit will be given, except for the jurisdiction for which the valid receipt was presented.

Note: The statutory 4.00 MPG should not be applied to periods where the reported MPG is less than 4.00 as to not create undue credits. Distance averages should be used for periods with no reported activity unless proven otherwise.

.700 Auditing Non-IFTA Distance

Non-IFTA Distance – these are distances traveled in Non-IFTA Jurisdictions – currently these are Washington DC, Mexico, Alaska, Hawaii, and the Yukon Territories. These distances are to be identified with the OT designation. In the Reported Returns Tab under Schedule B, click the (+) sign on the bottom of Schedule B, then add DI under fuel type and OT in the jurisdiction line, for all quarters that these non-IFTA distances were reported. Go to the Projections Tab, Distance Pre-Adjustment and make a positive entry for the OT jurisdictions that were reported as non-IFTA distance. Do this for all affected quarters.

.800 Auditing Non-Taxable Distance

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

.005 Exempt Distance – these are usually distances that are traveled by an exempt vehicle. These distances are non-taxable per jurisdictional statute or regulation, as verified through the annual reports. This activity is included in Total Distance but not in Taxable Distance. An example would be "Buses" in Ohio or Special Mobile Equipment (SME) in Pennsylvania.

.010 Non-Taxable Distance – these distances are non-taxable per jurisdictional statute or regulation, as verified through the annual reports. This activity is included in Total Distance but not in Taxable Distance. For example, MT (Montana):

Annual Report shows the following: Exempt Distance: “Private property and Forest Service Development roads.” Many jurisdictions state that “off highway” distance is non-taxable. Also includes documented Massachusetts turnpike distance. In this case add TE (Tax Exempt) to the Reported Returns for affected quarters. In the Projections Tab, reduce MA jurisdiction by the amount of exempt distance, then add the exempt amount to the TE jurisdiction as Distance Pre-Adjustments.

.900 Annual Reports

When non-taxable distances are reported, the auditor should review the IFTA Jurisdiction Information derived from the IFTA Annual Reports filed by every member jurisdiction. This information is basic in nature and relates to specific individual jurisdiction’s rules governing such things as point of fuel taxation, exempt distance, exempt fuel, exempt vehicles, and any pertinent additional information. This information is accessible through the IFTA Inc. website (www.iftach.org).

PA600 Analysis of Sample Results

When a test audit is conducted, the results must be analyzed. The areas to be examined during this analysis include, but are not limited to, Outliers, Error Factors, large changes to tax reported, number of transactions examined, number of jurisdictions tested, and audited MPG.

Based on the results of these examinations, additional audit procedures may be necessary. The following sections will address some of these issues.

PA610 Outliers

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

.100 Suspected Outliers

The first step is the identification of suspected outliers:

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

Suspected outliers for distance and fuel are identified by “*” on the Distance Detail Report and Fuel Detail Report in TaxMaster.

Suspected outliers for fuel are also identified under the Fuel Receipts Detail in TaxMaster.

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

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

The following test formula is used to determine the Ratio:

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

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

.200 Confirmed Outliers

Confirmed outliers in the TM program are identified with a red/pink highlight. **Keep in mind, outliers should not be isolated until all distance/fuel records have been entered into the program; the program recalculates after each entry.** If one or more of the audited transactions of distance/fuel is an outlier, it will have to be determined what action should be taken so that the transactions at issue do not remain confirmed outliers. The options to be considered are to isolate specific trips/fuel entries for the affected transactions. After making any changes to the audited distance/fuel, the user will need to click recalculate for the test of outliers to verify that all confirmed outliers have been eliminated from the audit projections.

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

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

The fact that a transaction is a Confirmed Outlier does not automatically mean that the transaction must be isolated. For example, there are times an outlier is created due to audit procedures. If a single adjusting entry (Figures 26 & 27) is made to properly account for reported information, an outlier may be created. In this case the transaction is not isolated, and the projections proceed.

Figure 26:

DoR Internal/System Image Removed for Publication Purposes

Figure 27:

DoR Internal/System Image Removed for Publication Purposes

Also, rather than isolation, an outlier may show the need for a particular unit or segment of the population to be incorporated into a separate fleet. Then a complete examination would be conducted for that separate fleet.

Confirmed outliers are identified by "***" on the Distance Detail Report and Fuel Detail Report.

A "Y" under the Iso column in the Distance Detail Report indicates isolated distance. The Isolated Fuel column in the Fuel Detail Report shows the isolated fuel.

Confirmed outliers for fuel, isolated jurisdiction fuel and isolated total fuel are also identified under the Fuel Receipts Detail in TaxMaster.

PA620 Error Factors

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

The auditor should use the Distance Projection Report and the Fuel Projection Report to determine if an error rate is excessive. These reports can be created under the Reports Tab in TaxMaster.

The purpose is to prevent excessive changes to a jurisdiction where a relatively small number of records were examined. Due to the nature of auditing, an exact number of records that should be examined cannot be stated. This can be explained by the following examples:

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

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

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

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

PA630 Mile per Gallon Factor

The MPG factor is a major component in determining the fuel used in each jurisdiction. Fuel consumption is determined by dividing each jurisdiction's taxable distance by the MPG⁴. It is extremely important that the MPG average is a true and accurate figure, as the end result will determine the number of taxable gallons used in each jurisdiction and the tax liability.

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

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

An MPG Analysis should also be conducted on the audit results. There are two (2) audit locations to review the audited MPG factors in the audit program; the MPGs Tab and the Audited Returns Tab. The MPGs Tab shows the MPG by test unit by test quarter. The Audited Returns Tab shows the audited MPGs by quarter.

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

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

The auditor should also keep in mind when reviewing the guidelines that other factors could have a bearing on MPG that are unique to the licensee being audited, such as road conditions, age of trucks, gross registered weight, routes traveled, type of trucks, commodity being hauled, tandem tractors versus single axle units.

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

⁴ **Note:** MPG calculations are rounded to two (2) decimal places.

In cases where the results of the distance and fuel examination do not support an acceptable MPG, the statutory MPG shall be applied. The statutory MPG may be applied per trip, per vehicle, per individual period, or across the entire audit period. The **recommended** approach is to adjust Total Fuel by applying the statutory MPG of 4.00 to distance. Guidance for applying the statutory 4.00 MPG can be found under TM>Help>Guides>IFTA ([Statutory 4.00 MPG Procedures for TM](#)). The taxpayer should be provided with a final Request for Financial Records form asking for all available fuel receipts before applying the statutory 4.00 MPG.

Note: The statutory 4.00 MPG should not be applied to periods where the reported MPG is less than 4.00 as to not create undue credits.

PA700 Communication of Audit Findings

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

PA800 Post Audit Conference

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

PA810 Post Audit Requirements

.100 Post Audit in Person

- .005** Explain all audit reports, schedules and worksheets. Review the audit findings and answer any questions that might arise.
- .010** Inform the licensee of the audit findings including tax, interest, and applicable penalties.
- .015** Determine any areas of disagreement and reasons for such disagreement. The auditor should explain in the audit narrative the licensee's reasons for disagreement as they relate to the various audit findings.
- .020** Provide corrective recommendations for the areas of deficiency.
- .025** Explain the appeal procedures. Reference the Disclosure Statement discussed at the beginning of the audit, as this form contains appropriate appeal procedures.

- .030 Present the licensee with a Taxpayer's Acknowledgement of Post Audit Conference form. This form will identify the audit period, tax liability, areas of deficiency and recommendations for correcting the areas of deficiency.
- .035 Request the licensee complete the post audit conference form and signify agreement, disagreement in part, or disagreement entirely with the audit findings. The licensee may elect to leave the form blank and merely sign. If the licensee declines to sign the form, the auditor is to note on the form and in the audit narrative the date, time, and the fact that the licensee refused to sign the form. The licensee must be informed that the completion of the post audit conference form does not waive any rights to appeal.
- .040 If warranted, the Inadequate Records Letter should be explained to the taxpayer and then presented for signature. (See Documents section in TaxMaster)
- .045 For the audit narrative: record the date, starting time, location of the conference, and the names and titles of those participating in the conference.

.200 Post Audit Conference by Telephone

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

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

.300 Post Audit Conference by Email

A Post Audit Conference by Email should only be conducted when an in-person conference or telephone conference is not possible. In addition to the preceding

requirements for a post audit conference held in person, the following must also be performed:

- .005** Prior to a post audit conference by email, the licensee must be provided with all reports, schedules and worksheets necessary to explain the audit findings. During the email exchange, it must be verified that the licensee received and reviewed the schedules and worksheets. All responses should be referenced in the audit narrative and exhibited in the audit package.
- .010** After the post audit conference, the licensee must be sent the signed Taxpayer's Acknowledgment of Post Audit Conference form. The licensee should be instructed to complete the form and return it to the regional office with either a manual or an electronic signature. A copy of the form should be retained for the audit report. Also, a copy of the email must be exhibited in the audit.

All post audit conferences held by telephone or email require a Post Audit by Telephone letter or Post Audit by Email letter unless a signed Taxpayer's Acknowledgment of Post Audit Conference form is included in the audit package.

Any signed documents received after the audit has been submitted must be forwarded to Headquarters.

.400 Inability to Schedule a Post Audit Conference

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

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

- .005** Explain that the subject audit has been completed.
- .010** Formally notify the licensee of the time and date that the post audit conference will be conducted in the Revenue Regional Office.
- .015** Inform the licensee that the deficiency, interest, and the licensee's right to appeal will be included on the assessment.

- .020 Specifically identify the schedules that are included with the letter.
- .025 Reference the post audit conference form.
- .030 Indicate that the letter will be considered the close of the audit in the event the licensee fails to attend the scheduled post audit conference.

If the licensee doesn't appear on the date stated on the Inability to Schedule Post Audit Conference letter, then the audit is finalized. A follow up letter should be sent informing the licensee that the audit has been finalized and forwarded to Headquarters for assessment.

PA900 Supplemental Audit Procedures

Please see Supplemental IFTA Audit Manual.

PA910 Employer Withholding and Pennsylvania Personal Income Tax

.100 Employer Withholding

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

.200 Pennsylvania Personal Income Tax

Note: In no case should personal income tax returns be requested from, or the fact that an individual failed to file be disclosed to, the business entity unless the individual the auditor is working with is the sole proprietor or 100% shareholder of a PA S corporation.

A limited examination of Pennsylvania personal income tax is required when as part of every audit of a sole proprietorship, partnership, S corporation or Limited Liability Company electing pass-through status. The minimum requirements are shown in the [Sales & Use Tax Manual, Chapter 3 §E, 7b, Pennsylvania Personal Income Tax, Minimum Requirements](#).

PA920 Bankruptcy Audits

When a field audit request is issued on a bankrupt licensee, it must be given **HIGH PRIORITY** status. Bankruptcy information can be found in the Bridges system i.e. obtain the bar date, which is the last date to file a claim. An estimated claim must be provided to Headquarters at least 30 days prior to the first bar date.

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

to be assessed, then two separate audit reports and two separate assessments will be issued.

The auditor is to contact the bankruptcy court and obtain the bar date. The bar date is the last date to file a claim. The audit must be submitted at least thirty days prior to the first bar date. The auditor should note that this is different than the normal nine-month period given to other priority audits. Should an auditor discover that the taxpayer on any assignment currently in inventory has declared bankruptcy, advise Headquarters of the bankruptcy status so that the Bureau of Compliance and Office of Attorney General may be informed. Bankruptcy information is to be reflected in the appropriate section of the Audit Report and Basis of Assessment as well as the pre-audit section of the narrative.

U.S. Bankruptcy Courts

Phone number to call (866) 222-8029

.005 Press # for list of courts or say state and district (example Pennsylvania Middle District). The court can be found along with the case number and claim deadline date (bar date) under the Bankruptcy Springboard in PaTH (Figure 28).

.010 Next press: 1 for instructions, 2 for case number search, 3 for name search, 4 for social security number search.

If you have the case number from PaTH enter the two-digit case year or say the two-digit case year (first two digits of case number) then enter or say the 5-digit case number (last five digits). The system will then tell you the name, commencement date, bar date for claims, discharge date, and bankruptcy trustee information. You can also do a name search (option 3) by stating the legal name of the taxpayer.

Figure 28:

DoR Internal/System Image Removed for Publication Purposes

PA1000 Jurisdictional Information

Jurisdictional information can be found on the IFTA Inc. website (www.iftach.org).

PA1010 Annual Reports

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

.100 IFTA Annual report information

.005 Number of IFTA accounts;

.010 Number of cancellations and suspension/revocations;

.015 Number of audits;

- .020 Number of audits with assessments;
- .025 Current tax rates; and
- .030 Unusual activities within a member jurisdiction that could affect an audit.

These reports can be accessed through the IFTA Inc. website (www.iftach.org). The reports are generated by individual jurisdiction and include each available annual report filed by that jurisdiction.

PA1020 Indian Reservation Fuel Stops

Indian Reservation fuel is included in Total Fuel, but no tax paid credit is granted for this fuel. Information on [Indian Reservation fuel](#) and current [New York Indian Reservation Retailer List](#) is available under TM>Help>Guides>IFTA identifying which reservations do not charge fuel tax on the sale.

PA1100 Preparation of Audit Package

PA1110 Documents

There are various documents and forms that are available for IFTA audits. Some of these are required for every audit, while the others are utilized on an as needed basis. This section provides a summary description of all available documents and forms. All of the ones included are available from the audit program.

.100 Audit Package Checklist

A checklist must be submitted with each audit package. It provides a listing of all Bureau forms, schedules, worksheets, exhibits, and other documents enclosed with the completed audit report.

Note: Do not delete items from the Audit Package Checklist. For items that aren't needed in the audit package, simply remove the "X."

.200 Audit Index

An index must be included with each audit report. It provides a listing of all Bureau forms, schedules, worksheets, exhibits, and other documents enclosed with the completed audit report. Copies of the audit schedules provided to the taxpayer should be marked with a report stamp of either None, Draft or Copy, not Final or Revised.

.300 Audit Report and Basis of Assessment

This form summarizes the more detailed contents of the audit report. All data elements are to be completed by appropriate field personnel prior to submission. The upper right-hand portion of the heading documents information regarding the licensee. Particular emphasis must be placed on recording the proper Legal Name as well as any trade names (Trade/DBA Name) and the account number. The legal name and trade names can be found under the Customer Springboard>Registration Tab> Names Subtab in PaTH.

The [Department of State](#) can also be used for corporation data (i.e. Business Entity Name, Address, Entity Type and whether Domestic or Foreign). Information on this form should include address, type of entity, name and title of the representatives assisting in the audit, principle (Owners/Officers) and the Total Tax Amount to be Assessed.

.400 Internal Audit Report and Basis of Assessment

This form serves to summarize all of the data relating to the auditor(s) and audit production. Processing dates are also to be posted. This must be included with the Department Documents single pdf.

.500 Additional Headquarters Processing Request (1105)

This form must be submitted to Headquarters for any changes in the taxpayer's information.

.600 Narrative Report of Audit Findings

This report should explain in detail each licensee's business activities, records maintained, audit procedure, audit findings and basis for the audit findings.

.700 Conflict of Interest Statement and Auditor's Comments

The Conflict of Interest Statement is to be signed by the auditor(s) on all audits conducted. This form also enables the auditor to relate unsubstantiated findings and/or comments which have a bearing on the audit findings. These comments and recommendations may prove useful in subsequent penalty decisions and in appeal stages. This form is confidential and is for Department use only. The contents of the form are not to be discussed with the licensee or included in the licensee's copy of the audit report. The completed form must be included with the Department Documents single pdf.

Examples of Auditor's Comments include;

-A review of the Department's records revealed that the shareholders filed all Pennsylvania personal income tax returns, and the S corporation's business activities were properly addressed.

-A collateral audit was conducted on the licensee's liquid fuels and fuels tax account.

-Office hours are greater than 15.0 due to conducting the audit in the office.

.800 Taxpayer's Acknowledgement of Post Audit Conference

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

Please see the [Motor and Alternative Fuels Taxes Tax Bulletin 2018-02 -- MAFT Calculation and Procedural Changes For Penalties and Interest](#) for further explanation of penalties and interest.

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

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

.900 Request for Financial Records

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

Note: Additional Request for Financial Records forms should be created when the audit is rescheduled, and each time new information is needed.

.1000 Taxpayer's Concurrence with Test Audit Plan

This form must be completed when conducting a test audit.

.1100 IFTA Audit Narrative Summary

This document must also be completed for every IFTA audit. This is essentially the highlights of the audit by category. It should not include any sensitive information (i.e. employer withholding, pass-through income or exhibits). This report is sent to every affected jurisdiction. The auditor's typed name will be accepted as the auditor's signature.

.1200 IFTA Audit Records Evaluation

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

.1300 Record Removal Receipt

This form must be completed when records are removed from the audit site.

.1400 Inadequate Records Letter

This form must be included in the audit report when it has been determined the licensee's Mileage Records and/or Fuel Receipts are not in compliance with the record keeping requirements.

.1500 Consent To Extend Time Limit For Assessment/Determination Of Tax And To Extend Period of Time for Record Retention - Waiver

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

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

.005 Signature by licensee:

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

.010 Copies:

The form is to be completed with the original included in the Department's copy of the audit report; while a copy of the waiver is provided to the licensee. If the waiver is to be forwarded through the mails to the licensee, it is suggested that a letter be enclosed.

.015 Other requirements:

The correct legal name of the licensee completing the waiver must be indicated on the form. The name on the form is automatically populated with the legal name from the Taxpayer Information General Tab in TaxMaster. If a trade name is involved, then this information should also be included. The waiver is only to be completed by an owner, partner,

corporate officer, or someone who is permitted to exercise a power of attorney on behalf of the licensee. The accountant, lawyer, controller, or tax manager will not suffice for the proper completion of this form.

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

.1600 Document Template File (IFTA)

The documents (forms) described below are available in an editable format in the document section of the TaxMaster.

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

All post audit conferences held by telephone or email require a Post Audit by Telephone letter or Post Audit by Email letter unless a signed Taxpayer's Acknowledgment of Post Audit Conference form is included in the audit package.

All information pertinent to the audit should be included.

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

Authorized personnel can create the Audit Record Keeping Follow-Up in PaTH. This form can be found by clicking the Add button under the Audit Springboard>Task Tab (Figure 29) and selecting the Audit Record Keeping Follow-Up hyperlink (Figure 30). Select Audit as the Source, the areas of deficiency for the Mileage Records and Fuel Receipts and hit Save on the Work Springboard (Figure 31).

Figure 29:

DoR Internal/System Image Removed for Publication Purposes

Figure 30:

DoR Internal/System Image Removed for Publication Purposes

Figure 31:

DoR Internal/System Image Removed for Publication Purposes

Additional correspondence with the licensee should be issued as needed.

Note: A copy of the Initial Contact Letter is to be included in the audit package as a PDF.

Unless there is a signed Taxpayer's Acknowledgement of Post Audit Conference form, copies of the Post Audit by Telephone letter or Post Audit by Email letter are to be included in the audit package as a PDF.

The Inadequate Records Letter is to be included as a PDF.

PA1120 Reports

The Fuel Reports to Print can be found under the Reports Tab in TaxMaster. Auditor discretion should be used to determine which reports are to be included in the audit. A brief description of the reports to be included follows:

.100 IFTA Interjurisdictional Report

This report identifies the Reported Tax, Tax Per Audit, Reported Surtax, Surtax Per Audit, Interest and Total Due by jurisdiction and the total audit findings for the audit period.

.200 IFTA Summary Reports

Identifies the results of the audit. The IFTA Summary Report by Jurisdiction shows the results separated by jurisdiction reflecting the jurisdiction, period, audited distance, audited MPG, taxable gallons, tax paid gallons, net taxable gallons, return adjustment if any, gallons due, tax rate, tax due, surtax rate and surtax due (if appropriate), interest due and total due. This same information is then shown by period and jurisdiction on the IFTA Summary Report by Period.

.300 Total Distance and Fuel Summary

This report shows the reported distance, reported fuel, reported MPG, audited distance, audited gallons and audited MPG, applied gallons and applied MPG. This information is by period for the entire audit period.

.400 Total Odometers Reports

These reports (Total Odometers Report By Period and Total Odometers Report By Unit) show the unit number, period, date start, date end (normally a quarter), odometer start, odometer end, elapsed distance, audited distance, reported distance, difference distance and isolated distance if any.

.500 Distance Projection Report

The purpose of this report is to show the distance projections made based on the result of the test period examination. This report is by period separated by jurisdiction and reflects the period, jurisdiction, reported taxable distance, distance pre adjustments (if any), recorded taxable distance, distance error factor percentage, distance percentage adjustment, distance error adjustment, distance manual adjustment, distance post adjustment, distance balance adjustment, distance net adjustment and audited distance. The sample period will be identified as sampled.

.600 Fuel Projection Report

This report reflects the fuel errors calculated based on the audited fuel and the projections of those error rates. This report is by period and jurisdiction showing jurisdiction, reported tax paid gallons, gallons pre adjustment if any, recorded tax paid gallons, recorded OTR gallons, fuel error percentage, gallons percentage adjustment, gallons error adjustment, gallons manual adjustment, gallons post adjustment, balance adjustment, gallons net adjustment and audited gallons. The sample period will be identified as sampled.

.700 Distance Summary Reports

The purpose of the Distance Summary Report By Period is to support the audit findings for distance errors. The quarter that was examined is reflected here showing the jurisdiction, reported distance, elapsed distance, map distance, trip sheet distance, audited distance, difference distance, isolated distance and the calculated error rate per jurisdiction. This information is then shown for each unit that was examined and the results of each unit's examination on the Distance Summary Report By Unit.

.800 Distance Detail Report

This report is a synopsis of the trips as reproduced under the Trip Details Tab per unit. Shown is the unit number, date, locations of travel and a breakdown per jurisdiction, of the odometer readings, reported distance, audited distance,

difference distance and isolated distance. Isolated distance will be indicated with an asterisk.

.900 Fuel Summary Reports

The Fuel Summary Report By Period summarizes the test of fuel by jurisdiction for the test quarter. The information shown is the jurisdiction, reported gallons, audited gallons, difference gallons, no credit gallons, isolated gallons and the error rate per jurisdiction. This information is then shown by unit by jurisdiction on the Fuel Summary Report By Unit.

.1000 Fuel Detail Report

This report reflects the fuel receipts or bulk disbursements as entered under the Fuel Tab (Fuel Receipts grid). Shown on this report is the jurisdiction in alphabetical order showing, unit number, purchase date, city where fuel was purchased, bulk tank no, invoice number, odometer, audited gallons, reported gallons, difference gallons, isolated gallons and no credit gallons.

.1100 Fuel Consumption Analysis Reports

These reports (Fuel Consumption Analysis Report By Period and Fuel Consumption Analysis By Unit) display the MPG information calculated on the MPGs Tab. These reported are grouped by unit and fuel type.

.1200 Vehicle List Report

This report shows the information that was entered under the Vehicles Tab for the vehicles sampled. It will show Unit No, VIN, License Plate No, Year, Make, Model, GVRW, Num Axles, Date Added to the fleet and Date Removed from the fleet.

.1300 Sample Selection Report

This report identifies the Period (audit period), Jurisdiction Count, Total Distance, Group Average Distance, Difference From Average, Projection Group, Retail Fuel Test, Juris Dist Test, Total Dist Test and the period(s) selected for sampling and type of test(s) being performed ("Y").

.1400 Decal Reconciliation Report

This report identifies the Decals Orders (Decal Year, Issue Date, Quantity and Decal Range) and Decal Reconciliation (Decal Year, Quantity Issued, Quantity on Hand, Quantity on Vehicles, Total Missing, Explained Missing, Number Unaccounted and Comment) for the audit period.

.1500 Quarterly Returns as Filed as shown on Reported Returns Tab

The Report shows Summary of Quarterly Returns as Filed, Individual Return Detail As Filed, per quarter. This report shows fuel type, reported total distance, reported total fuel and the reported MPG. Also shows Juris, Fuel Type, reported total distance, reported taxable distance, reported taxable gallons, reported tax paid gallons, reported net taxable gallons, tax rate, tax, sur tax rate, reported sur tax, reported interest and reported total.

The previous reports should be used to create the audit package, International Fuel (IFTA) Report - Final

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

PA1130 Exhibits

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

- .100** All correspondence with the licensee (required),
 - .005** Pre-Audit Conference Questionnaire (Taxpayer)
 - .010** Pre-Audit Conference Questionnaire (Auditor)
- .200** List of PA business locations, if more than one (1) (required),
- .300** Vehicle/Equipment list (required for audits with qualifying and non-qualifying vehicles fueling from the same bulk storage facility and where a complete fleet examination is not conducted),
- .400** Copy of Mileage/Fuel Summary records (required),
- .500** Copy of distance and fuel source documents (required),
- .600** Third party documentation (if applicable), i.e. commercial fuel service reports providing required tax paid fuel credit information
- .700** Any unusual documentation relevant to the audit findings (if applicable).

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

PA1140 Schedules

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

PA1150 Audit Narrative

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

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

The narrative report shall be written in clear, concise, and fully understandable fashion and prepared in typed format. The report must be written so that the audit can be understood by those that are not in the accounting or auditing profession.

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

.100 General Narrative Guidelines

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

.200 Pre-Audit Conference

- .005** Conference date and starting time of conference.
- .010** Location of the conference.
- .015** Names and titles of those in attendance.
- .020** Type of audit being conducted and the audit period.
- .025** Collateral assignments.
- .030** Topics discussed; i.e., accounting system, audit procedures, business activities, etc.

- .035 Reference all exhibits of correspondence with the licensee prior to the start of the audit. Specifically discuss the Disclosure Statement as required by the Taxpayer's Bill of Rights.

.300 Licensee's Business Activities

- .005 Business organization; i.e., foreign or domestic corporation, partnership, sole proprietorship, or other.
- .010 Date and state of incorporation, if applicable.
- .015 Date business started in Pennsylvania, the effective date or dates of the account being audited and, if applicable, the date operations ceased in Pennsylvania.
- .020 Principal business activity of the licensee.
- .025 Business activities past and present relative to the audit, if not the same as above, including area of operations, products transported, etc.
- .030 Principle business location and any locations relevant to the audit. Include effective dates of operations for each location. Reference any schedule, work paper or exhibit prepared or obtained which delineates the above information. If the licensee has no Pennsylvania locations, this should be stated.
- .035 Present number of vehicles in the licensee's fleet. Explain any material changes in the number of vehicles in the fleet throughout the audit period.
- .040 Compare the number of decals purchased to the number of vehicles in the fleet and explain any material differences.
- .045 Composition of the licensee's fleet relative to the following:
 - .001 Company owned or leased
 - .002 Vehicle type - truck tractor, straight truck, other
 - .003 Fuel type
 - .004 Use - local delivery or over-the-road vehicles
- .050 Fuel facilities - i.e., licensee owned/leased bulk storage facilities; service station purchases - cash, credit card, commercial fuel service
- .055 Changes in the licensee's operations during the audit period; i.e., mergers, divestitures, bankruptcy filings, etc.
- .060 Tax return filing history

.400 System Survey

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

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

The auditor should also include the following:

- .005** General statement regarding the records maintained by the licensee. This statement should identify those records used by the licensee for reporting purposes, personnel responsible for preparing the records, and those records which will be used by the auditor in the verification process.
- .010** The type of record keeping system maintained by the licensee, i.e., computerized, manual or combination.
- .015** Material changes that occurred in the licensee's record keeping system during the audit period.
- .020** Procedures used by the licensee to capture, verify, record and summarize all information reported on the tax return. Relevant exhibits must be referenced and included in the report.
- .025** Summarize the taxpayer's system of internal controls
- .030** The reliability of the internal controls (i.e. segregation of duties)
- .035** Strengths and weaknesses of the internal controls
- .040** A statement confirming/denying any changes in the taxpayer's accounting procedures during the audit period.

.500 Audit Procedures

- .005** Audit period and the basis for its length. The audit period will be the most recent calendar year where all returns have been filed prior to the audit assignment being issued. In some situations, the period will be other than the most recent calendar year filed. For example: extended audit period due to lack of records as a result of flood, fire, theft, end of business operations, or first-time audit.
- .010** Type of audit being conducted, test, complete or mixed, and reason for performing a test or a complete examination.

A complete audit is defined by examining all distance and fuel records for the audit period. A test audit can be a complete exam of distance and fuel records for a quarter or a test of test audit when a complete quarter/fleet exam is not performed.
- .015** Test audit only:

- .001 Test period selection - basis for selection; schedules, work papers and exhibits referenced.
- .002 Unit selection - number of units; selection method; schedules, work papers, and exhibits referenced.
- .003 Representativeness - comparison of the sample mean to the population mean of the activity being tested; comparison of the composition of the sample to the population - i.e., the percentage of straight trucks in the sample approximates the percentage of straight trucks in the population, number of jurisdictions tested versus reported in the audit, etc.; schedules, work papers and exhibits referenced.
- .004 Projection of test results.
- .005 Licensee advised of test procedures. Concurrence with Test Audit Plan completed.
- .020 Analysis of the licensee's mile-per-gallon factor for the audit period, with reference to relevant reports, schedules, work papers, or exhibits. This should include the following:
 - .001 Computation of audit period average;
 - .002 Comparison of the audit period average to individual periods;
 - .003 Comparison of each period to prior and successive periods;
 - .004 Statement in respect to the industry or similar operations; in general, and
 - .005 Results of analysis and conclusion should be stated.
- .025 Total distance/total fuel - records reviewed from source documents to summary records, procedures utilized during the review process, types of errors found, and any conclusions drawn based on the results of this review. Reference Summary reports, as well as any supporting schedules and/or work papers prepared and/or exhibits obtained.
- .030 **Mile-per-gallon changes:**
 - .001 After the audit of total distance and total fuel, a detailed explanation shall be included as to how the changes affected the licensee's mile-per-gallon factor. Reference summary reports (Total Distance and Fuel Summary Report, Distance Summary Report and Fuel Summary Report), as well as any supporting schedules and/or exhibits obtained.
 - .002 Use of statutory mile-per-gallon factor – The basis for using the statutory mile-per-gallon factor must be explained; A Request for Financial Records must be completed and included in the report. [Title 75 P.S. §9609](#) of Vehicle Code must be cited. The

procedures used to develop the audited mile per-gallon factor shall be indicated. Summary reports, supporting schedules, work papers, and exhibits must be discussed.

.003 In addition to the above, the auditor should examine The MPG Analysis Report which provides the audited MPG for each test unit. Any unusual findings should be discussed.

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

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

.600 General Discussion:

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

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

.015 Pass-through Income

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

.700 Post Audit Conference

.005 Conference date and starting time of conference.

.010 Location of the conference.

.015 Names and titles of those in attendance.

.020 Audit findings, including applicable penalty and interest, and corrective recommendations.

.025 Licensee agreement or disagreement with the audit findings.

.030 Licensee's right of appeal, appeal procedures and intent to file an appeal.

.035 Inadequate Records Letter.

.040 Taxpayer's Acknowledgment of Post Audit Conference form explained.

.045 Post audit conference via telephone or email notification letter sent to the licensee and a copy included as an exhibit unless a signed Taxpayer's Acknowledgment of Post Audit Conference form is included in the audit package.

.050 Note: When corrections are made subsequent to the post audit date, the licensee must be informed of the changes, a **new** Post Audit Conference form **must** be completed and, if the licensee is notified by telephone, a notification letter must be sent and a copy is to be included in the audit report. The date the licensee is advised of the corrected audit findings should be listed as the date of the post audit conference.

If changes are made by Headquarters, the field will be provided with the corrected audit report. The taxpayer must be notified of these changes and given the corrected audit report by the auditor or audit supervisor.

Appendix A



Record Removal Receipt

Business Name: ABC Co
Tax Type: International Fuel (IFTA)
Account No.: 12345678900 **EIN/SSN:** 123456789
Assignment No.: IFLFD2011111
Audit Period: 01/01/2019 - 12/31/2019

On April 6, 2020, I, ABC Co, authorize Auditor to remove records for the purpose of performing the audit in the regional office. The records removed are as follows:

1. Quarterly summary reports for the audit period.
2. Distance/mileage records for the test period.
3. Fueling records for the test period.
- 4.

Auditor Signature and Date

Taxpayer Signature and Date

All referenced records were returned to ABC Co by Auditor on .

Taxpayer Signature and Date

Auditor Signature and Date



**IFTA Audit
Records Evaluation**

Legal Name: ABC Co
Case No.: BP No.
Assignment No.: IFLFD2011111
EIN/SSN: 123456789 **Acct No.:** 12345678900
Audit Period: 01/01/2019 - 12/31/2019

Taxpayer Representative	Taxpayer Phone	Pre Audit Date	Post Audit Date
John Doe	814-555-1234	4/6/2020	4/17/2020

Business Mailing Address:	Sample Periods Selected for Audit	
	2019/1	
	Type and Number of Vehicles	
	2 Axle Straight:	Tractors: 5
	3 Axle Straight:	Other:

Source Documents Maintained for Miles		Items Reflected on Mileage Source Documents		Sources Used to Determine Reported Miles	
Ⓟ	Driver's Trip Sheets/Reports	Ⓟ	Licensee's Name	Ⓟ	Odometer/Hubometer Readings
Ⓟ	Driver's Logs	Ⓟ	Date of Trip (Beginning/End)	Ⓟ	Driver's Recorded Miles
⋯	Driver's Pay Records	Ⓟ	Trip Origin/Destination	⋯	Computer Mileage Program
⋯	Freight Bills/Bills of Lading	Ⓟ	Total Trip Miles/Kilometers	⋯	State Maps
⋯	Pre-Determined Matrix	Ⓟ	Miles by Jurisdiction	⋯	Household Goods Guide
⋯	Computer Mileage Reports	⋯	Routes and/or Odometer Readings	⋯	Estimate
Other:		Ⓟ	Unit Number/Vehicle Identification	⋯	Satellite Tracking System
		⋯	Vehicle Fleet Number	Other:	

Fueling Operations Bulk Storage/Retail Purchases		Source Documents Maintained in Support of Reported Fuel		Items Reflected on Fuel Source Records	
⋯	Non-Taxable Sales	Ⓟ	Individual Purchase Invoices	Ⓟ	Purchase Date
⋯	Taxable Sales	⋯	Bulk Storage Purchase Invoices	Ⓟ	Purchaser's Name
⋯	Non-Taxable Use	⋯	Bulk Storage Withdrawal Records	Ⓟ	Name/Address of Seller
⋯	Taxable Use	Ⓟ	Vendor Summary Invoices	Ⓟ	Number of Gallons Purchased
⋯	Vehicles <=26,000 lbs	Other:		Ⓟ	Type of Fuel Purchased
Ⓟ	Retail Purchases			Ⓟ	Vehicle Unit Number
				Ⓟ	Price Per Gallon
				Ⓟ	Purchaser's Signature
				⋯	Date of Bulk Fuel Withdrawal
				⋯	Substantiation of Tax Payment on Bulk Purchases
				Other:	

Auditor's Name and Date



April 24, 2020

John Doe, Accountant
ABC Co

Re: IFTA Audit
Account 12345678900
Assignment IFLFD2011111

This letter is your official notice that you are not in compliance with the record keeping provisions of the Motor Carrier Road Tax Act (75 Pa.C.S. §9610) or the record keeping requirements prescribed by the Department in the IFTA and Motor Carrier Road Tax Compliance Manual. A review of your facilities and record keeping system, during the above referenced audit engagement, identified the following deficiencies:

Mileage Records:

- .. Date of Trip
- .. Vehicle Number
- .. Trip Origin and Trip Destination (including city and state)
- .. Routes of Travel
- ⌋ Beginning and Ending Odometer readings
- .. Total Miles and Jurisdiction Miles

Fuel Receipts:

- | | |
|----------------------|-----------------------------------|
| .. Date of Purchase | .. Vehicle Number |
| .. Type of Product | .. Number of Gallons |
| .. Purchaser Name | .. Name and Address of the Seller |
| .. Bulk Fuel Records | |

You are required by law to maintain the above records for a period of four (4) years (75 Pa.C.S. §9610). Any person who fails to comply with the record keeping requirements shall be guilty of a summary offense and, upon conviction thereof, for a first offense, shall be sentenced to pay a fine of not less than \$100 nor more than \$500; and, for each subsequent or additional offense, a fine of not less than \$200 nor more than \$500, or undergo imprisonment for a term not exceeding 90 days, or both. If the person convicted is a corporation, any imprisonment imposed shall be served by the responsible corporate employee (75 Pa.C.S. §2103 (b)).

An enforcement agent from the Bureau of Motor Fuel Taxes will visit your place of business to ensure that you have corrected the deficiencies in your record keeping system.

(Auditor Signature)

(Date)

(Taxpayer Signature)

(Date)

Original - Department

Copy - Taxpayer



ADDITIONAL HEADQUARTERS PROCESSING REQUEST

Legal Name: ABC Co
Case No.: BP No.
Assignment No.: IFLFD2011111
EIN/SSN: 123456789 Acct No.: 12345678900
Audit Period: 01/01/2019 - 12/31/2019

HEADQUARTERS PERSONNEL ARE REQUESTED TO PROVIDE PROCESSING FOR THE ITEM(S) CHECKED BELOW:

- PA Combined Registration (PA-100) attached -- not previously forwarded to Headquarters for advanced processing.
Sales / Use Tax License Cancellation (REV-1706) attached.
Notify the Corporate Clearance Section of the results of this completed audit.
Process attached non filed and/or amended tax returns
Verify the "reported tax" allowed per audit to ensure it agrees with the tax actually reported by or previously assessed against the taxpayer audited.
New Criminal Referral - forward the audit report to the Chief, Computerized Audit Support Division.
Fulfill Inbound Correspondence Requirements (ICRs) for non-filed periods addressed in the audit..
Send the taxpayer a "contractor" letter.
Send Fuel Use Tax record keeping compliance letter.
Transfer reported amounts from one account to another. (Attach the appropriate liquid fuels tax or sales/use tax memorandum which gives the details of the accounts, reporting periods, and dollar amounts that are involved in this transfer request.)
IRS documents, returns, or return data included in the audit report package. IRS confidentiality provisions must be honored.
Penalty Abatement Form Enclosed
Responsibility Party Assessment (Responsible Parties listed below)
Business Activities Questionnaire enclosed.
Major Penalties imposed.

Other: Mailing Address: 13 Friday Street Mockingbird Heights, PA 12345

Table with 2 columns: Completed By, Process Completed at Headquarters By, Date Completed.