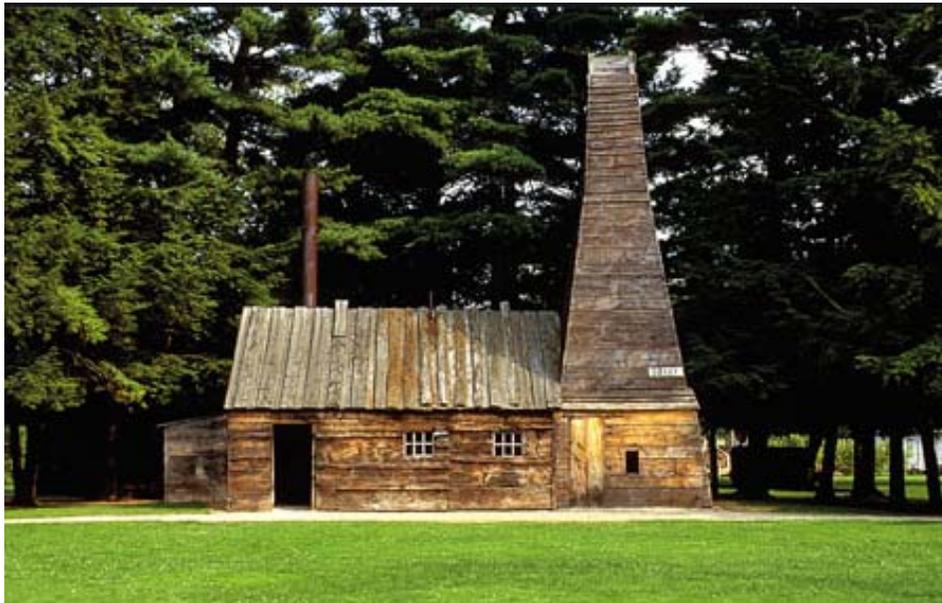




BUREAU OF AUDITS LIQUID FUELS DIVISION



Drake Well Museum, Titusville, PA

AUDIT MANUAL

January 2021

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FT100 Introduction

The purpose of this manual is to establish uniform procedures for Liquid Fuels and Fuels tax 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 Liquid Fuels and Fuels tax returns. It is essential that the basic audit program be uniform and thorough to ensure accuracy.

Each liquid fuels and fuels audit is unique because the operations of each distributor differ. All pertinent information based on the license classification must be included in the audit narrative.

FT110 Overview

.100 Liquid Fuels and Fuels Tax:

Effective October 1, 1997, the excise tax collection point on clear diesel fuel and kerosene was moved to the "distributor" level. Previously the excise tax at the distributor level applied only to gasoline, jet fuel, and aviation gas.

The Oil Company Franchise Tax will now be collected at the same point and time for gasoline, clear diesel fuel, and clear kerosene. This tax is reported as a line item on the tax return based on the Net Taxable Gallons. The franchise tax component for clear diesel fuel and clear kerosene was raised to replace the six cents per gallon surcharge previously imposed on Motor Carrier Road Tax and IFTA.

The Act 89 of 2013 amended 75 Pa.C.S. § 9502(a)(5) of the Vehicle Code to both eliminate the inflationary cap on the Oil Company Franchise Tax and the fixed twelve cents per gallon Liquid Fuels and Fuels Tax and provides that the discount previously associated with the liquid fuels and fuels tax now applies to a portion of the oil company franchise tax (OCFT).

Liquid Fuels and Fuels [tax rates](#) and [returns](#) can be found through the Pennsylvania Department of Revenue website (www.revenue.pa.gov).

Trust fund protection, in favor of the Commonwealth, will apply to all taxes collected by distributors.

Note: Dyed diesel fuel (including dyed kerosene) is exempt from the Oil Company Franchise Tax.

.200 Alternative Fuels Tax:

These fuels are defined as "Natural gas, compressed natural gas (CNG), liquefied natural gas (LNG), liquid propane gas and liquefied petroleum gas (LPG), alcohols, gasoline-alcohol mixtures containing at least 85% alcohol by volume, hydrogen, hythane, electricity and any other fuel used to propel motor

vehicles on the public highways which is not taxable as "fuels" or "liquid fuels" under this chapter."

The point of taxation for alternative fuels is at the Dealer-User level. An Alternative Fuel Dealer-User is defined as "Any person who delivers or places alternative fuels into the fuel supply tank or other device of a vehicle for use on the public highways." These fuels will be taxed on an equivalent gallon basis, at rates determined by the Department.

.300 License Classifications:

Pennsylvania Distributors will now be licensed under different classifications. This classification determines permitted activity. The description of the distributor and permitted activity is shown on [REV-543, PENNSYLVANIA DISTRIBUTOR'S GUIDE TO LICENSE CLASSIFICATIONS](#).

FT210 Issue Initial Contact Letter

A letter must be sent indicating that the auditor/supervisor responsible for conducting the audit will be contacting the taxpayer in the near future to establish the audit period and audit starting date. 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.

FT220 Pre-Audit Planning

.100 Licensee History:

Preliminary audit research should be conducted by the auditor using the Department's 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 LF&F accounts is based on the following information:

[Title 75, § 9009](#) provides that "The distributor and dealer shall maintain and keep for a period of two years a record of liquid fuels and fuels used or sold and delivered within this Commonwealth by the distributor, together with invoices, bills of lading and other pertinent papers as required by the Department."

The standard audit period for LF&F audits is two years plus the current. The first period under audit will be the January two years prior to the audit start date. For

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

example, an audit started in July of the year 2020, the starting period will be January 2018. Depending on the actual start date, most audits should be at least 24 months. Any deviation from the standard audit period needs prior Headquarters approval.

A waiver (Consent 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. 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 SAP CRM (Customer Relationship Management) Interaction Center. Pertinent information can also be found under the Audit Springboard>CRM Tab>Notes Subtab in PaTH.

.200 PaTH and Bridges:

The following descriptions are most pertinent to the information needed by the auditor. Account and return information, including any imaged returns, can be located under the springboards, tabs and subtabs in PaTH, the Pennsylvania Tax Hub². Account information can also be found in PA DOR BRIDGES.

.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), Address Subtab (Figure 6) and Contacts Subtab (Figure 7). The hyperlinks available under these subtabs provide detailed information for that subject.

Figure 1:

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Figure 2:

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Figure 3:

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

Figure 4:

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Figure 5:

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Figure 6:

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Figure 7:

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Bridges: Figure 8 reflects the taxpayer's general information; including legal name, PaTH ID, FEIN, Commenced/Ceased Dates, Account Types and Names/Addresses as entered in PaTH.

Figure 8:

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.010 Accounts:

PaTH: Detailed information on balances, returns, payments, refunds, and transactions for each period that pertains to a customer's account can be viewed in the subtabs under the Account Springboard>Financial Tab (Figure 9).

The distributor's license classification can be found under the Attributes Subtab (Figure 10).

Figure 9:

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Figure 10:

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.015 Tax Return:

PaTH: Account Springboard>Financial Tab>Returns Subtab (Figure 11). 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 11:

DoR Internal/System Image Removed for Publication Purposes

.020 Tax Return/Report Summary:

PaTH: Account Springboard>Returns Subtab >Motor Fuel Tax Report hyperlink (Figure 12). The Motor Fuel Tax Report hyperlink displays the Return Springboard>Return Tab that identifies the Due date, Original Received date (filing date), Latest Filed date and Reason (cause for multiple filed returns). The Return Springboard>Return Tab includes the Header Information Subtab, Tax Report Summaries Subtab, Receipts Subtab and Disbursements Subtab for the latest version of the filed return. All versions of the filed returns are available under the Return Tab.

The Tax Report Summaries Subtab contains the 1096A Inventory (Figure 13), 1096A Tax (Figure 14), 1096B Receipts Summary (Figure 15) 1096B Disbursements Summary (Figure 16) reports.

The reported receipts detail by report type can be found under the Receipts Subtab (Figure 17); while the reported disbursements detail by report type are located under the Disbursements Subtab (Figure 18).

Figure 12:

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Figure 13:

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Figure 14:

DoR Internal/System Image Removed for Publication Purposes

Figure 15:

DoR Internal/System Image Removed for Publication Purposes

Figure 16:

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Figure 17:

DoR Internal/System Image Removed for Publication Purposes

Figure 18:

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.025 Notice of Determination/Assessment:

PaTH: Account Springboard>CRM Tab>Letters Subtab>Audit Notice of Determination hyperlink (Figure 19). This hyperlink opens the Mail Springboard (Figure 20) displaying a copy of the Motor Fuels Tax Notice of Determination letter which shows the liabilities, interest, penalty, fees, payments/credits and total due for an audit.

Figure 19:

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Figure 20:

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.030 Credit History:

PaTH: Account Springboard>Financial tab>Refunds Subtab> Refund hyperlink (Figure 21). The refund hyperlink displays the Refund Springboard (Figure 22) that identifies Status, Refund Channel, Requested Amount, Posted Amount, Issued date, and Redeemed date.

Figure 21:

DoR Internal/System Image Removed for Publication Purposes

Figure 22:

DoR Internal/System Image Removed for Publication Purposes

.035 Notes:

PaTH: User notes are displayed on the Customer Springboard (Figure 23) and Account Springboard (Figure 24). Pertinent information can also be found under the Audit Springboard>CRM Tab>Notes Subtab (Figure 25).

Figure 23:

DoR Internal/System Image Removed for Publication Purposes

Figure 24:

DoR Internal/System Image Removed for Publication Purposes

Figure 25:

DoR Internal/System Image Removed for Publication Purposes

.300 Product Types and Schedules for Receipts and Disbursements:

The Product Types are as follows:

<u>Code</u>	<u>Product</u>	<u>Code</u>	<u>Product</u>
065	Gasoline	142	Kerosene
123	Ethanol	073	Low Sulfur Kerosene – Clear
124	Gasohol	160	Low Sulfur Diesel – Clear
125	Aviation Gasoline	170	Biodiesel – Clear
130	Jet Fuel	227	Low Sulfur Diesel Fuel – Dyed

The Receipt Schedules are as follows:

<u>No.</u>	<u>Receipt Type</u>
1	Gallons Received PA Tax Paid and Placed in Inventory
1F	Gallons Received PA Tax Paid and Direct Shipped to Customers
2	Gallons Received Tax Free (Resales) and Placed in Inventory
2F	Gallons Imported & Direct Shipped to PA Customers
3	Gallons Imported & Direct Shipped to PA Customers
4	Gallons Imported into Tax Free Storage in PA

The Disbursement Schedules are as follows:

<u>No.</u>	<u>Disbursement Type</u>
5	Gallons Delivered Tax Collected (Taxable Sales)
5Q	Taxable use
6	Gallons delivered Tax Free to PA Distributors (Resales)
7	Gallons Exported

- 8 Gallons Delivered Tax Exempt to U.S. Government
- 9 Gallons Delivered Tax Exempt to PA & Political Subdivisions
- 10 Gallons Delivered Tax Exempt to Other Exempt Entities

.400 Additional Resources:

- .005** Board of Appeals decisions and Board of Finance and Revenue decisions are on the [Revenue Appeals Processing System \(RAPS\)](#) website.
- .010** 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.

.500 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 [FT TaxMaster Download PaTH](#) for download instructions.

Once the reported information is imported into the audit program (TaxMaster), the Reported Inventory, Reported Receipts and Reported Disbursements schedules should be reviewed. Things to look for during this review relate to non-reported periods, continuity of reported inventories, tax paid receipts, credit cards, exempt gallons, and fuel types reported. All of these items may have a bearing on the procedures used to conduct the audit including test period selection.

The Reported Net Gain Loss-Inventoried schedule should be examined prior to beginning the audit to determine if there is an excessive loss or gain based solely on the reported information. This could affect how the audit is conducted.

An Excessive Loss indicates a potential of over-reported receipts and/or underreported disbursements. While a large Gain indicates a potential of under-reported receipts and/or over-reported disbursements. In either case a thorough examination should be conducted to determine if either scenario has occurred.

.005 Non-Reported Periods:

Reported information, which has been electronically imported to the audit file, must be examined to verify that all months within the audit period are included. Delinquent returns and returns listing no activity may not be recognized by the audit program, due to missing or incomplete return data.

To establish a return, the audit program must be able to identify a reporting period and a fuel type (LF, FU, JF, AG). If a reporting period is missing, the auditor will have to manually add or complete the return

information for the period in question. When adding or completing a return, all numeric fields must be zero (-0-).

During the course of the audit, delinquent returns and returns listing no activity should be investigated. If the taxpayer had activity that should have been reported, that information can be added through Audited Inventory, Audited Receipts, Audited Disbursements, and Audited Credit Card Sales.

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

.010 Inventories:

Reported inventories should be examined to determine if there are differences between closing and subsequent opening inventory amounts. Other changes to look for include large increases or decreases in inventories, significant change in number of gallons or fuel types reported, or any other item that does not appear to be consistent with the reporting history. If any of these occur, they should be addressed during the audit process.

.015 Receipts:

The reported receipts must be examined to determine if there are questionable areas. Examples would be large disparities in direct shipments and/or tax paid gallons reported from period to period. This could indicate that there are problems with reported amounts. Direct Shipments can affect Loss or Gain and Tax paid Receipts effect Net Taxable Gallons. When disparities occur, they should be addressed during the audit process.

.020 Exempt Sales:

The reported exempt sales, including credit card sales, must be examined to determine if there are questionable areas. Examples would be large disparities in resales, exports, government sales, and credit card sales from period to period. Disparities found here could indicate that there are problems with reported amounts. Improperly reported credit card amounts (Dealer Sales reported as Exempt Sales) can affect Loss or Gain and Taxable Gallons. When disparities occur, they should be addressed during the audit process.

A complete review of the reported resales, exports, and government sales should be conducted. Customer names for resales and government sales should be verified; while delivery locations for exports should be confirmed to support exempt status.

[Reported resales](#) by registered distributors can be found under the P:\HDQ_Regional_Sharing\LFD\Reported Resales folder.

FT230A 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 may 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 obtained to support this direction and included in the audit as an exhibit.

.005 If applicable, email address for taxpayer representatives.

.200 Establish the date that fieldwork is to begin.

.300 Reaffirm/establish the audit period.

.400 Determine where the records are maintained and where the audit will be conducted.

.500 Define the business activities:

.005 Activities past and present relative to the audit.

.010 Number of business locations.

.015 Sales activity – bulk plant, retail stations, direct shipments, etc.

.020 Non-Taxable Use.

.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 Fuel Purchase Invoices.

.010 Sales/Delivery Tickets, meter readings, etc.

.015 Summary Records.

.020 Stock Control Worksheets.

.025 Electronic Records.

.800 Establish information that may affect the selection of test periods:

.005 Seasonal Activity.

- .010 Changes in accounting system.
- .900 Get directions to the audit site.

FT230B 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 allotted 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. An estimated deficiency may be prepared for assessment, or, under certain circumstances, an assignment may be cancelled. 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. The audit supervisor should contact Headquarters for additional information.

FT240 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.

FT300 Communication with the Licensee

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

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

FT400 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.

Pre-audit conferences can be held through online video/chat services (Microsoft Teams, Skye, Zoom) if requested by the taxpayer. However, FTI (Federal Tax Information) should not be viewed or streamed during the conference and only authorized personnel or someone granted power of attorney should be in attendance.

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

Prior to removing any records, the auditor is to acquire the Regional Manager's approval, through the audit Supervisor. Also, the auditor is to give the licensee a **detailed** receipt of all records removed (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 as an Exhibit to the audit report, and a thorough explanation of the reason for the removal of the records must be included in the audit narrative. The 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.

FT410 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** Type of business organization; -- i.e., foreign or domestic corporation, partnership, sole proprietorship, or other.
- .200** Date and state of incorporation, if applicable.
- .300** Date business started in Pennsylvania, the effective date(s) of the account being audited and, if applicable, the date that operations ceased in Pennsylvania.
- .400** Principal business activity of the licensee.
- .500** Business activities past and present relative to the audit -- especially the areas of exempt sales.
- .600** Principle business location and any locations relevant to the audit.
- .700** Changes in the licensee's operations during the audit period -- i.e., mergers, divestitures, bankruptcy filings, etc.
- .800** Discrepancies discovered during the Analysis of Return Data.
- .900** Fuel facilities: licensee's owned/leased bulk storage facilities; service stations.

FT420 System Survey

After the Pre-Audit Conference the auditor should conduct the System Survey. This is also known as the Evaluation of Internal Control³. This study and evaluation of the licensee's internal accounting control system has several identifiable phases:

.100 Review and Documentation:

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

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

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

.200 Preliminary Evaluation:

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

.005 Tests of Compliance:

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

.010 Report on Weaknesses:

³ As adapted from the IFTA Audit Manual § A640 Evaluation of Internal Control.

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

.300 Supporting Documentation:

Pennsylvania registered distributors and unlicensed dealers shall keep records as required by section 9009(a) Retention of records by distributors and dealers of the Liquid Fuels and Fuel Tax that provide:

- .005** The distributor and dealer shall maintain and keep for a period of two years a record of liquid fuels and fuels used or sold and delivered within this Commonwealth by the distributor, together with invoices, bills of lading, and other pertinent papers as required by the Department.
- .010** A person purchasing liquid fuels and fuels taxable under this chapter from a distributor for the purpose of resale shall maintain for a period of two years a record of liquid fuels and fuels received, the amount of tax paid to the distributor as part of the purchase price, delivery tickets, invoices, bills of lading, and such other records as the Department requires.
- .015** Take a physical inventory of all motor fuels on hand at the start of business on the first day of each month. A record shall be kept of tank measurements and the gallons, as per calibration charts, which are required to be in the distributor's or dealer's possession for the storage facility;
- .020** Maintain a record of all motor fuel received showing the gallons received, date, name of the supplier and their address. Purchase invoices, bills of lading, and delivery tickets shall be available to cover all receipts;
- .025** Maintain appropriate records of all motor fuels disbursed. Retail sales of liquid fuels or fuels to carriers operating under the requirements of the Pennsylvania Motor Carriers Road Tax, or in accordance with the International Fuel Tax Agreement (IFTA) must be documented by a fuel receipt containing: name and address of seller, date, gallons, fuel type, price per gallon, vehicle/unit number fueled and the purchaser's name. Bulk sales of motor fuels must be similarly documented as required by this Act, and applicable Federal Law;
- .030** Record daily meter readings of pumps dispensing motor fuels. All fuels whether or not metered shall be properly accounted for and supported by sales tickets, invoices, manifests, or bills of lading;
- .035** Maintain a stock control sheet for each calendar month showing opening physical inventory, receipts, closing physical inventory, consumption/disbursements, and stock gains and losses; and
- .040** Maintain normal business records including cash disbursements and receipts.

A written description of the accounting system is required in the system survey of the audit report to justify the audit procedures used. Any and all records referenced in the audit procedures must be explained as part of the audit trail in the systems survey. Any adjustments on which an assessment is based must be documented and explained.

FT430 Audit Planning

The point at which the auditor begins an audit may differ, but all records and related documentation must be examined by the time the audit is completed. The following items should be included in every audit. However, only items that are computer application program specific need to be completed in a predetermined order. The type of operations of the distributor will indicate the beginning point for the audit.

The most important process in conducting an audit is to establish the Audit Trail. The auditor must determine precisely what records the taxpayer has kept to account for the following:

- .005** Receipts and Disbursements;
- .010** Charging and Collecting of liquid fuels and fuels tax;
- .015** Any accrual of the tax on sales and/or use, and;
- .020** The reporting of both the excise tax and the oil franchise tax component (subject to discount and not subject to discount).

This is done to ensure that all tax due the Commonwealth is reported. The flow of the transactions from the source document through the accounting system to the tax return must be determined and thoroughly documented in the audit report.

In establishing the audit trail, the first step is to determine what records were used to prepare and file the tax returns. Additionally, determine what basis (gross or net gallons) was used in reporting. It is important to remember that the taxpayer is required to file returns on a consistent basis. All Receipts and Disbursements must be entirely on Gross or entirely on Net basis. The auditor should start with the present and work back to the beginning of the audit period. It must be determined if any changes were made in the accounting and reporting methods. If there were changes, these changes should be noted and documented for the audit period.

Note: The gallon basis (Filing Method) can be found under the Account Springboard>Financial Tab>Filing Attributes Tab (Figure 26).

Figure 26:

DoR Internal/System Image Removed for Publication Purposes

The choice of methods and procedures used to conduct the audit depend upon the nature of the records maintained. For example, the records may reflect, and returns may be filed on a gallon basis only, with no record of dollar amounts charged. Or, the sales account may only provide total sales amounts with no breakout of the tax amounts charged. These factors must be considered in determining the audit procedures.

The auditor must verify the proper reporting of liquid fuels and fuels tax charged. This should be accomplished by tracing the excise and oil franchise tax amounts from the sales invoices (delivery tickets), to the sales journals, to the ledger accounts, and finally, to the reported figures. The auditor must be completely familiar with the taxpayer's procedures for the reporting of the taxes charged to ensure the proper reporting of all fuel tax collected.

If an accrual account is maintained, a complete examination of the account must be conducted. All adjustments to the accrued amounts are to be verified. The taxpayer will be required to provide the auditor with sufficient documentation to support any and all adjustments. Those adjustments found to be invalid, i.e. bad debt write-offs, are to be included in any resultant deficiency. It is important to remember that the tax due is the greater of the actual tax collected or the net taxable sales times the appropriate tax rates.

All work papers and schedules prepared for the audit shall be included with the completed audit. Separate schedules are prepared for each fuel type, as determined by the license classification and operations of the account under audit.

.100 Test Period Selection:

Generally, testing in a liquid fuels & fuels tax audit is limited to the verification of reported amounts. Rarely are the results of a test used to project a tax deficiency. Current audit policy requires that, if the results of a test indicate an area of major discrepancy, a complete examination of that area must be performed to determine the tax deficiency. However, the examination can be limited to a particular location or customer.

The testing policy establishes the number of periods which must be tested and what areas may be tested. The following guidelines are to be used in conducting an audit:

.005 Test Periods: The auditor should select a minimum of two (2) test periods per year. Because the test results are not projected, the reported information should be reviewed for periods that appear to be unusual or abnormal. For example, when testing non-taxable disbursements, select periods where the reported amounts are higher than average. If consecutive months are selected, a third test period should be examined.

.010 Areas to Test: The purpose of testing is to allow for the verification of compliance with a minimum expenditure of time. The areas of testing should be receipts, non-taxable sales and/or use, and credit card sales. It is in these areas where a significant amount of time can be saved. Disbursements either metered or consumption can usually be verified rather quickly for the entire audit period. Therefore, testing is not encouraged in this area. However, on larger accounts, selective testing of bulk plants and/or retail locations is recommended.

.015 Additional Criteria to be considered:

- .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 LF & F tax activity;
- .003 Significant change in licensee's operations;
- .004 A major change in the physical composition of the licensee's operations.

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

FT500 Audit Procedures

The audit of the licensee's fuel records will be conducted using the FT 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 and expression of the resulting findings through schedules.

FT510 Reconciliation of Receipts

At a minimum, the auditor should reconcile the licensee's reported receipts to the reported disbursements (resales) of their supplier for the test periods. All differences must be investigated. Please contact Headquarters for the required information; taxpayer name, audit period, and suppliers.

[Reported resales](#) by registered distributors can be found under the P:\HDQ_Regional_Sharing\LFD\Reported Resales folder.

Please keep in mind, differences could exist due to inaccuracies with the supplier's reported disbursements. For clarification contact Headquarters.

FT520 Physical Inventory

A proof of inventory **must** be conducted for every audit, where applicable (company use tanks and/or retail locations). This must be done by fuel type and by location. Arrange to take the physical inventory at the same time the company personnel normally take it. The time of day when the inventory is taken may vary from company to company. If all disbursements are in bulk, a physical inventory may not be necessary.

An actual physical proof of inventory may not be necessary in every audit if electronic reports are available to conduct the proof of inventory.

It is recommended the inventory be taken early in the audit process. In the event that an excessive loss (exceeding one half of one percent, .005) is indicated, a second inventory

may be taken during the audit. The physical inventory is a logical first step because it will verify the following:

- .005** The accuracy of reported inventories, receipts and total fuel available;
- .010** The metered fuel dispensed, or the accuracy of fuel dispensed on a consumption basis, and;
- .015** Identify any large stock losses. If large losses are indicated, notify the taxpayer that they should check for tank leakages or the possibility of pilferage which may be causing the indicated shortage.

A separate schedule will be prepared for each fuel type and tank. The information entered into the application program include: Product Type, Location, Inventory Date, Time, Tank Number Identification, Tank Capacity, Gauged Depth (feet and inches), Converted Gallons, Receipt Gallons, Disbursement Gallons, Closing Inventory. The calibration charts used by distributors to convert measured feet and inches into gallons should also be utilized by the auditor at the time of the physical inventory. The result of this physical inventory should be fully discussed in the audit narrative.

.100 Commingled Jet Fuel:

Registered Distributors who share storage facilities among themselves or with someone other than a registered distributor who has storage capacity must report as taxable all fuel as it is placed into that storage facility. No commingled storage (by more than one person) of tax-free product is permitted. Likewise, no commingled storage (by more than one person) of a product on which a portion is tax paid and/or a portion is tax-free is permitted (unless permission has been granted by the Department). In summary, once jet fuel is commingled, the jet fuel is no longer the distributor's product and it must be treated as a sale/use.

FT530 Receipts

The next step in the audit process is to verify receipts. The distributor must account for all liquid fuels, fuels (clear product only), and any blending products received (i.e. ethanol). The receipts should include: tax free purchases, tax paid purchases, returned products, blending products, receipts (transfers) from the taxpayer's own refineries, transfers of inventory, receipts from sources outside of Pennsylvania, receipts on exchange and direct shipments.

Review the distributor's purchase invoices and all related books and records for the audit period, or test period, to verify total gallons of product received. The receipts must be entered separately, by period, fuel type, supplier, and storage location (when temperature loss analysis is required). Additionally, the receipts schedules will identify the following: Shipped from Location (origin) Shipped to Location (destination); tax-free or tax paid; and the gallons. All receipts are totaled to obtain the grand total. It is important to identify and classify direct shipments receipts or receipts to inventory.

.100 Direct Shipments:

Determining whether direct shipments are metered or non-metered is important for purposes of calculating handling loss allowed. The auditor must classify all direct shipments as Metered or Non-Metered in the audit program.

.200 Tax Paid Purchases:

If purchase invoices do not specifically reflect the amount of Pennsylvania Tax separately, the auditor should assume the taxes have not been paid. Tax paid purchases must be identified and verified by fuel type. Also, it must be verified that the taxes paid include the appropriate oil company franchise component for liquid fuels and fuels. This is required in order to allow proper credit and to prorate gallons lost when tax paid gallons are placed into storage with tax-free product and a stock loss occurs.

The audit compilation of receipts may be completed by examining the following source documents: terminal loading tickets, purchase invoices, stock control records, purchase journal, reports to other states, refinery production records, and/or accounts payable. The number of source documents examined and cross-referenced to arrive at the audited receipts will be at the auditor's discretion. However, when discrepancies are found, the source documents should be checked completely. In addition, when it is practical, the distributor's receipts should be verified by checking with their supplier(s). Receipts must include tax-free and tax paid purchases, blending products, transfers from the distributor's own refineries and from points located outside Pennsylvania, liquid fuels or fuels returned from customers, exchange agreement receipts, and direct shipments.

Tax paid purchase credit will not be allowed when a billing invoice does not show the amount of tax paid to the distributor as part of the purchase price. All differences found in comparing reported to audited receipts must be fully explained in the narrative. In all audits, a random check of the accounts payable and/or cash disbursement records should be made to ascertain if a distributor has identified all of their supply sources and whether or not they have accounted for all of their purchases.

Credit is not to be given for sales of tax paid purchases unless there is satisfactory proof that the tax has been previously paid. Documentation must include purchase invoice number, point of shipment/delivery, gallons, price/charges, and the date of the transaction sufficient to trace the liquid fuels or fuels back to the distributor who paid the tax.

FT540 Total Disbursements

There are several methods used to determine total disbursements. These methods are as follows:

- .005** The sum total of bulk disbursements (i.e. bulk delivery tickets);
- .010** Meter readings (totalizers) from pump disbursements, or;

.015 The consumption method, Beginning inventory, plus Receipts less Ending inventory.

A distributor may use a single or combination of methods as listed above. Remember that the Department recommends meter readings (with totalizers) for pump disbursements (especially retail sales).

If all sales are bulk disbursements, including direct shipments, the total of the delivery tickets are the total disbursements.

If all disbursements are by meters with totalizers, the monthly beginning and ending meter readings should be used to determine total throughput.

If the consumption method is used, the receipts are verified as discussed in the prior section. The inventories should have been verified by the Proof of Inventory. Then all gallons consumed are the total disbursements.

All books, records, sales tickets, delivery tickets, meter readings, and related records relative to sales and/or use of liquid fuels and fuels are to be carefully examined to ensure accurate verification of all disbursements. Retail Sales, Bulk Sales, and Direct shipments must be verified and entered appropriately. The subtotals of retail sales, bulk sales, and direct shipments are totaled and compared to reported gallons to verify accuracy.

The Direct Shipments must be accounted for separately during the audit of disbursements. This is necessary for the program to accurately determine Loss or Gain.

FT550 Taxable Sales and Company Use

Verifying taxable sales and company use is extremely important. Since Taxable Gallons are the basis of the tax, the auditing procedures should be as complete and thorough as possible. Also, the auditor must accurately distinguish between taxable sales and taxable use gallons, due to the fund status of taxable sales. The taxpayer may maintain an accrual account; this must be determined and verified by the auditor. If an accrual account is maintained, the auditor must examine and verify the disposition/accuracy of the account.

All books, records, sales tickets, delivery tickets, meter readings, and related records relative to sales and/or use of liquid fuels and fuels are to be carefully examined to ensure accurate verification of all taxable transactions. Retail Sales, Bulk Sales, and Direct shipments must be verified and entered appropriately. The subtotals of retail sales, bulk sales, and direct shipments are totaled and compared to reported taxable gallons to verify accuracy. Because of the different tax rates by fuel type, all taxable transactions are to be verified and entered accordingly.

The primary purpose of conducting a tax audit is to verify the accuracy of the distributor's method of compiling the taxable gallons. This includes gallons that were sold and/or used during the periods under audit. The auditor should be certain that a representative number of source documents are examined to establish the audited totals. The following documents should be examined: sales journal, accounts receivable, driver loading and

sales reports, delivery tickets, bulk and terminal plant meter readings, daily service station shift reports, company use meter readings, and direct shipment loading tickets and/or metered delivery tickets.

When daily station shift reports are examined the following procedures apply:

- Verify that the metered gallons, when multiplied by the pump's unit price, equal the cash money meter (if applicable)
- Pump testing, priming, transfers, etc., will only be allowed when the distributor's records substantiate them to the auditor's satisfaction.

On the Audited Disbursements Tab there should be entries made to cover any of the following types of operations or transactions:

- .005** Service Station meter readings: Gallons used for testing pumps should be allowed as long as they are supported with acceptable documentation.
- .010** Key/Card controlled metering system meter readings.
- .015** Company use, or other use, meter readings.
- .020** Across State Line (Import Direct Shipments), taxable sales into Pennsylvania.
- .025** Taxable sales at each bulk plant or terminal, which should be supported by meter readings when available.
- .030** Taxable sales made directly from refineries.
- .035** Taxable sales made directly from sources of supply in Pennsylvania.
- .040** Any statistical, or other, information available pertaining to taxable sales.

FT560 Non-Taxable Sales

.100 Resales:

Sales of liquid fuels or fuels from one distributor to another distributor are known as resales. All resales must be verified and identified by name, license classification, and permit number of the purchasing distributor. Direct shipments must be kept separate from sales from bulk storage. The purchasing distributor's license classification must be verified to ensure that the transaction is a valid resale.

Identify the supplier's name and location for the point of origin for direct shipment sales. Verification of a distributor's license classification is available on the Department's Internet site, PaTH (Account Springboard>Financial Tab>Attributes Subtab), and [TM>Help>Guides>FT>MAFT Lists](#). This information will be updated as needed. All resale customers must hold a valid Pennsylvania registered distributor's permit to purchase tax-free from other registered

distributors. Sales between registered distributors must be made on a tax-free resale basis. Any discrepancies noted should be detailed in the audit narrative.

.200 Exports (Out of State Sales):

Registered distributors who wish to ship liquid fuels or fuels into or out of Pennsylvania must do so in their own trucks and/or by common carrier. If shipments are made in any other manner, control of the transporting equipment must be maintained by the registered distributor. The control must be by a written contract for hire, lease, or rental.

Transporters hauling, importing, or exporting clear diesel or kerosene are required to register their vehicles and to report product movement. The auditor may examine these carriers' reports to verify product movement.

Verification of exports involves the same procedures as described for the resales. The information required is the sales by plant, customer, and the state into which the deliveries are made. If differences are found, a detailed explanation should be made in the audit narrative.

The audit compilation of these sales must be done in strict adherence to the tax act. The statute provides that all shipments into or out of the Commonwealth must be accompanied by proper delivery tickets, transfer tickets, route cards, and/or bills of lading. Supporting documents may also contain some or all of the following information:

- .005** Date of shipment and loading time.
- .010** Name of consignor and point of shipment (origin).
- .015** Name of consignee and point of delivery (destination).
- .020** Number of sale-delivery ticket, transfer ticket, route card, and/or bill of lading.
- .025** Motor vehicle identification, including license number and state in which the transporting vehicle is registered.
- .030** Commodity and number of gallons.
- .035** Distributors liquid fuels and fuels tax license number⁴

.300 Exempt Sales:

Sales of liquid fuels and fuels made to the United States Government, Commonwealth of Pennsylvania and its political subdivisions, non-profit non-public schools, volunteer fire companies, volunteer ambulance and rescue squads, second class county port authority, or other exempt entities, must be reported on Lines 5, 6, and 7, respectively, of Section II Receipts and Disbursements Summary, Form REV1096B MF. These sales include bulk

⁴ Only registered distributors with valid permits are permitted to import or export tax free liquid fuels and fuels into or out of Pennsylvania for any purpose.

deliveries, key/card control system sales, and retail sales. Credit card sales to exempt entities are to be reported on line 11 (a, b, or c) of the tax return, Form REV-1096A.

On bulk sales made to the U.S. Government, the distributor should have on file satisfactory documentation to support the transaction, i.e. government purchase orders or contract agreements, delivery tickets supported by a billing invoice, and subsidiary ledger account of the purchasing exempt agency. Registered distributors may deliver tax-free bulk liquid fuels and fuels to a person hired by a school district to transport school children providing the school district leases from the contract bus carrier the storage facility and they must hold title (billed and paid) to the product, and have control of the fuel being dispensed. The fuel can only be placed into buses that are under contract to the school district.

For key/card control system sales, the distributor should have on file satisfactory documentation to support the transaction, i.e. government purchase orders or contract agreements, or delivery tickets supported by a billing invoice, and subsidiary ledger account of the purchasing exempt agency.

Purchases made from persons other than registered distributors cannot be made without tax. In these instances, the exempt entity must apply for a refund through the Board of Finance and Revenue. Billings to all such parties shall be free of all Pennsylvania's oil company franchise tax (subject to discount and not subject to discount).

FT570 Credit Card Sales

Credit will be disallowed at the time of audit if acceptable documentation is not in the possession of the distributor. Credit Card sales of liquid fuels and fuels made to exempt entities must be reported as follows:

.100 Credit Card Sales to the United States Government:

Credit card sales made to the bearers of cards approved by the United States Government (such as Wright Express cards) for motor fuel purchases from an account of the registered distributor, where the product has been previously taxed, shall be reported on Line 11a of the Liquid Fuels and Fuels Tax monthly report as dealer sales. Included as legitimate transactions are those where the credit card was issued by the governmental agency or a major oil company. Also, credit card sales to Foreign Missions (Ambassadors/Diplomats) will be recognized with adequate documentation.

.200 Credit Card Sales to the Commonwealth of Pennsylvania, Agencies, and Political Subdivisions of the Commonwealth:

Credit card sales made to the bearers of (1) Commonwealth of Pennsylvania Official Automobile Credit Cards (form number PSAB-19 or GSVM-19), (2) acceptable oil company credit cards issued to a Commonwealth of Pennsylvania agency or political subdivision of the Commonwealth, or (3) any other card

approved by the Commonwealth of Pennsylvania, for an account of a registered distributor shall be considered “dealer sales,” and reported on Line 11b of the Liquid Fuels and Fuels Tax monthly report.

.300 Credit Card Sales to Other Exempt Entities:

Credit card sales to bearers of an acceptable oil company credit card to a Pennsylvania volunteer fire company, volunteer ambulance service, volunteer rescue squad, electric cooperative, or a not for profit non-public (i.e. private) school (kindergarten through grade 12), for an account of a registered distributor shall be considered “dealer sales” and reported on Line 11c of the of the Liquid Fuels and Fuels Tax monthly report.

Because the above categories involve only non-taxable sales, sufficient documentation must be examined to arrive at the audited totals. The narrative report should adequately explain the procedures and records that were used and examined, respectively, in the audit process. All differences that directly affect taxable gallons must be completely explained in the audit narrative. The non-taxable sales should be listed in summary totals identifying bulk plant and service station locations. The purpose of identifying and separating sales in this manner would be to account for any potential loss that exceeds the one-half of one-percent (.005). Direct shipments are sales that do not originate from a distributor's own storage facility.

Information on [credit card sales](#) can be found under the TM>Help>Guides>FT folder.

FT580A Calculation of Net Gain/Loss Direct Shipments

This schedule is a summary of all audited direct shipment information and is a required schedule for all liquid fuels and fuels tax audits conducted. A separate schedule is prepared for each fuel group package, i.e. liquid fuels and fuels. The following information is provided by period on the schedule:

- .005 Total Audited Receipts (Fuel Available):** The total fuel purchased and direct shipped to customers (Tax Paid Direct Shipments, Tax Free Direct Shipments and Imported Direct Shipments).
- .010 Audited Sales and Use:** The total of Direct Metered and Non-Metered Sales to customers.

The above information is used to determine the following:

- .015 Loss or (Gain):** Comparison of total audited sales and use to consumption. When the total sales and use is less than consumption, a loss is suffered. When total sales and use is greater than consumption, the result is a gain.
- .020 Handling Loss Allowed:** The handling loss allowed is determined based on the amount of actual loss and the loss that is permitted. Direct

shipments must be metered on and metered off to qualify for a handling loss allowance. If those requirements are met, the direct shipments are multiplied by one-tenth of one percent (.001), to arrive at the handling loss allowance. Any Disallowed Loss on Tax Paid Purchases is deducted prior to calculating Allowable Handling Loss.

For inventories in transit, please see the [FT Direct Metered Sales/Inventory Procedures](#) under the TM>Help>Guides>FT folder.

Note: No gain or loss is permitted for non-metered direct shipments.

FT580B Calculation of Net Gain/Loss Inventoried

This schedule is a summary of all audited inventoried information and is a required schedule for all liquid fuels and fuels tax audits conducted. A separate schedule is prepared for each fuel group package i.e. liquid fuels and fuels. The following information is provided by period on the schedule:

- .005 Opening Inventory:** The audited opening inventory for gallons in all storage facilities on the beginning date of each period being audited.
- .010 Total Audited Receipts:** The total fuel purchased and placed into a bulk plant, service station, etc. Tax-free and tax paid gallons are listed separately.
- .015 Closing Inventory:** The audited closing inventory for gallons in all storage facilities on the ending date of each period being audited.
- .020 Audited Sales and Use:** The total of metered taxable and non-taxable sales.

The above information is used to determine the following:

- .025 Loss or (Gain):** Comparison of total audited sales and use to consumption. When the total sales and use is less than consumption, a loss is suffered. When total sales and use is greater than consumption, the result is a gain.
- .030 Handling Loss Allowed:** The handling loss allowed is determined based on the amount of actual loss and the loss that is permitted. For metered gallons dispensed from a distributor's own storage facilities (bulk plant, service station, company use tax tanks, etc.) the metered total audited sales and use are multiplied by one-half of one percent (.005), to arrive at the handling loss allowance. Any Disallowed Loss on tax paid purchases is deducted prior to calculating allowable loss.

The Opening and Closing Inventories are to be the actual measured, or otherwise determined, gallons in all storage facilities on the beginning and ending date of each period of the audit. The Total Audited Fuel purchased (bulk plant, service station, direct shipment, etc.) as shown on the receipts' schedule will be added to the opening inventory to arrive at the total fuel available.

Deducted from this total will be the period's closing inventory which will establish the total fuel consumed for the period. Brought forward from the disbursements schedules will be the Audited Sales and Use which is then compared against the Consumption to arrive at the period's Loss or (Gain). When the Total Audited Sales and Use is less than consumption a loss is suffered. When the opposite (sales and use exceed consumption) occurs the result will be a gain.

Whenever tax paid gallonage is commingled in the registered distributor's storage with tax-free gallonage and a loss of product occurs, the tax paid gallons suffer loss in the same proportion as the tax-free gallons. As a result, credit should only be allowed for the remaining tax-paid gallons after the applicable proportion of loss is deducted. An equal number of gallons must be added to the taxable gallons to enable the Department to recover the tax due on lost tax paid product.

Note: No stock loss is allowable after Liquid Fuels and Fuels has reached the point of taxation. All procedures used to verify the sales of tax paid gallons should be thoroughly documented and any discrepancies should be noted in the narrative.

FT590A Billing Summary

This is a mandatory report for liquid fuels and fuel tax audits. This report shows the following for each tax type:

- .005 OCFT:** This is the Oil Company Franchise Tax not subject to discount.
- .010 OCFT-Subject to Discount:** This is the Oil Company Franchise Tax subject to discount if applicable includes accrual errors.
- .015 Total Tax Due:** OCFT plus OCFT-Subject to Discount.

FT590B Billing Sheet

This is a mandatory report for liquid fuels and fuel tax audits. This report shows the following for each tax type:

- i. OCFT:**
 - .005 Period:** Ending date of the reporting period.
 - .010 Measure:** Additional taxable gallons.
 - .015 Rate:** Tax rate.
 - .020 Tax Due:** Measure times the rate.
 - .025 Total:** The total OCFT tax due for the audit period.

- ii. OCFT-Subject to Discount:**

- .005 Period:** Ending date of the reporting period.
- .010 Tax Due:** Tax plus Tax Adj. If no accrual errors exist, the Tax and Tax Adj columns will not be displayed.
 - a. Tax:** Measure times the rate.
 - b. Tax Adj:** Accrual errors will be shown in dollar amounts.
- .015 Total:** The total OCFT-Subject to Discount tax due for the audit period.

FT590C Tax Detail

This is a mandatory report for liquid fuels and fuel tax audits. This report shows the following for each tax type:

- i. OCFT:**
 - .005 Period:** Ending date of the reporting period.
 - .010 General Deficiency Measure:** Additional taxable gallons.
 - .015 Rate:** Tax rate.
 - .020 OCFT Tax:** Measure times the rate.
 - .025 Total Tax:** Total OCFT tax.
 - .030 Total:** The total OCFT tax for the audit period.
- ii. OCFT-Subject to Discount:**
 - .005 Period:** Ending date of the reporting period.
 - .010 General Deficiency Measure:** Additional taxable gallons.
 - .015 Rate:** Tax rate.
 - .020 OCFT Tax:** Measure times the rate.
 - .025 Total Tax:** Total OCFT-Subject to Discount tax.
 - .030 Total:** The total OCFT-Subject to Discount tax for the audit period.
- iii. Tax Adjustment (if accrual errors exist):**
 - .005 Period:** Ending date of the reporting period.
 - .010 Accrual Difference Tax Adj:** Accrual differences are shown in dollar amounts.
 - .015 Total Tax:** Total of the Accrual Difference Tax Adj
 - .020 Total:** The total of the Accrual Difference Tax Adj for the audit period.

The following items may affect the actual assessment received by the taxpayer and should be discussed at the Post Audit Conference.

- .035 Disallowed Discount:** Will be calculated by Bureau of Business Taxpayer Accounting/Bureau of Business Tax Returns Processing. However, the auditor should advise the taxpayer that a charge against the credit may occur when disallowed discount is involved.
- .040 Interest/Penalty:** Calculated by Bureau of Business Taxpayer Accounting.

FT600 Summary of Taxable Gallons

This is a mandatory schedule for liquid fuels and fuel tax audits. A separate schedule is prepared for each fuel group package. Any under/over reported taxable sales and/or use gallons will be shown on these schedules by period as Adjusted Net Taxable Gallons. The unsubstantiated loss charge back gallons (excessive loss) will be applied proportionally to each period and will be included with the Adjusted Net Taxable Gallons.

FT700 Communication of Audit Findings

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

FT800 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:

FT810 Post Audit Requirements

.100 Post Audit in Person:

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

- .025 Explain the appeal procedures. Reference the Disclosure Statement discussed at the beginning of the audit, as this form contains appropriate appeal procedures.
- .030 Present the licensee with a Taxpayer's Acknowledgement of Post Audit Conference form. This form will identify the audit period, tax liability, areas of deficiency and recommendations for correcting the areas of deficiency.
- .035 Request the licensee complete the post audit conference form and signify agreement, disagreement in part, or disagreement entirely with the audit findings. The licensee may elect to leave the form blank and merely sign. If the licensee declines to sign the form, the auditor is to note on the form and in the narrative the date, time, and the fact that the licensee refused to sign the form. The licensee must be informed that the completion of the post audit conference form does not waive any rights to appeal.
- .040 For the audit narrative: record the date, starting time, location of the conference, and the names and titles of those participating in the conference.

.200 Post Audit Conference by Telephone:

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

- .005 Prior to a post audit conference by telephone, the licensee must be provided with all schedules, reports, and worksheets necessary to explain the audit findings. During the conference, it must be verified that the licensee received and reviewed the schedules, reports, 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 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, reports, 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 Taxpayer's Acknowledgement of Post Audit Conference form signed by the auditor. 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.

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.

Post audit conferences can be held through online video/chat services (Microsoft Teams, Skype, Zoom) if requested by the taxpayer. However, FTI (Federal Tax Information) should not be viewed or streamed during the conference and only authorized personnel or someone granted power of attorney should be in attendance.

.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 must be sent to the licensee along with all pertinent worksheets, reports and schedules 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.

FT900 Alternative Fuels Audit Procedures and Techniques

.100 Pre-Audit/Preliminary:

The audit procedures and techniques to be utilized in conducting an Alternative Fuels tax audit are essentially the same as in the Liquid Fuels and Fuels tax audit. However, due to the unique nature of the products involved, and the different reporting requirements, many of the procedures do not apply or must be modified. By following these steps, the basic information will be provided to enable the audit reviewer to be satisfied that all pertinent data was examined, and proper audit procedures have been followed. The schedules completed by the auditor must contain all pertinent data. Not all of the schedules required in a Liquid Fuels and Fuels tax audit are necessary, or, in some instances, not as much detail is required. The suggested changes are noted under each of the following sections.

Pre-audit conferences can be held through online video/chat services (Microsoft Teams, Skype, Zoom) if requested by the taxpayer. However, FTI (Federal Tax Information) should not be viewed or streamed during the conference and only authorized personnel or someone granted power of attorney should be in attendance.

Under [Title 75, §9002](#), Alternative Fuels are defined as "Natural gas, compressed natural gas (CNG), liquefied natural gas (LNG), liquid propane gas and liquefied petroleum gas (LPG), alcohols, gasoline-alcohol mixtures containing at least 85% alcohol by volume, hydrogen, hythane, electricity and any other fuel used to propel motor vehicles on the public highways which is not taxable as "fuels" or "liquid fuels" under this chapter."

An Alternative Fuel Dealer-User is defined as "Any person who delivers or places alternative fuels into the fuel supply tank or other device of a vehicle for use on the public highways."

The alternative fuels tax is imposed on a Gallon Equivalent Basis. This is defined as the amount of any alternative fuel containing 114,500 BTU's as determined by the Department. Such fuel shall be taxed at the rate of the Commonwealth's Liquid Fuels and Fuels Tax, and the Oil Company Franchise

Tax. The tax is imposed on an adjusted rate basis using a BTU conversion. Each alternative fuel must be reported on the liquid gallon basis.

Conversion Factors – The conversion factors shown below must be used to convert the unit of measure indicated to a liquid gallon basis.

.005 CNG in standard cubic feet (scf.) to gallons:

Multiply CNG (scf.) units by .0314 to convert to liquid gallons.

.010 CNG in pounds (lbs.) to gallons:

Multiply CNG (lbs.) units by .7087 to convert to liquid gallons.

To determine tax due, except for electricity, multiply the liquid gallons by the appropriate tax rate. For electricity, simply multiply kilowatt-hours used by \$.008 kWh. The tax rates, per alternative fuel type, per equivalent gallon, are shown in Section FT900.

During the audit process, special attention must be given to the licensees that purchase alternative fuels in bulk, primarily for on highway sales and use. Although the licensee is not required to report inventories and receipts, the auditor must examine these areas to properly verify disbursements. Also, there may be off highway sales or use that must be determined and verified to properly account for taxable amounts.

The standard audit period is two years plus the current, with returns filed monthly. However, it must be noted that, the Department may permit alternative fuel dealer users to report the tax due for reporting periods greater than one month up to an annual basis provided the tax is prepaid on the estimated amount of alternative fuel to be used in such extended period. Under such circumstances, the audit period is the same, but all amounts are determined on the reporting basis.

Alternative Fuels [tax rates](#) and [returns](#) can be found through the Pennsylvania Department of Revenue website (www.revenue.pa.gov).

.200 Physical Inventory:

When applicable, a physical inventory should be taken at some point during the audit. The procedures outlined under Section III C. are to be utilized as a guide. For some alternative fuels, this may not be possible, i.e. electricity. If the proof of inventory is conducted, the appropriate schedule must be included in the audit and discussed in the audit narrative.

.300 Receipts:

When a review of receipts is necessary, a review of all records, books, and purchase invoices should be made to verify receipts. If there is a question regarding the accuracy of receipts indicated in the records of the account, the supplier(s) should be contacted to verify deliveries. Unlike liquid fuels and fuels, it is not necessary to separate receipts by location, because no temperature loss

allowance is made for alternative fuels. However, under audit, a handling loss may be allowed if substantiated to the satisfaction of the Department. All receipts in the test periods, or the complete audit period should be examined in their entirety and listed on the work papers.

There are no provisions for the receipt of tax paid product on the reports of entities that are dealer-users of alternative fuels. Therefore, tax paid receipts do not have a direct bearing on taxable equivalent gallons. In no case may licensed dealer-users make bulk purchases on which tax is paid at the time of receipt. However, on road tax paid purchases may be maintained by trucking firms that are licensed as alternative fuels dealer users. Such receipts become an important item when a collateral IFTA or Motor Carrier Road Tax audits are being conducted. The purchase tickets must then comply with the provisions of IFTA and the motor carrier regulations governing on road fuel purchases.

.400 Non-taxable Sales and Use:

As with receipts, there are no reporting requirements for non-taxable sales and use. However, for the licensees that purchase alternative fuels in bulk, primarily for on highway sales and use, a thorough examination should be conducted for all non-taxable disbursements. The audited non-taxable items may be shown on one schedule and the total of these items used in the determination of taxable sales and use.

It is very important for the auditor to keep in mind the off highway "use" and sales for off highway "use" must be consumed entirely off of the road to be exempt from tax. Under the definition of "alternative fuels tax" the act specifically states that "A tax is hereby imposed upon alternative fuels used to propel vehicles of any kind or character on the public highways." This has been interpreted to mean, if any portion of the fuel placed into the fuel supply tank of a motor vehicle is consumed in propelling that vehicle on the public highways, then all of the fuel placed into the tank, at the time of that particular fueling, is taxable.

Dealer sales of alternative fuels made to the United States Government, Commonwealth of Pennsylvania and its political subdivisions, non-profit non-public schools, volunteer fire companies, volunteer ambulance and rescue squads, second class county port authority, or other exempt entities are not subject to the tax.

Gallons used for heating, off highway equipment, or miscellaneous non-motor vehicle consumption are exempt from the tax. In instances of sale, the required sales ticket must be prepared indicating the name and address of the purchaser, along with the number of gallons sold, price and a notation the product was sold for non-highway use or was purchased by an exempt entity. The tickets should further indicate the deletion of the alternative fuels tax and the addition of sales tax when applicable. Non-taxable usage must be documented to the satisfaction of the Department to be allowed. Any test gallons must be documented to be allowed as non-taxable. Any discrepancies should be noted and fully explained in the audit narrative. Non-taxable errors or disallowed non-taxable gallons directly affect taxable gallons.

All findings of this examination, when conducted, should be completely explained in the audit narrative.

.500 Taxable Sales and Use:

It is most important in auditing that verification of the taxable transactions be as thorough and complete as possible, regardless of whether or not the audit is on a test period or a complete basis. Our greatest interest lies in this area because this phase of the audit determines any additional tax liability. All books, records, meter readings, sales tickets, delivery and all other documents relative to taxable equivalent gallons disbursed should be carefully examined to ensure all tax liability was properly reported and paid.

As with liquid fuels and fuels, alternative fuels also have trust fund status for all taxes collected from the consumer. Due to this trust fund status, the taxpayer may maintain an accrual account for sales. This must be determined and verified by the auditor. If an account is maintained, the auditor must examine and verify the disposition of the account.

When the account under audit is a user, meters are the preferred method from a control standpoint. If the user is metering gallons, the procedure for determining taxable gallons would be the same as described previously for a dealer. When users are not metering their disbursements, the taxable gallons are audited using a consumption method. In this case, the dealer is required to maintain inventories, receipts, and non-taxable use. The taxable gallons are then determined as opening inventory, plus receipts, less closing inventory, less non-taxable gallons, with the remaining gallons being taxable. When auditing on a consumption basis it is imperative that a complete verification of purchases and inventories be completed.

.600 Summary of Audit:

A Summary of Audit schedule is mandatory for all alternative fuel tax audits conducted. However, it should be noted that not all information will be available for all audits, i.e. inventories, receipts, and non-taxable distributions. The following information, when available, is used to complete the schedule. For sections not available, a zero is shown.

.005 Opening Inventory: The audited opening inventory for gallons in all storage facilities on the beginning date of each period being audited.

.010 Total Audited Receipts: The total fuel purchased and placed into storage facilities.

.015 Closing Inventory: The audited closing inventory for gallons in all storage facilities on the ending date of the period being audited.

.020 Audited Sales and Use: Total of taxable and non-taxable distribution. Non-metered gallons and metered gallons are to be listed separately.

The above information is used to determine the following:

- .025 Loss or (Gain):** Comparison of total audited sales and use to consumption. When the total sales and use is less than consumption, a loss is suffered. When total sales and use is greater than consumption, the result is a gain.
- .030 Handling Loss Allowed:** The handling loss allowed, when applicable, is determined based on the amount of actual loss and the loss that is permitted. For metered gallons dispensed from a dealer's own storage facilities (bulk plant, service station, company use tax tanks, etc.) multiply the metered total audited sales and use by one-half of one percent (.005), to arrive at handling loss allowance.
- .035 Loss Charge Back:** Loss minus loss allowed.
- .040 Error in Reported Taxable Gallons:** Gallonage that was found to be underreported taxable sales and use on the schedule of taxable sales and use.
- .045 Gallons on Which Tax is Owning:** Total of loss charge back and error in reported taxable gallons is the total gallons on which tax is to be assessed.

.700 Alternative Fuel Tax Assessment:

This schedule is to be utilized when calculating audit deficiency for alternative fuel tax audits. A separate schedule is to be prepared for each fuel type. The schedule requirements are as follows:

- .005 Reporting Period:** Include month and year.
- .010 Equivalent Gallons:** Record underreported and/or over reported taxable sales and/or use. If applicable, the unsubstantiated loss charge back gallons appear here.
- .015 Tax Deficiency:** Gallons times applicable tax rate. The following items may affect the actual assessment received by the taxpayer and should be discussed at the Post Audit Conference.
- .020 Disallowed Discount:** Will be calculated by Bureau of Business Taxpayer Accounting/Bureau of Business Tax Returns Processing. However, the auditor should advise the taxpayer that a charge against the credit may occur when disallowed discount is involved.
- .025 Interest/Penalty:** Calculated by Bureau of Business Tax Return Processing.

Effective January 1, 1999, the tax is imposed on an adjusted rate basis using a BTU conversion. The following tax rates are to be used for reporting and auditing Alternative Fuels Tax:

Product/ Date	CNG	Propane/ LPG	ETHANOL	METHANOL	E-85	M-85	LNG	ELECTRICITY (Kwh)
01/01/17	0.582	0.429	0.388	0.292	0.418	0.335	0.655	0.0174
01/01/18	0.576	0.425	0.384	0.289	0.413	0.332	0.648	0.0172
01/01/19	0.576	0.425	0.384	0.289	0.413	0.332	0.648	0.0172
01/01/20	0.576	0.425	0.384	0.289	0.413	0.332	0.648	0.0172
01/01/21	0.576	0.425	0.384	0.289	0.413	0.332	0.648	0.0172

FT920 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 thru status. The minimum requirements are shown in the [Sales & Use Tax Manual, Chapter 3 §E, 7b, Pennsylvania Personal Income Tax, Minimum Requirements.](#)

FT930 Bankruptcy Audits

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

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

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 27).

.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 27:

DoR Internal/System Image Removed for Publication Purposes

FT1000 Preparation of Audit Package/Documentation

FT1010 Forms

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

.100 Audit 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 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.

.300 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.

.400 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.

.500 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 within 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.

.600 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.

.700 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.

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

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

.800 Agreement to Extend Time Limit For Assessment/Determination Of Tax And To Extend Period Of Time For Record Retention – Waiver:

The Revenue Regional Manager is responsible for obtaining the waiver and the timely completion of the assignment. The 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 two (2) year record retention 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 mail 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.

.900 Contact/Correspondence Letters:

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

Confirmation Letter should be sent along with the Request for Financial Records form.

All post audit conferences held by telephone or email will 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. Additional correspondence with the licensee should be issued as needed.

FT1020 Reports/Schedules to Print

Reference [TaxMaster Information All Taxes](#) in the TM>Help>Guides folder to determine which reports/schedules are to be included in the audit package (report stack/PDF).

FT1030 Schedules

The following schedules are available in the TaxMaster program. All standard schedules are automatically listed in the appropriate order in which they should appear in the audit report stack. The auditor selects the schedules relevant to the audit. A brief description of the schedules to be included follows:

.100 Reported Inventory and Credit Card Sales:

This schedule displays the taxpayer's reported inventories and credit card sales by period for each fuel group package.

.200 Reported Receipts:

This schedule displays the taxpayer's reported receipts by period for each fuel group package.

.300 Reported Disbursements:

This schedule displays the taxpayer's reported disbursements by period for each fuel group package.

.400 FT Accrual Differences:

This schedule displays the reported tax accruals and all tax accrual data captured by the auditor, by period for each fuel group package. The focus of this schedule is periods where the tax accrued exceeded the tax reported.

.500 Audited Inventory:

This schedule displays the audited opening and closing inventory by period for each fuel group package.

.600 Audited Receipts:

This schedule details all receipts data captured by the auditor for each fuel group package.

.700 Audited Disbursements:

This schedule details all disbursements data captured by the auditor for each fuel group package.

.800 Audited Credit Card Sales:

This schedule details all credit card sales data captured by the auditor for each fuel group package.

.900 Comparison of Audited to Reported Inventory:

This schedule compares the audited opening/closing inventories to reported opening/closing inventories for each fuel group package.

.1000 Comparison of Audited to Reported Receipts:

This schedule compares the audited receipts to reported receipts. Receipts are summarized by period and report type for each fuel group package.

.1100 Comparison of Audited to Reported Disbursements:

This schedule compares the audited disbursements to reported disbursements. Disbursements are summarized by period and report type for each fuel group package.

.1200 Comparison of Audited to Reported Credit Card Sales:

This schedule compares the audited credit card sales to reported credit card sales. Credit card sales are summarized by period and report line (i.e. US Gov, PA Gov, Other) for each fuel group package.

.1300 Net Gain Loss on Direct Shipped Sales:

This schedule summarizes the direct shipments activity by period for each fuel group package.

Audited inventories, direct shipments receipts and direct shipments disbursements were forwarded to this report to calculate the net gains/losses, excessive losses and allowable handling losses for the audit period.

If there are tax paid receipts for a period that suffered a loss, the report will calculate a disallowed loss on tax paid receipts. The number of gallons disallowed is based on the percent of tax paid receipts to total sales.

If the report shows a gain/loss for non-metered direct shipments, it is a good indication that a problem exists.

.1400 Net Gain Loss on Inventoried Sales:

This schedule summarizes the inventoried activity by period for each fuel group package.

Audited inventories, receipts and disbursements were forwarded to this schedule to calculate the net gains/losses, excessive losses and allowable handling losses for the audit period.

If there are tax paid receipts for a period that suffered a loss, the schedule will calculate a disallowed loss on tax paid receipts. The number of gallons disallowed is based on the percent of tax paid receipts to total sales.

.1500 Summary of Taxable Gallons:

This schedule utilizes all audited gallon amounts to establish audited net taxable gallons and compares these audited net taxable gallons to reported net taxable gallons by period for each fuel group package.

Any excessive losses will be taxed proportionately by period.

.1600 Proof of Inventory:

.005 Proof of Inventory:

This schedule calculates the gain/loss, allowable handling loss and if any excessive loss exists by tank and product type.

.010 Proof of Inventory-Receipts:

This schedule identifies the receipts used to perform the proof of inventory.

.015 Proof of Inventory-Disbursements:

This schedule identifies the disbursements used to perform the proof of inventory.

Note: The Reported Net Gain/Loss Inventoried schedule is used to determine if a reported Excessive Stock Loss existed. This schedule is for internal purposes only and is not to be included with the audit package.

FT1040 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 limited to the following:

.100 All correspondence with the licensee (required),

.200 List of PA business locations, if more than one (1) (required),

- .300 Tank Capacity/Location list (if applicable, required),
- .400 Copy of fuel receipts/disbursements source documents (if applicable, required),
- .500 Third party documentation (if applicable, required), i.e. fuel supplier reports providing required tax paid fuel purchases information, credit card reports, etc.
- .600 Any unusual documentation relevant to the audit findings (if applicable, required).

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.

FT1050 Worksheets

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

FT1060 Audit Narrative

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

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

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

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

.100 General Narrative Guidelines:

- .005 **All Reports, Schedules, Worksheets, 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. License Classification of the taxpayer.
- .025 Business activities past and present relative to the audit, if not the same as above, including taxable and/or non-taxable sales and/or use of fuel and the type(s) of fuel sold and/or used.
- .030 Principle business location and any location either owned or leased by the taxpayer, at any time during the audit period, which had bulk storage facilities. Indicate the number of tanks, tank capacity, and effective dates of operation for each location, as well as fuel dispensing equipment - e.g. meters with totalizers, key/card control units, etc. Reference any reports, schedule, workpapers, or exhibit prepared or obtained which delineates the above information. If the taxpayer has no Pennsylvania locations, this should be stated.
- .035 Taxpayer's basis of accounting for fuel, i.e. liquid gallons (Gross), temperature adjusted gallons (Net).

- .040 Method or methods used to transport fuel.
- .045 Changes in the taxpayer's operations during the audit period; i.e., mergers, divestitures, bankruptcy filings, etc.
- .050 Tax return filing history.

.400 System Survey:

As stated in the Pre-Audit Section of this manual, the most important process in conducting an audit is to establish the Audit Trail. This 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 by describing the flow of transactions in narrative form. This is especially important considering the Trust Fund status of the tax and the possible examination of an accrual account.

The auditor should also include the following:

- .005 General statement regarding the records maintained by the taxpayer. This statement should identify those records used by the taxpayer for reporting purposes. The auditor should also identify those records which will be used in the verification process.
- .010 A description of the audit trail.
- .015 Record keeping system maintained by the taxpayer; i.e., computerized, manual or combination.
- .020 Material changes in the taxpayer's record keeping system which occurred during the audit period.
- .025 Procedures used by the taxpayer to capture, verify, record, and summarize all information reported on the tax return. Reference relevant exhibits included in the report.
- .030 Summarize the taxpayer's system of internal controls.
- .035 The reliability of the internal controls.
- .040 Strengths and weaknesses of the internal controls.
- .045 A statement confirming/denying any changes in the taxpayer's accounting procedures during the audit period.

.500 Audit Procedures:

- .005 **The audit period and the basis for its length:** Twenty-four to thirty-six months - standard audit policy; less than twenty-four months - prior audit,

newly licensed, entity change; extended audit period - failure to register and file tax returns.

- .010 Proof of Inventory:** Audit procedures used to verify the ending inventory for the last period of the audit for locations where a physical inventory was observed. Reference schedule or workpapers prepared and/or exhibits obtained. A physical proof of inventory may not be necessary in every audit if electronic reports are available to conduct the proof of inventory. If a proof of inventory cannot be completed, the narrative must include an explanation.
- .015 Receipts:** 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 schedules, supporting schedules, workpapers prepared, and/or exhibits obtained.
- .020 Non-Taxable Disbursements:** 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 schedules, supporting schedules, workpapers prepared, and/or exhibits obtained.
- .025 Taxable Disbursements:** 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 schedules, supporting schedules, workpapers prepared, and/or exhibits obtained.
- .030 Tax Paid Purchases:** 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 schedules, supporting schedules, workpapers prepared, and/or exhibits obtained.
- .035 Dealer Sales (Credit Cards):** 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 schedules, supporting schedules, workpapers prepared, and/or exhibits obtained.
- .040 Accrual Account:** 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 schedules, supporting schedules, workpapers prepared, and/or exhibits obtained. If an accrual account analysis cannot be conducted, a complete explanation must be provided.
- .045 Excessive Loss Analysis:** Stock Control Worksheet, procedures utilized, and conclusions reached. Reference appropriate schedules.

.050 Audit Summary: Discuss audit findings i.e. additional taxable/credit gallons; gain or loss, if disbursements are metered; and loss chargeback, if the loss is excessive. Reference appropriate schedules.

.600 General Discussion:

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

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

.015 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 thru status. The minimum requirements are shown in the [Sales & Use Tax Manual, Chapter 3 §E, 7b, Pennsylvania Personal Income Tax, Minimum Requirements](#).

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

.040 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.

.045 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.