



## The Life of a Texas Audit



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### Audit Selection - IFTA

–3% of renewed population

– Inventory distributed annually

–3 Categories for audits

- 25% - Priority 1 (High Mileage)
- 15% - Priority 3 (Low Mileage)
- 60% - Priority 2 (All other Mileage)



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### Audit Selection - IRP

–3% of renewed fleets

–Audits initiated monthly

–List of accounts pulled from TXIRP



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### Notification of Audit - IFTA

- Notice of Audit with Questionnaire is sent out when the audit is generated. Thirty (30) day deadline.
- No response to audit notice
  - First request for records sent out via certified mail allowing 30 days.



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### Notification of Audit - IFTA

- No response to First Request
  - Second request for records mailed out with a deadline of 14 days. Estimate based on minimum of 20,000 miles per vehicle per quarter and 4.0 mpg is also attached.



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### Notification of Audit - IRP

- Notice of audit letter with questionnaire, equipment list and audit engagement letter is mailed when audit is initiated.
- Completed questionnaire, signed audit engagement letter and summaries for units listed on the equipment list are requested within 30 days from date of audit letter.



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## Notification of Audit - IRP

### No Response to Audit Letter

- Second notice is sent certified mail
- Advised of Fee Assessment and possible account cancellation
- Registrant has 15 days to respond



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## Initial Contact / Phone Interview - IFTA

- If questionnaire is received, call is made to taxpayer for initial interview and to schedule appointment.
- Discuss the records that are maintained by the taxpayer.
- Schedule date for start of audit. If possible, audit will take place at the place of business.



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## Initial Contact / Phone Interview - IFTA

Questions asked during initial phone interview:

- Trip sheets
- Fuel receipts
  - How are they filed?
  - Are they attached to corresponding trip sheet?
  - Are vendor statements available?



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## Initial Contact / Phone Interview - IFTA

- Bulk Fuel?
  - If yes, are there withdrawal logs?
  - Is bulk fuel reconciled monthly?
- Summaries for fuel and distance available on monthly basis? Quarterly basis?



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## Entrance Conference - IFTA

- Review information received during initial phone interview.
- Discuss the audit process.
- Have taxpayer walk through process for filing returns:
  - What reports are pulled?
  - Review workpapers



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## Entrance Conference - IRP

- Review questionnaire
- Discuss Registrant's operations and distance accounting system
- Risk assessment of internal controls
- Select unit(s) and quarter(s) for sample
- Letter is mailed confirming records to be submitted for sample



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### Audit Procedures - IFTA

- Review records provided for validity, as per guidelines.
- If records are incomplete, can an estimate be conducted based on the available records?
- If records are complete, can internal controls be verified?
- Conduct reconciliation for both fuel and distance using workpapers/summaries.



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### Audit Procedures - IFTA

- If internal controls are verified, what is the best method for audit? Sample or detail? (truck months or truck quarters?) Do any periods need to be removed from the population and reviewed separately? Why?
- Select sample
  - Must fall within 15% variation
  - Check proportionality analysis for all jurisdictions



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### Audit Procedures - IFTA

- Selecting Sample (continued)
  - Select short test from sample.
  - Short test must also meet 15% variation, as per guidelines.
  - Complete short test and review to determine whether to continue or convert to detail.
  - If short test shows errors, complete sample.



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## Audit Procedures - IFTA

- Was any portion of the audit estimated?
- If yes, reverse credits for all jurisdictions within the estimated periods.



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## Audit Procedures - IRP

Review records submitted to determine whether they are adequate

Do the records contain the following elements?

- Unit Number
- Beginning and Ending Dates of Trip
- Origin / Destination
- Beginning and Ending Odometer Readings



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## Audit Procedures - IRP

Do the records contain the following elements? (continued)

- Route of Travel
- Jurisdictional Distances
- Total Trip Distance

If records do not provide all of the elements, can the audit be conducted? If no, audit results in an Inadequate Records Assessment.



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## Audit Procedures - IRP

### Combined vs. Substantive Approach

- Perform an analysis of internal controls.
- Internal controls function as described; auditor will utilize the combined approach and reduce testing of records.
- Internal controls are deemed unreliable; auditor will utilize the substantive approach and increase testing of records and possibly expand the sample.



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## Exit Conference - IFTA

- Discuss and explain errors found.
- Review Texas IFTA requirements and provide a copy of TX IFTA Guidebook.
- Provide copy of all exams.
- Explain process for review of audit.
- Explain redetermination procedures.



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## Exit Conference - IRP

- Review audit findings and result
- Provide recommendations
- Advise of future action to ensure compliance with IRP (if applicable)
- Explain Registrant's right to appeal



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