

**FTA MOTOR FUEL UNIFORMITY COMMITTEE**  
**Charleston, West Virginia**  
**September 17, 2011**

**Minutes**

The FTA Motor Fuel Tax Section Uniformity Committee met at the Embassy Suites, Charleston, West Virginia, September 17, 2011. Sharon Gostovich (WY) Uniformity State Chair called the meeting to order. Thirty-four (34) were in attendance. (See attached list of attendees)

**Minutes**

The minutes of the April 2011 Uniformity Committee meeting in Oklahoma City, Oklahoma were approved.

**Presentation**

Rick Evans with Intellifuel gave a presentation on Electronic Fuel Movement System. Scott Louie with Chevron gave a presentation on prior period transactions.

**Uniformity Chairs**

State Co-Chair        Sharon Gostovich – State of Wyoming  
Industry Co-Chair    Bob Donnellan – Global Companies

**Subcommittee Chairs**

Compliance Subcommittee

State Co-Chair        Jeremy Neeck, State of Minnesota  
Industry Co-Chair    Rae Taki – Shell Oil

Communication and Coordination Subcommittee

State Co-Chair        Christy Dixon – State of Oklahoma  
Industry Co-Chair    Debbie Compton, Exxon Mobil

Electronic Commerce Subcommittee

State Co-Chair        Hal Lovell – State of California  
Industry Co-Chair    Gene Holland, ConocoPhillips

Forms Management Subcommittee

State Co-Chair        Lee Gonzalez, State of Florida  
Industry Co-Chair    Scott Louie – Chevron

**Subcommittee Reports**

The **Compliance Subcommittee** Jeremy Neeck (MN) reported there were twenty-four (24) in attendance. The committee discussed:

**Training Schedule for 2012**

FTA is starting the planning on training for 2012.

**Dyed Diesel Stats**

The dyed fuel final statistics for 2010 along with first quarter and second quarter for 2011 were reviewed. The committee wants everyone to review their results for their State.

**IRS Update**

It was reported that ethanol credits will probably expire at the end of the year and Congress is trying to extend the biodiesel blenders credit and offer a credit for blender pumps at the retail stations.

## **Old Projects**

**Expanding the Dyed Fuel Stats report** – the committee will be looking at adding type of vehicle and industry to this report.

**Best Practices for “Virtual Audits”** – white paper has been completed

**Scanned documents v. original and their laws** – States didn’t want to commit to one way or another, the committee decided to let each state handle this situation independently.

**Sale of “off spec” military fuel** – the committee discussed how the DMRS handles this for the military and it was suggested we table this until next meeting so we could get more information.

**Airport “stale” fuel issued and taxation and sale of “off spec” military fuel**  
It was suggested that the committee look at a case that happened at Miami Dade Airport and find the results of that case and share it with the group at the next meeting.

**Blending of E85 and non-oxy gas to make E10** – the committee discussed the issues that some states are having with blender pumps and that station owners are using E85 as a blending agent to get unique fuel blends instead of straight ethanol.

**IRS laws on fuel used in Motorboats** – it has been determined that all personal use of motor fuel used to propel motorboats should be taxable according to the IRS. Only off highway business use and commercial fishing are exempted from the federal motor fuel excise tax.

## **New Projects**

Open discussion on:

MT request if any state is using a canned system for Dyed Fuel Enforcement tracking.

*(See the minutes of this subcommittee for more details)*

**Approved by the Full Committee**

### **Virtual Audits White Paper**

#### **Virtual Auditing**

With states facing more and more budget restrictions and travel being one area that is being cut from their budgets, state auditing departments need to come up with innovative, constructive ways to continue to perform audits on Motor Fuel Accounts without the cost associated of traveling to the Taxpayers location.

#### **What are Virtual Audits?**

Virtual audits are paperless, electronic audits that are conducted without face to face interaction between government and industry. All data is exchanged in electronic formats such as MS Word, Excel, PDF files, text files and EDI files.

#### **Benefits of Virtual Audits:**

- Cost savings and efficiency – travel expenses, cost and storage of paper files, and postage
- Accessibility of data by all personnel within an organization – Audit, Appellate, Litigation, etc.

- Reduction of physical storage space
- Minimize the possibility of losing files
- Faster access to files and information
- No auditing standards, rules, or regulations that prevent use of paperless auditing systems
- Improved performance with consistent data capture and analysis
- Ability to link work papers and evidence directly to audit report
- Disaster recovery capabilities

**Issues associated with virtual auditing:**

- Audit review process may be more difficult
- Equipment needs such as scanners and monitors – budget issues, compatibility issues with different software types
- Storage capacity limits
- Getting electronic results to the taxpayer – secure email, secure mail box
- Fear of change – resistance to re-engineering of business processes
- Fear of technology
- Requires training and keeping abreast of software developments

**What states need to address before performing virtual audits:**

- Identify how long to retain records
- Identify when and how to back up files
- Uniform rules for naming and categorizing files
- Know the electronic recordkeeping requirements and professional standards of the IRS, other federal agencies, and state and local governments.
- Security systems to ensure authenticity, prevent manipulation of data, and improper access to confidential information
- Strong upper management commitment and resources for automation

**The audit process:**

When a state decides to begin virtual auditing, management and auditors need to develop procedures that can be followed to ensure all virtual audits are conducted on a consistent basis. The state would need to develop a list of expectations for the taxpayer that would provide, in advance, information on how the virtual audit process is going to work and what their responsibilities are during the audit. The list of expectations should include: what data is required from them, expectations of response time for both state and industry for all methods of communication, the scope of the audit, and back up phone numbers and email addresses.

When human interaction is eliminated in this type of auditing extra time and care needs to be dedicated to the taxpayer. This is an integral step as one-on-one communication and hands on training is lost during a virtual audit and these have been vital for on location field audits. All parties involved in the process need to make sure they understand each other completely, or they need to make sure that they are asking questions before specific topics are closed or communication has ended. This type of auditing can lead to longer audits and a lack of focus by both the taxing authority and industry on completion of the audit. Both parties need to be committed to completing the audit in a timely manner and keeping deadlines as they come due.

The **Forms Management Subcommittee** Lee Gonzalez (Florida) reported that this committee met with Electronic Commerce. There were thirty-four (34) in attendance with three (3) by phone. The subcommittee discussed the following:

**Crosswalk (FTA and STCC Codes)**

The team had a difficult time identifying reportable products from the STCC code list. The committee wants to talk with the National Railroad Association and ask for their assistance.

**Renewable Fuels**

The team reviewed existing schedule and product code structures and determined that the existing structures may not be robust enough to capture the number and diversity of future codes. The Tier system was introduced for discussion.

**New Jersey Forms Review**

The team reviewed SMF-10, including schedules and have identified areas that are not uniform and will contact NJ with their recommendations.

**Terminal Operator (Gross Gallons)**

It appears fuel arriving by rail and truck to a terminal may be in gross gallons. It was suggested to survey the terminal operators to identify scenarios where gross gallons might be used.

**Product Codes Request**

A request was made for additional product codes. The purpose of the request was two fold, first it was felt it would benefit taxing jurisdictions if they captured product codes at a more granular level and second, concern was expressed that product codes that are being used by industry but not recognized as a uniform product code by FTA.

*(See the minutes of this subcommittee for more details)*

The **Electronic Commerce Subcommittee** Hal Lovell (CA) reported there were ten (10) in attendance with one (1) by phone. The subcommittee discussed the following:

**Impact of product code issues on EDI**

Expansion of the product code may mean a new EDI version. The committee will continue to monitor this item.

**Import/Export Data Exchange**

It was discussed instead of using the standard flat file format many States are provide Excel filing. Excel provide sample files and a standard format be developed and encourage. The committee needs to start discussing an XML version.

*(See the minutes of this subcommittee for more details)*

The **Communication and Coordination Subcommittee** Christy Dixon (OK) reported that twenty-four (24) were in attendance. The subcommittee discussed the following and the September 2011 *Uniformer* was passed out. (See minutes for the publication)

**The Taxation-Diversion-Alternative Fuels Booklet** has been completed and published  
**Native American Survey Update Booklet** has been completed and published

**Definitions that were approved:**

Document/Bill of lading number  
Manifest Number  
Bill of lading

**MOU Update**

The draft MOU was approved and will be sent back to FTA for approval.

**Buy/Sell Agreement**

The committee is working on a section for the Model Legislation section of the Uniformity booklet.

*(See the minutes of this subcommittee for more details)*

**Approved by the Full Committee**

**Definitions**

**Document/Bill of lading number** – The identifying number from the manifest issued at the terminal or other storage facility when product is removed. In the case of pipeline, railcar, or vessel movements, enter the pipeline, railcar, or vessel (voyage) number.

**Manifest number** – see document/bill of lading number – also see shipping or transport document.

**Bill of Lading** – see document/bill of lading number – also see shipping or transport document.

**Other Business**

There was not old business.

**New Business**

Rich Callaway was introduced as the new Manager of the Fuel Tax Council. Rick replaces Mal Bruce who retired.

Everyone **THANK** Sharon Gostovich (WY) for the great job she did as the Uniformity State Co-Chair. Jeremy Neeck (MN) was appointed the new Uniformity State Co-Chair for the next two years and Cindy Mongold (KS) was appointed the State Co-Chair of the Compliance subcommittee.

**Next Meeting**

The next Uniformity Committee meeting is scheduled for January 27-28, 2012 – Portsmouth, VA

The meeting was adjourned.