

“HOW CAN STATES AND INDUSTRY WORK TOGETHER TO STREAMLINE AUDITS?”

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“HOW CAN STATES AND INDUSTRY WORK TOGETHER TO STREAMLINE AUDITS?”

Understand the Fuel Industry

Understand the Fuel Industry

Fuel Originating at a Bulk Plant

Fuel Originating at a Bulk Plant

Who initiates all fuel transactions?

Office Personnel

Who determines what taxes are charged on fuel leaving the bulk plant?

Office Personnel

Understand the Fuel Industry

Fuel Originating at a Terminal

Fuel Originating at a Terminal

Who initiates all fuel transactions?

Drivers

Who determines what taxes are charged on fuel leaving a terminal?

The Marketing Department

Who has the least amount of background knowledge concerning a load of fuel?

The Tax Department

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Evaluate Potential Risk Areas

Potential Risk Areas include:

- Companies with in-state or out-of-state bulk storage
- Companies with a large number of convenience stores in different border states
- Companies filing numerous diversions
- Companies who are not licensed exporters in border states

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Adequately Plan the Audit

How to Adequately Plan the Audit:

1. Have a clear understanding of the operations of the entity you will be auditing.

A clear understanding includes:

- Thoroughly review and analyze tax returns filed
- Review other documents such as license application and prior audits
- Hold pre-audit conference with taxpayer
- Know what types of records are maintained
- Determine record flow from inception to inclusion on the tax return
- Preliminarily evaluate internal controls

How to Adequately Plan the Audit:

1. Have a clear understanding of the operations of the entity you will be auditing.
2. Develop an overall strategy for the conduct and scope of the audit.

Overall Strategy Development includes:

- Realize that the audit plan is a continuing process
- Failure to develop a plan results in unorganized and incomplete work
- Realize audit techniques and procedures come with experience

How to Adequately Plan the Audit:

1. Have a clear understanding of the operations of the entity you will be auditing.
2. Develop an overall strategy for the conduct and scope of the audit.
3. Utilize and analyze all available data prior to scheduling an on-site visit.

Available Data includes:

- Carrier reports
- Diversion data
- Border State data
- Terminal data via state reports or ExStars

A Magical Equation for Some Auditors...

➤ **AUDIT = PAPER**

IF ELECTRONIC RECORDS SUCH AS
SCANNED DOCUMENTS OR
SPREADSHEETS ARE AVAILABLE, USE
THEM!!!

Another Magical Equation for Most Auditors

AUDIT = ON-SITE VISIT

So what do we
all think?????

STREAMLINING AUDITS

We are from the government and we're here to help!

Signing waivers of statutes of limitations.

State: Avoids the need to generate and process estimated assessments. Avoids the need to shorten audit periods resulting in more frequent audits. Affords the taxpayer additional time to research issues that arise during the audit process.

Industry: Try to establish guidelines and a timeline for completing the audit. If the taxpayer and auditor have the same objective in mind then hopefully the audit will progress to meet the timeline. Both parties must cooperate with each other and respond to request in a timely fashion. It is a two way street! Waivers extending the statute of limitations should not be used as a normal course of business. Jurisdictions should not be requesting waivers because they do not have the time to complete the audit especially if the taxpayer has provided the requested information timely. If the taxpayer is subsequently assessed it will cost the taxpayer additional interest. Start the audit at least 12 months before the statute of limitations expires on any periods included in the audit period.

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Initial contact with the taxpayer

State: Auditors should identify records required. Auditors should specify the test periods and scope of the examination. Taxpayers should have the records available upon the start of the audit.

Industry: Establish time guidelines for completion of the audit up front. Follow-up if taxpayer is not being responsive. Keep in mind the taxpayer does not care if you have multiple audits in process. Know the taxpayer before you arrive for the audit. Review prior work papers, if any. This will provide the auditor with potential magnitude of the audit and insight of the taxpayers accounting systems.

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PROVIDING DATA

State:

- When possible, provide sales data in a computerized format at least one month prior to the start of the field audit
- If data files are provided, they should match the same data as filed on each schedule and line of the return as when originally reported
- Differences due to credit re-bills, late posted transactions, etc. should be identified and explained in detail
- If available, provide an unedited copy of the worksheets formatted in Excel to the auditor by email or flash drive
- Providing data in advance of the audit allows auditors to get a head start on the work, formulate initial questions, and provides additional time to request records to support the taxpayer's position on issues

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Industry:

- Establish reasonable guidelines at the beginning of the audit.
 - Don't reinvent the wheel. Go in with a plan and ask for information relevant to the audit. "Not whatever you've got"
 - Tailor the audit notification to request data related to a motor fuel audit. Don't ask for irrelevant information, this only waste time and can be somewhat confusing.
- Industry spends a significant amount of time compiling detail motor fuel tax returns. A large number are completed and sent in electronically. Auditors should review return information and other data available prior to the field audit to determine any exceptions that may exist. The audit should be an exception and for testing system and accounting controls.

STREAMLINING AUDITS

Audit Trail

Ensure that a clear trail exists from the return to the documents used to prepare the return

How do the transactions and numbers flow from the original documents to the return?

Retain the supporting detail for the auditor's review

When reporting to multiple jurisdictions, ensure that imports and exports are being reported the same to all parties

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Communications

State: Taxpayers should respond promptly to the auditor's queries

The audit issues do not become "stale" and forgotten

May reduce the taxpayer's exposure to additional interest

Reduces the likelihood of audits being closed and billed prematurely

Auditors need to make requests clear and as complete and thorough as possible

Allows the taxpayer to understand the issue(s)

Gives the taxpayer guidance as to what documents need to be presented

Recognizes the taxpayer's limitations on time available

Industry: Communicate with the taxpayer, ask questions relevant to the audit!

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Verification and Documentation

Ensure that procedures are in place to verify that exempt sales are valid

Be able to demonstrate how the exempt status is verified

When in question, contact the taxing jurisdiction to clarify status

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Recommendations

Incorporate the recommendations made in prior audits

State: Auditors review prior audits to look for recommendations and findings. Auditors zero in on the recommendations to see if change has been enacted and look to errors from the preceding audit to see if they have been committed again.

Industry: Be prepared! If you have gone through a motor fuel audit previously with this jurisdiction, review prior work papers to check what was audited last time. Assume the same items and process will be used for the upcoming audit.

STREAMLINING AUDITS

When possible, ensure that sufficient staff is on site to address the auditor's queries and retrieve data and documents as needed

Recent trend toward shipping tax reporting and document retention functions overseas does not lend itself to prompt responses

Cultural and institutional barriers are created which work contrary toward the goal of streamlining the audit process

How can we work together?

Timeliness

Efficiency of Time

Consider Information provided

Be Reasonable

Communicate

Discussion

Thank You!