

International Fuel Tax Agreement & International Registration Plan Audit Program Audit Report 202223-12

November 15, 2023

Executive Summary

Florida is a participant in the International Fuel Tax Agreement (IFTA) and International Registration Plan (IRP), and the Department is designated by Chapters 207 and 320, Florida Statutes, as the primary agency for IFTA and IRP administration. The Department is required to audit and verify distance traveled and fuel purchased as reported on IFTA quarterly tax returns and/or IRP registration renewals. These IFTA/IRP audits are conducted by the IFTA/IRP Audit Services team within the Department's Division of Motorist Services' (MS) Bureau of Commercial Vehicle and Driver Services.

IFTA and IRP audits conducted during the 2022 calendar year resulted in assessments of \$1,012,420 and \$94,986, respectively.

The purpose of the audit was to evaluate the efficiency and effectiveness of the IFTA/IRP audit program and determine compliance with applicable laws and Department policy and procedure. The scope of this audit included IFTA/IRP audit activities from July 1, 2021, through December 31, 2022.

Overall, we determined the Department has adequate processes to ensure the efficiency and effectiveness of the IFTA/IRP audit program and generally complies with applicable laws and Department policy and procedure. However, we identified areas where improvements could be made to increase compliance with IFTA and IRP guidance; such as including all required elements in the audit reports to clearly demonstrate compliance with IFTA and IRP guidance, ensuring adequate staffing resources are available to conduct the required number of audits, and improving the process of selecting carriers for audits to increase the efficiency in completing the required number of audits.

Management generally agreed with the findings and recommendations and has begun implementing corrective action.



Background and Introduction

The International Fuel Tax Agreement (IFTA) is a fuel tax collection and sharing agreement for the redistribution of fuel taxes paid by interstate commercial carriers. Members of the IFTA include the contiguous 48 American states and 10 Canadian provinces (jurisdictions). The agreement requires commercial carriers to pay fuel taxes proportionally according to the miles driven in each jurisdiction. Revenue from the fuel tax is used for the upkeep of roads and transportation.

Similar to the IFTA, the International Registration Plan (IRP) is a reciprocal agreement that authorizes the proportional registration of commercial motor vehicles (i.e., vehicle registration) among the jurisdictions in which the vehicles operate. If a vehicle operates in multiple jurisdictions, the owner must annually report mileage driven in each jurisdiction, and registration fees are paid proportionately based on the miles driven in each jurisdiction.

Florida-based licensees under the IFTA and registrants under the IRP are required to keep detailed records of their operations in each jurisdiction. These records are used to report distance traveled on the IRP registration and/or distance traveled and fuel purchased on the IFTA quarterly tax return.

IFTA/IRP Audit Services

The Department is required by IFTA and IRP to verify distance traveled and fuel purchased as reported by Florida-based carriers on their IFTA quarterly tax returns and the IRP registration renewals. Verification is accomplished through audits conducted in accordance with audit standards established by IFTA and IRP. The audits are designed to enforce compliance with IFTA and IRP agreements and Florida Law and educate carriers.

Audit Requirements

In accordance with IFTA and IRP, the Department is required to audit an average of 3 percent of the Florida-based carriers who renew their IFTA license and/or IRP registration annually. Additionally, IFTA requires that at least 15 percent of the audits must be on low distance accounts and at least 25 percent of the audits must involve high distance accounts. Auditors typically conduct a carrier's IFTA and IRP audits concurrently.

Audit Process

To select a carrier for audit, the audit team takes a risk-based approach which includes gathering and reviewing information about the carrier from several sources including the



Department's Florida Real-time Vehicles Information System, the Federal Motor Carrier Safety Administration, and the Florida Department of State Division of Corporations among other sources. Once the audit team selects a carrier for audit, the auditor notifies the carrier that they have been selected for audit. Then the auditor holds an opening conference with the carrier to explain the audit process and obtain information about the carrier's business operations and internal controls. The auditor also discusses the sample period that will be reviewed.

Then the audit enters the fieldwork phase where the auditor verifies the carrier's compliance with the IFTA and IRP requirements. This includes a detailed review of distance and fuel records. At the conclusion of the fieldwork phase, the auditor's work is reviewed and approved by the Field Supervisor to ensure the work papers and reports comply with IFTA and IRP requirements. Next, the Quality Control Review team performs a review to ensure the documentation provided in the audit file supports the findings.

After the audit has been reviewed and approved, an exit conference is held with the carrier to review the audit findings. At the exit conference, the auditor suggests recommendations for improvement, explains interest calculations, penalties, and refund procedures, and advises the carrier of their appeal rights.

An audit may result in an assessment (i.e., additional tax to be paid by the carrier), a credit, or no changes. Credits recovered during an audit may be applied to a future filing, or refunded.

After the fieldwork phase, the audit team prepares an audit report that includes a narrative and billing summary documenting the audit. The audit report is provided to the carrier, IFTA and IRP, and the applicable jurisdictions.

Tax Collection

The Department's Bureau of Accounting IRP/IFTA Section within the Division of Administrative Services is responsible for collecting audit assessments, penalties, and interest from taxpayers (i.e., carriers). Taxpayers can make payments via the Department's website, or they may arrange to mail in payments. IFTA and IRP audits conducted during the 2022 calendar year resulted in assessments of \$1,012,420 and \$94,986, respectively.

Appeal Process

The carrier has a 15-day period to appeal the results of the audit and request a reconsideration by the audit supervisor. The purpose of this reconsideration is to allow the carrier to provide additional records which could affect the outcome of the audit. If



the carrier does not make a request or does not waive the appeal period, the Quality Control Review team calculates the IFTA penalties and interest. Then the audit team prepares and sends the audit report and Notice of Proposed Assessment to the carrier.

The carrier is provided a 15-day period from the date of the Notice of Proposed Assessment to request a reconsideration by the audit administrator or request a penalty waiver. If no request is received within the 15-day period, the Notice of Audit Assessment is issued.

The Audit Assessment can only be appealed by filing a petition under Chapter 120, Florida Statutes, within 30 days of the receipt of the Notice of Audit Assessment. When requesting an appeal, the carrier must indicate whether they are requesting an informal hearing or a formal hearing.

In an informal hearing, the carrier does not dispute the facts of the audit and is permitted to challenge the conclusions of law or submit evidence in mitigation of the audit assessment to the Division of Motorist Services Hearing Officer (i.e., the Bureau Chief of Commercial Vehicle and Driver Services).

In a formal hearing, the carrier disputes the facts upon which the assessment is based and is filing a petition for an evidentiary hearing before an Administrative Law Judge appointed by the Division of Administrative Hearings. The Department's Office of General Counsel handles the formal hearings.

A carrier may appeal the decisions of these hearings to the District Court of Appeal.

Findings and Recommendations

Overall, our review determined the Department's IFTA/IRP audit program activities and processes are adequate; however, we noted the following areas in which improvements could be implemented.

Audit Reports

Finding No. 1: Including all required elements in the audit reports would increase compliance.

The IFTA Audit Manual, Section A460 Audit Report, and the IRP Audit Procedure Manual, Section 601 Audit Report, both specify that the audit report must contain a summary of the evaluation of the internal controls including:

- Reliability of internal controls;
- Strengths and weaknesses in internal controls; and



- Changes in the Registrant's/licensee's accounting procedures during the audit period.

We reviewed 25 completed audit reports to determine whether they included the elements required by IFTA and IRP. Of the audit reports we reviewed, we noted 17 (68%) were missing at least one element in the summary of the evaluation of internal controls.

Of the 17 audit reports that were missing elements, we noted the following:

- 13 were missing the reliability of internal controls;
- 2 were missing the reliability of internal controls and the changes in accounting procedures during the audit period;
- 1 was missing the reliability of internal controls and the strengths and weaknesses in internal control; and
- 1 was missing the reliability of internal controls, the strengths and weaknesses in internal control, and the changes in accounting procedures during the audit.

Upon inquiry, Audit Program leadership advised that the completed audit reports may not always include a statement about the reliability of internal controls because the reports discuss the strengths and weaknesses of the internal controls. Leadership also advised that because the identification of weaknesses points to the reliability of controls, a specific statement on reliability of controls may not be written in the report, but it is documented elsewhere in the audit file.

Including and clearly labeling required elements in the audit reports would distinctly demonstrate compliance and reduce potential ambiguity during reviews.

Recommendation

We recommend MS leadership include all required elements in the audit reports to clearly demonstrate compliance with IFTA and IRP guidance.

Management Response

During our April monthly all staff meeting, one of the agenda items was to ensure everyone makes a statement about the reliability of Internal Controls in addition to the strengths and weaknesses. Since the meeting, the statement regarding the reliability of Internal Controls has been consistently captured in the audit report.

To add an additional security measure to ensure reliability, strengths, and weaknesses were noted in the audit report, we added these fields to the audit

program. This will require the auditor to initial and date that the necessary statements are included.

Completed Audits

Finding No. 2: Completing the required number of audits each year would ensure compliance with IFTA and IRP requirements.

The IFTA Audit Manual specifies that base jurisdictions are required to complete audits of an average of three percent per year of the number of IFTA accounts required to be reported by that jurisdiction on the annual reports filed pursuant to the IFTA Procedures Manual, Section P1110.300.005 excluding new licensees, for each year of the program compliance review period. Additionally, IFTA requires that at least 15 percent of the audits must be on low distance accounts and at least 25 percent of the audits must involve high distance accounts.

The IRP specifies that each member jurisdiction shall conduct a number of audits equivalent to an average of three percent per year of the number of Fleets whose registration it renews annually under the Plan, as required to be reported by the member jurisdiction in the annual report filed pursuant to the Plan. Upon the peer review of a member jurisdiction, this requirement shall be deemed to have been met if, during the interval since the previous peer review of the member jurisdiction, it has audited an average of three percent of the number of renewed fleets.

We reviewed the number of IFTA and IRP audits completed during the 2022 calendar year. The scope of our review was limited to the number of audits completed in the 2022 calendar year.

We determined that while the required number of IFTA low mileage audits were completed, the required number of audits for IFTA overall, IFTA high mileage, and IRP audits were not completed. We specifically noted that the IFTA/IRP Audit Services team exceeded the required number of low mileage account audits by 60 percent, while only 86 percent of the required number of high mileage account audits were completed.

The results of our review are summarized in the table below.

IFTA/IRP Audits Completed					
Period Ended December 31, 2022					
	Audits Completed	Audits Required	Difference	Required Number of Audits Completed?	Percent of Requirement Completed
IFTA Audits (Total)	282	430	(148)	No	66%
IFTA High Mileage	93	108	(15)	No	86%
IFTA Low Mileage	104	65	39	Yes	160%
IRP Audits	287	523	(236)	No	55%

The IFTA/IRP Audit Services team audit administrator, revenue administrator, and audit supervisor stated that staff vacancies contributed to the inability to complete the required number of audits. The IFTA/IRP Audit Services team had four vacancies out of a total of 23 positions during the 2022 calendar year.

The most recent IFTA Compliance Review covered the calendar years 2018 through 2022. While the required number of IFTA audits were not completed for the 2022 calendar year, an overall average of three percent per year of audits were completed during the review period.

Failing to complete the required number of IRP audits for the 2022 calendar year could result in failure to meet the overall IRP audit requirement which specifies that an average of three percent of audits must be completed per year during the review period. The next IRP Peer Review will occur in 2026 and cover the calendar years 2021 through 2025.

Recommendations

We recommend MS leadership ensure adequate staffing resources are available and appropriately allocated to conduct the required number of IFTA and IRP audits.

We also recommend MS leadership improve the process of selecting carriers for IFTA audits to ensure the required percentage of high and low distance accounts are selected for audit.



Management Response

Leadership is currently requesting approval to advertise our vacant auditor positions.

Each year, we select carriers for audit to satisfy the required number of high, low, and 3% and assign the audits periodically. We utilize a spreadsheet to track our monthly totals for the required number of high, low, and 3% to determine where additional audits may need to be directed; however, for the Peer Review period of 2018-2022, we met or exceeded the number of 3%, high, and low requirements every year except for 2022, which our surplus from 2018-2021 covered, and we met the 5-year period requirement.

Since our 3% shortfall number for 2022 was greater than the high mileage audits, we focused more on the low mileage audits to increase our 3% total. We will continue to monitor the number of audits being conducted to ensure the required percentages are being met.



Purpose, Scope, and Methodology

The objective of this audit was to evaluate the efficiency and effectiveness of the IFTA/IRP audit program and determine compliance with applicable laws and Department policy and procedure.

The scope included audit activities from July 1, 2021 to December 31, 2022.

The methodology included:

- Reviewing applicable Florida Statutes and Administrative Code;
- Reviewing applicable Department policies and procedures;
- Reviewing how IFTA/IRP accounts are selected for audit;
- Reviewing completed IFTA/IRP audits and determining whether the required number of audits were completed;
- Reviewing the process for calculating audit assessments, credits, penalties, and interest;
- Reviewing a sample of audit calculations for assessments, credits, penalties, and interest to determine accuracy;
- Reviewing how audit assessments, penalties, and interest are collected from carriers;
- Determining the process for ensuring audit reports contain the required elements;
- Reviewing a sample of completed audit reports to determine whether they contained the required elements; and
- Reviewing and evaluating the appeal processes.

Acknowledgement

We would like to thank members from the IFTA/IRP Audit Services team who assisted during the audit and express our appreciation for their cooperation during the course of our examination.



Distribution, Statement of Accordance, and Project Team

Distribution

Dave Kerner, Executive Director
Robert Kynoch, Deputy Executive Director
Jennifer Langston, Chief of Staff
Terry Stepp, Deputy Director of Customer Service Delivery
Jay Levenstein, Chief of Commercial Vehicle and Driver Services
Burt Snyder, Audit Program Manager

Melinda M. Miguel, Chief Inspector General
Sherrill F. Norman, Auditor General

Statement of Accordance

Section 20.055, Florida Statutes, requires the Florida Department of Highway Safety and Motor Vehicles' Inspector General to review, evaluate, and report on policies, plans, procedures, accounting, financial, and other operations of the Department and to recommend improvements. This audit engagement was conducted in accordance with applicable *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General.

Project Team

Engagement conducted by:
Bethany Vickerman, Auditor

Under the supervision of:
Erin Mook, Audit Director

Approved by:



Mike Stacy, Inspector General

ATTACHMENT - Management Response



Dave Kerner
Executive Director

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MEMORANDUM

DATE: November 8, 2023
TO: Erin Mook, Audit Director
FROM: Jay Levenstein, Chief
Bureau of Commercial Vehicle and Driver Services
SUBJECT: IFTA/IRP Audit Program Audit (202223-12)

The following is our response to the findings and recommendations presented in the report.

Finding 1 – Audit Reports

Including all required elements in the audit reports would increase compliance.

Recommendation

We recommend MS leadership include all required elements in the audit reports to clearly demonstrate compliance with IFTA and IRP guidance.

Management Response

During our April monthly all staff meeting, one of the agenda items was to ensure everyone makes a statement about the reliability of Internal Controls in addition to the strengths and weaknesses. Since the meeting the statement regarding the reliability of Internal Controls has been consistently captured in the audit report.

To add an additional security measure to ensure reliability, strengths and weaknesses were noted in the audit report, we added these fields to the audit program. This will require the auditor to initial and date that the necessary statements are included.

Finding 2 – Completed Audits

Completing the required number of audits each year would ensure compliance with IFTA and IRP requirements.

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Recommendations

We recommend MS leadership ensure adequate staffing resources are available and appropriately allocated to conduct the required number of IFTA and IRP audits.

We also recommend MS leadership improve the process of selecting carriers for IFTA audits to ensure the required percentage of high and low distance accounts are selected for audit.

Management Response

Leadership is currently requesting approval to advertise our vacant auditor positions.

Each year we select carriers for audit to satisfy the required number of high, low and 3% and assign the audits periodically. We utilize a spreadsheet to track our monthly totals for the required number of high, low and 3% to determine where additional audits may need to be directed; however, for the Peer Review period of 2018-2022, we met or exceeded the number of 3%, high, and low requirements every year except for 2022, which our surplus from 2018-2021 covered, and we met the 5-year period requirement (see chart below).

Since our 3% shortfall number for 2022 was greater than the high mileage audits, we focused more on the low mileage audits to increase our 3% total. We will continue to monitor the number of audits being conducted to ensure the required percentages are being met.

Plan Year	2018	2019	2020	2021	2022	
<u>Actual# of Licensees Audited:</u>	461	412	467	459	232	2,081
Annual Audit Requirements:						
IFTA 3% Requirement number:	416	381	409	399	430	2,035
						Total
Annual average/Shortage:	45	31	58	60	(148)	46
High Distance Requirements						
	25%			Audits		
	<u>Requirement</u>			<u>Completed</u>		<u>Variance</u>
2018	104			110		6
2019	95			166		73
2020	102			181		79
2021	100			171		71
2022	108			93		(15)
Totals To Date	509			723		214
Low Distance Requirements						
	15%			Audits		
	<u>Requirement</u>			<u>Completed</u>		<u>Variance</u>
2018	62			203		141
2019	57			126		71
2020	61			143		82
2021	60			148		88
2022	65			104		39
Totals To Date	305			726		421