

**Meeting of Governing Board of Streamlined Sales Tax
April 18-19, 2006**

The following state delegates, other members and staff participated in the April 18-19, 2006 meeting of the Governing Board. Votes reported here are by unanimous voice vote unless otherwise indicated.

Arkansas (Associate Member) Mary Cameron Tom Atchley	Ohio (Associate Member) Senator Ron Amstutz Representative Bob Gibbs
Indiana (Full Member) Tom Conley Joe VanDevender	Fred Nicely William Riesenberger
Iowa (Full Member) Don Cooper Larry Paxton	Oklahoma (Full Member) Jerry Johnson Thomas Kemp
Kansas (Full Member) Senator Janis Lee Joan Wagnon	South Dakota (Full Member) Senator Orville Smidt Gary Viken
Kentucky (Full Member) Robert Cox Richard Dobson	Tennessee (Associate Member) Loren Chumley Connie Hardin
Michigan (Full Member) Mike Eschelbach Dale Vettel	Utah (Associate Member) Representative Wayne Harper Bruce Johnson
Minnesota (Full Member) Don Trimble Cathy Wicks Larry Wilke	West Virginia (Full Member) Senator Walt Helmick Delegate John Doyle Rob Alsop Virgil Helton
Nebraska (Full Member) Mary Jane Edson Tom Gillaspie Ellen Thompson	Melissa Lilly Tonja Oakes
New Jersey (Full Member) Craig Rook	Wyoming (Associate Member) Representative Rodney Anderson Dan Noble
North Carolina (Full Member) Andy Sabol	State and Local Advisory Council Diane Hardt (ex officio)
North Dakota (Full Member) Senator Dwight Cook (President) Senator Herb Urlacher Representative David Drovdal	Business Advisory Council Warren Townsend (ex officio) Steven Kranz (ex officio) Scott Peterson (Executive Director)

Welcome and Roll Call

Senator Dwight Cook of North Dakota opened the meeting at 8:30 am and welcomed delegates and other attendees to the meeting of the Governing Board.

Approval of Minutes

Utah moved approval of minutes from the January 13, 2006 (Phoenix) meeting of the Governing Board. This was seconded by Tennessee and passed.

Presentation of President's Annual Report

Senator Cook presented his annual report to the Governing Board. He referred to the amount of learning that Lewis and Clark accumulated in the first two years of their journey and predicted that the streamlined sales tax effort will have a similar path.

Ohio Motion to Amend the Streamlined Sales and Use Tax Agreement Regarding Sourcing of Sales

Senator Amstutz moved acceptance of the Ohio amendment, as amended by Utah and suggested that under the destination-based sourcing regime, many retailers would be left without CSP services. The amendment was seconded by Utah. Bruce Johnson reported that the vote of the Implementing States on this amendment was negative. Following comments from Jerry Johnson—that the group should move quickly to address compensation for retailers—the motion was defeated with 12 No votes (all member states except Michigan) and 1 Yes vote (Michigan).

Utah Motion to Amend the Streamlined Sales and Use Tax Agreement Regarding Sourcing of Sales

Bruce Johnson explained that the Utah sourcing amendment was introduced on behalf of Texas. David Summerville of Texas explained that a big segment of states would not get on the streamlined train without this type of change. Utah moved adoption of the amendment. This was seconded by Ohio. Bruce Johnson noted the Implementing states recommended against this amendment with a vote of 19 No to 5 Yes. The Utah amendment was defeated with a vote of 11 No and 1 Absent (New Jersey).

Tennessee Motion to Amend the Streamlined Sales and Use Tax Agreement Regarding One State Tax Rate

Loren Chumley explained that the amendment to Section 308 of the Agreement would allow for a separate sales tax rate where the federal government has preempted local taxation—this allows the state to increase the state rate to equal the combined state and local rate on similar product. She added that this change would be transparent to consumers. She also noted that language had been added to the end of the amendment—

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“provided such rate achieves tax parity for similar product.” Tennessee moved adoption of the amendment. This was seconded by Kentucky. Bruce Johnson reported that the Implementing States support the amendment. Steve Kranz commented that the Business Advisory Committee (BAC) has considered the amendment, but has not taken a position. In response to a question from Mary Cameron, Ms. Chumley stated that the state rate, allowed under this amendment, could vary across jurisdictions; although Tennessee would not do this. The amendment passed (New Jersey was absent.)

(See Addendum to these minutes for a copy of the amendment.)

Utah Amendment to Agreement Regarding the Definition of State

Bruce Johnson explained Puerto Rico’s interest in adopting a sales tax and conforming with the Agreement. He added that this does not affect the previous population requirements for the Agreement. He also explained that generic language on U.S. instrumentalities was considered, but that it was decided to limit this to Puerto Rico at this time. The amendment was also supported unanimously by the Implementing States. Utah moved and South Dakota seconded adoption of the amendment. Carlos Serrano, Deputy Secretary of the Treasury Department of Puerto Rico explained their expected shift from excise taxes to a sales tax and cited the support of major retailers for this change. In response to a question from Diane Hardt on credits for taxes paid to other states, Mr. Serrano stated that this has been considered in their legislation, but there are no credits with the current excise system. Ms. Hardt suggested that that states may need to consider including Puerto Rico in their provisions for sales tax credits. The motion to adopt the amendment passed.

(See Addendum to these minutes for a copy of the amendment.)

Utah Amendment to Streamlined Sales Tax Governing Board Bylaws Regarding the Business Advisory Council

Bruce Johnson explained that the Amendment to Article 8, Part B, Section 4 of the bylaws provides more general language for the appointment of officers of the Business Advisory Council and appointment of representatives to serve as ex officio members of the Governing Board. The amendment was moved by Utah and seconded by Kansas. In response to a question on why the BAC representatives are not voting members, Bruce Johnson explained that many states require voting members to be public officials. The amendment passed.

Utah then moved recognition of the Business Advisory Council. This was seconded by Kansas and passed.

(See Addendum to these minutes for a copy of the amendment.)

Finance Committee Motion to Amend Streamlined Sales Tax Bylaws Regarding Approval of Travel Reimbursement

Jerry Johnson explained the proposed change to Article 5, Section 6 of the bylaws, which removes the last sentence restricting reimbursement for expenses to officers. In response to a question, he clarified that the term “officers” does not include “directors.” This was moved by Oklahoma, seconded by Tennessee, and passed.

(See Addendum to these minutes for a copy of the amendment.)

Streamlined Sales Tax Finance Committee Rules

Jerry Johnson thanked Bob Cox and others for their work on Rule 806.1.2 Finance Administration Policies. Mr. Cox reviewed significant changes, including those to signature requirements and credit card and electronic payment requirements. Adoption of the Finance Administration Policies was moved by Oklahoma, seconded by North Dakota and passed.

(See Addendum to these minutes for a copy of the amendment.)

Streamlined Sales Tax Governing Board Budget for Current Fiscal Year

Jerry Johnson explained changes to the current fiscal year budget, including reduction of the salary item and increasing the contractual services item. Oklahoma moved approval of the amended budget. This was seconded by Kentucky and passed.

Streamlined Sales Tax Governing Board Budget for July 2006 – June 2007 Fiscal Year

Jerry Johnson explained staffing expectations for the coming year, and that the budget anticipates a contract for the website, which will also support the State and Local Advisory Committee (SLAC) and BAC. He thanked Diane Hardt and Carolyn Iafate for their assistance on the web site requirements. Mr. Johnson noted the support from FTA, MTC, and NCSL and stated that the organization would start reimbursing FTA for meeting services. Dues for the year are set at \$564,000 and the fund balance is expected to stay the same. In response to a question, Scott Petersen confirmed that redesign of the Multistate Tax Commission (MTC) website will not disrupt the SST website. Adoption of the Fiscal Year 2006-07 budget was moved by Oklahoma, seconded by Iowa and passed. Jerry Johnson noted that if Utah remains as an associate member, the allocation of dues among members and associate members would be adjusted accordingly.

State Membership Dues

Bruce Johnson commented on Utah’s membership status—he had previously thought that Utah’s repeal of destination sourcing for local taxes would take it out of associate

membership status. Others have convinced him that Utah can remain as an associate member under the letter and spirit of the Agreement. Jerry Johnson moved acceptance of changes to Section 806.1.5 of the Governing Board rules, Cost Allocation Formula for Member States, with the understanding that actual dues as recalculated to reflect the inclusion of Utah, would be subject to a vote later in the day. This was seconded by Kansas and approved.

(See Addendum to these minutes for a copy of the amendment.)

Interpretation Request 2006-03 from Indiana Regarding Periodic Lease Payments

Discussion of Interpretation Recommendation 2006-03, regarding periodic lease payments, confirmed that the rule affects the sourcing of payments. Following comments from Diane Hardt that the interpretation is consistent with the SSTP approach, acceptance of the interpretation was moved by Minnesota, seconded by Michigan, and passed.

Interpretation Request 2006-02 from Michigan Regarding when a Seller is Considered Registered under the Streamlined Sales and Use Tax Agreement

Larry Wilke noted that sellers are required to begin collecting when they register, but there is a need for a hold harmless period while Certified Service Provider (CSP) services are not available. The interpretation states that collection and remittance requirements commence on the first day of the calendar month after 60 days notice that adequate CSP or Certified Automated System (CAS) services are available, as determined by the Executive Committee of the Governing Board. Adoption of this Interpretation 2006-02 was moved by Minnesota, seconded by North Carolina, and passed.

Interpretation Request 2006-01 from RSM McGladrey regarding Amnesty when Tax was Previously Collected

Senator Cook explained that this applies to the situation where a vendor has collected but not remitted tax. Under the interpretation, previously collected taxes with applicable penalty and interest must be remitted as a condition of receiving amnesty. Adoption of this Interpretation was moved by Minnesota, seconded by North Carolina, and passed.

Interpretation Request 2006-04 from the Food Marketing Industry Regarding the Definition of Prepared Food

Diane Hardt explained that this interpretation is a response to industry concerns about a variety of interpretations of "prepared" food by the states. The interpretation is that presented in the SLAC April 13, 2006 paper, "Prepared Food Re-Visited." The Compliance Review and Interpretations Committee (CRIC) recommendation recognizes that states be given adequate time to publish guidance and make legislative changes to adopt the approach. Oklahoma moved adoption of the Interpretation and a request that the CRIC review Section 902 of the Agreement regarding the time period that states have to

come into compliance with the Agreement. Following a question from Andy Sabol regarding state compliance with other interpretations, Jerry amended his motion to include other changes that may be needed to Section 902. The motion was seconded by Tennessee and passed.

Following the vote, Jerry Johnson suggested that all states should report on the time line for their making needed policy or legislative changes that are consistent with this interpretation.

Exemption Certificate and Instructions

Diane Hardt noted that the Governing Board approved, in October 2005, items relating to the exemption certificate. Cathy Wicks reported that most non-Governing Board states will not use the certificate. Diane Hardt moved approval of the Exemption Certificate and Instructions with the following changes suggested by Sean Nicholson of Target: To Item 1 on Page 2 of the instructions, add "The reason ID code is not needed for the form to be fully completed." The motion was seconded by Wyoming, and passed.

Dues Structure for 2006-07

The allocation of member dues, including Utah as an associate member, was moved by Iowa, seconded by Nebraska and passed.

Implementation of Prepared Food Interpretation

Larry Wilke suggested that states have until August 1, 2006 to adopt the Interpretation on prepared food that was passed earlier in the day. If legislative changes are needed, then states must notify the chair of the Governing Board within 30 days and will have until January 1, 2008 to make needed legislative changes. Adoption of this was moved by Minnesota, seconded by Wyoming and passed on a unanimous roll call vote of all members.

Discussion of Destination Sourcing and its Burden on Small Sellers

Steve Kranz commented on the shift to destination sourcing, the resulting burden placed on small sellers, and the need for accommodating this burden. He moved and Kansas seconded that a study be conducted on this. Following comments on the merits of conducting a study or developing white papers on this topic, the motion was tabled by Senator Cook.

Record Retention

Jerry Johnson reviewed the draft document retention rules. He added that free public access to documents should be retained, but that a third party may be allowed to publish

hard copy documents for sale. There were no comments from the Governing Board or public on the draft rules.

Certification Process for Model 1 and Model 2 Sellers

Joan Wagnon reviewed the proposed Article V, Provider and System Certification, for the Governing Board Rules and Procedures. In response to a question on the duration of the CSP contract, Joan explained that it is a two-year contract with two one-year renewals. She went on to explain that at the end of the initial two year period, there should be more CSPs with accompanying competition. Senator Cook added that CAS's can come on all the time—that their certification should be delegated to the Executive Committee.

West Virginia noted that there needed to be a transition period for states to comply that have joined the agreement after January 1, 2006, such as Nevada, and also for those that petition after July 1, 2006. West Virginia moved that the certification rule be amended such that:

- a. Any state joining the Agreement after January 1, 2006 but before June 30, 2006 shall have six months to complete the certification process; and
- b. Any state joining the Agreement after June 30, 2006 shall complete the requirements to be in compliance with the implementation standards and technology requirements as a condition for admission as a Member State.

These changes were seconded by Kansas and passed.

Senator Amstutz questioned whether the Executive Committee or Governing Board should be the appropriate approval body in 501.2. and 501.4. Wagnon agreed that the Governing Board's approval should be inserted.

In response to a question from Richard Marko, Joan Wagnon stated that a number of changes to the procedures would probably be made after the first two years, but this rule and its appendices will provide structure and guidance to the process as it is fully developed. Mr. Marko commented that the specification for CSPs and CASs do not include information on local jurisdictions.

Joan Wagnon then moved adoption of Article V, Rule 501 in its entirety as amended by West Virginia and with the changes suggested by the Senator from Ohio. This was seconded by Utah and passed.

(See Addendum to these minutes for the text of Article V of the Streamlined Sales Tax Governing Board, Inc. Rules and Procedures.)

Report of Certification Committee

Joan Wagon presented the recommendations of the Certification Committee. All states have participated in the testing and evaluation of companies that responded to the Request for Proposal for Certified Service Providers which was issued in November, 2004, through their representatives on the Certification Committee. Initially, 12 companies responded; 5 either withdrew or were eliminated from the process.

Three companies have participated in all of the evaluation process which included an examination of their financial resources, the ability of their automated systems to calculate the tax correctly, and their reporting capabilities under the minimum standards included in the RFP and approved by the Executive Committee.

Two companies, Taxware and Exactor, have completed the process and are substantially in compliance with these minimum standards as indicated by the participating states. One state, Nevada, joined the process late and is still in the testing process although they have given preliminary approval.

Another company, Avalara, is in the testing process and expects to complete successfully before June 30, 2006, the proposed end date for the RFP process. The other companies are not sufficiently far enough along to be able to complete testing by June 30, 2006.

The recommendation of the committee is for the Governing Board to contract with Exactor and Taxware now, and also with Avalara as soon as they finalize their certification requirements, if before June 30, 2006, and to reject all other bids. In addition, the committee is recommending that the Governing Board authorize the Executive Committee to certify Taxware as a Model 2 CAS.

Wagon noted that the effective date for the contract may vary for the three companies. Representatives of the three companies were then recognized – Jonathan Barsade of Exactor, Charles Collins of Taxware and Rory Rawlings of Avalara.

Bruce Johnson commented that based on his earlier more conservative view of the Agreement, Utah had suspended work on certification, but it does not anticipate much delay in completing the certification work now that it is clear Utah will continue as an Associate Member state until the deadline.

Following review of the proposed contract later in the meeting, the appropriate motions will be made.

State Legislative Activity on Streamlined

Garner Girthoffer of NCSL provided an overview of legislative activity relating to NCSL. It is expected that Vermont will be petitioning the Governing Board for

membership. The NCSL website has a summary of SST-related legislative activity that has occurred through early April.

Amnesty for those Registering under the Agreement

Jerry Johnson referred to the Temporary Rule and Procedure on Amnesty that was adopted in October and reminded states that they should report to Scott on their extension of amnesty between November 1, 2005 and the certification of CSP services. Steve Kranz emphasized the need to get this information posted to the website.

Liability Provisions for CSPs

Jerry Johnson cited the need for states to respond regarding the extent of liability relief they can provide to CSPs; and that this is needed before CSPs will sign a contract.

Report from State and Local Advisory Committee

Diane Hardt reviewed several current activities, including:

- Purchaser use tax—Diane noted that many states do not provide hold harmless provisions on use tax and that this may wait until the August Governing Board meeting in Bismarck.
- Supplemental Taxability matrix—states will be providing other exemptions, taxable services and product definitions not contained in the Agreement on an informational basis.
- Conversion of SSTP Issues Paper to Governing Board rules—this process will be started at the May 11-12 meeting in Des Moines with a presentation on this in July.
- Health Care Definitions—this will be presented at the Bismarck meeting.

Steve Kranz suggested the consideration of the definition of digital goods as an amendment at the August meeting of the Governing Board, that it not be considered as part of tangible personal property, and added that he was working with the SLAC on this. Diane Hardt and others cautioned that SLAC and BAC may have different perspectives on this topic. Jerry Johnson added that the states may have a different view than Steve on the relationship of digital property to tangible personal property.

The meeting was recessed at 4:05 pm

[Note: This was followed by a meeting of the Governing Board Executive meeting—minutes of this meeting are reported elsewhere.]

Certified Service Provider Contract

The meeting of the Governing Board resumed at 8:30 am on April 19. Senator Cook introduced Bill Riesenberger of Ohio, Sherry Harrell of Tennessee, and Professor Nehf, legal counsel to the Governing Board who proceeded with a review of the proposed contract with Certified Service Providers. Ms. Harrell explained that North Carolina and Kansas have indicated that they require separate signatures. Professor Nehf reviewed the discussions with the North Carolina Attorney General's office. It is expected that North Carolina will require a separate contract with CSPs, but delegate authority in many areas back to the Governing Board. Joan Wagnon asked if the North Carolina requirements place any additional burden or responsibilities on the Governing Board. Professor Nehf responded that he didn't think so, but that there may be additional requirements on CSPs, such as a separate bond. Regarding compensation, he said that North Carolina did not seem to have any concerns about the compensation scheme in the Governing Board contract.

Following a review and discussion of elements of the contract, Utah moved that the Governing Board authorize the Executive Committee to enter into this contract, in substantially the form as presented, with technical amendments, for Model 1 Certified Service Providers, and to establish the contract's effective date with each of the Certified Service Providers as appropriate.

[Note: Details of contract changes were incorporated into a revised draft that was sent to the Governing Board on April 20. Details of the contract changes are not recorded here.]

Delegate Doyle offered an amendment to the motion that "fixed" be replaced with "permanent" in Section D.2(b)(2)a. of the contract. Bruce Johnson suggested substituting Ohio's suggested language – modifying fixed with "for more than thirty (30) days." Delegate Doyle agreed, and this version was passed on a roll call vote with 12 Yes and 4 No votes.

Other Motions on Contract Authorization

Indiana moved adoption of language that if a CSP enters into a contract with a non-member state that are different from the terms offered to the Governing Board, then the CSP will offer these same terms to the member states. This was seconded by Kansas and passed on a roll call vote with 12 Yes and 4 No votes.

Kansas moved that the Governing Board authorize the Executive Committee to enter into an agreement with Kansas, and other states if requested, for the collection of sales and use taxes in substantially the same form as that was presented to the Governing board. This motion was seconded by North Dakota and adopted.

Kansas moved that the Governing Board authorize the Executive Committee to develop and enter into an agreement with North Carolina for the administration of its contract

with Certified Service Providers for collection of sales and use taxes in North Carolina as long as the contract between North Carolina and the CSP is substantially the same as the one between the Governing Board and its CSP's; and further, (1) that the North Carolina contract does not impose an additional burden on the Governing Board or its Member States beyond the contract between the Governing Board and the CSP, (2) is identical with respect to compensation provisions, and (3) provides the Governing Board complete access to CSP records for purposes of auditing CSP's, testing, maintaining certification or recertification. The motion was seconded by North Dakota and passed

Motions Certifying CSP/CAS Providers

Kansas moved that the Governing Board authorize the Executive Committee to enter into a contract with Taxware and Exactor as Certified Service Providers; and also that the testing process with Avalara continue until its successful conclusion, or June 30, 2006 which ever is first; and if successful, to contract with Avalara as a Certified Service provider. Further, that the Governing Board reject all other bids received from the initial and subsequent RFPs. The motion passed on a roll call vote with 15 YES, 1 NO (Ohio), 1 Abstention (Iowa) and 1 Absent (Nebraska).

Kansas moved that the Governing Board, in accordance with Rule 501.5, begin accepting applications for Model 2 Certified Automated Systems (CASs) immediately; and authorize the Executive Committee to develop appropriate documents to effect certification of Model 2 CASs; and further, that the Executive Committee be authorized to execute such documents to certify Taxware as a Model 2 CAS, but public announcement of this certification shall not be made until the documents are complete, or no sooner than 30 days. This was seconded by West Virginia and passed.

Loren Chumley acknowledged the work of those drafting the CSP contract-- Sherry Harrell, Bill Riesenberger, and Professor Nehf. Bruce Johnson added his thanks to Tony Masten and Steve Krowitz. Joan Wagnon also expressed her appreciation to the certification group, including those in the room—Ed Phillips, Gary Centlivre, Dave Thompson, and Tonja Oakes.

Charles Collins commented that the contract award with CSPs is a giant step and moves this effort forward to another level—he thanked everyone for the hard work they have put into this. Bruce Johnson added his thanks to the CSP candidates. Richard Prem commented that there is still work to do on the design of compensation for vendors.

Utah then moved that the Executive Committee shall gather information which will help identify the sellers impacted by the requirements of the SSUTA in order to determine the additional burden placed on said sellers. Such information will be used to consider alternative compensation schedules with CSPs that address the impacted sellers and can be used as a base from which to discuss other compensation alternatives that may exist. This was seconded by Kansas and passed.

Following the vote, Betty Griggs expressed her agreement with the motion and moved that the information gathering include the effect on local governments. This was passed. Bruce Johnson asked that both the SLAC and BAC provide input to the Governing Board for its information gathering effort.

Senator Cook made some closing comments on the “road under construction” and adjourned the meeting at 11:40 am.

Respectfully submitted

Kenneth R. Beier
Multistate Tax Commission

Addendum to Minutes of Governing Board

Section 308: STATE AND LOCAL TAX RATES

- A. No member state shall have multiple state sales and use tax rates on items of personal property or services ~~after December 31, 2005~~, except that a member state may impose a single additional rate, which may be zero, on food and food ingredients and drugs as defined by state law pursuant to the Agreement. In addition, if federal law prohibits the imposition of local tax on a product that is subject to state tax, the state may impose an additional rate on such product provided such rate achieves tax parity for similar services.

Utah amendment to the Streamlined Sales and Use Tax Agreement expanding the definition of “State” to include the Commonwealth of Puerto Rico

It is proposed to amend Sections 213 and 701 of the Streamlined Sales and Use Tax Agreement to read as follows:

Section 213: STATE

Any state of the United States ~~and~~, the District of Columbia and the Commonwealth of Puerto Rico.

Section 701: EFFECTIVE DATE

The Agreement shall become binding and take effect when at least ten states comprising at least twenty percent of the total population, as determined by the 2000 Federal census, of all states imposing a state sales tax as of October 1, 2005 have petitioned for membership and have either been found to be in compliance with the requirements of the

Agreement pursuant to Section 805 or have been found to be an associate member pursuant to Section 704. The Agreement shall take effect on the first day of a calendar quarter at least sixty days after the tenth state is found in compliance or is found to be an associate member.

Utah amendment to Article 8, Part B, Section 4 of the Bylaws of the Streamlined Sales Tax Governing Board, Inc., to read as follows:

Section 4. *Officers.* The Board of Directors of the council, in accordance with its Bylaws, will appoint a ~~Chair and Vice Chair of the advisory council~~ such officers as it deems necessary to carry out its functions. The ~~Chair and Vice Chair Board~~ will also appoint two individuals to serve as ex officio members of the Governing Board, without vote.

Finance Committee amendment to Article 5, Section 6 of the Bylaws of the Streamline Sales Tax Governing Board, Inc., to read as follows:

Section 6. *Compensation.* Officers shall not, by virtue of the office, be entitled to receive any salary or compensation from the Governing Board, but nothing shall be construed to prevent any officer from receiving reimbursement for any expenses incurred on behalf of Governing Board. ~~No reimbursement for expenses shall be paid to Officers unless approved by the Executive Committee by majority vote.~~

Rule 806.1.2 Finance Administration Policies

A. Basic Policy Statement

The Streamlined Sales Tax Governing Board, Inc. (Governing Board) is committed to responsible financial management. The entire organization including the Governing Board, Executive Committee, Standing Committees and staff will work together to make certain that all financial matters of the organization are addressed with care, integrity, and in the best interest of the Governing Board.

The rules and procedures contained in this section are designed to:

1. Protect the assets of the Governing Board;
2. Ensure the maintenance of accurate records of the Governing Board's financial activities;
3. Provide a framework of operating standards and behavioral expectations;

4. Ensure compliance with federal, state, and local legal and reporting requirements. The Executive Director has the responsibility for ensuring compliance with policies and procedures that have been approved by the Governing Board. The Executive Director shall have primary responsibility for ensuring that proper Financial Management procedures are performed and that the policies of the Board are carried out; and

5. Exceptions to written policies may only be made with the prior approval of the Finance Committee. Changes or amendments to these policies may be approved by the Governing Board at any time. A complete review of the financial policies shall be conducted initially one year after adoption of these policies and every two years hence.

B. Line of Authority

1. The Governing Board has the authority to execute any policies it deems to be in the best interest of the organization within the parameters of the Streamlined Sales and Use Tax Agreement, bylaws, and federal, state, and local law.

2. The Finance Committee has the authority to perform regular, in-depth reviews of the organization's financial activity; oversee the development of the annual budget; determine the allocation of investment deposits; and assure that adequate internal controls are in place.

3. The Executive Director has the authority to make spending decisions within the parameters of the approved budget, enter into contractual agreements within board designated parameters, make decisions regarding the disposition of investments within the parameters of the investment policy; make fixed asset purchase decisions and make decisions regarding the allocation of expenses. Unless otherwise specified in this document, principal responsibility for complying with the directives enumerated herein shall be vested in the Executive Director.

4. The Chair of each Standing Committee has the authority to recommend spending requests within the parameters of the approved budget to the Executive Director.

C. Indemnity Policy

1. The Executive Committee may indemnify any Employee or Agent against all costs, expenses and liabilities, including attorneys' fees, actually and necessarily incurred by or imposed upon them in connection with or resulting from their involvement with the Board.

2. No such reimbursement or indemnity shall relate to any expense incurred or settlement made in connection with any matter arising out of their gross negligence and/or intentional misconduct as determined either by a court of competent jurisdiction

or, in the absence of such a determination, by the Governing Board acting on the advice of counsel.

3. The Executive Director is responsible for purchasing and maintaining indemnity insurance on behalf of any employee or agent as directed by the Executive Committee.

D. Investment Policy

1. The investment objectives of the Governing Board, in order of importance, shall be the **safety** of principal, **liquidity**, and a competitive **rate of return**.

2. General Investment Guidelines

- The Finance Committee shall have **primary responsibility** for the administration of the investment policy and for establishing any specific guidelines as to the mix and quality of the investment account(s).
- The Finance Committee may recommend the use of external groups such as investment managers, bank custodians and investment consultants to maximize the return on investments.
- Investments should be adequately diversified to reduce overall risk. In order to reduce the overall risk, investments should primarily include fixed-income investments (low risk).

E. Financial Controls and Operating Procedures

1. The Executive Director will direct the design and operation of the accounting system. Bookkeeping support may be provided by other staff as designated. Monthly reports shall be made to the Finance Committee covering, at a minimum, receipts, disbursements, receivables, and payables.

2. The **Executive Director** will be required to include budget comparisons in periodic financial reports to the Finance Committee and the Board.

3. The **Finance Committee** will be required to provide semi-annual budget reviews and annual reviews of the adequacy of insurance coverage.

4. The **Executive Committee** will be required to secure an independent audit annually.

5. Segregation of Duties

- Signature authority for checks must be vested in someone other than the employee responsible for maintaining the financial records of the organization on a daily basis.
- Bank statements are reconciled by someone other than the person authorized to sign checks.

- Deposit documentation and reconciliations are prepared by a person other than the one making the deposit or signing checks.

F. Financial Reporting

1. Annual budgets are prepared by the Finance Committee, referred to the Executive Committee, and approved by the Governing Board.
2. Budgets are reviewed mid-year (December) and as otherwise necessary by the Finance Committee as well as the Executive Committee and may be adjusted by the Executive Committee to reflect changing conditions. If changes are required to overall spending they must be approved by the Governing Board.
3. A Chart of Accounts is available and used to code receipts and disbursements to the proper accounts.
4. Quarterly Financial Reports are provided to the Secretary/Treasurer and the Finance Committee within 30 days of the close of the period, and must be prepared in accordance with generally accepted accounting principles. At a minimum, the reports should include:
 - Balance sheet
 - Income/expense and year to date statement, including comparisons to budget
 - Detailed schedule of cash and investments as of the balance sheet date with an attached acknowledgment that the bank statements have been reconciled
 - Detailed breakdown of receivables (e.g., dues, other amounts receivable) and payables (e.g., accounts payable, taxes payable, other amounts payable) as of the balance sheet date
5. Detailed Financial Reports are provided to the Governing Board at each Board meeting, except for meetings held via teleconference unless requested in advance by the President.
6. Reference explanations for any and all budget variances of 10 percent or more are contained for the above referenced reports.
7. Annual audits will be conducted by an independent CPA at the close of each fiscal year. Copies of these reports will be made available to the public.
8. The Fiscal Period for the organization shall be July 1 to June 30.

G. Safeguarding Assets

1. The Finance Committee shall provide fiscal oversight in the safeguarding of the Assets of the Organization and shall have primary responsibilities for ensuring that all internal and external financial reports fairly present its financial condition.
2. A proper filing system will be maintained for all financial records.
3. Actual income and expenditures will be compared to the budget on a quarterly basis.
4. All excess cash will be kept in an interest bearing account.
5. Bank statements are promptly reconciled on a monthly basis.
6. Documents on all securities and fixed assets will be kept in a locked fire-proof file. Inventory records will contain description, serial numbers, date of purchase or receipt, valuation, and date of valuation.
7. Appropriate insurance for all assets will be maintained.
8. Copies of all critical hard-copy documents must be maintained off site, either imaged or in hard-copy format.
9. Back-ups of all critical computer files must be performed on a daily basis and files sent off site on a frequent basis in order to minimize the loss of data in the event of damage to the organization's hardware or software components.

H. Payroll Controls

1. Personnel files are to be maintained at the business office site for all employees. Changes in payroll data (i.e., pay changes) are approved by the Executive Committee before files are updated.
2. An outside payroll processing firm will be used to process the payroll. The Executive Director notifies the payroll service of any changes to the payroll master file. The payroll service generates the payroll register, payroll checks and tax deposit checks, and sends them to the organization. The payroll register is reviewed for proper processing of amounts.
3. The payroll and tax deposit checks are sent directly to the Executive Director, who is responsible for comparing the checks to the payroll register. Semi-annually, copies of the checks, check statements and appropriate payroll records are then presented to the Finance Committee for inspection.

I. Policies on Disbursements

1. The Executive Director has (a) expenditure approval up to the parameters set by the annual operating budget as approved by the Board, and (b) single signature authority up to and including \$2,000 with the exception of the Executive Director's personal expense reimbursement items and salary which must be approved by either the President or Secretary/Treasurer. The deliberate splitting of vouchers or invoices which have the sole purpose or effect of meeting the parameters of this authority is expressly prohibited.
2. Pre-numbered check requests should be used and sequences accounted for monthly.
3. The Executive Director approves check requests after comparing to supporting documentation. All disbursements paid by check will be printed on pre-numbered checks only with approved requests. The unsigned check, support and request are presented to authorized check signers for their signatures (information on checks is compared to support for accuracy). Blank or unprepared checks shall not be submitted for signature.
4. Two signatures by persons authorized in Paragraph 13 of this section are required on all organizational checks over \$2,000. The Executive Director shall not sign his or her own personal expense checks.
5. All disbursements, except petty cash, are made by check or electronically and are accompanied by substantiating documentation.
6. All checks are pre-numbered and accounted for monthly.
7. All voided checks must be defaced and retained either on the check stub or with the canceled checks (or their images) returned with the bank statement.
8. No checks may be written to "cash" or "bearer".
9. Blank checks are stored in a locked drawer.
10. All invoices and check requests will be marked "PAID" once they have been paid.
11. An "imprest" petty cash account is used. The initial amount of the petty cash account is \$100. The account may be replenished from time to time at the direction of the Executive Director, but at no time should the account exceed \$200 unless approved by the Secretary/Treasurer.

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12. Vouchers are required for all petty cash disbursements. The petty cash fund is reconciled (beginning amount less voucher amounts) before the fund is replenished. Checks are written only after an approved check request has been presented.
13. The President, Secretary/Treasurer, and the Executive Director shall have check-signing authority. The President shall appoint at least one other individual with check-signing authority. This individual must meet the requirements of Rule 806.1.2.E.5, Segregation of Duties. The President may revoke check-signing authority for any person at any time, but at no time shall fewer than the requisite number of check signers be authorized.
14. **Blank checks may never be signed in advance.**

J. Travel Guidelines and Reimbursements

1. The Finance Committee shall establish a travel request form that will include estimated costs of proposed travel as well as a travel reimbursement form on which claims for reimbursement are made.
2. Reimbursement for travel by Governing Board ~~representatives members for events at which they are representing the Governing Board, rather than their respective states,~~ may be authorized under the following conditions in advance by the President or First Vice President. No reimbursement from the Governing Board will be authorized unless ~~it~~ the travel has been pre-approved.

The President or First Vice President may approve Governing Board representative travel in the following circumstances.

- a. The representative is representing the Governing Board, rather than his or her respective state, at a meeting or event that is not a meeting of the Governing Board or a Governing Board committee.
- b. The representative is representing the Governing Board, rather than his or her respective state, at a meeting of a Governing Board Committee for which the representative is not a member of the Committee.
- c. Such reimbursement shall only be allowed in instances where the meeting or event is not being held in conjunction with another Governing Board meeting or event at which the representative may attend and represent his or her state.
- d. Notwithstanding the foregoing, the President or First Vice President may approve representative travel in the interest of justice in exceptional circumstances.

Neither the President nor First Vice President may approve a request for his or her own travel. In approving a request for reimbursement, consideration shall be given to funds available and budgeted for this purpose.

3. Travel reimbursements will be based on the Federal mileage and per diem rates in effect during the period of travel.
4. All travel reimbursement requests will be submitted to the Executive Director for approval, and copies will be forwarded to either the President or the First Vice-President for inspection. The President or First Vice-President shall approve travel reimbursement for the Executive Director.
5. The Executive Director is authorized to travel to all Governing Board meetings (including committee meetings) without pre-approval. Whenever the Executive Director is representing the Governing Board at other meetings, he or she shall first receive approval from the President or First Vice-President. The Executive Director shall approve necessary travel for employees of the Governing Board.
6. Requests for travel approvals and signed authorizations may be submitted and returned via facsimile or via email, if the approver uses his or her own email account to establish authenticity of the approval.

K. Cash Receipt Procedures

1. All checks and other payments received are restrictively endorsed immediately and recorded in the cash receipts register, listing the date received, payor, check number, and amount received.
2. Two copies of each cash receipt will be made. All cash received shall be deposited in the bank on the day it is received or as soon as feasible. If it is not feasible to deposit receipts in the bank on the day received, then receipts should be safeguarded by placing them in an approved, fire-proof strong-box or safe in a secured location, or by entrusting them to a reputable third party that can safeguard them in an equivalent manner, if such third party provides indemnification for any loss of funds entrusted to its care. A written receipt acknowledging funds entrusted to a third party must be obtained.
3. The office shall prepare the bank deposit daily or at the time of the deposit. The deposit receipt and copies of the cash receipts should be attached to the copy of the deposit slip. All cash receipts shall be coded according to the chart of accounts, and comparison of the cash deposit receipt with the listing of cash receipts for that day will be performed, to ensure that all cash receipts are deposited in the bank account. A deposit summary sheet is then prepared, attaching one copy of each cash receipt, the deposit slip copy, and the bank deposit confirmation slip. The second copy of the cash receipt is filed by type of revenue/support.

4. The cash receipts journal shall be prepared on a timely basis, using the cash receipts summary sheet.

L. Cash Disbursement Procedures

1. All invoices received are stamped with the date received.
2. Approval from the Executive Director of all invoices and expenditures is required before payment can be made.
3. The checks, with support documentation (approved invoices, check requests), are forwarded to the Executive Director. The Executive Director reviews all checks and supporting documentation prior to signing checks. Any check for amounts over \$2,000 needs a second signature.
4. After the checks are signed, the check request and all supporting documentation shall be stamped "PAID", noting check number and date. Two copies of each check and check request will then be made. One copy of the check, with supporting documentation attached, will be filed in numerical order. The second copy of the check and check request is filed by vendor, in alphabetical order.
5. The cash disbursements journal will be prepared and maintained on a timely basis, using the check file.
6. The cash disbursements journal will be posted to the general ledger on a timely basis, using the cash disbursements journal.

M. Payroll Procedures

1. All personnel salaries/wage rates are authorized by the Executive Committee. All changes in employment levels are likewise authorized by the Executive Committee.
2. The Executive Director maintains all personnel records and assures that all payroll-related laws are complied with, including workers compensation requirements.
3. The Executive Director may appoint a "payroll" employee to maintain the attendance records and monitor the usage of vacation and sick time, including requests for leave forms.
4. The Executive Director approves all time and attendance records for the employees.

5. The Executive Director may appoint the payroll employee to prepare the payroll, using the approved time records and salary/wage rates for each employee, using pre-numbered checks. All payroll checks are recorded in the payroll register by the payroll employee.
6. The payroll checks and payroll register are submitted to the Executive Director. The Executive Director reviews the payroll register and compares the payroll checks to the register, prior to signing the checks. Once the payroll checks are signed, the payroll employee distributes the payroll to all employees.
7. All payroll tax liabilities are calculated and prepared at the time payroll is prepared. In the case of electronic tax payments to the IRS or to states for payment of withholding or unemployment taxes, the check signer will instead approve the request for authorization to pay payroll taxes. The payroll taxes are paid when due.
8. Payroll checks will be prepared and paid to employees twice monthly: on the 15th and the 30th day of each month or the nearest working day before these dates.

N. Credit Card and Electronic Payment/Receipt Procedures

1. The Governing Board encourages the use of electronic record-keeping and electronic payments wherever such procedures can improve efficiency and reduce administrative costs of the organization.
2. The Executive Director may contract with an outside vendor for payroll services, collection of credit card receipts, automated clearing house (ACH) operations, and other electronic fund transfers. Electronic fund transfers will comply with ACH rules.
3. The Governing Board may authorize use of a credit card to be issued in the name of the Governing Board to facilitate purchases for official business of the Governing Board. Authorization for such purchases shall proceed according to procedures outlined in Section L above. Debit cards should not be issued to any employee or other representative of the Governing Board due to their lack of a proper audit trail. ATM withdrawals and cash advances should also be prohibited in the case of credit cards.
4. Wherever feasible, electronic receipts and payments will be recorded in a manner similar to other transactions as described in these rules. Exceptions to this must be justified by the Executive Director, and an alternative method must be approved by the Finance Committee.

5. Access to computer and other electronic systems which are used to perform electronic record keeping and fund transfers must be safeguarded in a manner consistent with Rule 806.1.4 (communications policies).

O. Bank Reconciliations

1. A record of all bank transactions shall be maintained, listing all checks disbursed and all receipts deposited on a daily basis. This "Bank Book" shall show the current bank balance for all bank accounts.
2. On a monthly basis, the bank statements will be reconciled to the Bank Book, and the Executive Director shall be notified of any discrepancies.
3. The Executive Director will resolve all discrepancies with the assistance of the bank, if necessary. The Executive Director will report the resolution of the discrepancies to the Finance Committee.
4. The Bank Book will be adjusted as needed. The Bank Book will be reconciled to the general ledger cash accounts on a monthly basis.

P. Billings and Receivables

1. All dues for the organization are established and approved by the Governing Board.
2. All billings for services or goods are approved in advance by authorized personnel.
3. All billings and invoices shall be prepared on a timely basis. Prior to mailing the billing/invoices, two copies of them shall be made. One copy is recorded in the accounts receivable ledger on a timely basis, and the other copy is placed in the open invoice file/receivables records.
4. The accounts receivable ledger shall be posted to the general ledger on a timely basis, utilizing the billing/invoice copies. The accounts receivable ledger shall be posted to the general ledger on a monthly basis.
5. A status report on all outstanding receivables shall be prepared, on a monthly basis, and submitted to the Executive Director.
6. Collection procedures shall be initiated on all invoices older than 30 days.
7. All receivables records are maintained in a locked file cabinet and/or in secured computer files.

Q. Accounts Payable

1. All approved invoices are recorded in the accounts payable ledger immediately upon receipt, and placed in the unpaid open invoice file.
2. All invoices from unfamiliar or unusual vendors must be reviewed by the Executive Director for approval.
3. All payments are immediately recorded in the accounts payable ledger.
4. The accounts payable ledger is reconciled with the general ledger on a monthly basis.

R. Petty Cash Fund

1. The Petty Cash Fund is maintained on an imprest basis.
2. The Executive Director will appoint a custodian of the petty cash fund.
3. Any employee receiving petty cash must sign a petty cash voucher. The petty cash voucher must list the amount received, the purpose for which the cash is needed, and the date of the purchase. In addition, receipts for goods/services purchased must be attached to the petty cash voucher.
4. The petty cash fund shall be reimbursed as needed by requesting a check payable to the custodian of the petty cash fund. All petty cash vouchers used must be attached to the check request as supporting documentation.
5. Periodically, the Executive Director, and/or the Secretary/Treasurer will make surprise counts of the petty cash funds.
6. The petty cash fund will be kept in a fire-resistant box, located in a locked file cabinet.

RECORD RETENTION SCHEDULE

ACCOUNTING AND FISCAL		ORGANIZATIONAL	
Accounts Payable Records	5	Annual Reports	P
Accounts Receivables Records	5	Bonds	P
Audit Reports	P	Budgets	3
Audit Reports (Internal)	3	Contracts(After Expiration)	7
Bank Statements & Reconciliations	3	Copyrights	P
Canceled Checks	7	Correspondence (General)	3
Check Registers	P	Correspondence (Legal)	P
Deposit Slip Duplicates	2	Insurance Policies (After Expiration)	5
Expense Analysis & Distribution Schedules	7	Inventories	7
Financial Statements	P	Leases (After Expiration)	6
Fixed Assets Records	P	Legal Briefs	P
General Ledgers	P	Licenses	P
Invoices	7	Profit & Loss Statements	P
Journals/Cash Books	7	Minutes	P
Payroll Records	5	Office Equipment Records	6
		Property Records	P
PERSONNEL			
Contracts (After Termination)	5		
Earnings Records	6		
Employee Personnel Files	6	TAXATION	
Employment Applications	3	Annuity or Deferred Payment Plan	P
Insurance Records	5	Depreciation Schedules	P
Retirement & Pension Plan	P	Employee Withholding Statements	7
Time Cards	2	Tax Bills & Statements	P
Training Manuals	P	Tax Returns & Work Papers	P
Travel Records	1		

Numerals indicate number of years records should be stored, P = Permanent

Changes to Section 806.1.5 of Rules and Procedures

806.1.5 Cost Allocation Formula for Member States

- A. The operational costs of the Governing Board shall be divided among the Member States based on an equally weighted two factor formula. Fifty percent shall be an equal amount for each Member State and fifty percent shall be based on each state's proportionate share of total general retail state and local sales tax revenues collected by all Member States as reported by the U.S. Bureau of the Census for the most recent fiscal year available as of the date the dues are established. The factor based on sales tax collections shall be adjusted annually.
- B. Dues will be assessed annually on all Full and Associate Member states at the annual meeting of the Governing Board according to the formula described in Rule 806.1.5.A. Each Member State shall submit its dues no later than August ~~15~~ 31 of each year to the Executive Director.
- C. Each state submitting a petition for membership shall include a petition fee along with its petition in the amount of \$20,000 to the Executive Director. This amount shall be held in escrow pending the date upon which the state's petition is approved by the Governing Board. If the state is admitted as either a Full or Associate Member, the fee will be retained by the Governing Board. If the petition is rejected and the state is not admitted as either a Full or an Associate Member, the fee will be returned to the petitioning state.
- D. States admitted to the Governing Board as either Full or Associate Members shall have their petition fees described in Rule 806.1.5.C applied as a credit against their dues. If assessed dues are less than the petition fee, no refund will be made.
- E. To determine dues of newly-admitted states, the calculation described in Rule 806.1.5.A will be recalculated with the new Member State(s) included in the calculation. For budgetary purposes, the recalculation will not result in a decrease of any existing Member State's dues. Dues for newly-admitted Member States will be pro-rated by their effective date of membership for the fiscal year in which they are admitted.
- F. Dues owed by a newly-admitted Member State will be payable no later than ~~45~~ 60 days following the effective date of its admission to the Governing Board.

Article V of the Streamlined Sales Tax Governing Board, Inc. Rules and Procedures

ARTICLE V –PROVIDER AND SYSTEM CERTIFICATION

Rule 501. Certification process.

Rule 501.1 Definitions.

A. Certified Service Provider (CSP). An agent certified under the agreement to perform all the seller's sales and use tax functions other than the seller's obligation to remit tax on its own purchases.

B. Certified Automated System (CAS). Software certified under the Agreement to perform part of the seller's sales and use tax functions; must include ability to calculate the tax imposed by each jurisdiction on a transaction, determine the amount of tax to remit to the appropriate state, and maintain a record of the transaction. The seller is responsible for the maintenance of the seller's data, the security of the system, and remitting the taxes collected.

C. TIGERS. Tax Information Group for Ecommerce Requirements Standardization was formed in October 1994 by FTA, the states, the IRS, and business and service provider representatives, to provide an overall coordinative body for advice and counsel on government technical implementation of American National Standards Institute (ANSI)-based tax-related electronic data interchange applications.

D. Certification Committee. The Certification Committee advises the Governing Board on matters pertaining to the evaluation, testing, certification and recertification of service providers and automated systems. The Committee will consider and respond to those matters referred to it from the Governing Board or its committees regarding evaluation, testing, certification or recertification. The Committee may also recommend items to the Governing Board for consideration.

E. Testing Central. An administrative process to manage and document communication between member states, Certified Service Providers, Certified Service Provider candidates, Certified Automated System providers and/or Certified Automated System applicants regarding testing and changes.

Rule 501.2 Certification of service providers.

A. The certification process for CSP candidates shall take place on a two-year cycle as described below and shown in Appendix A. (The initial process followed a different timeline as noted and shown in Appendix B.)

April 1, Odd Years – The Governing Board shall issue a request for service providers interested in responding to the terms and conditions for participation as a certified service provider. (For the initial process, a request for proposal was issued November 1, 2004.)

April 1 to June 1, Odd Years – Interested candidates shall respond to the request by submitting a completed self-evaluation assessment (see *Minimum Standards*, Appendix C. For the initial process *Minimum Standards* compared with the RFP were used, Appendix D) to the Executive Director. The Executive Director shall notify the Certification Committee regarding candidates for further evaluation. (For the initial process, the responses were due February 1, 2005.)

June 1 to August 1, Odd Years – The Certification Committee shall review documentation submitted by candidates screen and identify candidates for further evaluation and testing. Any candidates not recommended for further evaluation may respond to the next request (April 1, odd years). (For the initial process, the reviews were completed by May 1, 2005.)

August 1 to November 1, Odd Years – The Certification Committee shall conduct evaluation and site review. (For the initial process, the reviews were completed by October 1, 2005.)

November 1, Odd Years to May 1, Even Years – Testing Central shall manage the system(s) testing between the CSP candidate and the member states. The criteria to begin testing must be met prior to the initiation of testing. Reference - *SST Testing Process for Certification of Service Providers*, Appendix E). Upon successful completion of testing, each member state shall recommend certification of the CSP candidate(s) to the Certification Committee. (For the initial process, the system tests will be completed by June 30, 2006.)

May 1 to May 12, Even Years – The Certification Committee shall submit the recommended candidate(s) to the Executive Director. For the initial process, the recommended candidate(s) shall be identified and placed under contract no later than July 1, 2006.

May 12 to May 15, Even Years – The Executive Director shall submit the recommended candidate(s) to the Executive Committee for certification.

May 15 to June 1, Even Years – The Executive Committee shall act on the new certification recommendation(s) and submit their recommendation to the next Governing Board for ratification of their action. Any provider not recommended for certification may respond to the next request (April 1 odd years.)

June 1 to July 1, Even Years – Contracts shall be negotiated and signed by officers designated by the Executive Committee. To remain compliant with the contract, Certified Service Providers shall be operational for two years subsequent to the signing of the contract.

Rule 501.3 Acceptance requirements for service providers.

During testing, the member states, Certification Committee and the CSP candidates shall work cooperatively through Testing Central to identify and resolve issues in a timely manner.

A. Acceptance criteria. The criteria listed below, in addition to those listed in Section 501B of the Agreement are requirements for a recommendation for certification.

1. The CSP candidate shall execute test decks successfully* and provide results to the member states.

2. Member states shall successfully* test the single entry screen provided by the CSP candidate. Reference - *SST Testing Process for Certification of Service Providers*, Appendix E.

3. Member states and the CSP candidate shall successfully* complete end-to-end testing. Reference - *SST Testing Process for Certification of Service Providers*, Appendix E.

4. Member states shall review and approve the tax rules defined in the system of the CSP candidate.

5. The CSP candidate shall provide an administrative site that allows each state the capability of obtaining activity reporting and error logging. Reference - *SST CSP Site Administration* paper, Appendix F.

6. The CSP candidate shall provide all financial data necessary to perform an assessment of financial soundness.

7. The CSP candidate shall meet all other requirements of the Streamlined Sales and Use Tax Agreement (SSUTA) and *Certification Standards*, Appendix G.

*Successfully means the transactions are returned with the correct taxability, tax amount and sourcing at an acceptable accuracy level as determined by each individual member state.

Rule 501.4 Recertification process for Providers who have been Certified.

The recertification process will verify that any provider that has been certified, as evidenced by a contract with the Governing Board, continues to be compliant with requirements set forth by the Governing Board, either in the contract, or by policy. Reference – *Recertification Process*, Appendix H; *Process flow*, Appendix I, *Contract between Streamlined Sales Tax Governing Board, Inc. and Company* ____.

On-going Basis – Testing Central shall continuously review operational performance of the CSP(s) and provide that information regularly to the Executive Committee.

Seven months prior to expiration of Contract - The Executive committee shall review CSP(s) Compensation and Contract terms, including any material changes to the minimum standards which had been in effect, and begin negotiations with the CSP(s) on compensation and any changes required for recertification. For renewal of contracts which began in 2006, CSP's will be required to provide an administrative site that allows each state the capability of obtaining activity reporting and error logging. Reference - *SST CSP Site Administration* paper, Appendix F.

Six months prior to expiration of Contract - The Certification Committee shall review CSP(s) performance to date and recommend CSP(s) for renewal and continued participation.

Three months prior to expiration of Contract - The Certification Committee shall submit recommendation(s) for renewal to the Executive Committee. Any CSP(s) not recommended for continued participation or renewal may respond to the next request (April 1, odd years).

One month prior to expiration of the Contract - The Executive Committee and Governing Board shall finalize CSP Compensation and Contract terms and upon reaching agreement, the Executive Committee shall approve officers to sign the contract extensions, amendments or renewals

On the Contract expiration date - The Officers so designated shall sign the contracts on behalf of the Executive Committee for whatever term has been negotiated.

Rule 501.5 Certification of Model 2 automated systems.

The certification process of a Model 2 automated system may begin at any time as described below and shown in Appendix J.

1. Applicant shall obtain a self-evaluation test deck and guidelines. Reference - *SST Testing Process for Certification of Model 2 Automated Systems* paper, Appendix K.

2. After successful self-evaluation, the applicant shall submit the results and apply to the Executive Director to begin the certification process.

3. The Executive Director shall submit the application to the Certification Committee for evaluation.

4. The Certification Committee shall screen and identify systems for further evaluation and testing. If a system is not recommended for further evaluation, the applicant may re-apply after three months.

5. Testing Central shall manage the system(s) testing between the model 2 CAS applicant and the member states. The criteria to begin testing must be met prior to the initiation of testing. Reference - *SST Testing Process for Certification of Model 2 Automated Systems*, Appendix K.

6. Upon successful completion of testing, each member state shall recommend certification of the automated system to the Certification Committee.

7. The Certification Committee shall recommend the acceptable system to the Executive Committee.

8. The Executive Committee shall act on the certification recommendation. Any system not recommended for certification may re-apply after three months.

9. Contracts shall be negotiated and signed by the officer(s) designated by the Executive Committee. Once signed, the Model 2 CAS is considered to be operational.

Rule 501.6 Acceptance requirements for automated systems.

During testing, the member states, Certification Committee and the model 2 CAS applicant shall work cooperatively through Testing Central to identify and resolve issues in a timely manner.

A. The CAS must meet the requirements in Section 501(C) of the Agreement:

1. The CAS determines the applicable state and local sales and use tax rate for a transaction;
2. The CAS determines whether or not an item is exempt from tax;
3. The CAS determines the amount of tax to be remitted for each taxpayer for a reporting period;
4. The CAS can generate reports and returns as required by the governing board; and
5. The CAS can meet any other requirement set by the governing board.

B. Acceptance criteria. In addition to the requirements listed in A, the criteria listed below are requirements for a recommendation for certification.

1. The software program shall be a discrete set of tools for sale or licensing to sellers that is capable of being operated by sellers, certified by the Governing Board, and functions as a system. The seller is responsible for the

maintenance of the seller's data, the security of the system, and remitting the taxes collected.

2. The required reports shall include:
 - a. Simplified Electronic Return (SER) and Information Report (IR) compliant with the TIGERS standards;
 - b. Reports required in the Simplified Exemption Administration paper;
 - c. Software version control logs;
3. The results from the self-evaluation of the potential automated system have been verified.
4. The CAS applicant shall execute test decks successfully* and provide results to the member states.
5. Member states shall successfully* test the single entry screen provided by the CAS applicant.
6. Member states and the CAS applicant shall successfully* complete end-to-end testing.
7. The CAS applicant meets all requirements in *Certification Standards*, Appendix G.

*Successfully means that transactions must be returned with the correct taxability, tax amount, and sourcing at an acceptable accuracy level as determined by each member state

C. Integration. Integration is not part of the certification process, but is a critical element of proper implementation of the automated system into the seller's business process. Without proper integration the system may not produce the correct results.

Rule 501.7 Certification Committee.

A. State Membership.

1. Each Member State or Associate Member State of the Streamlined Sales Tax Governing Board shall designate at least one representative who is a state employee to represent that state in evaluation, testing, certification or recertification of service providers and automated systems. States may have more than one state employee attend and participate in the Committee meetings.
2. Participating States may also designate one representative who is a state employee to represent that state in evaluation, testing, certification or recertification of service providers and automated systems. "Participating States" are those States that support the mission of the project and for which an elected

official or body of elected officials has committed the State to participate in the Streamlined Sales Tax Project. Any question over whether or not a State qualifies as a Participating State shall be resolved by a majority vote of the Governing Board.

3. The President of the Governing Board will appoint the chair of the committee, and may appoint other state officials to serve on the Committee as deemed appropriate or necessary.

B. Committee Meetings.

1. The work of the Certification Committee may be conducted in closed meetings as provided in Section 807 (B), (C) and (D) of the Agreement when dealing with proprietary information from businesses, consideration of issues incident to competitive bidding, requests for information, or certification, the disclosure of which would defeat the public interest in a fair and competitive process.

2. The Committee shall meet as often as is necessary to fulfill its mission. The Officers shall determine the time and place for regular meetings and notice of the meetings shall be given in accordance with the Rules of the Governing Board.

3. The Certification Committee may meet electronically.

Rule 501.8 Testing Central

Testing Central is created as an administrative process under Governing Board staff supervision to manage and document communication between member states, Certified Service Providers, Certified Service Provider candidates, Certified Automated System providers and/or Certified Automated System applicants regarding testing and changes. Each Member State will designate at least one person to work with Testing Central. A more complete description of this process is found in Appendices E and K.

Rule 501.9 Certification Process for new States joining the Agreement

A. Any state joining the Agreement after January 1, 2006 and before June 30, 2006 shall have six months to complete the certification process.

B. Any state joining the Agreement after June 30, 2006 shall complete the requirements to be in compliance with the implementation standards and technology requirements in Rule 501 as a condition for admission as a Member State.