

A motion by the Audit Committee for rules relating to compliance audits:

Rule 806.3. Administration of Compliance Audit Process.

Rule 806.3.1 Authority

A. 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.

B. The Streamlined Sales Tax Governing Board or its designee has the authority to perform CSP contract compliance audits and coordinate tax compliance audits for member states as authorized by the Governing Board; and to develop and use standardized operating audit procedures and policies for performing both contract compliance and tax compliance audits.

C. The Audit Core Team has authority to perform contract compliance audits for member states and to coordinate the tax compliance audits of Model 1 sellers as authorized by the Governing Board.

Rule 806.3.2 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 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.

C. Audit Committee.

The Audit Committee was created by the Governing Board to advise the Governing Board pertaining to procedures on the audit of CSPs, CAS systems, and Model 1, 2 and 3 sellers. The Audit Committee will develop procedures to be used in performing compliance audits for member states.

D. Audit Core Team.

The Audit Core Team is a group of designated representatives from full member states who are responsible for coordinating compliance audits, performing contract compliance audits and compiling feedback reports for the Governing Board. It is anticipated that the Core Team will consist of four representatives for a CSP audit.

E. Compliance Audit Process.

The Compliance Audit Process includes the contract compliance audit process and the tax compliance audit process.

F. Contract Compliance Audit Process.

The Contract Compliance Audit Process is the process of reviewing if the CSP performed according to the provisions of the contract signed between the Governing Board and the CSP.

G. Tax Compliance Audit Process.

The Tax Compliance Audit Process is the process of determining if transactions were properly taxed, tax reported and remitted to the correct jurisdiction when due.

H. Member States.

Member states are states that have petitioned for membership to the Governing Board and have been accepted for membership as a full or associate member state.

I. Simplified Electronic Return (SER) (reserved)

J. Audit Site (reserved)

K. Testing Central (reserved)

Rule 806.3.3. Audit Committee.

A. Membership.

Members of the Audit Committee are representatives of participating states and local government.

B. Committee Meetings – (open & closed meetings) (reserved)

Rule 806.3.4. Audit Core Team.

A. Membership.

The Audit Core Team is made up of representatives from full member states.

B. Reporting relationship.

The Audit Core Team will report to the Streamlined Sales Tax Governing Board Executive Director or its designee for audit assignments and guidance.

C. Team Meetings – (closed meetings) (reserved)

D. Responsibilities:

1. The Audit Core Team is responsible for performing contract compliance audits and coordinating tax compliance audits with member states.

2. The Audit Core Team will:
- a) Determine the CSP's level of compliance with the terms of the SST Governing Board CSP contract. (Questionnaires and specific tests will be used to assess the CSP's contract compliance.)
 - b) Verify that compensation was calculated properly for all volunteer sellers.
 - c) Verify that appropriate procedures for mapping exist, are in conformance with the mapping requirements, and are followed in the initial mapping setup, as well as during updates and corrections to mapping.
 - d) Verify that the exemption certificates are appropriately completed with all the required data elements.
 - e) Verify that all tax collected was remitted timely to the appropriate tax authority.
 - f) Verify that sales were accurately reported by the CSP/Seller on simplified electronic returns (SERs).
 - g) Acquire a list of sellers represented by each CSP and provide this information to the Streamlined Sales Tax Governing Board member states;
 - h) Obtain from each CSP a download of all sales processed by the CSP for each seller and send each member state its portion until Audit Site information is made available on July 1, 2008;
 - i) Create a uniform audit plan with a timeline to establish the projected dates that various audit steps should be completed;
 - j) Compile the feedback reports from the member states, summarize the findings and report to the SST Executive Committee. The summaries must comply with confidentiality restrictions that apply to the SST Governing Board regarding disclosure.

Rule 806.3.5. Compliance Audit of a CSP.

A. The Compliance Audit of a CSP and its Model 1 sellers will include a contract compliance audit of the CSP and tax compliance audits of Model 1 sellers' transactions processed through the CSP's system.

B. The contract compliance audit of the CSP will be performed by the Audit Core Team. The tax compliance audits of the Model 1 sellers will be performed by member states under the coordination of the Audit Core Team.

Rule 806.3.5.1 Communication with Model 1 sellers

A. Direct communication with Model 1 sellers by member states during the compliance audit process should be coordinated through the Audit Core Team.

Rule 806.3.5.2 Timeline for Compliance Audit Process

The timeline for conducting the compliance audit will vary from year to year. The Audit Core Team will establish a timeline for each audit.

The Audit Core Team will have 30 days after receiving each member state's preliminary audit report to compile a report on the findings of the contract compliance audit and the member states' tax compliance audits and submit the report to the CSP.

The CSP will have 30 days to review and comment on the preliminary findings of the compliance audit. Comments will be sent to the Audit Core Team and member states.

The Audit Core Team and member states will have 10 days to amend their findings if necessary before final report is sent to the Governing Board.

The Audit Core Team may grant extensions as deemed appropriate to the above timelines.

Rule 806.3.5.3. Report on Audit Findings.

A. The Audit Core Team will provide each member state with its findings of the contract compliance audit.

B. Member states will incorporate the findings of the contract compliance audit into their state's audit report for the tax compliance audit so the CSP receives only one audit report per state. (For example, if the Audit Core Team finds that a CSP has withheld more compensation that they should, the assessment for that additional tax will be combined with the assessments, if any, for underreporting by the CSP's Model 1 sellers.)

C. The report on the audit findings that goes to the Governing Board will contain general information on the number of instances that errors were found and will not contain specific taxpayer information to ensure the confidentiality of taxpayer information.

Rule 806.3.5.4. Contract Compliance Audit of CSP.

Rule 806.3.5.4.1. Transaction Documentation.

The following documentation and records are required to be provided via an electronic download by Certified Service Providers to the Audit Core Team and SST member and associate member states. (This is required by Article V - Appendix F after 7/1/2008)

A. The CSP's response to the Audit Core Team Questionnaire and a listing of each member state's Model 1 sellers and the date each seller began processing transactions through the CSP's system will be provided by electronic means to the Audit Core Team.

B. Sales Transaction Information

1. Electronic downloads of sales data may be provided at either the invoice level or the line item level of an invoice.
2. For invoices that include taxable and exempt components, each item or bundled transaction must be clearly identified so tax calculation can be verified.
3. Sales transaction data must include:
 - a. Order and billing dates for each seller's customer.
 - b. Sales records with a unique transaction number assigned to each sale.
 - c. Billing address and shipping location for each transaction for each seller's customer according to the appropriate sourcing rules.
 - d. Sales price, taxable amount and tax by jurisdiction for each transaction.
 - e. For any discounts applied, the taxable base should be easily discernable.
 - f. An audit trail to substantiate credits for transactions processed through the CSP's system.

C. Exemption Information

1. Exemption information on purchasers as required in the Simplified Exemption Administration Paper.
2. Exemption Information Report as stipulated in Section 501.6.B.2.b of Article V.
3. Detailed information providing a distinction between exempt transactions by product or entity/use based exemptions.
4. Exempted sales transactions must include the customer's name in addition to all other information required for each sales transaction.
5. Uniform exemption certificates and/or data, either in electronic or paper format, must be maintained by the CSP.

D. Tax Collection and Remittance Information

1. CSPs must provide documentation to verify that all tax collected was appropriately remitted, and that the tax return information is accurate.
2. Tax reversals/credits must identify every tax jurisdiction credited.

Rule 806.3.5.5 Tax Compliance Audit of Transactions Processed by the CSP

A. Each member state's designated auditor(s) will handle its state's portion of the joint audit and is responsible to ensure conformance to the audit plan and timeline, according to each state's audit policies and procedures.

B. The Audit Core Team will provide the CSP with a list of the member states' auditors who will be involved in the compliance audit process.

C. Each CSP will provide a list of all sellers and the date each seller began processing transactions using its service to the Audit Core Team for distribution to the member states. Each member state will decide which Model I sellers' transactions to include in their tax compliance audit. The state auditors will receive electronic records sent to them by the Audit Core Team until audit site information required in Article V, Appendix F is available. Each member state has the option to comprehensively review the electronic records or choose sampling methodology to perform the review of the transactions processed.

D. Member state auditors would be responsible for the following audit functions:

1. Review the seller's transactions and determine if they were taxed correctly. If errors exist the auditors must determine if the errors were caused by any of the following reasons:
 - a. Deviation from the state's rates and boundaries tables;
 - b. Noncompliance with the state's taxability matrix;
 - c. Non-compliance with state approved expanded matrix;
 - d. Changes posted through Testing Central were not implemented in a timely manner (10 days); (This will be verified through the Core Team);
 - e. Seller overrides of the CSP system;
 - f. Exemption certificates were not properly completed with all the required data elements.

E. Prior to the issuance of an audit adjustment, the CSP will be given an opportunity to review the audit results with the auditor(s) from each state wherein a tax liability exists in accordance with its laws, rules and regulations.

F. Where audit findings indicate there is an outstanding tax liability owed by the CSP, any resulting deficiencies or demand for payment of additional taxes under the terms of the contract will be generated by each member state. Accordingly, the laws of each state regarding the appeal process and statute of limitations would apply to the audit adjustments.

Rule 806.3.6. Compliance Audit of a Model 2 Seller. (Reserved)

Rule 806.3.7 Compliance Audit of Model 3 Seller (Reserved)