



Certified Service Provider Audit Program

Recommended Procedures for State Auditors When Auditing a CSP

Remember that the Model 1 Sellers are not under audit, only their transactions processed by the CSP are being audited.

The Audit Committee has established the following guidelines to be used as a reference tool by member states when conducting audits of transactions of a Model 1 seller processed by a CSP. The CSP is liable for any additional tax as a result of the audit.

The tax compliance audit process is to determine if transactions were properly taxed, tax reported and remitted to the correct jurisdiction when due.

The tax compliance audit or transactions of the Model 1 Seller are performed by member states under the coordination of the Audit Core Team.

- 1) Complete Core Team questionnaire.
- 2) Review timeline established by the Audit Committee.
- 3) Verify that the simplified electronic returns (SERs) were sent to the state by the CSP for the Model 1 Sellers.
Follow up with CSP's for any missing reports
- 4) Verify that all quarterly transaction files have been downloaded from the FTP site. This needs to be done quarterly upon notification from SST personnel.
- 5) Combine the quarterly downloaded files by seller into one large file.
Work with a copy of this file - keep the original file intact.
- 6) Sort this file by Model 1 Seller
- 7) Total by month to compare with the amounts listed on the Sales Tax Reports.

- 8) Reconcile the totals back to the download files.
Differences may be listed on the state report to the Audit Core Team.
- 9) Sort by item description/code to take out the nontaxable items (s&h, freight, etc).
- 10) Sort remaining items by tax amount.
 - a) For those with tax, verify sourcing, correct rates, etc. (Use the method approved by your state). Errors will be listed on the state report to the Audit Core Team.
 - b) For those without tax, verify mapping and examine the exemption information. The transactions with no exempt information will result in a request to the CSP for the exemption documentation. If no response is received, errors will be listed on the state report to the Audit Core Team.
- 11) Maintain follow up every 30 days with the CSP, and review their responses.
- 12) Prepare and submit the report to the Audit Core Team.
- 13) Complete State report.
- 14) Send letter to CSP with audit results.

Liability relief is available to sellers under the following circumstances:

A. Sec 304 of the SSUTA:

Each member state failing to provide for at least thirty days between the enactment of the statute providing for a rate change and the effective date of such rate change shall relieve the seller of liability for failing to collect tax at the new rate if:

- 1) The seller collected tax at the immediately preceding effective rate; and
- 2) The seller's failure to collect at the newly effective rate does not extend beyond thirty days after the date of enactment of the new rate.

B. Sec 306 of the SSUTA:

Incorrect tax charged as a result of a member state supplying "bad information as to the rates, boundaries, or taxing jurisdictions" assignments.

C. Sec 317 of the SSUTA:

If the Seller has ongoing business with purchaser for over a year and has been presented a blanket exemption certificate with all appropriate data elements filled in.

D. Sec 328 of the SSUTA

If Seller has charged and collected the incorrect amount of sales or use tax resulting from the seller or CSP relying on the erroneous data provided by the member state in the taxability matrix.

E. Sec 502 of the SSUTA

If the matrix and extended matrix was certified by the State to be accurate then the CSP is not liable for a period of time.

F. CSP Contract Section E-4

If a seller fails to deliver tax monies to the CSP and the CSP "timely notifies the Member and Associate Member States, the "CSP receives relief from any liability to the Member and Associate Member States. The liability for the unpaid taxes reverts to the Seller.