

CSP Contract Compliance Audit

CSP/Model 1 Sellers – Who, What, Where, and When

CORE TEAM	STATE AUDITORS
<p><u>Per Rule 806.3.4(B)</u></p> <p>The Core Team will report to the Streamlined Sales Tax Governing Board Executive Director or its designee for audit assignments, guidance and support.</p> <ul style="list-style-type: none"> <i>The Core Team reports to Craig Johnson, Governing Board Executive Director, but Mr. Johnson has designated Darrell Engen and Ellen Auger for day to day audit guidance and support.</i> 	
<p><u>Per Rule 806.3.4(D)(1):</u></p> <p>The Core Team is responsible for performing contract compliance audits and coordinating tax compliance audits with member states.</p> <ul style="list-style-type: none"> <i>Each State will pick the Model 1 Sellers' transactions they want to review.</i> <i>The Core Team <u>may</u> want to request that the States review a few specific Model 1 Sellers' transactions across the board: 1) so that within the contract compliance portion of the audits a level of CSP and Seller compliance (or non-compliance) can be documented throughout all SST States, and/or 2) in the case where the Core Team has identified a problem that needs to be examined further at the state level.</i> 	
<p><u>Per Rule 806.3.4(D)(2)(a):</u></p> <p>Determine the CSP's level of compliance with the terms of the CSP contract. (Questionnaires and specific tests will be used to assess the CSP's contract compliance.)</p> <ul style="list-style-type: none"> <i>Questionnaires will be given to the CSP, Member/Associate Member States and Executive Director to help evaluate the CSPs compliance with their contract.</i> <i>Contract compliance attributes have been established along with</i> 	

CORE TEAM	STATE AUDITORS
<p><i>accompanying compliance audit procedures. The compliance audit procedures will be completed to evaluate the compliance attributes.</i></p> <ul style="list-style-type: none"> ○ The Core Team will review each compliance audit procedure and decide the following: 1) specifically define the tasks to be accomplished, 2) decide on what records may need to be reviewed, and 3) decide if the procedure outlined goes far enough or too far. ○ Once the above steps are completed, specific plans to carry out each compliance audit procedure will be established. 	
<p><u>Per Rule 806.3.4(D)(2)(b):</u></p> <p>Evaluate the CSP's system and processes to verify compensation is calculated in accordance with the contract.</p> <ul style="list-style-type: none"> • <i>The Core Team will evaluate the CSP's system to be assured it is calculating compensation as dictated in the contract.</i> • <i>Gross compensation figures will be reviewed and verified.</i> • <i>The states will be advised of each CSPs' audited gross compensation figures by seller.</i> 	<p><u>Per Rule 806.3.4(D)(2)(b):</u></p> <p>Evaluate the CSP's system and processes to verify compensation is calculated in accordance with the contract.</p> <ul style="list-style-type: none"> • <i>The State Auditors after receiving audited gross compensation figures from the Core Team will audit their state's compensation reports to amounts claimed on the seller's SERs.</i>
<p><u>Per Rule 806.3.4(D)(2)(c):</u></p> <p>Verify 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.</p> <ul style="list-style-type: none"> • <i>The Core Team will evaluate the CSP's procedures for implementing Mapping.</i> • <i>The Core Team will complete audit steps to document whether product descriptions in the data downloads</i> 	<p><u>Per Rule 806.3.4(D)(2)(c):</u></p> <p>Verify 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.</p> <ul style="list-style-type: none"> • <i>The State Auditors will decide their level of reliance on the data download descriptions.</i> • <i>The State Auditors may need to complete additional audit procedures if they conclude the data descriptions are not reliable.</i>

CORE TEAM	STATE AUDITORS
<i>accurately depict the seller's invoice-level description.</i>	
<p><u>Per Rule 806.3.4(D)(2)(d):</u></p> <p>Verify appropriate entity use exemption data elements are captured by the CSP system.</p> <ul style="list-style-type: none"> • <i>The Core Team will evaluate the CSP's system to be assured it has the ability to capture exemption data elements.</i> • <i>The Core Team will verify that exemption data elements are being captured.</i> <ul style="list-style-type: none"> ○ <i>The Core Team cannot be responsible for auditing whether a purchaser is claiming a proper exemption; it can only be responsible to document that the CSP is capturing the correct data elements.</i> 	<p><u>Per Rule 806.3.4(D)(2)(d):</u></p> <p>Verify appropriate entity use exemption data elements are captured by the CSP system.</p> <ul style="list-style-type: none"> • <i>The State Auditors will be responsible for auditing whether a purchaser is claiming a proper exemption.</i> • <i>The State Auditors will request exemption data, if the data elements are incomplete within the data downloads.</i>
<p><u>Per Rule 806.3.4(D)(2)(e):</u></p> <p>Verify tax collected was remitted to the appropriate tax authority.</p> <ul style="list-style-type: none"> • <i>The Core Team will verify that all tax collected is remitted to a state.</i> • <i>The Core Team will rely on information from the states that the tax was appropriately and timely remitted.</i> 	<p><u>Per Rule 806.3.4(D)(2)(e):</u></p> <p>Verify tax collected was remitted to the appropriate tax authority.</p> <ul style="list-style-type: none"> • <i>The State Auditors will need to verify that the correct taxes were received in their state.</i> • <i>The State Auditors will need to document that the taxes were timely received.</i> • <i>The State Auditors will need to report any exceptions to the Core Team.</i>
<ul style="list-style-type: none"> • <u>Per Rule 806.3.4(D)(2)(f):</u> <p>Verify sales were accurately reported by the CSP/Seller on simplified electronic returns (SER's).</p> <ul style="list-style-type: none"> • <i>The Core Team will verify that simplified electronic returns are being filed by the CSP on all sellers.</i> • <i>The Core Team will review the CSP's procedures for extracting the SER.</i> 	<ul style="list-style-type: none"> • <u>Per Rule 806.3.4(D)(2)(f):</u> <p>Verify sales were accurately reported by the CSP/Seller on simplified electronic returns (SER's).</p> <ul style="list-style-type: none"> • <i>The State Auditors will need to verify that sales were properly reported on their state's SERs.</i> • <i>The State Auditors will need to report any exceptions to the Core Team.</i>

CORE TEAM	STATE AUDITORS
<ul style="list-style-type: none"> <i>The Core Team will rely on information from the states that the SERs are accurate.</i> 	
<p><u>Per Rule 806.3.4(D)(2)(g):</u></p> <p>Acquire a list of sellers represented by each CSP and provide this information to the Streamlined Sales Tax Governing Board member states.</p> <ul style="list-style-type: none"> <i>This will be requested in the Core Team's first request for information from the CSPs.</i> 	
<p><u>Per Rule 806.3.4(D)(2)(h):</u></p> <p>Coordinate with state auditors to ensure they have received a download of the audit work files from the CSP.</p> <ul style="list-style-type: none"> <i>The Core Team will contact the states to insure they have all the quarterly downloads.</i> <i>The Core Team will attempt to help any state that has missing downloads.</i> 	<p><u>Per Rule 806.3.4(D)(2)(h):</u></p> <p>Coordinate with state auditors to ensure they have received a download of the audit work files from the CSP.</p> <ul style="list-style-type: none"> <i>The states need to download the audit work files and hold the data downloads for their transactions audits.</i>
<p><u>Per Rule 806.3.4(D)(2)(i):</u></p> <p>Create a uniform audit plan with a timeline to establish the projected dates that various audit steps are to be completed by the state audit representatives and the Core Team.</p> <ul style="list-style-type: none"> <i>A Timeline has been established for the current CSP Contract Compliance Audits.</i> 	
<p><u>Per Rule 806.3.4(D)(2)(j):</u></p> <p>Compile the feedback reports from the member states, summarize the findings and report to the Executive Director of the Streamlined Sales Tax Governing Board. The summaries must comply with confidentiality restrictions that apply to the SST Governing Board regarding disclosure.</p> <ul style="list-style-type: none"> <i>The format of the State Audit Feedback Reports has been established by the SST Audit Committee.</i> <i>The format for submitting the Core Team's contract compliance audit to the Executive Director has been established.</i> 	

CORE TEAM	STATE AUDITORS
<p><u>Per Rule 806.3.4(D)(2)(k):</u></p> <p>Obtain a response from the member states of their intentions to participate in the current audit cycle for each CSP.</p> <ul style="list-style-type: none"> • <i>The States will be asked and the results will be provided to the CSPs.</i> 	<p><u>Per Rule 806.3.4(D)(2)(k):</u></p> <p>Obtain a response from the member states of their intentions to participate in the current audit cycle for each CSP.</p> <ul style="list-style-type: none"> • <i>The States will need to respond concerning their audit intentions.</i>
	<p><u>Per Rule 806.3.5.1</u></p> <p>There should be no direct communication with Model 1 sellers by member states concerning transactions processed by the CSP, except in response to questions from Model 1 sellers, in case of suspected fraud or to obtain information that the CSP cannot provide.</p> <ul style="list-style-type: none"> • <i>It is preferred that the State auditors work through the Core Team on questions to be directed to the CSPs about their Model 1 Sellers (if their state's confidentiality laws will allow this).</i>
<p><u>Per Rule 806.3.5.2</u></p> <p>The timeline for conducting the [contract] compliance audit may vary for each audit cycle. The Core Team will establish a timeline for each audit.</p> <ul style="list-style-type: none"> • <i>A Timeline has been established for the current CSP Contract Compliance Audits.</i> 	<p><u>Per Rule 806.3.5.2</u></p> <p>The timeline for conducting the tax compliance audit may vary for each audit cycle. The Core Team will establish a timeline for each audit.</p> <ul style="list-style-type: none"> • <i>The States will be required to adhere to the timeline set out by the Core Team.</i>
<p><u>Per Rule 806.3.5.2</u></p> <p>The Core Team will have 30 days after receiving each member state's feedback 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.</p> <ul style="list-style-type: none"> • <i>A Feedback report has been established for the current CSP Contract Compliance Audits.</i> 	
<p><u>Per Rule 806.3.5.2</u></p> <p>The CSP will have 30 days to review and comment on the preliminary findings of the [contract] compliance audit. Comments will be sent to the Core Team and member states.</p> <ul style="list-style-type: none"> • <i>The rule states the CSP will have 30 days to review and comment.</i> 	<p><u>Per Rule 806.3.5.2</u></p> <p>The CSP will have 30 days to review and comment on the preliminary findings of the tax compliance audit. Comments will be sent to the Core Team and member states.</p> <ul style="list-style-type: none"> • <i>The rule states the CSP will have 30 days to review and comment.</i>

CORE TEAM	STATE AUDITORS
<ul style="list-style-type: none"> <i>It will be important that the CSP complete its review and comment process within this 30 day window. This would include any meetings (over telephone or face to face) with either the Core Team and/or State Auditors.</i> <i>In light of the fact that the Core Team is coordinating the tax compliance audits of the Model 1 Sellers, the Core Team may be asked by either the CSP or a State Auditor to be a party to conversations and/or meetings between the CSP and the State Auditor (if the state's confidentiality laws will allow this).</i> 	<ul style="list-style-type: none"> <i>It will be important that the CSP complete its review and comment process within this 30 day window. This would include any meetings (over telephone or face to face) with either the Core Team and/or State Auditors.</i> <i>In light of the fact that the Core Team is coordinating the tax compliance audits of the Model 1 Sellers, the Core Team may be asked by either the CSP or a State Auditor to be a party to conversations and/or meetings between the CSP and the State Auditor (if the state's confidentiality laws will allow this).</i>
<p><u>Per Rule 806.3.5.2</u></p> <p>The Core Team and member states will have 10 business days to amend their findings if necessary before the final report is sent to the Executive Director of the Streamlined Sales Tax Governing Board.</p> <ul style="list-style-type: none"> <i>After the CSP review, the Core Team and the member states will have a short time period to amend their reports. The Core Team will then submit their final reports to the Executive Director.</i> <i>If changes are necessary, the member states and Core Team will need to effectively communicate in order to meet the quick turnaround deadline.</i> 	<p><u>Per Rule 806.3.5.2</u></p> <p>The Core Team and member states will have 10 business days to amend their findings if necessary before the final report is sent to the Executive Director of the Streamlined Sales Tax Governing Board.</p> <ul style="list-style-type: none"> <i>After the CSP review, the Core Team and the member states will have a short time period to amend their reports. The Core Team will then submit their final reports to the Executive Director.</i> <i>If changes are necessary, the member states and Core Team will need to effectively communicate in order to meet the quick turnaround deadline.</i>
<p><u>Per Rule 806.3.5.2</u></p> <p>The Core Team may grant extensions to the audit timelines if it is deemed necessary.</p> <ul style="list-style-type: none"> <i>Alterations to the timeline will only be made if unforeseen and unavoidable delays occur.</i> 	<p><u>Per Rule 806.3.5.2</u></p> <p>The Core Team may grant extensions to the audit timelines if it is deemed necessary.</p> <ul style="list-style-type: none"> <i>The states will be expected to adhere to any timeline alterations.</i>
<p><u>Per Rule 806.3.5.3(A)</u></p> <p>The Core Team through the Executive Director will provide each member state with its findings of the contract compliance audit.</p>	

CORE TEAM	STATE AUDITORS
<ul style="list-style-type: none"> • <i>The Core Team should provide the member states two reports of findings.</i> • <i>A preliminary findings report documenting any areas where a potential state audit adjustment may exist.</i> • <i>A final contract compliance audit will be supplied by the Executive Director to the member states following its completion.</i> 	
	<p><u>Per Rule 806.3.5.3(B)</u></p> <p>Member states may 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 Core Team finds that a CSP has withheld more compensation that they should, the assessment for that additional tax may be combined with the assessments, if any, for underreporting by the CSP's model 1 sellers.)</p> <ul style="list-style-type: none"> • <i>The Core Team will provide the member states two reports of findings.</i> <ul style="list-style-type: none"> ○ <i>A preliminary findings report documenting any areas where a potential state audit adjustment may exist.</i> ○ <i>A final contract compliance audit will be supplied by the Executive Director to the member states following its completion.</i>
<p><u>Per Rule 806.3.5.3(C)</u></p> <p>The report on the audit findings to the Executive Director will contain general information on the errors found and will not contain specific taxpayer information to ensure the confidentiality of taxpayer information.</p> <ul style="list-style-type: none"> ○ <i>A CSP Contract Compliance Audit Report has been established for the current CSP Contract Compliance Audits.</i> 	
	<p><u>Per Rule 806.3.5.5(A)</u></p>

CORE TEAM	STATE AUDITORS
	<p>Each member state's designated auditor(s) will handle its state's portion of the audit and is responsible to ensure conformance to the audit plan and timeline, according to each state's audit policies and procedures.</p> <ul style="list-style-type: none"> • <i>The state audits will need to be in conformance with the Core Team's audit plan and timeline.</i>
<p><u>Per Rule 806.3.5.5(B)</u></p> <p>The Core Team will provide the CSP with a list of the member states' auditors who will be involved in the compliance audit.</p> <ul style="list-style-type: none"> • <i>This information will be obtained and forwarded to the CSP early in the audit process.</i> 	
<p><u>Per Rule 806.3.5.5(C)</u></p> <p>Each CSP will provide a list of all sellers and the date each seller began processing transactions using its service to the 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. Each member state has the option to comprehensively review the electronic records or choose sampling methodology to perform a review of these transactions.</p> <ul style="list-style-type: none"> • <i>Supply the states with a listing of sellers that include the date the CSP started processing transactions for each seller.</i> • <i>The Core Team will need to follow up to make sure each state receives the appropriate downloads through the FTP sites.</i> • <i>Core Team may want to request the states to audit a few specific sellers.</i> 	<p><u>Per Rule 806.3.5.5(C)</u></p> <p>Each CSP will provide a list of all sellers and the date each seller began processing transactions using its service to the 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. Each member state has the option to comprehensively review the electronic records or choose sampling methodology to perform a review of these transactions.</p> <ul style="list-style-type: none"> • <i>The States will receive complete state specific transaction downloads for every model 1 seller's transactions sourced to their state. These downloads will be provided to the states through an FTP site.</i> • <i>From the transaction downloads each state will decide which Model 1 Sellers' transactions they want to audit.</i> • <i>On a seller by seller basis, a decision whether to complete a comprehensive review or choose a sampling methodology will need to be decided.</i>
	<p><u>Per Rule 806.3.5.5(D)(1)-(8)</u></p>

CORE TEAM	STATE AUDITORS
	<p>Member state auditors are responsible for reviewing the seller's transactions to determine if they were taxed correctly. If errors exist, the auditors must determine if the errors were caused by any of the following reasons including but not limited to: 1.) Deviation from the state's rates and boundaries tables; 2.) Noncompliance with the state's taxability matrix; 3.) Non-compliance with state approved expanded matrix; 4.) Changes posted through Testing Central were not implemented in a timely manner (10 days); (This will be verified through the Audit Core Team); 5.) Seller overrides of the CSP system; 6.) Exemption information and/or certificates were not available or did not contain all of the required data elements; 7.) Calculations that were tested and approved during the certification process; 8.) Errors in computing tax were based on erroneous information from the states.</p> <ul style="list-style-type: none"> • <i>State Audits are to review the sellers' transactions and determine whether the transactions are taxed correctly. If errors exist, then the state auditors are to determine if the cause of the error is one of the eight items listed above or a ninth miscellaneous reason.</i> • <i>If exemption information does not contain all the required data elements, the state auditor <u>must</u> give the seller 120 days to obtain the information.</i>
	<p><u>Per Rule 806.3.5.5(F)</u></p> <p>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 would apply to the audit adjustments.</p> <ul style="list-style-type: none"> • <i>The Member and Associate Member States will individually process any liabilities and/or refunds resulting from the tax compliance audits. The ultimate outcome of these</i>

CORE TEAM	STATE AUDITORS
	<i>audits will not be reported to the Governing Board or the Executive Director.</i>
	<p><u>Per Rule 806.3.5.5(G)</u></p> <p>Upon completion of the tax compliance audit of the CSP, the member state shall provide either an audit report or close-out letter to the CSP finalizing the tax compliance audit.</p> <ul style="list-style-type: none"> • <i>The Member and Associate Member States must supply the various CSPs with either an audit report or a close out letter.</i>