



## Streamlined Sales Tax Audit Guidelines

June 2011

### Introduction

1. Purpose of manual  
The purpose of this audit manual is to provide guidance to Core Team members in the examination of Certified Service Providers (CSP) and providers of Certified Automated Systems (CAS). It defines the audit approach and is intended to standardize the procedures for preparing the audit report and supporting work papers. Its purpose is also to provide guidance to state tax auditors in the examination of participating Model 1, Model 2 and Model 3 sellers. The audit manual is not meant to be all-inclusive or to replace the auditor's professional judgment.
2. *The Three SSUTA Models: SST Flowcharts*
3. *Streamlined Sales & Use Tax Agreement*

### General Standards

1. Ethics and Professionalism  
Governing Board representatives performing audit services are expected to maintain the highest ethical and professional standards in the performance of those services. They are to abide by their own state's Code of Conduct and conduct audits in a professional manner, consistent with the procedures, standards and policies of their state and the Governing Board.
2. Confidentiality issues (in progress)

### Roles and Responsibilities

1. Model 1 Sellers
  - a) Audit Core Team  
The Audit Core Team will determine the Certified Service Provider's (CSP) level of compliance with the terms of the SST Governing Board CSP contract. The Audit Core Team is also responsible for coordinating compliance audits with member states.
  - b) State Auditors  
SST member states designated auditor(s) will handle their state's portion of the audit and are responsible to ensure conformance to the audit plan and timeline, according to their state's audit policies and

procedures. Member state auditors are responsible for reviewing the Model 1 seller's transactions to determine if they were taxed correctly.

c) Certified Service Providers

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 1 sellers' transactions to include in their tax compliance audit.

2. Model 2 Sellers using Certified Automated Systems

a) Audit Core Team

The Audit Core Team will determine the CAS provider's level of compliance with the terms of the SST Governing Board CAS contract. The core team will be provided, by electronic means, a listing of each member state's known Model 2 Sellers and the date each seller purchased the CAS Provider's software.

b) State Auditors

Member state auditors will audit Model 2 sellers' transactions to determine if they were taxed correctly. State auditors will also verify that the CAS provider made required modifications within ten business days of receipt of notification from Testing Central.

c) Certified Automated System Providers

The CAS provider shall comply with all requirements for periodic audits as established by the Member States, the Associate Member States, or the Governing Board pursuant to its Rules and Procedures.

3. *Who, What, Where, When AD10018*

This document interprets the responsibilities of both the Audit Core Team and the Member State Auditors as set out by the Streamlined Sales Tax Audit Rule. It further details rule by rule each group's tasks and when they are to be completed.

4. *Audit Rule*

Audit Rule 806.3 Administration of Compliance Audit Process defines the processes by which the Streamlined Sales Tax Governing Board will conduct contract compliance and tax compliance audits on Certified Service Providers (CSP), Certified Automated System (CAS), Model 1 Sellers, and Model 2 Sellers.

The Audit Rule explains the role of the Streamlined Sales Tax Audit Committee, The Audit Core Team and Member States responsibilities.

**Audit Core Team documents for a CSP Contract Compliance Audit**

1. *Audit Timeline AD10001*

The Audit Timeline is a schedule of critical tasks that must be performed during the contract compliance audit, including those of the CSP (Contractor), member state, and Executive Director.

2. *Audit Program AD10002*  
The Audit Program is a listing of the audit steps and procedures that must be performed during the CSP contract compliance audit.
3. *CSP Executive Director Questionnaire AD10003*  
The CSP Executive Director Questionnaire is completed by the SST Governing Board Executive Director, including his staff. The questionnaire asks questions regarding compliance with the CSP Contract and requests specific explanations in cases where no answers or exceptions highlight areas of possible noncompliance with the contract.
4. *CSP Contractor Questionnaire AD10004*  
The CSP Contractor Questionnaire is completed by the CSP, including its applicable staff. The questionnaire asks questions regarding compliance with the CSP Contract and requests specific explanations in cases where no answers or exceptions highlight areas of possible noncompliance with the contract.
5. *CSP State Representative Questionnaire AD10005*  
The CSP State Representative Questionnaire is completed by the individual state agency representatives assigned by the member states, including its staff. The questionnaire asks questions regarding compliance with the CSP Contract and requests specific explanations in cases where no answers or exceptions highlight areas of possible noncompliance with the contract.
6. *SST Reports (Appendix F)*  
The SST Reports attachment (Appendix F) contains instructions for CSPs on the layout of reports to be sent to the member states and the SST Executive Director. The reports include compensation reports that document the compensation earned by the CSPs, and audit work files that report taxable and exempt records in a format described in Appendix F. This appendix describes the file location, date required, file format, file names, and instructions specific to the different reports.
7. *Performance Bond Requirements*  
The Performance Bond Requirements contain instructions to the CSPs on the minimum requirements for the surety bond required under the CSP contract.
8. *Generic copy of CSP Contract with Governing Board*  
The CSP contract documents the agreement between the Certified Service Providers and the Streamlined Sales Tax Governing Board.

## **Sampling Methodology**

1. Introduction  
This section describes the sampling methods for the SSTGB Audit Core Team. The objective of the Audit Core Team is to determine the level of compliance of the CSP to specified sections of the contract with the Governing Board.
2. Sampling Plan

Before initiating a sample, the Audit Core Team should complete a Sample Plan. This plan should include, but is not limited to:

1. Audit Scope
2. Type of Sample
3. Sample Population
4. Sample Units
5. Sample Objective

The first focus of any sampling plan is to determine the population and sampling unit. For the purposes of this section, the sampling unit will be defined by the Audit Core Team. For example, the unit could be the item description that is passed from the seller to the CSP. The results of the sample will be used as part of the core team's report to the Governing Board and the Member States, and not be used to issue tax assessments. Tax assessments will be a result of the individual state's review.

3. Simple Random Sample  
The Audit Core Team may perform a simple random sample of items of interest. The results of this sample shall be part of the core team's reports. The sample should be pulled using approved statistical software.

A simple random sample is based upon all units of a designated population. The sample allows all the units to have the same chance of selection. The core team will determine the population and the number of units to sample.

4. Software  
Approved statistical sampling software shall be used. The software may be ACL, IDEA, RAT-STATS, TSEP, or other statistical sampling software that has been used in sales and use tax auditing.

### **Guidelines for States when auditing Model 1 Sellers through a CSP**

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

The Audit Committee has established 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 and the tax reported and remitted to the correct jurisdiction when due.

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

Liability relief is available to sellers under certain circumstances according to the SSUTA.

2. *CSP Tax Audit Program for State Auditors*
3. *Liability Relief*

### **Audit Core Team audit of CAS**

1. *CAS Provider: Executive Director Questionnaire AD 20001*  
The CAS Provider Executive Director Questionnaire is completed by the SST Governing Board Executive Director, including his staff. The questionnaire asks questions regarding compliance with the CAS Contract and requests specific explanations in cases where no answers or exceptions highlight areas of possible noncompliance with the contract.
2. *CAS Provider: Contractor Questionnaire AD 20002*  
The CAS Provider Contractor Questionnaire is completed by the CAS Provider, including its applicable staff. The questionnaire asks questions regarding compliance with the CAS Contract and requests specific explanations in cases where no answers or exceptions highlight areas of possible noncompliance with the contract.
3. *CAS Provider: State Representative Questionnaire AD 20003*  
The CAS Provider State Representative Questionnaire is completed by the state agency representative assigned by the individual member states, including its staff. The questionnaire asks questions regarding compliance with the CAS Contract and requests specific explanations in cases where no answers or exceptions highlight areas of possible noncompliance with the contract.

### **Guidelines for States when auditing Model 2 Sellers**

The Guideline provides information and instructions for the audits of Model 2 Sellers by a member state. A Model 2 Seller is defined as a seller that has selected a Certified Automated System to perform part of its sales and use tax functions, but retains responsibility for filing returns and remitting the tax.

*Model 2 Audit Information Document*

### **Good Faith**

Uniform Standard of Good Faith

As specified in Section 317 of the Streamlined Sales and Use Tax Agreement, a seller is relieved from tax liability if the seller obtains a fully completed exemption certificate or captures the relevant data elements required under the Agreement within 90 days subsequent to the date of sale.

When an exemption certificate is not obtained within 90 days as prescribed for an exempted sale, a seller has 120 days subsequent a request for substantiation by a member state to either prove that the transaction was not subject to tax by other means

or obtain a fully completed exemption certificate from the purchaser. A good faith standard applies to requests of the seller within the 120 day provision. (Section 317 C 1). This Uniform Standard of Good Faith is in addition to the requirements in Section 317 of the Agreement.

In the simplest of terms “Good Faith” means the absence of intent to commit fraud.

The exemption certificate, document, or other proof that substantiates the exemption within the 120 day provision must meet the following requirements:

1. The exemption reason claimed must be statutorily available in the state wherein the transaction was sourced.
2. The seller does not have reason to believe that the purchaser is not entitled to the exemption claimed.
3. The certificate or proof that the sale was not subject to tax must contain no statement or entry which the seller or lessor knows, or has reason to know, is false or misleading.
4. The purchaser must provide the required information to substantiate the exemption including but not limited to, purchaser name, address, tax ID number, FEIN or Driver’s license number with state of issue.

### **Streamlined Exemption Certificate**

**(Below is a copy of the Streamline Certificate of Exemption)**

This is a multi-state form. Not all states allow all exemptions listed on this form. Purchasers are responsible for knowing if they qualify to claim exemption from tax in the state that would otherwise be due tax on this sale. The seller may be required to provide this exemption certificate (or the data elements required on the form) to a state that would otherwise be due tax on this sale.

The purchaser will be held liable for any tax and interest, and possibly civil and criminal penalties imposed by the member state, if the purchaser is not eligible to claim this exemption. A seller may not accept a certificate of exemption for an entity-based exemption on a sale made at a location operated by the seller within the designated state if the state does not allow such an entity-based exemption.

1.  Check if you are attaching the Multi-state Supplemental form.

If not, enter the two-letter postal abbreviation for the state under whose laws you are claiming exemption.

2.  Check if this certificate is for a single purchase and enter the related invoice/purchase order # \_\_\_\_\_.

**3. Please print**

Name of purchaser \_\_\_\_\_

Business Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Purchaser's Tax ID Number \_\_\_\_\_ State of Issue \_\_\_\_\_ Country of Issue \_\_\_\_\_

If no Tax ID Number Enter one of the following:	FEIN	Driver's License Number/State Issued ID Number	Foreign diplomat number
_____	_____	_____	_____
		State of Issue: _____ Number _____	

Name of seller from whom you are purchasing, leasing or renting \_\_\_\_\_

Seller's address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip code \_\_\_\_\_

**4. Type of business.** Circle the number that describes your business

- |   |                                       |
|---|---------------------------------------|
| 01 Accommodation and food services            | 11 Transportation and warehousing     |
| 02 Agricultural, forestry, fishing, hunting   | 12 Utilities                          |
| 03 Construction                               | 13 Wholesale trade                    |
| 04 Finance and insurance                      | 14 Business services                  |
| 05 Information, publishing and communications | 15 Professional services              |
| 06 Manufacturing                              | 16 Education and health-care services |
| 07 Mining                                     | 17 Nonprofit organization             |
| 08 Real estate                                | 18 Government                         |
| 09 Rental and leasing                         | 19 Not a business                     |
| 10 Retail trade                               | 20 Other ( <i>explain</i> ) _____     |

**5. Reason for exemption.** Circle the letter that identifies the reason for the exemption.

- |   |   |
|---|---|
| A Federal government ( <i>department</i> ) _____  | H Agricultural production # _____             |
| B State or local government ( <i>name</i> ) _____ | I Industrial production/manufacturing # _____ |
| C Tribal government ( <i>name</i> ) _____         | J Direct pay permit # _____                   |
| D Foreign diplomat # _____                        | K Direct mail # _____                         |
| E Charitable organization # _____                 | L Other ( <i>explain</i> ) _____              |
| F Religious or educational organization # _____   |   |
| G Resale # _____                                  |   |

**6. Sign here.** *I declare that the information on this certificate is correct and complete to the best of my knowledge and belief.*

Signature of Authorized Purchaser \_\_\_\_\_

Print Name Here \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

Name of Purchaser \_\_\_\_\_

STATE	Reason for Exemption	Identification Number (If Required)
AR	_____	_____
IA	_____	_____
IN	_____	_____
KS	_____	_____
KY	_____	_____
MI	_____	_____
MN	_____	_____
NC	_____	_____
ND	_____	_____
NE	_____	_____
NJ	_____	_____
NV	_____	_____
OH	_____	_____
OK	_____	_____
RI	_____	_____
SD	_____	_____
TN	_____	_____
UT	_____	_____
VT	_____	_____
WA	_____	_____
WI	_____	_____
WV	_____	_____
WY	_____	_____

*SSUTA Direct Mail provisions are not in effect for Tennessee.*

The following nonmember states will accept this certificate for exemption claims that are valid in their respective state. SSUTA Direct Mail provisions do not apply in these states.

XX	_____	_____
XX	_____	_____
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## SST Audit Contact List

Scott Peterson, Executive Director, SST Governing Board, Inc.  
[Scott.Peterson@sstgb.org](mailto:Scott.Peterson@sstgb.org) phone #(615) 460-9330

David Thompson, Information Technology Director, SST Governing Board, Inc.  
[David.Thompson@sstgb.org](mailto:David.Thompson@sstgb.org) phone#(931) 387-2280

Bruce Christensen - Chairman SST Audit Committee  
[bruce.christensen@state.sd.us](mailto:bruce.christensen@state.sd.us)  
South Dakota Department of Revenue & Regulation – (605) 773-3311

### Core Team Members:

Steve Krovitz, Minnesota Department of Revenue  
[Steve.Krovitz@state.mn.us](mailto:Steve.Krovitz@state.mn.us) (651) 556-6017

Bob Muller, Indiana Department of Revenue  
[bmuller@dor.IN.gov](mailto:bmuller@dor.IN.gov) (765) 289-6196

Sandra Hoffman, Kentucky Department of Revenue  
[Sandra.Hoffman@ky.gov](mailto:Sandra.Hoffman@ky.gov) (859) 371-9049 Ex. 1970113

Mike Chertude, Washington Department of Revenue email address:  
[MichaelC@DOR.WA.GOV](mailto:MichaelC@DOR.WA.GOV) (360) 256-2081

### Other Contacts:

J.R. Sherman, Wyoming Department of Audit  
[james.sherman@wyo.gov](mailto:james.sherman@wyo.gov) (307) 777-5314

## Other training materials

Please visit <http://www.streamlinedsalestax.org/index.php?page=audit-committee-documents> for additional training materials.