

# Audit Manual

## Chapter 13

# Statistical Sampling



Sales and Use Tax Department

*California State*

*Board of Equalization*

*This is an advisory publication providing direction to staff administering the Sales and Use Tax Law and Regulations. Although this material is revised periodically, the most current material may be contained in other resources including Operations Memoranda and Policy Memoranda.*

*Please contact any board office if there are concerns regarding any section of this publication.*



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# AUDIT MANUAL

**STATISTICAL SAMPLING****1300.00****INTRODUCTION****1301.00****GENERAL****1301.05**

This chapter provides guidelines to follow when a statistical sample is used to perform a test in an audit. There is no intention to establish rigid rules; rather this chapter will set forth general goals for statistical sampling and will allow the auditor discretion in the implementation of various analytical procedures to develop an appropriate sampling plan.

Planning and evaluating audit samples is a critical part of the Board of Equalization's (BOE) mission, as stated in AM section 0101.03. During the sample planning phase, the auditor gathers information about the taxpayer's accounting systems and tax issues. The auditor should take the opportunity to educate the taxpayer on the objectives of the sampling process and encourage the taxpayer to offer suggestions on designing the sampling plan. The taxpayer may be able to share specialized knowledge of the accounting system and sampling techniques that could result in a more effective and efficient audit. The auditor should work with the taxpayer to find the best procedures for the given situation. However, it is a general principle of auditing that the auditor is ultimately responsible for assuring that adequate tests are conducted to provide the auditor with assurance of the accuracy of the records. The auditor should refer to Chapter 4 for general audit procedures regarding tests of specific items.

The primary objective of a sales and use tax audit is to determine, with the least possible expenditure of time for both the taxpayer and staff, the accuracy of reported tax. To accomplish this, the auditor should take into account the possibility of both overpayments and underpayments in analyzing the sampling plans necessary to accurately determine the proper amount of tax due. All such differences should be taken into account by the auditor when assessing the net overpayment or underpayment resulting from the audit. A sample or an audit may result in a net refund if the dollar value of tax overpayment errors exceeds the value of tax underpayment errors. As stated in AM section 101.20, BOE is just as willing to recommend a refund of an overpayment as we are to propose a deficiency determination.

AM section 1309.00 contains a glossary of terms relevant to testing by the statistical sampling method. BOE auditors are required to have a working knowledge of these terms. It is suggested the auditor be familiar with these terms prior to reading this chapter.

**TESTING WITH STATISTICAL SAMPLES****1301.10**

Publications of the AICPA (American Institute of Certified Public Accountants) and its committees have recognized the importance of statistical sampling in financial audits. Statistical sampling is used widely in private industry and by certified public accounting firms. There are also well established statistical sampling programs used by the Internal Revenue Service and other states in their tax audits.

Certified Public Accountants perform many different types of audits, including tax audits. In financial statement audits, the auditor's primary objective is to reach a conclusion about whether or not there is sufficient evidence to conclude that the financial statements are fair representations of the entity's condition. Financial auditors perform both attribute and variable sampling, but their final conclusion is either "yes" or "no." Tax auditors have a more difficult task — to estimate the difference between the taxpayer's reported tax and the tax due as estimated from the audit evidence. It is important to understand the difference in the two approaches in order to be able to successfully discuss the audit results with taxpayers and their representatives.

BOE encourages the use of statistical sampling techniques whenever feasible. BOE auditors must develop and use recognized testing methods that will be accepted with confidence by taxpayers and their accountants.

**ADVANTAGES OF THE STATISTICAL SAMPLE****1301.15**

A statistical sample provides for objective projection and evaluation of the sample results. When a sample is obtained by this method, it is possible to state with a desired level of confidence that the sample result is no further away than some calculable amount from the result attainable from a complete examination of all items. This provides a number of advantages which are explained as follows:

**a. Sample Result Is Objective and Defensible**

One important feature of statistical sampling is that all items in the population have an equal or known chance for selection as a sample item. This random selection process eliminates bias, and produces an objective and defensible result.

**b. Method Provides for Advance Estimation of Sample Size**

An advance estimation of the sample size can be computed based upon statistical principles. The advance estimation provides both a defense for the reasonableness of the sample size and a justification for the expenditure involved. However, determination of sample size is not purely mechanical, but calls for good analytical skills and decisions by the auditor. Other factors, such as BOE policies on minimum errors (AM section 1308.05), as well as minimum evaluation requirements (AM section 1305.15) should also be considered.

**c. Method Provides an Estimate of the Sampling Error**

When a judgmental (non-statistical) sample is performed, there is no way to evaluate the reliability or accuracy of the results. When a probability (statistical) sample is used, the results can be evaluated in terms of how far the sample projection might deviate from the value that could be obtained by a 100 percent examination of the population.

**d. Statistical Sampling May Save Time and Money**

When the information is available to calculate an advance estimate of the required sample size, a statistical approach may result in a smaller sample size than might be arrived at using a judgmental approach. Although the statistical approach will not always produce smaller sample sizes, statistical sampling will always result in an objective and defensible audit result.

**e. Multiple Samples May Be Combined and Evaluated**

When the entire test has an objective and scientific basis, it is possible for different auditors to participate independently in the same test and for the results to be combined as though the test was accomplished by one auditor. For instance, in an audit covering a number of locations, the audit can be accomplished independently and separately at the different locations and the results combined for an overall evaluation, if statistical sample techniques were applied.

**f. Objective Evaluation of Test Results Is Possible**

The results of a judgmental sample can be projected to the population, but there is no way of objectively evaluating the reliability or accuracy of the test. If the statistical method is used, the audit test result can be projected, given a stated confidence level, to be within not more than a known interval from the result that would have been obtained if the population had been examined on an actual basis.

**ATTRIBUTE SAMPLING VS. VARIABLE SAMPLING****1301.20**

Attribute sampling provides a qualitative measure which estimates the proportion of items in a population containing an attribute of interest. In attribute sampling, the value of each data item is one of a few discrete qualitative categories:

- a. missing or non-missing;
- b. underpaid, correctly paid, or overpaid;
- c. valid or invalid supporting documents

The objective of attribute sampling in auditing financial records is to reach a conclusion about whether or not there is sufficient evidence to conclude that the frequency of errors exceeds a tolerable level. For example, does the rate of missing documentation exceed one percent or not? Attribute sampling is widely used in internal auditing and financial statement auditing, but is not frequently used in tax auditing. Attribute sampling can be used to determine if a managed compliance program performs within an acceptable deviation rate.

Variable sampling, in auditing financial records, provides a quantitative measure which is used to estimate an average or total dollar value of a given population. In variable sampling the value of each data item is a quantity drawn from a continuous range, such as dollars, percentage, or number of pieces. The objective of variable sampling is to estimate a quantity. For example, what is the dollar amount of adjustment in taxable sales? Or, what is the percentage of sales excluded on the tax return for which no valid exemptions documentation exists? Tax auditors are nearly always doing variable sampling.

Another way to define the difference between attribute sampling and variable sampling is that attribute sampling is concerned with the frequency of an attribute, while variable sampling is concerned with the value of a variable.

# AUDIT MANUAL

**SETTING UP THE TEST****1302.00****GENERAL****1302.05**

Prior to determining the type of testing to be used in a given audit situation or if statistical sampling is appropriate, the auditor must make a thorough examination of the business operation during the period under audit. This examination should include a review of source documents, changes in business activity, and changes in accounting procedures and key personnel.

Form BOE–472, Audit Sampling Plan, (Exhibit 1) will facilitate the use of sampling by assisting the auditor and taxpayer in documenting their sampling plan, and setting the criteria by which the sample results will be evaluated. In addition, the form covers many common situations that might arise in sampling, such as:

- The possibility that stratification or expansion of a sample may become necessary
- The potential of overpayments (e.g., over-accruals of tax on payables)

This form is to be used as a tool to gather information in conducting samples, as well as to make the taxpayer aware of important considerations that might impact the audit. This form should be completed with the assistance and input from the taxpayer, prior to the actual selection of the sample. The information and methods documented in this form are not binding on either the taxpayer or the auditor. The sampling plan can and should be continually evaluated (and changed, if necessary) based upon information obtained during the audit process. However, if any deviation from this sampling plan is required, the deviations will be fully explained and discussed with the taxpayer.

The purpose of Form BOE–472 is to establish the most effective and efficient means of developing a sampling plan. This form must be used in all large audits (defined here as any audit with a cell designation of 1D through 4D) or any time sampling is performed. This plan will provide much of the information that will later be needed to complete the working paper documentation and audit comments. All versions of the Audit Sampling Plan should be included in the audit working papers as supporting schedules to the sample items selected.

Once the decision has been made to test using available statistical sampling methods, the development of an audit sampling program that documents the information available and the anticipated course of action will provide the auditor with an organized plan. This plan can be modified as work progresses; however, changes to the plan should be explained and discussed with the taxpayer. See Exhibit 2 for an illustration of a statistical sampling audit program.

**DEFINE THE OBJECTIVE OF THE TEST****1302.10**

Each test should have a specific, stated objective; subsequent statistical techniques are selected on the basis of that objective. The usefulness of any sampling test depends on a clear recognition of the relationship between the test objective and the corresponding audit objective.

For example: Is our objective to test sales for resale or to test all claimed deductions? The sample selection technique used might vary depending on the true objective of the test.

**DEFINE AND LIMIT THE POPULATION****1302.15**

The population must be defined to ensure that all items about which the auditor wishes to draw a conclusion have an equal or known chance of being selected in the sample. The population should be defined and limited to the area(s) of audit interest. For instance, if the auditor is testing sales for resale (resales), the population should be limited to resales. In an accounts payable test, the auditor should limit the population to the accounts that are of audit interest. In a typical accounts payable population, only five to ten percent of the invoices may be in general ledger accounts of audit interest relative to possible overpayments or underpayments. Based on this, an auditor would require a population of at least 3,000 invoices ( $300 / 10\%$ ) in order to obtain a sample size of 300 invoices from the areas of audit interest (see AM section 1303.05 for minimum sample size requirements). Additionally, an auditor needs to consider that the population distribution could impact the sample size requirement and cause it to rise to 15,000 or more units, unless the population is well defined and appropriate statistical sampling techniques (i.e., stratification) are used. Therefore, it is best to have a population defined by the specific general ledger accounts that the auditor has identified as areas of audit concern and employ stratification techniques.

Although the majority of errors encountered by auditors relate to underpayments, audit staff should also be aware of, and discuss with the taxpayer, the potential of overpayments. Examples of general ledger accounts relevant to overpayment errors may include special inventory accounts, expense accounts that may include materials held for resale, printing expense (exempt printed sales messages), non-recurring engineering accounts (exempt prototypes), and software (custom or transferred via modem). Examples of general ledger accounts relevant to underpayment errors may include fixed assets, expensed inventories, research and development engineering, tooling, dues and subscriptions, and expense accounts that clearly relate to tangible personal property. Service-related accounts that may relate to assembly or fabrication of taxable property include engineering services, installation and assembly accounts, and lab expenses.

The auditor may want to consider using statistical sampling for examinations of areas other than accounts payable or sales examination. Depending upon the taxpayer's record keeping system, statistical sampling may be warranted for the fixed asset, journal voucher, or even debits to the tax accrual account (the auditor would still be required to reconcile the accrual account). When using statistical sampling for examinations of these other areas, it is important to work with the taxpayer to determine how the population will be defined and how stratification levels will be selected. Again, this discussion and information should be documented on Form BOE-472.

It is recommended that all tests include samples taken from the entire audit period whenever possible. In some instances, results from a statistical sample are projected to areas outside the defined population. This might occur if only one or two years of documentation are available in a three-year audit period. Generally, a minimum period of two years (unless an audit period is shorter) should be available in which to perform a statistical sample. On a rare occasion, fewer than two years but no less than one year may be used, but the reasons for using this short of a period must be well documented in the audit. However, it must be emphasized that no statistical inferences can be made regarding projection of results outside the tested population. The projection of these results to periods outside the tested population should be discussed with the taxpayer and the taxpayer's written agreement should be obtained prior to commencing the sample(s).

A clear audit trail of the population should be included in the working papers. *The auditor must clearly describe the choices, assumptions, and methodologies used in the statistical sample, specifically relating to the definition of the population so that an adequate trail is developed to permit subsequent evaluation of the auditor's work by the taxpayer.*

**DEFINE THE CHARACTERISTIC BEING MEASURED****1302.20**

The auditor should carefully define the sampling unit and determine a means of measuring it. For example, in a test of resales, the quantity of measure may be the differences between audited and claimed resales, a ratio of audited resales to claimed resales, or the audited total resale amounts.

**SPECIAL CONSIDERATIONS****1302.25**

A number of special factors must be considered whenever a statistical sampling plan is being developed. These factors should be discussed with the taxpayer when developing the sampling plan (Form BOE-472), so that the auditor and taxpayer can reach an agreement as to how these factors will be handled if they are encountered during the test. These factors include:

- a. Multiple Locations** — When a taxpayer has multiple locations, the auditor must carefully determine how the records are maintained and whether internal controls are adequate. It is necessary to determine whether the record keeping is centralized at one location or whether each location maintains its own records.
- b. Arrangement of Source Documents** — Documents may be maintained or processed by the taxpayer in a number of ways such as numeric, periodic, cyclical, alphabetical, or batch processed, etc. In most cases, the taxpayer's method of maintaining documents will not preclude the use of statistical sampling techniques.
- c. Non-Response** — Occasionally the taxpayer will not be able to obtain a response to a confirmation request, e.g., XYZ letter, in spite of sending a second and maybe even a third request. The use of statistical sampling techniques should not change the auditor's reasoning in determining whether to accept or disallow a transaction. The auditor should still determine whether the transaction questioned can be supported by alternative means. XYZ non-responses should not automatically be considered errors or non-errors. When XYZ responses are not returned, audit staff should make every effort to determine the taxability of the questioned sale by alternative methods. Such methods could include, but are not limited to:
  - Examine the customer's seller's permit registration to determine whether or not the purchaser had a permit at the time of purchase, the type of business, reported sales, etc.
  - Determine whether the sales in question were most likely for resale or consumption, based on the quantity and type of items sold.
  - Review a subsequent resale certificate (prior to the start of the audit) but for similar purchases.
  - Examine other types of items sold to the customer.
  - Contact the customer by telephone to determine the true nature of the sale. If the customer indicates that the sale was for resale, a copy of the XYZ request letter should be faxed to the customer for immediate response. This XYZ response will be subject to the same verification as any other XYZ response.
  - Accept or deny the transaction based on personal knowledge the auditor gained from prior audits or other sources.

There are occasions when the taxpayer is unable to obtain an XYZ letter response because the customer is no longer in business. In this situation only (not where there is just a change in ownership, such as a change in partners or a change from a sole proprietorship to partnership/corporation in which the previous owner continues the business under the new ownership), the sale will be considered a sale for resale if the property purchased by the customer is consistent with the type of sales the business makes. The auditor must verify information contained in the taxpayer's file regarding the close-out or bankruptcy of the business, as well as the type of business operations of the customer to ensure that the situation meets these specific requirements.

In all other situations, if the sale appears to be of a type that could be consumed, the taxpayer is unable to obtain a proper XYZ letter response, and the auditor is unable to determine the exempt status of the sale by alternative means, the non-response should be considered an error.

- d. **Timing** — The auditor must be aware of timing differences between the date of a transaction and the date it is recorded by the taxpayer. For example, paid bills are frequently recorded when paid rather than on the date of the invoice.

In addition, the auditor must take special care when a sample item is found to involve an installment contract. Not only must the auditor determine whether or not the sample item constitutes a difference, the auditor must also determine the taxable measure of that difference. For example:

ABC Company, an unpermitted out-of-state vendor, enters into an installment contract with XYZ Corporation to furnish and deliver a piece of manufacturing equipment for \$1,000,000. The contract specifies the following progress payments:

Payment 1	\$200,000	Contract signing
Payment 2	\$200,000	Design approval
Payment 3	\$200,000	Completion of manufacture
Payment 4	\$200,000	Delivery
Payment 5	\$200,000	Completion of installation and testing

The contract specifies that title and possession of the equipment transfer from ABC Company to XYZ Corporation upon delivery, when the fourth installment payment becomes due and payable.

In this example, Payments 1, 2, 3, or 5 would not constitute differences for sampling purposes because they do not represent a "sale." On the other hand, Payment 4 would be a taxable transaction with a measure of \$1,000,000, even if the statute of limitations has expired on one or more of the earlier progress payments or Payment 5 is not yet due.

Care should be taken to determine whether or not XYZ Corporation reported tax on the earlier progress payments. If it did, then the \$1,000,000 taxable measure should be reduced accordingly.

- e. **Voids** — The auditor must first determine whether voids (canceled or unused invoices) are included in big "N" — the total population. If so, the auditor can leave the voids in the sample and consider each as a "zero" or non-error or take all voids out of the sample and the population.

**f. Credit Invoices, Credit Memos, and Debit Memos** — Credit invoices, credit memos, or debit memos reduce or totally offset a previously issued invoice; they can also affect the taxable or exempt status of an original invoice. In general, the auditor should evaluate all information available for the sample unit selected, as shown in Method 1 and Method 2 described below. For example:

1. If a claimed resale is determined in a test to be taxable, the auditor would make certain that only the net amount due is projected in the test.
2. Questioned transactions subject to a discount, returned merchandise, or is written off as a bad debt would be considered and adjusted in calculating the net amount of error
3. Only net amounts paid to vendors would be projected in a paid bills test.
4. For any item questioned in a sample, in general, the auditor would look at prior and subsequent events that might affect the net amount due on that sample item.

In order to conduct a valid statistical sample when credit invoices and credit/debit memos are included in the population from which sample units are selected, use either Method 2 or Method 3 described below. When it is not possible to remove these items from the population, Method 2 allows for all available information on the sample items to be used in determining the taxable measure. When using Method 2, the credit invoices, credit memos and debit memos that are actually selected as sample items are deemed to be non-errors, i.e., they have a taxable measure of zero. To do otherwise, i.e., to analyze both the credit invoices and credit/debit memos that are selected as sample items under Method 2, as well as credit invoices and credit/debit memos related to sample items would mean that credit invoices and credit/debit memos in the population would have more than one chance of being selected for examination. This would bias the sample and render statistical evaluation of the sample results invalid.

When using Method 3, the credit memos and debit memos selected in the sample are analyzed to determine the taxable measure as described below, but information from credit invoices, credit memos and debit memos related to sample items selected cannot be used when determining the taxable measure for sample items.

Given the above information, following are descriptions of the three methods that can be used to handle credit invoices, credit memos, and debit memos::

### **Method 1**

One statistical method of handling credit invoices, credit memos, and debit memos is to remove them from the population to be sampled. If a Computer Audit Specialist (CAS) is involved in the examination or if the taxpayer has the technological resources (computerized system or information systems department that can separate these types of transactions from the rest of the population), it is fairly easy to stratify these credit transactions from the population to be sampled. Some audit staff also have the technological knowledge and expertise to separate these types of transactions from the population to be sampled. Electronic records must be available in order to remove credit invoices, credit memos, and debit memos from the population to be sampled.

By removing the credit invoices, credit memos, and debit memos from the population to be sampled, allowable credit transactions can be examined and offset (without affecting the statistical nature of the sample) as events that might affect the net amount due for items selected in the sample. This method also permits allowable bad debts or tax paid purchases resold to either be offset against sample items or to be tested and adjusted separately.

**Method 2**

Oftentimes, it is not possible or feasible to separate credit invoices, credit memos, and debit memos from the population to be sampled. When it is not possible to segregate these types of transactions from the population, they should not be ignored or removed from the sample base.

Under this method, if selected as a sample item, the credit invoice, credit memo, or debit memo would be considered to have a zero measure of tax. Note that the credit invoice or credit memo is left in the sample base as a credit transaction.

Questioned original sales or purchases (debit transactions) selected as sample items would take into account, when determining the appropriate measure of tax for the sample item, all available information including prior and subsequent events. Therefore, other related invoices, tax only invoices, credit invoices, credit memos, and debit memos may be examined for information that would help determine the proper measure of tax due on the sample item. This method also permits allowable bad debts or tax paid purchases resold to either be offset against sample items or to be tested and adjusted separately.

**Method 3**

If credit invoices or credit memos in a sales examination (or debit memos in a purchases examination) are included in the population being tested, then these negative transactions should be included in the sample selected and handled in the same manner as the positive transactions in the test. They should be reviewed carefully and, if properly supported, should be included in the test results. Under no circumstances should they be ignored or deleted from the sample if they are included in the population being tested. Credit invoices, credit memos, or debit memos resulting in errors in the sample should be included as errors when computing the estimated ratio (percentage of error) if they are included in the population being tested.

If credit invoices, credit memos, and debit memos cannot or will not be removed from the population to be tested and the taxpayer is concerned with the statistical validity of the sample, the test can be conducted in such a manner as to maintain the statistical nature of the test, only if the following procedures are used (assuming that the sample units are selected using random/chance/probability methods):

1. Debit transactions selected as sample items would be examined, as in any other test, to determine the taxable nature of the transaction. Debit transactions determined to be in error would be assessed in the test as debit errors. Offsetting credit transactions that are not selected as a sample item would not be examined or offset against the debit transaction.

2. Credit transactions selected as sample items would have to be analyzed. In order to determine the disposition of the credit transaction, the original transaction would have to be reviewed:
  - In a test of **total sales** — If the original transaction was claimed as an exempt sale but was actually a taxable sale (i.e., if the original transaction would have been assessed as a debit error if it had been selected as a sample item), the credit transaction would result in a credit error. If the original transaction was a taxable sale or a supported exempt sale, the credit transaction would result in a zero measure of tax. The credit item itself remains in the sample as a credit transaction.
  - In a test of **exempt sales** — If the original transaction was claimed as an exempt sale but was actually a taxable sale (i.e., if the original transaction would have been assessed as a debit error if it had been selected as a sample item), the credit transaction selected as a sample item would result in a credit error. If the original transaction was a taxable sale or a supported exempt sale, the credit transaction would result in a zero measure of tax. The credit item itself remains in the sample as a credit transaction.
  - In a test of **paid bills** — If the original transaction would have been assessed as a debit error if it had been selected as a sample item, the credit transaction selected as a sample item would result in a credit error. If the original transaction was a purchase that was not part of the population being tested, a purchase not subject to tax, or a purchase exempt from tax, the credit transaction would result in a zero measure of tax. The credit item itself remains in the sample as a credit transaction.
3. In order to maintain the integrity of the test, each individual sample item must be examined and evaluated independently, without examining any related transactions. As such, debit or credit transactions not selected as sample items would not be examined or offset against any sample items. Also, bad debt deductions would not be offset against any sample items. Under this method, bad debt deductions would need to be examined and adjusted separately.

Using the above methods, following are examples of how credit items in a sales test, or debit memos in a paid-bills test, should be handled. These examples are illustrative, but not exhaustive, of the possible types of credit invoices, credit memos, and debit memos that might be encountered. The disposition of credit invoices, credit memos, and debit memos, as well as bad debts and tax paid purchases resold, is dependent upon the method used, as described above.

Before the test is conducted, audit staff and the taxpayer should discuss each of these methods and come to an agreement on the method to be used. *The method to be used should be clearly identified in the comments on handling credit invoices, credit memos, debit memos, bad debts and tax paid purchases resold on Form BOE-472, Audit Sampling Plan.*

SPECIAL CONSIDERATIONS

(CONT. 5) 1302.25

Sales Test — Sample Transaction Examples

#	Sample Item	Sample Item Amount	Subsequent Event	Subsequent Event Amount	Prior Event	Prior Event Amount	Taxable Measure of Sample Item		
							Method 1	Method 2	Method 3
1	Sales invoice 111 (Sale booked as exempt, taxable sale)	10,000	CREDIT MEMO 222	- 10,000		—	0	0	10,000
2	Sales invoice 333	5,000	Return memo 444 (½ of the items returned)	- 2,500		—	2,500	2,500	5,000
3	Sales invoice 555 (Sale booked as exempt, taxable sale)	7,000	Credit memo 655 (CM to clear worthless account, written off as required by RT642)	- 7,000		—	0	0	7,000
4	Sales invoice 777	1,200	A/R Adjustment 132 (JE to write off worthless account, written off as required by RT642)	- 1,200		—	0	0	1,200
5	Credit memo 444	- 2,500			Sales invoice 333 (Sale booked as exempt, taxable sale)	5,000	N/A (No credit memos in population/sample)	0	- 2,500
6	Credit memo 777	- 4,000			Sales invoice 888 (Supported sale for resale)	4,000	N/A (No credit memos in population/sample)	0	0
7	Credit memo 999	- 4,320			Sales invoice 123	4,000 (tax) 4,320	N/A (No credit memos in population/sample)	0	0
8	Credit memo 1125 (Items returned)	- 20,000			Sales invoice 682 (Sale booked as exempt, taxable sale)	20,000	N/A (No credit memos in population/sample)	0	- 20,000
9	Sales invoice 825 for sales tax on prior invoice 545	350	The \$350 sales tax was accrued and remitted to the State on the next return filed.	Sales invoice 545 (No tax charged, but should have been)	4,375	0	0	0	0
10	"Credit memo for tax on invoice 898 (Seller claimed credit on his return. Customer sent a timely R/C and/or corrected PO to "for resale" and PO meets other requirements of R/C)"	-80			Sales invoice 898 (Customer's PO marked "taxable" in error)	1,000 (tax) 1,080	N/A (No credit memos in population/sample)	0	0
11	Sales invoice 952 (Sale booked as exempt, taxable sale)	1,600	JE to reflect volume discount allowed on invoice 952; A/R adjustment, credit memo issued	- 400		—	1,200	1,200	1,600
12	Sales invoice 1032 (Sale booked as exempt, taxable sale)	300	Cash discount taken (5%, 10 days, net 30)	- 15		—	285	285	285
13	Credit Memo (Cash discount not taken, full amount paid within discount period, credit for cash discount)	- 2,800			Sales invoice 1455 (Sale booked as exempt, taxable sale)	28,000	N/A (No credit memos in population/sample)	0	- 2,800

SPECIAL CONSIDERATIONS

Paid Bills/Purchases — Sample Transaction Examples

#	Sample Item	Sample Item Amount	Subsequent Event	Subsequent Event Amount	Prior Event	Prior Event Amount	Taxable Measure of Sample Item		
							Method 1	Method 2	Method 3
A	Use tax purchase, no tax accrued	15,000	Item returned, credit issued	- 15,000	—	—	0	0	15,000
B	Use tax purchase, no tax accrued	25,000	Only 3/5 of the billed items received, debit memo for items not received	- 10,000	—	—	15,000	15,000	25,000
C	Taxable purchase	3,000	Purchased item resold prior to making any use; qualifies as tax paid purchase resold; no TPRR credit claimed at time of sale	—	—	—	0 *Note 1*	0 *Note 1**	0 *Note 2*
D	Taxable purchase; use tax accrued and paid to State	2,000 160	Purchased item resold prior to use; qualified as tax paid purchase resold; no TPRR credit claimed at time of sale	—	—	—	- 2,000 *Note 1*	- 2,000 *Note 1*	- 2,000
E	Use tax purchase, no tax accrued	2,500	Out of state vendor assessed use tax in audit of same or similar items per ABC letter	—	—	—	0	0	0
F	Debit memo; item returned to vendor	- 6,000	—	—	Use tax purchase; no use tax accrued	6,000	N/A (No credit items in population/sample)	0	- 6,000
G	Debit memo; tax not reversed but should have been	- 7,000	—	—	Use tax purchase; use tax accrued @ 8% and paid to State	7,000 560	N/A (No credit items in population/sample)	0	- 7,000
H	****Tax only**** entry <sup>*Note 3*</sup> This is an AP entry that was made to reverse tax that should have been reversed when the \$10,000 debit memo was entered	- 800	—	—	Original transaction: Use tax purchase Use tax accrued and paid to State (8%) Debit memo (Tax not reversed)	10,000 800 — 10,000	N/A (No credit items in population/sample)	0	0

Note 1 Assumes tax paid purchases resold are not being separately examined and adjusted.

Note 2 Assumes purchase subject to use tax. If purchase subject to sales tax, taxable measure would be zero.

Note 3 "Tax only" sample items should not be extrapolated, whether negative or positive. Assuming these sample items are actual invoices, the measure should be zero; journal entries will generally not be included in the population of a paid bills test.

SPECIAL CONSIDERATIONS

PAID BILLS/PURCHASES — SAMPLE TRANSACTION EXAMPLES (CONT.)

#	Sample Item	Sample Item Amount	Subsequent Event	Subsequent Event Amount	Prior Event	Prior Event Amount	Taxable Measure of Sample Item		
							Method 1	Method 2	Method 3
I	"Tax only" entry <sup>Note 4</sup> : This is the tax that AP accrued on a nontaxable purchase because the PO was marked "taxable" in error	640	—	—	Non-taxable purchase	8,000	0	0	0
J	Non-taxable purchase; use tax accrued in error @8% and paid to State	8,000 640	—	—	—	—	-8,000	-8,000	-8,000
K	Use tax purchase; no tax accrued or paid when invoice paid	10,000	Tax accrued and paid to State on subsequent return in the audit period, not as a result of the audit <sup>Note 5</sup>	800	—	—	0	0	0
L	Use tax purchase; no tax accrued or paid when invoice paid	100,000	Tax accrued and paid to State on subsequent return as a result of contact with audit staff to schedule the upcoming audit <sup>Note 6</sup>	8,000	—	—	100,000	100,000	100,000
M	Use tax purchase; No tax charged by vendor or accrued by purchaser when purchased	20,000	Use tax later billed by vendor registered with the Board and paid by purchaser	1,600	—	—	0	0	0
N	Charge for nontaxable repair labor from out of state vendor; use tax @ 8% paid to out of state vendor, who is registered to collect use tax <sup>Note 7</sup>	3,000 240	—	—	—	—	-3,000	-3,000	-3,000
O	Charge for nontaxable repair labor; Sales tax @ 8% charged by California vendor	2,000 160	—	—	—	—	0 <sup>Note 8</sup>	0 <sup>Note 8</sup>	0 <sup>Note 8</sup>

Note 4 "Tax only" sample items should not be extrapolated, whether negative or positive. Assuming these sample items are actual invoices, the measure should be zero; journal entries will generally not be included in the population of a paid bills test.

Note 5 The above examples provide general guidance as to how credit invoices, credit memos, and debit memos should be handled. As mentioned previously, these examples are not exhaustive of the types of situations that could be encountered and care should be taken when applying these examples to different situations. For example: Assume fixed asset purchases were examined on an actual basis. The taxpayer purchased, during the audit period, a piece of equipment that cost a significant amount. The taxpayer reported this purchase during the audit period, but two years after the date of purchase. In this situation, an adjustment would have to be made in the audit to correctly assess the measure of tax due at the time of purchase, with a corresponding credit for the measure of tax reported two years later.

Note 6 This item would be assessed as an error in the test. A separate adjustment outside the test would have to be made to give the taxpayer credit for the measure of tax already paid.

Note 7 Staff would need to verify that vendor has not filed a claim for refund.

Note 8 The purchaser will have to seek a refund of the sales tax paid in error from the California vendor. No adjustment in the paid bills test is warranted.

**g. Missing Documents** — If during the course of a statistical test a document cannot be located, normal auditing procedure requires the auditor to ascertain the reason for the missing or incomplete documents. When the investigation fails to reveal any specific reason, the auditor may first determine whether there is any acceptable alternative evidence. Fortunately, as more and more companies are converting to true paperless systems, it is generally not difficult to obtain a considerable amount of data about a missing invoice. The only statistical requirement is that an audited value be established for each and every sampling unit.

Statistical evaluation involves both estimating the extent of missing or incomplete documents and determining the possible effects that this might have on the auditor's decision. If missing invoices would create a material error and the taxpayer objects to the sample, the auditor may want to discuss possible alternatives with his or her supervisor or CAS.

Based upon the facts of the situation and guidelines presented in this chapter, the auditor and the taxpayer together shall discuss whether to consider missing or incomplete documents as incorrect (in error), correct (no error), or whether to substitute another sample unit, or whether they should be removed from the sample base and projection.

Alternative procedures that can be considered, if appropriate, when missing documents are encountered include:

1. The taxpayer and/or auditor can contact the vendor or customer for a copy of the missing or unreadable documentation.
2. Allow the taxpayer to produce additional documentation on similar transactions for the same customer or vendor. The auditor can decide whether or not the taxability of the transaction(s) with missing documentation is similar to the transactions for which documentation is provided
3. Expand the initial sample size. When necessary, the auditor should extend the sample without altering the original sample and the selection order. See AM section 1305.20 for additional information.
4. Remove the missing item from the sample base and projection.
5. Only in rare or unusual circumstances should substitute sample units be considered.

**h. Taxpayer Request for CAS Involvement** — If there is a disagreement between the taxpayer and the auditor regarding the procedures to be used, the auditor can enlist the assistance of the CAS (see AM section 1304.40). If the taxpayer asks to consult directly with the CAS, he or she should be directed to the auditor's supervisor, who will analyze the situation to determine whether CAS or Headquarters assistance is warranted or whether the situation can be resolved without their involvement. This type of situation should be resolved prior to conducting the sample in order to avoid the possibility of having to conduct another sample or having a non-concurred audit before any testing has even begun.

**i. Tax Overpayments in Sample Plans** — During the course of a statistical sample, the auditor may detect both underpayments and overpayments. It is very important that the underpayments and overpayments be treated equally. Therefore, both overpayments (in certain situations) and underpayments need to be taken into account and treated the same when examining sample items, when analyzing the sample results, and when projecting the resulting errors to the population being tested. For example:

1. Purchase examination: Any sample items that are identified and verified as overpayments of use tax to vendors, overpayments of tax accrued and paid directly to BOE by the purchaser, or “tax paid purchases resold” should be tested in the same manner as underpayments. Sales tax reimbursement paid to a retailer in error cannot be used to offset understatements from other sample items, as sales tax is imposed on the retailer.
2. Sales examination: Any sample items that are identified and verified as overpayments of sales or use tax reported by the retailer should be tested in the same manner as underpayments, provided that the retailer has not collected tax reimbursement from the customer. (If tax reimbursement is collected, these sample item overpayments cannot be used to offset underpayments from other sample items.)

There is no objection to projecting the results of a test that includes both overpayments and underpayments, as long as the test evaluates according to BOE standards (AM sections 1305.15, 1308.05). The criteria for evaluating, accepting, and projecting samples resulting in overpayments or underpayments are the same; however it should be noted that if a sample contains a significant number of underpayments and overpayments the likelihood of the sample evaluating is greatly reduced. Consideration should be given to identifying and testing overpayments and underpayments from separate populations when it is feasible. It should also be noted that taking larger samples is unlikely to result in a better evaluation. Using more strata may result in a better evaluation but will not reduce variability as much as creating separate populations.

**DETERMINING SAMPLE SIZE****1303.00****GENERAL****1303.05**

The sample size must be large enough to provide meaningful results, but not so large as to cause excessive work. In judgmental sampling, you can arbitrarily select a sample size, but the question of whether it is adequate to meet your objective is not measurable and is therefore based on subjective judgment. Statistical sampling techniques provide mathematically verifiable quantitative aids for estimating the sample size needed to achieve the desired precision and reliability. The adequacy of the sample size in meeting those specifications, however, can only be determined after all the sample items are examined and the results evaluated mathematically. Therefore the auditor must also consider the anticipated error rate and BOE requirements for sample projection in order to obtain statistically valid and defensible audit results.

A minimum sample size of **at least** 300 items of interest is to be used in all tests, except where the auditor can support a smaller sample size and it evaluates well.<sup>1</sup> This means that in the case of a sample of sales for resale, within the context of a total sample of total sales, the sample size should be large enough to provide a minimum of 300 invoices that were claimed/netted as sales for resale (at least 300 items of interest). In unstratified populations, 300 sample units will rarely be an adequate sample size. However, stratified samples with multiple strata (three or more) may have a sample size of less than 300 per stratum, but the combined test will normally contain at least 300 items of interest.

This 300 minimum sample size relates to individual transactions and not cluster or batch sampling. The sample size when cluster or batch sampling is used will depend upon the volume of transactions in each cluster or batch and will often result in a significantly smaller sample size than if cluster or batch sampling is not used.

While statistical techniques define and quantify the decisions to be made, the auditor must nevertheless evaluate the situation and identify what he or she may want to achieve in applying sampling techniques. The method used to determine the sample size is decided by the auditor based upon the circumstances or information available at the time, including the auditor's knowledge of the business, review of internal controls, discussion with the taxpayer, and application of the guidelines discussed in this chapter.

**SAMPLE SIZE FORMULA****1303.10**

In order to use the formula for sample size, the auditor must be able to determine values to enter in the formula. These values can be obtained from a number of different sources. The auditor can compute the necessary statistics from the differences found in a prior audit even if the test was a block sample. The errors found in a prior block sample may be used to estimate the needed values required by the formula.

It is also feasible to compute the values from the cursory examination of a small number of current transactions — e.g., one day's invoices, a page or two from the sales journal, etc. Once these evaluations have been made, the sample size can be computed by the following formula:

$$\text{Sample Size} = n = \left[ \frac{s \cdot z}{I} \right]^2$$

See Exhibit 3 for an example of how to use the sample size formula.

<sup>1</sup> With respect to bad debt losses only, auditors may use a sample size of less than 300 sampled items provided a minimum of 10% of the population is sampled. The sample must be determined by the auditor and not selected by the taxpayer.

**SAMPLE SIZE FORMULA**

**(CONT.) 1303.10**

If the sample size formula will be used to estimate the initial sample size, the auditor should provide the details of the statistical sample size formula to the taxpayer during the planning phase of the audit. The planned confidence and precision should be clearly stated on Form BOE-472.

After a sample has been pulled, the results can be used to prepare a sample size matrix to provide an overview of additional samples necessary to achieve a desired confidence and interval level. The auditor and taxpayer should discuss the feasibility of expanding the sample if the planned confidence or precision is not achieved. This discussion should be documented by comments on Form BOE-472.

**PILOT SAMPLES**

**1303.15**

A pilot sample may be necessary if no other information is available to compute the needed values. The main disadvantage of using a pilot sample is that usually it will require expansion, which means a second pass through the population. This added step can be time consuming and may meet with resistance from the taxpayer. As a result, it is not recommended when other means are available.

A more efficient approach is to estimate the sample size that would produce an acceptable audit result. Then, if during the examination of the sample detail it becomes apparent that the test is not productive (not producing errors), some consideration can be given to shortening the examination.

Estimated sample sizes can be developed using the auditor's analysis and evaluation of the audit situation and may involve the following factors:

- a. Auditor's knowledge of the industry
- b. Cursory exam of a handful of documents, or a short period of transactions, to estimate the expected error rate
- c. Review of the prior audit
- d. Discussion with the taxpayer

**SAMPLE SIZE TABLES**

**1303.20**

Statistical tables are available to estimate sample size based upon a number of factors including population, desired confidence level and expected rate of occurrence. These tables are found in statistical sampling textbooks and should be available in the reference area of each district office.

Most tables used by auditors are based upon infinite population sizes. It is possible to take the population size into account in determining the computed upper precision limit by making an adjustment called the finite population correction factor.

$$\text{FINITE POPULATION CORRECTION FACTOR} = \sqrt{\frac{(N-n)}{(N-1)}}$$

This has the effect of reducing the required sample size somewhat. It should not be used unless the sample size equals 5% or more of the population. The finite population correction factor may also be used in computing the standard error as shown in AM section 1305.10.

## FACTORS AFFECTING SAMPLE SIZE

1303.25

- a. Population** — statistical theory proves that in most types of populations where statistical sampling applies, the population size is only a minor consideration. This is because representativeness is ensured by the random selection process. Once an adequate sample size is obtained that includes a good cross-section of items, additional items are not needed regardless of population size. Comparing the mean and standard deviation of the population to the mean and standard deviation of the selected sample is a simple and reliable method of ensuring that a good cross section was obtained.
- b. Confidence level/interval** — an increase in the desired confidence level or decrease in the confidence interval will both result in an increase in the necessary sample size.

For example:

An increase of the confidence level from 80% to 90% would increase the required sample size by approximately 65%, or

A decrease in the confidence interval will increase the required sample size proportionally.

- c. Cost benefit ratio** — before beginning the test, consideration should be given to the cost and time needed to conduct a test using statistical sampling techniques. The use of the random method for selecting a sample may impose an additional time requirement in the audit. This can be alleviated, in part, if the taxpayer assists in pulling the items selected for examination. In addition, obtaining electronic data that includes all of the required fields will alleviate the necessity to pull all source documents.

A key consideration should be materiality. A test should not be conducted just for the sake of testing. Also in audits of smaller taxpayers, it is frequently faster to examine all transactions on an actual basis.

The use of prior audit percentages of error should be considered when the taxpayer meets the specific criteria of AM section 0405.33.

- d. Standard deviation of the population** — the standard deviation is used to indicate the level of variance in the population and is the key criteria in determining sample size in BOE's formula. Understanding the population distribution in a test is important in selecting a sample size and statistical method to be used. Accounting populations generally do not have a normal distribution (normal bell-shaped curve); rather, they normally have a skewed distribution. For example, a positively skewed distribution is comprised of a large number of invoices with low dollar values and a small number of invoices with high dollar values. See Exhibit 4, *Skewed Sales Population Distribution*.

When an auditor is unaware that a population is skewed, the low-dollar transactions are normally over sampled and the high-dollar transactions are under sampled. This will generally lead to an inaccurate and unrepresentative sample with a high interval. For these types of situations, stratification is an appropriate and time-saving remedy (AM section 1304.15).

- e. **Stratification** — an auditor may make a decision to test more heavily from among items of greater value or importance or to test multiple locations or categories of transactions independently. This requires a sound analysis of the population in order to subdivide the population properly. Stratification also increases the efficiency of sampling when extreme values are found in a population. For example, the auditor may determine that the objectives of the audit can be achieved more effectively by examining 100 percent of high dollar value items with multiple tests of lower dollar value items. In many situations, four or five strata will be required for greater accuracy and efficiency. Stratification is not limited to dollar amounts, but may involve stratification by product line, customer types, sales locations, or some other criterion. The auditor should consider the possibility of stratifying in tests of sales, consumables, or assets. The basic considerations for stratification apply equally in all of these areas. (See AM section 1304.15.)

**SAMPLE SELECTION TECHNIQUES****1304.00****GENERAL****1304.05**

The key element common to all tests to be evaluated statistically is that the items to be included in the test must be selected at random with an equal or known probability of being chosen. There are several acceptable methods for selecting a probability or random sample, with those most common to BOE auditing explained in the following sections.

Questions regarding sampling approaches should be discussed with the supervisor and CAS who will provide suggestions or assistance.

**UNRESTRICTED RANDOM SAMPLING****1304.10**

The unrestricted random sample is obtained by the use of a random number table or computer generated random numbers. This method is used to draw individual sample items from the entire population without segregating or separating any portion of the population. By this method, each and every item in the population has an equal chance of being selected as a sample unit. Segregating transactions into a test stratum and an actual basis stratum is a form of unrestricted nonstatistical sampling. “Unrestricted nonstatistical samples” are not evaluated, since they are not statistical samples by design.

**STRATIFIED RANDOM SAMPLING****1304.15**

An essential concept to understand is that accounting populations are not typically evenly distributed; rather, accounting populations normally have a skewed distribution. It is also important to understand that the purpose of an audit is to cover as much of the population dollars as possible in an efficient manner, not necessarily a certain percentage of the population invoices. Stratification is the methodology that allows this goal to be achieved and is the key to effectively and efficiently conducting an examination.

Stratified sampling is where all items in the population are divided into groups, ideally according to similar types of characteristics (homogeneous groups); for example, periods, product lines, customer types, sales locations, dollar ranges, etc. Each group or stratum is then sampled independently. After the results of the individual samples have been completed, they are generally combined into one overall population evaluation in terms of a confidence interval and confidence level. Stratification is used to reduce the effect of extreme values in measured variables (errors). By reducing the variability of the population within each stratum, stratification often reduces the sample size needed to achieve a desired level of precision and reliability. With stratified sampling, an auditor can cover 35–80% of the total population dollars while examining the same or fewer invoices than without stratification. Another benefit of stratifying the population is that the combined computed precision level for each stratum will normally reduce the overall confidence interval, resulting in a much better sample evaluation.

Unless the population is very homogeneous, stratified sampling is the preferred method to be used. In many situations, four or five strata will be required for greater accuracy and efficiency (e.g., \$0–\$400; \$401–\$5,000; \$5,001–\$25,000; >\$25,000). For example, accounts payable populations would normally need to be stratified into multiple strata due to the variances in the population. At the lower end, almost all accounts payable populations have similar characteristics; such as, approximately 30%–50% of the invoices are between \$200–\$400, which represents only 1%–2% of the population dollars. Therefore, without stratifying the accounts payable population into multiple strata, an auditor may not achieve a representative sample of all the population dollars.

**STRATIFIED RANDOM SAMPLING****(CONT.) 1304.15**

It should be noted that once the population has been divided into several strata, unrestricted random sampling procedures would be used on each of the resulting strata.

A test being done on a random selection basis may be stopped at any time if the samples are examined in the random order in which they were selected, since samples were randomly selected from the entire population.

**SYSTEMATIC SAMPLING****1304.20**

Systematic sampling involves selecting samples at a given interval after establishing a random starting place. The random start is essential to ensure each unit in the population has an equal chance to be included in the sample. This method of sampling can be the most efficient if the documents in the population are not numbered. For instance, invoices can be selected by physical count rather than by invoice number.

Systematic sampling is the selection of every "nth" item following a random start. In this type of sample, the size of the interval directly affects the size of the sample. As a result, the population and required sample size should be estimated in order to determine the interval necessary. (Population ÷ sample size = interval).

Although this method is indeed a simple method of selecting samples, the method must be used with caution since bias can be introduced into the sample. In general, if there is any periodic or cyclic arrangement of the items in the population, a bias can result. Further, it may not be apparent from the sample that the bias exists.

There will be some situations in which, for purely practical reasons, systematic sampling would seem to be the only viable approach. In these instances, if the auditor has reasonable assurance that no cyclical pattern exists in the filing arrangement, such an approach can be used.

Any test being done on a systematic basis should be continued since the entire population has not been sampled. An alternative when using systematic sampling would be to increase the skip interval. This would produce fewer samples, but the entire population will have been sampled. Caution should be exercised if errors are discovered with the increased skip interval. If this occurs, the test should be restored to the original plan and completed as originally started.

**CLUSTER SAMPLING****1304.25**

Cluster sampling is a special form of sampling using either the random or systematic approach. However, instead of selecting a single sample unit, a group of sample items is selected. For instance, a group of ten consecutive invoices may be selected as a group or cluster. The group or cluster then becomes one sample unit.

Cluster sampling may be the only feasible method of sampling when there is a very high cost to retrieving items randomly selected across the entire population. However, since each cluster represents one sample unit, some sampling efficiency may be lost. It is generally recommended that a minimum number of clusters be selected so that at least 300 items of interest are examined.

In cluster sampling, an auditor must first divide the population into non-overlapping groups (clusters). The sampling units within each group may exhibit considerable differences. The clusters, however, are chosen to be as nearly alike as possible. Next, a random sample of the clusters is performed. If all units in a cluster are sampled, a **single stage cluster sample** has been performed. However, an auditor may also perform a **two-stage cluster sample**—selecting a random sample of the clusters and then taking a random sample of the sampling units within the chosen clusters.

Batch sampling is a form of cluster sampling. In a situation where a taxpayer has filed documents in batches, it may be very difficult and time consuming to select individual invoices and trace them to their location. Selecting a batch as a sample unit will quite frequently reduce the time required to select the sample. This can be a very efficient form of cluster sampling.

**COMBINATION****1304.30**

It is possible to combine different selection techniques — for example, a random sampling of days may be selected with transactions on those days tested on a systematic basis.

There are a wide variety of ways to select a sample other than those already discussed, and it will be up to the auditor to determine the most effective means based upon his or her review. The sample may be selected by pages, lines on a page, months, days, vouchers, etc.

## METHODS OF SELECTING A SAMPLE

1304.35

The following paragraphs illustrate a number of aids available to assist the auditor in the use and selection of a statistical sample:

a. **Use of Computers**

The use of a computer to select the sample provides a number of advantages including significant time saving, elimination of incorrect number selection and automatic documentation in the form of printed reports. *Audit staff should be aware that it is not only preferable, but also Department policy, to conduct an audit using computerized records, if available.*

1. **BOE's Computer Program** — The use of the "Random Number Generator" program allows the auditor to select items with replacement to be tested from one or a number of sequences at random in a matter of minutes. The program will provide the items selected in numerical or random sequence. Duplicate sample units should be anticipated and sample sizes should be adjusted for the removal of duplicates. See Exhibit 5, *Random Number Generator*.
2. **Taxpayer's Computer** — Prior to conducting any tests, the auditor must make a thorough examination of the business operations, including a review of source documents and the taxpayer's accounting system. Form BOE-472, Audit Sampling Plan, is a tool to be used by both the auditor and taxpayer to gather information prior to conducting a sample, so that the most effective and efficient sampling plan can be developed (see AM section 1302.15). This form, and the discussion with the taxpayer regarding the information on this form, shall be completed whenever sampling is done, whether testing is conducted using a computerized system or paper records. After the audit sampling plan has been agreed upon, the taxpayer should provide the records agreed upon in the plan.

An important part of designing the sampling plan consists of defining and limiting the population, whenever possible, to only the areas of audit interest (i.e., relevant accounts). For example, in testing accounts payable, it is preferable to have the population defined by the specific general ledger accounts that the auditor and taxpayer have discussed and identified as areas of audit concern. It is also important to employ stratification techniques in order to increase the efficiency of the sample when extreme values are contained in a population, which is generally the case in accounting populations. The taxpayer's computer system or computerized data may be used to define and limit the population and employ stratification techniques.

When the taxpayer maintains machine-sensible records, the auditor and taxpayer, or a representative from the taxpayer's information systems department, should discuss the use of this system for testing purposes. The auditor is encouraged to contact their local CAS if any assistance is needed to determine the feasibility of using the taxpayer's system for testing purposes or for guidance in setting up tests (see AM section 1304.40). If a CAS will be contacted for assistance, it is preferable that he or she be contacted prior to this meeting with the taxpayer, so that the CAS can also attend.

In discussing the use of the taxpayer's computerized records for testing purposes, the taxpayer may express concern regarding the confidentiality or proprietary nature of the information included in the taxpayer's electronic records. Taxpayers should be assured that confidential taxpayer information is required by both BOE policy and law to be safeguarded.

Existing state and federal laws prohibit the disclosure, willful unauthorized inspection, or unwarranted disclosure or use of any information concerning any taxpayer by BOE, except as specifically authorized by statute (i.e., public information — business address).

Also, if the taxpayer expresses concern with allowing data tapes to leave their premises, audit staff should work with the taxpayer to make arrangements to retrieve the data necessary for the test while at the taxpayer's site. The only data that will leave the taxpayer's site is the data necessary to the auditing process.

When records are maintained in an electronic or computerized system, but the taxpayer indicates that they will not allow access to these records, the auditor should follow the procedures outlined in AM section 0403.10 of this Audit Manual. The District Administrator should also contact the Chief of Field Operations for guidance on obtaining access to computerized records, as required by the Revenue and Taxation Code sections 7053, Records, and 7054, *Examination of Records*; and Regulation 1698, *Records*.

b. **Tables**

There are a number of tables available to assist the auditor in selecting the sample. They contain random numbers, random letters or random months. These tables can be used in combination with each other if, for example, the taxpayer uses both alpha and numeric combinations to identify documents.

It is important to remember that even with the use of these tables, the sample must have a random start.

The major disadvantage in using these tables is the time necessary to identify the items to be selected and then to reorganize the items in a usable format, such as numerical. See Exhibit 6, *Tables of Random Months, Weeks, Days Alphabet, Numbers*.

**COMPUTER AUDIT SPECIALIST**

**1304.40**

In response to the growing need to audit through sophisticated taxpayer computer systems, the Sales and Use Tax Department initiated a Computer Audit Program. The goal of the program is to provide technical support to auditors who conduct reviews of complex accounting systems, especially those consisting of machine-sensible records. The CAS can write specialized software programs to extract required accounting details, if necessary, to improve audit efficiency (reduce audit hours) and the accuracy of testing procedures. CAS are available to assist auditors from any district office. The CAS are also available to assist audit supervisors or District Principal Auditors if additional guidance is necessary. Refer to the BOE Directory for the district office location and phone numbers of the CAS.

The current process is as follows:

1. *Currently, it is mandatory that the CAS be contacted when the prior audit expended 400 or more hours or the CAS was involved in the prior audit. (See item 2 below for exception requests.)*

It is critical that the CAS be involved in the audit at the earliest possible stage. For this reason, at the time each mandatory CAS-contact audit is assigned to an auditor, the lead auditor must contact his/her area's CAS to arrange a meeting to review the prior audit and determine if the services of the CAS would be beneficial. This meeting should be held **before** the initial audit discussion with the taxpayer is scheduled. While initial contact with the CAS is mandatory, it may be determined after meeting with the CAS that his/her involvement is not necessary.

2. *CAS must be contacted if stratified sampling is used or whenever data is downloaded from the taxpayer's records.*

Stratified sampling involves critical decisions regarding proper stratification levels and also requires that a combined evaluation of all strata be computed. The downloading of data from the taxpayer's records requires analysis of the data and verification of the completeness of the data. These require the assistance of a CAS and the specialized resources they have at their disposal.

**Exception requests:** Requests for exceptions to these requirements for CAS contact must be submitted to and approved by the Supervising Computer Audit Specialist (MIC 44).

3. Audit staff are encouraged to contact the CAS (regardless of the size of the audit) whenever assistance is needed due to the volume of computerized records, or whenever the auditor needs assistance in setting up a test or has questions regarding statistical sampling procedures. Depending on district policy, the auditor's supervisor should be notified prior to contacting the CAS. Ideally, the CAS should be contacted prior to the first meeting with the taxpayer or as soon as a problem arises.

Audit supervisors and District Principal Auditors can also contact the CAS for assistance or questions regarding statistical sampling or computerized auditing techniques. If a taxpayer requests consultation with a CAS, this request should be forwarded through the audit supervisor.

4. Typically, the CAS will first verify whether the electronic data provided by the taxpayer contains all the necessary information. Control reports are then developed which list account balances by month and year. These totals allow the auditor to verify that the electronic data processing (EDP) records are complete.
5. After verifying the accuracy and completeness of the control reports, an interval and frequency report are produced. Both the auditor and taxpayer receive copies of these reports. A mutual agreement between the auditor and taxpayer is reached on stratification points and sample sizes.
6. The CAS provides the auditor with the sample selections, in an Excel spreadsheet format or Access database. Upon request, the CAS can also provide a disk or documentation that supports the total population figure(s). This information should be provided to the taxpayer.
7. The auditor determines whether the selected sales/purchases are taxable and whether any errors have been made. Errors are noted, and statistical sample evaluations are compiled by the auditor.

**EVALUATION OF SAMPLE RESULTS**

**1305.00**

**GENERAL**

**1305.05**

The use of statistical sampling techniques enables the auditor to make generalizations and inferences about the total population by examining only a portion of that population.

After the auditor has located the selected items, he or she must examine each one and determine the cause and the audit significance of each exception. Doing so is much easier if the objective, the characteristic being tested, and the means of measuring it have been rigorously defined. The auditor must not allow the significance of one characteristic cause bias against another. If an unanticipated characteristic should be found, it may be subject to adequate evaluation by means of the sampling technique in process, or a new sample and a different technique may be required. For example, if the only errors in a sample relate to one customer or vendor it might be preferable to examine those transactions on an actual basis..

**STATISTICAL SAMPLING SYMBOLS, FORMULAS AND DEFINITIONS**

**1305.10**

Symbol	Formulas	Defination
N		Number of items in the population, field or universe.
n		Sample size; number of items in the sample.
x		Individual values; units in the sample.
$\mu$		True mean; mean of population, field, or universe.
$\Sigma$		Total of; sum.
$\bar{x}$	$\frac{\Sigma x}{n}$	Mean of sample.
$X_d$		Differences, errors.
$\bar{x}_d$	$\frac{\Sigma d}{n}$	Mean of the differences.
$\sigma$	$\sqrt{\frac{\Sigma(x-\bar{x})^2}{(n-1)}}$	Standard Deviation of the population, field, or universe.
S	$\sqrt{\frac{(n)(\Sigma d^2) - (\Sigma d)^2}{n(n-1)}}$	Standard Deviation of the Differences
$S_{\bar{x}}$	$\frac{S}{\sqrt{n}}$	Standard Error.
$S_{\bar{x}}$	$\frac{S}{\sqrt{n}} \times \sqrt{\frac{(N-n)}{(N-1)}}$	Standard Error using the finite population correction factor (used only if the sample exceeds 5% of the population.)
Z Value		Confidence coefficient; value for area under the normal curve.
C.I.	$S_{\bar{x}} \times z$	Confidence interval; precision.
C.L.		Confidence level; a confidence coefficient of 80% or more should be used. (Z value for 80% is 1.28). If the sample size is less than thirty, the T value for 80% at the specified sample size should be used. (See Exhibit 4.)

**ANALYSIS OF DATA**

See Exhibit 7 for a sample combined evaluation worksheet schedule to be submitted with the completed audit. Although it will not be necessary for the auditor to show mathematical computations, each formula should include the basic figures used in the computation. This will ensure that anyone reviewing the audit can readily see how the auditor arrived at his/her conclusions.

Since the auditor is sampling for variables, the confidence levels used for analysis purposes will generally be less than the confidence levels used in attribute sampling. An 80% confidence level is used in the evaluation of statistical samples by audit staff. Increasing or decreasing the confidence level will affect the confidence interval. Some reasons for confidence interval variation are: variability within the sample units; differences in sample size; small vs. large errors or credit errors. The fact the confidence interval is wide (greater than 75%) will require the auditor to analyze the sample to determine why this has occurred. This analysis will generally show that the auditor needs to expand the sample size, stratify the population, or take other measures to ensure the sample results meet BOE standards. The following factors can be used to assist in the evaluation of the sample and to determine what measures to undertake to remedy the situation.

- (a) Mean of sample vs. mean of population
- (b) Range of values in sample vs. range of values in population
- (c) Adequacy of sample size
- (d) Auditor's analysis and evaluation of all the information available, based upon the guidelines presented in this chapter.

The confidence interval is a measure of the variability of the units included in the sample. It is not a measure of whether a sample is acceptable or unacceptable. However, a small interval is preferred because it indicates that the population is more homogeneous, contains less variability, and enhances the precision of the sample.

When a large interval (greater than 75%) is disclosed, the auditor must make a decision regarding the acceptability of the sample based upon the best information available. Some of the options to be considered in making this decision include:

1. Examine specific transactions on an actual basis.
2. Increase the sample size.
3. Drop the test and accept reported amounts in that area of the audit.
4. Stratify (by dollar value, product line or type of error). This option should only be attempted if electronic data was available and with the assistance of a CAS.
5. Further analyze the sample and comment in the audit as to why the results are being accepted even though they deviate from acceptable ranges. Accept the test results only if it is agreed to by the taxpayer (explanation for acceptance and taxpayer's agreement should be contained in the working papers).

When a test results in zero errors the auditor must review the sample units and if they appear representative of the population, a no change report is appropriate.

A CAS may develop some other tests to determine the acceptability of a particular audit sample.

A sample may result in a refund or credit if the dollar value of tax overpayment errors exceeds the dollar value of the tax underpayment errors in the sample. The auditor must review the sample results, and if they appear representative of the population and meet BOE standards (as noted above and in AM section 1308.05), compute the negative estimated ratio (negative percentage of error) and project it against the population being tested to derive the projected measure of tax overpayments in the population.

**EXPANDING A SAMPLE****1305.20**

After analyzing the original sample results, sample evaluation, and any additional factors, the auditor must decide whether to accept the sample or to expand it. If the decision is made to expand the sample, the auditor should discuss the need for selection of additional sample items with the taxpayer. Using a sample size matrix, the auditor and taxpayer should come to an agreement regarding the number of additional sample items to be selected.

Care must be taken in deciding if expansion is really necessary because this requires a second pass through the population and will increase the cost and time required, for both staff and the taxpayer, to conduct the audit. As a result, every attempt should be made to select an adequate sample size before conducting the test, rather than relying on the ability to expand the sample at a later date.

If the taxpayer requests that a sample be expanded and the auditor believes that expansion is not necessary, the auditor's supervisor should be contacted. The supervisor will analyze the situation to determine if expansion is warranted. The supervisor may want to consult with the CAS for assistance in making this decision.

If the auditor feels the test should be expanded or the sample is to be expanded at the request of the taxpayer, the expanded sample will not replace the original but will rather extend it. The audit findings will then be based upon the combined results. If the same method is used to select the original and the expanded samples, they can be combined even if they are conducted by different auditors.

When expanding a sample at the taxpayer's request, the auditor should elicit as much assistance as possible from the taxpayer in order to minimize the additional time needed to complete the audit.

It is important to advise taxpayers, prior to the start of work on a second sample, that they cannot later accept the initial sample and disregard the expanded sample if the combined results prove to be unfavorable.

The auditor must document through audit comments why the sample is being expanded and how the additional sample size was determined.

# AUDIT MANUAL

**ESTIMATION — PROJECTION TECHNIQUES****1306.00****GENERAL****1306.05**

There are three basic methods used by BOE to project sample results: mean-per-unit estimation (simple projection), difference estimation, and ratio estimation (percentage of error). Until the results of the sample are known, a determination of which method of projection provides the best estimate cannot be made. An example of these estimation techniques is shown in Exhibit 8.

All errors in the test, both underpayments and overpayments, should be included in the evaluation and, if the results meet BOE standards, should be projected to the population tested.

**MEAN-PER-UNIT ESTIMATION****1306.10**

Estimates are made from the audited values in the sample. The average audited value of the sample items multiplied by the number of units in the population can be used to estimate the total value of the population. This type of estimation is generally not used because it almost always results in a larger standard deviation, which requires a larger sample. At times, it may be a useful statistical method in situations where no recorded book value is available for individual population items or the taxpayer has been using estimates.

**DIFFERENCE ESTIMATION****1306.15**

Estimates of the total error in the population are made from the sample differences by multiplying the average audited difference (sum of the differences ÷ sample size) by the number of units in the population. This method cannot be used unless there is both a recorded value and an audited value for each item in the sample.

This method almost always results in a smaller sample size than mean-per-unit estimation because the standard deviation of the difference is smaller than the standard deviation of the audited values.

Difference estimation should be used in situations where the errors discovered in the sample tend to be constant and have no relationship in size to the recorded book value. An example of this type of error would be handling charges that are a flat amount regardless of the size of the transaction.

**RATIO ESTIMATION (PERCENTAGE OF ERROR)****1306.20**

The ratio is formed by dividing a stratum's net sample difference by the stratum's recorded sample value. This ratio is then applied to the corresponding stratum population total to estimate the stratum error in the population being tested. A separate ratio is calculated for each stratum and applied accordingly.

This method also requires the use of smaller sample sizes than the mean-per-unit method. Like difference estimation, recorded values are also required for the population in order to use ratio estimation. This is the most efficient method when the differences have a consistent relationship to recorded book values.

This is the estimating technique used most frequently in audits conducted by BOE. It is recommended that this method be used to project sample results unless there is convincing evidence to the contrary.

# AUDIT MANUAL

**WORKING PAPER TECHNIQUES****1307.00****GENERAL****1307.05**

Statistical sampling techniques must be adequately documented in the working papers, not only to provide a means for review but, if necessary, to allow for replication and/or expansion of the sample. It is also necessary to support the validity of the technique used in the test.

**MINIMUM DOCUMENTATION****1307.10**

Minimum documentation should include:

- a. Audit Sampling Plan Form BOE-472. Form BOE-472 is required for all large audits (cell designation "D") or any time sampling is performed.
- b. The original population total, its source and a reconciliation and explanation of items removed or segregated from the original population. Additionally, a reconciliation of strata totals to the population total, if several strata are involved.
- c. The method of selecting sample items — for example, if a random number table is used, the documentation should include the name and source of the table, starting point, route through the table and the stopping point. If a random number generator was used, the random seed should be documented in the working papers. This information is essential in the event the sample is to be expanded.
- d. A listing of the sample items and any differences noted. Whatever methods are used, proper referencing is essential to provide the proper audit trail.

**NOTE:** Generally, unless a sample is relatively small, a separate schedule for differences or questioned items should be made for ease in the summary or analysis of the sample results. At a minimum, the schedule of questioned items should include the following, as applicable for the type of test:

1. Date
  2. Invoice number
  3. Vendor/Customer name
  4. Vendor/Customer address
  5. Shipped from/to
  6. Complete description of the item(s) in question
  7. Amount in question
  8. If applicable, general ledger/cost center/department that AP purchase(s) charged to
- e. Combined evaluation of sample worksheets — A combined evaluation template, as illustrated in Exhibit 7, is included as part of the electronic audit package worksheets. In addition to numeric data, the evaluation may also include additional information pertinent to the sample or population that the auditor feels is necessary to properly evaluate the test.
  - f. The audit conclusion reached — this will be used as the basis for projecting the results of the sample to the total population.

# AUDIT MANUAL

**STATISTICAL SAMPLING STANDARDS****1308.00****MINIMUM ERRORS AND EVALUATION STANDARDS****1308.05**

The projection of a sample result to the population total is based upon the theory that the sample is representative of the population from which it was drawn. The goal of a sample is not to find some minimum number of errors. The emphasis on a minimum number of errors can lead to inaccurate sampling. The goal is to draw a sample that provides a representative and reliable subset of the population.

When a sample produces only one or two errors, the auditor must evaluate whether these errors were representative, or whether it is possible that they indicate problems in certain areas that could be examined separately. Such a low error occurrence rate could then leave doubt as to whether the sample is representative and should be projected. Therefore, any population sampled, whether by an unrestricted random sample or a stratified sample, must have a minimum of three errors. For an unrestricted random sample, a minimum of three errors, exclusive of any actual basis examination, is required before the errors in the sample may be projected. For a stratified random sample, a minimum of three errors per stratum is required before the errors in a sample may be projected.

Samples or strata that do not have three errors should be handled using the following guidelines

1. If feasible, expand the sample or stratum (see AM section 1305.20).
2. Examine problem areas (specific customers, vendors, accounts, etc.) on an actual basis.

The taxpayer may have electronic records that can be utilized to allow a more in-depth analysis of problem areas. The auditor and the CAS can work with the taxpayer's electronic records to audit the test or stratum on an actual basis assessing tax on all known errors in that test or stratum. These known errors would include:

- a. All transactions to the customers/vendors that are in error in the test/stratum.
  - b. All transactions to customers/vendors that are errors in other tests, strata or actual basis examinations. Only transactions that fall within the test/strata in question should be assessed on an actual basis for the questioned test/strata. For example, assume there are only two errors in the stratum of transactions from \$5,000 - \$10,000. All other strata have a sufficient number of errors to project and there are errors in the actual basis examination. Using this procedure, look for transactions in the \$5,000 - \$10,000 range from customer/vendors identified as errors in the other strata and actual basis examination. Assuming these transactions are in error too, assess them on an actual basis for this stratum only.
  - c. All transactions to customers/vendors identified on audit leads (BOE-1164, BOE 1032).
  - d. All other errors known to the auditor.
3. Accept the taxpayer's reported/claimed amounts for that sample/stratum.

Documentation in the audit must include comments that explain why reported/claimed amounts are being accepted, as well as why the sample results are representative and the known errors were not projected or assessed on an actual basis.

Auditors should inform taxpayers before testing starts that those samples/strata that do not meet BOE standards for minimum errors will be handled using the above guidelines. Auditors should include comments about minimum errors on the Form BOE-472, *Audit Sampling Plan*.

MINIMUM ERRORS AND EVALUATION STANDARDS

(CONT.) 1308.05

When an examination results in zero errors, a no change report would normally result for that portion of the audit. This would not necessarily be the case, however, if the results do not appear to be representative. A large number of BOE-1164's on hand would indicate that the results were not representative. In this case, the BOE-1164's would have to be analyzed to establish whether expansion of the sample would be warranted.

See AM section 1305.15, *Analysis of Data*, for guidelines when the sample does not evaluate to BOE standards.

**GLOSSARY OF STATISTICAL TERMS****1309.00****Attribute**

A qualitative characteristic which a unit of a population either possesses or does not possess.

**Attribute Sampling**

Used to estimate the proportion of items in a population containing a characteristic or attribute of interest. Attribute sampling is concerned with the frequency of an attribute. This is a qualitative measurement and is useful when the objective of the test is a yes or no answer.

**Census**

Examination of 100 percent of the population.

**Cluster Sample**

Sample method of systematically or randomly selecting equal groups of items at random.

**Confidence Interval**

Describes the limits of accuracy of an inference. This precision interval is a statistical measure of the inability to predict the true population error because the test is based on a sample, rather than a census.

**Confidence Level**

An inference from a sample that tells us the proportion of times a statement about the population is likely to be true in the long run.

**Confidence Limits**

The confidence interval expressed as a range between the lower and upper bound on the confidence interval.

**Data**

Factual information used as a basis for analysis.

**Difference Estimation**

Used to measure the estimated total error amount in a population when there is both a recorded value and an audited value for each item in the population and sample.

**Finite Correction Factor**

Adjustment to take the population size into account in determining the computed upper precision limit. It is used when sample size equals 5% or more of the population.

**Mean**

Arithmetic average of the sample.

**Mean-Per-Unit Estimation**

Average audited value of the sample items multiplied by the number of items in the population.

**Non Sampling Error**

Errors in sampling due to bias, fatigue, lack of experience, and other auditor errors.

**Parameters**

A set of physical properties that describes a population such as the mean, number of transactions in the population, standard deviation, etc. In this chapter, these parameters are symbolized as follows:

$N$  = Number of items in population, field or universe

$n$  = Number of items in sample

$\bar{X}_d$  = Arithmetic mean of the sample

$s$  = Standard deviation of the population

$S$  = Standard deviation of the differences

$S_{\bar{x}}$  = Standard error

**Population**

Any group of units with some characteristics in common. The total units from which the sample is drawn.

**Precision**

The range within which the universe average will lie, with the degree of certainty specified in the confidence level.

**Random**

An order of selection governed by chance.

**Range**

The highest and lowest values in the population.

**Ratio Estimation**

Projects the point estimate of the population on the basis of the net ratio of error in the sample times the recorded total dollar amount of the population.

**Sample**

The observations drawn from the entire group being sampled, any number of units drawn from a population. A JUDGMENT SAMPLE is a sample where the criteria for including a unit in the sample is decided in advance. A RANDOM SAMPLE is a sample where every unit still remaining in the population has an equal chance of selection on each draw.

**Sampling Error**

Error due to chance that the sample is not a miniature replica of the population.

**Sampling Frame**

The population from which the sample units will be selected, limited to the area of audit interest.

**Standard Deviation**

A measurement of the distance of all values from the arithmetic mean. The sample standard deviation is used as an estimate of the population standard deviation.

**Standard Error**

The standard deviation of all possible sample means of a given size.

**Statistic**

Descriptive terms used to define or describe the sample.

**Statistical Sample**

One where the selection of the items to be included is independent of the sample, and which provides a means of establishing the sample size objectively and a means of objectively appraising the sample results.

**Stratum**

A statistical sub-population. Dividing a population into sub-populations. (Plural: Strata).

**Stratification**

Physical segregation of the population into more homogeneous groups with the expressed purpose of improving sample efficiency and/or sample reliability.

**Systematic**

Random systematic sampling is a sampling technique for selecting each sample item at a set interval (every "nth" item), with a randomly selected start.

**T Value**

Used instead of Z value in analyzing samples of fewer than 30 (thirty).

**Unit**

A member of a population. Each sale is a unit of the total sales population.

**Universe**

Population, field. The total units from which the sample is drawn.

**Variable**

Quantity or value, a property of a unit of a population which is measurable. |

**Variable Sampling**

Method used to estimate the dollar value of a given population — provides a quantitative measurement. |

**Z Value**

Confidence coefficient —used to determine the precision interval, represents the number of standard errors along the horizontal axis about the mean under the normal distribution.

**AUDIT MANUAL**  
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**AUDIT SAMPLING PLAN**

**EXHIBIT 1**

[BOE-472](#) Audit Sampling Plan is available on BOE's public web site.

|

**STATISTICAL SAMPLING AUDIT PROGRAM****EXHIBIT 2**

When you decide to use variables sampling techniques for validation testing, you should carry out the following steps in designing, implementing, evaluating, and documenting your test:

1. Establish the Objective of the Test (Section 1302.10)
2. Define and Limit the Population (Section 1302.15)
3. Define the Characteristic Being Measured (Section 1302.25)
4. Select the Sampling Plan (Section 1304.00)
  - a. Unrestricted Random Sampling
  - b. Stratified Random Sampling
  - c. Systematic Sampling
  - d. Cluster Sampling
5. Conduct a Pilot Study (Section 1303.15)
6. Estimate the Sample Size (Section 1303.00)
7. Determine Method for Selecting Sample (1304.35)
8. Evaluate the Sample Results (Section 1305.00)
9. Project the Sample Results (Section 1306.00)

The three most widely used techniques for projecting variables sampling results are:

- a. Mean-per-Unit Estimation
  - b. Difference Estimation
  - c. Ratio Estimation
10. Document (Section 1307.00)
    - a. Form BOE-472, Audit Sampling Plan.
    - b. The population total, its source and a reconciliation, if several strata are involved.
    - c. The method of selecting sample items.
    - d. A listing of the sample items and any differences noted.
    - e. Evaluation of sample results.
    - f. The audit conclusion reached.

**Important Notes:**

1. Steps 1-5, 8, and 10 are used in non-statistical ("block") samples conducted by Board auditors. Step 6 is also used, in part. However, without Steps 7 and 9, one cannot scientifically measure (evaluate) the sample size or reliability.
2. Taxpayers are encouraged to participate in determining the sampling method, setting up the sampling plan and compiling the sample items, as this will provide a better understanding of the testing procedures and sampling process. Taxpayers are also requested, at times, to select the random starting point of a test.

SAMPLE SIZE MATRIX

EXHIBIT 3

C.I	95%	90%	85%	80%	75%	60%
C.L						
35%	547	386	295	233	188	154
40%	419	295	226	179	144	118
45%	331	233	179	141	114	93
50%	268	189	145	114	92	76
55%	222	156	120	95	76	62
60%	186	131	101	79	64	52
65%	159	112	86	68	55	45
70%	137	96	74	58	47	39
75%	119	84	64	51	41	34
80%	105	74	57	45	36	29

Given:

$$\sigma = 285.05 \text{ (Standard Deviation)}$$

$$\bar{X}_d = 68.23 \text{ (Mean of Differences)}$$

$$n = \left( \frac{S_{\bar{x}} \times z}{I} \right)^2$$

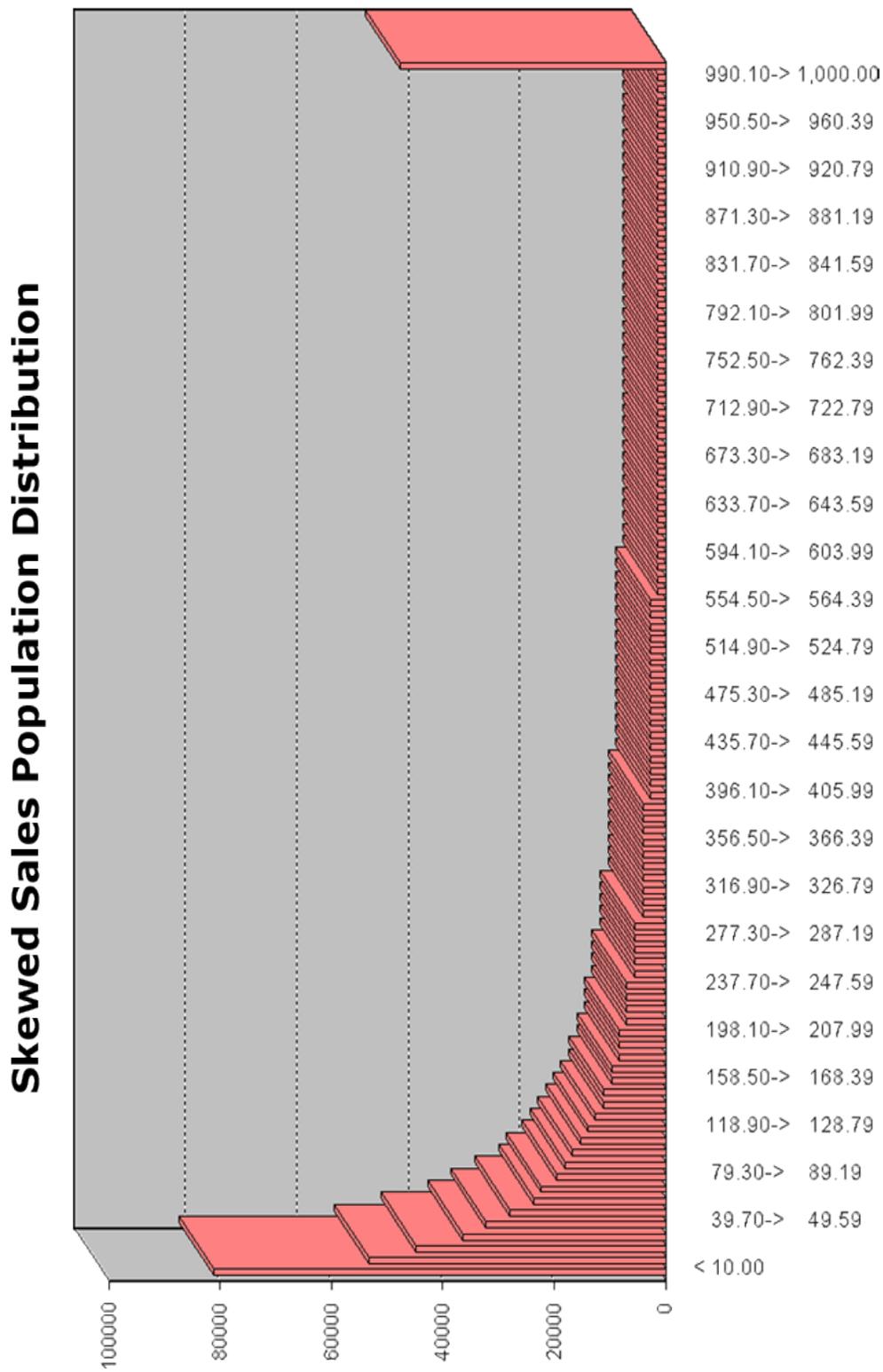
For Example:

Sample size for 80% C.L. and 40% C.I.

z at 80% equals 1.28 (refer to z table )

I at 40% equals 27.29 (  $\bar{X}_d \times 40\%$  )

$$n = ((285.05 \times 1.28) / 27.29)^2 = 179$$



STATISTICAL SAMPLING

RANDOM NUMBER GENERATOR

EXHIBIT 5

PAGE 1 OF 2

STATISTICAL SAMPLING  
INFORMATION SHEET

SCHEDULE
21-000000
S R
06/26/00

	A	B	C	D	E	F	G	H	I
REF	SAMPLE CREATION AREA	REQUESTED				ACTUAL		PICK ORDER	RANDOM NUMBERS
1	TYPE OF SAMPLE	Number		NUMBER OF ITEMS IN POPULATION		2,406		28	1619
2	NUMBER OF SERIES	1		ACTUAL SAMPLE SIZE INCLUDING DUPLICATES		50		42	1620
3	RANDOM SEED	12681		ACTUAL SAMPLE SIZE EXCLUDING DUPLICATES		48		49	1697
4	DESIRED SAMPLE SIZE	50		DUPLICATES DELETED IN SAMPLE		2		47	1704

SERIES	SERIES LOW NUMBER	SERIES HIGH NUMBER
1	1,500	3,905

- 36 1764
- 8 1858
- 9 1970
- 16 2011
- 18 2083
- 33 2086
- 1 2137
- 37 2177
- 48 2193
- 23 2221
- 14 2288
- 20 2318
- 21 2379
- 24 2446
- 44 2481
- 4 2506
- 31 2511
- 40 2530
- 39 2532
- 43 2628
- 29 2720
- 19 2866
- 45 2963
- 13 3025
- 46 3043

Copy to Taxpayer  
Date: \_\_\_\_\_

STATISTICAL SAMPLING  
INFORMATION SHEET

SCHEDULE
21-000000
S R
06/26/00

	A	B	C	D	E	F	G	H	I
REF	SAMPLE CREATION AREA	REQUESTED				ACTUAL		PICK ORDER	RANDOM NUMBERS

17	3086
10	3118
34	3162
26	3221
7	3312
2	3419
32	3421
25	3468
15	3538
30	3595
12	3673
38	3719
11	3761
5	3767
41	3800
3	3821
6	3854
50	3857
22	3891
27	
35	

Copy to Taxpayer Date: _____
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**TABLES OF RANDOM MONTHS, WEEKS,  
DAYS, ALPHABET, NUMBERS**

**Random Months**

JAN	APR	OCT	DEC	APR		MAY	APR	JUL	JUN	MAR		MAR	JUL	FEB	JAN	NOV
NOV	AUG	DEC	DEC	DEC		SEP	AUG	SEP	JAN	AUG		JAN	JAN	NOV	MAR	NOV
OCT	JUL	MAR	JUL	DEC		JAN	MAR	MAY	OCT	AUG		DEC	JAN	MAY	MAY	AUG
JAN	OCT	JUN	JUL	SEP		SEP	JUL	JUN	JUL	APR		NOV	NOV	AUG	FEB	APR
DEC	AUG	AUG	MAY	MAY		AUG	JUL	AUG	JAN	FEB		JAN	SEP	APR	OCT	JUL
OCT	JAN	FEB	MAR	NOV		SEP	JAN	APR	JAN	DEC		MAY	MAR	NOV	MAR	FEB
MAR	OCT	SEP	APR	OCT		DEC	FEB	APR	NOV	MAR		FEB	APR	APR	AUG	APR
MAR	APR	JAN	NOV	FEB		FEB	FEB	AUG	MAY	JUN		JUN	JUN	SEP	APR	FEB
NOV	FEB	SEP	JUN	AUG		AUG	MAY	APR	APR	JUL		JUN	AUG	OCT	FEB	MAR
NOV	FEB	JAN	JUN	DEC		FEB	DEC	FEB	DEC	AUG		AUG	MAR	MAR	JAN	JAN
OCT	NOV	NOV	FEB	JUN		JUL	JUN	MAY	MAR	MAY		MAY	MAR	FEB	APR	OCT
SEP	JUL	NOV	SEP	JUL		NOV	MAY	MAY	JAN	NOV		NOV	MAY	AUG	NOV	SEP
MAY	AUG	MAR	DEC	JUL		FEB	SEP	MAR	APR	AUG		SEP	NOV	SEP	JAN	JUL
FEB	OCT	JUN	FEB	MAR		APR	DEC	FEB	JUL	APR		OCT	AUG	NOV	JUN	JUN
SEP	FEB	OCT	FEB	JAN		DEC	SEP	JUL	APR	OCT		FEB	MAY	MAR	APR	JAN
APR	JUL	MAR	MAY	AUG		MAR	NOV	DEC	MAR	JUN		MAR	APR	DEC	OCT	JAN
NOV	NOV	NOV	SEP	DEC		NOV	MAY	MAR	JUN	OCT		FEB	FEB	AUG	AUG	SEP
APR	JAN	DEC	OCT	APR		APR	MAY	OCT	JUN	JUL		MAR	AUG	OCT	MAR	JUL
FEB	APR	NOV	MAR	DEC		AUG	DEC	FEB	JUN	AUG		APR	OCT	AUG	SEP	OCT
FEB	AUG	MAR	JUN	OCT		JUN	JAN	JUN	JUL	AUG		OCT	MAR	NOV	FEB	FEB
MAY	AUG	NOV	SEP	FEB		SEP	OCT	APR	FEB	JUL		JUN	MAR	NOV	SEP	OCT
NOV	MAR	MAR	FEB	FEB		JUN	JUN	APR	DEC	FEB		MAR	DEC	FEB	JAN	NOV
AUG	DEC	MAR	AUG	JUL		FEB	MAR	FEB	FEB	APR		JAN	JUN	JUL	DEC	OCT
AUG	JUN	NOV	DEC	JUL		NOV	NOV	MAR	JAN	OCT		FEB	AUG	MAY	SEP	MAR
FEB	APR	JAN	JUN	JUL		DEC	JUN	DEC	MAR	DEC		FEB	NOV	DEC	APR	AUG
APR	JAN	DEC	MAR	APR		APR	FEB	JAN	MAY	JAN		JUN	FEB	JAN	SEP	JUL
JUL	MAR	OCT	MAY	NOV		JAN	JAN	AUG	JAN	APR		JUL	JAN	JAN	JAN	JAN
JUN	DEC	MAR	JAN	JAN		JUN	APR	FEB	MAR	APR		MAY	SEP	APR	NOV	MAR
NOV	JUN	NOV	JUN	FEB		APR	OCT	JAN	FEB	DEC		MAR	DEC	JAN	JAN	MAR
APR	JAN	AUG	DEC	DEC		MAR	MAR	OCT	MAR	MAR		APR	SEP	FEB	JUL	SEP

**Random Weeks**

03	49	15	43	26	45
25	07	32	01	29	48
12	38	24	11	36	
47	51	37	02	40	
52	35	13	10	09	
41	19	28	42	44	
06	30	27	05	23	
31	14	20	04	22	
50	39	17	16	08	
33	46	34	18	21	

**Random Days**

1	4	1	6	4	7	4	5	7	4	6	4	3	4	4	2	4	5	4	2
5	7	1	7	3	5	4	1	3	7	1	2	2	3	5	1	1	2	7	3
3	2	3	1	3	7	6	2	1	7	4	3	3	3	5	3	7	7	4	3
5	1	3	6	4	1	4	2	5	4	1	2	6	6	4	2	6	4	1	4
6	2	3	5	3	1	6	3	1	6	3	6	2	5	7	4	4	2	5	6
7	6	7	6	1	1	2	4	3	6	3	7	2	4	4	7	3	4	4	7

- Sunday 1
- Monday 2
- Tuesday 3
- Wednesday 4
- Thursday 5
- Friday 6
- Saturday 7

Random Letters of the Alphabet

EIKDL	JULAL	FJPRV	FWXRW	CDFDE	INHPZ	CQHAT	RRSFS	HZDOQ	XCSKV	KTOYD	NEGJU	GPHSA	GKYFR
JRSTV	VBNWG	WCCPX	SBEZZ	PDIDJ	GNGNR	EMDPF	FLTED	XBOIR	RYVQP	UHNNO	TPTET	SXWWF	OGZAY
SBFHR	AWEBD	VXTBH	YHRWL	FKMKQ	JAKKA	DOARL	EGNGV	TNOZY	RKMSV	PIOSC	VSNBJ	RNPTR	RTSWH
FXYPD	OUALW	TNGLG	HXMSI	RFSTJ	CDKVG	SOKQH	MJYFS	FUOLL	ENMXC	KZPGJ	WOKKR	UMFJC	OXSQH
VEURE	ILAHY	YXJGM	RUDSK	WMVWB	PPWYV	QYHXX	NXUAM	UXMLA	GXFEE	GBAFI	ZQIUK	NZOUY	NQGUY
UEHIP	AKFMC	QCFBY	WSTKS	EUKIF	PJQUW	GPJIL	NLHBY	KRJYV	SHRZK	DVQIP	IFTHP	HTKEE	MSCXN
BPCOH	AGSVG	YTYXT	GCCPZ	UEMIW	EFBOE	KLZGU	QYKBW	GKHIF	ZIRWU	QPSPH	ZLVGT	GTFYX	DAPGJ
YGZBC	YDLFI	HBDFF	PXKCA	CNNMZ	EYONS	HRIME	IIZST	NAMCF	CFWUN	BRWGR	JWSLZ	YDLZA	RHCPX
XJGND	TRSDN	ENQJK	QKDEG	LUFQH	GKSSC	GUDLW	HJEZM	EDJQU	UNVSY	OTBEA	AGLMD	ZGQBH	QNQIO
CIXJJ	PZBSI	WKONM	LBGTM	ZHYUF	AZLLW	MIPAY	BBFDI	DWOSF	GXGHM	QYIGI	VWBRP	AGOBV	FLBGX
ZDOZY	HUXVJ	MIXXO	BEVTW	JFWXP	NAZHJ	MBLYW	SSYNM	KWUCR	BZAFN	VQPMM	YVDOP	HASDI	PJOIQ
AZIPL	HKBUK	ZPELK	LBZPZ	NSKIR	ZURKF	HCKIP	QBWIX	SLJHA	ZOWIK	MYREJ	QSDVR	MLGZK	YTUXX
CEVQG	MOKEM	BGZJW	SPTWQ	ANUJQ	OBMYN	ZPWLN	KYXLG	XFCOA	XTVXN	UCGTY	THTOW	ASEVA	GMCPT
PNYRI	WAKPG	GFKXX	JDQFJ	PCNFV	XRXOG	WPUIE	ONHTJ	TMPKE	CNJMR	DELBL	HZCYL	WUKBO	DMDFT
DQOEH	GPNAB	UXWYA	POLQK	TJNCA	KVSPM	NLCWR	DGPVT	HBQBI	NOUBN	WSDRR	UHVMMH	KROPD	UBTSO
TFANZ	VPZAV	TLXDA	DGJWO	SPMZE	GTUKE	SZCRT	HMRGM	QCYNH	LTLTN	BNLAR	WHVVU	JOXAS	TGKHW
DQVPC	JRGUA	KWSQQ	RJXDK	ZNSMW	UYXPQ	PIREQ	COHRF	GZWUP	OEJQH	KPKGX	XSQUM	DKTZD	OOJVM
ETBHG	CXXDO	LXXZE	MJPBX	NOKNU	VRRSU	SVDYK	LVFCK	YIIFN	DOYLF	BQKHV	PEZQT	ODTDA	MAXON
NSTOB	VAPFK	HWENO	QBODE	PWGQS	JGYKN	ESYUQ	NIUGH	FFVHY	SYSUU	BKTQF	ZJZDI	OFAIF	DLTDF
TCTGG	LADJN	EUXWO	CLEYW	QEMKY	TXACZ	HFLPY	GOEBJ	VDARG	ATVAO	YKVMB	YLJIV	SPLDB	OUTVI
XPGEO	DQCFL	SQMEF	NKAZM	NYWMA	EZMUC	SJDPH	ZHGGK	JPFHE	JPMDC	KRNTG	GOKYR	NILEL	GPHQC
BQCHY	KYEYF	EWHOP	NRMMJ	WZTPL	QZIJF	XHOCI	CKHLI	HGSZE	QUHPE	BMGSQ	KDLPM	QARMN	ERDNU
KDWPJ	SGGHO	LUHUY	FNGSB	GKMSB	PZMDM	BZXUV	WCSRH	QUWXL	OLPXD	HBXKA	XKAWC	YFWHQ	URQNX
MYRJJP	SYJXN	PBDVQ	DUDYV	GRSEP	YBDSF	RXFWR	THVEQ	HICTC	SWECR	ULQRB	RXHIK	JWRBJ	CBPHC
RXSSX	TZLPI	VDWXZ	MHYEH	QQVNE	MDOIZ	BMKUC	JRUHS	MKFXI	RIVIK	MNBDT	AZARGA	YLUPO	FPWZV
XPGR	KTHRQ	HTGYZ	HXGVH	JJTYR	EKZFW	ICYCK	JWEEE	LOPAT	IELAA	FPJBP	SQLGG	MDIBK	WTMDD
GUKIL	JOTUB	HCNCR	WDCFO	OELAF	EPFSG	MICRH	KEIRP	MNMIV	PJYWD	AMJOZ	SIDOH	PFWCC	QXBEB
FXMBZ	IGOYE	KRKNV	ZFGYU	SXGQW	NJPAI	FEBLY	ZDCRP	OFHFO	JNEHO	RFOVB	ZVSCB	YSYSA	TTWZS
IVODT	WMVSP	SWLWZ	RPRDO	AKWSV	LERLS	PXLKF	LEFYR	SEIEC	XWWBB	LVSCF	XFDGU	QIKND	WOEXB
MUYCG	LLTWD	ENUPS	TGYWA	MDHUJ	REQUF	XLTNH	JQKNI	CLZNS	YCUTI	JJKYB	YWHOT	REQTP	APEIA

Random Numbers

	1	2	3	4	5	6	7	8	9	10
1	40778124	75159148	53122660	85528978	62398120	12324611	7429056	60531432	89884596	55864440
2	51149215	9119308	33382295	79278140	34907645	49866436	9312075	17399993	51675336	4131224
3	14644533	35315123	18792992	82190290	28722228	49996373	2546838	86159719	81231773	41150160
4	17582246	98629872	54557453	87158231	55059242	84667125	90771492	57692887	9586208	15054100
5	85966829	66163015	93872801	43900360	50580560	40869313	26864698	68899010	3419473	14777685
6	35803276	98804984	64067763	72264872	38213189	54455049	32823601	90189125	63971372	58788330
7	45760954	91995654	28289414	45659034	17100150	17360470	22462130	22006750	71314454	16611739
8	15352550	28017181	36453718	22982806	38876258	99517277	56465474	19958278	90194940	30490469
9	85306688	68400099	19532943	18188932	91585102	68469747	29830415	19513076	54692561	44353435
10	90346592	39008217	25111941	59055079	22246811	63542279	66528659	69239999	51232155	33482410
11	60637652	56276092	86631932	33556831	5145679	98620706	54952532	43254681	51906616	91601406
12	31087788	63826853	64534337	69920877	16151840	77523865	17768988	10860538	62641301	17728763
13	68134781	4512574	2815500	79395379	26365907	9049740	89312578	87271418	66883727	39677383
14	91921846	24110574	2455074	27879558	85777321	30393142	65591285	79862384	55126211	1540596
15	83789671	71142007	75132855	15986394	25986090	9028179	26929212	22578440	56908697	55488265
16	77661085	2082930	25399957	41749916	56705655	98028477	84976088	67082374	91120641	34537385
17	18852166	25866412	43853932	23269738	56044879	28456967	88943325	25405591	56403657	26679244
18	26642983	89526862	2611661	14749293	59540869	41767096	85286420	68380643	42979965	4745772
19	3489985	28089708	32490134	43065016	3178561	50039008	85323299	38067424	34763512	98864676
20	45719548	90210867	86675002	44915805	66461322	87815373	45943605	52018222	50688535	48711622
21	83355524	91379300	55163683	61551386	24149214	70276718	4553484	10610057	36553237	96297241
22	79778010	68842894	8208703	89591798	71233280	89869533	51681544	94375154	57342095	60099031
23	15964889	50209245	69533937	54851853	30933126	79312328	94364989	86196286	58039627	40472291
24	5610468	90383108	87119184	77049698	61484030	62050840	16552465	63396314	52613047	76071866
25	73340830	53163496	51047599	69419796	70301640	10022486	13355163	4579451	94914877	48746346
26	58611591	98230428	93608243	76804036	7874166	37323354	76765260	4934455	69594830	30949031
27	81228324	84923939	79120106	73806141	30611877	29587641	6179527	76392984	41959131	73866488
28	74220807	59014117	8529260	1500938	38976616	52629681	32765256	78297264	10851377	93176367
29	31010746	97212972	37039317	96189279	81288573	45454800	74848964	83741475	27663848	77011994
30	77292299	50291097	98995755	47714522	19189432	4219721	26424220	75504717	42325018	73925875
31	42975863	9488848	14672587	40270457	65414418	78869859	55498975	29899788	99041775	38829683
32	76278695	96377206	86419960	44295822	86759113	37366392	48984372	17035097	29813601	77439187
33	29540790	81047381	28939416	97173959	57084320	91351263	60333902	86737318	81809742	76530412
34	7591851	76762616	33615654	1022343	85919304	36722569	61737743	12997318	15554190	76993043
35	39887598	22163527	20394138	4978775	72731037	58874178	51927425	66404555	27518213	28335766

COMBINED EVALUATION

COMPUTED OPTIMUM STRATIFICATION - RECORDED EXEMPT SALES - CUSTOMERS WITH PERMIT NUMBERS  
ABC COMPANY

A	B	C	D	E	F	G	H	I	J	K	STRATA PARAMETERS		
LOWER BOUND	UPPER BOUND	TRANS COUNT	% OF COUNT	% OF AMOUNT	SALES AMOUNT	RANGE WIDTH	G x C	SORT of H	CUMM SORT (CS)	CS/FACTOR			
CREDIT TRANSACTIONS:													
0	99.99	17,574	7.65%	-13.70%	(718,227.45)	99.99	1,757,224.26	1,325.60	1,325.60	0.5231875	23,892	85.27%	
100	199.99	4,325	14.25%	11.86%	621,813.59	99.99	432,456.75	657.61	1,983.22	0.7827339	1,773,453.39	29.75%	
200	299.99	1,993	6.57%	9.29%	487,103.75	99.99	199,280.07	446.41	2,429.63	0.9589217			
300	399.99	1,113	3.67%	7.35%	385,159.86	99.99	111,288.87	333.60	2,763.23	1.0905864			
400	499.99	691	2.28%	5.90%	309,246.46	99.99	69,093.09	262.86	3,026.08	1.19433			
500	599.99	433	1.43%	4.52%	237,056.10	99.99	43,295.67	208.08	3,234.16	1.2764532			
600	699.99	261	0.86%	3.22%	168,807.39	99.99	26,097.39	161.55	3,395.70	1.3402123			
700	799.99	196	0.65%	2.80%	146,772.01	99.99	19,598.04	139.99	3,535.70	1.3954646			
800	899.99	182	0.60%	2.95%	154,687.64	99.99	18,198.18	134.90	3,670.60	1.448707			
900	999.99	145	0.48%	2.63%	138,119.19	99.99	14,498.55	120.41	3,791.01	1.4962302			
1,000.00	1,999.99	617	2.03%	16.04%	840,978.06	999.99	616,993.83	785.49	4,576.50	1.8062463			
2,000.00	2,999.99	241	0.79%	11.40%	597,601.47	999.99	240,997.59	490.92	5,067.41	2			
3,000.00	3,999.99	129	0.43%	8.51%	445,915.48						249	0.89%	
4,000.00	4,999.99	51	0.17%	4.30%	225,671.71						1,209,185.46	20.28%	
5,000.00	5,999.99	17	0.06%	1.78%	93,465.90								
6,000.00	6,999.99	11	0.04%	1.34%	70,345.72								
7,000.00	7,999.99	16	0.05%	2.29%	120,304.05								
8,000.00	8,999.99	9	0.03%	1.43%	75,212.90								
9,000.00	9,999.99	2	0.01%	0.38%	19,745.40								
10,000.00	19,999.99	14	0.05%	3.02%	158,524.30								
TOTALS:					30,342	5,242,839.58							
										FACTOR :	2,533.71		
										(5,067.41 / 2)			

To be audited 100%

COMPUTED OPTIMUM STRATIFICATION - RECORDED EXEMPT SALES - NON PERMIT CUSTOMERS  
ABC COMPANY

A	B	C	D	E	F	G	H	I	J	K
LOWER BOUND	UPPER BOUND	TRANS COUNT	% OF COUNT	% OF AMOUNT	SALES AMOUNT	RANGE WIDTH	G x C	SORT of H	CUMM SORT (CS)	CS/FACTOR
<i>CREDIT TRANSACTIONS:</i>										
0	99.99	14877	58.14%	-20.73%	(897,495.39)	99.99	1,487,551.23	1,219.65	1,219.65	0.5403698
100	199.99	3262	12.75%	10.74%	465,151.02	99.99	326,167.38	571.11	1,790.76	0.7934017
200	299.99	1313	5.13%	7.43%	321,581.88	99.99	131,286.87	362.34	2,153.10	0.9539352
300	399.99	736	2.88%	5.87%	254,275.26	99.99	73,592.64	271.28	2,424.38	1.0741263
400	499.99	463	1.81%	4.77%	206,499.90	99.99	46,295.37	215.16	2,639.54	1.1694551
500	599.99	307	1.20%	3.87%	167,783.71	99.99	30,696.93	175.21	2,814.75	1.2470802
600	699.99	238	0.93%	3.57%	154,472.36	99.99	23,797.62	154.26	2,969.01	1.3154276
700	799.99	170	0.66%	2.94%	127,127.74	99.99	16,998.30	130.38	3,099.39	1.3731917
800	899.99	132	0.52%	2.59%	112,319.34	99.99	13,198.68	114.89	3,214.27	1.424092
900	999.99	166	0.65%	3.64%	157,604.99	99.99	16,598.34	128.83	3,343.11	1.4811725
1,000.00	1,999.99	572	2.24%	18.50%	801,110.93	999.99	571,994.28	756.30	4,099.41	1.8162543
2,000.00	2,999.99	172	0.67%	9.49%	411,118.27	999.99	171,998.28	414.73	4,514.14	2
3,000.00	3,999.99	76	0.30%	6.07%	262,818.63					
4,000.00	4,999.99	28	0.11%	2.85%	123,255.25					
5,000.00	5,999.99	22	0.09%	2.77%	119,758.29					
6,000.00	6,999.99	20	0.08%	3.01%	130,184.57					
7,000.00	7,999.99	11	0.04%	1.92%	83,056.72					
8,000.00	8,999.99	5	0.02%	1.01%	43,842.63					
9,000.00	9,999.99	6	0.02%	1.33%	57,405.98					
10,000.00	19,999.99	26	0.10%	8.05%	348,565.20					
20,000.00	29,999.99	11	0.04%	6.16%	266,523.33					
30,000.00	40,000.00	2	0.01%	1.50%	65,116.83					
TOTALS:		25,588			4,330,156.05					
										2,257.07
										FACTOR : (4.514.14 / 2)

To be audited 100%

STRATA PARAMETERS	
N	19,452
\$	1,334,811.51

STRATA4

STRATA PARAMETERS	
N	2,956
\$	2,392,312.50

STRATA5

STRATA PARAMETERS	
N	207
\$	1,500,527.43

STRATA6

ESTIMATION PROJECTION TECHNIQUES

EXHIBIT 8

SCHEDULE \_\_\_\_\_ PAGE \_\_\_\_\_  
 ACCOUNT No. *Z1-000000*  
 AUDITOR *SJR*  
 DATE *6-18-xx*

	A	B	C	D	E	F	G
1							
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Note:  
 Refer to section 1306.00 for a discussion of these techniques.

**JULIAN CALENDAR**

Julian Calendar

Day	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1	1	32	60	91	121	152	182	213	244	274	305	335
2	2	33	61	92	122	153	183	214	245	275	306	336
3	3	34	62	93	123	154	184	215	246	276	307	337
4	4	35	63	94	124	155	185	216	247	277	308	338
5	5	36	64	95	125	156	186	217	248	278	309	339
6	6	37	65	96	126	157	187	218	249	279	310	340
7	7	38	66	97	127	158	188	219	250	280	311	341
8	8	39	67	98	128	159	189	220	251	281	312	342
9	9	40	68	99	129	160	190	221	252	282	313	343
10	10	41	69	100	130	161	191	222	253	283	314	344
11	11	42	70	101	131	162	192	223	254	284	315	345
12	12	43	71	102	132	163	193	224	255	285	316	346
13	13	44	72	103	133	164	194	225	256	286	317	347
14	14	45	73	104	134	165	195	226	257	287	318	348
15	15	46	74	105	135	166	196	227	258	288	319	349
16	16	47	75	106	136	167	197	228	259	289	320	350
17	17	48	76	107	137	168	198	229	260	290	321	351
18	18	49	77	108	138	169	199	230	261	291	322	352
19	19	50	78	109	139	170	200	231	262	292	323	353
20	20	51	79	110	140	171	201	232	263	293	324	354
21	21	52	80	111	141	172	202	233	264	294	325	355
22	22	53	81	112	142	173	203	234	265	295	326	356
23	23	54	82	113	143	174	204	235	266	296	327	357
24	24	55	83	114	144	175	205	236	267	297	328	358
25	25	56	84	115	145	176	206	237	268	298	329	359
26	26	57	85	116	146	177	207	238	269	299	330	360
27	27	58	86	117	147	178	208	239	270	300	331	361
28	28	59	87	118	148	179	209	240	271	301	332	362
29	29		88	119	149	180	210	241	272	302	333	363
30	30		89	120	150	181	211	242	273	303	334	364
31	31		90		151		212	243		304		365

Note:

For leap year, Feb 29 has the Julian Date of 60. All dates after Feb 29 must be increased by 1 from date shown above.

CALENDARS - 1950 TO 2050  
INDEX

1950.....“1”	1983.....“7”	2017.....“1”
1951.....“2”	1984.....“8”	2018.....“2”
1952.....“10”	1985.....“3”	2019.....“3”
1953.....“5”	1986.....“4”	2020.....“11”
1954.....“6”	1987.....“5”	2021.....“6”
1955.....“7”	1988.....“13”	2022.....“7”
1956.....“8”	1989.....“1”	2023.....“1”
1957.....“3”	1990.....“2”	2024.....“9”
1958.....“4”	1991.....“3”	2025.....“4”
1959.....“5”	1992.....“11”	2026.....“5”
1960.....“13”	1993.....“6”	2027.....“6”
1961.....“1”	1994.....“7”	2028.....“14”
1962.....“2”	1995.....“1”	2029.....“2”
1963.....“3”	1996.....“9”	2030.....“3”
1964.....“11”	1997.....“4”	2031.....“4”
1965.....“6”	1998.....“5”	2032.....“12”
1966.....“7”	1999.....“6”	2033.....“7”
1967.....“1”	2000.....“14”	2034.....“1”
1968.....“9”	2001.....“2”	2035.....“2”
1969.....“4”	2002.....“3”	2036.....“10”
1970.....“5”	2003.....“4”	2037.....“5”
1971.....“6”	2004.....“12”	2038.....“6”
1972.....“14”	2005.....“7”	2039.....“7”
1973.....“2”	2006.....“1”	2040.....“8”
1974.....“3”	2007.....“2”	2041.....“3”
1975.....“4”	2008.....“10”	2042.....“4”
1976.....“12”	2009.....“5”	2043.....“5”
1977.....“7”	2010.....“6”	2044.....“13”
1978.....“1”	2011.....“7”	2045.....“1”
1979.....“2”	2012.....“8”	2046.....“2”
1980.....“10”	2013.....“3”	2047.....“3”
1981.....“5”	2014.....“4”	2048.....“11”
1982.....“6”	2015.....“5”	2049.....“6”
	2016.....“13”	2050.....“7”

DIRECTIONS FOR USE

Look for the year you want in the index. The number opposite each year is the number of the calendar, located on the following pages, to use for that year.

January 2000

**January**

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

**February**

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28				

**March**

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

**April**

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

**January**

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

**February**

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28			

**March**

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

**April**

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

**May**

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

**June**

S	M	T	W	T	F	S
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4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

**July**

S	M	T	W	T	F	S
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2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

**August**

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

**May**

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

**June**

S	M	T	W	T	F	S
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3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

**July**

S	M	T	W	T	F	S
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8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

**August**

S	M	T	W	T	F	S
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5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

**September**

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

**October**

S	M	T	W	T	F	S
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8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

**November**

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

**December**

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10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
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**September**

S	M	T	W	T	F	S
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9	10	11	12	13	14	15
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**October**

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21	22	23	24	25	26	27
28	29	30	31			

**November**

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4	5	6	7	8	9	10
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**December**

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16	17	18	19	20	21	22
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January						
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February						
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March						
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April						
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May						
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June						
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July						
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August						
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September						
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October						
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December						
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January						
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February						
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March						
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May						
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June						
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July						
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August						
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September						
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October						
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November						
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December						
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**January**

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**May**

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**September**

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6	7	8	9	10	11	12
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20	21	22	23	24	25	26
27	28	29	30			

**February**

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28

**June**

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
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21	22	23	24	25	26	27
28	29	30				

**October**

S	M	T	W	T	F	S
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4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
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**March**

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

**July**

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

**November**

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
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**April**

S	M	T	W	T	F	S
			1	2	3	4
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**August**

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16	17	18	19	20	21	22
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30	31					

**December**

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		1	2	3	4	5
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**January**

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31						

**May**

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30	31					

**September**

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26	27	28	29	30		

**February**

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**June**

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**October**

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**March**

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**July**

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**November**

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**April**

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**August**

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29	30	31				

**December**

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January						
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February						
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March						
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April						
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May						
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June						
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July						
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August						
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September						
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October						
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November						
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December						
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January						
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March						
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April						
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May						
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June						
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July						
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December						
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**September**

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**February**

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**September**

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**January**

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**February**

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**March**

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**April**

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**January**

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**February**

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**March**

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**April**

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**May**

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**June**

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**July**

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**August**

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**May**

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**June**

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**July**

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**August**

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**September**

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**October**

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**November**

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**December**

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**September**

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**October**

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**November**

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*Following is a list of statistical sampling reference materials that were used in drafting language for this chapter of the Audit Manual:*

- Board of Equalization's Statistical Sampling Instructor's Guide (revised April 1978, revised 1990, and in the process of being revised)
- Board of Equalization *Study Notes for Sampling and Testing Techniques as Applied to the Sales Tax Audit* (John Gee and Robert Gustafson, January 1964)
- *Statistical Sampling for Audit and Control* (T.W. McRae, 1974)
- *Modern Elementary Statistics*, Fourth Edition (John Freund, 1973)
- *Application of Statistical Sampling to Auditing* (Alvin Arens & James Loebbecke, 1981)
- *Handbook of Sampling for Auditing and Accounting* (Herbert Arkin, 1974)
- *Sampling Manual for Auditors* (Institute of Internal Auditors, 1967)
- *Supplement to the Sampling Manual for Auditors* (Institute of Internal Auditors, 1970)
- *IRS Statistical Sampling Handbook* (November 1988)
- Institute of Property Taxation - *Advanced Sampling Issues in Sales and Use Tax Audits* (Thomas Andrews and Dennis Fox, September 1996)
- The Ernst & Young Foundation Tax Research Grant Program - *A Statistical Sampling Guide for Sales Tax Audits* (William Yancey, Ph.D., CPA and Roger Pfaffenberger, Ph.D. - Texas Christian University, October 1996)
- COST State Tax Report - *Use and Abuse of Sampling in Sales and Use Tax Audits* (William Yancey, Ph.D., CPA and Roger Pfaffenberger, Ph.D. - Texas Christian University, November 1997)