



## Auditor-Controller

Internal Audit

Assessor's Office: Audit of Assessment Processes

IA2020-02

6/22/2021

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## EXECUTIVE SUMMARY

The Internal Audit Division (IA) of the Auditor-Controller (A-C) department completed an audit of the Assessor's Office (Assessor) on the compliance of its operations in accordance with statutory and departmental processes. The California State Board of Equalization (BOE) has the oversight authority to impose compliance such as the county assessors' property tax programs, property tax audits, policies, appeals process, and personnel training.<sup>1</sup>

Sutter County, like all counties in California, depends on property taxes contribution to the general fund in order to provide county-wide services. Property taxes is the largest single source of revenue. Accordingly, the Assessor's Office has the responsibility to ensure uniformity in property assessment prescribed by the BOE.

The work of the Assessor is complicated and in-depth. It can take about four years for personnel in certain classifications to be trained and certified. Moreover, the BOE performs periodic surveys to determine the adequacy of the assessor's work.<sup>1</sup> Because the nature of the Assessor's work is complex and the BOE has authority to mandate certain duties of the Assessor, IA did not perform an audit of the valuation of properties.

The objective of the audit was to determine whether property values were accurately assessed according to departmental processes.

The Assessor's Office is in the process of transitioning from the AS400 software to Aumentum. The current software is from 1970s. The transition started about three years ago with the department scanning historical files which was completed in 2020. Training for the new software, Aumentum, started in April 2021. It is tentatively scheduled to go live in November 2021.

At the time this report was written, the Assistant Assessor is planning on retiring in July 2021. To plan for a smooth transition, a successor was hired in May 2021.

This report includes no findings and recommendations, and three Other Audit Considerations. The details of the audit can be found in the section titled *Objective, Scope and Methodology*.

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<sup>1</sup> <https://www.boe.ca.gov/pdf/pub1.pdf>: California State Board of Equalization Fact Sheet

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## INTRODUCTION

Internal Audit is a division of the office of the A-C. This division was reestablished in 2016 because of renewed focus on internal audit by the newly elected A-C. The role of IA is to provide independent assurance that an organization's risk management, governance and policies/procedures are operating effectively. We must be independent from the operations we evaluate and report to the Board of Supervisors. IA enhances governance through the implementation of our recommendations and promotes accountability by identifying department management responsible for areas of concern, issues or findings.

IA helps Sutter County to succeed by dealing with issues that are fundamentally important to the survival and prosperity of the County. We look beyond financial risks and statements to consider wider issues such as the County's reputation, growth, impact on the environment, and the use of taxpayer dollars.

The mission of IA is to independently assess and report on Sutter County operations and services. The audit function is an essential element of the County's public accountability. Our audits provide the Board of Supervisors, Grand Jury, County management, and the general public with independent and objective information regarding compliance, operational efficiency, and the adequacy and effectiveness of controls used in operations and reporting.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the *Objective, Scope, and Methodology* section of this report.

## BACKGROUND

### General

#### *Overview*

#### Background

The Sutter County Assessor, Todd Retzloff, was elected to office in 2010. At the time, there was a staff of 25 employees. However, under Assessor Retzloff's leadership, the department has experienced reductions in staffing all while streamlining its processes. Additionally, staff has digitized historical files enabling quick access to the documentation. Today, there are 17 employees in the fully staffed department. This translates into a reduction of one-third of the department's workforce.

The Assessor is charged with the valuation of secured and unsecured properties within the county. Secured property consists of real estate which includes land and land improvements. Unsecured property includes personal property such as business property, aircraft, mobile homes and vessels. In addition, the Assessor maintains records on taxable properties, including maintaining maps of all real property parcels.<sup>2</sup>

Secured property generally increases in value from year to year. The valuation of real property is re-assessed when there is a transfer of ownership, new construction or under an approved appeal. On the other hand, the fair market value of unsecured property typically declines each year due to depreciation from usage.<sup>3</sup>

The State of California is responsible for assessing certain properties such as railroad, telecommunication, gas, and electric companies.<sup>4</sup> These are referred to as unitary property.

The process of determining property values starts with the Assessor. Pursuant to Proposition 13 (Prop 13), each year the county may assess up to a 2% increase on the assessed value depending on the California Consumer Price Index (CCPI). Refer to the CCPI table on the following page. However, as previously mentioned, a transfer in ownership, new construction or an approved appeal can trigger an entirely new reassessment of value. Generally, the process of revaluation begins with information obtained from the County Recorder and Planning Department such as the recording of grant deeds and issuance of building permits. After identifying ownership of all properties subject to taxation and applying allowable exemptions, the Assessor delivers the assessment roll to the A-C on or before July 1<sup>st</sup>.<sup>5</sup>

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<sup>2</sup> <https://www.boe.ca.gov/proptaxes/pdf/ah201.pdf>; Assessor's Handbook

<sup>3</sup> Per Lori Munz, Assistant Assessor; meeting notes 9-24-2020

<sup>4</sup> State of California, State Board of Equalization Property Tax Department; Listing of State Assesseees

<sup>5</sup> California Property Tax Managers' Reference Manual



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Prop 13 was passed by voters in 1978. This proposition limited the property tax rate to 1% of the property's base value which is the property's value at the time of transfer.<sup>6</sup> Prior to 1978, homeowners were at the mercy of real estate market values. Therefore, a homeowner was subjected to an unpredictable tax bill. This created uncertainty, especially for older taxpayers on a fixed income. The effect of Prop 13 is to smooth these fluctuations.

The A-C is responsible for affixing the tax rate to the assessment roll based on a 1% ad valorem rate plus any voter-approved school bonds. In addition, A-C also coordinate the addition of special assessment fees imposed by local taxing authorities such as public schools (Mello Roos), cemetery, levy, vector control, flood control, and water districts. The extended roll is then used to charge the Tax Collector to collect.

The role of the Tax Collector is to print and mail the secured tax bills. When a taxpayer pays the property tax bill, the Tax Collector collects the revenue and deposits into the Sutter County Pooled Treasury.

The A-C's responsibility continues upon the receipt of tax revenues by allocating and distributing the funds to the local taxing authorities.

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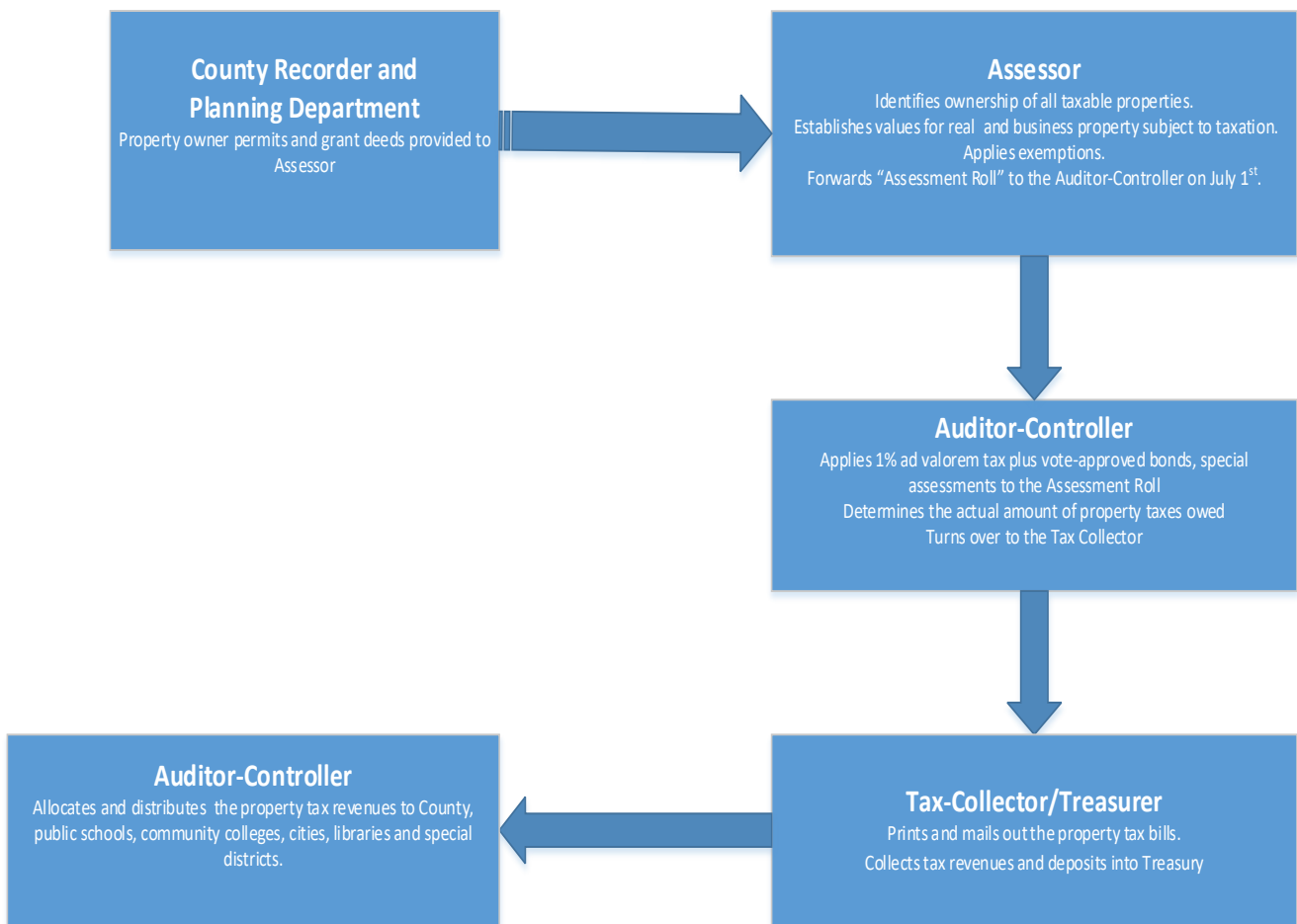
<sup>6</sup> <https://www.boe.ca.gov/proptaxes/decline-in-value/>

Base year value definition per BOE: A property's *base year value* is the market value of real property as established in 1975 or when the property last changed ownership or underwent new construction.

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The following is an illustration of the Assessor, A-C and Treasurer-Tax Collector's roles in connection to the annual property tax cycle.

## Sutter County The Annual Property Tax Cycle





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In 2017, about 63% of property taxes go to local public schools.<sup>7</sup> Under the U.S. Constitution, the funding for education is the responsibility of the states.<sup>8</sup> The remainder 37% of the property taxes is divided between county, cities, special districts and Redevelopment Agencies. These allocations do not change much from year to year.

The following are excerpts from the Citizen's Report ending June 30, 2017 and Comprehensive Annual Financial Report for fiscal year ending June 30, 2020 of the Statistical Section.

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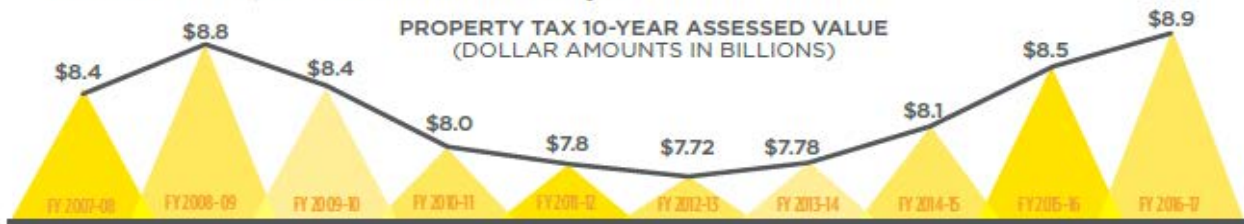
<sup>7</sup> Sutter County Citizens' Report 6-30-2017

<sup>8</sup> [www2.ed.gov](http://www2.ed.gov)

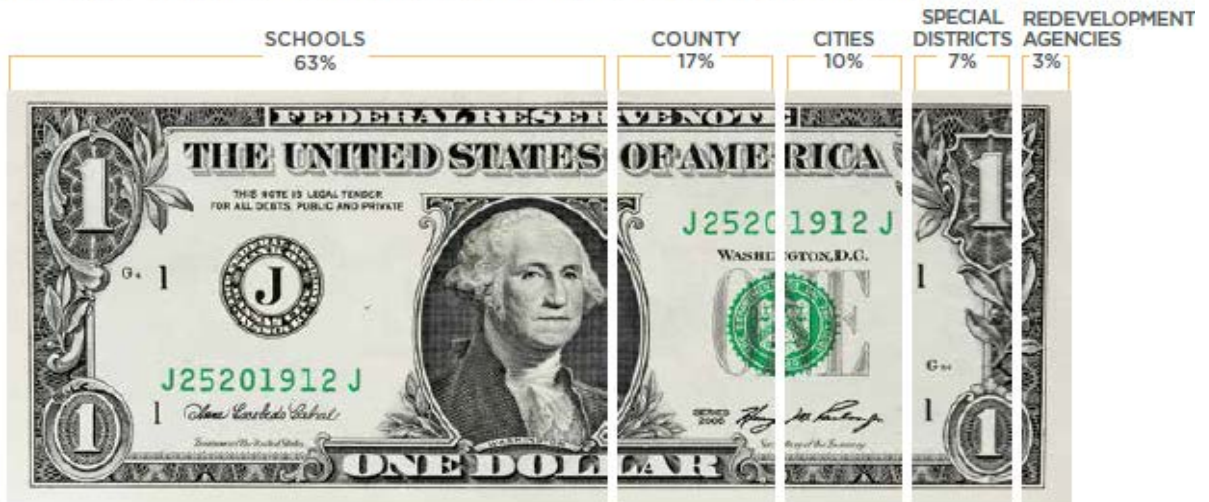
# PROPERTY TAX



Property tax is a major source of revenue for local governments in California. In FY 2016-2017 \$105.6 million in property tax collections were distributed to county government, cities, schools, redevelopment trust funds, and special districts in Sutter County. The County relies on property tax as the main source of revenue to pay for county-wide services. Sutter County's total assessment roll for FY 2016-2017 was valued at \$8.93 billion and increased by 10% to \$9.33 billion for FY 2017-2018. Compared to FY 2007-08 total assessment roll of \$8.47 billion, the County's assessed value has increased \$861.3 million over the last ten years.



## WHERE THE PROPERTY TAX DOLLAR GOES



10 \*The dollar does not take into account the sales tax compensation and State property tax swaps, such as triple flip and VLF.  
 \*\* Any remaining balance after payment of enforceable obligations in the Redevelopment Property Tax Trust Fund is distributed back to the taxing entities.

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**COUNTY OF SUTTER**

**Assessed Value of Taxable Property and Actual Value of Property (unaudited)**

**Last Ten Fiscal Years (in thousands)**

(accrual basis of accounting)

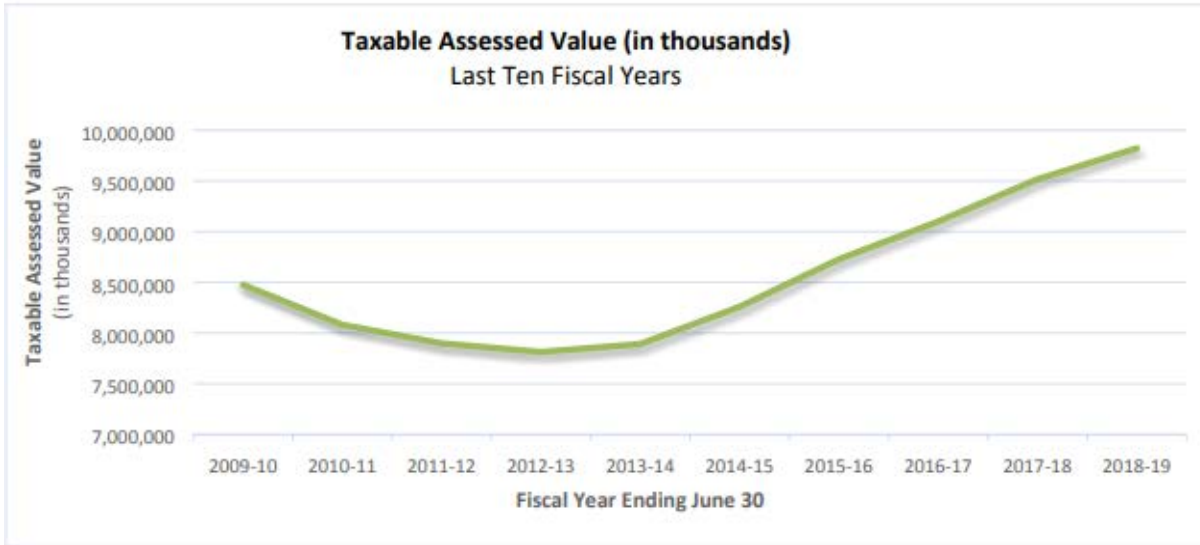
Due to the 1978 passage of the property tax initiative Proposition 13 (Prop 13), the County does not track the estimated actual value of all County properties. Under Prop 13, property is assessed at the 1978 market value with an annual increase limited to the lesser of 2% or the consumer price index (CPI) on properties not involved in a change of ownership or properties that did not undergo new construction. Newly acquired property is assessed at its new market value (usually the purchase Price) and the value of any new construction is added to the existing base value of a parcel. As a result, similar properties can have substantially different assessed values based on the date of purchase. Additionally, Prop 13 limits the property tax rate to 1% of assessed value plus the rate necessary to fund local voter-approved bonds and special assessments.

<b>Fiscal Year</b>	<b>(1) Secured</b>	<b>(2) Unsecured</b>	<b>(3) Unitary</b>	<b>(4) Exempt</b>	<b>Total Taxable Assessed value</b>	<b>Total Direct Tax Rate (%)</b>
2010 - 2011	7,692,047	543,289	187,587	(341,280)	8,081,643	1.0000
2011 - 2012	7,537,773	534,744	198,103	(372,113)	7,898,506	1.0000
2012 - 2013	7,424,721	557,327	199,667	(367,800)	7,813,915	1.0000
2013 - 2014	7,521,156	557,430	212,885	(399,302)	7,892,170	1.0000
2014 - 2015	8,231,568	571,216	235,333	(778,802)	8,259,316	1.0000
2015 - 2016	8,295,983	576,315	268,936	(413,438)	8,727,797	1.0000
2016 - 2017	8,654,165	614,175	271,445	(439,548)	9,100,238	1.0000
2017 - 2018	9,095,742	583,896	291,120	(454,149)	9,516,609	1.0000
2018 - 2019	9,510,499	459,004	313,897	(461,355)	9,822,045	1.0000
2019 - 2020	9,904,151	597,600	302,594	(441,115)	10,363,230	1.0000

**Notes:**

- (1) Local assessed secured property is generally real property, defined as land, mines, minerals, timber, and improvements such as buildings, structures, crops, trees, and vines.
- (2) Unsecured property is generally personal property including machinery, equipment, office tools, and supplies.
- (3) Unitary properties are railroads and utilities crossing the County and are assessed by the State Board of Equalization. Most of the amount reported is unitary but includes a small amount of other state-assessed property.
- (4) Exempt properties include numerous full and partial exclusions/exemptions provided by the State Constitution and the legislature that relieve certain taxpayers from the burden of paying property taxes.

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**COUNTY OF SUTTER**  
**Property Tax Levies and Collections (unaudited)**  
**Last Ten Fiscal Years (in thousands)**

Property tax levies and collections for the last ten fiscal years are presented below.

Fiscal Year	(1) Taxes Levied	(2) Collections Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2010 - 2011	98,644	96,072	97.39%	1,772	97,844	99.19%
2011 - 2012	97,721	95,993	98.23%	1,210	97,204	99.47%
2012 - 2013	97,023	95,621	98.55%	931	96,551	99.51%
2013 - 2014	98,348	97,132	98.76%	759	97,891	99.54%
2014 - 2015	102,007	100,890	98.91%	650	101,540	99.54%
2015 - 2016	106,781	105,692	98.98%	596	106,288	99.54%
2016 - 2017	110,786	109,893	99.19%	520	110,414	99.66%
2017 - 2018	117,052	116,091	99.18%	1,216	117,307	100.22%
2018 - 2019	123,510	121,260	98.18%	1,148	122,408	99.11%
2019 - 2020	127,148	125,697	98.86%		125,697	98.86%

**Notes:**

- (1) Secured and Unitary tax levy for the County itself, school districts, cities, and special districts under the supervision of their own governing boards.
- (2) Included are amounts collected by the County on behalf of itself, school districts, cities, and special districts under the supervision of their own governing boards.

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**Audit Specific**

In Sutter County, secured property tax makes up a big portion of the revenues compared to unsecured. With a strong real estate market in recent years and general increase in the CCPI, we focused our audit on real property. The need for the Assessor to perform the valuation of real property in accordance with statutory and other requirements is crucial for both the County and property owners. For this reason, IA performed an audit on the Assessor's business operation processes and controls.

IA considered system security in this audit. Currently, the data resides in an older software called AS400. Like many departments throughout the County, the Assessor relies on Information Technology's (IT) assistance such as running reports, uploading data, running year-end edits, closing out the old fiscal year, and rolling over the totals to apply the inflation factor.

Because IT is involved in the process, there is a concern to determine whether the Assessor owns its processes. In order to examine, evaluate, and report with reasonable assurance, we incorporated the general data security and protection assessment into our audit.

According to GAGAS, performance audits "provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability."

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## OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

There are two types of taxable properties: secured and unsecured. As mentioned earlier, secured property taxes represent a larger portion of property tax revenue. In addition, secured property values generally increase over time. On the other hand, unsecured property taxes consist of a smaller portion compared to secured property taxes, and generally decrease in assessed value because of depreciation.

The audit objective was to evaluate the Assessor's processes on the valuation of real property in accordance with statutory and other requirements. We did not evaluate specific property valuations since we do not have the expertise.

To accomplish our objective, IA did the following:

- Conducted interviews with management and staff.
- Identified and reviewed applicable laws, codes, regulations, and policies and procedures.
- Reviewed resources on BOE such as BOE Fact Sheet, Assessor's Handbook, Assessment Appeals, Property Tax Rules, Training requirements for Assessor Staff, Proposition 8 (Decline in Value) and Proposition 13 (Base Year Value for property assessments).
- Assisted in developing written procedures pertaining to changes in assessor parcels such as new construction, transfers, and annual Proposition 8 review.
- Reviewed departmental procedures once developed.
- Examined and audited relevant documentation such as Property Appraisal Records for commercial, industrial and residential, and AS400 printouts.



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## Scope

The period covered by the audit was from January 2017 through December 2020.

Our audit revolved around a taxpayer's stand point in relation to the Assessor's responsibility prescribed by the State of California Board of Equalization (BOE).

In Sutter County during fiscal year 2019-20, the secured taxes for the General Fund was \$17,046,453 (94.3%) and the unsecured was \$1,031,124 (5.7%).<sup>9</sup> Based on this data, IA performed an audit surrounding the secured property assessment processes.

Proposition 13 (Prop 13) was passed by voters in 1978. This proposition limited counties' ad valorem property tax rates to 1% of the property's base value, which is the property's value at the time of transfer of ownership. The 1% ad valorem tax plus other local voter-approved assessments are added to the tax bill.

Prior to the passage of Prop 13, a homeowner's tax bill was based on value that could be reassessed to market value each year. Because the annual property tax bill was based on market value, there was no way of knowing what the next bill would be. Under Prop 13, the increase is capped at 2% or the California Consumer Price Index (CCPI), whichever is lower. The CCPI is based on changes in a basket of goods or services paid by consumers.

When there is a temporary decline in market value below the factored base year value, Proposition 8 (Prop 8) will take effect. Prop 8 was approved by voters in November 1978. The Assessor is responsible for continually monitoring real estate market conditions and accordingly adjusts the property to a temporary lower value. The lower value will be reviewed annually until the property goes back to the factored base year value.<sup>10</sup> If Prop 8 applies, then the lower current market value is utilized to assess property taxes.

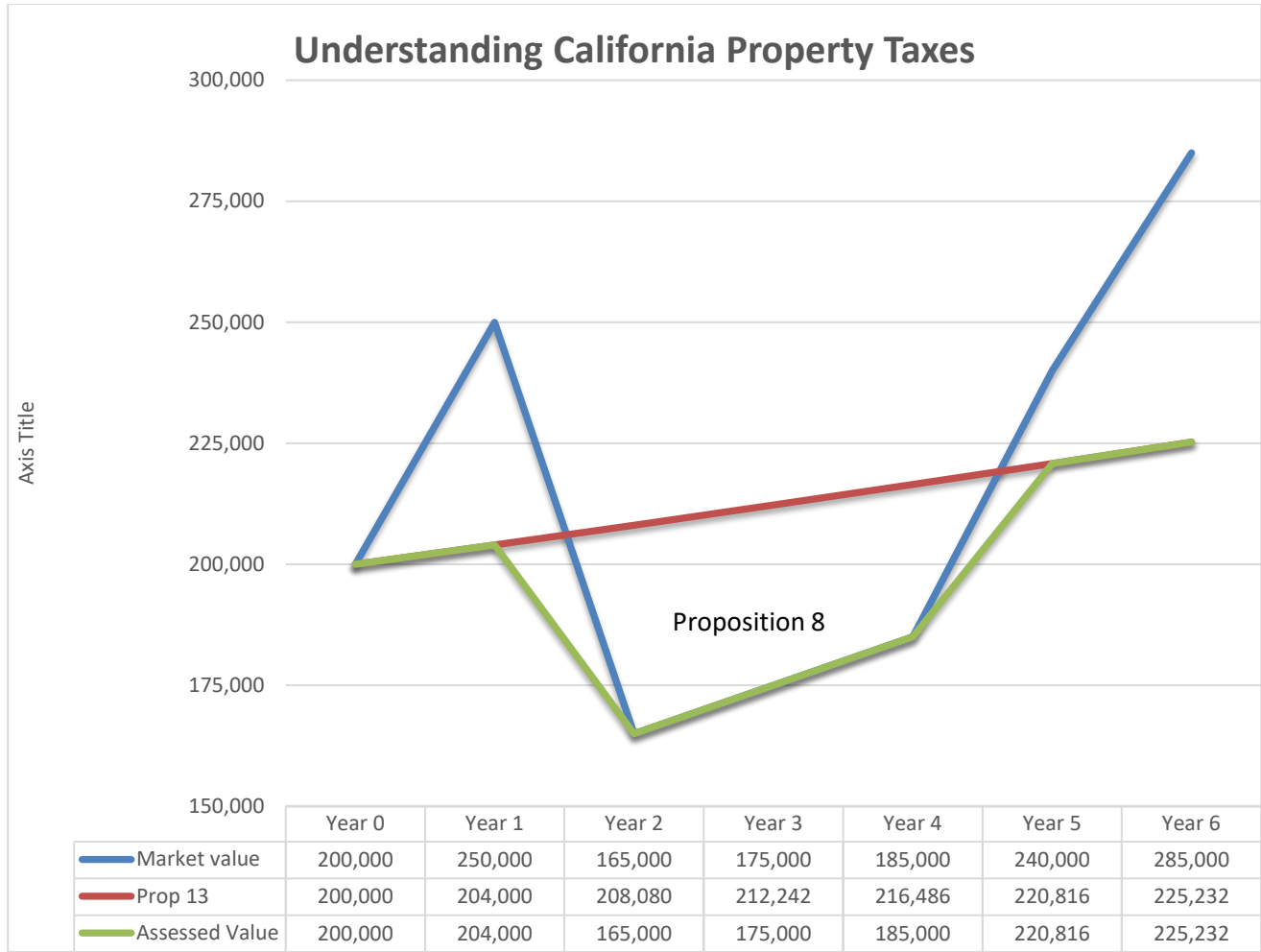
The following chart is a depiction of how Prop 8 and Prop 13 work. For illustration purpose, the subject property is purchased at \$200,000 which is the base year value. Under Prop 13, assuming a CCPI of 2%, the property will be taxed in increments as shown in the Y axis. However, if the market value falls below the red line, the subject property should be reassessed in Years 2, 3 and 4 using market value. In Years 5 and 6, Prop 8 does not apply since it is valued at the factored base year value of \$220,816 and \$225,232.

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<sup>9</sup> John Beaver, Auditor-Controller Department

<sup>10</sup> California Board of Equalization; Decline in Value-Proposition 8  
<https://www.boe.ca.gov/proptaxes/decline-in-value/#Description>

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As mentioned earlier, the audit was performed on the secured property roll. In Sutter County, property parcels are divided into categories such as Agriculture, Commercial, Residential, and Industrial.

In Sutter County, parcels are filed by map book. There is a book number for each area. In total there are 26 books.

The housing market has been on the rise since the 2018 Camp Fire burnt most of the town of Paradise. In 2020, the COVID-19 virus increased the housing demand even more. The continuation of the upward trend was caused by the demand from people who had the ability to work from home. On the contrast, some commercial properties suffered temporary losses in market value due to the stay-at-home order imposed by the County Health Officer to curb the spread of the virus.

Given the differences in the general appreciation value of residential and decrease in commercial market value, IA employed stratified sampling. This type of sampling sub-divides the parcel population into homogenous groups with each group being treated as one population. The reason for subdividing the population into bands was to enable us to achieve our audit objective, which was to be representative of



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the population. If a population has significant variability, such as in the case of residential and commercial properties, stratification may be used for greater precision. Since we sought to sample for certain attributes, it was prudent to divide the major categories up for the samples to be representative of the population. To utilize stratified sampling, however, the population data must be high quality. With the Assessor's assistance, IA was able to obtain detailed population information from IT that allowed us to perform this type of sampling.

Another reason to use stratified sampling is due to the proportion in the population. As mentioned earlier, certain parcels are exempt from property tax. As such, these parcels were not included in the population. One disadvantage of stratified sampling is that selecting the samples is time consuming and it requires good population information. As mentioned earlier, detailed population information was not an issue.

After selecting stratified sampling, the sample population was defined. The total number of parcels in Sutter County is about 35,130.<sup>11</sup> Each sub-group was treated as one population. The data was then extracted into a data analytics software with random samples chosen by category.

The sampling was performed using the random sampling feature which ensures every parcel of the population had an equal chance of selection. IA utilized the random sampling feature in IDEA Caseware, a data analytics software.

Parcels were set up by category in the current AS400 system such as institutional, residential, vacant land, agricultural, commercial, and industrial. This population was stratified into 3 groups: residential, commercial, and others. The reason for the 3 groups was during the pandemic, residential values went up. However, it may not be so for commercial properties. In many cases, commercial properties were losing value due to the mandatory shut down during the pandemic. The remainder of the parcels which were not residential and commercial were put into one category. Some of the commercial, vacant land, and industrial categories are exempt from property tax. Accordingly, places of worship, higher institutions, medical buildings, certain lands owned by the State of California were excluded from the sample population since they are not subject to property tax.

### **Evaluation and Interpretation of Sample Results**

In total, 264 samples were selected from all 3 subgroups. The samples identified by the data analytics software were audited by comparing processes attributes such as new construction, transfers, and annual Prop 8 review. IA also reconciled the historical Property Appraisal Records with AS400.

The expected deviation rate for 260 samples were 7 errors with an expected deviation rate of 2.65% at 95% confidence level. Based on the evaluation of the sample results, the actual deviation rate was 2.27% with 6 errors at 95% confidence level.

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<sup>11</sup> Quantified from download report exported from AS400.

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Both the actual deviation rate and actual errors found in the samples were less than the expected deviation rate and expected errors found. Based on the sample results, IA will accept the rate of error with 95% certain that the samples will be representative of the results.

If IA identifies areas for improvement, recommendations for improvement will be presented to management in the form of a finding.

There is no finding issued for the Assessor in this audit. Because there is no finding, there is no recommendation on the Assessor's current operations and processes. IA does have 3 audit considerations, that are not audit findings, after Aumentum goes live. Refer to *Other Audit Considerations* at the end of this report.

Due to inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of a system into future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with procedures may deteriorate.

### **Methodology**

The purpose of the audit was to determine whether the Assessor followed standard operating procedures during the subject period from January 2017 through 2020. We reviewed relevant documentation by referring to the Property Tax Rules found on the BOE website and department standard operating procedures.

Although due professional care in the performance of the audit was exercised, this should not be construed to mean that all errors, irregularities or noncompliance were found. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected.

### **Conclusion**

According to the Institute of Internal Auditors, internal auditors must communicate the results of engagements even when no findings are identified. Accordingly, IA documented the audit to comply with this requirement.

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## Other Audit Considerations

These are not audit findings. There are 3 audit considerations we believe could be of help.

1. The Assessor is aware that the land use code utilized in the current AS400 can be confusing and in some instances incorrect. The method of coding structure was inherited from the prior administration. The current administration has plan to tidy up the coding method in the new Aumentum system. Any incorrect use codes will also be corrected.
2. As with all Sutter County departments, cross-training, and succession planning are crucial to ensure a smooth transition. IA realizes that it is difficult to hire a new replacement if the position is currently filled. The Assessor hired an overfill position for the Assistant Assessor position. The department should continue to monitor coverage of work.
3. During the audit, IA assisted with the codification of procedures. Management is aware of the importance to update the procedures after the migration to the new Aumentum system.

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ACKNOWLEDGEMENTS

Internal Audit would like to thank the Assessor's Office management and staff for their cooperation, insight, and time throughout this audit.



Nathan M. Black, CPA  
Auditor-Controller



Jackie Kong  
Senior Internal Auditor

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## Glossary

Confidence level	What does 95% confidence level mean? If every item in the population were inspected, the auditor would expect to find an accuracy of 95 out of 100. Confidence level normally range from 90-99%.
Expected deviation rate	Auditor's best judgement of the rate of deviation in a population.
Population	A group of items being considered for sampling that are appropriate for the objective along with the period covered.
Population proportion	When sampling for attributes, types of parcels that exhibit the characteristics that the auditor is seeking are included in the population.
Sampling risk	Risk the sample is not representative of the population; thereby causes the auditor's conclusion to be different from what the conclusion would have been if the auditor had examined every record in the population.
Stratified sampling	A population that is broken up into homogenous subgroups. The auditor may evaluate the sample results separately or combine the results and analyze as the total population.
Sample size	Number of items in the sample based on factors such as population size, estimate of proportions in population precision, and expected deviation rate.