Memo To: Bryan Jenkins, Executive Director of Accountability and State Board Affairs, North Carolina Community College System
From: Greg Isley, CPA
Date: June 19, 2017
Re: Suggested Methodology and Tool for Sampling of Classes for Compliance Reviews

3. You will then need to ascertain the following for each location to select a sample by location:
   a. Materiality: this would be based on the class revenue of each location. Normally materiality is deemed to between ½% to 1% of revenue. My suggestion would be to use 1% of revenue, but this is the judgement of the auditor.
   b. Confidence level: This is normally set between 90% and 95%. I would suggest using a 90% confidence level. This means at the end of your testing you will be 90% confident of your results after evaluation.
   c. Tolerable error: This is the amount of error you are able to conclude no further analysis is deemed necessary because the amount is quantitatively not material. This error can be expressed as a dollar amount or percentage.
   d. Expected error: It is recommended that all samples have an expected error. An expected error will cause the sample size to be larger but logistically is more efficient that zero expected error when errors are found when testing the sample. The expected error is a judgement call. The higher the expected error the higher the sample size.
   e. The above information will then be input into the IDEA software, along with the population and the software will determine the sampling interval and also select the population for sampling.
4. Once the sample is selected, the testing of the sample may occur and the key aspect of the test is the definition of an error. It is my understanding that the NC Community College system has documented the rules in determining the factors in 1.a. to 1i above and this what will be evaluated for the whole class in determining if the value of the class is correct. If college has not complied with those rules in order to determine the class value, then this value would be deemed an error and the auditor would then need to determine the correct value in order to input into the IDEA software for evaluation of the error on each sample item.
5. Upon entering the results of each sample item, the software can then evaluate the population in order to determine if the results are within the parameters in 3. above. If not, the software will compute the expected error in the population. The evaluation of the sample should be run for each individual location.

It is my suggestion that you designate two sampling champions within your group to select and evaluate the samples and to field questions from your auditors in the field. In addition, I would suggested that the two sampling champions receive further training as it relates to sampling.