

3.5 EXECUTION PHASE

EXHIBIT D – Sampling Guidelines for On-Site Multi-Program Verification

Document Name	Sampling Guidelines for On-Site Multi-Program Verification
Document Number	3.5D
When/How Used	This sampling method should be followed by CVOs in order to obtain a sample of transactions for the purposes of verifying importer compliance with multiple Trade programs.
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Contact	Contact your local compliance verification office at: http://cbsa.gc.ca/contact/listing/indexpages/index-e.html

Other Stakeholders

Sampling Guidelines for On-Site Multi- Program Verification

(Instructions for effective sample selection)

The purpose of sampling is to select a sample of transactions that are representative of the importations pertaining to a national or regional priority commodity or issue. The sample will consist of major transactions, vendors, classifications, seasonal merchandise, related party transactions etc. This sample will be used as a basis for determining the client's compliance levels with CBSA administered legislation and programs.

Based on the systems walk-through, the CVO determines the data source that will be used for the sample selection. This will be either FIRM or the client's records, depending on which is most efficient. The client's records will be the most complete, in so far as containing all of the import transactions.

Alternatively, an effective and efficient sample can be obtained through FIRM, with the expectation that compensating procedures will be performed to test the client's systems for completeness of accounting to CBSA. (See Exhibit J Accounting Compensating Procedures)

If the client's records are used, the CVO should request specific data from the client. The electronic data files containing the receipts, payables and inventory records covering the verification period are those normally considered. It is essential to provide the client with a list of required data fields and preferred data formats so that they may extract the necessary records from their systems.

Once the data files are obtained (from FIRM or from the client records) they should be imported into an acceptable spreadsheet application such as WinIDEA or Microsoft Excel.

If sampling from the client's records, the data may have to be **purified** before samples can be selected. This involves filtering out unwanted records such as domestic purchases, purchases of services, and installment payments. It may also include combining multiple data files together in order that all the information required by the client to retrieve the sample documentation is available. Once purified, the validity of the data file(s) are tested by comparing the total value for duty with information retrieved from a FIRM report.

The CVO is responsible for sampling then checks for **outliers**, which are defined as any single record that accounts for over ten percent of the total value for duty. If these records cover goods imported in the normal course of business, they will be selected to form part of the sample for review.

If the records cover goods imported for any other reason (e.g. re-tooling of an assembly line), they are removed from the database and verified independently as a supplemental sample.

For MPV, the sample size is 25 records, with some flexibility for exceptional circumstances. Once the population has been established, sample selection may begin.

Examples to Illustrate Sample Selection

Each of the two examples is based on the population having particular characteristics. Both examples use a three-step process involving stratifying the population, randomly selecting an initial sample of 100 transactions, followed by judgmental sampling.

Method 1 – To be used when the population consists of a **high volume** of imports with a **wide range of value** for duty.

When the population of transactions consists of a high volume of imports with a wide range of value for duty, then it would be appropriate to **stratify the population based on value for duty** and obtain the sample using a random number generator, followed by judgmental sampling. The generally accepted method, for CBSA, is to divide the population into five groups (or strata) of transactions (or records) of equal value. Each strata would encompass one fifth of the total value for duty of the population. The population is the total of all transactions of whatever is sampled. It could be obtained by B3 lines, if drawing the sample from FIRM, or it could be shipments received, if sampling from the receiving report from the client's records.

When there is a large range of values of transactions, sampling from a stratified population is an excellent way to ensure that low value and high value transactions are obtained from the population. Otherwise, without stratifying, it is likely that the sample will contain a higher volume of low value transactions – which might not reflect the true qualities of the population.

For example, assume there is 1000 transactions in the population that range in value from \$1 to \$100,000. Furthermore, assume that the total value for duty is \$10,000,000. This means that each stratum will contain \$2,000,000 worth of transactions. Make note, that there will not be an equal number of transactions in each stratum. The lowest strata will consist of many transactions and the highest strata will consist of only a few transactions as follows:

Stratum	From	To	Records	Samples
1	\$8,000,000	\$10,000,000	25	20
2	\$6,000,000	\$8,000,000	75	20
3	\$4,000,000	\$6,000,000	150	20
4	\$2,000,000	\$4,000,000	250	20
5	<u>\$1</u>	<u>\$2,000,000</u>	<u>500</u>	<u>20</u>
	<i>Total VFD</i>	<i>\$10,000,000</i>	<i>1,000</i>	<i>100</i>

Once the population is stratified, use WinIDEA or Excel to select a random sample of 100 records, twenty from each category, using a random number generator. *Note that this is not the final sample.* The CVO responsible for sampling will then use professional judgment to select the final 25 records from the 100 records. The sample of 25 will be used to form the basis for determining the client's compliance levels with the trade programs. The final 25 records would be selected based on information obtained from developing the client profile, during the planning phase and from any other relevant information gathered from the systems questionnaire and discussions and observations made during the walk-through. The make-up of the sample will consist of the main classifications, vendors, tariff treatments, seasonal merchandise etc. and should closely resemble the summary FIRM download developed in the verification planning memorandum. The final sample of 25 may consist of 5 records from each strata, however, this can vary depending on the make up of the client profile.

For each of the final 25 records selected, the CVO requests the complete documentation trail from the client for review (e.g. purchase order, commercial invoice, import entry, receipt record, proof of payment).

Questions may arise, as to why we need to take the intermediate step of drawing a random of 100 transactions using a random number generator and why not just select 25 transactions from the initial population using judgment. *The reason is that when the population consists of a large number of transactions, judgment becomes difficult.* There are often too many factors to consider and this may make obtaining a representative sample both time-consuming and difficult. By using a random number generator, a large population can be reduced to a size that is easier to work with. It also reduces the level of sampling bias so that the final sample of 25 is still a reasonable representation of the population.

Method 2 - To be used when the population consists of a high volume of imports having a fairly equal range of value for duty.

When the population consists of a high volume of imports that has a very narrow range of values of shipments, then it may be appropriate to use an alternative method. Often importers order similar quantities or value of the same goods over and over, and this can result in a population of similar valued transactions when sampling from only one commodity. In this case stratifying the population based on value does not make much sense because it could result in specific vendors being excluded altogether from the sample, especially if there are infrequent volumes of imports from any particular vendor relative to other vendors in the population. One way to overcome this barrier is to first **stratify the population by vendor**. Obtaining a random sample of 100 transactions, followed by judgmental sampling, would follow this.

For example, assume there are 1,000 transactions in the population and they are all around \$1,000 each, for a total value for duty of \$10,000,000. Assume there are 5 vendors but the total number of imports by each vendor varies. The following example illustrates how to determine the number of random samples for each stratum.

Stratum	Vendor	VFD	Relative %	Random Samples	Final Sample
1	1	\$3,500,000	35%	35	9
2	2	\$2,500,000	25%	25	6
3	3	\$2,000,000	20%	20	5
4	4	\$1,500,000	15%	15	4
5	<u>5</u>	<u>\$500,000</u>	<u>5%</u>	<u>5</u>	<u>1</u>
	Total	\$10,000,000	100%	100	25

Once the population is stratified by vendor, the CVO will use WinIDEA or Excel to select a random sample of 100 records based on the relative percentage of value for duty by vendor. The number of random samples taken for each vendor would be determined based on the relative percentage of value for duty of each vendor. *Note that this is not the final sample.*

The CVO responsible for sampling will then use professional judgment to select the final 25 records from the 100 records. The sample of 25 will be used to form the basis for determining the client's compliance levels with the trade programs. The final 25 records will be selected, based on information obtained from developing the client profile during the planning phase and from any other relevant information gathered from the systems questionnaire and from

discussions and observations made during the walk-through. This final sample should consist of the main classifications, tariff treatments, seasonal merchandise etc. and should closely resemble the summary FIRM download developed in the client profile.

Sampling Issues to Consider When Obtaining a Sample Selection

Sample Size

There may be instances when 25 transactions are either too many or too few. There may be instances when the client only imports one or two classifications from one or two vendors. In this case, 25 records may be overly redundant and the CVO responsible for sampling can justify using a smaller sample size. Similarly, there may be cases where the 25 transactions do not adequately cover all of the main classifications; vendors etc. and therefore, more records may need to be reviewed.

Multiple Lines

When sampling from FIRM, the sample consists of B3 transaction lines, which pertain to a commercial invoice or invoices or multiple lines on one invoice. The CVO will need to first perform a cursory review of the commercial invoices pertaining to the 25 B3 transaction lines in order to determine which invoice line(s) will be verified. It is not the intent of MPV to verify all invoice lines of every invoice. Again, the CVO responsible for sampling must use judgement to select lines from the commercial invoices that are fairly reflective of the client's business. This may require having to look at more than one line per invoice. Keep in mind that each invoice line verified is considered a separate sample and must be recorded as such in the Compliance Management Workbook (CM Workbook). The important issue is that the final sample of invoice lines be representative.