

Sub Folder Name: AG Society (Nov 2011)

Step Name/Procedure Name: AG Society (Nov 2011)

**AUDITOR OF STATE  
AGRICULTURAL SOCIETY AUDIT PROGRAM  
SPECIMEN SUBSTANTIVE TESTS**

**Introduction**

**Use of this program is optional.** We are providing it because of the unique nature of pari-mutuel wagering, race purses and junior fair boards and junior fair livestock sales committee transactions. CPA firms may find the substantive procedures described herein to be useful.

The guidance below still references Audit Division Advisory Memo 2002 – 003, because it includes useful explanations of wagering, purse and junior fair transactions.

However, Appendix F to ADAM 2002-03 includes examples of outdated AOS planning, internal control and risk assessment practice aids.

We strongly prefer CPA firms to use their own planning, control and risk assessment guidance, to avoid blending two audit documentation methods within one audit.

This program includes procedures suitable for Agricultural Societies that supplement our specimen program procedures. **Nevertheless, it may be necessary to tailor this program to meet the needs of a particular Ag. Society, depending on differing receipt sources, how they account for purse and pari-mutuel wagering receipts and disbursements, and how accounting records and documentation is maintained, etc.** It is primarily the responsibility of the senior audit manager and audit manager to assure that the program steps result in a suitable tradeoff between effectiveness and efficiency (i.e., responds to risk appropriately). Significant judgment is required.

Audit Division Advisory Memorandum (ADAM) [2002-003](#) provides audit and accounting guidance for the following issues specific to agricultural societies:

- Parimutuel Wagering
- Race Purse
- Junior Fair Board and Junior Fair Livestock Sale Committee

**These steps are to be done in conjunction with substantive audit programs used in the Ag. Society audit.**

Step No.	Assertion	PLANNING / RISK ASSESSMENT/DETERMINING AUDIT STRATEGY Procedure for Consideration
1.	N/A	<b>Gain a general understanding of the client and its operations</b> In addition to procedures listed in the substantive planning audit program, review: <ul style="list-style-type: none"><li>• Compliance Examination Report</li><li>• Annual report submitted to the Department of Agriculture</li></ul> Most information required to satisfy this step will be obtained from the annual report submitted by the society to the Department of Agriculture

		<p>and the Department's Compliance Examination Report. Note that the Department of Agriculture's Red Book serves as an effective codification of the compliance environment in which agricultural societies operate. AOS has a Uniform System of Accounting for Agricultural Societies accounting policies (11/02) available at <a href="http://www.auditor.state.oh.us/services/lgs/publications/LocalGovernmentManualsHandbooks/uniform_agricultural_society_accounting_system_user_manual.pdf">http://www.auditor.state.oh.us/services/lgs/publications/LocalGovernmentManualsHandbooks/uniform_agricultural_society_accounting_system_user_manual.pdf</a></p> <p>The Compliance Examination Report is generally short and contains the Fair Audit Worksheet and Internal Audit notes. It represents a good summary document to assist the auditor in focusing on client-specific risks. Its careful review should help the auditor identify risks and prepare an effective audit strategy.</p>
2.	N/A	<p>When performing preliminary analytics in the substantive planning audit program, consider:</p> <p>Agricultural societies also operate in fairly stable environments. The most significant source of variation in receipts and expenditures is likely to be the weather during the society's annual agricultural fair.</p>

Step No.	Assertion	OVER THE COUNTER RECEIPTS Procedure for Consideration
<p>In agricultural societies, a significant amount of annual revenue is generated through over-the-counter cash receipts during their fair week.</p> <p>From a substantive standpoint, we should be able to evaluate over the counter cash receipts in relation to previous years and among peers within the same year. A properly designed substantive analytic procedure combined with effective monitoring controls such as management review of the budget could reduce remaining audit risk to an acceptably low level that qualification of the opinion for completeness of cash receipts will not be required. Also, note that evidence of application controls may be found in the form of ticket accountability forms over gate receipts.</p>		
5.	[CmD] [CuT]	<p>When testing the substantive audit program over the counter receipts, consider:</p> <p>This documentation should include the factors considered in determining which prior periods are comparable and which agricultural societies are comparable (peers).</p> <p>When developing expectations for the following procedures, auditors should consider variances in relevant factors between periods or entities being compared.</p> <p>Such factors might include:</p> <ul style="list-style-type: none"> <li>• weather conditions</li> <li>• draw of scheduled fair events (e.g., concerts, shows)</li> <li>• draw of local events (other than the fair) during fair week</li> <li>• correlation of receipts from other fair activities for the same period</li> <li>• present population of county and recent population growth trends</li> <li>• degree of fair promotional efforts</li> </ul> <p>Example Substantive Analytic Tests:</p> <p>i) Compare admission receipts with peer agriculture societies</p> <p>ii) Compare admission receipts with county population</p>

		iii) Perform a trend analysis iv) Design other substantive analytics
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**PROPERTY TAXES, INTERGOVERNMENTAL REVENUE  
& OTHER CONFIRMABLE CASH RECEIPTS**

<b>Step No.</b>	<b>Assertion</b>	<b>Procedure for Consideration</b>
6.	N/A	<p>When confirming receipts received from the County Auditor in the substantive audit program, consider:</p> <p>County aid may be in the form of a general appropriation or distribution of an agricultural tax. Counties may levy an "agricultural tax" and, therefore the ag society should be identified in that county's SSAT. We expect the primary source of county ag society funding to be documented by resolutions of the boards of county commissioners.</p> <p>For State Distributions: The DTL lists all transactions paid to local governments.</p> <p>You can access pdf versions of the DTLs on the OBM web site at: <a href="http://obm.ohio.gov/Archives/StateAccounting.aspx">http://obm.ohio.gov/Archives/StateAccounting.aspx</a></p> <p>The DTL sorts payments (i.e., cash receipts to our auditees) by revenue source. DTLs are usually a complete and reliable source of evidence. State Distributions are likely to come in the form of warrants and may not be listed on the Distribution Transaction List.</p> <p><b>Prior to 7/1/2008:</b> <a href="http://www.auditor.state.oh.us/resources/ipa/distribution/">http://www.auditor.state.oh.us/resources/ipa/distribution/</a></p> <p>Finding the entity by name can sometimes be difficult in the OBM listing. Auditors should search the listing with varying forms of the auditee name if not listed as expected.</p>

**BUDGETARY DISCLOSURES and INTERFUND CASH TRANSFERS**

Ag Societies do not have sufficient authority to legally adopt an annual ("appropriated") budget. Therefore, we believe Ag Societies cannot have a budget that satisfies this criterion from GASB Cod [2400.102](#). If a Society adopts a budget and wishes to present it, the statements should present it as supplemental information (not RSI). While not legally binding under the GASB criteria, over expending the budget could be noncompliance with a Society' budget resolution. Some entities adopt budgets as planning tools, and the CFO reports overspending to the governing board for monitoring purposes, but it might not be noncompliance. You must exercise judgment in determining whether a governing board deems overspending its budget to be noncompliance.

OCS Appendix H includes a budgetary compliance requirement for county and independent Ag Societies. For agricultural societies, we should look to chapter 57 of the Ohio Revised Code as a source of effective management practices, but not as a source of legal compliance.

<b>Step No.</b>	<b>Assertion</b>	<b>PURSE RECEIPTS AND DISBURSEMENTS Procedure for Consideration</b>
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7.	N/A	<b>Preliminary Steps</b> – Assure that the following have been completed prior to commencing substantive testing:
a.		Systems documentation has been completed or updated.
b.		<p>Related control procedures have been completed</p> <p>i. Applicable controls documentation / testing has been performed:</p> <p style="padding-left: 40px;">In each case, the results support the planned risk assessment (or the planned risk assessment has been updated).</p> <p>ii. Where transaction processing is automated, we documented that sufficient computer-generated “paper” evidence or evidence generated outside the client’s automated system existed to support automated calculations and data summarization. We considered whether planned substantive procedures selected below adequately address the volume and complexity of automated transactions.</p> <p>NOTE: In assessing CR, consider that AU <a href="#">9326.24</a> – .27 suggests that a CR of less than maximum or low may be needed to help assure completeness.</p>
c.		<p>Planned substantive procedures address material illegal acts that may relate to this account.</p> <p>i.) Related sections of the OCS have been incorporated into our testing plan.</p> <p>ii.) We have considered and documented other sources of potential material illegal acts or noncompliance and appropriately updated our substantive testing plan. (E.g., such as for local resolutions, charter requirements or other material laws or regulations.)</p>
d.		The engagement management team has appropriately tailored the substantive steps below to fit the circumstances of this engagement.
8.		<b>Test summaries of cash received</b>
a.	AT	<p>Test foot subsidiary records (e.g., cashbook, register tapes, duplicate prenumbered receipts, and duplicate license copies) of cash receipts.</p> <p>(Note: The extent of this can be limited considerably for automated systems.)</p>
b.	[AT]	<p>Scan postings to the cash receipt ledger. Investigate any unusual entries.</p> <p>Scan purse payments in the cash disbursement ledger. Investigate unusual entries.</p>
c.	AT OT	<p>Obtain copies of race schedules approved by the board of directors.</p> <p>--Trace authorized race dates to the cash receipt ledger postings and determine whether there purse receipt postings for each race day, and only each race day.</p> <p>--Trace authorized race dates to the cash disbursement ledger postings and determine whether there are purse disbursement postings for each race day, and only each race day.</p> <p>Inquire with management regarding any variances and follow-up on management explanations.</p>
9.		<b>Test details of purse cash collection summaries.</b>
a.	OT	Trace purse collections received from the horsemen’s society, to supporting documentation such as remittances or memos.

b.	AT	<p>Obtain documentation indicating the authorized amount to be charged by the agricultural society as entry fees.</p> <p>Determine the number of horse participants based on published race schedules or other documents.</p> <p>Calculate estimated entry fee collections based on the number of participating horses and the established entry fee. Compare to recorded amounts and follow-up on significant variances.</p>
10.	CmT	<b>Recalculate purse and trace to cash disbursement ledger.</b>
a.		Recalculate the amount of state receipts used as purse.
b.		<p>Compare purse collections (amounts provided by the horsemen's society and collected directly from entrants) plus state purse dollars calculated in step 10.a., to purse disbursements recorded in the disbursement ledger.</p> <p>Investigate any significant variances.</p>

Step No.	Assertion	PARIMUTUEL WAGERING RECEIPTS AND DISBURSEMENTS Procedure for Consideration
11.	N/A	<b>Preliminary Steps</b> – Assure that the following have been completed prior to commencing substantive testing:
a.		Systems documentation has been completed or updated.
b.		<p>Related control procedures have been completed</p> <p>i. Applicable controls documentation / testing has been performed:</p> <p style="padding-left: 40px;">In each case, the results support the planned risk assessment (or the planned risk assessment has been updated).</p> <p>ii. Where transaction processing is automated, we documented that sufficient computer-generated “paper” evidence or evidence generated outside the client’s automated system existed to support automated calculations and data summarization. We considered whether planned substantive procedures selected below adequately address the volume and complexity of automated transactions.</p> <p>NOTE: In assessing CR, consider that AU <a href="#">9326.24</a> – .27 suggests that a CR of less than maximum or low may be needed to help assure completeness.</p>
c.		<p>Planned substantive procedures address material illegal acts that may relate to this account.</p> <p>i.) Related sections of the OCS have been incorporated into our testing plan.</p> <p>ii.) We have considered and documented other sources of potential material illegal acts or noncompliance and appropriately updated our substantive testing plan. (E.g., such as for local resolutions, charter requirements or other material laws or regulations.)</p>
d.		The engagement management team has appropriately tailored the substantive steps below to fit the circumstances of this engagement.
12.		<b>Test summaries of cash received, totalizer service fees, and parimutuel taxes.</b>
a.	AT	Test foot subsidiary records (e.g., cashbook, register tapes, duplicate prenumbered receipts, and duplicate license copies) of cash receipts.

		(Note: The extent of this can be limited considerably for automated systems.)
b.	[AT]	Scan postings to the cash receipt ledger. Investigate any unusual entries.  Scan totalizer service fees and parimutuel tax postings in the cash disbursement ledger. Investigate unusual entries.
c.	AT	Obtain copies of race schedules approved by the board of directors.  --Trace authorized race dates to the cash receipt ledger postings and determine whether there are wagering receipt postings for each race day, and only each race day.  --Trace authorized race dates to the cash disbursement ledger postings and determine whether there are totalizer service and parimutuel tax disbursement postings for each race day, and only each race day.  Inquire with management regarding any variances and follow-up on management explanations.
d.	AT	For selected race days, agree the Society's distribution of commission (usually received in cash from the totalizer service and net of totalizer service fees) per the tax liability report to daily validated deposit slips.
13.	OT	<b>Trace parimutuel wagering cash collection summaries to underlying sources of documentation.</b>
a.		Agree selected daily commission totals (gross commission) per the liability report to the cash receipts ledger.  Note: Though agriculture societies normally only receive and deposit net commission (an amount, usually received in cash, representing commission less totalizer service fees), 100% of commission should be recorded as cash receipts.
b.		For selected daily liability reports, select individual races and recalculate commission using handle for exotic and non-exotic wagers.  Note: This may be an <a href="#">AU 350</a> sampling application.
c.		For selected daily liability reports, foot total commission using commission for each race and type of wager as indicated on the daily liability report.  (Note: The extent of this can be limited considerably for automated systems.)
14.	CmT AT	<b>Recalculate and trace totalizer service fees and parimutuel wagering taxes to the cash disbursement ledger.</b>
a.		Recalculate taxes per daily liability reports using footed commission from step 13c. Trace recalculated tax to the cash disbursement ledger.
b.		Recalculate totalizer fees per the daily tax report. (Use rates approved in the totalizer agreement and amounts per the daily liability reports tested in step 13.)

		Trace recalculated totalizer payments to the cash disbursement ledger.
15.	CmT	<p><b>Apply one or more of the following substantive analytic procedures to parimutuel wagering receipts.</b></p> <p>For substantive analytic procedures, document:</p> <p>i) The expected precision and predictability of relationships, factors and variables used  ii) Expectations</p> <p>This documentation should include the factors considered in determining which prior periods are comparable and which agricultural societies are comparable (peers).</p> <p>When developing expectations for the following procedures, auditors should consider variances in relevant factors between periods or entities being compared. Such factors might include:</p> <ul style="list-style-type: none"> <li>• weather conditions</li> <li>• ranking of participant horses and related odds</li> <li>• number of horses participating in each race</li> <li>• number of races per period (e.g. day, week)</li> <li>• draw of other scheduled fair events (e.g., concerts, shows)</li> <li>• draw of local events (other than the fair) during fair week</li> <li>• correlation of receipts from other fair activities for the same period</li> </ul>
a.		Compare annual receipts to those of comparable prior periods and peer agricultural societies.
b.		For selected periods (e.g., days, week, year) calculate the average handle amount per adult admission ticket. Compare the average handle to that of comparable prior (or subsequent) periods and that of peer agricultural societies (for the same or prior periods).
c.		Add other analytic tests as appropriate.
d.		Per <a href="#">SAS 99</a> / <a href="#">AU316</a> , consider whether the results of the analytic procedures evidence possible material fraud. Document on the analytic w/p whether or not the results suggest a previously unrecognized fraud risk.