

Appendix H

AGRICULTURAL SOCIETY COMPLIANCE SUPPLEMENT

You should use this appendix for all audits of Agricultural Societies in addition to the general laws and regulations noted as applicable to Agricultural Societies in the Legal Matrix within Appendix F.

Agricultural societies incorporate as either county (per RC 1711.01) or independent (per RC 1711.02). Certain laws herein apply to one or both types. Each step describes to which type of society it applies.

~~The first six steps match the topics of the first six chapters of the Ohio Compliance Supplement. Therefore, the first six steps are laws and regulations that AOS normally considers “direct and material” (i.e. where significant violations require reporting in the compliance and internal controls report Government Auditing Standards requires. The applicable Ohio Compliance Supplement chapter is noted for each step. Those noted as OCS Chapters 1 through 6 are laws and regulations that AOS normally considers “direct and material” (i.e., where significant violations require reporting in the compliance and internal controls report *Government Auditing Standards* requires).~~ The sub steps in OCS Chapter 7 items are matters the Auditor of State considers important for fulfilling a society’s stewardship responsibilities, analogous to Chapter 7 in the Ohio Compliance Supplement. However, noncompliance with those requirements may not require reporting as material noncompliance. Auditors should evaluate the materiality of all noncompliance findings to determine the proper reporting. See the Introduction to the Ohio Compliance Supplement for more on testing and reporting requirements.

Agricultural Society Compliance Supplement**Applicability: County and independent societies****OCS Chapter 1**

Budgetary Compliance Requirement: An Agricultural Society is not required to follow the budgetary statutes within ORC Chapter 5705. However, the *Uniform Agricultural Society Accounting System User Manual* states:

Each agricultural society shall prepare an annual budget of its revenues and expenses. The budget shall cover the period December 1st through November 30th.

The budget shall be considered and approved by the board of directors prior to the first day of the ensuing fiscal year. The budget shall be prepared at the level of the accounts from the chart of accounts which are used by the society.

Budgeted revenues and expenses should be distributed to the month they are likely to be received and expended. The distributed monthly budget should be integrated into the society's accounting system.

Actual revenues and expenses shall be compared to budgeted amounts each month, and reported to and reviewed by the board of directors. The board of directors shall determine the reasons why actual expenses exceed or are less than budgeted expenditures by making inquiries to fair management about the reasons.

The budget is not legally binding unless the Board adopts a resolution making the budget legally binding.¹

[Insert applicable budgetary requirements.]

* An appropriation is authorization to expend money.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Periodic Reviews/Comparisons of Budgeted and Actual Amounts • Presence of Effective Accounting System		

¹ In reconsidering this matter, we believe Agricultural Society Boards lack the legal authority to adopt legally binding budgets subject to GASB Codification 2400.103. Therefore, if a Society adopts a budget and wishes to present it, the statements should present it as supplemental information (not RSI). However, while not legally binding under the GASB criteria, over expending the budget could be noncompliance with a Society' budget resolution. Determining whether noncompliance exists requires judgment based on whether the Society intends their budget to limit expenditures vs. being only a planning tool, etc.

• Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		
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Suggested Audit Procedures – Compliance (Substantive) Tests:

- a. Read resolutions and determine whether the society intends their budget to be legally binding. If so, include a copy or abstract of the resolution in the permanent file, and include step e below.
- b. Inquire (or determine from reading the minutes) if amended or supplemental measures have been passed.
- c. Inspect the government's records throughout the period to determine if updates and adjustments were properly and timely posted.
- d. Apply limited procedures to determine if the Board uses the budget to monitor activities. Evidence of monitoring would include:
 - Including a copy of budget vs. actual results in meeting agendas.
 - Evidence in the minutes of discussion of results.
 - Memos from board members to other employees investigating variances.
- e. If the budget is legally adopted:
 - Scan for negative variances at the legal level of control. Report these findings in the management letter or GAGAS report depending on their significance.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Note: Auditors should test the applicable prevailing wage requirements documented in Chapter 2 of the OCS. Refer to Appendix F for guidance on specific applicability.

2. ~~Contracts and Expenditure Compliance Requirement:~~ Ohio Revised Code Sections 4115.04 and 4115.05 ~~Prevailing wage rates.~~

Summary of Requirement: ~~The prevailing wage laws essentially require an entity to obtain the prevailing wages in their area for the types of labor required to complete the project they are going to bid before such project is bid and again when the contract is awarded, if the award is made more than 90 days after the original prevailing wage is determined. They then need to make sure that the contractors who are awarded the contracts agree, in the contract, to pay the prevailing wage.~~

Exceptions:

- ~~When a project is receiving federal funding, prevailing wage law does not apply if the Davis Bacon Act, which is a federal prevailing wage law, applies instead.~~
- ~~If contractors are using employees that are taking part in certain programs established by the Bureau of Employment Services, prevailing wages do not apply to these individuals.~~

~~If you are conducting a federal single audit, and this provision applies, follow Federal Davis-Bacon regulations for Federal dollars spent for construction contracts.~~

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Oversight Body Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures ~~Compliance (Substantive) Tests:~~

- a. ~~Inquire if the contract is funded in whole or part by federal grant or contract. If so, perform appropriate federal audit procedures.~~
- b. ~~Inspect contracts for the required "prevailing wage" language.~~
- c. ~~Compare the date of prevailing wage establishment with the contract date. If more than 90 days elapsed between the two dates, determine that a prevailing wage redetermination was obtained by inspecting that document.~~

- d. ~~Inquire and inspect documentation supporting whether the Ag Society compares actual salary payments to the prevailing wage rates. _____~~

~~Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):~~

Applicability: County societies**OCS Chapter 3**

3a. Debt Compliance Requirement: Ohio Revised Code Sections 1711.18 – Issuance of county bonds to pay debts of county society; 1711.19 – Bonds; 1711.20 – Levy for payment of bonds; and 1711.21 – Use of money raised by county taxation.

Summary of Requirement: In a county in which there is a county agricultural society indebted fifteen thousand dollars or more and such society has purchased a fairground or title to such fairground is vested in fee in the county, the board of county commissioners shall submit to the electors of the county whether or not county bonds shall be issued and sold to liquidate such indebtedness. If a majority of the voters vote in favor thereof, the board of county commissioners shall issue and sell bonds of the county in the amount necessary. Such bonds shall bear interest at not more than the rate RC 9.95 provides,² payable semiannually, and shall be issued for a period of not less than ten nor more than twenty years.

From the proceeds arising from the sale of such bonds, the board shall pay off the indebtedness for which such bonds were sold. The board of county commissioners shall levy a tax upon all the taxable property on the tax duplicate of the county for the purpose of paying such bonds as they mature and the interest thereon.

When money has been raised by taxation by a county for the purpose of leasing lands for county fairs, erecting buildings for county fair purposes, or making improvements on a county fairground, or for any purpose connected with the use of a county fairground or with the management thereof by a county agricultural society, such money shall be used for such purpose only.

Note: Bonds a county issues under this section are **county** liabilities, though the society may agree to repay the county for debt service due on the bonds. (If the society contractually agrees to pay the county for the debt service, the society's notes should disclose a debt obligation to the county. However, do **not** characterize the obligation as *bonds payable*.)

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Bond Counsel/Lender Involvement • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

² RC 9.95 states, "Interest shall not exceed the maximum or maximum average annual interest rate per annum determined in or pursuant to the proceedings for the securities by the county commissioners."

Suggested Audit Procedures – Compliance (Substantive) Tests:

- a. Inspect cash receipt records and minutes and determine if indebtedness exists.
- b. For bonds a county issues during the audit period, compare disbursements of the proceeds to the bond documents to determine if the proceeds were spent for purposes for which the bonds were issued.
- c. For bonds issued during the audit period, read bond contracts and summarize provisions applicable to the Society, and save in the permanent file. The summary should describe:
 - Purposes for which the debt was issued.
 - Collateral
 - An amortization schedule for any debt service the society owes to the county.
- d. For years in which the society owes debt service to the county, agree payments to the amortization schedule.
- e. Determine if a debt footnote describes the purpose, original issue amount, collateral, and an amortization schedule for this debt.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Applicability: County society**OCS Chapter 3**

3b. Debt Compliance Requirement: Ohio Revised Code Sections 1711.25 to 1711.30 – Sale, lease, purchase, and exchange of sites by county society; payment for new site by county funds or bonds; tax levy; and approval by electors.

Summary of Requirement: A county agricultural society may secure a different site for its annual fair. If this occurs, auditors should review the Ohio Revised Code sections listed above and develop appropriate audit procedures.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Bond Counsel/Lender Involvement • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures – Compliance (Substantive) Tests:

- By reading the minutes, determine if the Society procured a different site for its fair, or acquired or disposed of land where the annual fair is held. If so, review the code sections above for specific requirements.
- In the year these transactions occur, read contracts and summarize requirements imposing debt or lease payments, collateral, insurance or other obligations on the society. Save the summary in the permanent file.
- Determine if the footnotes adequately describe any leases or other society obligations, amortization schedules, etc.
- For subsequent years, agree any debt or lease payments owed to the contract summary in the permanent file.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

Applicability: County societies**OCS Chapter 3**

3c. Debt Compliance Requirement: Ohio Revised Code Sections 1711.13 – County agricultural society may obtain mortgage debt or may enter into written agreements to obtain loans and credit for expenses.

Summary of Requirement: County agricultural societies may do either or both of the following:

(A) Mortgage their grounds for the purpose of renewing or extending pre-existing debts, and for the purpose of furnishing money to purchase additional land, but if the board of county commissioners has caused money to be paid out of the county treasury to aid in the purchase of the grounds, no mortgage shall be given without the consent of the board. Deeds, conveyances, and agreements in writing, made to and by such societies, for the purchase of real estate as sites for their fairs, shall vest a title in fee simple to the real estate described in those documents, without words of inheritance.

(B) Enter into agreements to obtain loans and credit for expenses related to the purposes of the county agricultural society, provided that the agreements are in writing and are first approved by the board of directors of the society. The total net indebtedness incurred by a county agricultural society pursuant to this division (B) shall not exceed an amount equal to twenty-five percent of its annual revenues.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Bond Counsel/Lender Involvement • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures – Compliance (Substantive) Tests:

- By reading the permanent file, minutes, cash receipt records, other documents, and by inquiry, determine if any such indebtedness exists.
- If there is mortgage debt, use the sources described in **a.** above to determine if the board of county commissioners paid county funds to aid in purchasing the grounds. Read a copy of the county commissioners' resolution to determine if they gave the proper consent for this mortgage debt. Retain a copy of the resolution in the permanent file.

c. Loans and Credit³

- If the Society has procured loans and credit for expenses related to the purposes of the county agricultural society, verify these agreements are in writing and were first approved by the board of directors of the society.
- Examine the society's computation supporting that the total net indebtedness from loans and credit does not exceed twenty-five percent of its annual revenues.
- For debt issued during the audit period, compare disbursements of the proceeds to the bond documents to determine if the proceeds were spent for purposes for which the bonds were issued.
- For debt issued during the audit period, read related contracts and summarize provisions applicable to the society, and save in the permanent file. The summary should describe:
 - a. Purposes for which the debt was issued.
 - b. Collateral / mortgage
 - c. An amortization schedule for any debt service the society owes to the county.
- For years in which the society owes debt service, agree payments to the amortization schedule.
- Determine if a debt footnote describes the purpose, original issue amount, collateral, and an amortization schedule for this debt.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

³ The law authorizing this type of debt did not exist prior to the addition of (B) to Ohio Revised Code Section 1711.13, effective September 26, 2003. Therefore, if any of this type of debt was acquired prior to September 26, 2003, the Agricultural Society shall discharge such debt.

Applicability: County and independent societies**OCS Chapter 4**

Accounting Compliance Requirement: Ohio Administrative Code section 117-10-01 – Financial reporting and accounting for county agricultural societies.

Summary of Requirement: Each county agricultural society and independent agricultural society shall, for financial reporting and accounting purposes, record and report all financial transactions on a fiscal year basis beginning on December 1 and ending November 30. Societies shall record and report all financial transactions in accordance with the *Uniform System of Accounting for Agricultural Societies*⁴. Note: You can view the latest version of this at www.auditor.state.oh.us, under *Publications*.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures – Compliance (Substantive) Tests:

- a. Compare the *Uniform System of Accounting for Agricultural Societies* requirements with the systems and records the society is using.
- b. Determine if:
 - The required chart of accounts is used.
 - A cash journal, a receipts ledger, an expense ledger, and an investment ledger are used.
 - The prescribed formats for accounting and reporting information are used (including receipts, purchase orders, vouchers, checks, and bank reconciliations).

⁴ The Auditor of State also requires by rules, that certain public offices follow a prescribed uniform chart of accounts and/or establish a fund accounting system to demonstrate legal compliance, financial accountability and to provide management with information for decision making. These rules are in Chapter 117-2 of the Ohio Administrative Code. As a matter of accountability and internal control, each public office should account for financial activities using an accounting system which demonstrates legal compliance; follows a documented chart of accounts appropriate for its particular activities; and is supported by appropriate subsidiary ledgers/journals. When a public office fails to maintain such an accounting system, auditors should consider whether the failure constitutes a reportable internal control deficiency or weakness.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

Note: Auditors should test the applicable deposit and investment requirements documented in Chapter 5 of the OCS. Refer to Appendix F for guidance on specific applicability.

5. ~~Deposit and Investment Compliance Requirement:~~ Ohio Revised Code Chapter 135—Uniform Depository Act requirements applicable to an agricultural society.

Summary of Requirement: See the following current ORC sections:

- ~~Sections 135.14 and 133.03(A)(1)—Eligible investments for interim monies; section 135.13, maturities.~~
- ~~Sections 135.14 and 133.03(A)(1)—Other Requirements~~
- ~~Section 135.14—Additional investments allowable for subdivisions other than counties~~
- ~~Section 135.18 (specific collateral) and 135.181 (pooled collateral)—Security for repayment of public deposits~~
- ~~Article XII, Section 5a, Ohio Constitution—Allocation of interest among funds~~
- ~~Ohio Revised Code Sections 135.21, 135.351, 5705.10 and 5705.131; 1982 Op. Atty Gen. No. 82-031, and 7 CFR Part 210.14(a)~~
- ~~Section 135.03—Eligible depositories, Sections 135.07 and 135.09—award of inactive and interim deposits, respectively, Section 135.12—Designation of depositories~~
- ~~Section 135.22—Subdivision treasurers must complete annual continuing education programs provided by the Treasurer of State.~~

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Periodic Reviews/Comparisons of Budgeted and Actual Amounts • Presence of Effective Accounting System • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures—Compliance (Substantive) Tests:

Refer to OCS Chapter 5 and Chapter 7 and perform the applicable procedures.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments)

Note: Auditors should test the applicable health care self insurance and liability insurance requirements documented in Chapter 6 of the OCS. Refer to Appendix F for guidance on specific applicability.

Applicability: County and independent societies

6a. Other Potentially Direct and Material Laws and Regulations: Ohio Revised Code Section 9.833—Health Care Self Insurance.

Summary of Requirement: This section requires individual, self-insured governments or joint self-insured health care programs to calculate (i.e., reserve*) amounts required to cover health care benefit liabilities. It also requires programs to prepare a report, within 90 days after the fiscal year end, reflecting those reserves (i.e., liabilities) and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. This report is not filed with any office, including the Auditor of State. The society should retain it, and should make it available upon request.

An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries.

Individual governments subject to this requirement must establish an internal service fund to account for this activity.

* “Reserved” means liabilities measured in accordance with accepted actuarial principles.

Note: Auditors should also refer to Auditor of State Bulletin 2001-005.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees		

Suggested Audit Procedures—Compliance (Substantive) Tests:

a. Secure a copy of the annual report:

- Determine if the government established an internal service fund to account for this activity.

- ~~Determine whether a report presenting the actuarially measured liabilities and disbursements during the year was obtained within 90 days of fiscal year end.~~
 - ~~Inspect the actuary's certificate that the amounts reserved conform with accepted loss reserving standards.~~
- b. ~~Review the actuary's report, and perform other procedures to determine whether information the client submitted to the actuary is supported by the client's accounting or other applicable records. (This step (i.e., testing information the client provides to the actuary) may be necessary to comply with Statement on Auditing Standard No. 73, *Using the Work of a Specialist*. SAS 73 (AU 336) is applicable when the actuary's liability calculation is accrued as a GAAP liability or presented in a cash basis entity's notes.)~~
- c. ~~Determine whether the actuary's opinion language (including the scope of the work) generally complied with the example described in the *Actuarial Opinions* section of the Auditor of State Bulletin 2001-005.~~
- d. ~~Consider whether any qualification in the actuary's report affects the financial statement opinion or indicates noncompliance with ORC 9.833.~~
- e. ~~Determine if a cash basis government's audited statements disclose self insurance activity based on the example disclosure in Bulletin 2001-005. (For cash basis entities, an inability to adequately calculate and present the liability may constitute a qualification related to the adequacy of disclosure.)~~

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Applicability: ~~County and independent societies~~**6b. ~~Other Potentially Direct and Material Laws and Regulations:~~** Ohio Revised Code Section 2744.081—Liability Self Insurance

Summary of Requirement: ~~This section requires joint self insurance programs (such as government self insurance pools) insuring against judgments, settlement of claims, expense, loss and damages that arise, or are claimed to have arisen, from an act or omission of the subdivision or any of its employees and to indemnify or hold harmless the subdivision's employees, to reserve* amounts to cover potential costs. It also requires the program to prepare a report, within 90 days after the program's fiscal year end, reflecting those reserves (i.e., liabilities) and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. This report is not filed with any office, including the Auditor of State; it should be retained by the government and be made available upon request.~~

An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles. The actuary must be a member of the American Academy of Actuaries.

* "Reserved" means liabilities measured in accordance with accepted actuarial principles.

Note: Auditors should also refer to Auditor of State Bulletin 2001-005.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures—Compliance (Substantive) Tests:

- a. Secure a copy of the pool's (or joint government) annual report:
 - Determine whether a report presenting the actuarially measured liabilities and
 - Inspect the actuary's certificate that the amounts reserved conform with accepted loss reserving standards.
- b. Review the actuary's report, and perform other procedures to determine whether information the client submitted to the actuary is supported by the client's accounting or other applicable records. (This step (i.e., testing information the client provides to the actuary) may be necessary to comply with Statement on Auditing Standards No. 73, *Using the Work of a*

~~Specialist. SAS 73 (AU 336) is applicable when the actuary's liability calculation is accrued as a GAAP liability or presented in a cash-basis entity's notes.)~~

- ~~c. Determine whether the actuary's opinion language (including the scope of the work) generally complied with the example described in the *Actuarial Opinions* section of Auditor of State Bulletin 2001-005.~~
- ~~d. Consider whether any qualification in the actuary's report affects the financial statement opinion or indicates noncompliance with ORC 2744.081.~~
- ~~e. Determine if a cash-basis government's audited statements disclose self insurance activity based on the example disclosure in Bulletin 2001-005. (For cash-basis entities, an inability to adequately calculate and present the liability may constitute a qualification related to the adequacy of disclosure.)~~

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):
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OCS Chapter 6

6a. Other Potentially Direct and Material Laws and Regulations: Ohio Revised Code Sections 3769.01, 3769.04, and 3769.06 – Horse-racing permit required, application for permit, and renewal of permit.

Summary of Requirement: No person, association, corporation, or trust shall hold, conduct, assist, or aid and abet in holding conducting any meetings, at which horse racing is permitted for any stake, purse, or award, unless such person, association, corporation, or trust secures a permit to conduct a horse-racing meeting.

Any person, associations, corporation, or trust desiring to hold or conduct a horse-racing meeting, wherein the pari-mutuel system of wagering is allowed, shall apply to the state racing commission (commission) for a permit. Each application, accompanied by a permit fee of ten dollars and a cash bond, certified check, or bank draft, shall be filed with the commission at least five days prior to the first day of each horse-racing meeting. The permit shall be signed by its president or vice-president and attested by the secretary or assistant secretary under the seal of the seal of the association, trust, or corporation, if it has a seal, and shall also be verified under oath by one of the officers signing the application.

Each permit issued under this section to hold or conduct a horse-racing meeting shall be issued for one year from the first day of January of the year for which it is issued. The holder of such permit shall be entitled to renewal of the permit upon application to the commission for a renewal.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures – Compliance (Substantive) Tests:

Examine the required permit. Determine that it was current at the time of the races.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

Applicability: County and independent societies**OCS Chapter 6****6b. Other Potentially Direct and Material Laws and Regulations:** Ohio Revised Code Section 3769.082 – Ohio Fairs Fund; distribution.

Summary of Requirement: Ohio Fairs Fund moneys shall be distributed by the director of agriculture annually, on or before the first day of March, as follows:

- To each county agricultural society and to each independent agricultural society conducting an annual fair, a prescribed percentage of Ohio Fairs Fund money, to be allocated for general operations.
- To each county agricultural society and each independent agricultural society conducting horse races (harness races or running races) during their annual fair, the sum of four thousand dollars, to be used as purse money for horse races in accordance with this section, and the additional sum of one thousand dollars to each such county agricultural society and independent agricultural society to be used for race track maintenance and other expenses necessary for the conduct of such horse races or colt stakes.
- A grant of four thousand dollars shall be available to each county or independent agricultural society for the conduct of four stake races for two-year-old and three-year-old colts and for four stake races for two-year-old and three-year-old fillies at each gait of trotting and pacing, provided, that at least five hundred dollars shall be added to each race. Exclusive of entrance fees and the excess moneys provided below, the grant of four thousand dollars for purse money provided, a sum not to exceed three thousand dollars may be used by a society to reach the required purse for each of the eight stake races. Such stake races shall be distributed as evenly as possible throughout the racing season.
- In the event that the moneys available on the first day of March of any year are less than that required above, the amount distributed from the Ohio Fairs Fund may be different than the amounts reflected above.
- County agricultural societies and independent agricultural societies conducting stake races shall, on or before the first day of November in the year immediately preceding the year in which the moneys are to be distributed, make application for participation in such to the director of agriculture on forms provided by the director.
- Distribution of moneys for stake races shall not be paid to county agricultural societies and independent agricultural societies that conduct on their race courses automobile or motorcycle races during any year for which such distribution is requested, unless such automobile or motorcycle races are not conducted during the days and nights that horse racing is being conducted at such fair.
- Any county agricultural society or independent agricultural society which uses the moneys distributed under this section for any purse other than that provided in this section is not

eligible to receive distribution from the Ohio Fairs Fund for a period of two years after such misuse of such moneys occurs.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Periodic Reviews/Comparisons of Budgeted and Actual Amounts • Presence of Effective Accounting System • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures – Compliance (Substantive) Tests:

- a. Determine whether the society receipted Ohio Fairs Fund in the State and Local Fund, and how much was restricted for racing purses and track maintenance according to the above sections.
- b. Compare amounts distributed for race purses and track maintenance to the amounts restricted to these purposes, and compute whether the amounts disbursed at least equaled the restricted amounts.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

Note: Auditors should test cell phone and government-owned vehicles/equipment requirements as applicable in Chapter 7 of the OCS. Refer to the Introduction and Appendix F for guidance on specific applicability.

Applicability: County and independent societies

7a Compliance Requirement : Society policies; Establishment of policies, restrictions on use, prohibitions for cell phones, and government-owned vehicles and equipment (e.g., computers, internet and phone usage, etc.).

Summary of Requirements: Most governmental entities have the authority to provide cell phones, for use by authorized employees and to provide government-owned vehicles and equipment (e.g., computers, internet and phone usage, etc.) for use by authorized users. The use of these items should be specified in a policy the society's governing body adopts. These policies should, at a minimum, identify authorized users, guidelines for allowable use/ purchases, method of reimbursement (if personal use is allowed), specific unallowable uses, reporting, monitoring of use by appropriate levels of management, and other guidelines the legislative body deems appropriate.⁵

Sample Questions and Procedures

~~Steps 1—5 below should normally only apply when the society adopts a new or modified policy. Otherwise, our review of systems documentation or the permanent file should fulfill the requirements of steps 1—5. We can apply step 6 by scanning a limited number of transactions. We do not require a high level of assurance from these procedures. Scanning a small number of reimbursements for reasonableness and evidence of reviews and documented approvals should be sufficient. Step 7 normally requires inquiry.~~

- ~~1. Obtain copies of existing policies for cell phone, and government-owned vehicles and equipment.~~
- ~~2. Who is responsible for monitoring the usage of these items?~~
- ~~3. If the policies were established by the legislative body, obtain a copy of the resolution or ordinance. Include a copy or abstract of the policy in the permanent file.~~
- ~~4. Review the established policies. Obtain and scan the list of authorized users.~~
- ~~5. Include copies of the applicable policies in the working papers (Permanent File).~~
- ~~6. Scan a few cell phone transactions to determine whether use was by an authorized user and within the guidelines established in the policy. In addition, include usage by the President, Secretary/Treasurer, and other board members in the review.~~
- ~~7. Inquire whether the entity's monitoring procedures identified any misuse. Determine whether the employee was notified of the improper use or was the matter otherwise~~

⁵ Auditors and governments may wish to refer to the Auditor of State's *Best Practices* for discussions about and examples of cell phone policies (Spring 2004), and procurement card and vehicle policies (Winter 2004). You can read *Best Practices* at www.auditor.state.oh.us under *Publications*.

~~appropriately corrected. (Note: The results from this inquiry may affect our assessment of the control environment.)~~

- ~~8. Any exceptions to the established policies should be communicated to management and to the legislative body. If a policy does not exist or there are weaknesses in the policy, make appropriate recommendations to management and to the legislative body.~~

~~List the government personnel interviewed, interview dates, documents examined, and observations made:~~

~~Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):~~

Note: Auditors should test credit card requirements as applicable in Chapter 7 of the OCS. Refer to the Introduction and Appendix F for guidance on specific applicability.

Applicability: ~~County and independent societies~~

OCS Chapter 7

7b. — Compliance Requirement: Ohio Revised Code Section 1711.131 — Credit card usage.

Summary of Requirement:

- ~~A. The board of directors of a county agricultural society or an independent agricultural society may authorize by resolution an officer or employee of the agricultural society to use a credit card held by the board to pay for expenses related to the purposes of the agricultural society. If a board elects to authorize the use of a credit card held by the board as described in this section, the board first shall adopt a policy specifying the purposes for which the credit card may be used.~~
- ~~B. An officer or employee of an agricultural society who makes unauthorized use of a credit card held by the society's board of directors is personally liable for the unauthorized use.~~
- ~~C. An officer or employee who is authorized to use a credit card held by the board of directors of an agricultural society and who suspects the loss, theft, or possibility of unauthorized use of the credit card immediately shall notify the board in writing of the suspected loss, theft, or possible unauthorized use. The officer or employee may be held personally liable for not more than fifty dollars in unauthorized debt incurred before the board receives the notification.~~
- ~~D. The misuse by an officer or employee of an agricultural society of a credit card held by the society's board of directors is a violation of section 2913.21 of the Revised Code.~~

Sample Questions and Procedures

~~Steps 1—5 below should normally only apply when the entity adopts a new or modified policy. Otherwise, our review of systems documentation or the permanent file should fulfill the requirements of steps 1—5. We can apply step 6 by scanning a limited number of transactions. We do not require a high level of assurance from these procedures. Scanning a small number of reimbursements for reasonableness and evidence of reviews and documented approvals should be sufficient. Step 7 normally requires inquiry.~~

- ~~1. Obtain copies of existing policies for credit cards and purchasing cards.~~
- ~~2. Who is responsible for monitoring their usage?~~
- ~~3. If the policies were established by the legislative body, obtain a copy of the resolution or ordinance. Document the approval in the permanent file.~~
- ~~4. Review the established policies. Obtain and scan the list of authorized users.~~

5. ~~Include copies of the applicable policies in the working papers (Permanent File).~~
6. ~~Scan a few credit card / purchasing card transactions to determine whether use was by an authorized user and within the guidelines established in the policy. In addition, include usage by the President, Secretary/Treasurer, and other board members in the review.~~
7. ~~Inquire whether the entity's monitoring procedures identified any misuse. Determine whether the employee was notified of the improper use or was the matter otherwise appropriately corrected. (Note: The results from this inquiry may affect our assessment of the control environment.)~~
8. ~~Any exceptions to the established policies we note should be communicated to management and to the legislative body. If a policy does not exist or there are weaknesses in the policy, make appropriate recommendations to management and to the legislative body.~~

List the government personnel interviewed, interview dates, documents examined, and observations made:

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

Applicability: County and independent societies**OCS Chapter 7**

7a. Compliance Requirement: Ohio Revised Code Sections 117.38, 901.06, and 1711.05 – Filing financial reports and Publication of treasurer’s account.

Summary of Requirement: Prior to the first day of December of each year, the director of agriculture shall set a date in January of the following year, on which the director shall meet with the presidents or other authorized delegates of agricultural societies which conduct fairs in compliance with sections 1711.01 to 1711.35, inclusive, of the Revised Code, and regulations of the department of agriculture. Each society shall deliver its annual report to the director at or before the January meeting. [RC 901.06]

Cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. Since the Auditor of State has not prescribed a form for the report, the society shall file an annual report using the format as suggested in the handbook titled, “Uniform System of Accounting for Agricultural Societies.” Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfilled, not to exceed seven hundred fifty dollars. [RC 117.38]

Every county agricultural society annually shall publish an abstract of its treasurer’s account in a newspaper of the county and make a report of its proceedings during the year. [RC 117.38 & 1711.05]

Sample Questions and Procedures

1. Trace selected totals from the annual report to the underlying accounting system. If we use the annual report as a trial balance, we will satisfy this requirement by completing the mandatory Trial Balance steps from the financial audit program. If the report is significantly deficient, we should cite ORC 117.38 for filing an incomplete or misleading report.
2. Search LGS’s annual report file to determine whether the government filed an annual report with our office.
3. Inquire to determine the date the report was filed with the Director of Agriculture.

You can limit the following step to every other audit, unless the prior audit found noncompliance or unless you have other reasons to suspect this may be a compliance issue. The working papers should document whether we tested this in the prior audit.

4. Please show me a proof of publication for the annual notice.

List the government personnel interviewed, interview dates, documents examined, and observations made:

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

Note: Auditors should test depository requirements as applicable in Chapter 7 of the OCS. Refer to the Introduction and Appendix F for guidance on specific applicability.

Applicability: ~~County and independent societies~~

7d. Compliance Requirement: ~~Ohio Revised Code Section 9.38—Deposits of public money.~~

Summary of Requirement: ~~Public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day of the week following the date of collection.~~

~~For example, a government employee other than a fiscal officer collecting funds and issuing a receipt must deposit the funds with the government's fiscal officer on the business day following the day of receipt. As an alternative to depositing the funds with the government's fiscal officer, the employee instead may deposit funds with the government's designated depository on the business day following the day of receipt.~~

~~If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (Ag Society) only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safe guarded, the public official must then deposit the money on the next business day.~~

Note: ~~This section does not require that the fiscal officer deposit receipts with the designated depository on the business day following the day of receipt, or any other specified time. However, if the fiscal officer is holding significant amounts of cash and checks for an unreasonable period, an internal control recommendation should be made.~~

Sample Questions and Procedures

Note: ~~To enhance efficiencies, we should integrate the tests below with the financial audit tests. We should only cite noncompliance if we determine significant amounts of cash are not deposited within the required time frames.~~

- ~~1. Systems documentation should include collection points receiving significant amounts of cash.~~
- ~~2. When testing cash collections, document the date collected vs. the date deposited to the CFO or the date the "collector" deposited to a designated depository.~~
- ~~3. Read any new contract/agreement between the Board and its long distance carrier. If incentives are granted, review the accounting treatment of the incentives. Determine if phone contract monetary refunds and or rebates were paid into the treasury in accordance~~

~~with ORC 9.38. (We can limit step 3 to every other audit, unless we have reason to believe there may be issues with this.)~~

~~List the government personnel interviewed, interview dates, documents examined, and observations made:~~

~~Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):~~

Note: Auditors should test public meetings requirements as applicable in Chapter 7 of the OCS. Refer to the Introduction and Appendix F for guidance on specific applicability.

Applicability: ~~County and independent societies~~

7e. — Compliance Requirement: Ohio Revised Code Sections 121.22 — Meeting of public bodies to be open, exceptions, and notice.

Summary of Requirement: All meetings of any public body are declared to be **public meetings** open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

Every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media.

The members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

- a. The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official licensee, or regulated individual requests a public hearing;
- b. The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest.
- c. Conducting conferences with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action.
- d. Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment.
- e. Matters required to be kept confidential by federal laws or rules or state statutes.
- f. Specialized details of security arrangements where disclosure of the matters discussed might reveal information that could be used for the purpose of committing or avoiding prosecution for a violation of the law.

A resolution, rule, or formal action of any kind is invalid unless adopted in an open meeting of the public body. A resolution, rule, or formal action adopted in an open meeting that results from deliberations in a meeting not open to the public is invalid unless the deliberations were for a purpose specifically authorized above.

Sample Questions and Procedures

~~You can limit the following steps to every other audit, unless the prior audit found noncompliance or unless you have other reasons to suspect this may be a compliance issue. The working papers should document whether we tested this in the prior audit.~~

- ~~1. How does your entity notify the general public and news media of when and where meetings are to be held?~~
- ~~2. Determine whether the minutes of public meetings are promptly recorded and available for public inspection.~~
- ~~3. Review the minutes and determine if executive sessions are only held at regular or special meetings.~~
- ~~4. Document that executive sessions are only held for the purposes outlined above.~~
- ~~5. Determine whether all formal actions of the governing board are adopted only in open meetings.~~

~~List the government personnel interviewed, interview dates, documents examined, and observations made:~~

~~Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):~~

Note: Auditors should test public records requirements as applicable in Chapter 7 of the OCS. Refer to the Introduction and Appendix F for guidance on specific applicability.

Applicability: ~~County and independent societies~~

7f. — Compliance Requirement: ~~Ohio Revised Code Section 149.43 — Availability of public records~~

Summary of Requirement: ~~“Record” for purposes of the public records law, means any document, device, or item, regardless of physical form or characteristic, created, received by, or coming under the jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office. “Public record” means any record that is kept by any governmental unit, including, but not limited to, state, county, city, village, township, and school district units, except medical records, records pertaining to adoption, probation, and parole proceedings, trial preparation records, confidential law enforcement investigatory records, records pertaining to actions under Section 2151.85 Ohio Revised Code, records listed in Section 3107.42(A), Ohio Revised Code, and records the release of which is prohibited by state or federal law.~~

~~All public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, governmental units shall maintain public records in such a manner that they can be made available for inspection.~~

Sample Questions and Procedures

~~You can limit the following steps to every other audit, unless the prior audit found noncompliance or unless you have other reasons to suspect this may be a compliance issue. The working papers should document whether we tested this in the prior audit.~~

~~Ascertain if responsible personnel are aware of the above requirements and have implemented local policies and procedures regarding:~~

- ~~1. What records are made available?~~
- ~~2. Times when records may be reviewed.~~
- ~~3. Costs for copies to be made.~~

~~List the government personnel interviewed, interview dates, documents examined, and observations made:~~

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Note: Auditors should test income tax requirements as applicable in Chapter 7 of the OCS. Refer to the Introduction and Appendix F for guidance on specific applicability.

Applicability: ~~County and independent societies~~

7g. Compliance Requirement:

- ~~Internal Revenue Code (IRC) Chapter 26 [26 U.S.C.] – Collection of Income Tax at Source on Wages; 26 U.S.C. §3401 through §3406:~~
 - ~~§3401: Definitions;~~
 - ~~§3402: Withholding of income tax from wages;~~
 - ~~§3403: Employers liable for payment of the tax deducted and withheld;~~
 - ~~§3404: Return of amount deducted and withheld shall be made by appropriate officer of the governmental employer;~~
 - ~~§3405: Withholding on pensions and annuities;~~
 - ~~§3406: Backup withholding~~
- ~~26 U.S.C. §3102(a): Deduction of [Medicare] tax from wages;~~
- ~~26 U.S.C. §132: Exclusion of certain fringe benefits from gross income;~~
- ~~Internal Revenue Regulations (26 CFR):~~
 - ~~§1.61-21: Taxation of fringe benefits;~~
 - ~~§1.6041-1: Reporting of income aggregating \$600 or more [i.e., 1099s-MISC]⁶;~~
 - ~~§1.6041-2: Reporting of wage income aggregating \$600 or more [i.e., W-2s];~~
 - ~~§1.6041-3: Various exclusions;~~
 - ~~§1.6041-6: Time and place for filing forms 1099 and 1096;~~
 - ~~§1.6050E-1: Income tax refund reporting.~~
- ~~Ohio Rev. Code §5747.06 – Collection of Ohio income tax at source.~~

~~Various local ordinances require withholding on wages earned in the particular municipality. These should be consulted for the requirements.~~

Summary of Requirement: ~~These sections of the various tax codes require the employing government to withhold federal, state, and local income and employment-related taxes (such as Medicare). They also require the government to report those tax matters to the appropriate tax authorities and to the recipients. Certain of these sections require consideration of whether employer-provided “fringe” benefits, such as use of government automobiles for private purposes, constitute taxable income to be reported and withheld upon.~~

Note: ~~See Ohio Compliance Supplement Introduction page 37 regarding IRS referrals.~~

Sample Questions and Procedures

⁶ All payments to attorneys of \$600 or more that are not otherwise reported (e.g., on form W-2 for attorneys who are employees) must be reported on form 1099 MISC. The exemption for payments to corporations no longer applies to payments for legal services.

- a. ~~What policies and procedures do you have to ensure that the [Entity] is withholding federal, state, and local income taxes as required?~~
- b. ~~How do you ensure that the withholdings are being transmitted periodically to the appropriate jurisdictions as required? Please show me a sample of your tax filing reports. Please show me how these agree with your payroll records.~~
- c. ~~Do you provide any of your employees with taxable fringe benefits, such as the use of a government owned vehicle, or an auto or uniform allowance? If so, how do you determine the amounts of the benefits to be reflected in the affected employees' Forms W-2? Please show me 1 or 2 employees' W-2s that reflect these amounts.~~
- d. ~~Did your government pay any independent contractor (other than a corporation) \$600 or more during this year? If so, please show me a few Forms 1099 that were issued.~~

List the government personnel interviewed, interview dates, documents examined, and observations made:

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Applicability: County and independent societies**OCS Chapter 7**

7h. Compliance Requirement: Ohio Revised Code Section 5709.10 – Exemption of County Fairground from Real Estate Tax.

Summary of Requirement: Property used as a county fairground that is owned by the board of county commissioners or by a county agricultural society shall be exempt from taxation.

Sample Questions and Procedures

You can limit the following steps to every other audit, unless the prior audit found noncompliance or unless you have other reasons to suspect this may be a compliance issue. The working papers should document whether we tested this in the prior audit.

- a. How do you ensure the Society does not pay real estate tax?
- b. Verify the Society did not pay real estate tax by scanning the disbursements included in Account # 7480.

List the government personnel interviewed, interview dates, documents examined, and observations made:

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):

Applicability: County societies**OCS Chapter 7**

7i. Compliance Requirement: Ohio Revised Code Section 1711.24 – Insurance on county society's buildings.

Summary of Requirement: The board of county commissioners of a county in which there is a county agricultural society shall insure the buildings on the grounds of such society for the benefit of such society.

Sample Questions and Procedures

You can limit the following steps to every other audit, unless the prior audit found noncompliance or unless you have other reasons to suspect this may be a compliance issue. The working papers should document whether we tested this in the prior audit.

- a. Scan the policy covering grounds and buildings.
- b. Judge whether the amount of the insurance adequate considering the value of the buildings and contents. If you deem it inadequate, discuss with management and determine whether we should recommend they consider increasing their coverage.

List the government personnel interviewed, interview dates, documents examined, and observations made:

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies /material weaknesses, and management letter comments):