

**Auditor of State
Agricultural Society Audit Program
Specimen Substantive Tests
(March 2020)**

Audit Procedure: Planning

Updated March 2020 - for new guidance references and web links.

1. Gain a general understanding of the client and its operations

In addition to procedures listed in the substantive planning audit program, review:

- Annual report submitted to the Department of Agriculture
- Annual report submitted to the AOS within the Hinkle System
 - a. Most information required to satisfy this step will be obtained from the annual report submitted by the society to the Department of Agriculture. See annual report info at: <http://www.ohioauditor.gov/references/guidance/agricultural.html>
 - b. <https://agri.ohio.gov/wps/portal/gov/oda/divisions/amusement-ride-safety-and-fairs/forms/>
 - c. Note that the Department of Agriculture's Red Book serves as an effective codification of the compliance environment in which agricultural societies operate. [Fairs_RedBook.pdf](#)
 - d. AOS has a Uniform System of Accounting for Agricultural Societies accounting policies (11/02) available at: https://ohioauditor.gov/publications/uniform_agricultural_society_accounting_system_user_manual.pdf.

2. When performing preliminary analytics in the substantive planning audit program, consider:

- 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.

Record of Work Done:

Conclusion:

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Step Name/Procedure Name: Documentation and Control Procedures

Audit Procedure: For Purse Receipts and Disbursements / Parimutuel Wagering Receipts and Disbursements:

The following must be completed prior to commencing substantive testing:

- 1. Systems documentation has been completed or updated.**
- 2. Related control procedures have been completed:**
 - Applicable controls documentation / testing has been performed:
 - Control Risk Assessed - Control documentation/testing
 - Where transaction processing is automated, document that sufficient computer-generated "paper" evidence or evidence generated outside the client's automated system existed to support automated calculations and data summarization.

REMEMBER: We can only assess CR at less than the maximum level for systems-derived accounts.

NOTE: In assessing CR, consider that AU-C [500.09](#) & .A50- .A52 suggests that a CR of less than maximum or low may be needed to help assure completeness.

- 3. Planned substantive procedures address material noncompliance that may relate to this account.**
 - Related sections of the OCS have been incorporated into our testing plan.
 - We have considered and documented other sources of potential material noncompliance and appropriately updated our substantive testing plan. (E.g., such as for local resolutions, charter requirements or other material laws or regulations.)
- 4. Tailor the substantive steps to fit the circumstances of this engagement.**

Record of Work Done:

Conclusion:

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Audit Procedure: Other General Procedures [CmD] [CmT]

1. When testing the substantive audit program other general procedures consider:

- For agricultural societies, the county is responsible for maintaining insurance on the society's buildings regardless of ownership.
- Animal waste disposal as one of the factors that may increase the risk that one of the five obligating events could occur for operations that increase the risk of environmental liability.

Record of Work Done:

Conclusion:

Audit Procedure: Confirmable Cash Receipts

Updated March 2020 - for new guidance references and web links

1. When confirming receipts received from the County Auditor in the substantive audit program, consider:

- 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.

Note: For Agricultural Society's receiving material receipts from County Commissioners please follow the Other Confirmable Cash Receipts procedures in the Property Taxes, Intergovernmental Revenue & Other Confirmable Cash Receipts substantive audit program.

2. For State Distributions:

- The DTL lists all transactions paid to local governments.
- You can access pdf versions of the DTLs on the OBM web site at:
<https://obm.ohio.gov/wps/portal/gov/obm/areas-of-interest/state-accounting/resources/detailed-transaction-listings>
- State Distributions are likely to come in the form of warrants and may not be listed on the Distribution Transaction List.

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Audit Procedure: Confirmable Cash Receipts (Continued)

3. The DTL sorts payments (i.e., cash receipts to our auditees) by revenue source. DTLs are usually a complete and reliable source of evidence. Revenue sources normally included on the DTL include:

- Federal assistance passed through the State (However, such assistance is not always identified as pass-through assistance. Auditors should make inquiries and review grant documents to determine the original source of some funding listed on the DTL.)
- Homestead & Rollback intergovernmental revenue (to all entities that levy property taxes)
- Foundation payments (to schools)
- Gasoline taxes
- Local government fund revenues
- Motor vehicle license taxes
- Permissive sales taxes
- State-funded grants
- Other

4. When performing test of details, auditors should include reperforming reimbursement calculation(s) where the auditee computes amount owed to it or computes cash draws.

- Trace selected payments, or selected totals, from the DTL to the society's fund cash receipts ledger. Determine whether the transactions were properly classified. Note: The extent of the above procedures can sometimes be limited by using high-dollar testing.
- Determine that receipts were allocated to the proper fund(s) and accounts, were timely posted and were recorded in the proper accounting period.

Record of Work Done:

Conclusion:

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Step Name/Procedure Name: Budgetary

Audit Procedure: Updated March 2020 - clerical corrections (see underlines and strikeouts)

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 Chapter 1, Appendix A includes a budgetary compliance requirement for county and independent Ag Societies. For agricultural societies, we should look to chapter 1 (including Appendix A), ~~2, and 3~~ as a source of effective budgetary management practices, but not as a source of legal compliance.

Record of Work Done:

Conclusion:

Audit Procedure: Over the Counter Receipts [CmD] [CuT]

In agricultural societies, a significant amount of annual revenue is generated through over-the-counter cash receipts during their fair week.

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.

1. When testing the substantive audit program over the counter receipts, consider:

- This documentation should include the factors considered in determining which prior periods are comparable and which agricultural societies are comparable (peers).

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Audit Procedure: Over the Counter Receipts [CmD] [CuT] (Continued)

- 2. When developing expectations for the following procedures, auditors should consider variances in relevant factors between periods or entities being compared.**

Such factors might include:

- weather conditions
- draw of scheduled fair events (e.g., concerts, shows)
- draw of local events (other than the fair) during fair week
- correlation of receipts from other fair activities for the same period
- present population of county and recent population growth trends
- degree of fair promotional efforts

Example Substantive Analytic Tests:

- Compare admission receipts with peer agricultural societies
- Compare admission receipts with county population
- Perform a trend analysis
- Design other substantive analytics

Record of Work Done:

Conclusion:

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Audit Procedure: Purse Receipts and Disbursements

1. Test summaries of cash received

1) **AT**

- Test foot subsidiary records (e.g., cashbook, register tapes, duplicate prenumbered receipts, and duplicate license copies) of cash receipts.

2) **[AT]**

- Scan postings to the cash receipt ledger. Investigate any unusual entries. Scan purse payments in the cash disbursement ledger. Investigate unusual entries.

3) **AT, OT**

- 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 purse 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 purse disbursement postings for each race day, and only each race day.
- Inquire with management regarding any variances and follow-up on management explanations.

2. Test details of purse cash collection summaries.

1) **OT**

- Trace purse collections received from the horsemen's society, to supporting documentation such as remittances or memos.

2) **AT**

- Obtain documentation indicating the authorized amount to be charged by the agricultural society as entry fees.
- Determine the number of horse participants based on published race schedules or other documents.
- 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.

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Audit Procedure: Purse Receipts and Disbursements (Continued)

3. Recalculate purse and trace to cash disbursement ledger. CmT

- *Step A* Recalculate the amount of state receipts used as purse.
- *Step B* Compare purse collections (amounts provided by the horsemen's society and collected directly from entrants) plus state purse dollars calculated in step a., to purse disbursements recorded in the disbursement ledger.

4. Investigate any significant variances.

Record of Work Done:

Conclusion:

Audit Procedure: Paramutuel Wagering Receipts and Disbursements

1. Test summaries of cash received, totalizer service fees, and parimutuel taxes.

1) **AT**

- Test foot subsidiary records (e.g., cashbook, register tapes, duplicate prenumbered receipts, and duplicate license copies) of cash receipts.

2) **[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.

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Audit Procedure: Paramutuel Wagering Receipts and Disbursements (Continued)

3) **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.
- 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.

2. Trace parimutuel wagering cash collection summaries to underlying sources of documentation. OT

- Agree selected daily commission totals (gross commission) per the liability report to the cash receipts ledger.
Note: Though agricultural 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.
- For selected daily liability reports, select individual races and recalculate commission using handle for exotic and non-exotic wagers.
Note: This may be AU-C 530 sampling application.
- For selected daily liability reports, foot total commission using commission for each race and type of wager as indicated on the daily liability report.

3. Recalculate and trace totalizer service fees and parimutuel wagering taxes to the cash disbursement ledger. CmT, AT

- Recalculate taxes per daily liability reports using footed commission from step 2c. Trace recalculated tax to the cash disbursement ledger.
- 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 2.)
- Trace recalculated totalizer payments to the cash disbursement ledger.

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Audit Procedure: Paramutuel Wagering Receipts and Disbursements (Continued)

4. Apply one or more of the following substantive analytic procedures to parimutuel wagering receipts. CmT

- For substantive analytic procedures, document:
 - a. The expected precision and predictability of relationships, factors and variables used
 - b. Expectations

This documentation should include the factors considered in determining which prior periods are comparable and which agricultural societies are comparable (peers).

- 1) When developing expectations for the following procedures, auditors should consider variances in relevant factors between periods or entities being compared. Such factors might include:
 - ~ weather conditions
 - ~ ranking of participant horses and related odds
 - ~ number of horses participating in each race
 - ~ number of races per period (e.g. day, week)
 - ~ draw of other scheduled fair events (e.g., concerts, shows)
 - ~ draw of local events (other than the fair) during fair week
 - ~ correlation of receipts from other fair activities for the same period
- Compare annual receipts to those of comparable prior periods and peer agricultural societies.
- 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).
- Add other analytic tests as appropriate.
- Per AU-C 240, 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.

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Audit Procedure: Paramutuel Wagering Receipts and Disbursements (Continued)

Record of Work Done:

Conclusion:

Sub Folder Name: Audit Reaction and Conclusion

If any of the below arose when you performed procedures for this segment, describe your resolution of them below:

- Identified misstatements we determine from our procedures, including possible opinion effects.
- A comparison of identified misstatements (if any) to performance materiality for the opinion unit.
- A summary of any potential management comments or deficiencies / significant deficiencies / material weaknesses issues.
- Noncompliance findings.
- Any previously unknown fraud risks we detected from our procedures.
- Any previously unknown other misstatement risks we detect from our procedures.
- Any significant risks we identified.
- A description of any audit reactions we determined during planning / initial risk assessment activities, and the results of the procedures we applied to react to the risk.
- A description of our resolution of any contradictions between different sources of evidence.

If none of the above occurred, simply state you completed the procedures, and no evidence of the issues above came to your attention.

Summary: