

22ND DISTRICT AGRICULTURAL ASSOCIATION
SAN DIEGO COUNTY FAIR
DEL MAR, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2006

AUDIT STAFF

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MANAGEMENT REPORT NUMBER

07-020

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE
A. G. Kowamura, Secretary

Mr. Russell Penniman, President
Board of Directors
22nd DAA, San Diego County Fair
2260 Jimmy Durante Boulevard
Del Mar, California 92014-2216

We have performed the procedures enumerated below, which were agreed to by you solely to assist you with respect to the following compliance areas: (1) personnel procedures, (2) expenditures, (3) contracts, (4) purchasing procedures, and (5) courtesy pass policies and procedures for the period January 1, 2006 to December 31, 2006. The 22nd District Agricultural Association's (DAA) management is responsible for the personnel procedures, expenditures, contracts, purchasing procedures, and courtesy pass policies and procedures for the 22nd DAA. The agreed upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is the sole responsibility of the 22nd DAA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

In planning and performing our agreed upon procedures of the (1) personnel procedures, (2) expenditures, (3) contracts, (4) purchasing procedures, and (5) courtesy pass policies and procedures of the 22nd DAA, San Diego County Fair, Del Mar, California, for the year ended December 31, 2006, we considered its internal control structure in order to determine our compliance review procedures. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our results are presented in the accompanying pages of the report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.



This report is intended solely for the information and use of the Fair management, the Fair Board of Directors, and the Department of Food and Agriculture; however, we acknowledge that it is a public document and its distribution is not limited.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

During our analysis of the internal control structure of the 22nd DAA and compliance with State laws and regulations, we identified two areas with reportable conditions that are ✓ considered weaknesses in the Fair's operations: unsupported passes and expenditures, and ✓ temporary employees. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how each recommendation will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 22nd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

UNSUPPORTED PASSES AND EXPENDITURES

- ✓ The Fair provided its Board members with an approximate total of \$30,096 in admission tickets, parking passes, and concert tickets. The Fair's policy regarding the issuance of these tickets and passes to Board members did not thoroughly address all Board member benefits. The Fair should be cautioned that without accountability and justification, issuances of this nature may be deemed an inappropriate use of public funds. This is a prior year audit finding.
- ✓ Additionally, the Fair did not justify and support the business purpose and necessity for discretionary expenditures totaling \$44,082 for catered dinners provided to Board members and their guests during fairtime, which is deemed to be a promotional or public relations expense. Sound accounting, good business practices, and the requirements of the Division of Fairs and Expositions (F&E) internal policy over public relations and promotional expenses mandates specific and detailed information for all persons incurring such expenses, including members of the Board of Directors. According to Accounting Procedures Manual (APM) section 1, 2.86, all claims must include the names of all recipients of the item or benefit, purpose of the expenditure, justification for providing food or a meal, specifying the topics discussed during the event, and the necessity of or the benefits expected to accrue to the Fair by entertaining. This is a prior year audit finding.

Recommendations

1. *Due to the sensitivity of the issues above, the CDFA's legal counsel is currently reviewing for appropriateness. We further recommend that the Fair consult with the Attorney General's Office to determine the appropriateness of these issues.*
2. *The Fair should reevaluate its policy pertaining to the distribution of all types of tickets and passes. As a State Agency, the Fair has the ultimate responsibility to the public to demonstrate compliance with all state rules and regulations over passes in order to prevent the perception of an inappropriate use of funds.*
3. *The Fair should follow F&E's internal policy and the APM requiring all claims for payment of promotional or public relations expenses include the names of all recipients of the item or benefit and the purpose of the expenditure, justification for the food or meal, specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining. A claim that does not meet all the requirements should not be approved for payment.*

TEMPORARY EMPLOYEES

The Fair allowed eleven temporary employees to work in excess of the 119-day limitation within a calendar year. These employees worked between 120 and 275 days in 2006. According to Article VII Sec. 4(1) of the Constitution of the State of California, temporary employees may not work more than 119 days in a calendar year. This is a prior audit finding.

Recommendation

- 4. The Fair should comply with the State Constitution and Department of Personnel Administration rules and regulations by ensuring temporary employees do not work in excess of the 119-day limitation.*

NON-REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of the Fair's standard agreements identified the following conditions:

- a. Six standard agreements, including three fairtime entertainment agreements, exceeded the \$75,000 threshold and were not sent to F&E for review and approval. According to F&E's Contract Manual section 1.15, all contracts over \$75,000 whether for entertainers or personal services need to be sent to F&E for approval prior to services being performed.
- b. At least four personal services agreements and seven sponsorship agreements exceeded the \$75,000 threshold and were not sent to F&E for approval in a timely manner. These 2006 agreements were sent to F&E for approval after services had already been performed. When F&E receives the contract after its execution or in the middle of the contract period, F&E does not have the opportunity to review and make any suggestions regarding the language or terms of the contract prior to the commencement of the contract. This is a prior year finding.

Recommendation

The Fair should comply with F&E's Contract Manual by ensuring that the Fair provides all entertainment and personal services agreements that exceeded \$75,000 to F&E with sufficient lead-time for review and approval.

CAL-CARD EXPENDITURES

The Fair exposed itself to loss by not maintaining sufficient controls over expenditures with its State of California Credit Card (CAL-Card). An analysis of CAL-Card expenditures identified the approving officer's signature was not always reflected on the CAL-Card statements indicating a formal review and approval of the charges had occurred.

Recommendation

The Fair should strengthen its controls over CAL-Card purchases by ensuring employees properly account for all expenditures, which includes the approving officer's signature on all CAL-Card statements.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



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22ND DISTRICT AGRICULTURAL ASSOCIATION
State of California

June 16, 2008

Mr. Ron Shackelford
Audit Chief
CDFA Audit Office
2014 Capitol Avenue, Suite 107
Sacramento, CA 95814

Dear Ron:

We have reviewed your Management Report #07-020 for the year ended December 31, 2006 and considered your recommendations.

I am pleased to report that the District has addressed all the issues related to accounting and financial management which your office has brought to our attention in your report.

The following detailed responses are numbered to correspond to your numbered recommendations which are attached for your convenience.

Thank you for your assistance.

Sincerely,

Kelly Burt
President

Timothy J. Fennell
General Manager/CEO

Attachment

22nd DISTRICT AGRICULTURAL ASSOCIATION
SAN DIEGO COUNTY FAIR

RESPONSE TO CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT REPORT
MANAGEMENT REPORT No. 07-020

Year Ended December 31, 2006

The 22nd District Agricultural Association ("District") has reviewed the Preliminary Draft of Management Report No. 07-020 ("Audit") issued by the California Department of Food and Agriculture's Audit Office ("CDFA") for the year ending December 31, 2006. In compliance with CDFA's request, this constitutes the District's response.

Tickets and Passes

The Audit stated that the District provided its Board members with an approximate total of \$30,096 in admission tickets, parking passes, and concert tickets, and failed to justify and support the business purpose and necessity for discretionary expenditures totaling \$44,082 for catered dinners provided to Board members and their guests during fair time. The Audit recommended:

The Fair should re-evaluate its policy pertaining to the distribution of all types of tickets and passes. As a State Agency, the Fair has the ultimate responsibility to the public to demonstrate compliance with all state rules and regulations over passes in order to prevent the perception of an inappropriate use of funds.

RESPONSE:

The District has established what it considers being reasonable criteria for the distribution of all unpaid (credentialed and courtesy) admissions to the annual fair. In compliance with Food and Agriculture Code section 3026, the percentage of courtesy pass admissions to the District's 2006 annual fair did not exceed 4 percent of the gross paid admissions to the District's 2005 annual fair. With reference to the specific line items raised by the Audit, the District's response is below.

Fair admissions: 6 fair admissions (132 total) are available to each director for each day of the fair, if requested. The individual directors must request the tickets before they are actually distributed.

Concerts: In 2006, 19 concerts were available to fairgoers as part of their paid admission to the fair. For these free concerts, fairgoers were also able to obtain reserved seating in the Grandstand, at various prices. Only 3 concerts required paid seating for all fairgoers. During each of the concerts, each director was allocated one box with 6 seats. These seats are not the best in the house, and are located on the third tier of seating for Grandstand concerts. Reserved seats for the free concerts would be \$14.00 in the boxes as opposed to \$15.00 for more desirable seats. Again, the individual directors must request the tickets before they are actually distributed. If concert tickets are not requested by 4:00 p.m. on the day of the concert, the tickets become available in the Box Office for sale or for free seating to the general public. The concerts during fair time do not sell out, so that good seats are always available to the general public.

Parking: Each director has a year-round assigned, reserved space in the parking lot adjacent to the building that houses the room where the Board of Directors holds its monthly meeting. This building also houses the District's Marketing and Human Resources departments, and the parking lot includes assigned, reserved spaces for the District's Marketing and Human Resources staff. This parking lot is entirely separate from the District's paid public parking lots, and used exclusively by the Directors and employees of the District. The District does not make additional parking spots available to Directors during the annual fair, and the directors are expected to use their assigned, reserved spaces.

Directors' Dining Room

The Audit states that the District must provide the names of people who attended dinner in the District's Directors' Dining Room, the purpose of attending, and the justification for the Fair to provide the expenditure. They also require the topics discussed and the necessity of or benefits expected to accrue to the Fair by paying for these meals. The Audit recommended:

The Fair should follow F&E's internal policy and the APM requiring all claims for payment of promotional or public relations expenses include the names of all recipients of the item or benefit and the purpose of the expenditure, justification for the food or meal, specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining. A claim that does not meet all the requirements should not be approved for payment.

RESPONSE:

The District provides a buffet dinner in the Directors' Dining Room each evening during the fair, which is available for use by the directors and senior management. Most of the directors attend the fair on a daily or near-daily basis, and the Directors' Dining Room provides a quieter locale at which the directors can meet with fair sponsors, and host local dignitaries, government officials, and company

representatives who are currently or considering conducting business with the District.

Directors and senior management also meet with sponsors and potential sponsors to discuss the fair and year-round sponsorship possibilities. The District enjoys significant financial benefits from these sponsorships. District sponsorship revenues grew from \$20,000 in 1992 to over \$1,600,000 in 2006.

The Directors' Dining Room also provides a venue for senior management to discuss any fair-related matters among themselves at a set time and place on a daily basis.

The District has been in compliance with the Division of Fairs and Exposition's internal policy requiring a list of names of people attending dinner Directors Dining Room during the 2006 annual fair. The District has not had a copy of the Accounting Procedures Manual, and is unaware of any additional requirements documented in the manual. The District is in the process of obtaining a copy of the Accounting Procedures Manual. In any event, the District will put procedures in place to include information pertaining to the business discussed, necessity, and/or benefits to the District.

Finally, the Audit states that the District spent \$44,082 for these dinners. Because these dinners are provided by the District's food service management contractor, the District received 87% of the net profit from these dinners, significantly lowering the final net cost to the District for these dinners.

Temporary Employees

The Fair should comply with the State Constitution and Department of Personnel Administration rules and regulations by ensuring temporary employees do not work in excess of the 119-day limitation.

RESPONSE:

The District hosts over 300 interim events each year. In order to provide the staffing and support for the annual fair and the interim events, the District employs approximately 1,700 temporary employees each year. In 2006, eleven of these temporary employees worked in excess of the 119-day limitation.

Five of these employees worked in our Parking department. Our interim events are held year-round, so we must have reliable, trustworthy supervisors who oversee our parking cashiers and attendants who work these events. Therefore, four parking supervisors and one parking director worked over the 119-day limit.

Four temporary employees filled positions that were budgeted for permanent positions but were vacant. Three of these permanent positions are no longer vacant.

Of the two remaining positions, one janitor worked one day over the limit and one laborer worked 12 days over the limit. The District will work with its Human Resources department to institute all necessary controls to track the number of days worked by temporary employees and insure none of them exceed the limits established by the California Constitution and the State Personnel Board.

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 22nd DAA, San Diego County Fair for their review and response. We have reviewed the response. The 22nd DAA's response addressed the findings. However, to provide clarity and perspective, we are including additional comments to the Fair's response to our audit report section titled, Unsupported Passes and Expenditures.

Tickets and Passes (Recommendation 2)

The Fair should be aware that distributing concert tickets without being paid for by the Board Members may be considered a gift of public funds. Based on the State Constitution, the Fair has no "power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual..." To further illustrate this, the APM indicates that "free passes to state-sponsored entertainment events" is included in this category. Accordingly, we urge the Fair to reevaluate its policy to prevent this perception. ✓

Directors' Dining Room (Recommendation 3)

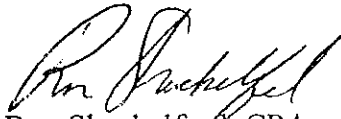
Since the year ended December 31, 2003 audit report, we have cited the APM regarding documentation for promotional or public relations expenses. Since the Directors' Dining Room is considered to be a public relations and promotional expense, the Fair must comply with APM Section I, 2.86. The documentation must include the names of all recipients of the benefit, the purpose of the expenditure, the specific topics discussed during the event, and the benefit the Fair expects to obtain through this expense. The Fair's justification for the \$44,082 for the Directors' Dining Room dinners is general and does not include the specific topics discussed during each of the 22 days of fair. The Fair justifies the Directors' Dining Room as "a quieter locale at which the directors can meet with fair sponsors, and host local dignitaries, governmental officials, and company representatives who are currently considering conducting business with the District" and to "meet with sponsors and potential sponsors to discuss the fair and year-round sponsorship possibilities." Without specific detail, as required by the APM, one cannot determine whether the Directors' Dining Room expense did indeed benefit the Fair. ✓

The Fair further claims it is compliant with F&E internal policy, which requires a listing of the attendees of the Directors Dining Room. We acknowledge that the Fair has improved its documentation since prior year; however, our review of the listing revealed that only 8 of the 22 days had a log. Additionally, not all of the head counts per the log agreed to the number of dinners paid. Without the complete log, one cannot determine who benefitted from the Directors' Dining Room.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 10, 2007 and September 21, 2007. My staff met with management on October 17, 2007 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

September 21, 2007

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 22nd DAA Board of Directors
1	Chief Executive Officer, 22nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office