

22nd DISTRICT AGRICULTURAL ASSOCIATION  
DEL MAR FAIR  
DEL MAR, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2000

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AUDIT STAFF

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MANAGEMENT REPORT NUMBER

01-065

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## DEPARTMENT OF FOOD AND AGRICULTURE

Capitol Avenue, Suite 107  
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Mr. Barry Nussbaum, President  
Board of Directors  
22nd DAA, Del Mar Fair  
2260 Jimmy Durante Blvd.  
Del Mar, California 92014

We have applied the procedures enumerated below to the policy established by the Division of Fairs and Expositions (F&E) for the 22nd District Agricultural Association (DAA), Del Mar Fair, Del Mar, California, for the year ended December 31, 2000. We applied these procedures to four areas of the Fair's operations, which included property; expenditures; satellite wagering; and standard 2 agreements. We noted certain matters involving its operations that we consider being reportable conditions under standards established by Fairs and Expositions policy. 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. This report is intended solely for your information and should not be used by those who did not participate in determining the procedures.

In accordance with Government Code section 13402, Fair managers and Boards 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.

Based on the application of the procedures of the 22nd DAA referred to above, we identified three areas with reportable conditions. These reportable conditions are considered weaknesses in the Fair's operations over property; satellite wagering admissions; and satellite wagering commissions. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how each recommendation will be implemented.

We also identified an additional area containing a non-reportable condition. This condition and accompanying recommendation is not considered a significant weakness. We have included this item solely for the benefit of the 22nd DAA's management. We suggest the Fair implement the recommendation as soon as practicable. The Fair, however, is not required to provide a written response to the recommendation for the non-reportable condition.

These agreed-upon procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on the compliance issues. Accordingly, we do not express such an opinion.

## REPORTABLE CONDITIONS

### PROPERTY

A review of the Fair's property records revealed the following:

- a. The amounts reflected in the Fair's Fixed Asset System (FAS) did not match the amounts reflected in the general ledger. The Fair maintains the FAS, which is a computerized database, to track and maintain all the property owned by the Fair. This system represents the Fair's property ledger and reflects such items as date purchased, description of item, method of depreciation, and cost of items. The balances reflected in the FAS for equipment and buildings and improvements did not match Account #193, Equipment and Account #192, Buildings and Improvements, at the end of 2000. The Accounting Officer in charge of the FAS indicated that a fixed asset inventory valuation company recently conducted a physical inventory of all the property on the fairgrounds. The company classified Fair property as either equipment or as a building and improvement, and input the information into the FAS. It appears that the inventory valuation company misclassified certain assets and recorded several assets in the incorrect category. Therefore, the total of all the property ledgers in the FAS equals the total of the accounts reflected in the general ledger, but the individual account balances do not match. The property ledgers should serve as subsidiary data that supports the asset accounts reflected in the general ledger.
- b. The depreciation expense that was calculated by the FAS was not always accurate. The FAS calculates depreciation by applying the Straight Line Method over 5, 10, 20, or 40 years to the various asset types. In some instances the FAS only recognized one month worth of depreciation for assets instead of an entire year. As a result the Fair underreported their depreciation expense for 2000.
- c. The Fair did not adjust some of the items in the FAS to comply with their capitalization policy. The Fair's policy is to capitalize property with a cost of \$1,000 or more and having a useful life of one year. A review of the Fair's records identified that there were items recorded in the FAS that were below \$1,000.

### *Recommendations*

1. *The Fair should review the equipment and buildings and improvements accounts in the Fixed Asset System and reconcile them to the general ledger. Furthermore, the Fair should ensure that assets are properly classified and that the balances in the*

- FAS match Account #193, Equipment and Account #192, Buildings and Improvements in the general ledger.*
- 2. The Fair should reevaluate the depreciation calculations generated by the FAS at year-end. The Fair should determine if the FAS is properly calculating depreciation expense based on the Straight Line Method and the amount of years applied to the different asset types.*
  - 3. The Fair should update the property ledgers to ensure that only assets that meet the capitalization requirements are reflected. The Fair's FAS and general ledgers should be adjusted accordingly.*

### **SATELLITE WAGERING ADMISSIONS**

The Fair did not maintain adequate control over the California Horse Racing Board (CHRB) members and discounted rate admissions into the Satellite Wagering facility. During the year, the Satellite Wagering facility did not use tickets for admission into the facility. Instead, the Fair utilized turnstiles and used the counts to reconcile to the amount of money that was collected by admission clerks. The admission clerks, responsible for collecting the money, were allowed to manually track CHRB member, discounted rate, and free admissions on a separate log sheet. These log sheet totals were incorporated into the reconciliation process. This method of tracking weakens the control over admissions into the Satellite Wagering facility.

#### *Recommendation*

- 4. The Fair should discontinue the use of manually tracking CHRB members, discounted rate, and free admissions into the Satellite Wagering facility. The Fair should utilize similar methods of admitting the CHRB or discounted rate admissions as it does for other regular admissions. The chosen method should enable the Fair to reconcile amounts reflected on ticket seller reports to the actual amount of revenue received from admissions into the Satellite Wagering facility.*

### **SATELLITE WAGERING COMMISSIONS**

The Fair did not have a system in place that allowed them to adequately track and verify that all satellite wagering 2% commission money was received. The Fair receives a 2% commission from the total amount of money bet on satellite wagering, called the "handle", from the various live horse racing tracks throughout California. The Fair appropriately documented the amount of handle that was processed by the Fair on a daily basis, but there wasn't any evidence that the Fair was tracking the commission amounts. The Fair should verify if they are receiving the appropriate amount of commission from

the various live racing tracks. A tracking method would help ensure that the Fair monitors and controls all 2% commission that is received by the satellite wagering facility.

#### *Recommendation*

- 5. The Fair should develop a tracking system that enables them to track and reconcile the 2% commission revenue received to actual amounts identified in their daily reports. A tracking system would ensure that the Fair is receiving the appropriate amounts, and would also help control the 2% commission checks that are received by the Fair.*

## NON-REPORTABLE CONDITIONS

### SUPERIOR ACCOMPLISHMENT AWARDS

The Fair awarded a Superior Accomplishment Award to each of its fulltime employees. The total monetary value of all the superior accomplishment awards was \$52,600 in 2000. According to Government Code section 19823 and the Department of Personnel Administration (DPA) regulations, the intent of the program was to recognize individuals or teams whose performance was above the norm or who made an exceptional contribution to improving state government. There are no rules or guidelines under the Superior Accomplishment Award Program (SAAP) that specifically prohibit an organization from issuing a superior accomplishment to all fulltime employees, but it has not been determined if doing so would defeat the purpose of the SAAP's. Furthermore, if superior accomplishment awards are issued to all fulltime employees, the public could possibly perceive this as a bonus or a gift of public funds. DPA has strict regulations regarding managerial performance appraisal system bonuses that all state agencies must adhere to.

Currently, there is no indication whether policy was developed to provide guidelines for the specific use of the Superior Accomplishment Award Program at the District Agricultural Associations. Although the DAA established its own SAAP, it has not been determined if awarding all fulltime employees is appropriate. Current policy does not require that awards issued to DAA employees be reviewed and approved by the Secretary of the California Department of Food and Agriculture (CDFA) or his assigned Merit Award Administrator. According to DPA, each Department is responsible for using the Superior Accomplishment Awards properly and within the regulations.

The Audit Office has developed an issue paper regarding the SAAP and has made recommendations to the CDFA Secretariat and Director of the Division of Fairs and Expositions to develop policy for the Department of Food and Agriculture and the DAAs.

#### *Recommendation*

*The Audit Office will work with the Department of Personnel Administration (DPA), as well as, with other departments within the California Department of Food and Agriculture in order to receive a definitive opinion regarding this issue. However, the Fair should also contact the DPA in regards to this issue and have them provide written documentation to the Fair identifying their opinion on the Fair's policy and determine if it is appropriate. This would help ensure that the Fair is, and continues to be, in compliance with the DPA regulations.*

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 10, 2001 and September 28, 2001. My staff held a conference call with management and a representative from the Board of Directors on September 28, 2001 to discuss the findings and recommendations, as well as other issues.

Please respond directly to this office, within 30 days, stating your plans for implementing each recommendation requiring a response from you. The response should indicate how and when the implementation will take place (maximum six-month timetable). In addition, please provide an information copy to the Division of Fairs and Expositions.

State of California  
Department of Food and Agriculture, Audit Office  
2014 Capitol Avenue, Suite 107  
Sacramento, CA 95814

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.



Ron Shackelford, Acting Audit Chief

September 28, 2001

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



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22ND DISTRICT AGRICULTURAL ASSOCIATION  
State of California

January 24, 2002

Ms. Helen Lopez, Chief  
Audit Office  
1220 N Street, Suite A-454  
Sacramento, CA 95814

Dear Helen:

We have reviewed your Management Report #01-065 for the year ended December 31, 2000 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 2000 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,

Barry S. Nussbaum  
President

Timothy J. Fennell  
General Manager/CEO

Attachment

## 22ND DAA RESPONSES TO RECOMMENDATIONS

Department of Food & Agriculture Audit Report  
For the Year Ended December 31, 2000

### PROPERTY—

*Recommendation 1—The Fair should review the equipment and buildings and improvements accounts in the Fixed Asset System and reconcile them to the general ledger. Furthermore, the Fair should ensure that assets are properly classified and that the balances in the FAS match account #193, Equipment and Account # 192, Buildings and Improvements in the general ledger.*

The CDFA auditors observed that while in total, the dollar amount of assets detailed in FAS (the District's fixed asset subsidiary ledger) did match the total of assets recorded in the General Ledger, the amounts recorded in individual accounts did not match. The Management Report states that this appeared to be the result of a fixed asset inventory. CDFA auditors believed that certain assets were misclassified by the firm which performed the physical inventory. The report recommends that the District review the items in FAS pertaining to these accounts and make any necessary reclassifications to make the totals of the individual account numbers match.

It is true that the amounts recorded in individual accounts for Equipment and Buildings & Improvements do not match between FAS and the General Ledger. However, since the amount of total assets for the 22<sup>nd</sup> DAA and the Race Track Authority recorded in FAS and the General Ledger are only out of balance by \$.44, it was considered immaterial by the District and the audit firm of Deloitte and Touche. The amounts have not matched for many years, and were not the result of the physical inventory performed in 2000. Many of the District's assets were purchased 50 or more years ago, when assets were recorded by hand in ledgers. The Fixed Asset System was implemented in the mid-1990's.

The objective of performing a very extensive and in-depth physical inventory was to create an accurate record of assets in the FAS system. This was accomplished with the completion of the inventory and an extensive reconciliation of that inventory to the FAS system records in 2000. It should be noted that the combined assets for the 22<sup>nd</sup> District Agricultural Association and the Race Track Authority total more than \$165 Million before depreciation. The inventory and subsequent reconciliation were the result of over 18 months of work. However a journal entry was not recorded in 2000 to reflect the accurate individual account totals in the General Ledger, because the reconciliation process was not completed as of 12/31/00. The District has created a journal entry to

bring the General Ledger into agreement with FAS as of December 31, 2001, per your recommendation. We believe that these assets are now recorded accurately in the FAS system as well as on the general ledger.

*2--The Fair should reevaluate the depreciation calculations generated by the FAS at year-end. The Fair should determine if the FAS is properly calculating depreciation expense based on the Straight-Line method and the amount of years applied to different asset types.*

The Management Report states that the depreciation expense calculated by FAS was not always accurate, and that in some instances only one month of depreciation was recorded instead of an entire year. As a result, the auditors believed that depreciation expense was understated for the year 2000.

Depreciation is calculated by the 22<sup>nd</sup> DAA on a monthly basis, not on a yearly basis. We follow the Mid-Month, Straight-Line method of depreciation. The amount of depreciation for an asset in any given year would depend on the date that the asset was placed in service. For instance, if an asset were acquired in early November, there would only be two months of depreciation recorded for that asset in the year it was acquired. Consequently, in the year that the same asset becomes fully depreciated, only ten months of depreciation would be recorded for that asset.

It is possible that other District Fairs only record depreciation at year's end, and that these Fairs record a full year's depreciation expense, regardless of the date on which the asset was placed in service. However, the 22<sup>nd</sup> DAA does follow GAAP procedures, and therefore we do not record more depreciation expense than we are entitled to. We believe that this is the more conservative approach. Our FAS system calculates depreciation accordingly.

Our auditors perform tests of depreciation during the course of their audit. To the best of our knowledge, this test involves the calculation of a ratio of the prior year's depreciation divided by the prior year's gross assets. This ratio is then multiplied by the current year's gross assets to determine an estimate of current year depreciation expense. This estimate is compared to the current year's actual depreciation expense to determine whether there is a material difference, in which case an adjustment may be necessary.

This test for reasonableness of the depreciation expense gives the District a level of confidence in the depreciation expense calculated by FAS. We believe this to be in agreement with your recommendation.

*3—The Fair should update the property ledgers to ensure that only assets that meet the capitalization requirements are reflected. The Fair's FAS and general ledgers should be adjusted accordingly.*

While most District Fairs expense capital items of \$5,000 or less in value, the 22<sup>nd</sup> DAA began reporting in compliance with GAAP in 1997. In that year, the CFO for the District implemented a policy of asset capitalization for any assets of \$500 or more in value. This low threshold was increased by the current CFO in 1998 to a \$1,000 limit. The District kept the old \$500 items on the books, and implemented the \$1,000 limit on a go-forward basis. During the course of their fieldwork, the CDFA auditors found items still on our records for items capitalized at the lower limit.

In accordance with your recommendation, we will review our records and write off any items that were capitalized at \$500 or less in 2002.

#### **SATELLITE WAGERING ADMISSIONS**

*4—The Fair should discontinue the use of manually tracking CHR B members, discounted rate and free admissions into the Satellite Wagering facility. The Fair should utilize similar methods of admitting CHR B or discounted rate admissions as it does for other admissions. The chosen method should enable the Fair to reconcile amounts reflected on ticket seller reports to the actual amount of revenue received from admissions into the Satellite Wagering facility.*

In accordance with your recommendation, a new ticketing system was implemented in 2001 along with new ticket booths at our Satellite Wagering facility. While the turnstile system still exists, it will not allow entry until a bar coded card or ticket is inserted and accepted. With each paid admission, a ticket is issued and can be scanned into the new Ticketmaster system, allowing for the tracking of admissions to revenues received.

For our Saddle Club members, cards have been issued with a magnetic strip. They insert this card into the turnstile, which allows entry into the facility. All memberships expire on July 24. This expiration date is on file in the Ticketmaster system. After that date, they will be allowed entry only if their cards are reactivated by way of membership renewal.

The District is still contemplating a method to accurately track California Horse Racing Board members admitted to our Satellite Wagering facility. In the past, members have been required to show their badge, which is a laminated photo ID with a specified expiration month and date. These members had been tracked manually on a log maintained by the admission clerks.

The CHRB issues these license cards to thousands of racehorse owners, trainers, officials, jockeys, grooms, backside workers, and pari-mutuels. The District has no database to use as a means of obtaining information on just those members who attend our facility. Likewise, we do not have a means of tracking the expiration dates on these cards. Tracking these admissions would be feasible if the CHRB issued a card with a magnetic card that could be read by Ticketmaster. Since this option does not currently exist, our facility can only do what other Satellite Wagering facilities do, and that is to track these admissions manually. We are considering either issuing a specially coded comp ticket to each such entry, or asking the members to go to a separate box office location before entering the facility to complete paperwork to receive a magnetic card for future use.

### SATELLITE WAGERING COMMISSIONS

*5—The Fair should develop a tracking system that enables them to track and reconcile the 2% commission revenue received to actual amount identified in their daily reports. A tracking system would ensure that the Fair is receiving the appropriate amounts, and would also help control the 2% commission checks that are received by the Fair.*

The Fair does indeed track handle on a daily basis, and computes our 2% commission daily on a spreadsheet. At the end of each evening, the pari-mutuels (who are employees of SCOTWINC) provide a District employee with a printout of that day's handle as calculated by the tote system. District staff enters this information on a spreadsheet, and calculates 2% of this handle to compute the commission due the District. While adjustments might be made for scratches, the District does have an amount recorded as to what commission to expect from SCOTWINC.

As a backup to the daily reports received from pari-mutuels, District staff also prints off a daily report from CHRIMS (California Horse Racing Information Management System) which shows the final adjusted amount of handle. Commissions received from SCOTWINC must match the amounts reported by CHRIMS, multiplied by 2%.

In the past, the District received daily reports from the host track, so that handle could be cross-checked to yet another source. This information is no longer provided. We now rely on CHRIMS for reports on handle from each track.

The next step for balancing is taken when the commission check is received from SCOTWINC. This check may be for one race, for one week, or even for one entire race meet. The amount received is entered onto the spreadsheet. It is then compared to the amount of commission calculated for that respective time period.

Staff reviewed this spreadsheet with CDFA auditors. It was recommended that District staff record the difference between the calculated commission and the actual amount received from SCOTWINC, so that discrepancies could be investigated. This recommendation has been implemented.

## EVALUATION OF DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

A draft copy of this report was forwarded to the management of the 22nd District Agricultural Association (DAA), Del Mar Fair, Del Mar, California, for their review and response. We have reviewed the response. Below is our evaluation of the responses.

The Del Mar Fair's response addressed the findings and stated their plans for implementing each recommendation. However, we will clarify certain findings and recommendations.

2. It was recommended that the Fair reevaluate the depreciation calculations generated by the FAS at year-end. The Fair should determine if the FAS is properly calculating depreciation expense based on the Straight-Line method and the amount of years applied to different asset types. There were instances in the FAS property report that only reflected one month's worth of depreciation for some assets. For example the Caballo Hall, acquired 1/1/93, used the 40-year Straight-Line method for depreciation. The FAS report reflected that \$1,857 of depreciation had been recognized for the year. This amount represents only one month of depreciation. However, when applying the Straight-Line method, the FAS system should have recognized \$22,283 of depreciation for the year. The amounts reflected on the FAS should equal the amounts of depreciation reflected in the General Ledger. Therefore, in order for the Fair to be confident in the FAS system, the Audit Office recommended that the Fair perform a review of the asset depreciation calculations.

**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, CDFA Human Resources Branch
3	Chief, CDFA Audit Office