

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**THE CALIFORNIA EXPOSITION AND STATE FAIR'S
FINANCIAL STATUS FOR THE
FISCAL YEAR ENDED JUNE 30, 1990**



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Kurt R. Sjoberg
Auditor General (acting)

April 11, 1991

F-025

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

This report presents the results of our audit of the California Exposition and State Fair (Cal Expo) for fiscal year 1989-90. Cal Expo continues to be fiscally independent. For fiscal year 1989-90, we noted the following conditions:

- For the fourth consecutive year, Cal Expo did not receive any support from the State's General Fund;
- Cal Expo's total revenues for the year exceeded its total expenses by approximately \$1.4 million. This was the fifth consecutive year that Cal Expo's total revenues have exceeded total expenses. Adding the \$1.4 million to the excess revenues for fiscal years 1985-86 through 1988-89, Cal Expo ended the year with a surplus of approximately \$4.4 million in the California Exposition and State Fair Enterprise Fund (Enterprise Fund);
- During fiscal year 1989-90, Cal Expo recorded approximately \$101,700 for deferred maintenance and repair projects. In addition, it recorded capital improvements of approximately \$4.8 million. Approximately \$4.2 million of the \$4.8 million of capital improvements was for Cal Expo's new livestock barn, which was funded by Cal Expo and the Department of Food and Agriculture. In the future, Cal Expo plans to complete deferred maintenance and repair projects and capital improvement projects expected to cost approximately \$15.6 million;
- Cal Expo continued to improve its fiscal accounting and reporting system. For example, during fiscal year 1989-90, Cal Expo computerized its fiscal accounting and reporting system. However, it did not properly record statewide administrative costs in its financial reports as the result of an error made initially in fiscal year 1987-88; and

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- During fiscal year 1989-90, Cal Expo did not always follow the laws and administrative requirements of the State. For example, its use of promotional funds provided by a contractor circumvents the State's fiscal controls.

Background

On January 10, 1986, the Office of the Auditor General issued a report entitled "Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," report P-490. This report detailed severe management problems at Cal Expo and concluded that a lack of self-generated revenue and poor management controls had contributed to Cal Expo's inability to achieve fiscal independence. The Food and Agricultural Code, Section 3337, which became effective February 25, 1986, required the Office of the Auditor General to prepare an annual report on the fiscal status of Cal Expo until January 1, 1991.

In February 1990, the Office of the Auditor General issued its fourth annual report on Cal Expo, report F-922. This report concluded that, for the third time, Cal Expo did not receive any support from the State's General Fund and ended fiscal year 1988-89 with a retained earnings balance of approximately \$3.56 million in the Enterprise Fund. (However, as discussed in the Notes to the Financial Statements on page 20 of this report, the retained earnings in the Enterprise Fund as of June 30, 1989, were corrected from \$3.56 million to \$3.07 million.) Our current report contains the results of our financial audit of Cal Expo for the fiscal years ended June 30, 1990, and June 30, 1989. In the appendix of this report, we discuss Cal Expo's efforts to implement recommendations from our February 1990 report for improving the management controls and financial reporting system of Cal Expo.

In 1980, state law removed the responsibility for Cal Expo from the Department of Parks and Recreation and established Cal Expo as a separate, independent entity in state government. Cal Expo is responsible for managing the annual state fair and providing a site for events held during the remainder of the year (interim events). These interim events include satellite wagering, concerts, and an aquatic amusement park. Satellite wagering allows patrons to wager on horse races held at other tracks.

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The annual state fair runs for an average of 18 days from mid-August to early September and provides a showcase for the agricultural, recreational, and industrial resources of the State. The state fair provides an arena for the presentation of new ideas and information for the education of visitors. Also, the state fair provides a marketplace for the demonstration, advertisement, and sale of goods and services. Finally, the state fair provides opportunities for youths participating in programs such as scouting and 4-H. Cal Expo opened on its present site in 1968. The site consists of approximately 855 acres along the American River in Sacramento County. Approximately 345 acres of the 855 acres are protected under the Bushy Lake Preservation Act; only a portion of the protected land may be used and only on a limited basis. The other acres are used for the state fair and other events. The facilities at Cal Expo include a racetrack, exposition buildings, an aquatic amusement park, and a concert amphitheater.

Cal Expo is governed by an 11-member board of directors, 9 of whom the governor appoints with the consent of the Senate. Of the remaining 2, the speaker of the Assembly appoints one and the Senate Committee on Rules appoints the other. The board creates policies for Cal Expo and is responsible for its year-round management and operation. The board is also responsible for appointing Cal Expo's general manager; however, the governor is responsible for appointing the deputy general manager, the program manager, and the marketing manager. State law enacted in 1980 required the board of directors to work toward a goal of fiscal independence from the State's General Fund.

Scope and Methodology

We conducted a financial audit of the Enterprise Fund as of and for the years ended June 30, 1990, and June 30, 1989. As part of our audit, we evaluated Cal Expo's internal accounting controls to determine the audit procedures and the extent of testing necessary to express an opinion on the financial statements of the Enterprise Fund.

In addition, we evaluated Cal Expo's progress in correcting the management problems identified in our previous report. We reviewed the report recommendations and Cal Expo's responses to them. We then determined the extent to which Cal Expo had implemented these recommendations.

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Financial Condition
Continues To Improve

In fiscal year 1989-90, Cal Expo did not receive any support from the State's General Fund. In addition, Cal Expo's total revenues for the year exceeded its total expenses by approximately \$1.4 million. This was the fifth consecutive year that Cal Expo ended the year with its total revenues exceeding its total expenses.

Cal Expo generated approximately \$14.2 million in revenues during fiscal year 1989-90 from the state fair, satellite wagering, and other interim events. In addition, Cal Expo earned approximately \$798,000 in interest income from its deposits in the State's pooled money investment program and received \$285,000 "transferred in" from other sources. (Amounts transferred in are monies that Cal Expo receives from other state funds and that it did not generate or otherwise earn from its operations.) Cal Expo's total revenues from all sources during fiscal year 1989-90 were approximately \$15.3 million, which is approximately \$1.4 million more than its total expenses for the year. Adding the \$1.4 million to the excess revenues for fiscal years 1985-86 through 1988-89, Cal Expo had total retained earnings of approximately \$4.4 million in the Enterprise Fund at June 30, 1990.

Cal Expo's total revenues that it received during fiscal year 1989-90 from all sources increased by approximately \$1.7 million over revenues received during fiscal year 1988-89. The revenue sources that showed the most significant increase were revenues from the state fair and interim events.

Cal Expo generated revenues of approximately \$8.9 million from the 1989 state fair, which occurred during fiscal year 1989-90. This is an increase of approximately \$622,200 over revenues from the 1988 state fair. Table 1 compares the total revenues generated during the 1988 and 1989 state fairs. Since the 1990 state fair occurred during fiscal year 1990-91, the revenues are unaudited and are provided for comparison purposes only.

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TABLE 1
CALIFORNIA EXPOSITION AND STATE FAIR
TOTAL REVENUES FOR THE
1988, 1989, and 1990 STATE FAIRS

	<u>1988</u>	<u>1989</u>	<u>Increase (Decrease)</u>	<u>1990 UNAUDITED</u>
Admissions	\$3,090,900	\$3,456,500	\$365,600	\$4,081,000
Horse racing	1,438,100	1,032,900	(405,200)	856,400
Attractions	1,030,100	1,144,900	114,800	1,439,900
Food and beverages	984,200	1,276,900	292,700	1,145,700
Commercial exhibits	741,400	962,700	221,300	918,500
Parking	692,400	752,100	59,700	754,900
Miscellaneous	128,600	112,100	(16,500)	423,500
Agricultural programs	111,100	99,400	(11,700)	25,500
Program exhibits	<u>24,500</u>	<u>26,000</u>	<u>1,500</u>	<u>108,800</u>
Total	<u>\$8,241,300</u>	<u>\$8,863,500</u>	<u>\$622,200</u>	<u>\$9,754,200</u>

According to Cal Expo's records, the number of paid admissions for the 1989 state fair exceeded the number of paid admissions for the 1988 state fair by approximately 87,000. The increased admissions to the state fair also resulted in increased revenues from food and beverage concessions and other activities held during the fair. In addition, an increase in the number of commercial exhibitors in the 1989 state fair contributed to the increase in state fair revenues.

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The revenues from horse racing in the 1989 state fair decreased because the prize money (purses) generated from the state fair racing meet was excluded from Cal Expo's financial statements beginning in fiscal year 1989-90. Cal Expo earns a portion of its revenues from its horse racing (pari-mutuel) operations. For fiscal year 1988-89, Cal Expo recorded purses as revenues when Cal Expo received the money and as expenses when the money was paid to prize winners. The effect of the purses on Cal Expo's net income was zero under the recording method used in either fiscal year 1989-90 or 1988-89.

The majority of revenues from pari-mutuel handles (amounts wagered) during the horse racing events are not included in Cal Expo's financial statements. However, Cal Expo earns a commission from the pari-mutuel handles, which is included as are other racing revenues such as money from the sale of racing programs.

Information regarding the amounts wagered for the 1988 and 1989 state fair racing meets is summarized in Table 2:

TABLE 2
HORSERACING REVENUES FOR
THE 1988 AND 1989 STATE FAIRS

	<u>1988</u>	<u>1989</u>
Pari-mutuel handle, on-track	\$ 4,392,452	\$ 5,654,439
Pari-mutuel handle, off-track	<u>6,543,035</u>	<u>8,658,430</u>
Total Pari-mutuel Handle	10,935,487	14,312,869
Less amounts payable to patrons	(8,733,003)	(11,429,053)
Amounts payable to the State of California	(296,567)	(368,511)
Satellite wagering fees and other liabilities	(594,544)	(710,807)
Purses payable to horsemen	<u>(616,989)</u>	<u>(905,261)</u>
Pari-mutuel commission earned by Cal Expo	694,384	899,237
Other racing revenues	126,727	133,663
Purses payable to horsemen (1988 only)	<u>616,989</u>	<u> </u>
Total Horse Racing	<u>\$ 1,438,100</u>	<u>\$ 1,032,900</u>

Source: CPA reports on the state fair racing meets and Cal Expo's records.

In between state fairs, Cal Expo holds numerous events (interim events) at the Cal Expo facility to generate additional revenues. During fiscal year 1989-90, Cal Expo generated revenues from interim events of approximately \$3.8 million, which is an increase of approximately

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Members, Joint Legislative
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\$644,800 over revenues from interim events for fiscal year 1988-89. The increase in revenues from interim events was primarily due to revenues from concerts. More concerts were held on the Cal Expo facility during fiscal year 1989-90 than during fiscal year 1988-89.

Cal Expo ended fiscal year 1989-90 with a surplus generated during that year of approximately \$1.4 million. This \$1.4 million surplus combined with a \$3.0 million surplus, as restated, carried over from fiscal year 1988-89 resulted in total retained earnings of approximately \$4.4 million in the Enterprise Fund for fiscal year 1989-90, as shown in the Statements of Revenues, Expenses, and Changes in Retained Earnings on page 14 of this report.

Completion of Deferred Maintenance and Capital Improvement Projects Continues

In 1985, engineers from the Division of Fairs and Expositions of the Department of Food and Agriculture (department) completed a survey of the physical condition of the Cal Expo facility. The engineers determined that the Cal Expo grounds needed health, safety, structural, electrical, maintenance, and other work totaling approximately \$5.3 million. In their report, the engineers concluded that "to generate additional revenue [Cal Expo] should have an attractive and well-maintained physical plant that will encourage the public to utilize its facilities." We last reported on Cal Expo's progress in completing deferred maintenance and repair projects in our report F-922, issued in February 1990. We reported that Cal Expo, after revising certain costs and adding some projects to the department's list, had \$4.1 million in deferred maintenance and repair projects to complete as of June 30, 1989.

During fiscal year 1989-90, Cal Expo completed some projects, added projects, removed projects, and reclassified some existing projects on the list as capital improvements rather than deferred maintenance and repair projects. Capital improvements are improvements to fixed assets that make the asset better than its previous condition. Capital improvements may result in longer life, increased capacity, or lower operating costs of fixed assets. Deferred maintenance and repairs continue the usability of a fixed asset at its designed level of services. However, deferred maintenance and repairs do not necessarily result in longer life, increased capacity, or lower operating costs of fixed assets.

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In fiscal year 1989-90, Cal Expo recorded deferred maintenance and repair projects costing approximately \$101,700 and capital improvement projects costing approximately \$4.8 million. The new livestock barn comprised approximately \$4.2 million of the \$4.8 million of capital improvements. The new livestock barn was funded by Cal Expo and the department. (See Note 9 to the financial statements on page 19.)

As of June 30, 1990, Cal Expo has potential plans to complete approximately \$2.2 million in deferred maintenance and repair projects and approximately \$13.4 million in capital improvement projects. The capital improvement projects planned for the future include a new satellite wagering facility estimated to cost up to \$4.2 million and a second livestock barn expected to cost approximately \$1.1 million. Based on Cal Expo's list of projects to complete, of the original \$5.3 million in projects in the engineers' report, it still has approximately \$852,000 in deferred maintenance projects and approximately \$368,000 in capital improvement projects to complete as of June 30, 1990. According to Cal Expo's administrator/controller, since June 30, 1990, Cal Expo has completed or has scheduled to complete many of the projects remaining on the engineers' report. Additionally, Cal Expo may not actually complete all of the reported projects. Cal Expo's administrator/controller states that not all projects on its list are necessary because of changes in the environment, uses, and future plans of Cal Expo.

Continued Improvement in Accounting and Reporting System

Cal Expo has continued to improve its fiscal accounting and reporting system. During our current review of this system, we found that Cal Expo converted its manual accounting records to a computerized system. Also, as we had recommended in our previous report, Cal Expo improved its recording of capital improvements, equipment, and accounts payable in its financial reports. In addition, as we had recommended, Cal Expo accurately recorded in the financial reports the annual depreciation expense for its fixed assets and completed a physical inventory of its equipment. In the appendix of this report, we discuss further the improvements that Cal Expo has made to its fiscal accounting and reporting system.

We did note that Cal Expo did not properly record statewide administrative costs. (See page 30.) This was an error that Cal Expo initially made during fiscal year 1987-88 and continued to make in fiscal years 1988-89 and 1989-90.

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Noncompliance With State Laws and Administrative Requirements

During our audit of Cal Expo for fiscal year 1989-90, we found that Cal Expo did not always follow the laws and administrative requirements of the State. For example, its use of promotional funds provided by a contractor circumvents the State's fiscal controls administered by the State Controller's Office. (See page 25.) In other instances, Cal Expo did not obtain required approvals from the Department of Finance, the Department of General Services, or its own staff before initiating certain actions. (See page 27.) Cal Expo's instances of noncompliance with the laws and administrative requirements of the State are deviations from the State's system of internal controls. These deviations make the public's resources vulnerable to abuse.

Conclusion

In fiscal year 1989-90, for the fourth consecutive year, Cal Expo did not receive any support from the State's General Fund. In addition, for the fifth consecutive year, Cal Expo earned enough revenues to pay for its operations. Cal Expo's total revenues exceeded total expenses by approximately \$1.4 million for fiscal year 1989-90, and it ended the year with a \$4.4 million surplus in the Enterprise Fund. Moreover, it recorded deferred maintenance and repair projects costing approximately \$101,700 and capital improvement projects costing approximately \$4.8 million. Cal Expo plans to complete approximately \$15.6 million of deferred maintenance, repair, and capital improvement projects on the Cal Expo facility.

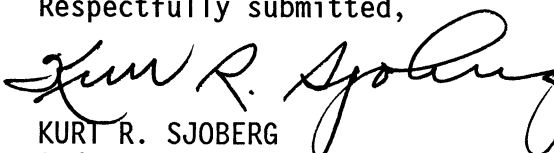
Cal Expo continued to improve its fiscal accounting and reporting system. For example, it computerized its fiscal accounting and reporting system during fiscal year 1989-90 and has resolved certain accounting problems we noted in the past. However, Cal Expo did not properly record statewide administrative costs in its financial reports as a result of an error initially made in fiscal year 1987-88.

Finally, Cal Expo did not always follow the laws and administrative requirements of the State. We discuss these and other weaknesses in pages 23 through 32 of this report.

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We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our scope to those areas specified in the audit scope section of this report.

Respectfully submitted,



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Auditor General (acting)



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STATE OF CALIFORNIA
Office of the Auditor General

Kurt R. Sjoberg
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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of the California Exposition and State Fair Enterprise Fund as of June 30, 1990, and June 30, 1989; the related statements of revenues, expenses, and changes in retained earnings; and the statements of changes in financial position for the years then ended. These financial statements are the responsibility of the management of the California Exposition and State Fair. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Exposition and State Fair Enterprise Fund as of June 30, 1990, and June 30, 1989, and the results of its operations and its changes in financial position for the years then ended, in conformity with generally accepted accounting principles.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in cursive script that reads "Curt Davis".

CURT DAVIS, CPA
Deputy Auditor General

January 7, 1991

**CALIFORNIA EXPOSITION AND STATE FAIR
FAIR ENTERPRISE FUND
BALANCE SHEETS
AS OF JUNE 30**

	<u>1990</u>	<u>1989</u>
Assets		
Cash and pooled investments (Note 3)	\$ 7,862,945	\$ 7,332,082
Accounts receivable (net of uncollectibles)	1,048,144	447,831
Due from other funds (Note 4)	1,586,266	345,523
Due from other governments		26,604
Prepaid expenses	10,558	6,769
Advances and loans receivable		2,472
Prepaid construction costs (Note 5)	538,150	
Construction work-in-progress (Note 6)	4,397,078	110,487
Fixed assets (Notes 2 and 7)	<u>11,614,096</u>	<u>11,961,955</u>
Total Assets	<u>\$27,057,237</u>	<u>\$20,233,723</u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 1,296,187	\$ 478,351
Due to other funds (Note 8)	988,881	676,440
Installment contracts payable (Note 9)	1,852,902	27,126
Compensated absences payable (Note 10)	381,623	286,856
Advance collections	460,510	193,869
Other liabilities	<u>279,545</u>	<u>77,121</u>
Total Liabilities	<u>5,259,648</u>	<u>1,739,763</u>
Fund Equity		
Contributed capital	17,352,881	15,426,548
Retained earnings, as restated (Note 11)	<u>4,444,708</u>	<u>3,067,412</u>
Total Fund Equity	<u>21,797,589</u>	<u>18,493,960</u>
Total Liabilities and Fund Equity	<u>\$27,057,237</u>	<u>\$20,233,723</u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR
ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30**

	<u>1990</u>	<u>1989</u>
Operating Revenues		
State fair	\$ 8,863,464	\$ 8,241,254
Interim events	3,797,400	3,152,557
Satellite wagering	<u>1,580,943</u>	<u>1,244,837</u>
Total Operating Revenues	<u>14,241,807</u>	<u>12,638,648</u>
Operating Expenses		
Salaries and wages	5,692,125	5,104,997
Staff benefits	1,420,036	1,110,513
Entertainment, racing, and other event costs	1,746,451	1,961,540
General operating expense	1,179,628	1,003,185
Consulting and professional services	1,051,951	902,554
Utilities	896,344	805,971
Depreciation	862,846	821,533
Maintenance	481,355	703,393
Statewide administrative costs	<u>450,415</u>	<u>440,646</u>
Total Operating Expenses	<u>13,781,151</u>	<u>12,854,332</u>
Nonoperating Revenues (Expenses)		
Interest revenue	798,396	690,918
Interest expense	(1,681)	(2,230)
Loss on disposition of livestock barns (Note 9)	<u>(165,075)</u>	<u> </u>
Net Nonoperating Revenues (Expenses)	<u>631,640</u>	<u>688,688</u>
Other Financing Sources (Uses)		
Operating transfers-in	285,000	271,000
Operating transfers-out	<u> </u>	<u>(300,000)</u>
Net Other Financing Sources (Uses)	<u>285,000</u>	<u>(29,000)</u>
Net Income	1,377,296	444,004
Retained Earnings, Beginning, as restated (Note 11)	<u>3,067,412</u>	<u>2,623,408</u>
Retained Earnings, Ending	<u>\$ 4,444,708</u>	<u>\$ 3,067,412</u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR
ENTERPRISE FUND
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30**

	<u>1990</u>	<u>1989</u>
Sources of Funds		
From operations		
Net income	\$1,377,296	\$ 444,004
Add items not affecting cash		
Depreciation	862,846	821,533
Loss on disposition of livestock barns	<u>165,075</u>	<u> </u>
Funds Provided From Operations	<u>2,405,217</u>	<u>1,265,537</u>
Contributed capital	1,926,333	84,584
Increase in installment contracts payable	1,834,172	
Proceeds from sale of fixed assets	39	
Increases in other liability accounts		
Accounts payable	817,836	
Due to other funds	312,441	
Compensated absences payable	94,767	33,635
Advance collections	266,641	
Other liabilities	202,424	
Decreases in other asset accounts		
Accounts receivable		39,281
Due from other governments	26,604	
Prepaid expenses		16,023
Advances and loans receivable	<u>2,472</u>	<u>101,838</u>
Total Funds Provided	<u>7,888,946</u>	<u>1,540,898</u>
Application of Funds		
Acquisition of fixed assets	680,101	905,306
Decrease in installment contracts payable	8,396	7,811
Increases in other asset accounts		
Accounts receivable	600,313	
Due from other funds	1,240,743	60,830
Due from other governments		26,604
Prepaid expenses	3,789	
Prepaid construction costs	538,150	
Construction work-in-progress	4,286,591	110,487
Decreases in other liability accounts		
Accounts payable		560,480
Due to other funds		128,884
Advance collections		149,612
Other liabilities		<u>1,843</u>
Total Funds Applied	<u>7,358,083</u>	<u>1,951,857</u>
Net Increase (Decrease) in Cash and Pooled Investments	<u>\$ 530,863</u>	<u>\$ (410,959)</u>

See the notes accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Definition of Reporting Entity

In 1980, state law established the California Exposition and State Fair (Cal Expo) as a separate, independent entity in state government. On February 25, 1986, the enactment of Chapter 8, Statutes of 1986, created the California Exposition and State Fair Enterprise Fund (Enterprise Fund). Cal Expo is responsible for managing the annual state fair and providing a site for events held during the remainder of the year. These events include satellite wagering on horse racing, concerts, and an aquatic amusement park.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental entities. Following is a summary of significant accounting policies that pertain to Cal Expo's financial statements.

A. Fund Accounting

The Enterprise Fund presents data on activities that are similar to those found in the private sector. Enterprise funds account for goods or services provided to the general public on a continuing basis either when the State intends that all or most of the costs involved are to be financed by user charges or when periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

B. Basis of Accounting

The Enterprise Fund is accounted for by using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Fixed Assets

Fixed assets, consisting of land, buildings and improvements, and equipment, are recorded in the Enterprise Fund either at cost or at estimated fair market value on the date of acquisition, less accumulated depreciation (See Note 7). Depreciable fixed assets are depreciated over their estimated service lives, ranging from 3 to 40 years, using the straight-line method of depreciation. Land is not depreciated.

3. Cash and Pooled Investments

Cal Expo's cash and pooled investments account includes general cash, revolving fund cash, cash deposited in the State's centralized treasury system, and cash on hand. In addition, this account includes the cash that Cal Expo deposited in the Surplus Money Investment Fund (SMIF). The SMIF is a portion of the State's pooled money investment program administered by the State Treasurer's Office. Additional disclosures for the pooled investments program are presented in the general purpose financial statements of the State of California for the years ended June 30, 1990, and June 30, 1989. The following schedule summarizes the cash and pooled investments account balance at June 30:

	<u>1990</u>	<u>1989</u>
General cash	\$ 816,192	\$ 363,858
Revolving fund cash	16,040	53,322
Cash in state treasury	952	1,601
Cash on hand	<u>72,761</u>	<u>54,301</u>
Subtotal	905,945	473,082
Deposits in SMIF	<u>6,957,000</u>	<u>6,859,000</u>
Total	<u><u>\$7,862,945</u></u>	<u><u>\$7,332,082</u></u>

4. Due From Other Funds

Cal Expo's due from other funds account at June 30, 1990, primarily consists of a loan to the State's General Fund. On June 29, 1990, the State Controller's Office transferred \$1.2 million from Cal Expo's Enterprise Fund to the State's General Fund. In the applicable circumstances, the Government Code, Section 16310, allows the General Fund to borrow funds interest free from another fund. On August 1, 1990, the State Controller's Office transferred the \$1.2 million back to the Enterprise Fund. On August 6, 1990, the State Controller's Office again transferred \$1.2 million from Cal Expo's Enterprise Fund to the State's General Fund. Finally, on August 15, 1990, the State Controller's Office transferred the \$1.2 million back to the Enterprise Fund. Because the \$1.2 million was not in the Enterprise Fund and because the General Fund did not pay interest on the borrowed funds, Cal Expo lost approximately \$11,700 in interest earnings.

In addition, Cal Expo's due from other funds account consists of the interest earned on its deposits in the State's pooled investment program for the second half of the fiscal year. The following schedule summarizes the due from other funds account balance at June 30:

	<u>1990</u>	<u>1989</u>
Due from General Fund	\$1,200,000	
Interest due from SMIF	<u>386,266</u>	<u>\$345,523</u>
Total	<u>\$1,586,266</u>	<u>\$345,523</u>

5. Prepaid Construction Costs

During fiscal year 1989-90, Cal Expo entered into agreements with the Department of Food and Agriculture and the California Fairs Financing Authority primarily for paving and electrical work on the Cal Expo facility at a cost of \$747,150. At June 30, 1990, Cal Expo had prepaid construction costs of \$538,150. Cal Expo also has a commitment to pay the remaining \$209,000 in future fiscal years when the work will be completed. In addition to the \$747,150, the Department of Food and Agriculture has agreed to contribute \$157,760 towards the cost of the paving and electrical work.

6. Construction Work-in-Progress

Cal Expo's construction work-in-progress account consists of fixed asset projects that were not complete at year end. The following schedule presents a summary of the construction work-in-progress as of June 30:

	<u>1990</u>	<u>1989</u>
Livestock barn	\$4,246,759	\$ 89,900
Paving	84,474	
Restroom facility	65,845	
Various projects		<u>20,587</u>
Total	<u>\$4,397,078</u>	<u>\$110,487</u>

7. Fixed Assets

The following schedule presents a summary of the fixed assets recorded in the Enterprise Fund as of June 30:

	<u>1990</u>	<u>1989</u>
Land	\$ 1,643,577	\$ 1,643,577
Buildings and improvements	27,404,899	27,496,515
Equipment	<u>702,287</u>	<u>526,867</u>
Total Fixed Assets	29,750,763	29,666,959
Less accumulated depreciation	<u>18,136,667</u>	<u>17,705,004</u>
Net Fixed Assets	<u>\$11,614,096</u>	<u>\$11,961,955</u>

8. Due to Other Funds

Cal Expo's due to other funds account at June 30, 1990, primarily consists of the current portion of an installment contract payable to the Department of Food and Agriculture for construction of a new livestock barn (See Note 9) and amounts owed to the State's General Fund for statewide administrative costs. The following schedule summarizes the due to other funds account balance at June 30:

	<u>1990</u>	<u>1989</u>
Current portion of installment contract (See Note 9)	\$500,000	
Due to General Fund (for statewide administrative costs)	307,542	\$403,357
Due to various funds	<u>181,339</u>	<u>273,083</u>
Total	<u>\$988,881</u>	<u>\$676,440</u>

9. Installment Contracts Payable

Cal Expo's installment contracts payable account at June 30, 1990, primarily consists of the long-term portion of a loan from the Department of Food and Agriculture (department). In October 1989, Cal Expo entered into agreements with the department and the California Fairs Financing Authority to build a new livestock barn on the Cal Expo facility at an estimated cost of approximately \$4.6 million. Under the agreement with the department, Cal Expo and the department equally share the cost of building the barn. Cal Expo agreed to reimburse the department approximately \$2.3 million to cover its share of the construction cost. The current portion of the loan is included in the due to other funds account (See Note 8). This agreement allows Cal Expo to repay the loan, plus interest, over approximately ten years. Generally, the interest rate on the loan will equal the interest rate of the

State's pooled money investment program for each year that the loan is outstanding. The new livestock barn replaced two temporary livestock barns, with a net undepreciated value of \$165,075, that were torn down during fiscal year 1989-90.

The following schedule summarizes the installment contracts payable account balance at June 30:

	<u>1990</u>	<u>1989</u>
Installment contract for livestock barn	\$1,815,000	
Other installment contracts	<u>37,902</u>	<u>\$27,126</u>
Total	<u>\$1,852,902</u>	<u>\$27,126</u>

10. Compensated Absences Payable

As of June 30, 1990, Cal Expo's liability for accumulated vacation, compensated time off, and personal holidays amounted to \$381,623; as of June 30, 1989, its liability amounted to \$286,856. The liability for compensated absences does not include amounts for accumulated sick leave because employees cannot receive cash for sick-leave balances when they leave state service. Accumulated sick leave may be exchanged upon retirement for service credits in an employee's retirement account.

11. Restatement of Retained Earnings

The retained earnings of the Enterprise Fund at July 1, 1988, and June 30, 1989, were adjusted to correct for errors that Cal Expo made during fiscal years 1987-88 and 1988-89.

Adjustments were made to properly reflect statewide administrative costs, transactions related to a promotional fund that Cal Expo did not record in its financial statements, and monies transferred to Cal Expo from the Department of Food and Agriculture during fiscal year 1987-88 for the replacement of the livestock barns.

The net effect of these adjustments on the June 30, 1989, financial statements was to increase total assets by \$112,413, total liabilities by \$403,357, net income by \$168,567, and contributed capital by \$200,000.

The effect of the restatement on retained earnings is summarized as follows:

	June 30, 1989	July 1, 1988
As reported	\$3,558,356	\$3,282,919
Statewide administrative costs	(403,357)	(494,276)
Promotional fund	112,413	34,765
Livestock barns	(200,000)	(200,000)
As restated	<u>\$3,067,412</u>	<u>\$2,623,408</u>

12. Retirement Contributions

Regular employees of Cal Expo are members of the statewide Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan for state and local government employees in California. The amount that Cal Expo and its employees contribute to the PERS is determined actuarially under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as they are accrued. Additional disclosures for the retirement plan are presented in the general purpose financial statements of the State of California for the years ended June 30, 1990, and June 30, 1989. Cal Expo's share of the retirement contributions was \$411,565 for fiscal year 1989-90 and \$351,635 for fiscal year 1988-89.

13. Postretirement Health Care Benefits

Cal Expo pays for certain health care benefits for eligible retired employees and their survivors. The cost of retiree health care is included in statewide administrative costs and is recognized as an expense in the year the benefits are paid.

14. Contingencies

At June 30, 1990, the State (Cal Expo) was the defendant in a lawsuit. The Department of Justice, representing Cal Expo, subsequently settled the lawsuit in the amount of \$130,000. Because it is uncertain whether the payment will be made from the Enterprise Fund, the liability is not included in the accompanying financial statements.

15. Subsequent Events

Cal Expo is in the process of negotiating an agreement with the Department of Food and Agriculture to pay for the construction of a new satellite wagering facility estimated to cost up to \$4.2 million. Under the proposed agreement, Cal Expo will reimburse the Department of Food and Agriculture approximately \$586,000 of the cost of building the facility.

16. Changes in Presentation

In fiscal year 1989-90, the presentation of the Statement of Revenues, Expenses, and Changes in Retained Earnings has been changed to a format that represents a more meaningful presentation of Cal Expo's revenues and expenses. Amounts for fiscal year 1988-89 have been reclassified to conform with the presentation for fiscal year 1989-90.

Further, the horse racing prize money (purses) generated from the state fair racing meet was excluded from Cal Expo's financial statements in fiscal year 1989-90. For fiscal year 1988-89, Cal Expo recorded purses as revenues when Cal Expo received the money and as expenses when the money was paid to the horsemen. The effect of the purses on Cal Expo's net income was zero under the recording method used in either fiscal year 1989-90 or fiscal year 1988-89.



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STATE OF CALIFORNIA
Office of the Auditor General

Kurt R. Sjoberg
Auditor General (acting)

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

INDEPENDENT AUDITOR'S REPORT

Members of the Joint Legislative Audit Committee
State of California

We have audited the financial statements of the California Exposition and State Fair Enterprise Fund as of and for the years ended June 30, 1990, and June 30, 1989, and have issued our report thereon dated January 7, 1991. We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the California Exposition and State Fair (Cal Expo) is responsible for compliance with laws, regulations, and contracts applicable to it. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested Cal Expo's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance indicate that, for the items tested, Cal Expo complied, in all material respects, with the provisions referred to in the preceding paragraph. We noted certain immaterial instances of noncompliance, which we have reported to the management of Cal Expo and which we discuss in pages 25 through 32 of this report. For items not tested, nothing came to our attention that caused us to believe that Cal Expo had not complied, in all material respects, with those provisions.

This report is intended for the information of the California Legislature, including the Joint Legislative Audit Committee and the management of Cal Expo. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Joint Legislative Audit Committee, is a matter of public record.

OFFICE OF THE AUDITOR GENERAL

CURT DAVIS, CPA
Deputy Auditor General

January 7, 1991



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Office of the Auditor General

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660 J STREET, SUITE 300
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INDEPENDENT AUDITOR'S REPORT

Members of the Joint Legislative Audit Committee
State of California

We have audited the financial statements of the California Exposition and State Fair Enterprise Fund (Enterprise Fund) as of and for the years ended June 30, 1990, and June 30, 1989, and have issued our report dated January 7, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements of the Enterprise Fund are free of material misstatement.

In planning and performing our audit of the financial statements for the years ended June 30, 1990, and June 30, 1989, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The Department of Finance and the management of the California Exposition and State Fair (Cal Expo) are responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, estimates and judgments from the department and the management are required to assess the expected benefits and related costs of the policies and procedures for the internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may

become inadequate because of changes in conditions or that the effectiveness of the design and operation or policies and procedures may deteriorate.

For the purposes of this report, we have classified Cal Expo's significant policies and procedures for its internal control structure in the following categories: revenues and receivables, cash receipts and disbursements, payroll, operating expenditures and payables, and capital assets. For all of these categories, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that come to our attention that are related to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Cal Expo's ability to record, process, summarize, and report financial data so that it is consistent with the assertions of management in the financial statements.

On March 21, 1991, my staff met with Joseph Barkett, Peter Sugar, and other representatives of Cal Expo to discuss weaknesses in Cal Expo's internal controls and recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1. Use of Promotional Funds Circumvents the State's Fiscal Controls

Finding: Cal Expo's use of promotional funds provided by a contractor circumvents the State's fiscal controls. According to its records, Cal Expo requested a contractor to spend on behalf of Cal Expo at least \$72,500 during fiscal year 1989-90 from a promotional fund established by the contractor for Cal Expo. In 1983, Cal Expo and the contractor entered into a long-term agreement, which included a contract provision stating that the contractor would establish a promotional fund for Cal Expo. The contract provision specified the amount the contractor would deposit in the promotional fund to be equal to four percent of the revenues the contractor generated from its operations on the Cal Expo facility during each year. The provision also stated that the contractor would use the promotional fund to pay invoices on Cal Expo's behalf and that, if the expenses paid out of the promotional fund were less than the contractor's obligation, the contractor would pay Cal Expo the difference within 30 days after the close

of the calendar year. Thus, the contract provision provides Cal Expo with an additional source of revenue, which is considered state money.

Although the Department of General Services approved the contract, the establishment of the promotional fund allows Cal Expo to make payments through the contractor using funds that are not deposited in the state treasury system, and thus, the payments are not processed by the State Controller's Office or subjected to other state controls. Such an arrangement provides Cal Expo with the opportunity to spend funds inappropriately without being detected.

Although Cal Expo has statutory authority to expend funds for promotional and public relations purposes, the legislation does not define what constitutes an appropriate use of funds for this purpose. In certain instances, the propriety of what Cal Expo used the funds for seems clear. For example, of the \$72,500 that Cal Expo requested the contractor to spend on its behalf during fiscal year 1989-90, \$58,000, or 80 percent of the total, was for advertising and marketing research services related to two contracts. These services appeared to be standard promotional activities and thus seemed appropriate. However, because of a lack of specificity in the legislation and because of a lack of documentation, we were unable to determine whether all items we reviewed that were paid through the contractor were appropriate. For example, during our review of payment requests made by Cal Expo from August 1989 through October 1990, we also noted payment requests for services and travel expenses of a travel consultant for which Cal Expo did not appear to have a valid contract; for a microwave oven for the administration building; for a cellular telephone; and for entertainment and catering, including food and alcohol, for various officials and professionals in the fair industry. Additionally, we noted other items, including a \$1,000 request for payment to a fair association without any explanation of the purpose of the funds.

Further, Cal Expo did not require the contractor to pay Cal Expo the difference between expenses paid from the promotional fund and the contractor's obligation. Instead, the difference was carried forward in the balance of the promotional fund from at least June 30, 1988. According to the contractor, as of June 30, 1990, the balance of the promotional fund was approximately \$266,000. Cal Expo lost interest revenue for the years it carried forward the balance

of the promotional fund. For example, we estimate that Cal Expo lost at least \$13,700 in foregone interest during fiscal year 1989-90 alone.

Criteria: The Government Code, Section 12410, states that the state controller shall audit all claims against the State and may audit the disbursement of any state money for correctness, for legality, and for sufficient provisions of law for payment. In addition, the Government Code, Section 16305.3, requires that all state money be deposited in trust in the custody of the state treasurer, except when otherwise authorized by the director of the Department of Finance or unless deposited directly in the state treasury.

Recommendation: Cal Expo should discontinue using the contractor to make payments and instead make payments through its own accounting unit following prescribed state control procedures. Specifically, until the contract with the contractor ends on December 31, 1992, Cal Expo should annually collect the amount of the contractor's obligation for the promotional fund and deposit the amount in the state treasury system, spending the funds in accordance with state rules and regulations. Further, Cal Expo should not include a provision for a fund that circumvents the State's fiscal controls in future contracts.

Item 2. Failure to Obtain Required Approvals

Finding: Cal Expo did not always comply with the laws and administrative requirements of the State. Specifically, Cal Expo did not obtain required approvals from the Department of Finance or the Department of General Services (DGS) in many instances. In addition, Cal Expo did not obtain required approvals from the appropriate Cal Expo personnel when Cal Expo was delegated certain responsibilities. During our audit of fiscal year 1989-90, we noted the following specific conditions.

Cal Expo did not obtain approval from the Department of Finance before it took the following actions:

- Paid a \$30,000 advance to a plaintiff in a settlement claim. The required Department of Finance approval consists of a certification that a sufficient appropriation for the payment of a claim exists;

- Used an account outside the state treasury system for depositing \$85,560 of receipts from credit card sales during fiscal year 1989-90; and
- Implemented a capitalization policy for improvements to fixed assets that appears to differ substantially from the capitalization requirements set forth in the State Administrative Manual.

In addition, Cal Expo did not obtain approval from the DGS before it took the following actions:

- Entered into an agreement to purchase a piece of equipment for \$26,563;
- Began receiving services for six contracts totaling \$340,175;
- Began receiving services for an agreement with a promoter of an interim event;
- Implemented the terms of a contract amendment that resulted in Cal Expo paying the contractor an additional \$35,466;
- Received legal services related to a certain lawsuit. Specifically, Cal Expo entered into a new agreement, totaling \$5,716, that was not approved by the DGS instead of amending the original contract and obtaining approval as required; and
- Purchased a computer disk subsystem totaling \$7,900. Specifically, after it had purchased the subsystem, Cal Expo split the purchase into separate agreements that in total were above the specified limitation of \$5,000, above which DGS approval is required.

Similarly, Cal Expo did not always comply with the laws and administrative requirements of the State when Cal Expo was delegated certain responsibilities. Specifically, Cal Expo did not take the following actions:

- Approve, before the contractors began work, two contracts, totaling \$19,775, that were exempt from DGS approval; and

- Prepare and approve one contract/delegation purchase order until after Cal Expo received the goods.

These instances of failure to obtain the required approvals and failure to comply with the laws and administrative requirements of the State are deviations from the State's system of internal controls, which is designed to ensure that the public's resources are not vulnerable to abuse.

Criteria:

The Government Code, Section 948, allows state agencies to settle, adjust, or compromise any pending action when the director of the Department of Finance certifies that a sufficient appropriation for the payment of claims exists.

The Government Code, Section 16305.3, requires that all state money be deposited with the state treasurer, except when authorized by the director of the Department of Finance or unless deposited directly in the state treasury. The State Administrative Manual, Section 8001, describes the state treasury system as a system where state monies are deposited in specified banks for credit to the central accounts of the state treasurer.

The State Administrative Manual, Sections 8602 and 8613, describes the requirements for capitalizing property improvements, which departments should use unless the Department of Finance approves other requirements.

The Public Contract Code, Sections 10295, 10335, and 10360, states that identified contracts are of no effect unless and until approved by the DGS. Additionally, the State Administrative Manual, Section 1209, requires that state agencies, except in emergency cases to protect human life or state property, submit contracts in sufficient time to permit DGS approval before work begins. Although certain contracts under discussion in this finding were exempt from DGS approval, the rationale for the DGS's approving a contract before work begins supports the conclusion that Cal Expo should approve contracts before the contractor begins work.

The State Administrative Manual, Section 1247, states that contracts that were subject to DGS approval must also have DGS approval for an amendment unless the amendment only extends the original time for completion of performance for a period of one year or less.

The State Administrative Manual, Section 1215, states that the splitting of contracts to avoid any monetary limitations that require DGS approval for such contracts is prohibited.

The Public Contract Code, Section 10331, states that the DGS shall establish a program for delegating purchase authority to state agencies that meet certain requirements. The DGS established a delegated purchase program for Cal Expo that limited its purchase authority to \$5,000 unless otherwise specified. Further, the State Administrative Manual, Section 3572, prohibits the circumvention of normal procurement methods by splitting purchases into a series of delegated purchase orders.

The State Administrative Manual, Section 3506, states that, when a delegation of purchase authority is granted to an agency, all purchase orders are to be written on approved forms.

Recommendation: Cal Expo should comply with the laws and administrative requirements of the State and obtain required approvals from the Department of Finance, the Department of General Services, and Cal Expo officials.

Item 3. Failure to Record Statewide Administrative Costs Properly

Finding: Cal Expo did not properly record statewide administrative costs in its financial statements for fiscal years 1987-88 through 1989-90. When legislation created the Enterprise Fund in February 1986, Cal Expo became responsible for paying statewide administrative costs. However, Cal Expo did not need to record statewide administrative costs in its financial statements until fiscal year 1987-88, when the Department of Finance first assessed these costs. Statewide administrative costs are Cal Expo's share of the amounts expended by certain state agencies and the Legislature for the overall administration of state government and for providing centralized services to state agencies.

In July 1987, Cal Expo and the Department of Finance agreed to a payment schedule for statewide administrative costs. However, Cal Expo recorded in its financial statements only the payments made for statewide administrative costs instead of the actual

statewide administrative costs for which it was liable. As a result, Cal Expo misstated its due to other funds account and net income in fiscal years 1987-88 through 1989-90. For fiscal year 1987-88, Cal Expo overstated its net income and understated its due to other funds account by approximately \$494,000. In addition, for fiscal year 1988-89, Cal Expo understated its net income by approximately \$91,000 and understated its due to other funds account by approximately \$403,000. Finally, for fiscal year 1989-90, Cal Expo understated its net income by approximately \$96,000 and understated its due to other funds account by approximately \$307,000. After we brought this matter to its attention, Cal Expo made the necessary corrections.

Criteria: The Government Code, Section 11271, describes the process by which certain funds shall be charged a share of administrative costs. In addition, the State Administrative Manual, Section 7630, requires that all outstanding obligations to other funds or appropriations for goods and services received be reported as due to other funds or appropriations.

Recommendation: Cal Expo should ensure that it records the proper amount of statewide administrative costs in its financial statements.

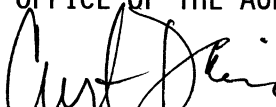
No Material Weaknesses Observed in Internal Control Structure

A material weakness is a reportable condition in which the design or operation of an element of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended for the California Legislature, including the Joint Legislative Audit Committee, and for the management of Cal Expo. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Joint Legislative Audit Committee, is a matter of public record.

OFFICE OF THE AUDITOR GENERAL



CURT DAVIS, CPA
Deputy Auditor General

January 7, 1991

**THE CALIFORNIA EXPOSITION AND STATE FAIR'S
IMPLEMENTATION OF PREVIOUS OFFICE OF
THE AUDITOR GENERAL RECOMMENDATIONS**

In February 1990, the Office of the Auditor General issued a report (F-922) presenting the results of the audit for fiscal year 1988-89. Below are the recommendations from this report and a summary of the California Exposition and State Fair's (Cal Expo) efforts to implement them.

Recommendations

Cal Expo should record as fixed assets in the proper fiscal year all capital improvements made to the Cal Expo facility.

Cal Expo should record equipment acquisitions in the year that Cal Expo actually received the equipment items.

Cal Expo should accrue as accounts payable all amounts that reflect the cost of goods or services received but not yet paid for.

Cal Expo should accurately calculate and record in the financial reports the annual depreciation expense for its fixed assets.

Status

During fiscal year 1989-90, Cal Expo recorded as fixed assets in the proper fiscal year most capital improvements made to the Cal Expo facility. However, Cal Expo recorded four capital improvements totaling approximately \$14,900 as expenses rather than as fixed assets.

During fiscal year 1989-90, Cal Expo recorded equipment acquisitions in the year that Cal Expo actually received the equipment items. However, although it recorded the item in the correct year, Cal Expo improperly classified one equipment item totaling approximately \$26,600 as an expense rather than as a fixed asset.

During fiscal year 1989-90, Cal Expo accrued most of its accounts payable properly. However, it did not properly accrue one item totaling approximately \$26,100 as accounts payable during fiscal year 1989-90.

During fiscal year 1989-90, Cal Expo accurately calculated and recorded in the financial reports the annual depreciation expense for its fixed assets.

Recommendations

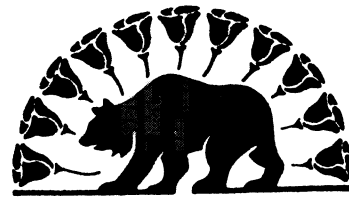
Cal Expo should tag all equipment items and ensure that all equipment is recorded in the equipment records.

Cal Expo should conduct a complete inventory of its fixed assets and reconcile the inventory with the property and accounting records.

Status

During fiscal year 1989-90, Cal Expo did not tag all equipment items and ensure that all equipment was recorded in the equipment records. Four of the 15 pieces of equipment that Cal Expo acquired during fiscal year 1989-90 that we tested did not have state identification tags. Further, in September 1990, Cal Expo's internal auditor issued a memorandum to Cal Expo's general manager regarding property procedures and physical inventory. The memorandum stated that Cal Expo's system for identifying and tagging property was not adequate. For example, the business services or the accounting unit did not consistently identify purchased property.

In August 1990, Cal Expo completed a physical inventory of Cal Expo's equipment and reconciled the inventory with the accounting records as of June 30, 1990. According to Cal Expo's administrator/controller, Cal Expo plans to conduct an inventory of its buildings and improvements and reconcile the inventory with its records before preparing the fiscal year 1990-91 financial statements.



California State Fair

March 27, 1991

Mr. Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Room 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to review and comment on the draft of your report entitled "The California Exposition and State Fair's Financial Status for the Fiscal Year Ended June 30, 1990".

Cal Expo welcomed your office in 1985 and has attempted to comply with its recommendations in annual audits since that time. As you point out, Cal Expo has achieved considerable financial success and accountability during the last five years.

In your current report you make three recommendations. The following are actions we have taken or propose to take to address these recommendations:

Your first recommendation addresses the promotional fund. Specifically, you recommend that the monies be collected from the fund and placed in the State treasury to be spent in accordance with State rules and regulations.

It should be noted that this promotional fund was approved by the Department of General Services in 1983. The specific purpose of this fund was to provide a degree of flexibility for promotional and other opportunities which are not efficiently dealt with in the context of normal state procedures. The fund amounts to approximately \$150,000 out of an annual budget of over \$15 Million. More importantly, it should be noted that no irregularities exist in the spending of these funds. Cal Expo keeps very accurate records of expenditures which can be reviewed by any appropriate government agency that wishes to do so. Because the California Exposition and State Fair has already prepared and submitted the 1991-92 budget that includes these monies, and because the contract providing these monies ends shortly after the 1991-92 fiscal year, there is little we can do presently to comply with your recommendations. We will, however, take your recommendations under serious consideration before entering into any future contract of this type.

P.O. Box 15649 Sacramento, California 95852

Kurt R. Sjoberg
March 25, 1991
Page Two

Your second recommendation is that the California Exposition and State Fair comply with laws requiring approvals from appropriate State agencies.

It is clearly the intent of Cal Expo to comply with these requirements, and in almost all cases we have done so. There are times, however, when the expedient and necessary course of action for Cal Expo precludes the timely approval of certain contracts or purchases. This is due to the timely demands of business which simply do not wait for the sometimes lengthy and cumbersome processes of government. As with all our contracts and purchases, these rare exceptions are subject to review and audit to insure that no improprieties occur.

Your third recommendation regards the manner in which the California Exposition and State Fair recorded the Statewide Administrative Costs.

The California Exposition and State Fair has adopted this recommendation and recorded the liability as of June 30, 1990. It should be of note that in 1986 Cal Expo entered into a ten-year plan to pay over \$1 Million in liabilities accrued prior to our financial turnaround. We expect to fully liquidate this liability for past years at the end of the 1991/92 fiscal year, well ahead of the proposed schedule.

Again, we look forward to working with your staff as we continue to implement many of your recommendations and improve our operation.

Sincerely,



Joseph J. Barkett
General Manager

JJB:PS:je

**cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
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