

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

---

THE CALIFORNIA EXPOSITION AND STATE FAIR  
HAS CONTINUED TO IMPROVE ITS FINANCIAL  
CONDITION AND MANAGEMENT CONTROLS  
BUT MORE IMPROVEMENT IS NEEDED

---

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

F-743

THE CALIFORNIA EXPOSITION AND STATE FAIR  
HAS CONTINUED TO IMPROVE ITS FINANCIAL  
CONDITION AND MANAGEMENT CONTROLS  
BUT MORE IMPROVEMENT IS NEEDED

MARCH 1988



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**

Thomas W. Hayes  
Auditor General

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

March 23, 1988

F-743

Honorable Bruce Bronzan, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 448  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the operations of the California Exposition and State Fair (Cal Expo). This report indicates that although Cal Expo's financial condition has improved over the last two fiscal years, Cal Expo must continue to work toward remaining fiscally independent from the State's General Fund support. The report also indicates that Cal Expo does not promptly perform all accounting procedures, does not maintain up-to-date accounting records, and has not developed a detailed marketing plan to promote the use of its facilities between state fairs.

We conducted this audit to comply with Chapter 8, Statutes of 1986.

Respectfully submitted,

*Tom Hayes*  
for THOMAS W. HAYES  
Auditor General

## TABLE OF CONTENTS

	<u>Page</u>
<b>SUMMARY</b>	S-1
<b>INTRODUCTION</b>	1
<b>AUDIT RESULTS</b>	
THE CALIFORNIA EXPOSITION AND STATE FAIR HAS CONTINUED TO IMPROVE ITS FINANCIAL CONDITION AND MANAGEMENT CONTROLS BUT MORE IMPROVEMENT IS NEEDED	5
CONCLUSION	25
RECOMMENDATIONS	26
<b>REPORT ON THE STUDY AND EVALUATION OF INTERNAL CONTROL</b>	31
<b>AUDITOR'S OPINION</b>	35
<b>FINANCIAL STATEMENTS</b>	
BALANCE SHEET AS OF JUNE 30, 1987 AND 1986	37
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS FOR THE PERIODS ENDED JUNE 30, 1987 AND 1986	39
STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE PERIODS ENDED JUNE 30, 1987 AND 1986	41
NOTES TO THE FINANCIAL STATEMENTS	43
<b>APPENDIX</b>	
THE CALIFORNIA EXPOSITION AND STATE FAIR'S IMPLEMENTATION OF PREVIOUS OFFICE OF THE AUDITOR GENERAL RECOMMENDATIONS FOR IMPROVING MANAGEMENT CONTROLS AND THE FINANCIAL REPORTING SYSTEM	47
<b>RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT</b>	
California Exposition and State Fair	51

## SUMMARY

---

### RESULTS IN BRIEF

The California Exposition and State Fair (Cal Expo) has become financially independent. For fiscal year 1986-87, we noted the following conditions:

- For the first time, Cal Expo did not receive any support from the State's General Fund; and
- Cal Expo's operating receipts for the year exceeded its disbursements by approximately \$981,700. This was the second time since 1980 and the second consecutive year that Cal Expo ended the year with a surplus from its operations. In fiscal year 1985-86, Cal Expo's operating receipts exceeded its disbursements by approximately \$684,600.

Cal Expo's future fiscal independence will be jeopardized if it does not continue to receive the revenue that it generates from simulcast televising of horse races. Also, Cal Expo still has over \$4.8 million in maintenance and repairs to complete.

---

### BACKGROUND

Cal Expo is responsible for managing the annual state fair and for providing a site for other events during the remainder of the year. Among the facilities at Cal Expo are exposition buildings, a racetrack, an aquatic amusement park, and a concert amphitheater. Cal Expo is governed by an 11-member board of directors, which serves as the policy-making body for Cal Expo and is responsible for its year-round operation and management. The board also appoints Cal Expo's general manager.

---

## PRINCIPAL FINDINGS

---

### Cal Expo Must Continue To Work Toward Becoming Fiscally Independent

Despite ending fiscal years 1986-87 and 1985-86 with an excess of operating receipts over disbursements, Cal Expo is not assured of continued fiscal independence. During fiscal year 1986-87, Cal Expo's receipts from the state fair and other events totaled \$11.48 million. In that same fiscal year, Cal Expo spent \$10.50 million, resulting in a positive balance of approximately \$981,700. In fiscal year 1985-86, Cal Expo's operating receipts exceeded its disbursements by approximately \$684,600. The positive balances for these two years result mainly from Cal Expo's introduction of simulcast televising of horse races. This new source of revenue brought Cal Expo approximately \$4.3 million during the two fiscal years. However, approximately only one-half of this amount, \$2.1 million, was guaranteed to Cal Expo as a percentage of its total receipts; the remainder, approximately \$2.2 million, was a discretionary allocation, and Cal Expo cannot be certain that it will receive similar amounts in the future. Additionally, Cal Expo still faces over \$4.8 million in deferred maintenance and repair projects and has not yet prepared a formal preventive maintenance plan that could prevent unnecessary repairs and higher long-term maintenance costs in the future.

---

### Cal Expo Must Continue To Work Toward Improving Its Management Controls

In our report entitled "Status Report and Financial Audit Report of the California Exposition and State Fair, Year Ended June 30, 1986," Report F-618, March 1987, we recommended a number of ways in which Cal Expo could improve its operations. Cal Expo has addressed many of the report recommendations by

completing some needed maintenance projects, increasing controls over the collection and deposit of cash receipts, and clearing long outstanding items from the accounting records. However, Cal Expo still has deficiencies in its management controls. For example, Cal Expo did not promptly transfer bank deposits to the California Exposition and State Fair Enterprise Fund (Enterprise Fund), and as a result, the State's General Fund rather than the Enterprise Fund earned at least \$138,500 in interest on Cal Expo's deposits. In addition, Cal Expo does not promptly perform other accounting procedures or maintain up-to-date accounting records, does not provide prompt and accurate financial reports, and has not developed a detailed marketing plan to promote the use of its facilities between state fairs.

---

## RECOMMENDATIONS

To improve its financial condition and management controls, Cal Expo should take the following actions:

- Seek additional sources of funding to complete needed maintenance projects and prepare a formal preventive maintenance plan;
- Promptly transfer bank deposits to the Enterprise Fund to earn the maximum amount in interest income from deposits;
- Maintain up-to-date accounting records and provide prompt and accurate financial reports; and
- Develop a detailed marketing plan to promote the use of its facilities between state fairs.

---

**AGENCY COMMENTS**

The California Exposition and State Fair generally concurs with our findings and agrees to implement our recommendations. In its response, Cal Expo also provides some additional information about its financial condition and its accounting and reporting system.



## INTRODUCTION

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, January 1986. This report detailed severe management problems at the California Exposition and State Fair (Cal Expo). The report concluded that a lack of self-generated revenue and poor management controls had contributed to Cal Expo's inability to achieve fiscal independence. Effective February 25, 1986, the Food and Agriculture Code, Section 3337, requires the Office of the Auditor General to prepare an annual report on the fiscal status of Cal Expo until January 1, 1991.

In March 1987, the Office of the Auditor General issued another report entitled, "Status Report and Financial Audit Report of the California Exposition and State Fair, Year Ended June 30, 1986," Report F-618. This report concluded that Cal Expo had improved its financial condition and management controls but indicated that more improvement was needed for Cal Expo to achieve fiscal independence. Our current report contains the results of our financial audit of Cal Expo for the periods ended June 30, 1987 and 1986. In the Appendix of this report, we discuss Cal Expo's efforts to implement recommendations from our previous 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 simulcasted horse racing, harness racing, concerts, and vehicle shows.

The annual state fair runs for an average of 17 days from mid-August to early September and provides a showcase for the agricultural, recreational, and industrial resources of the State. The fair provides an arena for the presentation of new ideas and information for the education of visitors. Also, the fair provides a marketplace for the demonstration, advertisement, and sale of goods and services. Finally, the fair provides opportunities for youths, participating in programs such as scouting, 4-H, and the Future Farmers of America, to compete in agricultural and livestock events.

Cal Expo opened on its present site in 1968. The site consists of about 700 acres along the American River in Sacramento County. About 350 acres of the 700 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 350 acres are used for the state fair and other events. Cal Expo facilities 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 2 that remain, 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 also appoints Cal Expo's general manager; however, the governor appoints the deputy general manager, the program manager, and the marketing manager. In 1980, state law 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 California Exposition and State Fair Enterprise Fund as of, and for the periods ended June 30, 1987 and 1986. 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 Cal Expo.

In addition, we evaluated Cal Expo's progress in correcting the management problems identified in our previous report. We reviewed the report recommendations and obtained Cal Expo's responses to them. We then interviewed Cal Expo personnel, observed completed maintenance projects, and reviewed Cal Expo's records to determine the extent to which Cal Expo had implemented these recommendations.

## AUDIT RESULTS

### THE CALIFORNIA EXPOSITION AND STATE FAIR HAS CONTINUED TO IMPROVE ITS FINANCIAL CONDITION AND MANAGEMENT CONTROLS BUT MORE IMPROVEMENT IS NEEDED

In fiscal year 1986-87, Cal Expo did not receive any support from the State's General Fund. In addition, Cal Expo's operating receipts for the year exceeded its disbursements by approximately \$981,700. This was the second time since 1980 and the second consecutive year that Cal Expo ended the year with an operating surplus. In fiscal year 1985-86, Cal Expo's operating receipts exceeded its disbursements by approximately \$684,600. Cal Expo's improved financial condition over the past two years results primarily from Cal Expo's introduction, in October 1985, of simulcast televising of horse races, which generated approximately \$2.1 million in revenues in fiscal year 1986-87 and approximately \$2.2 million in fiscal year 1985-86. However, approximately one-half of the revenues from simulcasted horse races were discretionary allocations from the Department of Food and Agriculture, and therefore, no guarantee exists that Cal Expo will continue to receive similar amounts in the future. In addition, Cal Expo still has over \$4.8 million of deferred maintenance and repair projects to complete and has not yet prepared a formal preventive maintenance plan that could prevent unnecessary repairs and higher long-term maintenance costs in the future.

Further, Cal Expo has implemented many of the recommendations that we made in our previous report entitled, "Status Report and Financial Audit Report of the California Exposition and State Fair, Year Ended June 30, 1986," Report F-618, March 1987; however, it still has deficiencies in its management controls. For example, Cal Expo did not promptly transfer bank deposits to the California Exposition and State Fair Enterprise Fund (Enterprise Fund), and as a result, the State's General Fund rather than the Enterprise Fund earned at least \$138,500 in interest on Cal Expo's deposits. In addition, Cal Expo does not promptly perform other accounting procedures or maintain up-to-date accounting records, does not provide prompt and accurate financial reports, and has not developed a detailed marketing plan to promote the use of its facilities between state fairs.

Cal Expo Has Improved Its  
Financial Condition but Must Continue  
To Work Toward Fiscal Independence

Since 1980, state law has required Cal Expo to work toward becoming fiscally independent of the State's General Fund. In fiscal year 1986-87, for the first time since 1980, Cal Expo did not receive any support from the State's General Fund. In fiscal year 1986-87, Cal Expo received approximately \$11.48 million in revenues from the state fair and events held during the remainder of the year (interim events) and from reimbursements for security, cleanup, and other services that Cal Expo provides. These operating receipts are approximately \$981,700 more than its disbursements for the year and

approximately \$293,400 more than the approximately \$11.19 million in operating receipts for fiscal year 1985-86. Table 1 compares Cal Expo's operating receipts and disbursements for fiscal year 1985-86 with Cal Expo's operating receipts and disbursements for 1986-87.

TABLE 1  
**CALIFORNIA EXPOSITION AND STATE FAIR**  
**OPERATING RECEIPTS AND DISBURSEMENTS**  
FISCAL YEARS 1985-86 AND 1986-87

	<u>1985-86</u>	<u>1986-87</u>	<u>Increase (Decrease)</u>
Operating Receipts			
State fair revenue	\$ 6,813,300	\$ 7,179,300	\$ 366,000
Interim event revenue	2,648,800	2,805,900	157,100
Discretionary allocations	1,203,400*	992,000*	(211,400)
Reimbursements	<u>520,500</u>	<u>502,200</u>	<u>(18,300)</u>
 Total Operating Receipts	 <u>11,186,000</u>	 <u>11,479,400</u>	 <u>293,400</u>
Operating Disbursements			
Personal services	5,324,800	5,490,200	165,400
Other operating disbursements	<u>5,176,600</u>	<u>5,007,500</u>	<u>(169,100)</u>
 Total Operating Disbursements	 <u>10,501,400**</u>	 <u>10,497,700**</u>	 <u>(3,700)</u>
 Operating Receipts Minus Disbursements	 <u>\$ 684,600</u>	 <u>\$ 981,700</u>	 <u>\$ 297,100</u>

\* These amounts are discretionary allocations from the Satellite Wagering Account for simulcasted horse races and are not a guaranteed source of income for the future.

\*\* These amounts do not include approximately \$343,000 and \$1.06 million in depreciation expense for fiscal years 1985-86 and 1986-87, respectively, because depreciation expense does not require an expenditure of cash.

Because revenue from the state fair increased by approximately \$366,000 and revenue from interim events increased by approximately \$157,100, Cal Expo's total operating receipts increased despite an

approximate \$211,400 decrease in discretionary allocations from the Satellite Wagering Account and an approximate \$18,300 decrease in reimbursements. According to Cal Expo's general manager, the 1986 state fair (fiscal year 1986-87) had the highest number of paid admissions in its history at the Cal Expo site. The increased number of admissions to the state fair also resulted in increased revenues from parking and other activities held during the state fair.

Although discretionary allocations from the Satellite Wagering Account decreased in fiscal year 1986-87, Cal Expo continued to receive a significant amount of revenue from its hosting of simulcasted horse races, which Cal Expo introduced in October 1985. By satellite, Cal Expo receives broadcasts of horse races held at other race tracks, allowing patrons in Sacramento to bet on these races. This new revenue source provided approximately \$2.1 million in fiscal year 1986-87 and approximately \$2.2 million in fiscal year 1985-86, a total of approximately \$4.3 million to Cal Expo over the two years. Of these amounts, Cal Expo received approximately \$1.13 million in fiscal year 1986-87 and approximately \$960,000 in fiscal year 1985-86 in revenues from simulcasting commissions, admissions, and sales of food and beverage. Cal Expo will continue to receive these types of revenues as long as it continues to provide simulcasted horse races. However, \$992,000 of the \$2.1 million received in fiscal year 1986-87 and approximately \$1.2 million of the \$2.2 million received in fiscal year 1985-86 were discretionary allocations from the Satellite Wagering Account and are not a guaranteed source of income for the future.



By law, most revenues payable to the State from satellite wagering facilities such as Cal Expo must be deposited in a separate account. These revenues are deposited in the Satellite Wagering Account, which is administered by the Department of Food and Agriculture. The director of the Department of Food and Agriculture, at his or her discretion, controls the allocation of these funds, which are available for various purposes, including the repayment of bonds used to finance improvements for fair racetracks, health and safety repair projects at fairs, and support purposes of fairs generally. Based upon an understanding between Cal Expo and the Department of Food and Agriculture, Cal Expo already has received in fiscal year 1987-88 approximately \$364,000 and expects to receive in that year another \$600,000 from the Satellite Wagering Account. However, these are discretionary allocations, and no guarantee exists that these allocations will be a continuing source of funds in the future.

In addition to its operating receipts, Cal Expo also earned about \$209,700 in interest income in fiscal year 1986-87 from its deposits in the Surplus Money Investment Fund and \$271,000 in other state support. Table 2 shows all sources of support for Cal Expo for fiscal years 1985-86 and 1986-87.

**TABLE 2**  
**CALIFORNIA EXPOSITION AND STATE FAIR**  
**SOURCES OF SUPPORT**  
**FISCAL YEARS 1985-86 AND 1986-87**

	<u>1985-86</u>	<u>1986-87</u>	<u>Increase (Decrease)</u>
<b>Operating Receipts</b>			
State fair revenue	\$ 6,813,300	\$ 7,179,300	\$ 366,000
Interim event revenue	2,648,800	2,805,900	157,100
Discretionary allocations	1,203,400	992,000	(211,400)
Reimbursements	<u>520,500</u>	<u>502,200</u>	<u>(18,300)</u>
Total Operating Receipts	<u>11,186,000</u>	<u>11,479,400</u>	<u>293,400</u>
<b>Other Sources</b>			
Interest income	9,700	209,700	200,000
State's General Fund	<u>1,757,500</u>	<u>                    </u>	<u>(1,757,500)</u>
Total Other Sources	<u>1,767,200</u>	<u>209,700</u>	<u>(1,557,500)</u>
<b>Other State Support</b>			
Fair and Exposition Fund	265,000	265,000	
State Fair Police Special Account	3,000	6,000	3,000
Disaster Response Account (flood relief)	<u>299,000</u>	<u>                    </u>	<u>(299,000)</u>
Total Other State Support	<u>567,000</u>	<u>271,000</u>	<u>(296,000)</u>
Total Support	<u>\$13,520,200</u>	<u>\$11,960,100</u>	<u>\$(1,560,100)</u>

While Cal Expo's operating receipts exceeded its disbursements by approximately \$981,700 and it also received other sources of support, when we deduct depreciation expenses of approximately \$1.06 million, Cal Expo ended fiscal year 1986-87 with a \$398,340 surplus. This \$398,340 surplus combined with a \$727,117 surplus from fiscal year 1985-86 resulted in a total surplus of approximately

\$1.13 million in the California Exposition and State Fair Enterprise Fund (Enterprise Fund) for fiscal year 1986-87. As shown in our audited financial statements on page 39 of this report, Cal Expo had approximately \$1.13 million in retained earnings on June 30, 1987. However, Cal Expo reported its retained earnings balance for June 30, 1987, in the Enterprise Fund as approximately \$2.74 million. Our figure and Cal Expo's figure for retained earnings are different because of differences in accounting treatment for certain items of revenue, reimbursements, and expenses. Although Cal Expo reports its financial condition according to state laws and regulations, we had to adjust Cal Expo's financial records to prepare our financial statements in accordance with generally accepted accounting principles, thus presenting Cal Expo's financial data in the same way as a business in the private sector presents such data.

While Cal Expo has improved its financial operations during the periods ended June 30, 1987 and 1986, it must continue to generate operating surpluses in future years to become financially independent from the State's General Fund. However, Cal Expo's slow progress in completing needed deferred maintenance projects may restrict its ability to become fiscally independent; Cal Expo still needs to complete over \$4.8 million in deferred maintenance and repair projects and has not yet prepared a formal preventive maintenance plan that could prevent unnecessary repairs and higher long-term costs in the future.

Cal Expo Has Improved Its Management  
Controls but More Improvement Is Needed

Cal Expo has addressed many of the recommendations that we made in our report of March 1987. Specifically, Cal Expo has completed some needed maintenance projects and has made improvements in some aspects of its fiscal accounting and reporting system, such as increasing controls over the collection and deposit of cash receipts and clearing long outstanding items from the accounting records. (These improvements are discussed in detail in the Appendix of this report). However, Cal Expo has not addressed all of the recommendations and still needs to complete other much needed maintenance projects, further improve its fiscal accounting and reporting system, and develop a detailed marketing plan to promote the use of its facilities between state fairs.

Cal Expo Needs To Complete Other  
Necessary Maintenance Projects and  
Prepare a Formal Preventive Maintenance Plan

In 1985, engineers from the Division of Fairs and Exposition of the Department of Food and Agriculture completed a survey of the physical condition of the Cal Expo facility. The engineers determined that the Cal Expo grounds need almost \$4.6 million worth of health, safety, structural, electrical, and maintenance work. 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."

However, Cal Expo's progress toward completing the deferred maintenance projects has slowed because of a limited amount of funds. In fiscal year 1985-86, Cal Expo received from the State's General Fund \$1 million for deferred maintenance projects and completed in that year health and safety and other deferred maintenance projects that the engineers identified were worth almost \$1 million. In fiscal year 1986-87, Cal Expo did not receive any special funding for deferred maintenance projects. However, Cal Expo did use additional revenues from its operations in fiscal year 1986-87 to complete deferred maintenance projects worth approximately \$450,000. For example, Cal Expo addressed a major energy conservation concern by relighting its racetrack with a more efficient lighting system. Cal Expo also reroofed its administration building and renovated the Turf Club at the racetrack. In fiscal year 1987-88, Cal Expo budgeted \$500,000 for deferred maintenance. In addition to these budgeted amounts, a provision in the Budget Act of 1987 permits Cal Expo, with the director of the Department of Finance's approval, to increase its budgeted spending authority if sufficient money exists in Cal Expo's reserve to cover the increased spending authority. According to Cal Expo's general manager, some additional revenues are available in Cal Expo's reserve, and Cal Expo plans to use some of this surplus to complete maintenance and repair projects. However, although Cal Expo has completed many projects and has begun others, it also has revised certain costs and added some projects to the Department of Food and

Agriculture's list. These revisions and additions have increased to over \$4.8 million the estimated costs for required deferred maintenance and repair projects as of December 1987.

In addition, while the Cal Expo maintenance staff do perform ongoing repairs and servicing of the Cal Expo site, Cal Expo still has not completed a formal preventive maintenance plan. A preventive maintenance plan is necessary to ensure that Cal Expo's facilities are routinely inspected and serviced and that plant and equipment items are repaired or replaced before malfunctions or premature deterioration occur. The lack of a preventive maintenance plan may result in inefficient operations due to breakdowns and may prevent a continued flow of revenue for Cal Expo. Further, Cal Expo may experience costly and unnecessary repairs and higher long-term costs because of the accelerated deterioration of its facility.

At a minimum, a satisfactory plan should include a comprehensive list of all plant and equipment items that should be routinely inspected and serviced. The plan should also include checklists of the items needing inspections and service, a schedule indicating the required frequency of maintenance, and the standard time that it should take to inspect and service each item. Once in use, the preventive maintenance plan should be periodically reviewed to ensure that work is accomplished as planned.

Cal Expo currently is developing a formal preventive maintenance plan; however, progress is slow and much more work is needed to complete the plan. According to Cal Expo's administrator, Cal Expo has not assigned any staff to work full time on developing the plan; instead, staff work on the maintenance plan when they have time available between regular assignments. The administrator also stated that Cal Expo is developing the preventive maintenance plan using recommendations from a 1980 report prepared by an independent consulting firm, which conducted a study to assist Cal Expo in developing a maintenance plan and management system. The consulting firm's report identified the necessary components of a preventive maintenance plan, including an inventory of Cal Expo's plant and equipment items needing service, the standard times for accomplishing projects, and the required frequency of maintenance. Cal Expo is updating the findings of the consulting firm to complete its preventive maintenance plan as soon as possible.

#### Cal Expo Needs To Improve Its Fiscal Accounting and Reporting System

Cal Expo has taken steps to improve its fiscal accounting and reporting system, but more improvement is needed. Cal Expo's accounting and reporting system does not always provide sufficient information for effective fiscal management because Cal Expo does not promptly perform all accounting procedures and does not always maintain up-to-date accounting records.

Specifically, the State's General Fund, rather than Cal Expo's Enterprise Fund, earned at least \$138,500 in interest income on Cal Expo's deposits because Cal Expo did not promptly transfer receipts to its Enterprise Fund.<sup>1</sup> Between July 1, 1986, and October 31, 1987, for 18 of the 23 transfers that we reviewed, Cal Expo took between 26 and 170 days and an average of 46 days to transfer its bank deposits to the Enterprise Fund. During this time, the State's General Fund earned the interest income on the deposits. The State Administrative Manual, Section 8091, states that deposits exceeding \$25,000 should be transferred to the proper fund of the State Treasury as soon as possible, but not later than the first day of the week following accumulation. According to Cal Expo's fiscal officer, management at Cal Expo emphasized promptly depositing receipts in the bank and did not realize that Cal Expo would not receive the investment income until the deposits were transferred to the Enterprise Fund. Cal Expo's fiscal officer also stated that Cal Expo now will transfer its deposits to its Enterprise Fund as soon as possible and will explore other alternatives to receive the most investment income from the deposits.

In addition to the slow transfer of receipts to its Enterprise Fund, Cal Expo also does not promptly perform other accounting procedures or maintain up-to-date accounting records. Specifically,

-----  
<sup>1</sup>We estimated the amount of interest earned by the State's General Fund based on a 7.5 percent interest rate, which approximates the earning rate of the State's Pooled Money Investment Account for July 1, 1986, through October 31, 1987.



Cal Expo does not promptly record all transactions in its accounting records and does not always prepare regular reconciliations of its control accounts with associated subsidiary records and with similar accounts maintained by the State Controller's Office. The Government Code, Section 13401, states that each state agency must maintain effective internal accounting and administrative controls. Further, the Government Code, Section 13403, states that these controls must provide reasonable assurance that the state agencies are checking the accuracy of accounting data and are promoting operational efficiency. Finally, the State Administrative Manual, Section 7900, discusses the importance of making regular reconciliations. Reconciliations of subsidiary records with associated control accounts represent an important element of internal control because they provide a high level of confidence that transactions are correctly processed and that the financial records are complete.

In one instance, Cal Expo's failure to maintain up-to-date accounting records resulted in the loss of approximately \$44,000 in interest income to Cal Expo. In April 1986, the State Controller's Office incorrectly recorded \$409,000 of Enterprise Fund revenue as revenue in the State's General Fund. Cal Expo discovered this error in June 1986; however, Cal Expo did not request the State Controller's Office to transfer the \$409,000 of revenue from the State's General Fund to Cal Expo's Enterprise Fund until December 1987. Until the \$409,000 of revenue is transferred from the State's General Fund, the funds are not available for disbursement from the Enterprise Fund, and

the State's General Fund earns the interest income on the \$409,000. Between June 1986 and December 1987, the State's General Fund rather than the Enterprise Fund received approximately \$44,000 of interest income from the \$409,000.

Cal Expo's failure to maintain up-to-date accounting records also caused Cal Expo to submit late financial reports for fiscal year 1986-87. Cal Expo did not submit the financial reports for the Enterprise Fund to the State Controller's Office until October 30, 1987, 71 days after the due date. A memorandum, dated April 3, 1987, from the State Controller's Office requires agencies to submit year-end financial reports for funds other than the State's General Fund by August 20. Cal Expo's accounting officer claimed the accounting records are not up-to-date and the reports were late because Cal Expo had two vacant positions in its accounting office for half of fiscal year 1986-87. Failure to promptly submit financial reports by the required deadline delays the State Controller's Office in compiling financial statements for the State of California and delays the Office of the Auditor General in presenting to the Legislature its required annual report on the fiscal status of Cal Expo.

In addition to being late, Cal Expo's financial reports for fiscal year 1986-87 were also inaccurate. For example, Cal Expo overstated the accounts payable balance of the Enterprise Fund for June 30, 1987, by approximately \$95,000 because it included in the accounts payable balance amounts for goods and services that had not

been received by June 30. As a result, Cal Expo overstated its operating expenses by approximately \$95,000 for fiscal year 1986-87. In addition, Cal Expo did not reflect a proper balance of cash in its year-end financial reports because Cal Expo did not record all cash receipts in the proper fiscal year. As a result, Cal Expo understated the cash account balance of the Enterprise Fund for June 30, 1987, by approximately \$219,000. This understatement of cash occurred because Cal Expo's accounting officer records cash only after obtaining notice that the bank received Cal Expo's deposits rather than when Cal Expo actually received and deposited the cash. The State Administrative Manual, Section 7630, requires that the balance of accounts payable reflect the cost of goods or services received but not yet paid. Also, the State Administrative Manual, Section 7620, requires that the balance of cash reflect the cash collected by the agency and deposited, or to be deposited, in its general checking account. These errors have been corrected in the audited financial statements presented on pages 35 through 46 and also in tables 1 and 2 on pages 8 and 11 of this report.

Further, Cal Expo does not always maintain sufficient control over cash disbursements from its general checking account. Specifically, no evidence existed of proper authorization for all disbursements from this account. We reported this same weakness in our audit for fiscal year 1985-86. In response to our recommendations, Cal Expo added a new control procedure that requires someone other than the person signing the check to authorize the disbursement. However,

of 84 disbursements from this account that we reviewed, the authorization forms for 30 disbursements, totaling approximately \$181,000, were not signed. As a result, no evidence exists that anyone reviewed the supporting documentation and authorized the disbursement or that Cal Expo achieved the intended separation of duties. Cal Expo makes disbursements from this account primarily to refund all, or a portion of, amounts on deposit from event promoters and other users of the Cal Expo facility. Without proper authorization for disbursements, Cal Expo may incur inappropriate expenditures, and disbursements may be made without the management's knowledge or against the management's specific intentions.

Finally, although Cal Expo has improved its control of fixed assets, additional improvement is needed to provide sufficient control and accountability for fixed assets as required by the State Administrative Manual. Cal Expo has updated and automated its property records for fixed assets, which include land, buildings, improvements, and equipment. However, these records do not include information necessary for determining depreciation expense. In addition, Cal Expo does not use these records to support the account balances of fixed assets in its financial statements. The State Administrative Manual, Section 8650, states that a department's property accounting system will contain appropriate depreciation schedules and provide information to support the account balances of fixed assets.

Cal Expo also has not conducted a physical inventory of all property since August 1985 when the Office of the Auditor General hired an independent contractor to review Cal Expo's inventory control procedures and to conduct a complete physical inventory. The State Administrative Manual, Section 8652, states that state agencies will make a physical count of all property and reconcile the count with accounting records at least once every year. Failure to conduct a periodic physical inventory and to reconcile the inventory with accounting records exposes state property to an increased risk of loss.

Cal Expo Needs To Develop a Detailed  
Marketing Plan To Promote the Use  
of Its Facilities Between State Fairs

Cal Expo does not have a detailed marketing plan to promote the rental of its facilities during the interim between state fairs. A marketing plan is a planning tool that formally identifies the market--in this instance, the organizations most likely to rent the Cal Expo facilities--and then specifies the actions to be taken to increase revenues from that market--in this case, from the rental of Cal Expo's facilities. According to Cal Expo's general manager, Cal Expo does have general goals of maximizing promoters' use of the facilities and of replacing renters that provide small amounts of revenue with renters that provide larger amounts of revenue in certain Cal Expo buildings. The general manager also wants to negotiate higher rental rates and stated that Cal Expo has worked toward achieving these goals. However, Cal Expo does not have a specific plan for promoting

the use of the Cal Expo facilities between state fairs, for determining the appropriate rental rates, for keeping informed of local market trends, or for analyzing the present or future users of the Cal Expo facilities.

Although Cal Expo does not have a detailed marketing plan to promote the use of its facilities between state fairs, Cal Expo has taken steps to improve the marketing of the facilities. For example, Cal Expo hired an account manager who is responsible for marketing the facilities and meets regularly with the general manager to identify the users and promote the use of the facilities. Cal Expo's general manager expects the account manager to use this experience to develop a formal marketing plan for Cal Expo. In addition, Cal Expo has contracted with a public relations firm and an advertising agency to provide public relations services and an advertising plan and services for Cal Expo.

Further, Cal Expo's marketing plan does not contain information to determine whether Cal Expo's rental rates cover all of the costs involved in renting the facilities. Cal Expo has two types of costs: the reimbursable and the nonreimbursable costs. The reimbursable costs are for additional services provided by Cal Expo that are paid by the renter in addition to the rent. Reimbursable costs include costs for security, cleaning, personnel to sell tickets, and some of the costs of utilities. Nonreimbursable costs are those additional costs Cal Expo incurs when it rents a facility, and they

include additional utilities, depreciation, and maintenance and may include costs for parking attendants and other personnel. Cal Expo keeps track of the reimbursable costs but does not keep track of the nonreimbursable costs for each event.

Cal Expo's general manager believes that the amount of rent paid by the renter, in addition to the recovery of reimbursable costs, sufficiently covers the nonreimbursable costs to Cal Expo of renting the facility. However, the general manager also stated that Cal Expo is taking steps to determine all the costs of renting its facilities for individual events to ensure that rental rates cover the costs of renting the facilities. For example, Cal Expo currently is changing its manual accounting system to an automated system. The general manager expects this new accounting system to eventually provide detailed information for determining the actual costs of renting the facility for individual events. With this rental cost information, the general manager said that Cal Expo would have the flexibility to offer to renters a "pay one price" that would cover the rent and all services provided by Cal Expo. The general manager said that this type of arrangement could improve relations and negotiations with renters and possibly make more money for Cal Expo.

## CONCLUSION

The California Exposition and State Fair (Cal Expo) has been financially self-sufficient in each of the last two fiscal years. In fiscal year 1986-87, for the first time, Cal Expo did not receive any support from the State's General Fund. In addition, for the second time and the second consecutive year, Cal Expo earned enough revenue to pay for its operations. Cal Expo ended fiscal year 1986-87 with a \$1.13 million surplus in its California Exposition and State Fair Enterprise Fund. However, because Cal Expo is not assured of receiving all discretionary allocations in future years that it has received in the past and because Cal Expo still needs to complete over \$4.8 million in deferred maintenance and repair projects on the Cal Expo facility, Cal Expo's fiscal independence is not guaranteed. Consequently, continued improvement is needed if Cal Expo is to remain financially independent of the State's General Fund.

In addition, Cal Expo has taken steps to implement the recommendations in our report, "Status Report and Financial Audit Report of the California Exposition and State Fair, Year Ended June 30, 1986," Report F-618, March 1987, but Cal Expo still needs to improve its management controls. Cal Expo has completed some needed maintenance projects and has made improvements in some aspects of its fiscal accounting and



reporting system, such as increasing controls over the collection and deposit of cash receipts and clearing long outstanding items from the accounting records. However, Cal Expo still needs to complete some much needed maintenance projects, develop a preventive maintenance plan, further improve its fiscal accounting and reporting system, and develop a detailed marketing plan to promote the use of its facilities between state fairs.

#### RECOMMENDATIONS

To meet the State's directive to work toward a goal of financial independence from the State's General Fund, the California Exposition and State Fair should continue to seek sources of funding to complete much needed maintenance projects.

To improve the physical condition of the Cal Expo facility, Cal Expo should develop and implement a preventive maintenance plan to reduce the cost of repairs in the future.

To improve its fiscal accounting and reporting system and to provide more effective financial management, Cal Expo should take the following actions:

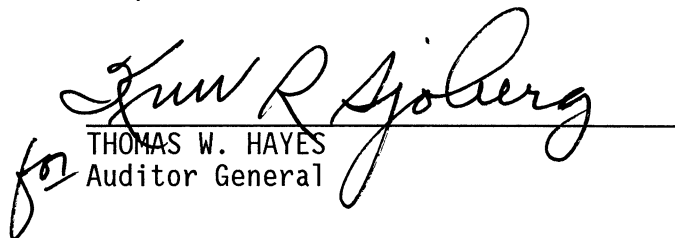
- Transfer deposits to the California Exposition and State Fair Enterprise Fund as soon as possible to earn the maximum amount of interest income from its deposits;
- Prepare regular reconciliations of agency control accounts with associated subsidiary records and with those accounts maintained by the State Controller's Office;
- Maintain up-to-date accounting records to provide for the early correction of errors and to provide for the prompt and accurate preparation of financial statements;
- Accrue as accounts payable only amounts that should be included in the accounts payable balance at year end;
- Record in the cash account balance all cash that has been collected and deposited or will be deposited in the bank;
- Ensure that all disbursements are properly authorized;
- Ensure that its property accounting records contain appropriate information for determining depreciation expense and provide information to support the account balances of fixed assets; and

- Conduct an annual physical inventory of its fixed assets and reconcile the inventory with the property and accounting records.

To more fully use its facilities during the interim between state fairs and to maximize rental revenue, Cal Expo should develop a detailed marketing plan to promote the use of its facilities between state fairs and determine the actual costs of renting the facilities.

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,

  
for THOMAS W. HAYES  
Auditor General

Date: March 21, 1988

Staff: Sally Filliman, CPA, Audit Manager  
Michael Evashenk, CPA  
Fred Forrer

**REPORT ON THE STUDY AND EVALUATION  
OF INTERNAL CONTROL**



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**

Thomas W. Hayes  
Auditor General

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Members of the Joint Legislative Audit Committee  
State of California

We have examined the financial statements of the California Exposition and State Fair Enterprise Fund as of and for the periods ended June 30, 1987 and 1986, and have issued our report dated January 27, 1988. As part of our examination, we studied the California Exposition and State Fair's (Cal Expo) system of internal control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the General Accounting Office. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on Cal Expo's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal controls taken as a whole.

The Department of Finance and the management of Cal Expo are responsible for establishing and maintaining an internal control system. In fulfilling that responsibility, management is required to assess the benefits and related costs of control procedures. The objectives of a system 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 recorded in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

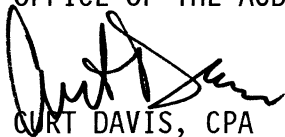
Because of inherent limitations in any system of internal accounting and administrative controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become ineffective because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purposes described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Cal Expo taken as a

whole. While our study did not disclose any material weaknesses, it did disclose certain conditions requiring the attention of management.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit 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 27, 1988

**FINANCIAL SECTION**



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**

Thomas W. Hayes  
Auditor General

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Members of the Joint Legislative Audit Committee  
State of California

We have examined the balance sheet of the California Exposition and State Fair Enterprise Fund (Enterprise Fund) as of June 30, 1987 and 1986, and the related statements of revenues, expenses, and changes in retained earnings, and the statement of changes in financial position for the periods then ended. We made our examination in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as we considered necessary under the circumstances.

As described in Note 1, the financial statements presented are only for the Enterprise Fund accounts of the California Exposition and State Fair (Cal Expo). They are not intended to present the financial position of all funds and account groups of Cal Expo at June 30, 1987 and 1986, or the results of its operations for the periods then ended, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the financial position of the Enterprise Fund as of June 30, 1987 and 1986, and the results of its operations and changes in financial position for the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in black ink, appearing to read "Curt Davis".

CURT DAVIS, CPA  
Deputy Auditor General

January 27, 1988



**CALIFORNIA EXPOSITION AND STATE FAIR  
ENTERPRISE FUND  
BALANCE SHEET  
AS OF JUNE 30, 1987 AND 1986**

	<u>1987</u>	<u>1986</u>
<b>ASSETS</b>		
Cash	\$ 916,214	\$ 935,535
Receivables (net of uncollectibles)	433,565	117,137
Due from other funds (Note 3)	3,741,230	2,688,504
Due from other governments	622	
Prepaid expenses	9,157	
Fixed assets (Notes 2 and 4)	<u>12,439,527</u>	<u>13,106,816</u>
Total Assets	<u>\$17,540,315</u>	<u>\$16,847,992</u>
 <b>LIABILITIES AND FUND EQUITY</b>		
<b>Liabilities</b>		
Accounts payable	\$ 504,879	\$ 501,906
Due to other funds	339,030	131,840
Due to other governments	15,809	1,848
Compensated absences payable (Note 5)	192,029	184,704
Advance collections	214,780	64,805
Other liabilities	<u>57,003</u>	<u>144,444</u>
Total Liabilities	<u>1,323,530</u>	<u>1,029,547</u>
 <b>Fund Equity</b>		
Contributed capital (Note 6)	15,091,328	15,091,328
Retained earnings	<u>1,125,457</u>	<u>727,117</u>
Total Fund Equity	<u>16,216,785</u>	<u>15,818,445</u>
Total Liabilities and Fund Equity	<u>\$17,540,315</u>	<u>\$16,847,992</u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR  
ENTERPRISE FUND  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS  
FOR THE PERIODS ENDED JUNE 30, 1987 AND 1986**

	<u>For the Period Ended June 30, 1987</u>	<u>February 25, 1986 Through June 30, 1986</u>
Operating Revenues		
Services and sales	\$10,752,356	\$1,954,586
Operating Expenses		
Personal services	5,490,209	1,677,104
Services and charges	5,007,502	514,388
Depreciation	<u>1,063,973</u>	<u>342,594</u>
Total Operating Expenses	<u>11,561,684</u>	<u>2,534,086</u>
Operating Loss	(809,328)	(579,500)
Nonoperating Revenues (Expenses)		
Interest revenue	209,668	9,750
Appropriation for flood damage (Note 7)		299,000
Expenses to repair flood damage (Note 7)		<u>(205,533)</u>
Total Nonoperating Revenues (Expenses)	209,668	103,217
Operating Transfers In	<u>998,000</u>	<u>1,203,400</u>
Net Income	398,340	727,117
Retained Earnings, Beginning	<u>727,117</u>	<u>                    </u>
Retained Earnings, End	<u>\$ 1,125,457</u>	<u>\$ 727,117</u>

See the notes accompanying the financial statements.

**CALIFORNIA EXPOSITION AND STATE FAIR  
ENTERPRISE FUND  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE PERIODS ENDED JUNE 30, 1987 AND 1986**

	For the Period Ended <u>June 30, 1987</u>	February 25, 1986 Through <u>June 30, 1986</u>
<b>SOURCES OF FUNDS</b>		
From operations		
Net income	\$ 398,340	\$ 727,117
Add item not affecting cash		
Depreciation	<u>1,063,973</u>	<u>342,594</u>
Funds Provided From Operations	1,462,313	1,069,711
Contributed capital		15,091,328
Increases in current liabilities		
Accounts payable	2,973	501,906
Due to other funds	207,190	131,840
Due to other governments	13,961	1,848
Compensated absences payable	7,325	184,704
Advance collections	149,975	64,805
Other liabilities	<u>                    </u>	<u>144,444</u>
Total Funds Provided	<u>1,843,737</u>	<u>17,190,586</u>
<b>APPLICATION OF FUNDS</b>		
Acquisition of fixed assets	396,684	13,449,410
Increases in current assets		
Accounts receivable	316,428	117,137
Due from other funds	1,052,726	2,688,504
Due from other governments	622	
Prepaid expenses	9,157	
Decreases in current liabilities		
Other liabilities	<u>87,441</u>	<u>                    </u>
Total Funds Applied	<u>1,863,058</u>	<u>16,255,051</u>
Net Increase (Decrease) in Cash	<u>\$ (19,321)</u>	<u>\$ 935,535</u>

See the notes accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Definition of Reporting Entity

The accompanying financial statements reflect the financial position and results of operations of the California Exposition and State Fair Enterprise Fund (Enterprise Fund). This report does not include the financial activities of other funds and account groups accounted for at the California Exposition and State Fair (Cal Expo) or the State as a whole.

### 2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. 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 state 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 where the State intends that all or most of the costs involved are to be financed by user charges or where 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. Change in Accounting Principle

In prior years, the financial activity of Cal Expo was accounted for in the agency's portion of the State's General Fund. On February 25, 1986, the enactment of Chapter 8, Statutes of 1986, created the Enterprise Fund. As of this date, the financial activity of Cal Expo is accounted for in the Enterprise Fund. Cal Expo still uses its portion of the State's General Fund to account for transactions applicable to prior fiscal years.

Under the guidelines provided by the Governmental Accounting Standards Board, a general fund does not recognize depreciation on fixed assets whereas an enterprise fund does. Accordingly, the balance sheet of the Enterprise Fund at February 25, 1986, has been restated to show the cumulative effect of this accounting change. Accumulated depreciation of \$14,371,928 was recorded with a corresponding reduction of contributed capital (See Note 6).

D. Fixed Assets

Fixed assets, consisting of property, plant, and equipment, are recorded in the Enterprise Fund either at cost or estimated fair market value at the date of acquisition, less accumulated depreciation (See Note 4). Depreciable fixed assets are depreciated over their estimated service lives, ranging from 3 to 40 years, using the straight-line method of depreciation.

3. Due From Other Funds

Most of the amount in this account reflects the Enterprise Fund's share of the Surplus Money Investment Fund (SMIF). This amount is available upon demand. In 1987, the account includes an amount due from the State's General Fund. This amount is the result of a transfer to the Enterprise Fund, which was incorrectly credited to the State's General Fund. In 1986, the account also includes an amount allocated from the Satellite Wagering Account for simulcasted horse races. The following schedule summarizes the account balance at June 30:

	<u>1987</u>	<u>1986</u>
Investment in SMIF	\$3,319,000	\$1,452,000
Due from the General Fund	409,769	
Allocation from the Satellite Wagering Account		1,203,400
Due from various funds	<u>12,461</u>	<u>33,104</u>
Total	<u>\$3,741,230</u>	<u>\$2,688,504</u>

4. Fixed Assets

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

	<u>1987</u>	<u>1986</u>
Land	\$ 1,643,577	\$ 1,643,577
Buildings and improvements	26,316,885	25,959,846
Equipment	<u>255,944</u>	<u>217,915</u>
Total Fixed Assets	28,216,406	27,821,338
Less accumulated depreciation	<u>15,776,879</u>	<u>14,714,522</u>
Net Fixed Assets	<u>\$12,439,527</u>	<u>\$13,106,816</u>

5. Compensated Absences Payable

As of June 30, 1987, Cal Expo's liability for accumulated vacation, compensated time off, and personal holidays amounted to \$192,029. Of this amount, \$149,536 is applicable to compensated absences earned before February 25, 1986. Accordingly, the beginning balance of contributed capital in the Enterprise Fund has been reduced by this amount.

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.

6. Contributed Capital

The contributed capital account is an equity account that shows the amount of permanent fund capital contributed to the Enterprise Fund by the State's General Fund on February 25, 1986. The following schedule summarizes the account balance at June 30, 1987 and 1986:

Appropriation from the State's General Fund	\$ 800,000
--	------------

Items transferred from Cal Expo's portion  
of the State's General Fund pursuant to  
Chapter 8 of the Statutes of 1986:

Fixed assets	27,821,338
Revenues and reimbursements	991,454

Less:

Accumulated depreciation	(14,371,928)
Accumulated vacation leave (See Note 5)	<u>(149,536)</u>

Total	<u>\$15,091,328</u>
-------	---------------------

#### 7. Flood Appropriation

In June 1986, Cal Expo received an appropriation of \$299,000, in accordance with Executive Order No. E85-29, to provide funding for repair of flood damages. Expenses incurred for repairing flood damage at June 30, 1986, totaled \$205,533.

#### 8. Retirement Contributions

Regular employees of Cal Expo are members of the Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan. 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. Cal Expo's share of retirement contributions for fiscal year 1986-87 was \$327,514.

## APPENDIX

### **THE CALIFORNIA EXPOSITION AND STATE FAIR'S IMPLEMENTATION OF PREVIOUS OFFICE OF THE AUDITOR GENERAL RECOMMENDATIONS FOR IMPROVING MANAGEMENT CONTROLS AND THE FINANCIAL REPORTING SYSTEM**

The Office of the Auditor General issued the report, "Status Report and Financial Audit Report of the California Exposition and State Fair, Year Ended June 30, 1986," Report F-618, March 1987. Below are the recommendations from this report and a summary of the California Exposition and State Fair's (Cal Expo) efforts to implement them.

#### Recommendation

To meet the State's directive to become less financially dependent on the State's General Fund, Cal Expo should continue to seek sources of funding to complete much needed maintenance projects.

#### Status

Cal Expo used additional revenues from its operations in fiscal year 1986-87 to complete deferred maintenance projects worth approximately \$500,000. However, as we discuss on pages 13 through 16 of our current report, Cal Expo did not receive any special funding in fiscal year 1986-87 for deferred maintenance projects and still faces over \$4.8 million in deferred maintenance and repair projects.

In addition, to improve its financial reporting system and to provide more effective fiscal management, we recommended that Cal Expo take the following actions:

#### Recommendation

Cal Expo should ensure that all fixed assets and related amounts of depreciation are included in its property records and financial statements. In addition, Cal Expo should ensure that the records of fixed assets are kept accurately. Specifically, Cal Expo should ensure that all new fixed assets, including capital improvements, are included in the records and that all fixed assets that are disposed of are removed from the records of fixed assets.



### Status

Although Cal Expo did update its property records, as we discuss on pages 21 and 22 of our current report, these property records did not contain information necessary for determining depreciation expense and did not support the accounts for fixed assets.

### Recommendation

Establish a ticket inventory control system and reassign accounting duties to provide sufficient separation of duties for the collection and deposit of cash receipts.

### Status

Cal Expo has established a ticket inventory control system to account for all tickets issued and sold. In addition, Cal Expo implemented new procedures that provide for sufficient separation of duties for the collection and deposit of cash receipts.

### Recommendation

Review outstanding advances and unreimbursed expenditures made from the revolving fund to determine which are collectible. Cal Expo should pursue the collection of outstanding advances that are found to be collectible, and Cal Expo should immediately schedule for reimbursement those invoices for expenditures found to be collectible. Furthermore, Cal Expo should develop and maintain a receivables ledger to account for revolving fund transactions.

### Status

Cal Expo has made some progress in clearing long outstanding revolving fund items by submitting requests to the Franchise Tax Board for an offset of tax refunds to people who owe money to Cal Expo and by requesting from the State Board of Control discharge of accountability and reimbursement for the amounts Cal Expo cannot collect. In addition, while Cal Expo has not established a formal receivables ledger to account for revolving fund transactions, Cal Expo's revolving fund clerk does maintain a file of outstanding amounts and prepares monthly accountability statements for the revolving fund.

### Recommendation

Ensure that all disbursements are properly authorized and sufficiently documented.

### Status

For those 84 disbursements that we tested, Cal Expo provided sufficient documentation for the transaction; however, as we discuss on pages 20 and 21 of our current report, Cal Expo did not provide evidence of proper review and authorization for 30 of the disbursements.

### Recommendation

Accrue as accounts payable only amounts that should be included in accounts payable at year end.

### Status

Cal Expo did not properly accrue accounts payable at June 30, 1987. As we discuss on pages 19 and 20 of our current report, Cal Expo overstated the accounts payable balance of the Enterprise Fund for June 30, 1987, by approximately \$95,000.

### Recommendation

Prepare regular reconciliations of the uncleared collections account balance in the general ledger with the balance in the subsidiary cash receipts registers.

### Status

Cal Expo reconciled the uncleared collections account balance of the Enterprise Fund for June 30, 1987, to within 3 percent of the balance in the subsidiary cash receipts register. In addition, Cal Expo now has a detailed list of uncleared collections transactions that supports the account balance. Further, Cal Expo cleared many long outstanding items from the uncleared collections account. As a result of these improvements, Cal Expo reduced the uncleared collections account balance by approximately \$121,380, from the balance for June 30, 1986, of approximately \$143,150 to the balance for June 30, 1987, of approximately \$21,770.

### Recommendation

Reassign accounting duties to provide the separation of duties required by the State Administrative Manual, Section 8080.

### Status

Cal Expo has taken appropriate steps to address the weaknesses in accounting control caused by the insufficient separation of duties. The insufficient separation of duties occurs during the state fair when Cal Expo contracts with an independent paymaster to provide cashiering services at the racetrack for racehorse owners, jockeys, and other

attendants. Because of the circumstances of this arrangement, one person, the paymaster, performs the incompatible accounting duties of receiving and depositing money; authorizing disbursements; and preparing, signing, and distributing checks. However, for the 1987 state fair, Cal Expo added new language to the paymaster's contract and made other changes to the paymaster's operations to mitigate the weaknesses caused by the lack of separation of duties. These changes increase Cal Expo's control over the paymaster's activities related to receiving, depositing, and disbursing cash. In addition, the new contract requires the paymaster to meet with Cal Expo's internal auditor to review the paymaster's operations and also to make available for audit purposes all accounting records.

Further, to improve its control over fixed assets, Cal Expo management should take the following action:

#### Recommendation

Conduct a complete inventory of its fixed assets, using either Cal Expo staff or a private contractor. The goal of the inventory should be to identify all fixed assets, develop a detailed inventory listing, and establish values for each piece of equipment to be used for valuation and for depreciation purposes.

#### Status

As we discuss on pages 21 and 22 of our current report, Cal Expo still has not conducted a complete inventory of its fixed assets.

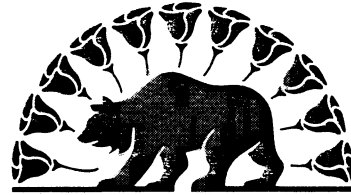
Finally, to more fully use its facilities during the interim between state fairs and to maximize rental revenue, we recommended that Cal Expo management take the following actions:

#### Recommendation

Develop a detailed marketing plan to promote the use of the Cal Expo facilities between state fairs and determine the actual costs of renting the facilities.

#### Status

As we discuss on pages 22 through 24 of our current report, Cal Expo still has not developed a detailed marketing plan to promote the use of its facilities between state fairs or determined the actual costs of renting the Cal Expo facilities.



# California State Fair

---

March 15, 1988

Thomas W. Hayes  
Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to review and comment on the draft of your report entitled "The California Exposition and State Fair Has Continued to Improve Its Financial Condition and Management Control But More Improvement Is Needed".

Generally, we found the report for the period audited to be factual and objective. Since your report recognizes our ongoing effort to improve the operations of the California Exposition and State Fair, we are limiting our response to a summary of the action taken or the actions we propose to take to address your recommendations. We would also like to clarify a couple of issues as follows:

Your report covers only the period through June 30, 1987, and therefore does not include the 1987 State Fair. Since the audit period, Cal Expo has continued to improve its financial picture and has significantly increased its reserve, much of which will be dedicated to deferred maintenance projects and grounds improvements.

Your report places great emphasis on the fact that approximately \$2.2 million of discretionary allocations during 1985-86 and 1986-87 from the satellite wagering account may not be available in future years. It is true that Cal Expo expects to receive less of these discretionary monies in the future because much of the satellite wagering account monies generated at Cal Expo have been dedicated to correcting the health and safety problems of 80 other fairs in California. Nevertheless, the Department of Finance projects the Cal Expo reserve to be \$4 million as of June 30, 1988, without any additional commitment of these discretionary monies. These projections indicate that Cal Expo has not been dependent on discretionary allocations from the satellite wagering account to meet its operational needs. We will continue to draw on this fund, to the extent possible, for

maintenance needs, many of which have been deferred through the 20-year history of this facility.

A second clarification relates to Page 16 and the statement, "Cal Expo's accounting and reporting system does not always provide sufficient information for effective fiscal management because Cal Expo does not promptly perform all accounting procedures and does not always maintain up-to-date accounting records." While your statement is technically correct, it may be misleading. We maintain an up-to-date Allotment Expenditure Ledger and prepare monthly financial statements for the Board of Directors. The Allotment Expenditure Ledger provides us up-to-date information on our expenditures. We also have current revenue information as we prepare weekly reports of revenue collected from events at the California Exposition and State Fair. Further, during the 85-86 fiscal year, we shifted from a General Fund agency to an Enterprise Fund agency. This change in mid-year contributed to delays in posting the financial accounts. The delay in one year, unfortunately, coupled with a staffing shortage carried over the deficiency to the next year. Also, in July 1987, we initiated the phase-in of our computerized accounting system. The staff was in training periodically during the first half of the fiscal year. We are currently entering financial information into the financial database and expect to generate financial statements on time this year.

Your first recommendation addresses the financial solvency of the California Exposition and State Fair and states: "To meet the State's directive to work toward a goal of financial independence from the State's General Fund, the California Exposition and State Fair should continue to seek sources of funding to complete much needed maintenance projects."

We concur with your recommendation and continue to seek additional sources of funds for the ongoing deferred maintenance needs. Cal Expo intends to use as much of its current reserves as is prudent to continue to reduce deferred maintenance projects, such as the re-roofing of the grandstand, a \$400,000 project. Cal Expo has also committed excess revenues to address these projects.

In the area of maintenance, you recommend that: "To improve the physical condition of the Cal Expo facility, Cal Expo should develop and implement a preventive maintenance plan to reduce the cost of repairs in the future".

Our preventive maintenance has improved dramatically and has been included with our deferred maintenance projects list. Cal Expo is regularly updating the project list needs as conditions change. This updating of projects is an ongoing justification that is used for seeking all sources of funds to complete the projects. We are in the process of formalizing our preventive maintenance plan.

In the financial reporting system, you make seven recommendations.

The California Exposition and State Fair concurs with all recommendations. We have already implemented several of the recommendations while presently addressing the other recommendations.

In the area of physical assets, you recommend that the California Exposition and State Fair "conduct an annual physical inventory of its fixed assets and reconcile the inventory with the property and accounting records."

The California Exposition and State Fair concurs with this recommendation. We have implemented control procedures and are working to complete a physical inventory before the end of the current fiscal year.

Your final recommendation addresses the interim use of the facilities at the California Exposition and State Fair and states that "Cal Expo should develop a detailed marketing plan to promote the use of its facilities between State Fairs and determine the actual costs of renting the facilities.

As you acknowledge in your report, Cal Expo has taken steps to improve the marketing of the facilities. The newly hired Account Executive is working with the General Manager to prepare a marketing plan. Further, the accounting and data processing staff are working on the computerized accounting system; the staff is working towards including enough detailed information to provide an improved basis for determining the cost of renting the facilities.

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

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  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps