REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

THE STATE OF CALIFORNIA NEEDS TO IMPROVE THE MANAGEMENT OF ITS LOCAL FAIRS PROGRAM

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Auditor General

January 10, 1986 P-490.1

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Department of Food and Agriculture's management of its local fairs' program. The report identifies weaknesses in contracting procedures, use of state funds, repayment of loans to the State by local fairs, maximizing revenues for local fairs' operations, personnel practices, internal control over the State's assets, and maintenance of local fairs' facilities.

Respectfully submitted,

THOMAS W. HAYES
Auditor General

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SUMMARY

The State of California needs to improve the management of its local fairs program. The Department of Food and Agriculture (department) has not ensured that its Fairs and Expositions Division (division) and the district fairs have followed proper contracting procedures, have spent state funds properly, and have repaid their loans to the State promptly. The department also has not followed proper personnel practices in setting the salaries of district fair managers and in allowing district fairs to retain temporary employees longer than six months. Furthermore, the department has not ensured that local fairs have adequate internal controls over equipment, cash and disbursements, and travel expenses. In addition, the district fairs have not maximized their revenues by charging admissions and by renting their facilities between fair times. Finally, the local fairs have not followed a program of regular preventive maintenance to keep their facilities from deteriorating. The department has taken corrective action on several deficiencies noted in this report.

Improper Contracting

The division and the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair have not followed proper contracting procedures to ensure that the State is legally protected by properly completed contracts or that state funds are spent properly. Furthermore, during 1985, six of California's district fairs did not use competitive bid prices for procuring carnival contracts and did not sufficiently consider the price bid in awarding carnival contracts. Therefore, the district fairs cannot guarantee that they are maximizing revenues from carnivals' operations.

Misuse of State Funds

Both the department and the district fairs have made inappropriate or questionable use of state funds. The department inappropriately spent $20,496 of state funds designated for local fairs to purchase office equipment, services, and supplies and inappropriately spent $29,502 to pay for a part-time employee and student interns to work for the department without obtaining approval from the Department of Finance.

During 1984, three of the four district fairs that we reviewed made improper or questionable expenditures of state funds for publicity, meals, parties, and gifts. For example, although state law prohibits using public funds to purchase meals for publicity or community relations, during 1984, three of the district fairs that we reviewed spent a total of $1,553 to reimburse fair employees for meals relating to community and public relations. In addition, the Big Fresno Fair and the Yolo County Fair may have inappropriately spent $7,026 in state funds for Christmas parties and gifts for their employees and volunteers.

Failure to Repay State Loans

As of December 31, 1984, the Big Fresno Fair and the California Mid-Winter Fair were delinquent by over $3.8 million in loan payments to the State.

The Business and Professions Code gives the department the authority to loan state funds to district and county fairs. These loans are to be paid back to the State's General Fund within 15 years. For example, the Big Fresno Fair has borrowed $4.1 million from the State. However, as of December 31, 1984, the Big Fresno Fair has failed to remit principal and estimated accrued interest payments to the State totaling over $3.6 million. Although the Big Fresno Fair and the California Mid-Winter Fair are not in a financial position to repay their loans, the department has not worked with these fairs to develop ways to increase revenues and cut costs so that these fairs can meet their loan obligations to the State.

Failure to Maximize Revenues

It is the department's policy that local fairs take advantage of opportunities to maximize their revenues. However, some local fairs have not taken opportunities to increase revenues by charging admissions, and by promoting the rental of their facilities for interim events. Although the majority of fairs charge admission fees, 8 of the 80 local fairs did not charge fees to offset the costs of operating their fairs during 1984. For example, the Yolo County Fair does not charge admission. However, had this fair charged a $2 admission for the estimated 135,000 people that attended this fair, the fair could have increased its revenue by $270,000.

Furthermore, some district fairs have not actively promoted the rental of their facilities. For example, during 1984, the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair rented some of their indoor buildings only 4 percent to 43 percent of the time. Moreover, the four district fairs that we reviewed have not identified the costs associated with renting their facilities. Consequently, these fairs cannot be assured that their rental rates cover the costs of renting their facilities for interim events.

Improper Personnel Practices

From July 1, 1983, to June 30, 1985, the department allowed 21 district fair managers to be paid a total of $55,502 more than these managers should have been paid. The department classifies fairs into six categories and uses a fair's classification to establish the manager's salary. However, the department does not adhere to these criteria. For example, although the San Luis Obispo County Fair is a class 4 fair based on the department criteria, its manager is being paid as a class 6 fair manager. Salary overpayments to this manager totaled $8,748 for fiscal year 1984-85.

The Big Fresno Fair, the Orange County Fair, and the San Joaquin County Fair violated the California Constitution by employing temporary-exempt employees for more than six months in one calendar year. The district fairs have the authority to hire temporary-exempt employees for no longer than six months in one year. These employees are exempt from civil service regulations and are not entitled to benefits during their six-month term. However, if district fair employees are employed longer than six months in a calendar year, they no longer qualify as temporary-exempt employees and must be employed according to the State's civil service laws. The Big Fresno Fair, the Orange County Fair, and the San Joaquin County Fair employed 34 temporary-exempt employees on a full-time, permanent status.

Poor Internal Controls

The department has not thoroughly audited local fairs to ensure that they have adequate internal controls over equipment, cash receipts and disbursements, and travel expenses. If the local fairs do not have adequate internal controls, the department cannot be certain that local fairs' assets such as equipment and cash are adequately protected from fraud, waste, and abuse.

Failure To Maintain Facilities

District fairs place little emphasis on routine maintenance of their facilities and grounds. None of the district fairs that we visited had an established preventive maintenance program. Most of the district fairs' maintenance resources are devoted to emergency and cosmetic repairs. Consequently, the district fairs have fallen into a state of disrepair. Two current studies performed by the department indicate that it will take over $21 million to correct the existing deteriorated condition of California's local fairs.

Corrective Action Taken

The department has taken corrective action on several of the deficiencies noted in this report. Specifically, the department has cancelled one contract that was not properly approved by the Department of General Services. Furthermore, on November 8, 1985, the department held a training session for district fair managers on appropriate contracting procedures, and the department developed evaluation criteria that district fairs must follow in evaluating carnival contract proposals. This criteria requires district fairs to give substantial weight to bid price when evaluating carnival contract proposals. Also, the department began a comprehensive review of the local fairs classification system to enable the department to determine the appropriate salaries for local fair managers. Lastly, the department has approved the use of capital outlay funds by local fairs to correct top priority maintenance problems.

INTRODUCTION

The State of California, through the Department of Food and Agriculture, oversees the operations of California's 80 local fairs. Local fairs include 54 district agricultural fairs (district fairs), 24 county fairs, and 2 citrus fruit fairs. One of the purposes of local fairs is to stimulate and encourage the development of agriculture, horticulture, livestock production, and the domestic arts in California.

In fulfilling its responsibility for administering the local fairs, the department reviews and approves the local fairs' budgets and allocates state funds to support the operations of local fairs. During 1984, state funds of $12.1 million were allocated to local fairs. This allocation represented 11.2 percent of the local fairs' total expenditures of $107.8 million. The local fairs use these funds for general fair operations and for capital outlay projects.

In addition to receiving state funds from the department, local fairs earn revenue from admission fees, food and beverage concessions, carnivals, and interim events. In total, local fairs' revenue totaled $99.8 million. However, 71 of the 80 local fairs did not generate enough operating revenue to cover operating and capital costs. These local fairs have had to depend on prior year cash reserves or state funds from the department. (Appendix A lists revenues and expenditures for local fairs during 1984.)

The department provides to local fairs the Fairs Administrative Manual, which details policies and regulations pertaining to the fiscal and business management practices of local fairs. However, the department's supervision over local fairs varies by the type of fair. A district fair is a state agency governed by a board of nine directors appointed by the Governor for a term of four years. Since district fairs are state agencies, they must follow state requirements pertaining to purchases, contracts, and personnel. The department is responsible for ensuring that district fairs comply with these requirements. However, the department exercises less supervision over the actions of county fairs because county fairs are governed by county procedures and are accountable to the county boards of supervisors. The department's responsibility for county fairs is limited primarily to approving their use of state funds and performing financial audits.

Furthermore, to ensure that the county and district fairs comply with state laws and regulations, the department audits the operations of local fairs periodically. Since 1984, the department has audited 16 district fairs and 3 county fairs.

SCOPE AND METHODOLOGY

The purpose of this audit was to evaluate the department's administration of the local fairs program. We reviewed records for 1984 at the department; at four district fairs--the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair; and at three county fairs--the El Dorado County Fair, the Lodi Grape Festival, and the Solano County Fair.

Since district fairs are state agencies and are governed by state laws and regulations, we conducted a comprehensive review of district fairs. We reviewed the district fairs' procedures for spending state funds, awarding contracts, retaining temporary employees, maximizing fair revenues, and repaying state loans. We also reviewed the district fairs' procedures for maintaining the fairs' facilities, and we evaluated internal controls at the four district fairs. However, because county fairs are governed by county procedures, we performed a limited review of their finances and internal controls.

To evaluate the district fairs' expenditures of state funds, we reviewed a sample of expenditures for 1984 at four district fairs for their compliance with state laws and regulations. We examined the district fairs' accounting files and interviewed officials at the fairs, the department, and the Department of Personnel Administration.

To evaluate the district fairs' contracting procedures, we examined their administration of contracts and their compliance with standard contracting procedures. We inspected the department's and the district fairs' contract and accounting files and interviewed staff at the department, the district fairs, and the Department of General

Services. However, we could conduct only a limited review of contracts because the four district fairs we reviewed had no central file in which they kept all documentation for each contract award. Consequently, when reviewing contracts, we sometimes could not find certain documentation such as the district fairs' request for proposals, proposals and bids from prospective contractors, and their criteria and justification for awarding a contract. Also, we evaluated the department's and the district fairs' procedures for awarding carnival contracts.

To review the district fairs' procedures for hiring temporary employees, we inspected the district fairs' personnel and payroll records and interviewed staff at the department, four district fairs, and the Department of Personnel Administration.

To determine whether district fairs are repaying state loans, we reviewed district fairs' loan agreements and payments and interviewed staff at the department, the district fairs, and the Department of Finance. We limited our review to those loans authorized by Section 19630.1 of the Business and Professions Code.

To review the district fairs' procedures for maximizing revenues, we examined their procedures for charging admission fees and for promoting the rental of their facilities between annual fairs. We examined the district fairs' annual paid attendance reports, and we identified those facilities that the district fairs rent and reviewed their rental schedules and accounting records for 1984. To obtain information on marketing and rental practices, we interviewed district fair managers and assistant managers. We also analyzed the department's efforts to identify and sell excess lands as an alternative source of funds for district fairs. Furthermore, we identified two parcels of land at the San Joaquin County Fair that were surplus property, and we contracted with the Department of General Services' Office of Real Estate Services to appraise this property.

To determine the maintenance and repair needs of district fairs' facilities, we reviewed a recent report issued by the department and interviewed maintenance supervisors at four district fairs and an engineering supervisor at the department.

To assess the local fairs' control over state funds and state property, we reviewed four district and two county fairs' systems of internal controls and hired a contractor to conduct a limited inventory at the four district fairs.

Finally, in addition to reviewing district and county fairs, we conducted a limited review of the department's management of state funds that the Legislature designated for local fairs. To determine the department's authority to use state funds designated for local fairs for other purposes without approval from the Department of Finance, we interviewed officials at the department and the Department of Finance. We also examined contracts and disbursements at three county fairs.

AUDIT RESULTS

The California Department of Food and Agriculture (department) has not ensured that its Division of Fairs and Exposition (division) has managed California's local fairs effectively. The division and district fairs are not following the contracting procedures prescribed by state law. Also, the division inappropriately used funds designated for local fairs for its own purposes, and the division has not ensured that local fairs are spending state funds properly. Furthermore, the division has failed to collect from two district fairs approximately \$3.8 million in delinquent loan payments, and the division is not encouraging local fairs to maximize revenues. The department has also allowed improper personnel practices because it has not ensured that the division approve local fair managers' salaries that are consistent with the department's guidelines. Also, the division is not controlling the use of temporary employees by local fairs. Furthermore, the department is not effectively auditing local fairs to identify internal control weaknesses and does not adequately follow up on audit findings to ensure that local fairs correct deficiencies noted by the department's auditors. Lastly, the department has not encouraged local fairs to adequately maintain their facilities.

I

THE DEPARTMENT OF FOOD AND AGRICULTURE'S CONTRACTING PROCEDURES ARE INADEQUATE

Contrary to established state contracting requirements, the department entered into contracts without the approval of the Department of General Services and without the required competitive bidding. Furthermore, the department has not ensured that district fairs follow state contracting requirements. Four district fairs that we reviewed did not obtain approval from the Department of General Services for some of their contracts, and they made payments of $69,000 more than the amounts specified in the contracts to 14 contractors without properly amending their contracts. Also, the Orange County Fair and the Yolo County Fair circumvented the Department of General Services' approval of contracts by splitting four contracts that exceeded $10,000 each into several smaller contract awards that were less than $10,000 each. Finally, the department did not require all of the district fairs to obtain competitive bids and to use bid prices in evaluating and awarding carnival contracts.

Section 10295 of the California Public Contract Code states that all contracts are void unless they are approved by the Department of General Services. However, Section 1206 of the State Administrative Manual exempts from the Department of General Services' review state contracts less than $10,000 and interagency agreements less than $25,000. The department's Fairs Administrative Manual also requires district fairs to submit contracts over $10,000 to the Department of General Services for its approval. Furthermore, Section 1216 of the State Administrative Manual requires state agencies to obtain the Department of General Services' approval to amend contracts that it approves. Finally, Sections 1210 and 1213 of the State Administrative Manual require competitive bidding on contracts. These sections also require that bids be used in scoring contract proposals.

When the department does not obtain approval for contracts from the Department of General Services and does not amend contracts properly, the State is not protected by a properly completed contract. Furthermore, when the department does not require competitive bids for contracts, the department cannot ensure that the State is obtaining services at the lowest possible cost or is receiving the greatest amount of revenue from carnival contracts.

The Division Did Not Obtain Approval of Contracts or Competitive Bids

We reviewed seven contracts at the Solano County Fair for 1984 and 1985 and identified five contracts totaling $227,000 entered into jointly by the division and the Solano County Fair that were not approved by the Department of General Services as required. Besides not having these contracts approved as required, the division did not obtain competitive bids in awarding these contracts.

For each of the five contracts, the division identified the contractor and the desired service or product. Both the division and the Solano County Fair signed the contracts. The division approved each of the contractors' billings and sent the invoices to the Solano County Fair for payment. To pay the contractor, the division sent a check from the Fairs and Expositions Fund to the Solano County Fair. In addition to making the actual payments on the contracts, the Solano County Fair maintained the contract files.

For example, the division and the Solano County Fair entered into one contract for $100,000 with a contractor to design, build, decorate, and enter a float in the Pasadena Tournament of Roses Parade held on January 1, 1985, in Pasadena, California. On March 14, 1984, the department sent a letter to the Governor requesting approval to enter a float in the Tournament of Roses Parade. The letter stated that the 65-foot float, entitled "Wonderful World of Fairs," would cost approximately $80,000 to $100,000 and would showcase youth and its involvement with fairs. The float was intended to encourage tourism in California and provide publicity for California. According to the letter, the float would be paid for from corporate contributions from members of the Western Fair Association, a professional association that includes the California fairs and several hundred corporations.

The Governor's office approved the department's request on March 29, 1984, but stipulated that the department use corporate contributions to fund the Rose Bowl Parade float. On June 12, 1984, the division and the Solano County Fair entered into a contract for $100,000 to construct the float. However, in direct violation of the Governor's directive, the division used $102,000 in state funds rather than corporate contributions to pay for the float. Furthermore, the division did not obtain approval of the contract from the Department of General Services and did not follow the state-mandated competitive bid process. Thus, the State was not assured of receiving the best possible price for the contract and was not adequately protected by a properly approved contract.

Furthermore, the division did not obtain competitive bids and did not obtain the Department of General Services' approval to enter into two contracts for consulting services in 1984. The first contract required the contractor to design and implement a new program for carnivals. The second contract required the same contractor to provide consulting services to district and county fairs. Contract payments totaled $77,500. On August 16, 1985, the department cancelled one of the consulting contracts.

In addition, the department and the Solano County Fair inappropriately awarded a contract for $47,250 to design, produce, and distribute approximately 500,000 "fair industry" brochures. This contract was not approved by the Department of General Services and was not awarded through the competitive bid process.

The division is not following the State's prescribed contracting requirements because the department has not set up adequate internal controls to ensure that the division adheres to proper contracting requirements. The department has delegated authority to the division to enter into contracts. However, according to the chief of the department's internal audit section, the department has not set up an internal process to monitor the division's contracting practices. Internal review of the division's contracting practices would provide the department greater assurance that the division is adhering to proper contracting procedures.

The Department Does Not Ensure That District Fairs Follow Proper Contracting Procedures

In addition to not following proper contracting procedures itself, the department has not ensured that the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair have followed proper contract administration procedures as required by the California Government Code and the State Administrative Manual. In 1984, these district fairs made payments to contractors without obtaining the required contract approval from the Department of General Services for contract awards and without amending contracts properly. As a result, the fairs cannot be certain that the State is legally protected by properly completed contracts or that the State's funds are being spent economically.

We reviewed 57 contracts and found that 32 contracts, totaling $949,000, were never sent to the Department of General Services for approval. Table 1 summarizes our review of contracts for each of the four district fairs.

TABLE 1

CONTRACTS REVIEWED AT FOUR DISTRICT FAIRS IN 1984

District Fair	Number of Contracts We Reviewed	Number of Unapproved Contracts	Total Value of Unapproved Contracts
Big Fresno Fair	20	9	$427,000
Orange County Fair	17	12	299,000
San Joaquin County Fair	12	8	175,000
Yolo County Fair	8	3	48,000
Total	57	32	$949,000

Furthermore, during 1984, the Big Fresno Fair, the Orange County Fair, and the San Joaquin County Fair made payments totaling $209,000 to ten contractors without having formal written agreements and without the Department of General Services' approval. For example, the Orange County Fair paid $43,000 to an advertising agency, and the San Joaquin County Fair paid $26,000 to a security firm even though there were no written agreements between these two fairs and the contractors.

Finally, although Section 1206 of the State Administrative Manual prohibits state agencies from splitting contract awards, the Orange County Fair and the Yolo County Fair split contracts that exceeded $10,000, thus avoiding the requirement to obtain approval from the Department of General Services for contracts over $10,000. The Yolo County Fair split three contracts, totaling $33,000, into six smaller contracts ranging from $5,000 to $9,500. On June 22, 1984, the Orange County Fair circumvented state requirements for contract approval by awarding two contracts, one for $5,000 and one for $6,500, to a sound equipment contractor.

In addition to making payments on unauthorized contracts, the district fairs we reviewed made payments that exceeded contract amounts without amending their contracts. Section 1216 of the State Administrative Manual requires state agencies to obtain the Department of General Services' approval to amend contracts that are initially subject to its approval. For 14 contracts awarded during 1984 by the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair, we identified payments that exceeded the amounts specified in the contracts. The amounts paid by these four district fairs on the 14 contracts exceeded the contract amounts by $69,000. None of the 14 contracts was formally amended to allow the additional payments. For example, on January 27, 1984, the San Joaquin County Fair entered into an $11,000 contract with a contractor to provide sound equipment for its annual county fair. Six months later, the San Joaquin County Fair paid the contractor an additional $8,000 to provide a second stage with technicians, to upgrade the fair's main entertainment stage, and to provide several two-way radios. However, the Department of General Services never approved these contract changes. Table 2 lists the number of unapproved contract amendments and the payments that exceeded the original contract awards for each district fair we reviewed.

TABLE 2

UNAPPROVED CONTRACT AMENDMENTS FOR FOUR DISTRICT FAIRS 1984

District Fairs	Number of Contracts Reviewed	Number of Unapproved Amendments	Original Contract Award	Payments in Excess
Big Fresno Fair	20	5	$216,000	$26,000
Orange County Fair	17	3	124,000	16,000
San Joaquin County Fair	12	3	25,000	15,000
Yolo County Fair	8	3	94,000	12,000
Total	57	14	$459,000	$69,000

Because these district fairs did not obtain the required state approvals for contracts and because they did not amend contracts properly, the department cannot ensure that state funds were spent properly and that the State was legally protected by contracts that were completed properly. On November 8, 1985, the department held a training session for district fair managers on appropriate contracting procedures and requirements.

The department has not ensured that district fairs obtain competitive bids and use bid prices in evaluating and awarding carnival contracts. When the district fairs do not award contracts on the basis of competitive bids, the fairs are not assured of receiving the highest possible revenue on carnival contracts.

District fairs contract with carnival operators to provide entertainment to the public during the districts' annual fairs. Carnivals feature portable thrill rides, side show attractions, and gaming concessions. The carnival operators usually pay a percentage of their total revenues to the district fairs. During 1984, carnival operators paid over $3.6 million to district fairs.

Since district fairs are state agencies, they are required to use the competitive bid process prescribed in Section 10340 of the Public Contract Code. During 1982 and 1983, the Department of General Services granted to district fairs an exemption from using the competitive bid process for carnival contracts. Contracts negotiated under this exemption include those that extend for 3 years or less, providing that the contracts contain termination provisions. This exemption was not extended for 1984 or 1985. We limited our review to those district fairs that initiated carnival contracts in 1985.

In advertising for carnival operators, the department prohibits district fairs from specifying desired rides, games, or concessions and thereby restricting the number of contractors eligible to submit bids and proposals. The department also requires district fairs to obtain bid prices from carnival owners responding to a district fair's proposal. Furthermore, the district fairs must publicly open the bids at the time and place specified in their request for proposal, and, if carnival contracts are executed for more than one year, the contract must contain a termination provision. However, the termination provision does not require the department, the district fair, or the carnival operator to justify terminating a contract. Based on our survey of the 54 district fairs, we found that 9 fairs exercised the termination provision of their contracts between 1983 and 1985.

In reviewing the district fairs' procedures for awarding carnival contracts, we found that six of the district fairs did not consider bid price in awarding carnival contracts. The requests for proposals of the Big Fresno Fair, the Contra Costa District Fair, the San Bernardino County Fair, the San Joaquin County Fair, the Orange County Fair, and the Mariposa County Fair did not contain criteria for evaluating bid price and did not require carnival operators to submit bid prices.

Section 10344 of the Public Contract Code requires state agencies to consider several factors in evaluating contracts, including bid price. However, the six district fairs used factors other than bid price in evaluating each carnival proposal, as the following table shows.

TABLE 3

CRITERIA USED BY SIX DISTRICT FAIRS TO EVALUATE CARNIVAL CONTRACTS FOR 1985

Criteria for Evaluating Proposals	Maximum Points
Past experience and previous performance Prompt payments to district fairs Penalties assessed for contract violations	25
Safety record and appearance Liability/loss records for past 2 years Condition and appearance of rides, games, and shows Properly licensed and mechanically sound rides	25
References Letters of recommendation Financial references	25
Written proposal presentation	15
Oral proposal presentation	10
Total	100

Since these district fairs did not require bid prices, they awarded their carnival contracts to the carnival operator whose proposal received the highest score for technical merit. However, awarding contracts based on technical merit criteria alone does not ensure that the State is receiving maximum revenues from the district fairs' carnival operations.

The department does not have an effective system to monitor the contracting practices of district fairs. Chapter 6 of the Fairs Administrative Manual requires that district fairs submit to the department all contracts requiring the Department of General Services' approval to ensure that these contracts meet the State's contracting requirements. However, we found no evidence in the department's files that the district fairs are submitting the required copies of every contract to the department. The department does not maintain a register of contracts for ready reference, does not have a system to ensure receipt of every contract initiated by a district fair, and does not schedule periodic visits to district fairs to review their compliance with state contracting directives. Without adequate oversight and monitoring of district fairs' contracting practices, the department cannot ensure that the State is protected by the terms of properly completed contracts, that the State is receiving goods and services at the lowest possible cost, or that, as a result of the competitive bid process, the State is receiving the maximum amount of revenues from carnival contracts.

II

THE DEPARTMENT OF FOOD AND AGRICULTURE HAS NOT ENSURED THE PROPER USE OF STATE FUNDS

The department has not exercised sufficient precautions to ensure that state funds are spent properly by the division and by district fairs. The division has inappropriately used funds designated for district, county, and citrus fruit fairs (local fairs) to hire a part-time employee and student interns and to purchase office equipment for the division. Furthermore, the division has not ensured that district fairs have spent state funds properly. In 1984, the four district fairs that we reviewed made either inappropriate or questionable expenditures of approximately $11,000 in state funds for meals and parties to promote public and community relations, for parties, and for gifts for fair employees and fair volunteers. Finally, one district fair purchased over $31,000 of office equipment without obtaining approval from the Department of General Services.

The Budget Act determines the amounts that agencies can spend and the purposes for which agency funds can be used. Section 13323 of the California Government Code allows agencies to use state funds for purposes not designated by the Budget Act only after receiving approval from the Department of Finance. Furthermore, Section 32 of the Budget Act prohibits state employees from making any expenditure that exceeds an appropriation without receiving approval from the Department of Finance. Lastly, Section 13324 of the California Government Code prohibits state employees from making any expenditure that exceeds the amount appropriated. Any state employee who makes an expenditure that is not authorized is personally liable for the amount not authorized.

The Budget Act appropriates funds each year to the Fairs and Expositions Fund (fund) and designates the amount to be allocated for the support of the division, for the support of the California Exposition and State Fair, and for the support of local fairs. Since 1980, the division has used money designated for local fairs to purchase $20,496 worth of office equipment, service, and supplies for the division's use without obtaining the Department of Finance's approval. The division did not obtain approval from the Department of Finance to transfer money in the fund from the local fairs to the division; instead, the division allocated money designated for local fairs to the Lodi Grape Festival (a county fair) and had the Lodi Grape Festival purchase the equipment and supplies for the division. Employees of the Lodi Grape Festival delivered the equipment and supplies to the division.

In addition to augmenting its equipment budget without obtaining the required approval from the Department of Finance, the division augmented its personnel budget without the Department of Finance's approval. Between January 1984 and May 1985, the division transferred state monies to the Solano County Fair to hire a part-time employee and student interns to work in the division. The accounting records at the Solano County Fair show that $29,502 in state funds was used to pay salaries, benefits, and other employee-related expenses for the part-time employee and student interns working for the division. This use of these state funds was approved by the former chief of the division. According to the Solano County Fair manager, the former chief of the division asked him to maintain the records for the part-time employee and student interns and to issue paychecks when asked to by the division.

In addition to the division's spending money inappropriately, the division has not ensured that district fairs make proper use of state funds. The Big Fresno Fair, the Orange County Fair, and the Yolo County Fair have spent state funds improperly or in a questionable manner. These district fairs have used state funds to reimburse employees for business-related meals that were covered by per diem expenses. The district fairs also improperly reimbursed employees for expenses for public or community relations. Moreover, the fairs have used state funds for Christmas parties and gifts.

Title 2, Section 707 of the California Administrative Code prohibits state agencies from using state funds to reimburse employees for meals whose purpose is to promote public or community relations. This section also prohibits reimbursing employees for business-related meals if the employees also claim per diem expenses. Contrary to these prohibitions, during 1984, three of the district fairs that we reviewed used $1,553 in state funds to reimburse fair employees for meals relating to public and community relations. For example, the manager of the Yolo County Fair was reimbursed $311 in 1984 for meal expenses charged to public relations. Also, the manager of the Orange County Fair was reimbursed $184 for a claim he made for a public relations expense on January 26, 1984. However, support documentation indicated that the expense was for meals for Orange County Fair and division employees. In addition, in 1984, the Orange County Fair reimbursed two employees $352 for meals claimed as business expenses while these employees also claimed per diem expenses that included these meals.

In addition, two district fairs may have inappropriately paid $7,026 for parties and gifts for fair employees and fair volunteers. In 1984, the Big Fresno Fair spent over $5,526 in gifts, including a Christmas party for fair employees and travel for jockeys and their families to and from the fair. Also, in 1984, the Yolo County Fair spent over $1,500 for custom-made belt buckles for fair volunteers and for a Christmas party for its employees.

Article XVI of the State Constitution prohibits any state agency from making gifts of public monies or items of value to any persons or entity. However, this principle does not prohibit a state agency from making expenditures for public purposes if the State receives a tangible benefit from such expenditures. In reviewing the Big Fresno Fair's and the Yolo County Fair's expenditures for parties and gifts, we could not determine whether these expenditures were for public purposes for which the State received some tangible benefit. Also, according to the chief of the division, the department has not reviewed these types of district fairs' expenditures to determine whether they are appropriate, nor has the department established guidelines for district fairs to follow to limit such expenditures.

In addition to making improper and questionable expenditures of state funds, district fairs did not obtain the Department of General Services' approval to purchase goods and services. The department has delegated to the district fairs the authority to purchase specific commodities whose value does not exceed $4,999.99 without the approval of the State Office of Procurement. However, the department requires the fairs to submit to the division copies of the purchase orders for these items. The division also requests that the fairs purchase these items from small businesses. According to the purchasing manager for the State Office of Procurement, district fairs that purchase items valued over $5,000 and specified items under $5,000 must be approved by the Department of General Services' State Office of Procurement.

The Orange County Fair improperly spent over $31,000 in 1984 to purchase and install a communications system and to purchase typewriters and office furniture without obtaining the required approval from the Department of General Services. Also, the Big Fresno Fair improperly expended $7,563 for entertainment services from a firm in 1984 without obtaining the required service contract.

The department did not detect the division's inappropriate expenditures of state funds because the department has not established adequate internal controls over the operations of the division and, therefore, cannot ensure that the division complies with state budget mandates. Furthermore, as discussed on page 55 of this report, the department does not routinely audit all the local fairs and does not follow up on audit findings to ensure that local fairs spend state funds properly. Without proper internal controls, and without routine audits and audit follow-up, the division and the district fairs tend to circumvent, if not ignore, state directives.

III

TWO DISTRICT FAIRS HAVE NOT REPAID STATE LOANS

As of December 31, 1984, two district fairs owed the State over $3.8 million in overdue principal and interest payments on loans. As a result, these fairs have significantly increased their liability to the State, the State's General Fund has not received these funds for allocation to other purposes, and the State has lost interest income.

The California Business and Professions Code authorizes the department to loan state funds from the Fairs and Exposition Fund to local fairs. From 1977 to 1981, the department made 12 loans, ranging from $30,000 to $1,600,000, to eight district fairs. The local fairs make annual payments on the loans and have up to 15 years to repay the loans' principal and interest to the State's General Fund. The loan agreements give the department the authority to withhold allocations of state funds from the fairs if their payments are delinquent.

Although state law requires the district fairs to repay these loans, the Big Fresno Fair and the California Mid-Winter Fair have failed to make scheduled loan payments to the State. As of December 31, 1984, these two district fairs' delinquent payments totaled $3,759,753, which includes principal and estimated accrued interest. Table 4 details overdue principal and interest payments for both district fairs.

TABLE 4

STATUS OF DELINQUENT LOANS OF TWO DISTRICT FAIRS AS OF DECEMBER 31, 1984

District Fair	Original Loan Amount	Delinquent Payments: Principal	Estimated Accrued Interest	Total
Big Fresno Fair	$4,100,000	$1,604,618	$2,008,369	$3,612,987
California Mid-Winter Fair	155,000	77,500	69,266	146,766
Total	$4,255,000	$1,682,118	$2,077,635	$3,759,753

As Table 4 shows, the Big Fresno Fair owed the State $3.6 million in delinquent payments as of December 31, 1984. According to the President of the Big Fresno Fair Board, the fair did not make its loan payments because the fair did not have sufficient funds. To verify the statements made by the president of the board, we compared the Big Fresno Fair's operating expenditures to its operating revenues and to its allocations from the State during calendar years 1982 through 1984. We found that, in 1982 and 1984, the fair's operating expenditures exceeded its revenues that the fair received from its operations and from its allocation from the State. Thus, the fair could not have made its loan payments in these two years. In 1983, the fair's operating revenues and allocation from the State exceeded its operating expenditures by $246,166; however, the fair's 1983 payment on principal and estimated accrued interest was $1,860,647, which was $1,614,481 more than the fair's 1983 revenue.

We also compared the California Mid-Winter Fair's operating expenditures to its operating revenues and allocation from the State for calendar years 1982 through 1984 and found that, in each of these years, this fair's operating expenditures exceeded its operating revenues and allocation from the State. Thus, the California Mid-Winter Fair could not meet its loan payments from operating revenues and its allocation from the State.

We also sought to determine whether the fund balances of the Big Fresno Fair and the California Mid-Winter Fair were sufficient to pay the total amount of principal and estimated accrued interest owed to the State.* At the end of 1984, the Big Fresno Fair owed the State over $3.6 million; its fund balance amounted to less than $.3 million. Thus, the Big Fresno Fair did not have sufficient funds to pay the total amount it owed to the State.

*The fund balance is the amount of money left at the end of the year from all sources after the fair has deducted all of its expenditures.

At the end of 1984, the California Mid-Winter Fair owed the State $146,766 in principal and estimated accrued interest. This fair could have paid off its debt because its ending fund balance was approximately $151,960. However, if it had paid its debt to the State, the California Mid-Winter Fair would have been left in a precarious financial position, with only $5,194 in its fund balance. As discussed earlier, during calendar years 1982 through 1984, the California Mid-Winter Fair's operating expenditures exceeded its operating revenues and state allocation. If its fund balance is depleted, the California Mid-Winter Fair may not be able to meet its financial obligations in the future if its expenditures continue to exceed its revenues.

The department sends annual loan statements to each of the fairs but does not make any further attempts to collect if the fairs fail to make payments. However, merely billing the fairs for their loan payments is not sufficient to ensure that the fairs make their loan payments. As discussed earlier, neither the Big Fresno Fair nor the California Mid-Winter Fair is in a financial position to repay its loan. According to the chief of the division, the department has not advised the Big Fresno Fair and the California Mid-Winter Fair of ways to increase revenues or to decrease expenditures. Until the department works with these two fairs to develop methods to increase revenues and to reduce expenditures, the Big Fresno Fair and the California Mid-Winter Fair will be unable to meet their loan obligations to the

State. Furthermore, the department's records pertaining to the fairs' loans are incomplete, and the department has not maintained an accounts receivable ledger. Therefore, the department cannot monitor the status of these loans accurately.

Since the Big Fresno Fair and the California Mid-Winter Fair are not making scheduled payments on their loans from the State, the State cannot allocate this money to other state programs.

IV

LOCAL FAIRS HAVE NOT MAXIMIZED REVENUES

The department has not ensured that local fairs take advantage of opportunities to maximize their revenues. For example, some fairs do not charge admission fees even though doing so would increase their revenues. Fairs can also raise additional revenues by renting their facilities between annual fairs.

Department policy directs local fairs to maximize revenues if they wish to continue receiving state financial support. Furthermore, in preparing budgets, the department requires local fairs to analyze the source and potential for revenue expansion of each revenue account. If local fairs refuse to show in their budgets how they plan to reduce expenditures or to increase revenues, the department has the authority to reduce their budgets. Finally, the Department of Finance, in a memorandum to the department dated January 5, 1977, stated that the department must encourage district and county fairs to reduce their need for financial support from the department.

During 1984, the department allocated over $12.1 million to local fairs. Besides receiving money from the department, the local fairs generated $75.8 million from their annual fairs and $24.0 million from interim events held throughout 1984. During annual fairs, the local fairs earn their revenue from admissions, from carnivals, and from food, beverage, and novelty concessions.

During 1984, 71 of the 80 local fairs did not generate enough operating revenue to cover operating costs. (See Appendix A.) To pay for these additional costs, local fairs have used cash reserves from prior years, state monies from the department, and other local sources of revenue. The department continues to provide financial support to local fairs even though their operating practices have not ensured maximum revenues. In reviewing the revenue practices of local fairs, we focused on two alternatives available to the fairs to increase revenue: charging admission and renting facilities between fair times.

Charging Admission Fees Will Increase Local Fairs' Revenues

Although, according to one of the supervisors of the division, the local fairs are not required to charge admission fees, 72 of the 80 local fairs charge admission fees, which range from $1 to $3. During 1984, revenues from admissions for these 72 fairs totaled $16.0 million.

However, 8 local fairs provided free admission to every person attending their annual fairs in 1984. The estimated number of people admitted free to these fairs totaled 428,659. Although not required to charge admission, these fairs could charge admission fees to generate additional revenue. For example, the Yolo County Fair does not charge admission to people attending its annual fair. According to the district fair manager, the fair receives approximately $80,000 to $100,000 worth of services from the community each year. The district fair board, therefore, elected to provide free admissions as a community service. However, the Yolo County Fair's operating expenditures during 1984 were approximately $200,000 greater than its operating revenues.

If the Yolo County Fair charged a $2 admission fee for each of the estimated 135,000 people that attended this fair in 1984, the Yolo County Fair could have raised $270,000 in additional revenue and thus reduced its need for the State's financial support.

District Fairs Can Increase Revenues
By Renting Their Facilities

The department has not ensured that district fairs have maximized revenues by renting facilities between annual fairs. District and county fairs have indoor and outdoor facilities that can be rented during the interim between annual fairs. We reviewed the practices for renting the indoor facilities at the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair and found that their rental practices do not ensure maximum revenues. Between January 1, 1984, and December 30, 1984, the indoor facilities that we reviewed were rented from 4 percent to 43 percent of the time.

There are several reasons why these district fairs do not receive maximum revenues from renting their facilities. There are physical considerations, such as a lack of kitchen facilities or restrooms, that limit the usefulness of some of the fairs' facilities to some potential renters. However, despite these physical limitations, the district fairs' marketing of their facilities is very limited. For these reasons, the four district fairs that we reviewed are not able to generate the maximum potential income from the rental of their facilities during the interim period between annual fairs. Furthermore, the district fairs have not determined their costs of operating their facilities so they do not know if their rental rates are high enough to cover costs.

We examined the practices used between January 1, 1984, and December 30, 1984, to rent two indoor facilities at the Big Fresno Fair, two indoor facilities at the Orange County Fair, two indoor facilities at the San Joaquin County Fair, and one indoor facility at the Yolo County Fair. These facilities are used for exhibits, weddings, dinners, and dances. Some of these facilities are equipped with kitchens and restrooms. We also compared the time the facilities were rented (including the time used to set up or tear down events) to the total time in which each facility could be rented. We did not count as possible rental days those days in which these district fairs were either preparing for their annual fair or hosting it.

The Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair do not take full advantage of renting their facilities during the interim between annual fairs. For example, at the San Joaquin County Fair, we reviewed the use of the hobbies and crafts building and the youth building. The hobbies and craft building has 4,900 square feet, restrooms, and a kitchen. The youth building has over 12,000 square feet, but it does not have a kitchen. The hobbies and crafts building was rented only 12 days (4 percent of the available time), and the youth building was rented 19 days (6 percent of the available time).

If these two buildings were rented more frequently during 1984, the San Joaquin County Fair could have increased its revenues for 1984 and thus reduced its need for financial support from the department. During 1984, the San Joaquin County Fair received $85,000 from the department. At the established daily rental rates of $280 for one building and $390 for the other, the San Joaquin County Fair could have raised $51,000 in additional revenue if it rented these buildings for 25 percent of the available days, or 76 days. However, because the fair does not compile cost data, we were not able to calculate any additional costs that would be incurred by the fair for renting the facility for the 76 days.

To determine whether the revenue from renting facilities is sufficient to cover the costs incurred, these district fairs need to know what their costs are in renting facilities. However, the four district fairs that we reviewed do not compile data to make this determination.

District fairs have two types of costs: reimbursable and nonreimbursable costs. Reimbursable costs are those that are paid by the renter, in addition to the rent, for additional services the district fairs provide, such as security, equipment, maintenance, and cleaning. Nonreimbursable costs, those that a district fair must pay, include the costs of utilities and administration. These district fairs keep track of reimbursable costs when they rent their facilities, but do not keep track of nonreimbursable costs they incur with each event. As a result, these district fairs may be renting their facilities at a net loss because they do not consider all their costs in renting their facilities. The assistant district fair manager at the Big Fresno Fair said that he believes the Big Fresno Fair's rental rates are sufficient to cover their costs for renting a building for an event. However, he was not able to provide us with any cost data.

We also discussed with the district fair managers how rental rates are established. Since the four district fair managers do not have information on the cost of operating facilities, they cannot establish rates based on these costs. Instead, these district fair managers base their rental rates on whatever the market will pay, regardless of the cost to the fair.

The Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair have not effectively promoted the rental of their facilities. For example, these district fairs do limited marketing of their facilities for interim events. There was no evidence that these district fairs have prepared marketing plans to formally identify the district fairs' facilities and then specify the actions to be taken to increase their rental use. The fairs could use marketing plans to analyze appropriate rental rates, to learn about industry and local market trends, or to analyze present or potential users of their facilities.

District Fairs Have Increased Revenues By Selling Surplus Property

District fairs have increased their revenues by selling surplus land. During 1984, the San Joaquin County Fair earned $14,745, and the San Fernando Valley Fair earned $3 million from the sale of some of their surplus land. As of June 26, 1985, the San Joaquin County Fair had two parcels of surplus land remaining. To determine the value of the two surplus parcels at the San Joaquin County Fair site, the Department of General Services' Office of Real Estate Services, under contract with the Office of the Auditor General, appraised the district fair's property. The Department of General Services appraised the value of the property if the sites were sold as one parcel or as two sub-parcels. The two sub-parcels include areas of the San Joaquin County Fairgrounds known as Parcel 2 and Parcel 3. (See Appendix B.) The Department of General Services examined 18 comparable real estate transactions, which it divided into two classes: raw land and industrial sites developed with utilities.

In addition, the Department of General Services determined the land value based on the "highest and best" use of property. The Department of General Services defined the highest and best use as that use which may reasonably be expected to produce the greatest net return on the land over a given period of time. The Department of General Services considered Parcels 2 and 3 as individual commercial lots and included in its report the cost of demolishing the existing improvements. Finally, the Department of General Services made the property appraisal with the assumption that title to the property is free and clear of all leases and concessionaire agreements.

Based on the comparisons, assumptions, and limitations described above, the Department of General Services determined that, as of June 1985, the fair's surplus property (Parcels 2 and 3) had a total appraised value of $507,000. The appraised sale value of the two surplus parcels is shown in Table 5 that follows.

TABLE 5

APPRAISED VALUE OF THE SAN JOAQUIN COUNTY FAIR'S SURPLUS LAND

Parcel		Acres	Appraised Value
2		2.3	$174,000
3		3.8	333,000
	Total	6.1	$507,000

V

THE DEPARTMENT OF FOOD AND AGRICULTURE AND THE DISTRICT FAIRS HAVE ENGAGED IN IMPROPER PERSONNEL PRACTICES

The department has not complied with its own policies in approving salary adjustments for fair managers. As a result, salary overpayments totaled $55,502 for fiscal year 1984-85. Furthermore, the department has not ensured that district fairs limit the terms of temporary employees to six months in a calendar year as specified in the California Constitution.

The Department Approved Inappropriate Salaries for District Fair Managers

Section 4507 of the California Food and Agriculture Code requires the department to classify local fairs annually. The department uses various factors derived from fair reports as criteria to classify local fairs. These factors include a comparison of fair and interim attendance to the population, the size of the fairgrounds and the number of educational exhibits entered in the annual fair, a comparison of revenues to expenditures, and the number of permanent employees. Based on these data, the department divides local fairs into six classifications: class 1 is the lowest and class 6 is the highest. As permitted by Section 4508 of the Agriculture Code, the department uses a fair's classification to establish salaries for its fair manager.

According to Section 19825 of the California Government Code, the Department of Personnel Administration must approve the salary rates for each job classification. The Department of Personnel Administration's approval is also required to change classifications and salary rates for positions exempt from civil service, such as district fair manager positions. The Department of Personnel Administration has approved six salary ranges for fair managers. These six salary ranges for fair managers correspond to the six classifications of fairs.

During fiscal year 1984-85, the department increased the salary rates for 21 district fair managers to rates that were above the maximum established for their fair classifications. For example, the district fair manager of the San Luis Obispo County Fair, a class 4 fair, was being paid $4,218 per month, which is a salary rate for a class 6 fair manager. According to the salary rates approved by the Department of Personnel Administration for class 4 fairs, the district fair manager should not be earning more than $3,489 per month. Based on that criterion, the district fair manager received a monthly salary that was $729 higher than the maximum rate for a class 4 fair. As a result, during fiscal year 1984-85, this distract manager was overpaid $8,748. This manager is now earning $4,471 per month, or $773 more than is allowed by the Department of Personnel Administration's approved salary rate for a class 4 fair.

When we compared district fair classifications and district fair managers' salaries, we identified 21 district fair managers who were being paid at salary rates that exceeded the maximum rates allowed for their fair classifications. The salary overpayments ranged from $124 to $729 per month. The salary overpayments for the 21 fair managers totaled $55,502 for fiscal year 1984-85.

On June 27, 1985, we discussed with the Department of Personnel Administration our analysis of excessive salaries paid to fair managers. On August 22, 1985, the Department of Personnel Administration sent a memorandum to the department recommending that the department take immediate action to align individual fair managers' salaries with the appropriate salary rates. In response to the memorandum from the Department of Personnel Administration, the department began a comprehensive review of its method of classifying fairs to enable the department to determine the appropriate salary levels for fair managers.

District Fairs Employ
Temporary Workers Improperly

The department lacks a program to effectively monitor district fairs' compliance with state regulations pertaining to employment of temporary fair workers. Some district fairs have retained temporary employees for as long as six months beyond the authorized time limit.

Article VII, Section 4(1), of the California Constitution authorizes district fairs to hire temporary employees for a maximum of six months in a calendar year. These employees are exempt from civil service regulations, serve at the pleasure of management, and are not entitled to vacation, sick leave, or retirement benefits. The district fairs pay these temporary employees for actual time worked and withhold appropriate amounts of state and federal income taxes. Temporary employees are not eligible for overtime pay or compensating time off. The department further mandates that employees of district fairs who work more than six months during any calendar year must be employed in accordance with the State's civil service laws.

In reviewing personnel and payroll records at the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair, we found that three of these fairs had retained 34 temporary employees for longer than six months. Table 6 shows the number of temporary employees at each fair who worked longer than six months in a calendar year.

TABLE 6

DISTRICT FAIRS THAT RETAINED TEMPORARY EMPLOYEES MORE THAN SIX MONTHS DURING 1984

	Total Number of Temporary Employees	
Fair	Hired	Number of Employees Who Worked More Than Six Months
San Joaquin County Fair	11	5
Big Fresno Fair	10	4
Orange County Fair	29	25
Total	50	34

The district fairs' methods for calculating the number of days worked by a temporary employee conflicted with the department's policy for calculating the workdays of a temporary employee. The department's Fairs Administrative Manual specifies that a temporary employee is considered to have worked one day even if the employee works fewer than eight hours in a day. According to staff at the Big Fresno Fair, the Orange County Fair, and the Yolo County Fair, these fairs calculate the number of days worked by a temporary employee by dividing the total number of hours worked in a pay period by 8, whether the individual worked eight hours each day or not. Using this method, the fairs retained temporary employees for periods that were longer than the six-month period as it should have been calculated.

When questioned about retaining temporary employees longer than authorized, the Orange County Fair's manager stated that he felt that there was little opportunity to obtain civil service status for these temporary employees. To save time in training new replacement employees, he decided to continue the employment of most of the employees past their mandated six-month deadline.

Our review also revealed that the department does not require the district fairs to submit any employment data on their temporary fair employees. The lack of adequate records is a major factor in the department's inability to effectively monitor and enforce the local fairs' proper use of temporary employees. Chapter 10 of the Fairs Administrative Manual stipulates the rules that the fairs must comply with in their employment of temporary workers. However, according to the department's personnel staff analyst, the department does not receive or request any information from the fairs concerning their temporary employees. Therefore, it cannot easily determine whether the fairs are complying with the rules regarding the employment of temporary employees.

VI

THE DEPARTMENT OF FOOD AND AGRICULTURE HAS NOT MONITORED LOCAL FAIRS' INTERNAL CONTROLS

Local fairs have poor internal controls over equipment, cash receipts and disbursements, and travel expenses. Because of these weaknesses, local fairs cannot be certain that their assets such as equipment and cash are adequately protected from waste, fraud, and inefficient use. Section 13402 of the Government Code requires heads of state agencies to implement internal control systems, including accounting and administrative controls. Effective internal control systems are necessary to ensure that the State's assets and funds are adequately safeguarded, as well as to produce reliable financial information to the agency.

Inadequate Controls Over Equipment

The department has not ensured that district fairs are fully complying with the equipment accounting requirements in the State Administrative Manual. As a result, there are weaknesses in the way the four district fairs account for and control state property.

We hired an independent contractor to conduct a review of the four district fairs' inventory control procedures and to test these procedures by conducting a limited physical inventory. Our contractor reported that several accounting weaknesses resulted in minor errors in the fairs' financial statements and some loss of control over their equipment. Specifically, each of the district fairs failed to record all pieces of equipment in its inventory records, and the Orange County Fair incorrectly included capital improvement projects in its inventory records. The review also showed that certain state requirements pertaining to equipment costing less than $150 are not in the department's Fairs Administrative Manual. Therefore, district fairs may have less control over equipment than other state agencies.

Our contractor reviewed all purchases during 1983 and 1984 and identified items that should be in the inventory records. Based on this review, our contractor identified 252 pieces of equipment, worth approximately $242,842, that should have been listed in the fairs' inventory records. The equipment that was not listed in the inventory records included, among other things, a used truck, a vacuum cleaner, a typewriter, and a water fountain. Although some items of equipment were not included in the inventory records, our contractor found each of the items of equipment.

There are several reasons for these inventory discrepancies, including failure of these fairs to follow the equipment accounting procedures required by the Fairs Administrative Manual and failure of the department to incorporate all state requirements into the Fairs Administrative Manual. For example, the Orange County Fair incorrectly classified eight capital improvement items, totaling $48,377, as equipment. These items included a water heater and a fire hydrant. In addition, although the Fairs Administrative Manual requires district fairs to maintain property cards on all equipment, the Big Fresno Fair had not documented two pieces of equipment, totaling $896, on its property cards.

The State Administrative Manual states that agencies should keep records of all "sensitive" equipment, which it defines as highly desirable and portable units such as calculators or cameras. These records should include the item's brand, model, serial number, and value. Our contractor discovered several sensitive pieces of equipment, including drills and calculators, that were purchased by the fairs in 1983 and 1984 but were not listed on their inventory records. Because the Fairs Administrative Manual does not include the State Administrative Manual's requirements regarding sensitive equipment, these district fairs have fewer controls over sensitive equipment than other state agencies do.

Poor Controls Over Cash Receipts and Disbursements by Local Fairs

Most of the local fairs in our sample did not adequately separate the duties of the staff who manage fair revenues. For example, at three district fairs and two county fairs in our sample, the same staff person is authorized to maintain both the cash receipts and the disbursement registers, make the bank deposits, and prepare and distribute checks. This person also has access to the safes. At two of these district fairs and the two county fairs, the same staff person, in addition to all of the duties described above, is also authorized to reconcile the bank statements. Although these fairs have small administrative staffs, unless duties are properly separated, irregularities in the accounting for funds can be concealed and the management of fair revenues may be weakened.

Other conditions also indicate that the department does not enforce compliance by the fairs with proper fiscal controls. For example, in accordance with the Orange County Fair's policy, checks over $5,000 require two signatures. However, one of the three checks over $5,000 that were issued by this fair in 1984 did not have the required two signatures. The Big Fresno Fair also requires two signatures for checks over $5,000. However, this fair's manager requested that his staff pay a single claim of $7,400 by issuing two checks, each for less than the $5,000 limit, thus circumventing the established policy. In addition, we found that the Big Fresno Fair violated good accounting practices, as directed by Section 8060 of the State Administrative Manual, by not completing a bank statement reconciliation in over a year.

Poor Controls Over Travel Payments

The department has not ensured that the district fairs' travel claims are properly supported and that out-of-state travel is properly approved. Title 2, Section 704(a), of the California Administrative Code prohibits state agencies from paying travel expenses unless these expenses are submitted on a claim form approved by the State Controller. The travel expenses must also be properly itemized, supported by necessary vouchers, and approved by an authorized officer.

We reviewed the 1984 travel expense records for the four district fairs and found over $20,000 in paid travel expenses that were not submitted on the proper claim forms, were not properly documented, or were not properly approved. For example, the Big Fresno Fair paid approximately $3,000 in travel expenses when the fair manager, the exhibit supervisor, and four members of the board of directors attended a convention. Only the fair's exhibit supervisor submitted a travel claim; however, this claim was not properly approved. With the approval of the former chief of the division, neither the fair manager nor the members of the fair's board of directors prepared the proper travel expense forms. In addition, the fair may have inappropriately paid the convention registration fees and meal expenses for the spouses of the fair manager and two members of the board of directors. However, without the proper documentation, we cannot determine whether the fair inappropriately paid for the spouses' registration fees and meals.

The Fairs Administrative Manual also prohibits reimbursement for out-of-state travel without prior approval from the chief of the division. However, 1984 travel expense records for the Orange County Fair show that $7,426 in out-of-state travel expense claims were not supported by adequate documentation and that these claims were not properly approved by the chief of the division. The manager of the Orange County Fair confirmed that the out-of-state travel that we identified was not properly approved.

Without properly submitted and documented travel expense claims, and without proper approval of out-of-state travel, the State cannot be assured that it is paying for travel expenses that are a necessary part of state business.

Poor Monitoring of the
Local Fairs' Compliance With
State Laws and Regulations

The department's director is responsible for ensuring that local fairs establish adequate internal controls and comply with state laws and regulations that govern the local fairs' operations. The department can detect inadequate fiscal controls and compliance weaknesses by conducting periodic financial and compliance audits. However, according to documentation provided us by one of the division's financial examiners, 19 district fairs, 11 county fairs, and one citrus fruit fair have not received financial or compliance audits since 1980. Furthermore, to maximize the effectiveness of audits, the department must follow up on its recommendations to ensure that local fairs correct the deficiencies noted by the department's audit staff.

We reviewed the department's audit files and found no evidence that 32 district fairs and 12 county fairs have responded to the department's last audit reports. At two of the four district fairs that we reviewed, we found questionable expenditures for employee parties and gifts. These types of questionable expenditures were also noted by the department's auditors in 1983 and 1984. We also found that the Orange County Fair was inappropriately employing temporary workers beyond the six-month limit mandated by the California Constitution and did not obtain the proper approval for out-of-state travel. In 1983, the department's auditors also identified these two deficiencies. Furthermore, we found that all four district fairs did not properly document and authorize payment of travel expenses. During 1983 and 1984, the department's auditors identified these same deficiencies. If the department does not perform periodic audits and does not take action to follow up on audit reports, financial and compliance weaknesses go undetected and deficiencies noted in audit reports may not be corrected.

VII

THE DISTRICT FAIRS DO NOT ADEQUATELY MAINTAIN THEIR FACILITIES

District fairs place little emphasis on structural safety in the maintenance of their facilities and grounds. None of these fairs has established routine preventive maintenance programs, and, according to the maintenance supervisors, most of the maintenance time is spent making emergency repairs and performing cosmetic maintenance on the fairs' facilities and grounds. However, such temporary measures may allow the structures to continue to deteriorate and increase the potential for injury to personnel and liability to the fairs. Furthermore, without routine maintenance schedules for fairground facilities, the useful life of the facilities is reduced. Also, facilities in disrepair may deter the public's desire to rent the fairs' facilities in the interim between fairs, reducing the fairs' opportunities to maximize revenues.

In July 1984, the engineering staff of the division completed a comprehensive inspection of 47 district fairs, evaluating the structural and safety requirements of the physical plants. The engineers conducted structural and maintenance inspections of 1,804 structures, which included barns, restrooms, exhibits, administrative buildings, grandstands, and other miscellaneous structures. The inspection report identified the following major maintenance problems: nonfunctional and deteriorated doors, obsolete door hardware, pavement failures, obsolete electrical systems, leaky roofs, rusty toilet partitions, and obsolete plumbing. The engineers determined that contributing factors to these problems were the age of the facilities, the lack of manpower, the increased cost of materials, and the fairs' financial shortages.

The department conducted maintenance surveys of the local fairs in 1977 and 1982, but these surveys were not as complete or as thorough as the 1984 inspection. The department's engineers did not make any on-site inspections of the fairs; they merely required the fairs to submit to the division a list of their maintenance and capital outlay projects, with cost estimates. In 1977, the fairs estimated maintenance costs at $11 million, and in 1978, the fairs estimated maintenance costs at $16.4 million. In contrast, the more thorough engineering inspections of local fairs conducted in 1984 and 1985 by the department estimated $21 million in maintenance costs. Major maintenance projects accounted for almost half these costs. The department indicated in the summary of the 1984 inspection that the district fairs had 2,166 maintenance projects to be completed at an estimated cost of approximately $14 million.

The department made a similar inspection of the 23 county and citrus fruit fairs in 1985 and determined that there were 1,002 maintenance projects to be completed at an estimated cost of approximately $7.0 million. The department's engineering staff categorized the maintenance projects for the district fairs, the county fairs, and the citrus fruit fairs into three similar groups: top priority projects, major maintenance projects, and general maintenance projects. The department later added a fourth group, referred to as architectural enhancement projects, for district fairs. Top priority projects, those intended to correct an unsafe condition, amounted to 16 percent of the projects but 33 percent of the total estimated costs, or approximately $7.0 million.

After reviewing the 1984 comprehensive survey performed by the department's engineering staff, the department has approved the use of capital outlay funds, available through Sections 19627.3 and 19630 of the Business and Professions Code, for the required repairs of these top priority projects. However, since the department is limited to $2.25 million of these funds annually, completion of these top priority projects could take up to three years.

VIII

CONCLUSION AND RECOMMENDATIONS

The Department of Food and Agriculture needs to improve the management of its local fairs program. Our review of the department's Division of Fairs and Expositions and our review of the 1984 operations of four district fairs and three county fairs identified deficiencies such as improperly executed contracts, inappropriate expenditures of state funds, delinquencies in loan repayments, failure to maximize revenues, improper personnel practices, weak internal controls for the safeguard of the State's assets, and inadequate maintenance of fairgrounds and facilities.

The department's procedures for monitoring contracts do not ensure that the State's interests are protected, or that state funds are spent properly. Both the department and district fairs have negotiated contracts over $10,000 without obtaining the required approval from the Department of General Services. In addition, both the department and the district fairs have not requested bid prices before they awarded contracts; therefore, the department and the district fairs cannot ensure that the State is receiving goods and services at the lowest possible cost or that the State is maximizing its revenues from carnival operations.

Also, three of the district fairs that we reviewed made improper or questionable expenditures of state funds during 1984 for publicity, meals, gifts, and parties for employees. The department also inappropriately used funds designated for local fairs to purchase office equipment, services, and supplies for the department and to pay the salary, benefits, and other employee-related expenses for a part-time employee and student interns working for the department.

Furthermore, the department has failed to take action in the State's interest to ensure prompt repayment of state loans by two district fairs. As of December 31, 1984, the Big Fresno Fair and the California Mid-Winter Fair were delinquent in paying $3.8 million in principal and estimated accrued interest to the State.

The department has also not ensured that local fairs are maximizing operating revenues. The department's policy directs local fairs to maximize revenues if they want continued state support. However, the department continues to provide financial support to local fairs even though their revenue practices have not ensured maximum revenues. Some fairs could increase revenue by charging admission and renting their facilities more often.

In addition, the department has not ensured that local fairs' personnel practices comply with state mandates. We found that the department has upgraded some fair managers' salaries without proper justification. We also found that the district fairs have violated the constitution in retaining temporary employees longer than the six-month limit in a calendar year without changing the employees' status.

The department has been lax in monitoring the local fairs to ensure that they have and use adequate internal controls to safeguard the State's assets. The department has not performed financial and compliance audits on some fairs since 1980. Furthermore, the department has not followed up on audits of local fairs to ensure that deficiencies noted by the department's auditors were corrected by the local fairs.

Finally, the department has failed to ensure that local fairs maintain their facilities and grounds in a safe condition at all times. None of the district fairs that we reviewed has established routine preventive maintenance programs. Most of the maintenance time is devoted to making emergency repairs or performing cosmetic maintenance of fair facilities. In two recent engineering inspections performed by the department, the department identified approximately $21 million in maintenance work that needs to be performed on the facilities of local fairs. Approximately 16 percent of the repair projects identified by the department posed unsafe conditions and, therefore, were placed in a top priority category. The department's estimate of funds required to make these top priority repairs is approximately $7 million; the repairs could take up to three years to complete.

RECOMMENDATIONS

To correct the deficiencies in its contracting practices, the Department of Food and Agriculture should take the following actions:

- Follow all state laws and regulations pertaining to contract administration and contract procedures. The department should obtain the Department of General Services' approval on contracts over $10,000 and should require competitive bidding for these contracts.

- Require local fairs to submit all contracts over $10,000 to the department for approval. The department should ensure that each contract is approved by the Department of General Services and is awarded after competitive bidding.

- Ensure that all district fair contracts, agreements, and contract amendments are formalized in writing.

To correct the deficiencies in the use of public funds by the department and the district fairs, the department should take the following actions:

- Obtain the Department of Finance's approval before spending money designated for local fairs for the department's purposes.

- Periodically review local fairs' expenditures to ensure that state funds are being spent for authorized purposes.

- Define, in the Fairs Administrative Manual, the specific types of expenditures that district fairs can make under the category of public relations.

- Periodically review district fairs' purchase documents to ensure that purchases are approved by the Department of General Services.

To improve its collections on loans due to the State from district fairs, the department should take the following actions:

- Work with the Big Fresno Fair and the California Mid-Winter Fair to develop alternative sources of revenue and to identify ways to cut costs.

- Establish a loan repayment schedule for the Big Fresno Fair and the California Mid-Winter Fair based on each fair's ability to repay its loan.

- Establish and maintain an accounts receivable ledger and ensure that the loan records are complete.

To improve the revenues of district fairs, the department should encourage local fairs to charge admission and aggressively market rental of fair facilities between fair times.

To prevent the overpayment of fair managers, the department should ensure that its Division of Fairs and Expositions grants salary increases in accordance with the policies of the department.

To prevent local fairs from improperly retaining temporary employees for periods of longer than six months, the department should require that copies of all personnel actions be sent to the division. The division should periodically review these personnel actions to ensure that temporary employees are not being used for periods longer than six months.

To improve the local fairs' internal controls and to improve the local fairs' compliance with state laws and regulations, the department should take the following actions:

- Establish a periodic schedule of audits of local fairs. These audits should include a financial review, a review of internal controls, and a review of the local fairs' compliance with state rules and regulations. The compliance review should include focus on such things as the district fairs' compliance with state contracting requirements, use of temporary personnel, appropriateness of expenditures, and appropriateness of the district fairs' control over the State's assets.

- Review and follow up on deficiencies noted by the department's auditors to ensure that these deficiencies are corrected by the local fairs.

- Include a provision in the Fairs Administrative Manual that requires district fairs to keep records of and control sensitive items of equipment.

To correct the deteriorated condition of the State's district fairs, the department should require district fairs to develop and implement preventive maintenance programs. These programs should identify high priority projects that need to be completed to protect the health and safety of those attending the fairs. The department should review the fairs' maintenance programs and periodically monitor the fairs' progress in implementing their programs.

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 review to those areas specified in the audit scope section of this report.

Respectfully submitted,

Thomas W Hayes

THOMAS W. HAYES
Auditor General

Date: January 6, 1986

Staff: Thomas A. Britting, Audit Manager
Bernice Ericksmoen
Thomas Blanchette
Cornelius Paul Frydendal
Wendy Rodriguez

State of California

Memorandum

To : Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Date : December 20, 1985

Place :

From : **Department of Food and Agriculture** - 1220 N Street, Room 409
Sacramento, CA 95814

Subject : Department Response to Report P-490.1, Office of the Auditor General

Attached is the response of the Department of Food and Agriculture to your draft report P-490.1 dated December 4, 1985.

The title of the report draws an immediate negative reaction. I am pleased to hear that the title is being changed which will have a more positive reaction to the report.

Some of the comments provided by the Department and the fairs point out the need for further study of the subject in certain areas.

Thank you for the opportunity to review and comment on the contents of your draft report.

Clare Berryhill

Clare Berryhill
Director
445-7126

Attachments

SURNAME

SO-106

Chapter I

The Department has already taken steps to correct contracting procedures that are not mentioned in the context of this finding.

No mention is made of the May 29, 1985, report of audit of the Department of Food and Agriculture (F&A) by the Department of General Services, Office of Management Technology and Planning and steps that have been taken to provide better controls.

1. A computerized contract register for the district fairs has been requested through F&A to provide a tool to track and control contracts.

2. A program specialist has been placed in charge of contract administration and all of the personnel involved have subsequently taken the available training courses.

3. Our Department's Internal Auditor will conduct routine reviews of contracts.

Fair managers have reported to us that a great deal of problems are created when contracts are sent to the Department of General Services (GS) for approval only to be returned after the performance of the contract has occurred and the revenue has been received or the expense paid.

The Department of General Services is recommending that the Division of Fairs and Expositions (F&E) be afforded an opportunity to obtain an exemption for classes of contracts affecting it by demonstrating their compliance with normal purchasing requirements.

Fairs and Expositions has met with GS and has requested a $50,000 exemption for two pilot fairs implementing the tracking procedure described herein.

In discussing the Orange County Fair situation with the manager, examples were given of the purchase of portable two-way radios that were ordered through GS and showed up two years after they had been ordered by the previous fair manager. An additional example was given of a used forklift the fair wanted to buy that took more than six months to get approval from GS. This kind of experience is only mentioned in contrast to the majority of the audit findings dwelling on what the fairs or F&A didn't do as opposed to at least spending a little time trying to determine if there are problems at the top end of the contract approval and purchasing process that need to be streamlined. Having an approval process that doesn't work well and that line managers lack confidence in, is not conducive to good business practices. If the system doesn't work, any good manager will be required to do what is necessary to meet program needs when time and money are so limited.

Obtaining competitive bids for contracts, particularly with your report's reference to carnival contracts, ignores the painful experience many fairs have had in attempting to provide a safe and clean carnival operation to the fairgoing public.

In 1975, a fair industry study group presented a new criteria for evaluating carnival contracts that eventually won approval of F&A and GS to allow for proposals that considered factors other than the high dollar returns. Safety records; quality of equipment; established maintenance programs for equipment; training programs for employees in the operation and maintenance of equipment; evidence of insurance coverage and bonding and other factors were considered.

The carnival contracts are an area where obtaining the services from those contractors who are willing to provide the greatest amount of revenue must be heavily offset by criteria to examine the quality of the product. Taking the biggest dollar offer can mean big trouble for the fair. The fairgoing public is jeopardized if rides on the grounds don't work or have had their safety permit revoked the day the fair opens and no spare parts inventory is at hand to get it going. Injuries on amusement rides cannot be prevented by a carnival operator who is paying the fair too much money and not investing in keeping his operation in good shape. Tables are attached showing increases and decreases in carnival revenue to fairs in recent years. I think you'll have to agree that the increases are very substantial.

Contracts entered into by the Solano County Fair and F&E were funded with money available to local fairs for support. These are not funds that belong to F&A or F&E but are available for allocation to local fairs. The fact that F&E was a signatory on the contract apparently raises the issue of GS approval, but does not authorize GS to control any expenditure of the County Fair funds.

The Rose Parade Float was an attempt to advertise and publicize California and the California Fair Industry. Corporate contributions were sought and some were offered but it was later found they could not be accepted because of the rules of the Rose Parade Committee prohibiting commercial identification of a firm or product in the particular classification the float was entered for competition.

In the future, F&E will not be signatory to projects conducted by county fairs of this nature. The only issue to continue to ponder is then one of how much leadership F&E should give to county fairs in the use of funds available f allocation to them. If we are to market, promote, and advertise the use c facilities, we need to work within the funds available to the fairs for suc purposes in absence of such funds being included within our own support budg

As mentioned earlier in this reply, a contract tracking procedure will be imple mented by F&E in conjunction with a computer system for F&E being processed now through F&A. The Feasibility Study Report on computers for district fairs has been approved by the Department of Finance on November 18, 1985, Project #6300-30. It has been recommended that F&A amend the Feasibility Study Report with the approval of Finance to include F&E.

Elements of carnival contracting have been discussed earlier in the reply, but further discussion is warranted with regard to your finding that the "department prohibits district fairs from specifying desired rides, games, or concessions and thereby restricting or limiting the number of potential contracts eligible to submit the bids and proposals." *

*Auditor General Comment: In quoting our report, the department used a portion of a sentence out of context. The text of the report is in fact consistent with comments made by the department during our audit. Specifically, the report points out that to prevent district fairs from restricting the number of carnival operators that bid on carnival contracts, the department prohibits district fairs from specifying desired rides, games, or concessions.

The fact is that just the opposite has been found to exist. Three or four years ago, in conjunction with the award of the carnival contract at the 22nd DAA, the inclusion of a specific list of rides and shows sought was held by GS and the Anti-Trust Division of the State Department of Justice (DOJ) to be a "restrictive specification" in that it supposedly could be used to closely, if not exactly, describe the ride inventory of one operator and thus exclude others who didn't happen to have a specific ride or rides in his inventory. Your further inquiry with GS and DOJ in this regard is invited. It is important to understand that with RFP procedure in obtaining carnivals the fairgoers safety is taken into consideration and importantly so. Ride safety is an important area and must be considered and given the proper weighting in the RFP process.

Your attention is also invited to our new carnival contracting specifications and points evaluation system, already approved by GS and included as an attachment to this reply. A training session for fair managers was held on November 8, 1985, and for carnival owners on November 18, 1985. Training sessions on the use of Request for Proposals (RFP) for carnival contracts was held for 40 fair managers on December 13, 1985. The remainder will be trained on January 6, 1986.

Use of our new computer system for tracking contracts will also include carnival contracts.

Chapter II

Reference to the use of state funds used inappropriately to hire a part time employee and student interns is again a matter of what role F&E should take in providing leadership for industry activities or programs encouraged by the legislation to be developed. ACR 130 (Perino) 1978, encouraged F&E to train young people as potential fair managers or fair officials of the future. Student interns used in this capacity spent time not only at F&E but at other fairs, Western Fairs Association, and the Joint Fairs Committee in the Legislature to learn more about the system. It is hard for this to be considered as solely an activity of F&E, even though F&E was requested by the Legislature to do it, when the majority of the exposure these young people get is actually with the fairs to whom the allocations are made. Should we allocate enough money to four fairs who want to give an intern experience for two weeks each over a period of two months, for example. It seems to be better business to have them on one fair's payroll as opposed to four.

The use of state funds for public relations or community relations has been a line item in the budgets of fairs for 30 years. It becomes a matter of recognizing the public purpose for which the funds were spent. People from the community, at the Yolo County Fair, for example, who volunteer as building superintendents; do cleanup work during the fair; assist concessionaires with setup and electrical problems; setup buildings and event areas, etc., are providing the fair with help it would otherwise have to pay for. The local fire department checks fire extinquishers. The local Sheriff's Office provides security on the grounds. The local Police Department provides traffic control and parking lot security. The City provides a water truck and driver for the fair. If a little recognition for this help is out of line and a thank you party is not serving a public purpose, then how about the purpose of saving the state the money it would have to spend to hire all this help or services?

Even legislation to be considered in January of 1986 to codify the expenditure of funds for public relations and promotion will simply recognize and grandfather an existing expenditure practice.

Chapter III

Reference to "District Fairs Have Not Repaid State Loans" make it sound like all of them who had them didn't pay. What about the 1-A, Cow Palace; 2nd DAA, Stockton; 16th DAA, Paso Robles; 27th DAA, Anderson; 28th DAA, Victorville; 30th DAA, Red Bluff; 32nd DAA, Costa Mesa; Humboldt County Fair and Solano County Fair who did pay?*

In addition, while we are being criticized for making no efforts to collect the loans from the 21st and 45th DAAs, the Department of Finance is in the process of re-writing the loan to the 21st DAA to provide for a longer repayment schedule. F&A will work with both fairs to minimize expenditures and maximize revenues to help issue timely repayment of their obligations in the future. The accounts receivable ledger referred to on page 31 is maintained by the State Controller. Whether F&E or F&A should duplicate this ledger is a question of just that--duplication. On July 11, 1985, AB 205 (Peace) was introduced to forgive the 45th DAA loan.

Chapter IV

Local fairs not maximizing revenue is a question that must be addressed on a selective basis. Your broad brush title implies that fairs are not. In fact, as a group they are and are doing quite admirably at it. In the early 1970's, of every dollar a fair spent, 51¢ was state support. Now, in 1984, of every dollar a fair spends, 11.6¢ is state support. If fairs, when considered in the aggregate, aren't maximizing local revenues, then where is the rest of the support coming from? State support has increased somewhat but it is not from anything other than the increase in local revenues that the declining percentage figures of state support in relation to total expenditures are derived from.

Small fairs in areas with static population bases are never going to make the progress that fairs in the suburban and urban areas have where the opportunities are present to increase revenues. The fairs were put there with state support to be a service to the community. The ability to pay for the service varies from area to area. Small fairs may in fact, become more dependent on the state support while the larger fairs or fairs in areas with a growing population base will become less dependent on state support.

One example of recent efforts by F&A to help fairs reduce their expenditures and maximize their revenues is work being done since August of this year by five county and district fairs to implement Joint Powers Authorities (JPA) to engage in the issuing of revenue bonds for capital improvements and pooled purchasing. Debt capital financing to those fairs who have the ability to service the debt load will decrease their reliance on limited state funds for capital projects and make more of those limited funds available to smaller fairs.

Research on pooled purchasing programs have turned up a variety of public entities that save 35% to 45% on goods purchased cooperatively.

As to the issue of fairs who do not charge admission fees, no mention is made of the experience of the last fair that changed from a free gate to a paid gate. In 1976, the 27th DAA at Anderson switched from a free gate to a paid gate. A local newspaper, the RECORD SEARCHLIGHT, headlined the plan as "Fair Fee Plan Is Disastrous." It was to revenues the first year. Carnival, food and beverage concessionaires, and other purveyors reported revenues being down 25% to 30%.

*Heading changed to "Two District Fairs Have Not Repaid State Loans."

The costs of modifying facilities, increasing payroll, and the long-term revenue picture must be carefully analyzed by a fair board before such a decision is made. Community reaction must be carefully sampled.

It does appear that in the long run, the plan at Anderson has proved to be a good one financially for the fair. However, fewer people come. Those that do come spend more money per capita than when no fee was charged. The grounds are less crowded. One then might ask how many people don't come because prices went up on the gate over the years and food, beverage, and the carnival cost the fair patron more because of the reduced attendance. Simply saying that x number of people charged x dollars for admission will raise the equivalent revenue hasn't taken into consideration the cost factors in implementing the system or the potential declining revenue base to the fair in other revenue producing areas.

The discussion of fairs not being able to determine their costs for renting facilities makes no mention of the costs required to be able to determine those costs. Costs of lights in each building requires a meter for each building. The same is true for gas and water. What about these costs?

Your draft report takes the position that promotion of the fairs and public relation expenses in doing so might be an improper use of state funds. One has to promote to be able to market. One could conclude that marketing plans certainly are desirable to have, but why have them if you can't spend funds to go out and promote them in the community.

Chapter V

F&E is working with F&A Chief of Personnel and the Department of Personnel Administration to correct problems relating to managers who are supposedly being compensated above salary schedule in their respective classifications.

When the Statements of Operations are received by F&E from all DAAs by January 20, 1986, fairs will undergo the annual reclassification and the figure of 21 managers that are above their maximum salary rates should drop significantly. This will be attributed to the normal increase in growth of a number of fairs as measured by the existing formula.

Section 4507 of the Food and Agriculture Code allows the F&A to annually request advice and recommendations for modification of the classifications of fairs from boards of directors. In January of 1986, at the annual Western Fairs Association Convention, the Fair Directors Advisory Committee will meet and discuss subsection (d) of Section 4507 of the code which pertains to "the efficiency of management, including operation procedures, revenue other than from the state, quality of exhibit, and community interest in the fair."

A point system and procedures will be assigned to each area and will be used by the Assistant Director in charge of F&E to document recommendations to F&A and the Department of Personnel Administration for any modification of the existing classification system.

The Division of Fairs and Expositions will monitor 119-day employees at DAAs from January through April yearly. Sick leave, vacation, and CTO time will be kept of all permanent employees. This will be done on the computer requested for F&E.

To eliminate the backlog of vacant permanent positions at DAAs, a PI-Personnel Technician and a retired annuitant, on a part-time basis, have been hired to do the testing and a part-time retired annuitant to do classification projects. The Assistant Director has changed the testing from each individual fair to seven statewide areas. Also, F&E requested and has received approval for the reclassification of the Staff Services Analyst to Associate Personnel Analyst to include classification and labor relations.

Chapter VI

When F&E's computer system is on line and the DAAs have this new computer system, an inventory of equipment can be maintained and regularly checked by F&E.

More procedural and fiscal audits will aid F&E in the process of establishing complete and accurate inventory records. It should be noted that F&E lost its own auditors some years ago when they were centralized in F&A's Internal Audits Section. F&A recognizes the need to catch up on these matters. It was the intent, apparently, of the previous F&E chief to go to a system of contracting with local auditors, public accountants, or CPA's to accomplish a catch up of past due audits and keep them current. This has apparently not worked.

The issue of better controls over travel payments has been improved with a directive by F&E for the required use of Standard Form 634 which now must be completed for all travel of DAA employees.

Better documentation of the requirement in FAM has helped make the required procedure more clear. It is also felt that additional procedural audits will aid in compliance.

Chapter VII

The Division of Fairs and Expositions' Engineering staff has identified in excess of $27 million Health and Safety and Major Maintenance deficiencies at fairs. Legislation will be introduced to appropriate this money and bring fairs up to a level that would allow existing F&E fund monies to be used for implementation of a viable preventative maintenance program. All DAAs with fairgrounds will have a preventative maintenance inspection program in 1986 that will include equipment systems and building structures and facility grounds.

In addition, a recent hearing held by the Subcommittee on Fairs and Expositions, Assembly Committee on Agriculture, revealed that the Department of Finance and F&A will support legislation in the 1986 Session of the Legislature that will earmark satellite wagering revenues for fair maintenance projects. Up to $6 million per year could be made available from the source. Please refer to the attached letter from the Director of Finance which discusses the issue further.

The Big Fresno Fair

Fresno Fairgrounds
1121 Chance Avenue, Fresno, California 93702, (209) 255-3081

21st District Agricultural Association

December 17, 1985

Mr. Thomas Britting, Manager Auditor
Office of Auditor General
660 J. Street, Suite 300
Sacramento, Ca. 95814

Dear Mr. Britting:

I appreciated the opportunity to talk with you December 12, 1985 and offer the following as explanation and/or evidence relative to findings to the audit your staff made in your audit titled "The State of California has Poorly Managed its Local Fairs Program". Responses are referenced by page number and paragraph pertaining to your report.

Finding

District Fairs have no central contracts file in which all documents are kept for each contract award (Page 4, 1st Paragraph).

Response

Beginning January 1, 1986, all contracts (either service or concession agreements) will be maintained in separate file folders and all supporting documentation kept therein. While we have attempted to keep records of contracts above $10,000 consolidated, we realize that the need to quickly identify a contract and supporting documents is best served through a central file process.

Finding

The Big Fresno Fair (among others) made payments to contractors without formal written agreements with the Department of General Services (Page 13, last paragraph).

Response

The finding is symptomatic of a larger issue, which is the contracts process itself. There does not appear to be policy governing the timeliness of processing, especially with respect to General Services--its responsibility and responsiveness as it relates to user departments.

The following are examples which point to the need for further review into the process itself:

The 1984 advertising contract ($127,608) was submitted to the Division on April, 1984. In November, 1984, after six months, the District was notified that the contract would not be approved without bids. This was contrary to correspondence dated September 21, 1983 which exempted advertising contracts from the bid process. By this time, the 1984 fair had elapsed.

A two-year agreement for decorations (Abbey Rents $14,800) was submitted August 3, 1984 and on October 31, 1984, we were informed by the Division that the contract was not approved.

A three-year agreement for janitorial services (Rich Construction $131,538) was submitted on September 20, 1984. On November 26, 1984, we were informed that the agreement needed to be corrected. Corrections were made and resubmitted within two weeks. It was returned in April, 1985 not approved and needing correction.

When a contract is submitted well in advance of the performance of services and no feedback has occurred until after service is performed, one forms the opinion that contracts are proceeding satisfactorily and, from that basis, coupled with the necessity to reimburse contractors for effective performance, payments are made to these organizations.

The report cites a generic consequence that not having an approved agreement results in loss to insure that contract compliance is achieved. Exception is taken to the importance of that consequence. In most cases, approval of a contract by General Services, prior to its service, did not constitute a major factor relating to the effective performance of the contract, because it excluded on-site monitoring of the performance.

In the future, however, we will submit our contracts much earlier than in the past in the hopes of establishing a sufficient time frame that will allow the District to comply with criteria specified.

Finding

The Big Fresno Fair (among others) made payments that exceeded contract amounts without amending contracts.

Response

Of the five contracts involved in audit staff review, four were still in the "process" of review by General Services when the fair was on. Services had to be increased for these contracts during the fair because of security and operational needs. Priorities during fair time, coupled with the "absence" of the contracts were factors which affected timely performance on our part.

In the future, the District will ensure that amendments are submitted when either the scope of work or the cost is altered.

Finding

The Big Fresno Fir may have inappropriately paid for parties and gifts for fair employees and fair volunteers (Page 24, 1st Paragraph).

Response

The expenditures incurred were the result of substituting dates for a dinner (which had occurred contiguous with the fair) for a Christmas date. The purpose for the dinner was to show appreciation for the extraordinary volunteer time and effort made on behalf of employees. It is felt that the expenditures and purpose for the expenditures were viable. In the future, the District will clarify and document those tangible benefits derived from such an expenditure, as appropriate with guidelines and policies in effect.

Finding

The Big Fresno Fair failed to make scheduled repayments of State Loans (Page 27, et seq).

Response

The District concurs with the finding and the conclusion that the District has been financially unable to make scheduled loan payments. With the implementation of satellite wagering, a result of SB 1836 authored by Senator Maddy, the District should generate funds to increase its scheduled payment amounts over past payments. The District will work with the Division to determine alternatives that address the District's liability.

Finding

The District Fairs have employed temporary workers improperly (Page 45, 3rd Paragraph).

Response

In an effort to ensure that facilities were maintained properly, so as to improve potential for interim rental revenue and prevent costly maintenance repairs, the District retained temporary employees over the 119 day limit. The following factors also contributed to the decision to retain these employees.

(1) There was a two-year delay in calling hiring examinations for maintenance positions. The District had five vacant maintenance worker positions.

(2) There was a hiring freeze in effect for at least two years.

We concur with the finding. Serious consideration should be given to changing the six-month period (days worked--119) to an hourly maximum (952 hours). This would allow greater flexibility in use of temporary employees as well as an improved potential for work scheduling.

If you have any questions, please give me a call.

Sincerely,

Larry O. Tunison

LARRY O. TUNISON
SECRETARY-MANAGER

LOT:lw

Orange County Fair
& Exposition Center

32nd District Agricultural Association
88 Fair Drive
Costa Mesa, California 92626
714/751-FAIR

December 18, 1985

Mr. Thomas W. Hayes
Auditor General
660 J Street, Ste. 300
Sacramento, Ca. 95814

Dear Mr. Hayes:

Thank you for allowing us to comment on the audit and review work that will be presented shortly.

The comments will be brief, and it would be our hope that these comments are made with the intent of improving the operations of our District and others, as well. Certainly, if corrections or changes are required, it is our intention to work with the Division of Fairs to accomplish our required tasks.

In review, please note the page number of your report that would respond to the comments presented by this letter.

Pg. i - Summary

The proposal process used to obtain a carnival for the Orange County Fair was developed and approved in draft form by the Chief of Division, John Fitzpatrick and General Services, but in the process of the time lapsed - administrative law changed.

In 1983 when the final year of a 3-year contract expired, that contract was not previously awarded to the highest bidder, because of a genuine and real concern of the safety and appearance of equipment of the high bidder who was the previous contractor.

However, a great deal of time was spent studying the amount of money paid to the Orange County Fair over the last several years and the percentages received. In 1984 at 50% the Fair received $191,000 for its revenues, plus $37,500 for games fees totaling $228,000. In 1985 at a sliding scale of 47% - 40% the fair received $245,000 and $76,000 for games totalling $321,000, a 41% increase.

Furthermore, a new proposal for 1986 has been developed which considers financial return to the fair and will ensure the proper return to the local fair operation.

Pg. iii - Revenues

On 50 weekends per year the Orange County Fair leases its parking lot to Tel Phil Enterprises for a giant swap meet with a long term agreement. This virtually utilizes the entire parking area for patrons and sellers. The fairs portion of the revenue in 1985 will amount to approximately $1.8-2 million for this use. With this operation and the inability to book other major events due to the lack of parking, the board's policy and community concern has dictated this action.

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Futhermore, with almost $3 million in interim revenues and almost half of the annual budget, in a very competitive market (i.e. Anaheim Convention Center, Long Beach and Los Angeles markets) this facility is able to price itself in a very competitive fashion. Our objective is to study what the other facilities are doing and maintain reasonable rates to accommodate the patrons we book.

Pg. iv & 47 - Personnel

The Orange County Fair, due to its budget and operations, has a greater need for additional seasonal staff and has been on record with the Division for increased Civil Service positions since the early 1980's. In 1984-85 year we had numerous Civil Service vacancies because tests were unable to be scheduled by State Personnel Board and the Division. In 1985 we just recently were allowed to fill 7 maintenance positions, 1 Exhibit Supervisor post, 1 Business Assistant II and 2 Office Assistants I & II positions with vacancies still in existance. As you are aware, we operate a year-round Equestrian Center with full feed and board and house approximately 300 head of horses per year. We have all we can do to keep people on the job; to hire qualified temporary help to satisfy the work load and size of our operation is almost an impossible task.

It would be our hope that these comments, and your report, would open discussion with proper communication to help resolve our problems with labor on a local level and give additional consideration to new policies on dealing with this issue.

Pg. v - Facilities

Maintaining our facilities in the interest of public health and safety is a primary and daily function. Each year (as an example) we spend in excess of $100,000 in blacktop repairs alone. We maintain in excess of 7000 paved parking spaces and continue to upgrade a facility that became state property in the late 1940's.

Pg. 8 - Contracting

In defense of the Division's position on contract approval. There is a great deal of frustration on the local level of the fair in contract approval. Numerous times contracts are sent to Sacramento to be approved by General Services only to be received back after the event or the service is performed at Fairtime and the revenue has been received or the expense paid, because the facility has to operate and the Board of Directors and management has used good prudent judgement in entering into these agreements.

Pg. 13 - Contracting

The fair did employ the services of an individual as a media coordinator, who in turn, used an agency for creative work; the design of materials and ordering of advertising and specialty products. This agency, in turn, billed the fair on a time and material basis. In all instances, no commissions were charged to the fair for this service, and all advertising that was negotiated at discounts was passed on to the fair.

In the future strong guidelines will be used to determine how materials are purchased by receipt of competitive prices, and, in all instances, comply with contract administration.

Pg. 14 & 15 - Contracting

In further study the sound contracts were generated only after a long battle with local union stagehands had been resolved and the fair was able to properly determine its needs for the up-coming mid-July fair. Granted these were late contracts, however, the calendar does not always dictate the purchasing requirements for sound of a technical rider of an entertainer until a short time before the fair, on some occassions.

On the allegation of payments in excess of contracted amounts, these invariably were for items which occurred during the course of the fair due to increased attendance and greater need for contracted requirements. All efforts will be made to properly amend these types of agreements in the future.

Pg. 23 - Use of State Funds

If a determination to reimburse an employee for a business related meal in addition to per diem expenses being paid has been made, I'm certain that this was an oversight and can and will be corrected.

In fact, controls have been instituted that on all travel claims submitted, they will be verified by the Senior Accounting Officer before they are approved for payments by this office.

I think it is very important that again, all offices recognize the dilemma and problem we are faced at the District and consideration be given in dealing with a method of modifying the code that prohibits reimbursements of funds for public or community relations.

As an example; consideration should be given to the dedication of the cause of employees (who regularly) working more than an eight (8) hour day (with no additional compensation) in the line of work in the presentation of fair related programs, community service and general fair goodwill.

It appears that a reimbursement for out-of-pocket business expenses should be allowed as it could generate a tangible benefit that turns into a cash or trade-in-kind of sponsorship to the fair. Whether this area generated a tangible or intangible return to the fair and regardless of whether fair employees or division employees are invited to a working dinner after spending more than 8 hours a day at the job.

I think it is important that we should all be concerned with this area, as it also deals with the overall productivity and morale of our employees and how they are compensated on a general basis.

Pg. 26 - Funds

As previously mentioned, my tenure as General Manager of the Orange County Fair began in October of 1983. Many of the programs, plans and policies or generally accepted methods of doing things were pretty well set in place and established and changes were made gradually. In reference to the phone system - the equipment was already in place and ordered before my arrival. A more accurate dollar value is closer to $20,000 in 1984 for the remaining purchase value of the leased equipment on hand. The typewriters were being rented year after year and it made better business sense to purchase them at their remaining value than to let them go and re-rent them another year.

The furniture purchase, was acquired thru a design wholesaler that was also a licensee on the grounds and competitive prices were obtained before the furnishings were ordered. In all instances prudent judgement was exercised in the direction followed. It should also be pointed out that the District received a gift of office supplies and furniture which value totaled in excess of $30,000 in 1985. A perfect example of an intangible business expense that generated a tangible benefit to the fair.

Pg. 27 - Loans

Although no mention is made of the Orange County Fair o/s loans with the State, it could be brought out that the Fair has consistently paid the interest and principal payments to tune of $600,000 plus annually thru 1984, and this ability to pay continues thru our efforts of revenue generation, on a local level from operations of interim, fair and horse racing events.

Pg. 33-35 - Revenues

It's interesting to note that no mention is made to the fact that Orange County Fair operated on a budget in excess of $7 million in 1984 and in 1986 will be closer to $9 million and that the next largest district fair is only half that size, yet we are challenged to maximize revenues.

Reference pg. iii comments on District revenues and add the fact that additionally a hotel lease has just been signed to generate a guaranteed $265,000 per year more with % overages to be generated in 3 to 5 years which could add an additional $2 to $300,000 more per year on top of the guarantee.

Rental prices need not be the same as the facility down the street. We are also here to provide a service to our community and host events such as our Youth Expo in spring where the Fair produces a quality program that brings the education of our youth of the county to the attention of our area.

In a comparative report presented to the legislature by the Joint Fair Committee in 1971, local revenue conclusions showed that 51¢ of every dollar spent on the fairgrounds was State money vs. the report presented by the Division of Fairs & Expositions in 1984 which indicated a 11.6¢ (cents) being spent and that being a decrease in State monies by almost 77% (percent). This represents a dramatic improvement in generating more local revenues at fair facilities.

Since the discussion of costing out the facilities is a reasonable one, several steps have been taken to determine costs (i.e. electrical meters on rental building to determine some of the utilities), tracking labor on the set-up and clean-up and standby is also cross-checked. However, with age of some of our facilities it is also not cost effective to pro-rate and cost out all types of expenses and would hope that this would also be taken into consideration.

Pg. 39 - Facilities

The District has a marketing brochure that is made available to all inquiries on our facility. Memberships are held in area Chamber of Commerces, Convention & Visitor Bureaus and staff attend functions and seminars related to the facility promotion on a regular basis. Orange County Fair also is in the process of updating its current Master Plan to upgrade and expand its facilities for trade shows and exposition activities in the next several months. Additional information on other facilities is always welcome, in fact, it is our intention to co-market our facilities once the hotel is in operation to lend support to week-day rentals.

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Pg. 48 - Temporary Employees

The comments referenced in this report related to the inability to obtain tests for the placement of new employees due to the backlog of requests on a statewide basis, and that continued efforts were made on a regular basis to seek permanent status for qualified people. We fully intend to turn over seasonal employees on mandated dates, but with consideration given to a heartfelt method of layoffs.

Pgs. 50 & 57 - Inventory

Comments related to inadequate inventory control are very confusing. In a conversation with the independent contractor hired while at Orange County, he stated that we really didn't have any real problems with our equipment inventory. I'm not sure why the major concern, other than to make adjusting journal entry (which are common) over the classifying capital items vs. equipment, when the State does not account for current value of items, or issues acceptable depreciation schedules to follow for these categories in any record keeping requests.

Pg. 52 - Cash Control

It is my understanding that a $5000 check without an additional counter-signature. For review, perhaps this check was required on a time deadline; and, as an additional control the Bank of America (local branch) has signature instructions, as well. With the workload that the District office puts out in some matters, you must consider the human error factor to occur. However, this local limit has been raised, it is below the allowable limit by FAM, and it was not pointed out that there was any collusion or concern, and perhaps this was an isolated incident. This area is closely monitored.

Pg. 54 - Out-of-State Travel

No argument, however the policy of the Division Chief (at that time) was that the Fair should get Board of Director's approval and he didn't want to hear about it.

Currently, the District seeks Board approval as well as Division approval before travel of this type is allowed.

Again, we appreciate the opportunity to make comments on the draft report presented. If you have any questions or comments related to this information, please feel free to contact me. I trust you find these comments made in the spirit of cooperation and would agree to work on the areas needed for future improvements.

Sincerely,
ORANGE COUNTY FAIR

Norbert J. Bartosik
jhm

Norbert J. Bartosik, CFM
Secretary/General Manager

NJB:jhm
cc: Ester Armstrong, Division of Fairs & Expositions

Letter sent as dictated without Mr. Bartosik's signature.

SAN JOAQUIN
COUNTY FAIR
P.O. BOX 6310 • STOCKTON, CALIFORNIA 95206 • 209 / 466-5041

December 17, 1985

Mr. Thomas W. Hayes
Auditor General
State of California
660 "J" Street, Suite 300
Sacramento, CA 95814

Attention: Thomas A. Britting
Audit Manager

Re: Report #P-490.1
"State of California has Poorly Managed its Fairs's Program
(Supplemental to letter of December 11, 1985)

Dear Mr. Britting:

In reading over your report and having talked to you on the phone regarding said report the following explanations and/or changes have been instituted by this fair to bring us in compliance with the Division of Fairs and Expositions and the State Administration Manual:

Pg. 13 - Your report refers to a security contract not issued in 1984 for the sum of $26,000. As I explained over the phone, informal bids were taken from four security companies and the lowest bid was awarded the contract. As far as there being no contract on file, that was simply an error on my part that was rectified in 1985 when we went through the same process.

Pg. 14 - Your report refers to a second contract that was amended. The first contract was entered into to provide sound for the 1984 fair. A second contract was entered into to provide additional sound for staging for rider requirements per certain entertainers and to equip an additional stage. My understanding after my conversation with you is that the first contract should have been amended and permission received from General Services. Again, I felt it was a separate contract and treated it as such; but no contract was sent to General Services for their approval. The procedure described in the preceding paragraph has been instituted.

Pg. 17 - Your report refers to the fact that a carnival proposal put out by the fair did not contain a criteria for a bid process that would maximize the revenue to the fair. The contract I submitted was a duplicate, with the exception of dates and times, of a contract that had been approved by General Services for the Dixon May Day Fair (36 DAA). I had assumed by the fact that General Services had approved that contract, the criteria that was used at that time was adequate. Since that time, Fairs and Expositions has instituted a new program to bid carnival contracts. This policy will be adhered to strictly.

Pg. 35 - Your report refers to interim use and what can be done to increase revenue from our buildings on the fairgrounds. I think a lot of things have to be taken into consideration in renting our facilities, such as; past history of trouble that must be overcome, the fact that most cities have a civic auditorium, churches that are renting out their buildings, private halls that are in the renting business and hotels that furnish rooms for groups. I feel that we do everything that we possibly can with the limitations as to promotional funds being expended. Since the audit, this fair has entered into several contracts - one being a satellite wagering facility that should net the fair an income in excess of $600,000. We are constantly looking for ways to improve our image in the community and to maximize the use of our facilities and at present are considering a brochure that will be distributed throughout our area of influence.

Pg. 39 - Your report refers to excess property owned by the association. In discussion with you over the phone, I feel that this has been covered. But, we are attempting to lease the property to a restaurant or any other venture that will be conducive to our neighbors and fair.

Pg. 45 - Your report refers to the 119 days for temporary employees in excess of the time alloted by the state. We have held meetings with all of our department heads and have started accurate timekeeping which is essential to keep the fair and the State of California from a position of jeopardy and one person has been assigned the task of monitoring their hours and making sure that no one goes longer than the alloted time.

Pg. 49 - Your report refers to the control of equipment without mentioning this fair in particular but to keep you apprised of the steps that have been taken regarding our equipment the following procedures have been instituted. A program of updating our records and keeping them current by reviewing them on a quarterly basis to make sure that all equipment is listed. We are particularly aware of the desirable equipment such as hand-held calculators and if we obtain any of them they will be checked out to a person who will be held responsible for them.

Pg. 51 - Your report refers to the handling of cash receipts. We have instituted a program where one person is responsible for receipting in cash which is turned over to a second person to deposit said cash. Check statements are rectified by a person other than the person writing the checks. With a small staff, this is difficult to do; but we feel as though we have devised a method to insure that all money received by this association will be handled properly and according to state regulations.

Chapter 7 - Pg. 57 - Your report refers to a lack of a maintenance program on fairs in general. This fair has developed a program for preventive maintenance that will be instituted in January of 1986. The grounds have been divided into quarters and for example, 1986 the first quarter will be completely gone through and maintenance performed; in 1987 the second quarter will have the same done and so on. In high trouble areas, such as our racing facility, the problems have been idenitifed and are in the process of being prioritized so that we may address the most severe problems first when money becomes available.

I would like to thank you for the telephone conversation of December 9, 1985 and subsequent conversations that have cleared-up many matters. I feel that we both have a better grasp of the situation in fairs and that the progress that we are attempting to make will bring us fully in line with the Rules and Regulations of the State of California.

Your report will be used by this agency as constructive criticism and a guide for better management practices.

Again, thanks for your help and consideration in this matter.

Respectfully yours,

David M. Miller

David M. Miller
Manager

DMM:ca
Enclosures

SOLANO COUNTY FAIR
POST OFFICE BOX 1672
900 FAIRGROUNDS DRIVE VALLEJO, CALIFORNIA, 94590
707 644-4401

December 9, 1985

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

Dear Mr. Hayes:

As requested, I am responding to your offices report on Local Fairs dated December 4, 1985.

My first reaction to the report was somewhat surprising when the title of the report was read. I feel very strongly that the Fair program in the State of California has not been poorly managed either by the State or by the respective Board of Directors of the fairs. This is well documented by the fact that many thousands of people have enjoyed the fairs throughout the years with the fairs presenting their individual programs with the minimum amount of dollars available to them. I feel that a disservice has been done to the California Fairs system by the mere connotation relating to the title of your report.

Secondly, the Solano County Fairs participation with the Division of Fairs and Exposition is done within a strict conformity of the statutes. Every account and dollar expended is well documented and approved by the Division, as well as myself. We were given every indication by the Division that all expenditures and processes followed are within the Statutes as well. The Division was able to accomplish a great deal of good and positive public service through the process.

Thank you for the opportunity to respond. Please feel free to contact me should you have additional questions.

Sincerely,

RONALD D. MILLER
Secretary-Manager

RDM\jb

cc: Ester Armstrong, Division of Fairs and Expositions

All of the answers to the questions on the following pages were given to the audit team on two occasions. None of the answers provided by staff appear in the draft report. After reading the report it is my opinion that the report is poorly written. The title is inappropriate as is the table of contents.

Reference to Page ii

Budget accounts 545 and 546 have been a part of Fair budgets for 30 years. These accounts are designated public relations accounts. Since the statement is addressed to two Fairs it is not possible to identify the amount spent by the Yolo County Fair for public relations. The Fair receives each year $100,000 to $125,000 in labor and in-kind services from the County, City, and Community. A Volunteer Recognition dinner is held annually to recognize their labor and services to the Fair. A.B. 1890 recognizes this particular problem in public relations. Legislation has been drawn up for the 1986 session to address this segment of Fair budgets.

Reference to Page iii

In view of the $100,000 in donated labor and services and the free gate policy established by the Board of Directors, no gate fee is charged at the Yolo County Fair. The Board of Directors set admission fees for the Yolo County Fair. The figures shown in the report are the opinion of the audit team. Some consideration should be given to the fact that facilities do not exist to charge a paid gate.

Engineering estimates show a cost of $250,000 to install gate controls. Other factors impacting the paid gate is the potential loss of $40,000 in carnival revenue, $15,000 in concession revenue, loss of $100,000+ in services and in-kind contributions. Security charges for Sheriff Department Security would be $30,000 and auditors and ticket sellers' payroll $22,000. These considerations may be of some interest. The Fair will ask the Division of Fairs and Expositions for a feasibility study regarding the Fair's free gate policy.

Reference to Page 8

Project Showcase was a pilot program for the Division of Fairs and Expositions, five weeks prior to the annual Fair. The period before the annual Fair was extremely short. As the different phases of the project were identified by the Division of Fairs and Expositions, a contract was signed to accomplish that particular phase. Miscellaneous items needed to complete projects were purchased as needed after contractor finished.

Reference to Pages 12 & 13

Project Showcase accomplished in phases. All contracts issued at the direction of the former Chief of the Division of Fairs and Expositions. Showcase project 3-84, 4-84, 6-84, 7-84, 8-84, 9-84.

Reference to Page 14

Project Showcase was a pilot program for the Division of Fairs and Expositions, five weeks prior to the annual Fair. The period before the annual Fair was extremely short. As the different phases of the project were identified by the Division of Fairs and Expositions, a contract was signed to accomplish that particular phase. Miscellaneous items needed to complete projects were purchased as needed after contractor finished.

Reference to Page 15

Teichert Construction addendum issued on notice from Engineering Division, Fairs and Expositions. Returned for correction. Lost in transit to Fairs and Expositions or General Services. Contract number 2-83.

Project Showcase accomplished in phases. Showcase contracts issued at the direction of the former Chief of the Division of Fairs and Expositions 6-84, 7-84, 8-84, 9-84.

Reference to Page 23

Business related meals account 545 and 546. Budget accounts 545 and 546 have been a part of Fair budgets for 30 years. These accounts are designated public relations accounts. Since the statement is addressed to two Fairs, it is not possible to identify the amount spent by the Yolo County Fair for public relations. The Fair receives each year $100,000 to $125,000 in labor and in-kind services from the County, City and Community. A Volunteer Recognition dinner is held annually to recognize their labor and services to the Fair. A.B. 1890 recognizes this particular problem in public relations. Legislation has been drawn up for the 1986 session to address this segment of Fair budgets.

Reference to Page 24

Budget accounts 545 and 546 have been a part of Fair budgets for 30 years. These accounts are designated public relations accounts. Since the statement is addressed to certain Fairs, it is not possible to identify the amount spent by the Yolo County Fair for Public Relations. The Fair receives each year $100,000 to $125,000 in labor and in-kind services from the County, City and Community. A Volunteer Recognition dinner is held annually to recognize their labor and services to the Fair. A.B. 1890 recognizes this particular problem in public relations. Legislation has been drawn up for the 1986 session to address this segment of Fair budgets. Volunteers with over six years of service recognized with belt buckles in lieu of wages. The former Chief of the Division of Fairs and Expositions approved the public relations expenditure. Presented at annual volunteer recognition dinner.

Last paragraph page 24, same information given to audit team.

Reference to Page 35 - Free Gate

Free gate policy since 1948. Directors did not change policy in 1984. Page iii same question. Audit teams' figures are their own estimate. Admission fees are set by the Board of Directors. Cost of Showcase project and other projects increased expenditures on a one year basis. Expenditures above normal due to special projects.

Reference to Pages 35, 36 & 37 - Rental

Rental program occupies a major part of labor available from three maintenance men. Division of labor available was given no consideration. Preparation for annual Fair and Maintenance require labor. Rental policy and division of labor is determined by the Board of Directors. Maximum revenues from text is construed at 100% occupancy which would occupy 100% of the maintenance crew. For every day of rental, a day of setup and cleanup is necessary. Some facilities are not suitable for public occupancy due to State Fire Marshall rulings. These buildings are rented for storage.

Reference to Page 39

Rental program occupies a major part of labor available from three maintenance men. Division of labor available was given no consideration. Preparation for annual Fair and maintenance require labor. Rental policy and division of labor is determined by the Board of Directors. Maximum revenues from text is construed at 100% occupancy which would occupy 100% of the maintenance crew. For every day of rental, a day of setup and cleanup is necessary. Some facilities are not suitable for public occupancy due to State Fire Marshall rulings. These buildings are rented for storage. Program suggested impractical from the standpoint of expense.

ANALYSIS OF 80 LOCAL FAIRS' OPERATING REVENUES, OPERATING COSTS, AND CAPITAL EXPENDITURES FOR 1984

Of the 80 local fairs in California, 9 were self-supporting in 1984. That is, the operating revenues of these 9 fairs were sufficient to pay for their 1984 operating expenditures and capital expenditures. In determining sources of operating revenue, we included admissions, industrial and community space, carnival operations, concessions, exhibits, horse shows, horse racing, attractions, non-fair related revenue, prior year adjustment, and other minor sources of revenue. We did not include state apportionments, local tax revenues, and contributions in our computations of revenues. Operating expenditures include the costs of administration, maintenance, publicity, attendance operations, premiums, exhibits, horse shows, horse races, attractions, equipment, prior year adjustments, loan payments, and other minor costs. Capital expenditures include each of the local fair's costs for land, buildings and improvements, and equipment.

The following schedule itemizes the revenues and expenditures for all of the local fairs, including the 9 fairs that had sufficient operating revenue during 1984 to pay for their operating and capital expenditures.

OPERATING REVENUES, OPERATING EXPENDITURES, AND CAPITAL EXPENDITURES FOR 80 LOCAL FAIRS IN 1984

District Fairs	Operating Revenues	Operating Expenditures	Capital Expenditures	Total Expenditures	Self-Supporting (Yes/No)
1st Alameda	$ 168,009	$ 310,302	$ 0	$ 310,302	N
1-A San Francisco	4,225,712	4,465,209	331,487	4,796,696	N
2nd Stockton	2,153,911	2,445,245	39,636	2,484,881	N
3rd Chico	486,196	522,832	102,837	625,669	N
4th Petaluma	496,363	509,028	367,622	876,650	N

District Fairs	Operating Revenues	Operating Expenditures	Capital Expenditures	Total Expenditures	Self-Supporting (Yes/No)
5th Fort Mason	$ 534,464	$ 586,750	$ 0	$ 586,750	N
7th Monterey	693,714	915,812	37,690	953,502	N
9th Eureka	248,079	293,542	250,118	543,660	N
10th Yreka	206,706	311,937	62,786	374,723	N
10-A Tulelake	131,559	218,974	3,105	222,079	N
12th Ukiah	296,417	437,287	123,120	560,407	N
13th Yuba City	338,566	427,258	5,179	432,437	N
14th Watsonville	634,536	667,435	18,167	685,602	N
15th Bakersfield	2,047,772	1,893,918	143,743	2,037,661	Y
16th Paso Robles	2,536,184	2,428,404	453,407	2,881,811	N
17th Grass Valley	552,108	645,423	234,920	880,343	N
18th Bishop	185,728	290,595	0	290,595	N
19th Santa Barbara	1,134,756	1,276,839	154,903	1,431,742	N
20th Auburn	302,853	443,132	133,339	576,471	N
21st Fresno	4,144,711	4,351,314	0	4,351,314	N
21-A Madera	321,021	501,247	165,815	667,062	N

District Fairs	Operating Revenues	Operating Expenditures	Capital Expenditures	Total Expenditures	Self-Supporting (Yes/No)
22nd Del Mar	$4,929,626	$4,733,872	$ 33,143	$4,767,015	Y
23rd Antioch	515,654	545,153	127,172	672,325	N
24th Tulare	479,168	619,703	162,627	782,330	N
24-A Hanford	392,705	588,456	61,849	650,305	N
25th Napa	460,226	548,075	17,253	565,328	N
26th Plymouth	247,260	386,928	43,893	430,821	N
27th Anderson	370,633	481,831	7,046	488,877	N
28th Victorville	520,922	513,371	184,820	698,191	N
29th Sonora	202,790	377,595	0	377,595	N
30th Red Bluff	153,115	265,377	0	265,377	N
31st Ventura	2,094,654	2,139,973	87,608	2,227,581	N
32nd Costa Mesa	7,705,085	6,200,014	588,605	6,788,619	Y
33rd Hollister	166,190	368,727	0	368,727	N
34th Cedarville	58,332	216,613	50,779	267,392	N
35th Merced	545,818	653,082	48,664	701,746	N
35-A Mariposa	163,258	329,935	0	329,935	N

District Fairs	Operating Revenues	Operating Expenditures	Capital Expenditures	Total Expenditures	Self-Supporting (Yes/No)
36th Dixon	$ 270,887	$ 379,605	$ 25,307	$ 404,912	N
37th Santa Maria	702,501	781,973	179,661	961,634	N
38th Turlock	1,134,028	1,441,477	48,814	1,490,291	N
39th Angels Camp	260,794	363,287	3,555	366,842	N
40th Woodland	279,700	478,570	43,323	521,893	N
41st Crescent City	115,410	231,326	146,649	377,975	N
42nd Orland	150,459	295,203	16,632	311,835	N
44th Colusa	97,345	235,162	0	235,162	N
45th Imperial	560,555	753,466	63,752	817,218	N
46th Hemet	410,471	516,502	319	516,821	N
48th Pomona	238,571	1,172,686	0	1,172,686	N
49th Lakeport	228,550	393,705	31,628	425,333	N
50th Lancaster	1,295,736	1,124,373	0	1,124,373	Y
51st Northridge	432,869	430,705	31,000	461,705	N
52nd Sacramento	121,392	234,060	0	234,060	N

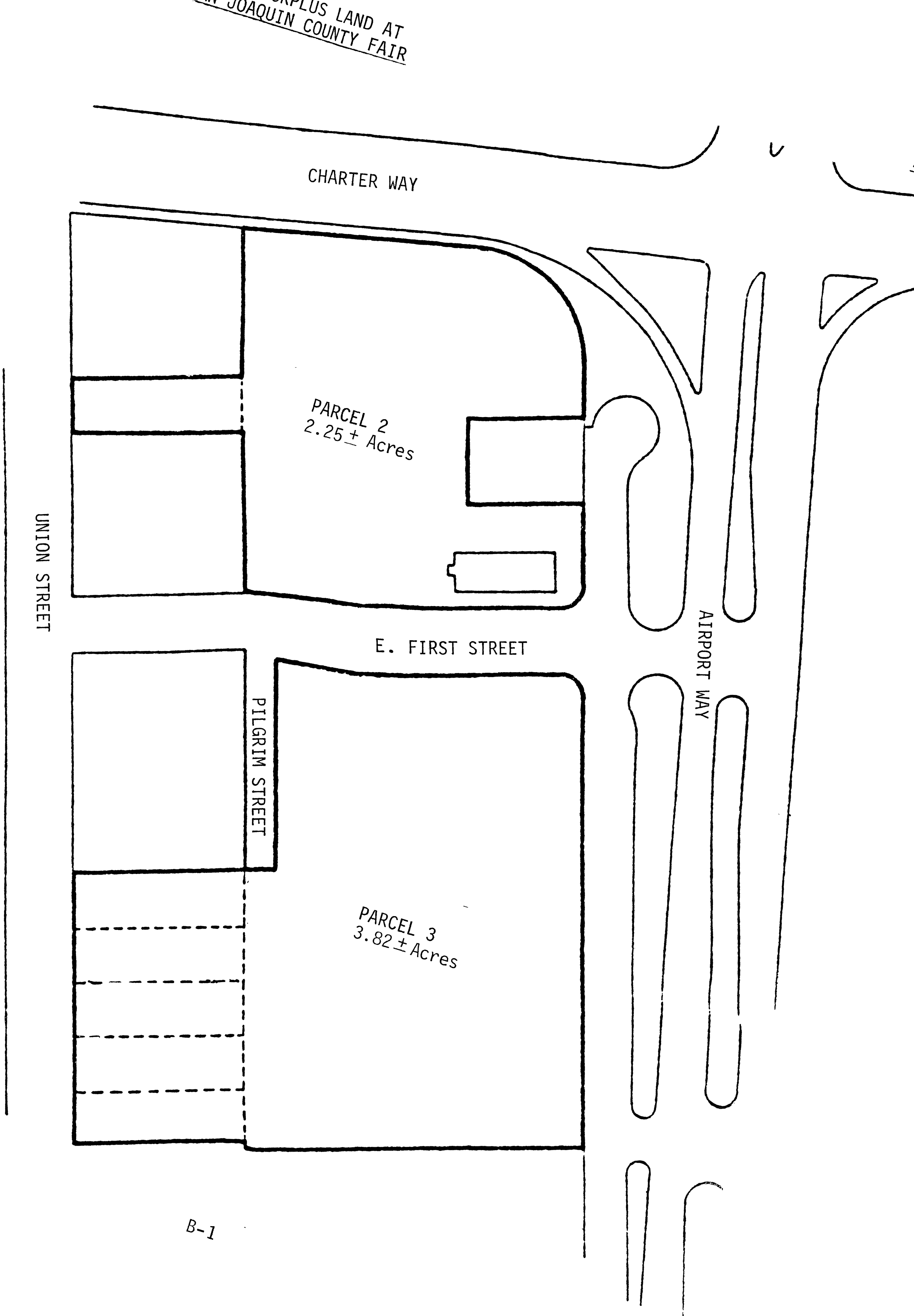
District Fairs	Operating Revenues	Operating Expenditures	Capital Expenditures	Total Expenditures	Self-Supporting (Yes/No)
53rd Ridgecrest	$ 153,759	$ 205,972	$ 2,350	$ 208,322	N
54th Blythe	157,273	244,493	242,337	486,830	N

County Fairs	Operating Revenues	Operating Expenditures	Capital Expenditures	Total Expenditures	Self-Supporting (Yes/No)
Alameda	$6,227,571	$6,054,418	$161,243	$6,215,661	Y
Butte	203,986	285,500	24,304	309,804	N
El Dorado	312,030	384,627	85,468	470,095	N
Humboldt	590,053	727,314	21,224	748,538	N
Lassen	183,880	284,138	0	284,138	N
Los Angeles	21,222,164	18,074,144	706,174	18,780,318	Y
Madera	147,783	334,973	65,000	399,973	N
Marin	447,126	475,310	144,150	619,460	N
Mendocino	71,728	201,395	7,206	208,601	N
Merced	206,808	353,728	143,439	497,167	N
Monterey	356,009	505,687	73,897	579,584	N
Napa	350,996	427,775	16,712	444,487	N
Placer	307,444	480,538	96,675	577,213	N
Plumas	193,275	427,776	0	427,776	N
Riverside	1,169,371	795,006	29,174	824,180	Y
San Benito	50,425	81,387	0	81,387	N
San Francisco	88,702	199,677	0	199,677	N
San Joaquin	309,291	368,869	102,406	471,275	N
San Mateo	1,772,735	1,302,886	113,091	1,415,977	Y
Santa Clara	4,808,683	4,738,013	194,107	4,932,120	N
Shasta	84,752	191,376	3,132	194,508	N
Solano	3,339,388	3,986,211	90,294	4,076,505	N
Sonoma	4,921,368	4,593,424	20,502	4,613,926	Y
Trinity	84,310	255,856	59,537	315,393	N

Citrus Fruit Fairs	Operating Revenues	Operating Expenditures	Capital Expenditures	Total Expenditures	Self-Supporting (Yes/No)
Orange Show	$2,687,730*	$1,744,603	$1,150,165	$2,894,768	N
Cloverdale	74,043	120,230	69,698	189,928	N

Source: For all data except those for the Los Angeles County Fair, we used unaudited annual financial statements compiled by the Department of Food and Agriculture. The Chief Financial Analyst of the Los Angeles County Fair provided this fair's financial data.

*Includes $853,481 loss settlement.


SURPLUS LAND AT
SAN JOAQUIN COUNTY FAIR
CHARTER WAY
PARCEL 2
2.25± Acres
UNION STREET
E. FIRST STREET
AIRPORT WAY
PILGRIM STREET
PARCEL 3
3.82± Acres

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
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EL DORADO COUNTY FAIR

EL DORADO COUNTY FAIR ASSOCIATION, INC.
P.O. BOX 1537, PLACERVILLE, CALIFORNIA 95667
PHONE (916) 626-2307

Home of the
JOHN M. STUDEBAKER
NATIONAL WHEELBARROW RACE

December 9, 1985

Thomas W. Hayes
Auditor General
STATE OF CALIFORNIA
660 J Street, Suite 300
Sacramento, Ca. 95814

Dear Mr. Hayes:

I Have read the draft copy of your report "The State of California Has Poorly Managed Its Local Fairs' Program".

As pertains specifically to the El Dorado County Fair, I have no comments or concerns.

Sincerely,

Susan L Clark

SUSAN L. CLARK
Manager

SLC:sc