



**Joint Legislative Audit Committee**  
**Office of the Auditor General**



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## **A REVIEW OF CAL EXPO OPERATIONS**

The California Exposition and State Fair (Cal Expo) has operated from its present site since 1968. General Fund appropriations are required annually to subsidize Cal Expo for its net operating loss.

We found a variety of contractual, program and other management areas needing improvement including:

- Contract administration
- Independent carnival operations
- Personnel practices
- Planning of interim events
- Control on the use of credential admissions
- Use of unauthorized and unreported bank accounts
- Inadequate grounds maintenance
- Unsatisfactory equipment inventory controls
- Deficient housing and rental conditions
- The use of an exempt entitlement position without statutory authority.

We have made recommendations for improvement in the above areas.

**REPORT TO THE  
CALIFORNIA LEGISLATURE**

REPORT OF THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

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A REVIEW OF CAL EXPO OPERATIONS

JANUARY 1979



# Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

## California Legislature



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January 18, 1979

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The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's Review of the California Exposition and State Fair (Cal Expo).

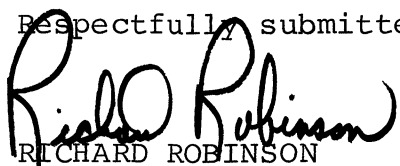
The Report discloses repeated lack of compliance or enforcement of State laws and administrative regulations for business and personnel practices and areas of weak controls. It cites violations of State bidding requirements, significantly overstated revenue projections, violation of State Personnel Board rules, significant shortage of equipment (no inventory has been conducted in eight years), unauthorized and unreported bank accounts, and other deficiencies.

Since Cal Expo opened ten years ago, net operating expenditures have increased faster than revenues. In view of this trend and because of serious deficiencies and repeated circumvention of State laws at Cal Expo, the Joint Legislative Audit Committee will hold two hearings on operations at Cal Expo. The first meeting on January 22, 1979, will review the Auditor General's findings and recommendations and entertain a response from the Cal Expo management. The second meeting will follow-up on steps taken by Cal Expo to correct deficiencies and improve management at the annual State Fair.

Joint Legislative Audit Committee

The Auditor General has made recommendations which, if followed, will improve Cal Expo operations and bring it into stricter compliance with laws and State administrative regulations.

Respectfully submitted,

A handwritten signature in black ink that reads "Richard Robinson". The signature is written in a cursive style with a large, prominent initial "R".

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman, Joint Legislative  
Audit Committee

RR:pam

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## SUMMARY

The California Exposition and State Fair (Cal Expo) is the site for the annual state fair . Although the facility holds other interim events, the state fair accounts for 90 percent of Cal Expo revenues. During the ten years since Cal Expo opened, net operating expenditures have increased faster than revenues. General Fund appropriations are required annually to subsidize Cal Expo for its net operating loss.

The management of Cal Expo includes three authorized exempt entitlement positions. These positions are responsible for general management of the facility, program management, contract administration and amusement activities.

We found a variety of contractual, program and other areas needing improvement:

- Contract administration at Cal Expo evidences a widespread lack of compliance with established regulations, inattention to control agency recommendations and the apparent absence of good business judgment (page 8)
- Revenue projections from carnival concessions for the 1978 state fair were significantly overstated.

Implementation of an independent midway following the 1977 buyout of the long-term carnival concessionaire has resulted in increased operating costs and dependence upon a consultant (page 19)

- Cal Expo personnel practices require improvement: (1) the absence of required conflict of interest notification may have resulted in a violation of conflict of interest policies; (2) the use of emergency employees during the state fair, in our opinion, violates State Personnel Board guidelines; (3) salary increases granted to emergency employees are inconsistent with the state policy prohibiting pay raises for state employees; (4) union agreements are not formalized (page 26)
  
- Section 8659 of the State Administrative Manual directs that physical inventories of equipment should be conducted by every state agency at least once every three years. Cal Expo has not taken a complete physical inventory since 1970. Our test of physical inventory identified a significant shortage of equipment at Cal Expo (page 32)

- Cal Expo's liberal distribution of "credential" admissions to the state fair and lack of effective control over their issuance appears contrary to statutory regulations which limit credential admissions to those people who are necessary to the conduct of the fair (page 34)
  
- Cal Expo has not obtained adequate grounds maintenance staffing and has used grounds maintenance budget allocations to create administrative positions. This has contributed to the poorly maintained conditions of Cal Expo grounds (page 37)
  
- Cal Expo maintains three unauthorized and unreported bank accounts. The Government Code requires that all state money shall be deposited in the custody of the State Treasurer except when authorized by the Director of Finance (page 39)
  
- The 1978 youth fair, one of several interim events held at Cal Expo this year, was unsuccessful. Problems include overestimating attendance, lack of advance planning and failure to meet the expectations of exhibitors (page 44)



- At our request the state Department of Housing and Community Development inspected Cal Expo's barn and trailer areas. Over 200 deficiencies involving plumbing, electrical and ventilation problems were cited in living, dining and kitchen areas. Problems included inadequate toilet facilities, dangerous electrical connections and structural and sanitary deficiencies (page 48)
  
- According to the Legislative Counsel, Cal Expo has exceeded its statutory authority in filling an exempt position (page 50).

Recommendations to improve each of the above areas follow the discussions in the report.

## INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed the operations of the California Exposition and State Fair (hereinafter referred to as "Cal Expo"). This review was conducted under authority vested in the Auditor General by Section 10527 of the Government Code.

In 1947 the Legislature appropriated \$2,000,000 for a new state fair site. In 1948, 1,055 acres were purchased for \$850,000 along the American River northeast of Sacramento. Subsequently, 359 acres including Point West were sold leaving 355 acres which are designated as undeveloped floodplain and 341 acres which are available for use by Cal Expo. Cal Expo parking accommodates 11,300 vehicles. Cal Expo opened on its present site in 1968 with the expectation that it would be a year-round self sufficient operation. Cal Expo became a division of the Department of Parks and Recreation in 1974.

The California State Fair Advisory Commission provides information and advice to the Department of Parks and Recreation with respect to operation and management of the California State Fair (hereinafter referred to as the "state fair"). As of December 1978, the terms of six of the nine members of the Commission had expired, however, all of the members continue to serve on the Commission.

During the last four years, annual General Fund appropriations from \$2.8 million to \$5.6 million subsidized Cal Expo for its net operating losses, revenue bond interest and redemption of \$1,130,000 annually, and the buyout of the food concessionaire in 1976 (\$2,640,000) and the buyout of the carnival concessionaire in 1977 (\$2,375,000). Net operating expenditures at Cal Expo have increased from \$2.3 million in 1969-70 to an estimated \$6.5 million in 1978-79 while revenues in the same period have only risen from \$1.9 million to an estimated \$4.1 million. The State's capital investment in Cal Expo as of June 30, 1978 exceeded \$30 million including federal grant monies.

Cal Expo holds an annual 19-day state fair in addition to other interim events during the year. The state fair produces approximately 90 percent of Cal Expo's revenues.

#### Other Evaluations of Cal Expo Operations

The Office of the Auditor General has recently completed an audit of the race track concessionaire at Cal Expo. The Revenue Sharing Task Force is currently performing a financial audit of the Department of Parks and Recreation which includes Cal Expo operations. Their report is scheduled for completion following the year ending June 30, 1979.

As a result of audit activities undertaken by the Office of the Auditor General, the Director of Parks and Recreation appointed a Department Task Force to review certain aspects of Cal Expo operations. A summary of the recommendations contained in the task force report are provided in Appendix A.

In prior years, ten other major studies of Cal Expo have been made including the comprehensive March 1976 report of the Blue Ribbon Cal Expo Evaluation Committee appointed by the Director of Parks and Recreation. The 1978 Budget Act appropriated \$200,000 to develop a master plan for Cal Expo which is presently under study by a task force composed of legislative and executive branch appointees.

## AUDIT RESULTS

### IMPROVEMENTS NEEDED IN CONTRACT ADMINISTRATION

Our review of contract administration at Cal Expo has revealed a widespread lack of compliance with established regulations, inattention to control agency recommendations and the apparent absence of good business judgment. Deficiencies include:

- Failure to award valid contracts in a timely manner
- Granting of sole source supply contracts without competitive bid
- Inconsistent and inappropriate contractor bonding requirements
- Violation of the state Contract Act
- Granting of a five-year noncompetitive exclusive agreement to an apparent affiliate of the previous long-term concessionaire.

The Cal Expo contract function is under the direction of the contract administrator/chief of amusement activities, which is an exempt entitlement reporting to the deputy general manager. Licenses and permit agreements with concessionaires

entered into by the Department of Parks and Recreation for Cal Expo are administratively treated as contracts. During the 1978 state fair, Cal Expo had contractual arrangements with approximately 12 ride concessionaires, 20 game operators and 41 food and beverage licensees.

The following deficiencies represent those contract areas in need of immediate improvement. Examples have been provided where they serve to help clarify the situation.

Failure to Award Valid Contracts  
in a Timely Manner

A review of concession contracts for the 1978 state fair indicates significant noncompliance with applicable regulations pertaining to contract approvals and the requirement for a valid contract prior to the period of performance.

Section 3327 of the Food and Agriculture Code provides "The Department of Parks and Recreation may enter into contracts with persons, firms, or corporations, or cities, counties, or other public agencies, to construct, maintain or operate exhibits or concessions within the State Fair site."

Sections 1105.2, 13070, 14615, 14616, 14617 and 14780 of the Government Code outline the general requirements which must be met when a contract is subject to approval of the

Departments of Finance and General Services. Policies and procedures pertinent to contract administration are found in the State Administrative Manual (SAM) Sections 1200 through 1213.

In reviewing approximately 73 concession agreements for the 1978 state fair, we found the following instances of non-compliance or poor practice:

- Seven agreements lacked required approvals at the commencement of the period of performance
- 12 agreements were incomplete at the conclusion of the period of performance.

Section 1215 of the State Administrative Manual states that "Contracts and interagency agreements received by the legal office, Department of General Services, after the time for performance has commenced will not be approved." All of the above concessionaires were permitted to continue operating without a valid contract.

Granting of Sole Source Supply  
Contracts Without Competitive Bid

Cal Expo requires most food and beverage concessionaires to purchase their stock from designated sole source distributors. According to Cal Expo management this is done to

control vehicular traffic. The agreements between Cal Expo and these sole source suppliers are noncompetitive and include such commodities as bread, dairy products, soft drinks and beer.

In a June 14, 1978 memorandum from legal counsel of the Department of General Services, Cal Expo was advised to obtain competitive bids when selecting sole source distributors. The memo states:

We note that per paragraph 3. (f) of the Concessionaire Agreement Rules and Regulations the Permittee is required to purchase certain stock or consumable products from specified vendors. It is our understanding that the principal reason for this requirement is to permit the State to best control the problems which occur due to heavy vehicular traffic.

Because the Permittees are required to make purchases from the specified vendors, it would seem that the State could best ensure the attainment of reasonable prices by soliciting competitive bids from interested vendors. Accordingly, we respectfully suggest that you give consideration to adopting such an approach.

Please advise if you have any questions or would like to otherwise discuss this matter.

Despite this notice, Cal Expo did not obtain competitive bids from potential vendors to select sole source food and beverage distributors for the 1978 fair, and as a consequence there is no assurance that the lowest price commensurate with the quality desired was obtained.



Inconsistent and Inappropriate  
Performance Bond Requirements

Item 20 of the permit agreement for food and beverage concessionaires for the 1978 state fair stipulates the requirement to post a \$500 bond or provide a cash deposit in the same amount. Since concessionaires are required to settle accounts with Cal Expo daily, the purpose of the bond is to protect the State's interest if the concessionaires fail to settle.

A review of the 1978 state fair records revealed that bonds or deposits were received from all but one concessionaire when they were contractually required. Organizations such as the Salvation Army were required to, and did, post a \$500 deposit. The general manager, however, granted an exemption from the requirement for the primary operator of the carnival area.

On Saturday, August 26, 1978 the State's share of food and beverage concessions was \$16,998 (excluding rent). The total represented the deposits of 38 food and beverage concessionaires with an average of \$447.31 per licensee, which gives the illusion that the \$500 bond is a realistic figure. The average does not reflect the situation accurately in that 9 vendors had liabilities over \$500 and 29 licensees had liabilities under \$500. The range on the day in question was from a low of \$71.37 to a high of \$2,221.91.

A performance bond which does not reflect the expected amount at risk appears inappropriate.

Violation of the State Contract Act

The State Administrative Manual Section 1261 provides the following description of projects subject to the state Contract Act (commencing with Section 14250 of the Government Code).

Where the proposed public works contract is for the erection, construction, alteration, repair or improvement of any state structure, building, road, or any other state improvement of any kind which will exceed in cost a total of \$15,000; it is classified as a "project" for the purpose of the state contract act (Government Code Sections 14254). . . .

In general, a public works contract requires the preparation of specifications, advertising for bids, the payment of prevailing craft wages and award of the contract to the lowest responsible bidder who is a licensed contractor.

On August 16, 1978 Cal Expo engaged an amusement ride operator to repair and operate the log flume ride which had been acquired as part of the buyout of the long-term amusement concessionaire. The contract document was prepared on August 16, 1978; however the repair work had been initiated on July 27, 1978 and completed on August 14, 1978. Payments to the contractor

included approximately \$25,000 for the repair work and \$22,813.68 for his share of the revenue earned on the ride.

On August 31, 1978, the Department of General Services' legal office notified Cal Expo it could not approve the subject flume repair contract for a variety of reasons which included the opinion that the work was in the category of "public works" and therefore subject to the state Contract Act.

The Department of General Services' legal office reversed its position on November 22, 1978 and approved the contract. The Department of General Services stated that approval was granted only because the work was completed and the contractor had to be paid. The previous position on the legal implications of the contract is unchanged. Section 1215 of the State Administrative Manual precludes approval of contracts after work has commenced.

Granting of a Five-Year Noncompetitive  
Exclusive Agreement to an Apparent Affiliate  
of the Previous Long-Term Concessionaire

In September 1977 an urgency appropriation of \$2,325,000 was approved to purchase the remaining carnival leasehold interests and certain equipment at Cal Expo belonging

to the long-term carnival concessionaire. The State was dissatisfied with the performance of the concessionaire and litigation had been filed by both parties.

In a separate agreement entered into concurrent to the buyout arrangement, a company apparently closely affiliated with the previous long-term concessionaire was granted a five-year exclusive agreement to conduct glass pitch and water race games at Cal Expo. There were no competitive bids. The agreement gave the related company first-right-of-refusal on all such games until annual paid fair attendance reaches 900,000 or until the end of the five-year agreement, and preferential selection of locations. Paid fair attendance has been approximately 450,000 in recent years and is decreasing slightly.

The exact relationships between the previous long-term concessionaire and the affiliate could not be determined; however, the corporations have a common address and a director of the long-term concessionaire signs checks for the affiliate.

The net effect of this complicated transaction appears to have resulted in the granting of a five-year exclusive agreement to an apparent affiliate of a concessionaire whom the State had shortly before paid over \$2.3 million to sever connections with.

## Case Study of Contracting Procedures

The primary carnival concessionaire for the 1978 state fair provided over 50 percent of the amusement ride revenue, over 25 percent of game income and was a substantial operator of food and beverage outlets in the carnival area.

This operator rented to Cal Expo much of the specialized carnival equipment which Cal Expo could not provide during the first year of independent midway operations. The following contracts awarded to this operator serve to illustrate some of the contract deficiencies at Cal Expo:

The primary concessionaire provided 12 ticket booths and 4 light standards at a unit price of \$687.50 each for the duration of the fair. The contract was not prepared until October 18, 1978 which was almost six weeks after the fair was concluded. Competitive bids were not obtained although ticket booths had previously been rented from Sonoma county fair for \$100 each.

This same concessionaire was issued a contract to provide rental electrical generators for the state fair. The contract was not approved until August 25, 1978 which was one week after the fair opened. The procurement was not competitively bid and the contract document contained a statement that "contractor was . . . only qualified and available supplier of required equipment". The Office of the Auditor General obtained rental rates for comparable equipment from a local equipment supplier at about half the contract cost. (See page 24 for detailed discussion.)

On August 16, 1978 the primary concessionaire was awarded a contract to rehabilitate the log flume ride and operate the equipment during the state fair. Payments to the concessionaire totaled \$47,813.68. Work on the rehabilitation portion of the contract began July 27 and was completed on August 14, two days before the contract was prepared. The contract was not competitively bid although another operator offered to perform the repairs at no labor cost. General Services' legal office refused to approve the contract for a number of reasons which included:

- Possible violation of the state Contract Act
- No definitive contract amount
- Circumvention of state budgetary process in pledging fair revenues to contractor.

In an effort to conclude an unsatisfactory situation, General Services' legal office approved the contract on November 22, 1978.

Item 20 of the food and beverage concession agreement requires the posting of a performance bond, however, the general manager exempted the primary carnival concessionaire from the requirement. Bonds or cash deposits were received from all of the 40 other concessionaires who were required to post them.

The primary concessionaire operated nine games on the midway during the state fair for which no approved contract existed until September 19, 1978. Rent for these concessions was offset from funds due the concessionaire on November 21, 1978.

#### CONCLUSION

Contract administration at Cal Expo has (1) failed to comply with contract approval and competitive bidding requirements; (2) applied inappropriate performance bond requirements; and (3) violated the state Contract Act.

RECOMMENDATION

We recommend the Department of Parks and Recreation:

- Require strict compliance with the contract provisions contained in the State Administrative Manual
- Establish procedures to monitor and assure contract compliance
- Consistently require performance bonds from concessionaires commensurate with the maximum amount the State has at risk
- Competitively bid sole source food and beverage distribution rights
- Implement the contract policies and procedures developed for Cal Expo by the Department Task Force and instruct staff in their proper use.

REVENUE FROM THE INDEPENDENT CARNIVAL  
MIDWAY DID NOT MEET EXPECTATIONS

Revenue projections from carnival concessions at the 1978 state fair were significantly overestimated. The independent carnival midway has also resulted in higher than budgeted operating costs and dependence upon an outside consultant.

Cal Expo instituted an independent carnival midway at the 1978 state fair wherein all carnival concessionaires contracted directly with Cal Expo for space at the state fair. The practice at Cal Expo, in prior years, had been to contract with a large overall amusement concessionaire who assumed full control of the midway and who in turn subcontracted with smaller concessionaires to provide the rides and games the large operator could provide from his own inventory.

Carnival operations at Cal Expo are under the direction and control of the contract administrator/chief of amusement activities which is an exempt entitlement position reporting to the deputy general manager.



Revenue From Independent Midway

In the years 1971 through 1977 state fair carnival concession revenue was collected in the form of rent from the long-term overall concessionaire. Under this arrangement the concessionaire also provided cashiering, security, cleaning and utilities which under the independent midway are now provided by Cal Expo.

An historic summary of carnival revenue to the State from the long-term carnival concessionaire is as follows:

<u>Year</u>	<u>Net Revenue to State</u>
1971	\$230,000
1972	230,000
1973	151,891
1974	230,000
1975	230,000
1976	235,372
1977	235,000

Cal Expo estimated that carnival revenue to the State for the 1978 state fair would be approximately \$456,000, which was double the average annual net revenue to the State in prior years. The Governor's Budget for 1978-79 contained a budgeted increase in concession revenues of \$243,807.

Cal Expo has not prepared a revenue and expenditure analysis of carnival operations for the 1978 fair. Sufficient detail was available, however, to enable us to determine that net revenues will fall short of projections and expenses will exceed budgeted amounts. A brief analysis of 1978 state fair carnival revenue and expenses as of November 1978 follows:

1978 State Fair Carnival Revenue and Expenses

(UNAUDITED)

	<u>Budget</u>	<u>Estimated</u>
Revenues to State	\$598,250	\$473,888
Carnival Reimbursable Expenses	<u>142,600</u>	<u>176,658</u>
Net Revenue to State for Carnival Operations	<u>\$455,650</u>	<u>\$297,230</u>

Cal Expo also received a grant in January 1978 under Title II of the Public Works Employment Act in the amount of \$145,536 for amusement area renovations and maintenance and \$50,000 through state appropriations to provide for an independent carnival midway. In our opinion, carnival reimbursable expenses would have been greater in the maintenance area without the federal grant and transition funds. Certain expenses funded with the grant and transition monies are of a recurring nature and may appear as carnival reimbursable items in future years.

Another consideration which may affect net revenue from the independent carnival midway is the amortization of the buyout agreement with the previous carnival concessionaire. There were 25 years remaining under the former agreement. To offset the buyout cost of \$2.325 million, with an assumed interest of seven percent, the annual carnival revenue would have to increase \$199,500 as shown in the following calculation.

Annual Sinking Fund Contribution Necessary to Total \$2.325 million in 25 Years with Interest of 7% Compounded Annually	= \$ 36,750
Annual Interest Expense on \$2.325 million at 7%	= <u>\$162,750</u>
Total	<u><u>\$199,500</u></u>

In 1978, carnival operations achieved an estimated \$62,230 increase over revenue received in 1977 before deducting costs paid from the federal grant and the transition appropriation. With the loss of federal grant monies and transition funds, the profitability of the 1979 state fair carnival concessions may be further reduced unless major changes are made in operations.

#### Midway Coordinator

Cal Expo entered into a contract with a consultant who acted as midway coordinator for the 1978 state fair and the youth fair. The contract was for the fixed amount of \$19,000. The contract required the delivery of task items including reports, plans, charts and other forms of documentation relative to planning and operating the fair. The final payment due the contractor has been made.

The duties of the midway coordinator included layout of the midway, disposition of conflicts and public complaints, advice on the placement of concessions and assistance in the enforcement of concession rules and regulations. All amusement ride concessionaires paid a percentage of their gross revenue to the State, but game concessionaires were charged on the basis of the front footage and location of their booths plus a \$150 service charge.

In our opinion, more desirable concession locations should generate more revenue to the State than less desirable locations. This could be accomplished by competitively bidding the locations prior to the fair.

Excessive Electrical  
Service Costs

Cal Expo awarded a \$25,000 contract to provide electrical service for the state fair from diesel generators. Diesel fuel costing about \$4,000 was supplied by Cal Expo. A local utility estimated that their charge for supplying the same electrical service if the secondary distribution system were available to handle the load would have been \$3,945.84. Therefore, the reliance on generators rented from the primary carnival operator resulted in excess 1978 state fair carnival expenditures of approximately \$25,000.

CONCLUSION

The cost of operating the independent midway was significantly greater than Cal Expo had anticipated or experienced previously under the overall contractor concept. Net revenue from the 1978 state fair amusement concessions failed to meet expectations due in part to increased operating costs.

RECOMMENDATION

We recommend that Cal Expo:

- Competitively bid concession locations prior to the fair
  
- Prepare an analysis of costs and benefits of installing permanent electrical service to the carnival midway.

## DEFICIENT PERSONNEL PRACTICES

Cal Expo personnel practices require improvement: (1) the absence of required conflict of interest notification may have resulted in a violation of conflict of interest policies; (2) the use of emergency employees during the state fair, in our opinion, violates State Personnel Board guidelines; (3) salary increases granted to emergency employees are inconsistent with the state policy prohibiting pay raises for state employees; and (4) union agreements are not formalized.

### Conflict of Interest Notifications

Section 19251 of the Government Code prohibits activities by state employees that are inconsistent, incompatible or in conflict with their official state duties. The State Personnel Transaction Manual requires all state departments to prepare a statement of incompatible activities that must be provided to each of their employees. To comply with this requirement, the Department of Parks and Recreation has prepared an incompatible activities statement for employees' signatures. One activity specifically prohibited in the statement is:

. . . directly or indirectly soliciting or accepting money, gifts or other considerations in addition to the salary paid him by the State for advertising or furnishing information concerning matters administered by the Department; or for services performed which he is or may be required to render as part of his official duty.

We found that during the preparation of the 1977 state fair souvenir program, an employee of Cal Expo made commissions of \$1,458.76 by selling advertising space in the program for the private firm printing the program. The space was sold to persons with whom the employee was conducting state business during the course of the fair. A special committee was organized by the Director of the Department of Parks and Recreation to investigate the incident. The committee concluded the employee's activities were incompatible, but they concluded also that the employee had followed a proper course of action by obtaining approval from his supervisor. This approval consisted of a written authorization by the general manager of Cal Expo.

A review of Cal Expo personnel records revealed that neither the employee selling the advertising nor the general manager had signed an incompatible activities statement, nor was there any indication that the employees were advised of state policy on such incompatible activities.

#### Emergency Payroll

The use of emergency appointments for the approximate 830 state fair temporary employees is in accordance with the Government Code, but not with the State Personnel Board's Transactions Manual. Section 18531 of the Government Code allows emergency appointments to be used when the work is of limited



duration not to exceed 30 days. The State Personnel Board's Transactions Manual specifically provides that emergency appointments are appropriate:

When a specific job will be completed within 30 working days. (Seasonally recurring work, ongoing intermittent work, and regularly scheduled vacation relief are not considered to be specified jobs which will be completed within the time limit specified.)

In that the state fair has been an annual event for over a hundred years, the work is seasonally recurring and conducted on an ongoing intermittent basis. Cal Expo's justification for the use of the emergency employees was: "Without these people the state fair cannot be staged and the 1978-79 budget would have to be reduced by \$3.9 million."

The use of emergency employees bypasses many of the hiring controls normally exercised by the State Personnel Board, such as verifying that a new hire is not also collecting unemployment insurance, retirement or disability benefits. It also allows for a decentralized hiring procedure in which individual program managers hire emergency employees and also approve their payroll time sheets. Emergency hiring also eliminates the requirement for payment of overtime rates.

### Salary Increases

In contrast to state civil service employees, who received no cost-of-living adjustment during 1978, approximately 830 emergency employees who were hired for the 1978 state fair were granted pay increases ranging from 4 percent to 54 percent in both union and non-union classifications.

While the use of these emergency positions does not fit the Personnel Board's criteria for emergency employment, the Personnel Board sanctioned the higher wages with the following explanation.

We recognize that some of those individuals who worked for the fair last year may receive a higher salary upon their return this year. These individuals are not existing state employees but are being newly appointed into these positions; so they are not receiving a salary increase under Government Code 18850 and would not be violating the state policy prohibiting pay raises for state employees.

### Union Agreements

Approximately 670 of the emergency employees who work in the racing, entertainment, parking and general operations of the fair are paid at wage scales which are established by union

wage rates. Most emergency appointment jobs at Cal Expo require union memberships. This means that a temporary employee working in a position which is subject to a union agreement must join the union during the state fair or be laid off. One union agreement which covered 12 union members was formally signed by a member of Cal Expo management. The other approximately 655 "union" employees were not covered with signed agreements even though they received union wages and benefits, but rather were covered by informal agreements between the unions and the general manager of Cal Expo. The Department Task Force recommended that union negotiations be conducted by the Department of Parks and Recreation, Chief of the Human Resources Office.

#### CONCLUSION

Deficiencies in personnel practices at Cal Expo have included: (1) noncompliance with Department of Parks and Recreation conflict of interest policies; (2) use of emergency appointments in violation of State Personnel Board guidelines; (3) salary increases for emergency employees which are inconsistent with state policy prohibiting pay raises for state employees; and (4) informal union agreements.

RECOMMENDATION

We recommend that:

- Cal Expo comply with the Department of Parks and Recreation conflict of interest policies
- Cal Expo, in conjunction with the State Personnel Board and the State Controller, arrange to hire appropriately classified seasonal state employees to operate the state fair; if this does not occur, we recommend legislation to restrict salary increases provided to emergency employees at Cal Expo to those granted civil service employees
- The Department of Parks and Recreation conduct all union negotiations through the Department's Chief of Human Resources in accordance with the Department Task Force recommendation and maintain a record of the agreements.

UNSATISFACTORY EQUIPMENT  
INVENTORY CONTROLS

Section 8659 of the State Administrative Manual directs that physical inventories of equipment should be conducted by every state agency at least once every three years. Cal Expo has not taken a complete physical inventory since 1970. Our test of the physical inventory identified a significant shortages of equipment at Cal Expo.

A review of inventory control records shows the lack of a systematic method for accounting for equipment at Cal Expo. No records of disposition were maintained at the office charged with controlling inventory. In violation of Section 8659 of the State Administrative Manual, since 1970 Cal Expo has not taken a physical inventory to identify missing equipment or correct inventory control records.

We conducted a physical inventory of cash registers and selected items of grounds equipment and found that 33 listed cash registers were missing and 21 inoperable cash registers were found that were not listed in department records. Grounds equipment inventory appraised at \$55,724 which included food stands, worktables, ice makers and beer dispensers could not be located.

During our investigation, Cal Expo advised us that they were arranging to take a physical inventory of equipment utilizing monies received under Title II of the Public Works Employment Act. The Department of Parks and Recreation audit staff also recommended improvement of inventory control and property disposal procedures.

#### CONCLUSION

The lack of effective inventory control and property disposal procedures at Cal Expo and the failure to conduct required physical inventories at the facility have resulted in the inability to account for a significant amount of equipment.

#### RECOMMENDATION

We recommend that Cal Expo complete a physical inventory of all property at the facility. We further recommend that Cal Expo develop and implement inventory control and property disposal procedures as required by the State Administrative Manual.

INADEQUATE CONTROL ON THE  
USE OF CREDENTIAL ADMISSIONS

Cal Expo's liberal distribution of "credential" admissions to the state fair and lack of effective control over their issuance appears contrary to statutory regulations which limit credential admissions to those people who are necessary to the conduct of the fair.

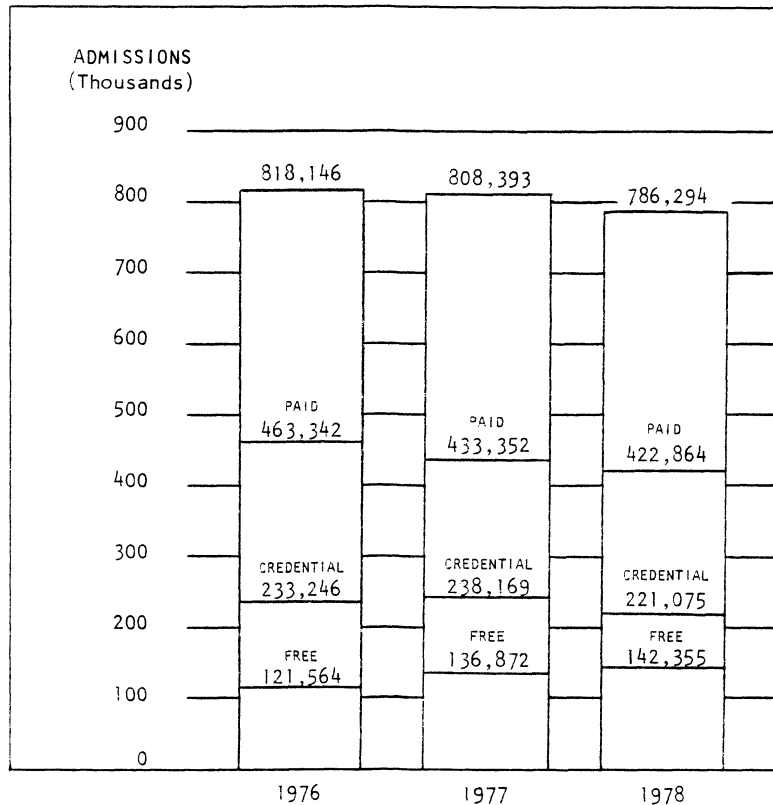
Section 3309 of the Food and Agriculture Code cites the law pertaining to credential admission for the state fair. The section states:

As used in this part, "credential admission" means any admission which is authorized by the department for admission to the California Exposition and State Fair without payment of the admission charge when a service is rendered by the person who is admitted which is necessary for the conduct of such fair.

Credential admissions include daily and seasonal use. This year Cal Expo prepared 26,561 daily and 5,888 seasonal credential admission passes. A daily admission pass can be used by the holder on a designated day and a seasonal pass can be used by the holder on any day. One pass may be used any number of times during the designated periods. For example, a Cal Expo employee with a seasonal pass would be counted as a credential admission each time he entered the grounds during the 19-day state fair.

Records were not available to determine how many credential passes were provided to persons whose presence was necessary to the conduct of the state fair, nor could we find any administrative controls used to regulate the usage of credential admissions.

In addition to credential admissions, Section 3026 of the Food and Agriculture Code provides for the free admission of children under 12 and senior citizens and limits the issuance of free passes to four percent of the gross paid admissions. The following chart derived from Cal Expo attendance schedules shows reported attendance at Cal Expo for the past three state fairs for free (including children and senior citizens), credential and paid admissions.





Credential admissions totaled 50.3 percent, 54.9 percent and 52.2 percent of the paid admissions, respectively, for the 1976, 1977 and 1978 state fairs.

#### CONCLUSION

Controls over the use of credential admissions are inadequate and therefore there is no assurance that they are issued only to people who are necessary to the conduct of the fair.

#### RECOMMENDATION

We recommend that Cal Expo implement procedures ensuring that credential admissions be issued to only those people whose presence is necessary to the conduct of the state fair, in accordance with Section 3309 of the Food and Agriculture Code.

## INADEQUATE GROUNDS MAINTENANCE

Cal Expo has not obtained adequate grounds maintenance staffing and has used grounds maintenance budget allocations to create administrative positions. This has contributed to the poorly maintained conditions of Cal Expo grounds.

Daily observation of Cal Expo during the 1978 state fair and frequent visits thereafter have shown a consistent deterioration of the grounds. Goose and duck manure continually cover the pedestrian walkways. The lawns are unkempt and some areas have been left unattended. Debris is strewn about the grounds and is left for long periods of time. The lagoon, when full, quickly becomes stagnant and debris laden and has to be periodically emptied to kill the algae since there is no circulation or filtration of the water. This emptying and filling cycle (three times this year) wastes millions of gallons of water.

Cal Expo had seven budgeted grounds-keeper positions in the 1978-79 budget but has reallocated two positions to fill the Utility Shops supervisor position in June 1978 and the deputy general manager position in September 1978. As of October 1978, four grounds-keepers and one supervisor were working at Cal Expo to maintain 341 acres of grounds--including parking areas. In contrast, the Los Angeles county fair has 13 full-time grounds

people to care for a facility comparable in size to Cal Expo. The Los Angeles County Fair has less actual grounds to be maintained, however, due to parking. Cal Expo has parking for 11,300 cars and the Los Angeles fair parking for 45,000 cars.

#### CONCLUSION

Inadequate staffing and the redirection of limited maintenance personnel positions into other areas has contributed to the poorly maintained grounds at Cal Expo.

#### RECOMMENDATION

We recommend that:

- The Department of Parks and Recreation analyze the grounds maintenance function using work standards available within the Department to establish necessary staffing levels
- Cal Expo carefully examine the practice of reallocating budgeted grounds maintenance positions into other areas.

UNAUTHORIZED AND  
UNREPORTED BANK ACCOUNTS

Cal Expo maintains three unauthorized and unreported bank accounts. The Government Code requires that all state money shall be deposited in the custody of the State Treasurer except when authorized by the Director of Finance. The Government Code further provides that whenever state resources are used to account for or authorize disbursement of any funds of any state agency, the accounts in which the funds are maintained must be approved by the Department of Finance and reported in official financial statements.

The existence of these bank accounts has not been reported to the State Controller's Office, as required of all state agencies, with submission of their financial statements for the years ended June 30, 1977 and 1978. The report is required under penalty of perjury on all bank accounts not in the custody of the State Treasurer.

Sacramento State Fair  
Committee Bank Accounts

In addition to the provisions of the Government Code, the Legislature through Chapter 829, Statutes of 1974 created the State Fair Contingency Fund in the State Treasury as a depository for all monies from gifts or bequests, municipal and county

appropriations or donations for the administration, operation, management or improvement of Cal Expo or the fair site. Such monies are to be expended for the purpose for which they are received.

The city and county of Sacramento each provided funds to Cal Expo for advertising and promoting the city and county and for related purposes. In 1977-78 the county provided \$4,500 and the city provided \$2,500. These monies were deposited in savings and checking accounts, outside of the State Treasury system, without authorization by the Director of Finance. The accounting records for disbursements are maintained by a Cal Expo employee. Checks are signed by members of the Sacramento State Fair Committee. The accounts have not been reported on the Department of Parks and Recreation's financial statements or in its report to the State Controller.

In recent years, funds received from the city and county have been used for host functions including entertaining celebrities, guests, officials and media representatives. Expenditures have been allowed for food, liquor, bartenders and hostesses. During the 1978 state fair, however, bartenders and hostesses were paid through the Cal Expo emergency payroll using state appropriated funds. (Further comments on the emergency payroll are included on pages 27 and 28 of this report.)

By maintaining unauthorized and unreported bank accounts Cal Expo spends city and county monies without regard to state administrative controls. Additionally, there is no provision for an external review of expenditures.

In defense of their actions, Cal Expo officials sight a 30-year tradition of hosting functions to entertain celebrities, guests, officials and media representatives.

California United Indian  
Council, Inc. Bank Account

Cal Expo and the Department of Parks and Recreation have also devised a system by which advances of state funds are obtained and deposited in a commercial bank checking account under the name of California United Indian Council, Inc. (CUIC). Records for the CUIC account are maintained by a Cal Expo employee although the account has not been authorized by the Department of Finance or reported to the State Controller.

Cal Expo entered into contracts with CUIC to conduct Indian Days in both 1977 and 1978. The 1978 contract provided that the Department of Parks and Recreation would pay CUIC \$39,480, of which \$2,708 was allocated to the Department of Parks and Recreation for planning, promotion and admission control and \$36,772 was allocated to CUIC. CUIC agreed to develop, design,

furnish, construct and coordinate an event in observance of California Indian Days; coordinate an inter-tribal Pow Wow and exposition, educational, song, cultural and health exhibits; and arrange an exhibition of Native California traditional and tribal dance. The budget included \$19,500 for premiums to traditional and competitive dancers.

The Department of Parks and Recreation obtained advances for CUIC from the State Park Foundation and the Cal Expo Revolving Fund, which is controlled by the Department of Parks and Recreation. The advances were deposited in the CUIC bank account. Checks from the CUIC account were written as needed to pay participants and for other purposes. Checks from the account require the signature of the controller of Cal Expo and one of four CUIC representatives. The controller of Cal Expo keeps records of the CUIC account. The State Controller's warrant in payment of the CUIC contract with Cal Expo is used to repay advances from the State Park Foundation and the Cal Expo Revolving Fund. This system is not authorized by the Department of Finance.

A check to the order of "cash" for \$24,500 was written in 1978 to obtain currency to pay contestants for participating in Indian Days events at Cal Expo. The manner in which the cash payments were handled and support available for other disbursements indicate weakness in control. Use of the CUIC bank account

also allows the circumvention of state administrative rules.

Cal Expo management have stated that they do not consider the accounts to be state funds. We are of the opinion that these monies are state funds because, among other factors, state employees account for and disburse the funds. Cal Expo further states that the participants in Indian Days prefer to be paid in cash rather than state warrants.

#### CONCLUSION

Cal Expo's use of unauthorized and improper bank accounts violates the law.

#### RECOMMENDATION

We recommend that Cal Expo take immediate action to close all bank accounts not authorized by the Department of Finance. We further recommend that contestants at Indian Days be paid with state warrants.



THE 1978 YOUTH FAIR  
LACKED ADEOUATE PLANNING

The 1978 youth fair, one of several interim events held at Cal Expo this year, was unsuccessful. Problems in administering the youth fair included overestimating attendance, lack of advance planning and failure to meet the expectations of exhibitors. The youth fair included a career expo, a carnival, a statewide jazz festival and choral competition, a battle of the bands, a professional junior rodeo, arts and crafts sales, food and beverage concessions and a student art show.

The person responsible for the 1978 youth fair was the program manager. The program manager is an exempt position with overall responsibility for all events produced by Cal Expo except horse racing. The 1978 interim events produced by Cal Expo in 1978 included California Indian Days, the Holiday Fair and the Youth Fair.\*

Integrated planning began approximately two months prior to the fair. Planning for the different functions of the youth fair was carried out by responsible managers in the entertainment section, the food and concessions section, the marketing section and the livestock section. There was, however, no

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\* According to Cal Expo there were 409 interim event days in 1977. Events included city and county police training activities, a boy scout pot luck, new car show, science fair, swap meets, Christmas tree sales as well as horse racing.

central planning of the youth fair . Decisions affecting the thematic and exhibit considerations were made by persons in various sections of Cal Expo.

Overall the 1978 youth fair was assessed a failure. The first day admission to the fair was free, but only 1,890 patrons came. During the entire fair only 4,309 patrons attended, paying \$3,776 in admissions. The controller at the facility stated that Cal Expo received about \$9,800 in revenues from the youth fair, but expenses were \$45,000 to \$50,000.

Participants of the fair were generally disappointed. Following are examples of participants' views of the event.

A career expo exhibitor stated, ". . . we were most disappointed that the student turnout was so poor. There were very few students at any time and, in fact, the Friday later morning and afternoon session had no one in attendance. Other exhibitors told us that they had been told to leave at noon Friday but no one came to tell us. We did leave at noon but mainly because there were no students present."

Another career expo exhibitor stated, "We . . . were generally unhappy with the career/youth fair. A number of factors contributed to our discontent, manifested in the lack of response from the school, the public and the business community . . . management of and preparation for the fair appeared very unorganized."

Another organization in the career exposition stated, "The career expo program must be judged less than effective in achieving its desired objectives. Student participation was very low. The program design needs to be reviewed."

A local utility stated, "Based on the input of our staff who attended the career expo, we cannot, at this time, honestly recommend its continuance in future years. . ."

Area school districts stated, "The primary reason so few of our students attended was due to insufficient time to prepare after the announcement arrived.

"Personally, I feel the lack of success was due to the lateness of disbursing information to the schools. After we were notified of the times and schedules of the career expo, our district could not get the buses because of prior commitments for sports activities and field trips.

"All district buses were scheduled for field trips on those days long before we called them."

A staff meeting of all responsible section chiefs was held to critique the youth fair on June 7, 1978. During the critique it was revealed that during the entire planning of the youth fair, no youth had been consulted for their ideas or views. There was no assurance therefore that the youth fair was meeting the needs of the youth that it was intended to serve.

#### CONCLUSION

The 1978 youth fair was a failure due to problems in planning, integration and exhibition.

RECOMMENDATION

We recommend that Cal Expo ensure that future events sponsored by Cal Expo receive adequate planning.

DEFICIENT HOUSING AND  
RENTAL CONDITIONS

At our request the State Department of Housing and Community Development inspected Cal Expo's barn and trailer areas. Over 200 deficiencies involving plumbing, electrical and ventilation problems were cited in living, dining and kitchen areas. Problems included inadequate toilet facilities, dangerous electrical connections and structural and sanitary deficiencies.

Cal Expo has 71 full trailer connections and 156 tack rooms. The tack rooms are used to provide sleeping accommodations for employees of horse owners during racing meets. Fourteen permanent tenants are paying only \$45 to \$60 per month for each trailer space including utilities. These charges differ from the Alameda/Pleasanton Fair where 50 full-time residents are charged by trailer size (i.e., a 12 X 60 trailer is charged \$105 per month). In addition the Alameda/Pleasanton Fair charges each resident for utilities. Local rates in Sacramento trailer parks are about \$75.00 per space per month and utilities are additional.

Cal Expo's agreement with the tenant states "Lessee agrees to be the holder of a valid and current California Horse Racing Board license during the entire term of residency herein, and must present a valid license at the time of signing the

agreement." Records of the California Horse Racing Board show that 3 of the 14 permanent trailer park residents do not have a required license.

The sub-standard housing conditions at Cal Expo pose a threat to the health and safety of fair participants. The failure to obtain a fair and adequate rent return on the housing provided places an unnecessary burden on other sources of revenue.

#### CONCLUSION

Cal Expo housing is sub-standard and poses an unnecessary threat to the health and safety of fair participants. The rent return from trailer spaces is not commensurate with privately owned facilities offering comparable services.

#### RECOMMENDATION

We recommend that Cal Expo correct the deficiencies noted in the Department of Housing and Community Development report and provide adequate housing for fair participants at rates commensurate with the services provided.

CAL EXPO'S USE OF AN EXEMPT  
ENTITLEMENT LACKS STATUTORY AUTHORITY

According to the Legislative Counsel, Cal Expo has exceeded its statutory authority in filling an exempt position (see Appendix B).

Authorized exempt entitlements used at Cal Expo are as follows:

<u>Position Title</u>	<u>Authority</u>	
	<u>Statute</u>	<u>Constitution</u>
General Manager*	11200 Gov. C.	Article VII 4(F)
Program Manager	3324 F.& A.C.	Article VII 4(F)
Contract Administrator/ Chief of Amusement Activities	3324 F.& A.C.	Article VII 4(G)

In addition to these authorized exempt positions, the former deputy general manager was employed as an exempt entitlement prior to his retirement in July 1978. Cal Expo cited Section 3302 of the Food and Agriculture Code which provides statutory authority for the Cal Expo Advisory Committee, as

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\* The general manager position is authorized as a chief deputy director of the Department of Parks and Recreation.

authority for this additional exempt position. In the opinion of the Legislative Counsel, however, Section 3302 provides no authority for an exempt position. The Department of Finance approved the filling of this position.

Cal Expo has recently instituted action to have the position of contract administrator/chief of amusement activities switched from Food and Agriculture Code 3324 to the nonexistent entitlement under Food and Agriculture Code 3302. The Department of Finance has approved this action.

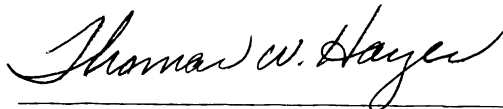
CONCLUSION

The use of exempt entitlements at Cal Expo under Section 3302 of the Food and Agriculture Code is without statutory authority.

RECOMMENDATION

We recommend that Cal Expo limit its use of exempt entitlements to those authorized by statute.

Respectfully submitted,



THOMAS W. HAYES  
Acting Auditor General

Date: January 15, 1979

Staff: Richard I. LaRock, Supervising Auditor  
Robert J. Maloney  
Gary S. Ross



# Memorandum

Date : JAN 11 1979

To : Mr. John H. Williams  
Auditor General  
Joint Legislative Audit Committee  
Office of the Auditor General  
925 L Street, Suite 750  
Sacramento, CA 95814

From : **Department of Parks and Recreation**

Subject: Cal Expo Audit Report

Thank you for the opportunity to review the draft of the Cal Expo Audit Report.

The Department of Parks and Recreation has two basic responses to the audit report. That portion which is constructive criticism we respond to constructively. We take exception to that introductory portion which seems inflammatory.

During the 9-month period required to do this audit, you found no wrongdoing. However, the audit report is replete with subjective judgments which are not proven. Such terms as "widespread lack of compliance" and "apparent absence of good business judgment" do not seem to be substantiated by the numbers common to the language of auditors. We would like to point out that, although improvement is needed, substantial improvements in the physical facilities and administration of the Exposition and State Fair have been made since the Department of Parks and Recreation was put in charge of Cal Expo.

The task of carrying on a major entertainment, exhibition and cultural interpretation program within the constraints of a State fiscal and legal system designed for other purposes is not an easy one. Many short-term events and State Fair program elements require "crisis atmosphere" contracting. Changes in entertainment schedules and breakdowns in carnival equipment often cause last minute problems that must be managed. Although the problems may be anticipated, they still must be resolved. Despite the uniqueness of the California Exposition as a government agency, we concur that it must be governed by standard procedures of State Government.

I have instructed my staff to consider fully your comments and recommendations and to program their work to comply with those recommendations with which we agree. Those we take exception to are so noted. I assure you that it is my intent to further improve the operation and management of Cal Expo, and I consider your report a tool to assist us in this effort. During your audit, we assigned a departmental Task Force to work directly with Cal Expo management in early identification of problem areas.

In the course of the audit, your staff provided us with areas of concern so that steps could be taken in time to improve the 1978 Fair. This effort also enabled us to assist your staff in several instances to secure information for your report.

Mr. John H. Williams,  
Page 2.

We have appreciated the cooperative spirit of your existing staff and hope that the following responses to your draft will be considered constructive.

Improvements Needed in Contract Administration (page 18 Draft Report)

A significant portion of the audit report relates to contract administration. A large number of contracts (over 1,100) are associated with the annual operation of Cal Expo, with the major portion being related to the staging and production of the annual State Fair. The Department has specifically addressed this area of operation through recommendations made by the Cal Expo Task Force. Implementation of these recommendations is anticipated prior to the 1979 State Fair.

Granting of Sole Source Supply Contracts Without Competitive Bid (page 10 Draft Report)

The selection process for sole source purveyors is accomplished through the "Request for Proposal" process. Responsible potential purveyors are evaluated on a variety of factors. Essential elements considered in the selection process are ability to perform consistently during a compressed time frame and potential revenue loss if suppliers are below established standards. The peculiar needs of the California State Fair do not lend themselves to a pure bid process in the selection of these purveyors.

Inconsistent and Inappropriate Contractor Bonding Requirements (page 12 Draft Report)

When Cal Expo designed its standard permit agreement and included the provision for a bond or cash deposit, it was our intent to protect the State's interest. The exception noted in your report is technically correct. However, it is important to note that the right of "offset" is available when monies are due a person or company which has an outstanding obligation to the State.

The State's interest was more than adequately protected in this one instance since ride reimbursements were made in arrears. The State was in possession of approximately \$9,000 due to the contractor.

Our method of establishing the appropriate bond levels for concessionaires will be reviewed to determine the feasibility of a variable level or other acceptable alternative. We will continue to assure that the public interest is reflected in the bonds and cash deposits.

Violation of the State Contract Act (page 13 Draft Report)

Cal Expo was confronted with the alternative of operating or not operating the ride cited in the audit report. After careful consideration of the advantages and disadvantages to the Fair patrons and the State, the decision was made to enter into a revenue agreement wherein the contractor would be reimbursed

after revenue generated from the ride was collected. The use of private capital to generate State revenues in our opinion is a prudent business practice. The selection of the successful operator was made after reviewing proposals from four other potential operators.

The reasons given were reviewed by the Department of General Services, and they indicate that under the special conditions of our operations and the concession agreement, they would accept our view that the work performed was not a project within the State Contract Act.

Granting of a 5-Year Noncompetitive Exclusive Agreement to a Previous Long-term Concessionaire (page 15 Draft Report)

No exclusive agreement was granted to a previous long-term concessionaire. As part of the negotiated buy-out agreement with the concessionaire, which enabled the State to achieve its primary goal of terminating that 31-year contract, a supplemental agreement was reached with an independent corporation. Officers of the corporation were prior associates of the long-term concessionaire. The declared purpose and necessity of the supplemental agreement was to provide a vehicle through which a substantial existing inventory could be liquidated. That purpose was of mutual agreement to the newly formed corporation and the State Fair. It was, and remains, the State's conviction that the buy out could not have been achieved without the corollary agreement. However, central to this corollary agreement was the State's understanding that no management connection existed between the previous concessionaire and the newly formed corporation.

Revenue Projections (page 19 Draft Report)

Projected revenues and operating expenses for the first year operation of the independent carnival were made based on the best information available at the time.

Your observations, opinions, and recommendations relative to the carnival operation are appreciated and will be considered when implementing the operational plan for the 1979 State Fair. The elimination of some one-time expenditures, modification of the operation plan, along with better control of the security situation should result in the attainment of our projected revenues. The accomplishments of the 1978 carnival operation are worthy of mention in that net revenues exceeded those of the previous year, substantial improvement of the carnival area was accomplished, and Fair patrons were provided an upgraded experience.

Excessive Electrical Service Costs (page 24 Draft Report)

Cal Expo did not have a satisfactory secondary distribution system to utilize the primary electrical power available through existing SMUD facilities. Preliminary cost estimates for the construction of a secondary underground power distribution grid are between \$85,000 and \$100,000. This alternative

did not appear feasible in advance of completion and adoption of the Master Plan.

The rental of the required generators for the 19-day Fair period included cables, junction boxes, initial installation and maintenance services for the duration of the Fair.

Personnel Practices (page 26 Draft Report)

Cal Expo's personnel functions were centralized in the Department's Human Resources Office December 15, 1978. The purpose is to integrate their personnel practices with those of the Department. Statements on Incompatible Activities will be issued by the staff in February. These actions comply with your recommendations and those made by Cal Expo Task Force.

Union negotiations will also be handled by the Chief of the Human Resources Office. Records of agreements will be maintained by this office in compliance with existing law and as recommended by you.

Salaries for seasonal and casual labor employees will be paid in accordance with the State Personnel Board salary rates. This was the case for those employees hired during the 1978 State Fair. There were no salary increases granted to State employees since all of the personnel were new hires and not considered State employees prior to that time.

Physical Inventory of Equipment (page 32 Draft Report)

The report indicates no inventory was made since 1970. Essentially this is correct since those physical inventories taken were not reconciled with the Department's computerized printout. The Cal Expo Task Force made recommendations to improve the control of inventory. These procedures for control of inventory are in implementation.

Distribution of "Credentials" Admission (page 34 Draft Report)

It is Cal Expo policy to issue credentials only to those people who have responsibilities for the conduct of the Fair. This includes concession, carnival, and media employees; participants (horse racing, special events and livestock involving large number of persons); exhibitors; businesses, such as the telephone company; suppliers; and governmental agencies. Almost all of the credentials issued during the Fair were for this purpose.

Credentials are issued by responsible program managers and complete records are maintained by the Operations Section and are subjected to audit by the Department of Parks and Recreation Auditors.

Inadequate Ground Maintenance (page 37 Draft Report)

At the present time, Cal Expo has 10 positions carrying out various functions of grounds maintenance. In addition, through the Youth Employment Service Program and Juvenile Court Work Project, Cal Expo presently receives an additional estimated 14,368 hours in labor for grounds services. Also, a Title II Grant through the Economic Development Department, Cal Expo employed 18 grounds maintenance persons over the 12-month term of the grant contract and was able to convert two positions to permanent full time which were to fill supervisory positions needed to facilitate operations and skilled labor functions. Subsequent Title II proposals have been developed and are currently pending approval.

The quality of Cal Expo facilities and grounds maintenance has increased dramatically over the past 2-1/2 years through increased scheduling controls, proper supervision and through those other services listed above. However, the permanent staffing needs for grounds maintenance are being assessed through a consulting contract for a Maintenance Management Plan. The entire facilities are to be examined on the basis of the level of maintenance required by area of the grounds and by the time of year or seasonal needs. The judgments made by the audit staff seem subjective and were not reflected in the many favorable comments made by visitors to the 1978 State Fair.

Unauthorized and Unreported Bank Accounts (page 39 Draft Report)

We do not agree with your comment that "Cal Expo maintains three unauthorized and unreported bank accounts." The Sacramento State Fair Committee Bank Accounts are funds provided by the city and county and are administered by the Sacramento State Fair Committee. There are no State employees authorized to sign from this account. These are not considered State funds.

The funds are provided to continue the host function of the State Fair. This activity is a Fair tradition. The joint effort between the city, county, and State was entered into to provide the City and County of Sacramento the opportunity for direct participation in the promotional efforts of the Fair. The host function is a valuable promotional program that should be continued in future State Fairs.

The California United Indian Council, Inc., Bank Account is an account established by the California United Indian Council (CUIC). The council contracts with the State and is paid after the services are rendered. CUIC and Cal Expo are joint sponsors of Indian Days. CUIC is a nonprofit organization.

Indian Days is a unique annual program held on a weekend late in September. A requirement of cash payment to Indian participants is a long standing Indian tradition and is an integral part of the ceremonies. Cal Expo staff has developed a system to assist CUIC in the accounting and cashiering services since they are unable to obtain normal banking services during the weekend. The funds in this account are not State funds.

Mr. John H. Williams  
Page 6

The 1978 Youth Fair Lacked Adequate Planning (page 44 Draft Report)

Conceptually, the Youth Fair idea has merit. Despite a one-year planning effort, there were two major weaknesses with the event: (1) lack of effective advertising, and (2) lack of adequate follow through concerning transportation of school age children to the Fair.

We learned a great deal by our experience with the Youth Fair of 1978. We plan to downscope the Fair and concentrate on the successful parts of the Fair such as the Jazz Choral Festival and the 52nd District Agricultural and Industrial Arts Fair.

As we grow by our experiences, the Youth Fair may grow to include a successful Career Expo for California's youth.

Deficient Housing and Rental Conditions (page 48 Draft Report)

The Cal Expo stable facilities when originally developed did not provide for stable attendant housing, excepting the trailer park which was designed to handle the capacities projected at that time. Subsequent growth in the racing programs and interim stabling has created the need for additional housing facilities. Funds are available and the Office of the State Architect is currently working on contract documents for significant improvements to the facilities. Those include general site improvements, grading and paving, drainage systems, electrical systems, fire alarm systems, building maintenance and general painting.

Cal Expo agrees with the audit report that the rental rates and certain management policies in the trailer park need to be revised. Cal Expo is conducting a survey of similar facilities and will use that information together with the information derived by the audit staff in making the revisions to be implemented in the spring.

Cal Expo's Use of an Exempt Entitlement Lacks Statutory Authority (page 50 Draft Report)

Cal Expo was under the impression that the Food and Agricultural Code Section 3302 authorized an exempt entitlement. Based on Legislative Counsel's opinion dated December 12, 1978, a reevaluation will be conducted and appropriate action taken.

If there are specific questions on any points, please let me know. Again, I accept the report as a constructive criticism and will use it to improve our operations and our service to the people of California.



Russell W. Cahill  
Director

AUDITOR GENERAL'S FOOTNOTE TO  
RESPONSE OF THE DIRECTOR OF  
PARKS AND RECREATION

Footnote

Discussion

1/

The draft of the Cal Expo report reviewed by the Department of Parks and Recreation contained the caption

"Granting of a Five-Year Noncompetitive Exclusive Agreement to a Previous Long-Term Concessionaire."

In the final report this caption was amended to agree with the text and read:

"Granting of a Five-Year Noncompetitive Exclusive Agreement to An Apparent Affiliate of a Previous Long-Term Concessionaire."

SUMMARY OF RECOMMENDATIONS

CONTRACTING

1. Adopt the proposed procedure for the processing of contracts and agreements and require strict compliance.
2. Adopt the policies and procedures concerning food and beverage concessions contained in the proposed Food and Beverage Concessions Manual.
3. Establish procedures to assure compliance with terms of contracts and agreements during conduct of all Cal Expo events.
4. Require all informal contractual arrangements to be in appropriate contract form and approved by Department legal counsel; expand the usage of standard form agreements and develop new forms as needed.

ADMINISTRATION

5. Develop methods to improve internal communications among key Cal Expo staff members.
6. Provide training to key Cal Expo staff on State administrative methods and procedures, including training on the fundamental principles of contract writing.
7. Initiate survey of Cal Expo telephone requirements including cost effectiveness of consolidation with the State Capitol Centrex System.
8. Complete an inventory of all Cal Expo records and include them as a satellite of the Department's central records system.

PERSONNEL

9. Clarify responsibilities and reporting relationships of managerial and supervisory staff.
10. Conduct a classification review of existing positions and take steps to develop new classifications (if necessary) and/or reallocate misclassified positions to the appropriate classes.
11. Conduct all union negotiations through the Chief, Human Resources Office, or his designated representative.
12. Adopt proposed procedures for processing personal services contracts.
13. Adopt proposed policies for the recruitment and selection of emergency employees.



14. Modify the form used to process the short-term emergency payroll through the Department's Accounting Office.
15. Develop a Cal Expo personnel, information and procedures "quick reference" manual for supervisors and managers.
16. Exempt certain categories of State Fair emergency employees from the requirement to complete a Health Questionnaire (610-HQ).
17. Analyze the merit of having a 6-month exempt employment authorization comparable to the 6-month authorization for officers and employees of district agricultural associations.

#### OPERATIONS

18. Develop a comprehensive plan and schedule for the production and timely accomplishment of each major program at the annual State Fair and other Cal Expo events.
19. Develop improved methods and procedures for the critique and evaluation of existing programs.
20. Reduce deferred maintenance deficiencies.
21. Promulgate rules and regulations in Title 14 of the California Administrative Code to regulate the conduct of persons on the grounds of Cal Expo.
22. Provide adequate and appropriately secure locations for money-handling functions.
23. Charge a uniform cash register rental fee of all concessionaires required to use them and improve procedures for charge out and return.
24. Develop a firm policy and procedures to control the placement and maintenance of personal living facilities and vehicles on Cal Expo grounds.
25. Review Departmental policy on insurance requirements for noncommercial exhibitors.
26. Proposals for security at Cal Expo should include cost estimates, a time schedule for implementation, and a thorough review of current and future needs as well as alternatives available to meet those needs.
27. Adopt detailed recommendations developed by Department's Audit staff.

OWEN K. KUNS  
RAY H. WHITAKER  
CHIEF DEPUTIES

KENT L. DECHAMBEAU  
STANLEY M. LOURIMORE  
EDWARD F. NOWAK  
EDWARD K. PURCELL

JERRY L. BASSETT  
HARVEY J. FOSTER  
ROBERT D. GRONKE  
SHERWIN C. MACKENZIE, JR.  
ANN M. MACKEY  
TRACY O. POWELL, II  
RUSSELL L. SPARLING  
JOHN T. STUDEBAKER  
PRINCIPAL DEPUTIES

3021 STATE CAPITOL  
SACRAMENTO 95814  
(916) 445-3057

8011 STATE BUILDING  
107 SOUTH BROADWAY  
LOS ANGELES 90012  
(213) 620-2550

# Legislative Counsel of California

BION M. GREGORY

Sacramento, California  
December 12, 1978

GERALD ROSS ADAMS  
DAVID D. ALVES  
MARTIN L. ANDERSON  
PAUL ANTILLA  
CHARLES C. ASBILL  
JAMES L. ASHFORD  
JANICE R. BROWN  
ALICE V. COLLINS  
JOHN CORZINE  
BEN E. DALE  
CLINTON J. DEWITT  
C. DAVID DICKERSON  
FRANCES S. DORBIN  
ROBERT CULLEN DUFFY  
LAWRENCE H. FEIN  
SHARON R. FISHER  
JOHN FOSSETTE  
CLAY FULLER  
KATHLEEN E. GNEKOW  
ALVIN D. GRESS  
JAMES W. HEINZER  
THOMAS R. HEUER  
JACK I. HORTON  
EILEEN K. JENKINS  
MICHAEL J. KERSTEN  
L. DOUGLAS KINNEY  
VICTOR KOZIELSKI  
ROMULO I. LOPEZ  
JAMES A. MARSALA  
PETER F. MELNICOE  
ROBERT G. MILLER  
JOHN A. MOGER  
VERNE L. OLIVER  
EUGENE L. PAINE  
MARGUERITE ROTH  
MARY SHAW  
WILLIAM K. STARK  
MICHAEL H. UPSON  
CHRISTOPHER J. WEI  
DANIEL A. WEITZMAN  
THOMAS D. WHELAN  
JIMMIE WING  
CHRISTOPHER ZIRKLE  
DEPUTIES

John H. Williams, Auditor General  
Office of Auditor General  
925 L Street, Suite 750  
Sacramento, CA 95814

California Exposition and  
State Fair - #124

Dear Mr. Williams:

## QUESTION

You have asked whether the Director of Parks and Recreation is empowered to appoint a deputy or employee exempt from civil service pursuant to Section 3302 of the Food and Agricultural Code on the basis of subdivision (e) of Section 4 of Article VII of the California Constitution.<sup>1</sup>

## OPINION

The Director of Parks and Recreation is not empowered to appoint a deputy or employee exempt from civil service pursuant to Section 3302 of the Food and Agricultural Code on the basis of subdivision (e).

## ANALYSIS

The Department of Parks and Recreation, in the Resources Agency, is conducted under the control of the Director of Parks and Recreation, who is appointed by and holds office at the pleasure of the Governor (Sec. 501,

<sup>1</sup> Hereafter referred to as "subdivision (e)."

P.R.C.). The Director of Parks and Recreation is empowered to appoint, in accordance with civil service, such deputies, officers, and other employees as may be necessary (Sec. 506, P.R.C.).

There is within the Department of Parks and Recreation, a Division of Exposition and State Fair, to administer the California Exposition and State Fair (Sec. 3301, F. & A. C.), and, within such division, the California State Fair Advisory Commission,<sup>2</sup> consisting of nine members appointed by the Governor for four-year terms (Sec. 3302, F. & A. C.). The advisory commission is required to provide information and advice to the department with respect to the operation and management of the annual California State Fair (Sec. 3306, F. & A. C.).

There is no provision of law which purports to authorize the advisory commission to appoint anyone or to hire staff. As an entity within the Division of Exposition and State Fair, clearly departmental personnel could be assigned to it to serve staff needs at the direction of the Director of Parks and Recreation or a deputy (see Sec. 3324, F. & A. C.; Secs. 7 and 11200, Gov. C.; Secs. 506 and 507, P.R.C.). We note, however, that the provision specifically requiring the Director of Parks and Recreation to appoint the secretary of the advisory commission was repealed by Section 2 of Chapter 829 of the Statutes of 1974 (former Sec. 3304, F. & A. C.).

Subdivision (e) provides that a deputy or employee selected by each board or commission either appointed by the Governor or authorized by statute is exempt from civil service. This provision does not purport to authorize appointments, but rather operates to make exempt certain appointments otherwise authorized.

As we see it, this constitutional provision should be construed in conjunction with those vesting the legislative power of the state in the Legislature (see Sec. 1, Art. IV, Cal. Const.), and others particularly charging the Legislature with specified powers and responsibilities, such as the provisions specifying that money may be drawn from the State Treasury only through an appropriation made by law (Sec. 7, Art. XVI, Cal. Const.).

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<sup>2</sup> Hereafter referred to as the "advisory commission."

As stated previously, there is no provision of law which purports to authorize the advisory commission to appoint anyone. Thus, in the absence of any authority to appoint personnel, we think that the advisory commission is not entitled to appoint a person exempt from civil service on the basis of subdivision (e).

Proceeding to the question under consideration, we are concerned with whether the Director of Parks and Recreation may appoint a deputy or employee exempt from civil service pursuant to Section 3302 of the Food and Agricultural Code (the provision creating the advisory commission) on the basis of subdivision (e).

Although, as previously discussed, the Director of Parks and Recreation could appoint and assign personnel to the advisory commission, the provisions of subdivision (e) would operate to make exempt only a deputy or employee selected by the advisory commission if the advisory commission had personnel appointment authority.

It should be noted that Section 3324 of the Food and Agricultural Code provides for the appointment of a deputy or employee in the Division of Exposition and State Fair who is appointed by the Governor upon recommendation of the Director of Parks and Recreation and is exempt from civil service (see also subd. (f), Sec. 4, Art. VII, Cal. Const.). This person, in turn, may appoint an exempt employee (see subd. (g), Sec. 4, Art. VII, Cal. Const.; Sec. 7, Gov. C.). Although either of such persons could be assigned to work with the advisory commission, the person would not thereby hold an exempt position pursuant to Section 3302 of the Food and Agricultural Code and subdivision (e).

We conclude that the Director of Parks and Recreation is not empowered to appoint a deputy or employee exempt from civil service pursuant to Section 3302 of the Food and Agricultural Code on the basis of subdivision (e).

Very truly yours,

Bion M. Gregory  
Legislative Counsel

By   
Robert Cullen Duffy  
Deputy Legislative Counsel

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Democratic/Republican Caucus  
California State Department Heads  
Capitol Press Corps