

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



PERFORMANCE AUDIT OF
2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR

AUDIT REPORT
#19-037

FOR THE AUDIT PERIOD
JANUARY 1, 2018 THROUGH JUNE 30, 2019

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AUDIT BACKGROUND, SCOPE, AND OBJECTIVES

At the request of the California Department of Food and Agriculture (CDFA) Fairs & Exposition Branch (F&E), the CDFA Audit Office conducted a performance audit of the 2nd District Agricultural Association, San Joaquin County Fair (2nd DAA), located in Stockton, California, for the audit period January 1, 2018 through June 30, 2019. Our primary focus was to review the adequacy of the 2nd DAA's accounting records and recordkeeping practices along with compliance with various state laws and regulations applicable to a state entity. In addition, we reviewed contract management, personnel transactions and other operating practices to ensure the 2nd DAA maintained sufficient safeguards over assets, sufficient administrative controls over operations and acted in the best interest to protect public assets. When necessary, accounting records from prior and following periods were also examined in order to provide context to certain transactions.

The objectives of the performance audit were the following:

- Examine contracting and purchasing practices, processes, and requirements established by the 2nd DAA's Board of Directors and various State control agencies. Transactions were also reviewed for possible conflicts of interest and nepotism.
- Review compliance over personnel practices, processes, and requirements established by the California Department of Human Resources (CalHR), applicable union bargaining contracts, and state law.
- Examine safeguards over 2nd DAA assets and liabilities including fixed assets, bank accounts, cash receipts and disbursements, and revenue collection processes.
- Review other material operating practices to ensure the 2nd DAA was operating in an efficient manner in accordance with best business practices.

AUDIT METHODOLOGY

To address the audit objectives, we performed the following procedures:

- Interviewed key personnel to gain an understanding of the overall operations and policies of the 2nd DAA.
- Performed analytical procedures on various financial statements and financial reports prepared by the 2nd DAA.
- Reviewed applicable laws, regulations, policies and procedures significant to our audit objectives.
- Reviewed 2nd DAA accounting records and source documentation to ensure appropriate record keeping practices were in place.

- When necessary, followed-up on unique situations in which additional explanations and justifications were required to put the transactions in proper context.

In conducting our audit of the 2nd DAA, we obtained an understanding of its internal control structure in order to determine our auditing procedures, as they relate to and that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any material weaknesses and significant deficiencies within internal controls that were identified during the course of our audit are included in this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSION

Based on the procedures performed as stated within our audit methodology, our office noted material weaknesses and significant deficiencies within the 2nd DAA's administrative controls and operating practices. We have identified 11 areas containing reportable conditions that are specified within the body of this report. In addition, we have provided 37 recommendations to improve the 2nd DAA's internal controls, operations, and compliance with state laws and regulations. The 2nd DAA must respond in writing on how these recommendations will be implemented.

REPORTABLE CONDITIONS

FINDING #1 – LACK OF CONTROLS OVER RENTAL AGREEMENTS

The 2nd DAA lacked basic internal controls over their business relationships with various renters. This lack of oversight resulted in multiple violations of state requirements and the 2nd DAA's own policy and procedures as outlined in their manual. Without these basic internal controls, the 2nd DAA subjected themselves to unnecessary financial loss. During the audit, we noted the following weaknesses over rental agreements:

1. On one agreement, the 2nd DAA did not collect \$202,000 as agreed upon between the 2nd DAA and a renter (Renter A) during a four-year period between 2016 and 2019. The original agreement between the 2nd DAA and Renter A signed on July 1, 2014 listed that for the six-year period April 2015 through April 2020, Renter A would pay a flat fee of \$10,000 and that parking, exhibits fees, food and beverages commissions were to be determined. However, the 2nd DAA did not appear to negotiate these additional revenues for the 2015 event that took place on the fairgrounds. Therefore, the 2nd DAA lost revenue for an unknown amount in 2015. After the April 2015 event, the 2nd DAA and Renter A agreed to the payment of additional revenue as noted in their January 20, 2016 addendum. The addendum stated Renter A would pay the 2nd DAA an additional amount of \$55,500 each year. This addendum appeared to satisfy the original rental agreement that stated additional revenues needed to be determined. During the audit, our office requested clarification from the CEO as to why the additional revenue was not collected. The CEO stated the Renter A denied the signature on the addendum is his and therefore no additional amounts were agreed upon.
2. Regarding another agreement with Renter A, a separate written agreement for auto racing events held during fairtime was required according to their original interim agreement. However, in 2019, a separate written agreement was not established with Renter A for the auto racing events that took place during the 2019 San Joaquin County Fair. As a result, a dispute over approximately \$16,000 in purses Renter A paid to motor sports racers exists. Renter A is seeking reimbursement from the 2nd DAA for these costs.
3. In 2018, the 2nd DAA did not enter into a written rental agreement with the organizers of an agricultural festival on the fairgrounds that has resulted in lost revenue to the 2nd DAA. No revenues or reimbursable costs were recorded within the 2nd DAA's accounting records, although it was confirmed the 2018 event occurred. For comparison purposes, in 2017, the 2nd DAA was paid approximately \$9,000 from the event organizers and another \$4,000 from the event organizers in 2019.
4. In 2018 and 2019, another renter held four events on the fairgrounds without paying any rental amounts to the 2nd DAA. The renter has a five-year master rental agreement with the 2nd DAA that requires normal rent payments for all income generating events

the renter conducts throughout the year. The 2nd DAA did not amend or establish a new agreement with the renter for these four events. In addition, the revenue reconciliations for two other income generating events held by the renter could not be located. As a result, our office cannot determine whether the 2nd DAA received the appropriate revenue amounts for these events.

5. The 2nd DAA did not establish a written agreement with a community foundation for a fundraising event that was held on the fairgrounds in 2019. In addition, the 2nd DAA did not fully complete its revenue reconciliation form for this event. As a result, our office cannot verify whether the 2nd DAA received the appropriate revenue amounts for this event.
6. \$50,474 was deposited in the 2nd DAAs bank account for parking revenue from an additional eight events held at the fairgrounds. However, our office cannot verify whether the 2nd DAA received the appropriate revenue amounts for parking revenue as no additional records such as a parking ticket reconciliation were provided.
7. \$30,716 was deposited in the 2nd DAAs bank account for interim alcohol sales revenue without supporting documentation. Therefore, our office cannot verify the accuracy of these sales.
8. The 2nd DAA recycled parking tickets, did not retain any parking ticket manifests nor maintained an inventory of currently available parking tickets. As a result, an overall ticket reconciliation of accountable parking revenues to the related cash deposited could not be performed.
9. The 2nd DAA incorrectly accounted for parking revenue on six occasions by reporting the revenues at net rather than gross which did not consider overages and shortages that had occurred.
10. The 2nd DAA did not monitor whether a renter who utilized the parking lot for patrons to drive luxury cars paid appropriate rents as required by their written agreement. Based on 2nd DAA calendars, our office estimates that up to \$21,000 may be due to the 2nd DAA. As of November 2019, the contractor has paid \$8,250 to the 2nd DAA.
11. For a different renter of the parking lots, the 2nd DAA did not reconcile monthly amounts received to the related payment terms. As a result, the 2nd DAA did not notice excessive payments made by the renter, causing the 2nd DAA to be overpaid by approximately \$24,000.
12. The 2nd DAA did not reconcile the payments it received from a renter to weekly revenue sharing reports and the related terms and conditions stated within its written agreement. As a result, our office estimates the 2nd DAA was underpaid approximately \$4,700.

13. The 2nd DAA did not reconcile the payments received from a renter who conducts dances on the fairgrounds to the related revenue reports and terms and conditions within the written agreement. As a result, our office estimates the 2nd DAA was underpaid approximately \$4,500.
14. The 2nd DAA did not monitor a rent escalation clause contained within a multi-year agreement from a renter who rents the grounds for a truck driving school. The lack of oversight caused the 2nd DAA to be underpaid by \$1,000. Upon notification, the renter has paid the outstanding rent due.
15. The 2nd DAA entered into an agreement with a restaurant operator residing on the fairgrounds. In lieu of collecting \$450 a month in rent (totaling \$4,050), the restaurant operator was to make Tenant Improvements (TI). However, no supporting documentation was retained by the 2nd DAA for the TI.
16. The 2nd DAA did not collect \$990 of additional revenue from a renter for the rental of tables and chairs as required by the written agreement. The 2nd DAA stated that they will invoice the renter for this unpaid rent.
17. The 2nd DAA collected 100% of parking and alcohol revenue from a renter whose unsigned rental agreement stated that alcohol and parking revenues would be split 50/50. According to documentation within the contract file, the 2nd DAA opted to retain 100% of the parking and alcohol revenues instead of collecting a base rent and splitting the revenues.
18. For one written agreement, the 2nd DAA required the renter to pay \$200 per keg and \$10 per bottle for a wine corkage fee. However, no alcohol revenue was recorded in the 2nd DAA's accounting records.
19. The 2nd DAA's agreement with a renter indicated that Friends of the Fair (FOF) would sell alcohol. However, the 2nd DAA management stated that FOF was not active in 2018. Our office noted that no alcohol revenue from the renter's event was recorded in the 2nd DAA's accounting records.
20. The 2nd DAA's agreement with a renter did not specify any alcohol revenue sharing. However, the 2nd DAA's general ledger indicates that \$2,000 was received for alcohol sales related to this event.
21. The 2nd DAA's agreement with a bingo operator had its monthly rental rate increased from \$5,000 per month to \$8,750 per month effective March 8, 2019. However, for March 2019, only \$5,000 was paid for the entire month. Had the 2nd DAA prorated the rent per the new contract terms, an additional \$2,800 would need to be paid.
22. The 2nd DAA allowed three agreements with long-term renters to expire while the renters were still using the buildings on the fairgrounds. Two of the agreements were

renewed within two to three months after the expiration, while the third agreement had not been renewed seven months after expiration.

23. The 2nd DAA did not verify whether renters that paid directly for their own event security, met the minimum requirement for the number of security guards as stated within the related written agreement. As a result, our office cannot verify that certain events met the agreed upon security requirement.

Recommendations:

1. *The 2nd DAA should collect all legally permissible rents and daily fees owed from the renters mentioned above.*
2. *The 2nd DAA should improve its monitoring and tracking over all financial transactions (rents, fees and reimbursable costs) related to rental agreements. Upon the events conclusion, a revenue reconciliation of amounts owed versus collected should be prepared and kept within the 2nd DAA files.*
3. *In the future, the 2nd DAA should comply with its motor sports agreement by entering into a separate agreement with Renter A for racing events held during the annual San Joaquin County Fair.*
4. *The 2nd DAA should not allow a renter to conduct events on its fairgrounds unless a mutually agreed upon written agreement is signed by both parties.*
5. *The 2nd DAA should improve its record keeping practices by ensuring all source documents relating to its revenue share of income generating events are retained and safeguarded.*
6. *The 2nd DAA should make improvements within its record keeping practices by ensuring a parking ticket reconciliation is prepared and retained for all events in which the 2nd DAA will receive a share of parking revenues.*
7. *The 2nd DAA should conduct a physical inventory of its existing available parking tickets and document this as its beginning ticket inventory. On a go-forward basis, a copy of any parking ticket manifests should be retained when new parking tickets are ordered and added to existing ticket inventories.*
8. *The 2nd DAA should ensure all event contractors provide sufficient supporting documentation when the alcohol revenues generated during the event will be shared.*
9. *The 2nd DAA should comply with generally accepted accounting principles by recording all revenue at gross receipts. Cash shortages and overages should be accounted for correctly within the 2nd DAA's financial records.*
10. *The 2nd DAA should ensure renters that pay directly for their own security meet the minimum requirements as stated within the written agreement.*

FINDING #2 – LACK OF CONTROLS OVER FUEL USAGE

The 2nd DAA failed to safeguard approximately \$75,000 in fuel (\$48,000 for diesel and \$27,000 for unleaded) that resulted in the loss of approximately \$19,845. The 2nd DAA operates a fuel station on their fairgrounds in order to save time by being able to conveniently fill up their generators and equipment necessary to maintain operations at the fairgrounds. The fuel is purchased from a vendor who routinely refuels the fuel stations tanks. The following deficiencies were noted:

- The fuel pumps were not locked during our tour of the fairgrounds and therefore accessible to anyone entering the premises. One of the locks had also been cut away from the pump which is an indication an unauthorized individual accessed a fuel pump without the key retained in the office.
- Fuel usage logs were not consistently completed for the usage of fuel on the fairgrounds. Our analysis of available fuel usage logs indicated the 2nd DAA did not account for 13,849 gallons of diesel fuel and 5,670 gallons of unleaded fuel. Once we raised our concerns with management regarding the lack of internal controls, they were able to research and provide reasonable explanations for the 13,849 in unaccountable diesel fuel usage; however, no explanation was provided for the 5,670 gallon discrepancy in unleaded fuel usage. The cost of gasoline averaged \$3.50/gallon during the year and therefore, the 2nd DAA cannot account for \$19,845 worth of fuel.
- The 2nd DAA's available fuel logs indicated a security services contractor and a cleaning employee were allowed to pump 272 gallons of fuel into their private vehicles which resulted in a loss of approximately \$952. Although the 2nd DAA management authorized this use, the written agreements between the 2nd DAA and the contractors did not address the reimbursement of fuel when providing these services.
- Invoices pertaining to the purchase of fuel from the vendor indicated the 2nd DAA incurred \$2,100 in late fee/finance charges from not paying the invoice within a timely manner.

Recommendations:

11. *The 2nd DAA should make improvements within administrative controls over its fuel usage. All employees should be required to complete the related fuel usage log when pumping gasoline. Furthermore, these logs should be reviewed on a monthly basis for completeness and accuracy.*
12. *The 2nd DAA should not allow contractors to use their fuel unless properly supervised and agreed upon in the written contract.*
13. *The 2nd DAA should not allow employees to use fuel for their personal benefit as this would be a gift of public funds.*

14. The 2nd DAA should improve its security over the locks that control the usage of fuel on the fairgrounds. The pumps should always be locked unless in use by authorized personnel.

FINDING #3 – INCOMPATIBLE ACTIVITY CONCERNS

An employee at the 2nd DAA stated they personally received \$3,982 from one renter and \$1,440 from another renter for their own business dealings outside of their employment at the 2nd DAA. The employee justified these payments by stating the 2nd DAA's existing multi-year agreements with both renters were in place prior to him becoming employed at the 2nd DAA. Furthermore, the employee stated that he recuses himself and requires board members to conduct negotiations with the renters whenever necessary. However, these negotiations would be very difficult to avoid since the renters conducted more than 50 income generating events on the fairgrounds during 2018 and 2019 and the events generated a significant amount of financial transactions in which the 2nd DAA was entitled to share in a percentage of the revenues generated. Furthermore, the 2nd DAA currently has several active disputes with these renters that need to be addressed in a timely manner.

Due to the multiple provisions of Government Code Section 19990 and the serious nature of prohibited activities, our office has notified the CDFA Legal Office of the need for their analysis of the above-mentioned issues.

Recommendation:

15. The 2nd DAA Board of Directors should seek guidance from the Fairs and Expositions Branch regarding the business relationship between the 2nd DAA employee and the renters.

FINDING #4 – INCOMPLETE FINANCIAL REPORTING

As of September 2019, the 2nd DAA had not posted a significant amount of financial transactions to its general ledger relating to both revenues and expenses that had been incurred in prior years. Specifically, an invoice totaling \$50,424 for security services provided by the Stockton police department for an event held in 2016 had not been accounted for in the 2nd DAA's financial records. Therefore the 2nd DAA's expenses and payables had been understated by this amount. In addition, the 2nd DAA incurred \$17,400 in fire marshal fees for various events held by renters over the years. The 2nd DAA had not recorded these amounts in their financials. Many of these fire marshal fees were agreed to be reimbursed by the renters in their written agreements but a lack of oversight by the 2nd DAA has resulted in untimely notices to the renters of the amounts now due.

Upon notification of their incomplete financial reporting and lack of collection efforts from the renters, the 2nd DAA recorded the related expenditure transactions within its general ledger, established accounts receivable for fire marshal fee amounts, and began invoicing renters for cost reimbursement.

Recommendations:

16. The 2nd DAA should properly record financial transactions in a timely manner.

17. The 2nd DAA should improve its accounting processes over fire marshal fees. On a monthly basis, the 2nd DAA should record the expenses for all invoices that it has received within its general ledger. Simultaneously, an accounts receivable should be established and an invoice for cost reimbursement should be sent to the related contractor.

FINDING #5 – LACK OF INTERNAL CONTROLS OVER PERSONNEL

The 2nd DAA lacked adequate internal controls over their administration of personnel as required by the California Department of Human Resources (CalHR), the Accounting Procedures Manual (APM), and the State Constitution. This lack of oversight resulted in various weaknesses as follows:

- a. An employee did not keep a record of time worked from December 2018 through December 2019. CalHR Memo #15-007 requires all State employees to submit attendance records for each pay period, regardless if leave was used. Upon notification of this requirement, the employee recreated his monthly time sheets for the 13-month period, presented them to the board president for signature, and provided them to our office. In addition, the employee was paid \$5,200 for overtime worked during a twelve-month period. However, only two of the twelve timecards were signed by a board member. The employee was the only one who signed his own paycheck in four instances as well.
- b. Employee timecards were not always signed by a supervisor approving their time worked. In addition, many timecards were not signed by the employee either. The APM Section 17.1 (APM 17.1) states that DAA's must maintain time sheets (Std. 634) for all employees to ensure compliance with labor laws related to overtime and paid leaves. They must be reviewed and signed by a supervisor and show hours worked and leave taken.
- c. The Healthy Workplaces Healthy Families Act of 2014 allows eligible temporary employees to accrue and use sick leave based on the number of hours and days worked during the year. Several of the 2nd DAA's temporary employees qualified for this sick leave benefit; however, no sick leave accrual nor tracking process was initiated. The California Labor Code Section 246 (a) states "An employee who, on or after July 1, 2015, works in California for the same employer for 30 or more days within a year from the commencement of employment is entitled to paid sick days as specified in the section."
- d. The 2nd DAA incorrectly classified a seasonal employee (who is entitled to paid leave) as a temporary employee (does not earn paid leave) for several years. As a result, in April 2019, the 2nd DAA was notified by the CDFA's HRB that the seasonal employee

is entitled to approximately 1,058 hours of paid leave for prior periods. As of November 2019, the 2nd DAA had not updated the related seasonal employee's leave card to reflect the updated accrued paid leave balance.

- e. The 2nd DAA allowed three temporary employees to work in excess of the six-month limitation within a calendar year in 2018 and 2019. According to the APM and the Circular Letter D2017-10, the maximum amount of time an employee may work is six months to remain exempt from civil service status. The F&E APM further cites Article VII § 4(1) of the Constitution of the State of California as its basis for this policy.

Recommendations:

18. *The 2nd DAA should comply with Cal HR #15-007 by requiring all employees to submit attendance records for each pay period, regardless if paid leave was used.*
19. *The 2nd DAA's Board President should review the overtime payments made to the employee in 2018 for appropriateness. In the future, the 2nd DAA should maintain adequate separation of duties by ensuring employees do not sign checks that are made out to themselves.*
20. *The 2nd DAA should comply with the APM 17.1 by ensuring attendance records are reviewed and signed by both the employee and a supervisor to guarantee their accuracy.*
21. *The 2nd DAA should comply with California Labor Code Section 246(a) by accounting for the accumulation and use of sick leave for all applicable temporary employees going back to July 1, 2015.*
22. *The 2nd DAA should update the seasonal employee's paid leave hours to the correct balance.*
23. *The 2nd DAA should comply with the limits established by the Constitution of the State of California by limiting the amount of time worked by temporary employees to less than six months within a calendar year.*

FINDING #6 – LACK OF CONTROLS OVER DEBIT CARD TRANSACTIONS

The 2nd DAA did not follow the purchasing requirements as outlined throughout chapter 5 of the APM. Each Fair should produce and disseminate written procedures which establish internal controls such as; the conditions under which employees may make purchases; obtaining and granting approval of purchase; the documentation required. Since the APM Section 15.42 (APM 15.42), Credit Card Use, lists fifteen internal controls while using a credit card, the 2nd DAA's use of a debit card could have implemented those controls as a beginning point. Without adhering to the APM as the 2nd DAA states in their own policy and procedures manual, the opportunity to make unauthorized and inappropriate purchases is unnecessarily increased.

From January 1, 2018 to August 30, 2019, the 2nd DAA employees made 244 purchases for approximately \$45,000 with its debit card. Of these 244 transactions, 84 transactions were reviewed for supporting receipts, 22 out of 84 transactions or \$3,000 in purchases were not supported with receipts to justify the expenditure. Additionally, of the \$45,000, the 2nd DAA purchased approximately \$2,900 from a retail store that sells groceries for miscellaneous food and non-alcoholic beverages. Since the 2nd DAA did not keep written documentation and justification at the time of the purchase, the CEO surmised the items purchased were most likely consumed at board meetings, used to feed volunteers for events, or purchased for resale at interim events. Many of these purchases would therefore appear to be inappropriate. The APM 2.77 states, "...purchases of food and beverages, other than business meals reimbursed in accordance with the Department of Personnel Administration (DPA) rules and regulations, will be questioned as to necessity and benefit to the State."

Recommendations:

24. *The 2nd DAA should research the 22 debit card purchases that cannot be supported with a receipt and determine whether they were business related and necessary.*
25. *The 2nd DAA should comply with their own purchasing requirements when making debit card purchases.*

FINDING #7 – LACK OF COMPLIANCE OVER PROPERTY ACCOUNTING

The 2nd DAA's accounting of their property was analyzed for compliance with the State Administrative Manual (SAM) and F&E's APM requirements and the following weaknesses were noted:

- a. The 2nd DAA has not performed a physical inventory of all its property within the last three years. Furthermore, the 2nd DAA's depreciation schedules were last updated in December 2016. Our office noted schedules contained vehicles that could not be located and were likely disposed of years ago. The APM Section 2.56 (APM 2.56) requires DAA's to perform periodic physical inventories of state property. Furthermore, SAM Section 8652 (SAM 8652) requires state entities to conduct a physical inventory of all property and reconcile the inventory count with accounting records at least once every three years. All inventory worksheets must be retained for audit, and reviewed, signed, and dated both by the person who took the inventory and by the CEO.
- b. The 2nd DAA has not marked/identified all moveable assets as required by the APM. A property list of non-monetary items should be available and kept up to date to avoid theft. The APM Section 2.55 (APM 2.55) states "All movable items owned by DAAs are to be numerically identified either with a permanent stamp or with property ID tags. Other fairs may use a County sticker. ID numbers should also be recorded in the Property Ledger or Non-Capitalized Property Ledger as a control over loss or theft of all movable items."

Recommendations:

26. *The 2nd DAA should comply with the SAM 8652 and the APM 2.56 by ensuring a physical inventory of property is conducted and the count is reconciled with accounting records at least once every three years.*
27. *The 2nd DAA should comply with APM 2.55 by ensuring that all movable items owned by the DAA are properly identified with a permanent stamp or property ID tag and that those ID numbers are recorded on the Property Ledger or Non-Capitalized Property Ledger.*

FINDING #8 – CONTROL WEAKNESSES OVER VEHICLE TRAVEL LOGS

The 2nd DAA did not comply with SAM Section 4107 (SAM 4107) requirements to maintain travel logs for its state vehicle that is driven off the fairgrounds. As a result, the business purpose of the vehicle's usage cannot be determined. SAM 4107 requires State entities to maintain a monthly travel log, Standard Form 273 (STD 273), for all state-owned passenger mobile equipment. The STD 273 requires the driver of the vehicle to be identified, beginning and ending odometer readings to be entered, along with the destination of travel.

In addition, for a Department of General Services (DGS) rented vehicle, the 2nd DAA was late in reporting monthly mileage and was assessed approximately \$200 in late fees.

Recommendations:

28. *The 2nd DAA should comply SAM 4107 by ensuring vehicle logs are completed for all of its state vehicles.*
29. *The 2nd DAA should make improvements by reporting the DGS rented vehicle's monthly mileage within a timely manner to avoid any unnecessary late fees.*

FINDING #9 – IMPROPER PURCHASE AND SALE OF ALCOHOL

In 2018, the 2nd DAA improperly purchased approximately \$7,600 of alcohol that was subsequently sold to patrons at interim events held at the fairgrounds. According to the CEO, previous 2nd DAA management had temporary employees and other individuals, not the 2nd DAA's FOF, operate concession sales at interim events. These individuals were paid directly from the cash box (not processed through the 2nd DAA's payroll system) and the net proceeds from the concessions sales were deposited. The 2nd DAA did not maintain any accountability (inventories nor cash register tapes) over these receipts, therefore, our office cannot determine whether all concessions revenues generated from these interim events were deposited.

According to APM Section 2.77 (APM 2.77), Inappropriate Use of State Funds, the purchase of alcohol is prohibited as it is deemed to be unnecessary and of no benefit to the state while

increasing liability. According to the CEO, the practice of the 2nd DAA employees operating concessions stands ceased when he was hired in June 2018.

Recommendations:

30. *The 2nd DAA should ensure all payments made to individuals for services are processed through the 2nd DAA's payroll system. Employees or individuals should not be paid in cash.*
31. *In the future, the 2nd DAA should comply with F&E's APM 2.77 by not purchasing alcohol.*

FINDING #10 – LACK OF CONTROLS OVER PETTY CASH TRANSACTIONS

Our office noted weaknesses within the 2nd DAA's accounting for petty cash transactions as follows:

- Approximately \$1,600 of petty cash transactions were only supported by hand written vouchers that listed, for example, Alcohol Beverage Control (ABC) licenses, payments to bartenders, and other miscellaneous costs, such as used auto parts. Since original supporting documentation was not retained, our office cannot determine the appropriateness of these transactions.
- Our office noted 41 instances in which the 2nd DAA incurred petty cash expenses in excess of \$50. According to SAM Section 8112 (SAM 8112), petty cash should be used for incidental purchases not to exceed \$50 (exclusive of sale tax).

Recommendations:

32. *The 2nd DAA should improve its internal controls over petty cash transactions by ensuring that it is not used to pay any individual for services. These payments should be processed through the 2nd DAA's normal payroll or operating check payment process.*
33. *The 2nd DAA should improve its record keeping practices by ensuring a valid receipt is retained to justify all petty cash transactions.*
34. *The 2nd DAA should comply with SAM 8112 by not incurring petty cash transactions in excess of the \$50 limitation. Transactions exceeding \$50, should be paid through the normal operating check payment process.*

FINDING #11 – POLICIES AND PROCEDURES OVER CONTRACTING AND PROCUREMENT PROCESSES WERE INCOMPLETE

The 2nd DAA did not have adequate written policies and procedures regarding contracting and procurement processes. Our office noted significant deficiencies within the 2nd DAA's contract management including the lack of an agreement, the lack of competitive bidding

efforts, lack of sole source justifications, lack of detail support for payments, and lack of purchase orders.

In one instance, there was no written agreement for five payments made to an employee's brother who performed services in 2018 and 2019 in the amount of \$12,891. Two payments totaling \$5,415 were not supported by invoices. The remaining three invoices totaling \$7,476 did not contain adequate detail as to the hours spent performing services nor the related contractor compensation rate. Furthermore, an Internal Revenue Service's (IRS) Form 1099, Miscellaneous Income, was not issued to the brother by the 2nd DAA. Although the employee explained the previous administration had agreed to compensate his brother for installing signs in this manner, absent a written agreement, detailed scope of work, contractor compensation rate and contractor payment provisions, our office cannot determine the appropriateness of these payments.

According to the Food and Agricultural Code 4051, written policies and procedures for contracting and procurement are to be developed internally and maintained by the 2nd DAA's Board of Directors. However, the 2nd DAA provided our office with a manual that was incomplete and not entirely relevant to 2018 and 2019 fair operations. The following topics are not currently addressed within the existing 2nd DAA's Policies and Procedures Manual:

- Contract Management
- Revenue Agreements
- Record Keeping Requirements
- Competitive Bidding Methods, Requirements and Sole Source Justifications
- Credit Card and Debit Card Management
- Public Relations and Promotional Expenses
- Consultant Services Contracts
- Purchase Orders
- Emergency Contracts

Addressing the topics listed above, at a minimum, would strengthen oversight and only benefit the 2nd DAA.

Recommendations:

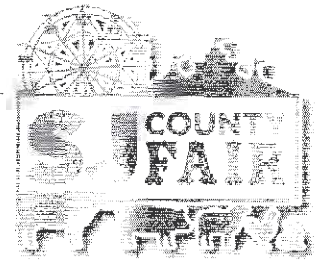
35. *The 2nd DAA should improve its established written policies and procedures over its contracting and procurement processes by addressing the topics above. Once established, these policies and procedures should i) contain sufficient detail for the professional administration of contracting and procurement activities by employees, (ii) be updated regularly and (iii) be made available to all employees.*
36. *The 2nd DAA's Board President should contact the employee's brother and require him to submit detailed invoices to support the five check payments he received in 2018 and 2019. At a minimum, the invoices should contain a clear description of the work*

performed, the contractor compensation rate, and a time schedule of work that was completed.

37. The 2nd DAA should issue 1099s when applicable.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

1658 South Airport Way
Stockton, CA 95206
Fair@SanJoaquinFair.com
Office (209) 466-5041



March 1, 2021

California Department of Food & Agriculture
Audit Office
Attn: Ron Shackelford, Chief
1220 N Street
Sacramento, CA 95814

RE: Performance Audit of 2nd District Agricultural Association San Joaquin County Fair for the Audit Period January 1, 2018 through June 30, 2019

Dear Mr. Shackelford,

I am writing to you on behalf of [CEO/the Board of Directors] of the 2nd District Agricultural Association to acknowledge receipt by [CEO/the Board] of Audit Report #19-037 prepared by the California Department of Food & Agriculture ("CDFA") Audit Office. Following our review, we are communicating to your office the following information in response to the findings set forth in Audit Report #19-037.

1. The 2nd DAA should collect all legally permissible rents and daily fees owed from the renters mentioned above.

The DAA agrees with this recommendation and has since created a Renters Spreadsheet for easy reference that includes every Agreement, terms of each Agreement, dates that Certificate of Insurances are due, etc. In terms of the money owed by Renter A, Director Wagner and Interim CEO Troy Bowers met with Renter A as recently as December 4, 2020 to resolve this matter. Discussions are ongoing.

2. The 2nd DAA should improve its monitoring and tracking over all financial transactions (rents, fees, and reimbursable costs) related to rental agreements. Upon the events conclusion, a revenue reconciliation of amounts owed versus collected should be prepared and kept within the 2nd DAA files.

The DAA agrees with the recommendation. A Renters Spreadsheet has been created for easy reference in tracking rents, fees, and reimbursable cost requirements to ensure that all legally required payments are received.

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- 3. In the future, the 2nd DAA should comply with its motor sports agreement by entering into a separate agreement with Renter A for racing events held during the annual San Joaquin County Fair.**

The DAA concurs with this recommendation. The promoter has been informed in writing that future events, if agreed to by the DAA, requires a separate written agreement.

- 4. The 2nd DAA should not allow a renter to conduct events on its fairgrounds unless a mutually agreed upon written agreement is signed by both parties.**

The DAA agrees with this recommendation. Staff has been informed of this requirement.

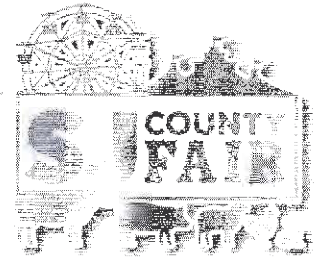
- 5. The 2nd DAA should improve its record keeping practices by ensuring all source documents relating to its revenue share of income generating events are retained and safeguarded.**

The DAA agrees with this recommendation. Staff has been notified of this requirement.

- 6. The 2nd DAA should make improvements within its record keeping practices by ensuring a parking ticket reconciliation is prepared and retained for all events in which the 2nd DAA will receive a share of parking revenues.**

The DAA agrees with this recommendation. A cash handling audit of parking and Fair admission revenues was conducted by an outside auditing firm in 2020. The audit findings and recommendations are consistent with Recommendations #5 and #6. Additionally, staff has been provided with a copy of the F and E Accounting and Procedures Manual which outlines this recordkeeping process. These recommendations have been implemented. The Interim CEO appointed in January 2020 and a part time CEO scheduled to begin work on January 1, 2021 has utilized the recommended ticket reconciliation procedures in their former positions at other California Fairs.

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- 7. The 2nd DAA should conduct a physical inventory of its existing available parking tickets and document this as its beginning ticket inventory. On a go-forward basis, a copy of any parking ticket manifests should be retained when new parking tickets are ordered and added to existing ticket inventories.**

The DAA agrees with this recommendation. Staff has been provided with a copy of the F and E Accounting Policies and Procedures Manual pertaining to ticket reconciliation. This process is currently being followed. The DAA is no longer selling alcohol.

- 8. The 2nd DAA should ensure all event contractors provide sufficient supporting documentation when the alcohol revenues generated during the event will be shared.**

The DAA agrees with this recommendation. While alcohol is currently not being provided or sold by event promoters, the DAA will establish a process which provides for sufficient supporting documentation.

- 9. The 2nd DAA should comply with generally accepted accounting principles by recording all revenue at gross receipts. Cash shortages and overages should be accounted for correctly within the 2nd DAA's financial records.**

The DAA agrees with this recommendation. The incoming CEO on January 1, 2021 has been provided a copy of the cash handling audit and is familiar with the cash control procedures outlined in the F and E manual to ensure compliance.

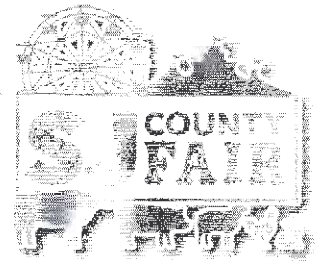
- 10. The 2nd DAA should ensure renters that pay directly for their own security meet the minimum requirements as stated within the written agreement.**

- 11. The DAA agrees with this recommendation and will require the Promoter to provide proof that the minimum security requirements are being met.**

- 12. The 2nd DAA should make improvements within administrative controls over its fuel usage. All employees should be required to complete the related fuel usage log when pumping gasoline. Furthermore, these logs should be reviewed monthly for completeness and accuracy.**

The DAA agrees with this recommendation. A new lock has been installed and the staff authorized to pump fuel must now check out the key fuel usage log located in the Administration building.

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13. The 2nd DAA should not allow contractors to use their fuel unless properly supervised and agreed upon in the written contract.

The DAA agrees with this recommendation. There is no provision in the current Agreement with Alpha Security that allows use of the DAA fuel. Alpha Security has been informed that there shall be no further use of the DAA fuel.

14. The 2nd DAA should not allow employees to use fuel for their personal benefit as this would be a gift of public funds.

The DAA agrees. Employees have been notified that any fuel used for personal benefit could result in discipline up to and including termination.

15. The 2nd DAA should improve its security over the locks that control the usage of fuel on the fairgrounds. The pumps should always be locked unless in use by authorized personnel.

The DAA agrees with this recommendation. A new lock has been installed and the staff authorized to pump fuel must check out the key and fuel usage log located in the Administration Building.

16. The 2nd DAA Board of Directors should seek guidance from the Fairs and Expositions Branch regarding the business relationship between the 2nd DAA employee and the renters.

The employee in question is no longer employed by the DAA. The DAA has a Conflicts of Interest Code which prevents an employee from using their position for personal gain. The Policy has been reviewed with all employees along with the review of Government Code Section 19990.

17. The 2nd DAA should properly record financial transactions in a timely manner.

The DAA agrees with this recommendation. The DAA staff lacked the skills necessary to adequately account for all financial transactions. Once learning about this issue, CDFA played a bigger role in overseeing the financial reporting. The DAA now employs staff with the appropriate skills.

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- 18. The 2nd DAA should improve its accounting processes over fire marshal fees. On a monthly basis, the 2nd DAA should record the expenses for all invoices that it has received within its general ledger. Simultaneously, an accounts receivable should be established and an invoice for cost reimbursement should be sent to the related contractor.**

The DAA agrees with this recommendation. The DAA is now collecting the anticipated fire marshal fee from the user in advance of the event. The outstanding reimbursement of fire marshal fees is the responsibility of one renter. This amount is being carried on the DAA's Accounts Receivable. Director Wagner and Interim CEO Troy Bowers met with the renter on December 4, 2020 to discuss the renter's responsibility for payment. Discussions are ongoing.

- 19. The 2nd DAA should comply with Cal HR #15-007 by requiring all employees to submit attendance records for each pay period, regardless if paid leave was used.**

The DAA agrees with this recommendation. CDFA on multiple occasions informed the CEO and the Board President of this timesheet requirement. The employee in question is no longer with the DAA. The Board President and the CEO are aware of their responsibilities as it pertains to oversight.

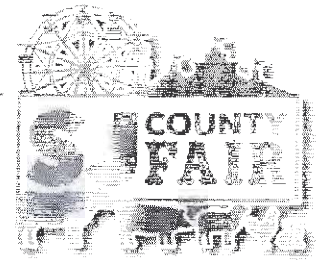
- 20. The 2nd DAA's Board President should review the overtime payments made to the employee in 2018 for appropriateness. In the future, the 2nd DAA should maintain adequate separation of duties by ensuring employees do not sign checks that are made out to themselves.**

The DAA agrees with this recommendation. The employee receiving the overtime payments is no longer employed by the DAA and the Board President responsible for oversight is no longer a member of the Board. The current Board President and CEO are aware of their responsibilities as it pertains to oversight.

- 21. The 2nd DAA should comply with the APM 17.1 by ensuring attendance records are reviewed and signed by both the employee and a supervisor to guarantee their accuracy.**

The DAA agrees with this recommendation. Procedures have been put in place to ensure compliance.

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22. The 2nd DAA should comply with California Labor Code Section 246(a) by accounting for the accumulation and use of sick leave for all applicable temporary employees going back to July 1, 2015.

The DAA concurs. Training has been provided to staff and the employee pay records have been updated.

23. The 2nd DAA should update the seasonal employee's paid leave hours to the correct balance.

The DAA agrees with this recommendation. Updating has been done to correct the balances.

24. The 2nd DAA should comply with the limits established by the Constitution of the State of California by limiting the amount of time worked by temporary employees to less than six months within a calendar year.

The DAA agrees with this recommendation. Staff is now providing the Board monthly an "Employee Hours Report" showing the hours worked by temporary employees so the Board and CEO can monitor compliance.

25. The 2nd DAA should research the 22-debit card purchases that cannot be supported with a receipt and determine whether they were business related and necessary.

The DAA agrees with this recommendation. The CEO has been directed to perform the review as their time permits.

26. The 2nd DAA should comply with their own purchasing requirements when making debit card purchases.

The DAA agrees with this recommendation. Under CDFA's "intervention authority", all purchases of more than \$1000 require the approval of CDFA.

27. The 2nd DAA should comply with the SAM 8652 and the APM 2.56 by ensuring a physical inventory of property is conducted and the count is reconciled with accounting records at least once every three years.

The DAA agrees with this recommendation. Compliance will take place once the DAA has adequate staff to perform a physical inventory. There is no current timetable when this can be completed.

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- 28. The 2nd DAA should comply with APM 2.55 by ensuring that all movable items owned by the DAA are properly identified with a permanent stamp or property ID tag and that those ID numbers are recorded on the Property Ledger or Non-Capitalized Property Ledger.**

The DAA agrees with this recommendation. Compliance will take place once the DAA has adequate staff to perform this task. There is no current timetable when this can be completed

- 29. The 2nd DAA should comply SAM 4107 by ensuring vehicle logs are completed for all of its state vehicles.**

The DAA agrees with this recommendation. Staff has been directed to complete the vehicle log for all trips taking place in a state vehicle.

- 30. The 2nd DAA should make improvements by reporting the DGS rented vehicle's monthly mileage within a timely manner to avoid any unnecessary late fees.**

The DAA agrees with this recommendation. The vehicle has been returned to DGS.

- 31. The 2nd DAA should ensure all payments made to individuals for services are processed through the 2nd DAA's payroll system. Employees or individuals should not be paid in cash.**

The DAA agrees with this recommendation. The DAA has discontinued this practice.

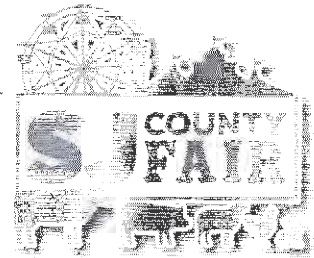
- 32. In the future, the 2nd DAA should comply with F&E's APM 2.77 by not purchasing alcohol.**

The DAA agrees with this recommendation. The DAA has discontinued the sale of alcohol at the direction of CDFA.

- 33. The 2nd DAA should improve its internal controls over petty cash transactions by ensuring that it is not used to pay any individual for services. These payments should be processed through the 2nd DAA's normal payroll or operating check payment process.**

The DAA agrees with this recommendation. Petty cash transactions are no longer being used to pay any individual for services.

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- 34. The 2nd DAA should improve its record keeping practices by ensuring a valid receipt is retained to justify all petty cash transactions.**

The DAA agrees with this recommendation. Recordkeeping is now in compliance with SAM 8112.

- 35. The 2nd DAA should comply with SAM 8112 by not incurring petty cash transactions more than the \$50 limitation. Transactions exceeding \$50, should be paid through the normal operating check payment process.**

The DAA agrees with this recommendation. Changes have been made to bring the DAA into compliance.

- 35. The 2nd DAA should improve its established written policies and procedures over its contracting and procurement processes by addressing the topics above. Once established, these policies and procedures should i) contain sufficient detail for the professional administration of contracting and procurement activities by employees, (ii) be updated regularly and (iii) be made available to all employees.**

The DAA agrees with this recommendation. Staff is being trained in the appropriate processes for purchasing and contracting. The PPM will be updated by the CEO and Board as time permits. There is no timetable for updating the Policies and Procedures. However, in the interim, CDFA, under its intervention authority has imposed the requirement that all expenditures of any type for more than \$1000 must be approved in advance by CDFA. This will allow CDFA to require sufficient detail for the professional administration of contracting and procurement for expenditures exceeding \$1000.

- 36. The 2nd DAA's Board President should contact the employee's brother and require him to submit detailed invoices to support the five check payments he received in 2018 and 2019. At a minimum, the invoices should contain a clear description of the work performed, the contractor compensation rate, and a time schedule of work that was completed.**

The Board President opted not to follow up on this recommendation since the employee and his brother are no longer affiliated with the DAA.

- 37. The 2nd DAA should issue 1099s when applicable.**

The DAA agrees with this recommendation.

2nd District Agricultural Association

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If you need any additional information, please contact us.

Thank you,

[Redacted Signature]

Jennifer Stafford, CEO

3/8/2021

Date

[Redacted Signature]

Board Member

3/8/2021

Date

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 2nd DAA, San Joaquin County Fair for its review and response. We have reviewed the response and it satisfactorily addresses the audit findings contained within this report, with the exception of the following items:

The 2nd DAA's audit response to recommendation #23 – *The 2nd DAA should comply with the limits established by the Constitution of the State of California by limiting the amount of time worked by temporary employees to less than six months within a calendar year.* – indicated the 2nd DAA is providing a monthly "Employee Hours Report" to the Board and CEO showing hours worked. The Fair should monitor the days worked to ensure temporary employees do not work in excess of six months in a calendar year.

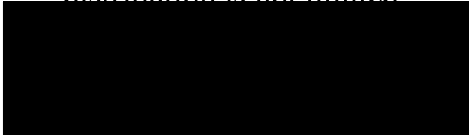
The 2nd DAA's audit response to recommendation #36 – *The 2nd DAA's Board President should contact the employee's brother and require him to submit detailed invoices to support the five check payments he received in 2018 and 2019. At a minimum, the invoices should contain a clear description of the work performed, the contractor compensation rate, and a time schedule of work that was completed.* The Fair stated the recommendation will not be followed. Without additional information, we could not determine the appropriateness of these five transactions and therefore the recommendation should be followed as stated.

For several recommendations, the 2nd DAA indicated "There is no current timetable when this can be completed." Our Office advises the Fair to implement these recommendations as soon as possible but no later than six months from this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 30, 2019 and December 18, 2019. Throughout fieldwork my staff met with management to discuss our observations, the findings, recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Fairs and Expositions Branch. However, this report is a matter of public record and its distribution is not limited



Ron Shackelford, CPA
Chief, Audit Office

December 18, 2019

REPORT DISTRIBUTION

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