

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**STATUS REPORT AND
FINANCIAL AUDIT REPORT OF THE
CALIFORNIA EXPOSITION AND STATE FAIR
YEAR ENDED JUNE 30, 1986**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-618

STATUS REPORT AND FINANCIAL AUDIT REPORT
OF THE CALIFORNIA EXPOSITION AND STATE FAIR
YEAR ENDED JUNE 30, 1986

MARCH 1987



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F-618

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

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the operations of the California Exposition and State Fair (Cal Expo). This report indicates that although Cal Expo's financial condition improved in fiscal year 1985-86, Cal Expo must continue to work toward becoming fiscally independent from the State's General Fund support. The report also indicates that Cal Expo does not follow proper accounting procedures, does not adequately control cash receipts, does not have an adequate preventive maintenance plan, and has not developed a satisfactory interim usage marketing plan.

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

Respectfully submitted,

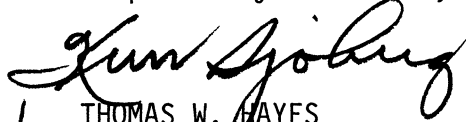

THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

In 1980, state law required the California Exposition and State Fair (Cal Expo) to work toward becoming fiscally independent of the State's General Fund. For the first time, in fiscal year 1985-86, Cal Expo's operating revenues, which do not include the State's General Fund appropriations or other state support, exceeded expenditures by approximately \$684,600. The major reason for this surplus was the introduction of "simulcast" televising of horse races, from which Cal Expo received almost \$2.2 million. Cal Expo's continued fiscal independence is not guaranteed, however, because Cal Expo is not assured of receiving all simulcast revenues in future years, and because despite completing almost \$1 million in needed maintenance projects, Cal Expo still has over \$4.1 million in maintenance and repairs to complete. Moreover, Cal Expo has made efforts to implement the recommendations we made in a 1986 report by strengthening its management controls although it needs to make additional improvements.

BACKGROUND

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

Cal Expo's sources of funding include appropriations from the State's General Fund and revenues from the state fair and other events. In fiscal year 1985-86, Cal Expo received a total of \$13.5 million; of this total, \$1.76 million came from the State's

General Fund. The Food and Agriculture Code, Section 3301, added by the Statutes of 1980, required Cal Expo's board of directors to work toward becoming fiscally independent of the State's General Fund.

PRINCIPAL FINDINGS

Cal Expo Must Continue To Work Toward Becoming Fiscally Independent

Despite ending fiscal year 1985-86 with an excess of revenues over expenditures, Cal Expo is not assured of continued fiscal independence. During 1985-86, Cal Expo's operating revenues--revenues from the state fair and other events--totaled \$11.19 million. In that same fiscal year, Cal Expo spent \$10.5 million, resulting in a positive balance of approximately \$684,600. Although revenue from the state fair in 1985-86 declined, revenue from other events increased significantly, largely because of the introduction of simulcast televising of horse races. This new source of revenue brought Cal Expo approximately \$2.2 million. However, only \$960,000 of this amount was guaranteed to Cal Expo as its percentage of total receipts; the remainder, \$1.2 million, was a discretionary allocation, and Cal Expo cannot be certain that it will receive similar amounts in the future. Additionally, Cal Expo still faces over \$4.1 million in deferred maintenance and repair projects despite completing nearly \$1 million in needed repairs.

Cal Expo Must Continue To Work Toward Improving Its Management Controls

Our report, "Lack of Management Control and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," Report P-490, January 1986, recommended a number of ways in which Cal Expo could improve its operations. Since that report was issued, Cal Expo has improved its financial reporting system and contracting procedures, increased its revenue

from the interim use of the Cal Expo facility, and has sought alternative sources of income. However, Cal Expo still has deficiencies in its management controls. For example, Cal Expo has not prepared a schedule of preventive maintenance, does not maintain adequate records for its assets, does not follow proper accounting procedures, and has not developed an interim usage marketing plan.

RECOMMENDATIONS

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

- Continue to seek sources of funding to complete needed maintenance projects and prepare a preventive maintenance schedule;
- Pursue the collection of outstanding advances;
- Establish a ticket inventory control system and reassign accounting duties to provide an adequate separation of duties for the collection and deposit of receipts;
- Properly accrue accounts payable; and
- Develop an interim usage marketing plan and determine the costs of renting the facility.

AGENCY COMMENTS

The California Exposition and State Fair generally concurs with our findings about Cal Expo's financial condition and management controls and agrees to implement our recommendations. In its response, Cal Expo also provides some additional information about the state fair.

INTRODUCTION

On January 10, 1986, the Office of the Auditor General issued a report that detailed severe management problems at the California Exposition and State Fair (Cal Expo). The report concluded that a lack of self-generated revenue and poor management controls had contributed to Cal Expo's inability to achieve fiscal independence. Our current report contains the results of our financial audit of Cal Expo for fiscal year 1985-86, mandated by the Food and Agriculture Code, Section 3337. In addition, this report reviews Cal Expo's efforts to correct its management problems and implement the recommendations we made in the earlier report.

Cal Expo

In 1980, state law removed the responsibility for Cal Expo from the Department of Parks and Recreation and established Cal Expo as a separate, independent entity in state government. Cal Expo is responsible for managing the annual state fair and providing a site for events held during the remainder of the year (interim events). These events include motorcycle racing, dog shows, auctions, and vehicle shows.

The annual state fair runs, on the average, for 17 days from mid-August to early September and provides a showcase for the agricultural, recreational, and industrial resources of the State. The

fair provides an arena for the presentation of new ideas and information for the education of visitors. Also, the fair provides a marketplace for the demonstration, advertisement, and sale of goods and services. Finally, the fair provides opportunities for youths, participating in programs such as scouting, 4-H, and the Future Farmers of America, to compete in agricultural and livestock events.

Cal Expo opened on its present site in 1968. The site consists of approximately 700 acres along the American River in Sacramento County. Approximately 350 acres of the 700 acres are protected under the Bushy Lake Preservation Act; only a portion of the protected land may be used and only on a limited basis. The other 350 acres are used for the state fair and other events. Cal Expo facilities include a racetrack, exposition buildings, an aquatic amusement park, and a concert amphitheater.

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

Previous Auditor General Report on the
California Exposition and State Fair

The Office of the Auditor General issued a report entitled, "Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," Report P-490, January 1986. In Appendix A, we discuss Cal Expo's efforts to implement our recommendations for seeking alternatives to increase revenues and improving management controls.

SCOPE AND METHODOLOGY

We conducted a financial audit of Cal Expo's portion of the State's General Fund as of, and for the fiscal year ended June 30, 1986, and the California Exposition and State Fair Enterprise Fund as of June 30, 1986, and for February 25, 1986, through June 30, 1986. We evaluated Cal Expo's internal accounting controls to determine the audit procedures and the extent of testing necessary to express an opinion on the financial statements of Cal Expo.

In addition, we evaluated Cal Expo's progress in correcting the management problems identified in our previous report. In October 1986, we examined the report recommendations and Cal Expo's responses to them. We then interviewed Cal Expo personnel, observed completed maintenance projects, and reviewed Cal Expo records to determine the extent to which Cal Expo had implemented these recommendations.

AUDIT RESULTS

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

The California Exposition and State Fair (Cal Expo) has improved its financial condition and its management controls; however, more improvement is needed if Cal Expo is to remain financially independent of the State's General Fund. In October 1985, Cal Expo introduced simulcast televising of horse races, a new revenue source that generated approximately \$2.2 million. As a result, for the first time, Cal Expo's revenues exceeded its expenses by approximately \$684,600. In addition, Cal Expo has implemented many of the recommendations in our report, "Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," Report P-490, January 1986; however, it still has deficiencies in its management controls. For example, Cal Expo does not follow proper accounting procedures, does not maintain adequate asset records, does not adequately control cash receipts from ticket sales, and has not developed a satisfactory interim usage marketing plan. Finally, while Cal Expo used approximately \$1 million in fiscal year 1985-86 to complete needed maintenance on the Cal Expo facility, it has not budgeted any funds in fiscal year 1986-87 to complete the more than \$4.1 million in repairs and maintenance that remain.

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

Since 1980, when state law required Cal Expo's board of directors to work toward a goal of fiscal independence from the State's General Fund, Cal Expo has received state General Fund support. In fiscal year 1985-86, Cal Expo received about \$1.76 million from the State's General Fund, but Cal Expo also earned enough revenue to pay for its operations, which included approximately \$1 million for deferred maintenance projects. As a result, Cal Expo ended fiscal year 1985-86 with a \$727,000 surplus in its California Exposition and State Fair Enterprise Fund. However, Cal Expo still needs to complete approximately \$4.1 million in deferred maintenance on the Cal Expo facility. Consequently, Cal Expo must continue to generate operating income in excess of operating expenses if it is to become financially independent from the State's General Fund. Cal Expo's improved financial condition in the current fiscal year resulted primarily from the increased revenues generated by simulcast horse races; however, there is no guarantee that Cal Expo will continue to receive similar amounts in future years.

In fiscal year 1985-86, Cal Expo earned approximately \$11.19 million in operating income from revenues from the state fair and interim events and from reimbursements for security, clean up, and other services that Cal Expo provides. This operating income is approximately \$684,600 more than its total operating expenses for the

year and approximately \$1.86 million more than the approximately \$9.33 million in operating income for the fiscal year 1984-85. Table 1 compares Cal Expo's operating income and operating expenses for fiscal years 1984-85 with Cal Expo's operating income and expenses for fiscal year 1985-86.

TABLE 1
CALIFORNIA EXPOSITION AND STATE FAIR
OPERATING INCOME AND EXPENSES
FISCAL YEARS 1984-85 AND 1985-86

	<u>1984-85</u>	<u>1985-86</u>	<u>Increase (Decrease)</u>
Operating Income			
State fair revenue	\$ 7,233,800	\$ 6,813,300	\$ (420,500)
Interim event revenue	1,475,000	3,852,200	2,377,200
Reimbursements	<u>621,900</u>	<u>520,500</u>	<u>(101,400)</u>
Total Operating Income	<u>9,330,700</u>	<u>11,186,000</u>	<u>1,855,300</u>
Operating Expenses			
Personal services	5,102,000	5,324,800	222,800
Other operating expenses	<u>5,946,600</u>	<u>5,176,600</u>	<u>(770,000)</u>
Total Operating Expenses	<u>11,048,600</u>	<u>10,501,400*</u>	<u>(547,200)</u>
Operating Income Minus Expenses	<u>\$(1,717,900)</u>	<u>\$ 684,600</u>	<u>\$2,402,500</u>

*This amount includes approximately \$1 million in deferred maintenance expenses and approximately \$213,000 used to repair flood damage to the Cal Expo facility. It does not include approximately \$343,000 in depreciation expense because depreciation expense does not require an expenditure of cash.

Cal Expo's operating income increased despite an approximate \$421,000 decrease in revenue from the state fair and an approximate \$101,000 decrease in reimbursements because revenue from interim events increased by approximately \$2.38 million. The increase in revenue from interim events results primarily from Cal Expo's introduction of simulcasted horse races. Cal Expo receives broadcasts by satellite of horse races held at other racetracks, allowing patrons in Sacramento to bet on these races. In fiscal year 1985-86, Cal Expo received a total of approximately \$2.2 million from simulcasted horse races. Of this amount, Cal Expo received about \$960,000 in revenues from simulcasting commissions, admission fees, and sales of food and beverage and will continue to receive these types of revenues as long as Cal Expo continues to provide simulcasted horse races. However, approximately \$1.2 million of the \$2.2 million was a discretionary allocation from the Satellite Wagering Account and is not a guaranteed source of income for the future.

By law, all revenues payable to the State from satellite wagering facilities such as Cal Expo must be deposited in the separate Satellite Wagering Account. Funds in this separate account are administered by the Department of Food and Agriculture and are available for various purposes, including the repayment of bonds used to finance improvements at fair racetracks, health and safety repair projects at fairs, and support purposes of fairs generally. However, the director of the Department of Food and Agriculture, at his or her discretion, controls the allocation of these funds. While Cal Expo

will receive approximately \$992,000 from the Satellite Wagering Account in fiscal year 1986-87 and a \$500,000 appropriation is proposed for fiscal year 1987-88, these are discretionary allocations, and there is no guarantee that these funds will be a continuing source of funds after fiscal year 1986-87.

In addition to its operating income, in fiscal year 1985-86, Cal Expo also received approximately \$1.76 million from the State's General Fund and approximately \$570,000 in other state support. Table 2 shows all sources of support for Cal Expo for fiscal years 1984-85 and 1985-86.

TABLE 2
CALIFORNIA EXPOSITION AND STATE FAIR
SOURCES OF SUPPORT
FISCAL YEARS 1984-85 AND 1985-86

	<u>1984-85</u>	<u>1985-86</u>	<u>Increase (Decrease)</u>
Operating Income			
State fair revenue	\$ 7,233,800	\$ 6,813,300	\$ (420,500)
Interim event revenue	1,475,000	3,852,200	2,377,200
Reimbursements	<u>621,900</u>	<u>520,500</u>	<u>(101,400)</u>
	<u>9,330,700</u>	<u>11,186,000</u>	<u>1,855,300</u>
Other Sources			
State's General Fund	<u>1,751,300</u>	<u>1,757,500</u>	<u>6,200</u>
Other State Support			
Fair and exposition fund	265,000	265,000	
Special account for capital outlay	179,000		(179,000)
State fair police special account	12,000	3,000	(9,000)
Disaster response account (flood relief)		<u>299,000</u>	<u>299,000</u>
	456,000	567,000	111,000
Total Support	<u>\$11,538,000</u>	<u>\$13,510,500</u>	<u>\$1,972,500</u>

Because Cal Expo's operating income exceeded its operating expenditures, and it also received General Fund and other state support, Cal Expo ended fiscal year 1985-86 with a \$727,000 surplus in its California Exposition and State Fair Enterprise Fund. As shown in our audited financial statements on page 34 of this report, Cal Expo had \$727,117 in retained earnings on June 30, 1986. Cal Expo reported

its June 30, 1986, retained earnings balance in the California Exposition and State Fair Enterprise Fund as approximately \$2.16 million, and Cal Expo reports its financial condition according to state laws and regulations. However, we had to adjust Cal Expo's financial records to prepare our financial statements in accordance with generally accepted accounting principles, thus presenting Cal Expo's financial data in the same way as that of a business in the private sector. Consequently, our figure and Cal Expo's figure for retained earnings are different because of differences in accounting treatment for certain items of revenue, reimbursements, and expenditures.

While Cal Expo has improved its financial condition in fiscal year 1985-86, it must continue to generate operating surpluses in future years to become financially independent from the State's General Fund. However, Cal Expo's slow progress in completing needed deferred maintenance projects may restrict its ability to become fiscally independent; Cal Expo still needs to complete approximately \$4.1 million in deferred maintenance on the Cal Expo facility.

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

Although Cal Expo has taken steps to improve its management controls, more improvement is needed. However, Cal Expo has addressed many of the recommendations that the Office of the Auditor General made in the January 1986 report. For example, Cal Expo has made

improvements in its financial reporting system and contracting practices, has completed some needed maintenance projects, and increased its revenue from the rental of Cal Expo facilities for the interim between state fairs. Furthermore, Cal Expo has taken steps to find alternative sources of income by introducing simulcasted horse races and by seeking proposals to lease and develop a portion of the Cal Expo grounds. (These improvements are discussed in detail in Appendix A of this report). However, Cal Expo has not addressed all of the recommendations and still needs to complete other much needed maintenance projects, further improve its control over fixed assets, further improve its fiscal reporting system, and develop an interim usage marketing plan.

Cal Expo Needs to Complete Other Necessary Maintenance Projects

Cal Expo has made some improvements in the physical condition of the Cal Expo facility; however, insufficient funding for deferred maintenance projects and the lack of a formal preventive maintenance program continue to be significant problems. Although Cal Expo used approximately \$1 million in fiscal year 1985-86 to complete some deferred maintenance projects, it has not budgeted any funds in fiscal year 1986-87 to address the more than \$4.1 million of deferred maintenance projects that remain to be done. In addition, Cal Expo has not yet completed a formal maintenance plan that could prevent unnecessary repairs and higher long-term maintenance costs in the future.

In 1985, engineers from the Department of Food and Agriculture, Division of Fairs and Exposition (DFA), completed a survey of the physical condition of the Cal Expo facility. The DFA engineers determined that the Cal Expo grounds need almost \$4.6 million worth of health, safety, structural, electrical, and maintenance work. The DFA report concluded that in order "to generate additional revenue, (Cal Expo) should have an attractive and well-maintained physical plant that will encourage the public to utilize its facilities." Subsequently, Cal Expo revised certain costs and added some projects to the DFA list, increasing the estimated costs for required deferred maintenance to approximately \$5.1 million.

In fiscal year 1985-86, Cal Expo received from the State's General Fund \$1 million for deferred maintenance projects and has completed almost \$1 million worth of projects identified by the DFA engineers. For example, Cal Expo corrected potential safety hazards by replacing badly cracked sidewalks and by placing a fence around the canal that runs through the facility. Cal Expo has also completed projects that beautify the facility, such as remodeling the main gate entrance with decorative brick and new tree planters. Although many projects have been completed, more than \$4.1 million in deferred maintenance remains to be done.

However, Cal Expo's progress toward completing these remaining deferred maintenance projects has slowed because of a limited amount of funds. In fiscal year 1986-87, Cal Expo has not received any special

funding for maintenance and has not budgeted any operating funds for deferred maintenance projects. While Cal Expo has identified the most important projects that need to be addressed, according to Cal Expo's administrator, Cal Expo can only complete these deferred maintenance projects if the funding is available.

According to the administrator, Cal Expo plans to spend about \$300,000 to relight the racetrack and reroof the administration building before the end of fiscal year 1986-87. Although Cal Expo had not budgeted any funds for these projects, a provision in the Budget Act of 1986 permits Cal Expo, with the director of the Department of Finance's authorization, to increase its budgeted spending authority, up to 10 percent, if revenue is available. According to the administrator, Cal Expo has projected that some revenue is available from fiscal year 1986-87 operations, as well as an additional \$727,000 surplus from the previous fiscal year, and has requested authorization to complete the projects.

In addition to its problems in addressing the facility's deferred maintenance needs, Cal Expo has still not completed a formal preventive maintenance plan. As a result, Cal Expo may experience costly and unnecessary repairs and higher long-term costs due to the accelerated deterioration of its facility. According to Cal Expo's administrator, Cal Expo is developing a formal preventive maintenance plan that will provide for the systematic servicing and inspection of Cal Expo's facility. The administrator added that, although there is

currently no formal plan, Cal Expo maintenance staff do perform ongoing repairs and servicing of the Cal Expo site.

A preventive maintenance plan is necessary to ensure that Cal Expo's facilities are routinely inspected and serviced and that plant and equipment items are repaired or replaced before malfunctions or premature deterioration occur. The lack of a preventive maintenance plan may result in inefficient operations due to breakdowns and may prevent a continued flow of revenue for Cal Expo. At a minimum, a satisfactory plan should include a comprehensive list of all plant and equipment items that should be routinely inspected and serviced. The plan should also include a formal preventive maintenance schedule that includes checklists of the inspections and servicing to be accomplished, the frequency of work, and the standard time it takes to perform the inspections and servicing of each item. Once in use, the preventive maintenance plan should be periodically reviewed to ensure that work is accomplished as planned.

According to Cal Expo's administrator, Cal Expo is developing a preventive maintenance plan using recommendations from a report prepared by an independent consulting firm in 1980. The consulting firm conducted a study to assist Cal Expo in developing a maintenance plan and management system. The consulting firm's report identified the necessary components of a preventive maintenance plan, including an inventory of Cal Expo's plant and equipment items needing service, the standard times for accomplishing projects, and the required frequency

of maintenance. Cal Expo plans to update the findings of the consulting firm and complete a preventive maintenance plan before the end of fiscal year 1986-87.

Cal Expo Needs To Further Improve
Its Control of Fixed Assets

Although Cal Expo has implemented procedures to survey and remove surplus equipment, much improvement is needed to provide adequate control and accountability for fixed assets as required by the State Administrative Manual, Section 8600, et seq. For example, for fiscal year 1985-86, Cal Expo did not maintain accurate and complete equipment records and did not use accounting records to provide accountability for equipment. We found that Cal Expo had not added all purchases of equipment to its equipment list and had not assigned a value to all of its equipment. In addition, Cal Expo had not reconciled its property records to its general ledger accounts, and it had not developed the property data for monthly entries in the general ledger.

Cal Expo also did not maintain adequate records either to determine or to estimate the original cost of other fixed assets, such as land, buildings, and improvements. Consequently, Cal Expo did not record all fixed assets and related depreciation in its property records or its June 30, 1986, financial statements. Because Cal Expo has not maintained appropriate property records, state property is exposed to an increased risk of loss.

Cal Expo Needs To Further Improve
Its Fiscal Reporting System

The Government Code, Section 13401, states that each state agency must maintain effective internal accounting and administrative controls. Further, the Government Code, Section 13403, states that these controls must provide reasonable assurance that the state agencies are checking the accuracy of accounting data, are promoting operational efficiency, and are encouraging adherence to managerial policies. Elements of a good system of internal control include authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; a plan of organization that segregates duties to safeguard state agency assets; and an effective system of internal review.

Cal Expo's financial statements as of June 30, 1986, were inaccurate. For example, Cal Expo overstated its June 30, 1986, General Fund and California Exposition and State Fair Enterprise Fund accounts payable balances by approximately \$81,000 and \$727,000, respectively, because it included in the accounts payable balance of Cal Expo's General Fund amounts that it did not earmark for purchases until July 1986 and because it included in the accounts payable balance of the California Exposition and State Fair Enterprise Fund amounts for goods and services that had not been received by June 30. In addition, because Cal Expo's fixed asset records were inaccurate and incomplete, it was unable to include all fixed assets and the related depreciation

expense in its fiscal year 1985-86 financial statements. As a result of these errors, Cal Expo overstated its expenditures by approximately \$500,000. These errors have been corrected in the audited financial statements presented on pages 31 through 44 and also in Table 1 on page 7 of this report.

There are also deficiencies in Cal Expo's accounting controls. For example, Cal Expo does not provide adequate control over the collection and deposit of cash receipts from the sale of parking and admission tickets for Cal Expo events. This weakness results from both an inadequate separation of duties and also poor controls over the inventory of tickets. Specifically, one employee distributes tickets to sellers, accounts for tickets issued and sold, and deposits the cash in the bank. However, no other employee consistently verifies that all amounts collected were actually deposited. This deficiency is compounded by Cal Expo's poor control over its inventory of tickets. Although Cal Expo uses prenumbered tickets to account for tickets used by individual ticket sellers, it does not maintain an inventory control log to account for all tickets issued and sold. This prevents the prompt reconciliation of amounts that individual ticket sellers report as sold with the actual ticket inventory used.

Because of the large amounts of cash handled at Cal Expo, it is especially important to provide good controls over cash transactions. In fiscal year 1985-86, Cal Expo reported about \$4 million from the sale of parking and admission tickets for the state

fair and for interim events. Without sufficient accountability for tickets used and proper separation of duties over cash transactions, an employee can conceal irregularities, responsibility for errors may not be determined, and cash collections from the sale of tickets may not be deposited intact.

In addition, Cal Expo does not maintain adequate control over cash disbursements for goods and services. We tested a total of 60 disbursements from three separate bank accounts maintained by Cal Expo. Of the 60 transactions tested, 9 disbursements totaling approximately \$2,600 were not properly authorized, and 5 of the 9 disbursements were also not adequately supported. This lack of control over disbursements occurred in all three of the bank accounts we tested. These improper transactions occurred during the state fair when there was an increased workload. However, without proper authorization and documentation for disbursements, Cal Expo may incur unplanned and inappropriate expenditures. Disbursements may be made without the management's knowledge or against the management's specific intentions.

Furthermore, Cal Expo has not reconciled the general ledger's uncleared collections account balance to the uncleared collections balance in the subsidiary cash receipts register. However, the State Administrative Manual, Section 7900, discusses the importance of making regular reconciliations. The reconciliation of subsidiary records with associated general ledger accounts represents an important element of internal control because it provides a high level of confidence that

transactions have been adequately processed and that the financial records are complete. As of June 30, 1986, the uncleared collections balance in the cash receipts register was approximately \$38,000 greater than the \$143,000 general ledger balance. According to Cal Expo's accounting officer, Cal Expo has not had accounting staff available to perform a complete reconciliation and these balances have not been reconciled for several years.

Cal Expo does not adequately separate incompatible accounting duties. However, the State Administrative Manual, Section 8080, states that no one person will perform more than one of the following duties: receiving and depositing remittances, authorizing disbursements, preparing checks, signing checks, and preparing invoices. In addition, a person who authorizes a disbursement or prepares a check should not distribute the check. In the Cal Expo accounting unit, one employee receives and deposits remittances, prepares invoices and checks, and distributes checks. Two other employees prepare checks and also distribute them. In addition, another person outside of the accounting unit receives and deposits remittances, authorizes disbursements, prepares checks, signs checks, and also distributes the checks. Cal Expo's accounting officer attributes the inadequate separation of duties to understaffing in the accounting section. Unless the duties of processing cash transactions are properly separated, an employee can conceal irregularities, and responsibility for errors may not be determined.

Cal Expo also has not improved controls and accountability for its revolving fund. Specifically, Cal Expo does not promptly collect outstanding salary advances or promptly submit revolving fund expenditures to the State Controller's Office for reimbursement. In addition, Cal Expo does not maintain a receivables ledger to account for revolving fund transactions. Good accounting procedures require the revolving fund to be reimbursed promptly. In addition, the State Administrative Manual, Section 8118, requires that agencies collect the repayment for salary advances from the subsequently issued payroll warrant for the period covered by the salary advance and not clear the advance on an installment. Furthermore, the State Administrative Manual, Section 8190, states that each agency will maintain a receivables ledger to account for transactions of the revolving fund. On June 30, 1986, there were unreimbursed revolving fund checks totaling \$8,100 that were at least six months old. In addition, almost \$1,700 of this amount reflects long outstanding salary advances from as long ago as October 1980. Furthermore, the revolving fund account included unsupported amounts for cash purchase and change funds totaling \$11,150. Cal Expo's failure to pursue promptly the collection of outstanding advances and its failure to maintain adequate support for expenditures reduce the probability that these amounts will be recovered.

Finally, Cal Expo has not cancelled checks that have been outstanding for over two years even though the State Administrative Manual, Section 8042, requires the cancellation of outstanding checks.

In determining the accuracy of the bank reconciliation and the cash account balance as of June 30, 1986, we found 12 checks totaling \$485 that were outstanding for more than two years. Additionally, in verifying one other bank account used for horse racing events, we found 30 checks outstanding for more than two years that totaled almost \$4,000. Of this amount, 13 checks totaling \$1,225 were more than four years old.

Cal Expo Needs To Develop
an Interim Usage Marketing Plan

Revenues from the interim use of the Cal Expo facility have increased, but Cal Expo has experienced problems in developing interim usage marketing plans. Although interim event revenues have increased from \$1.4 million in fiscal year 1984-85 to \$2.6 million in fiscal year 1985-86, according to Cal Expo's general manager, he has not been pleased with the marketing of interim usage of the Cal Expo facility. He noted that the Cal Expo marketing manager resigned in October 1986, and a satisfactory marketing plan had not been prepared. In order to improve Cal Expo's interim usage marketing, the general manager is replacing the marketing manager's position with an "account manager." An account manager has specialized sales experience and, as a result, will concentrate on identifying Cal Expo's market and selling the facility. In addition, the general manager has contracted with a local public relations firm to provide public relations services and has also contracted with another firm to provide an advertising plan and

services for the 1987 state fair. The responsibility for the development of state fair sponsors and promotions has been shifted to the Cal Expo program unit.

In addition, Cal Expo still does not have information to determine whether its rental rates cover the costs to Cal Expo of renting the facilities. According to Cal Expo's administrator, the calculation of exact costs for the rental of Cal Expo's facilities have not been completed. He noted that it is difficult to calculate certain costs because the majority of the costs for the facility occur during the short period of the state fair. Therefore, he feels it is not equitable to distribute these costs for the rest of the year.

CONCLUSION

In fiscal year 1985-86, the California Exposition and State Fair received \$1.76 million from the State's General Fund; however, Cal Expo earned enough revenue to pay for its operations, which included approximately \$1 million for deferred maintenance projects. As a result, Cal Expo ended fiscal year 1985-86 with a \$727,000 surplus in its California Exposition and State Fair Enterprise Fund. However, Cal Expo still needs to complete approximately \$4.1 million in deferred maintenance on the Cal Expo facility; consequently, continued improvement is needed if Cal Expo is to remain financially independent of the State's General Fund.

In addition, Cal Expo has taken steps to implement the recommendations in our report, "Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," Report P-490, January 1986, but Cal Expo still needs to improve its management controls. Cal Expo has made improvements in its financial reporting system and contracting procedures, has completed needed maintenance projects, increased its revenue from the interim use rental of the Cal Expo facility, and sought alternative sources of income. However, Cal Expo still needs to complete other much needed maintenance projects, further improve its control over fixed assets, further improve its fiscal reporting system, and develop interim usage marketing plans.

RECOMMENDATIONS

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

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

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

- Establish a ticket inventory control system and reassign accounting duties to provide an adequate separation of duties for the collection and deposit of cash receipts;

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

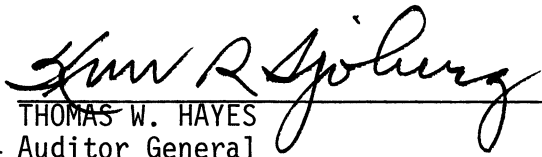
- Ensure that all disbursements are properly authorized and adequately documented;
- Accrue as accounts payable only amounts that should be included in the accounts payable at year end;
- Prepare regular reconciliations of the general ledger uncleared collections account balance to subsidiary cash receipts registers; and
- Reassign accounting duties to provide the separation of duties required by the State Administrative Manual, Section 8080.

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

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

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

Respectfully submitted,


for THOMAS W. HAYES
Auditor General

Date: March 30, 1987

Staff: Sally Filliman, CPA, Audit Manager
Sylvia Hensley, CPA
Michael Evashenk, CPA
Clifton Curry
Perla Netto-Brown
Shirley Harris-Clark

FINANCIAL SECTION



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Members of the Joint Legislative Audit Committee
State of California

We have examined the balance sheet of California Exposition and State Fair's portion of the State's General Fund as of June 30, 1986, and the related statement of revenues, expenditures, and changes in clearing balance for the year then ended. We also examined the balance sheet of the California Exposition and State Fair Enterprise Fund as of June 30, 1986, the related statement of revenues, expenses, and changes in retained earnings, and the statement of changes in financial position for February 25, 1986, through June 30, 1986. We made our examination in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as we considered necessary under the circumstances.

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

In our opinion, the financial statements referred to above present fairly the financial position of Cal Expo's portion of the State's General Fund as of June 30, 1986, the results of its operations and changes in the clearing balance for the year then ended, the financial position of the California Exposition and State Fair Enterprise Fund as of June 30, 1986, and the results of its operations and changes in financial position for February 25, 1986, through June 30, 1986, in conformity with generally accepted accounting principles.

OFFICE OF THE AUDITOR GENERAL

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

CURT DAVIS, CPA
Deputy Auditor General

January 18, 1987

**STATE OF CALIFORNIA
CALIFORNIA EXPOSITION AND STATE FAIR
BALANCE SHEETS
AS OF JUNE 30, 1986**

	<u>General Fund</u>	<u>Enterprise Fund</u>
ASSETS		
Cash and pooled investments	\$105,868	\$ 935,535
Receivables (net of uncollectibles)	1,366	117,137
Due from other funds	17,872	2,688,504
Prepaid expenses	5,880	
Fixed assets (Note 2)		<u>13,130,318</u>
 Total Assets	 <u>\$130,986</u>	 <u>\$16,871,494</u>
 LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 74,347	\$ 501,906
Due to other funds	96,134	131,840
Due to other governments		1,848
Compensated absences payable (Note 13)		184,704
Advance collections		64,805
Other liabilities		<u>144,444</u>
 Total Liabilities	 <u>170,481</u>	 <u>1,029,547</u>
 Fund Equity		
Contributed capital (Note 5)		15,114,830
Retained earnings		727,117
Clearing balance		
Reserved for encumbrances	107,165	
Clearing account (Note 4)	<u>(146,660)</u>	
 Total Fund Equity	 <u>(39,495)</u>	 <u>15,841,947</u>
 Total Liabilities and Fund Equity	 <u>\$130,986</u>	 <u>\$16,871,494</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
CALIFORNIA EXPOSITION AND STATE FAIR
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN CLEARING BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

Appropriations (Note 7)	\$10,351,127
Charges for Services	7,752,451
Miscellaneous Revenue	<u>77,209</u>
Total Appropriations and Revenue	<u>18,180,787</u>
Expenditures	7,007,112
Other Uses (Sources)	
Transfer of accountability to the State Controller (Note 8)	10,007,893
Residual equity transfer to the California Exposition and State Fair Enterprise Fund (Note 6)	841,918
Miscellaneous	<u>(406,302)</u>
Total Expenditures and Other Uses (Sources)	<u>17,450,621</u>
Excess of Appropriations and Revenue Over Expenditures and Other Uses	730,166
Clearing Balance, July 1, 1985, as Restated (Note 12)	<u>(769,661)</u>
Clearing Balance, June 30, 1986	<u>\$ (39,495)</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
CALIFORNIA EXPOSITION AND STATE FAIR
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FEBRUARY 25, 1986 THROUGH JUNE 30, 1986

Operating Revenues	
Services and sales	<u>\$1,964,336</u>
Operating Expenses	
Personal services	1,677,104
Services and charges	514,388
Depreciation	<u>342,594</u>
Total Operating Expenses	<u>2,534,086</u>
Operating Income (Loss)	<u>(569,750)</u>
Nonoperating Revenues (Expenses)	
Appropriation for flood damage (Note 9)	299,000
Expenses to repair flood damage (Note 9)	<u>(205,533)</u>
Total Nonoperating Revenue (Expenses)	<u>93,467</u>
Operating transfers in	<u>1,203,400</u>
Net Income	727,117
Retained Earnings, February 25, 1986	<u>0</u>
Retained Earnings, June 30, 1986	<u>\$ 727,117</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
CALIFORNIA EXPOSITION AND STATE FAIR
ENTERPRISE FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FEBRUARY 25, 1986 THROUGH JUNE 30, 1986

Sources of Funds	
From operations	
Net income	\$ 727,117
Add item not affecting cash	
Depreciation	<u>342,594</u>
Funds Provided from Operations	1,069,711
Contributed capital	15,114,830
Increases in current liabilities	
Accounts payable	501,906
Due to other funds	131,840
Due to other governments	1,848
Compensated absences payable	184,704
Advance collections	64,805
Other liabilities	<u>144,444</u>
Total Funds Provided	<u>17,214,088</u>
Application of Funds	
Acquisition of fixed assets	13,472,912
Increases in current assets	
Receivables	117,137
Due from other funds	<u>2,688,504</u>
Total Funds Applied	<u>16,278,553</u>
Net Increase in Cash	<u>\$ 935,535</u>

See the notes accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Definition of Reporting Entity

The accompanying financial statements reflect the financial position and results of operations of that portion of the State's General Fund allocated to the California Exposition and State Fair (Cal Expo) and the California Exposition and State Fair Enterprise Fund. This report does not include the financial activities of other funds and account groups accounted for at Cal Expo. Further, the financial statements do not reflect the activities of the State's General Fund accounts of the State as a whole.

2. Summary of Significant Accounting Policies

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

A. Fund Accounting

The California Exposition and State Fair's General Fund accounts are a part of the State's General Fund, which is the main operating fund for the State. The State's General Fund, a governmental fund, accounts for transactions that are not required to be accounted for in another fund.

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

B. Basis of Accounting

The State's General Fund is accounted for on a modified accrual basis. Revenues are recorded when they become measurable and available, and expenditures are recorded when the liability is incurred.

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

C. Change in Accounting Principle

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

Under the guidelines provided by the Governmental Accounting Standards Board, a general fund does not recognize depreciation on fixed assets whereas an enterprise fund does. Accordingly, the balance sheet of the Enterprise Fund at February 25, 1986, has been restated to show the cumulative effect of this accounting change. Accumulated depreciation of \$14,371,928 was recorded with a corresponding reduction of contributed capital. (See Notes 2 and 5)

D. Fixed Assets

Fixed assets, consisting of property, plant, and equipment, are recorded in the California Exposition and State Fair Enterprise Fund either at cost or at estimated fair market value at the date of acquisition, less accumulated depreciation. (See Note 11 for detail.) Depreciable fixed assets are depreciated over their estimated service lives, ranging from 3 to 40 years, using the straight-line method of depreciation.

3. Budgetary Accounting

For fiscal year 1985-86, as in prior years, the Legislature adopted a budget for support expenditures for Cal Expo's portion of the General Fund. Cal Expo is responsible for exercising budgetary control and ensuring that appropriations are not overspent. In addition, the State Controller controls appropriations and will not disburse funds in excess of an appropriation. The following schedule presents the budgeted appropriations and the actual (legal basis) expenditures and reimbursements for Cal Expo for the year ended June 30, 1986. These legal basis expenditures are reconciled to the General Purpose Financial Statements prepared in accordance with GAAP in Note 10.

	<u>Budget Appropriations</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Personal services	\$ 3,605,486	\$ 3,577,512	\$ 27,974
Operating expenditures and equipment	4,672,889	4,621,098	51,791
Reimbursements	(1,709,500)	(1,094,581)	614,919
Prior year expenditure adjustments	N/A	60,317	N/A
Prior year reimbursement adjustments	N/A	<u>(11,769)</u>	N/A
Total Expenditures (Legal Basis)		7,152,577	
Adjustments to reconcile to GAAP basis (See Note 10)		<u>(145,465)</u>	
Total Expenditures (GAAP Basis)		<u>\$ 7,007,112</u>	

4. Clearing Account

This account is the connecting link between the California Exposition and State Fair's General Fund accounts shown in these statements and the central accounts that the State Controller maintains for the State's General Fund. The balance in the clearing account is the amount by which Cal Expo's liabilities and encumbrances exceed Cal Expo's assets that have not been transferred to the State Controller as of June 30, 1986.

5. Contributed Capital

The contributed capital account is an equity account which shows the amount of permanent fund capital contributed to the California Exposition and State Fair Enterprise Fund by the State's General Fund. The following schedule summarizes the account balance at June 30, 1986:

Appropriation from State's General Fund	\$ 800,000
Items transferred from Cal Expo's portion of the State's General Fund pursuant to Chapter 8 of the Statutes of 1986:	
Fixed assets	27,844,840
Revenues and reimbursements	991,454
Less:	
Accumulated depreciation (See Note 2)	(14,371,928)
Accumulated vacation leave (See Note 13)	<u>(149,536)</u>
Total	<u>\$15,114,830</u>

6. Residual Equity Transfer

The following schedule summarizes the account balance at June 30, 1986:

Revenues and reimbursements transferred to the California Exposition and State Fair Enterprise Fund pursuant to Chapter 8, Statutes of 1986	\$ 991,454
Accumulated vacation leave (See Note 13)	<u>(149,536)</u>
Total	<u>\$ 841,918</u>

7. Appropriations

Appropriations consist of payments made by the State Controller and charged to Cal Expo's budget appropriation. (See Note 3.)

8. Transfer of Accountability to the State Controller

This account represents amounts that Cal Expo transferred from the cash account to the State's General Fund cash account, maintained by the State Controller.

9. Flood Appropriation

In fiscal year 1985-86, Cal Expo received an appropriation of \$299,000, in accordance with Executive Order No. E85-29, to provide funding for repair of flood damages. Expenses made to repair flood damage at June 30, 1986, totaled \$205,534.

10. Reconciliation of Legal to GAAP Basis

Cal Expo annually reports its financial condition according to state laws and regulations (legal basis) for the primary purpose of maintaining accountability of its budget. The legal basis records were used as the basis for audit and were adjusted to prepare the financial statements in accordance with GAAP.

Note 3 presents a schedule of the budgeted appropriations and the actual (legal basis) expenditures and reimbursements. This schedule is reconciled to the financial statements prepared in accordance with GAAP, as shown below. The primary difference between the legal basis accounting practices and GAAP is as follows:

Encumbrances

Encumbrances are goods and services that are ordered but not received. At the end of the year, they are recorded as expenditures on the legal basis. On the GAAP basis, encumbrances are reported as a reservation of clearing balance, reduced to reflect anticipated reimbursements.

Reclassifications and Miscellaneous

Certain reclassifications are necessary to present the financial statements in accordance with GAAP. The major reclassification was to report excess revenues and reimbursements transferred to the California Exposition and State Fair Enterprise Fund as a residual equity transfer rather than as a reduction of revenues and reimbursements.

**STATE OF CALIFORNIA
CALIFORNIA EXPOSITION AND STATE FAIR
GENERAL FUND
RECONCILIATION OF LEGAL BASIS TO GAAP BASIS
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 1986**

	<u>Adjustments to the Legal Basis</u>			<u>GAAP Basis</u>
	<u>Legal Basis</u>	<u>Encumbrances</u>	<u>Reclassifications and Miscellaneous</u>	
ASSETS				
Cash	\$ 105,868			\$ 105,868
Receivables	1,366			1,366
Due from other funds	17,872			17,872
Prepaid expenses	5,880			5,880
Total Assets	<u>\$ 130,986</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 130,986</u>
LIABILITIES AND CLEARING BALANCE				
Liabilities				
Accounts payable	\$ 280,344	\$(107,165)	\$(98,832)	\$ 74,347
Due to other funds	5,194		90,940	96,134
Total Liabilities	<u>285,538</u>	<u>(107,165)</u>	<u>(7,892)</u>	<u>170,481</u>
Clearing Balance				
Reserve for encumbrances		107,165		107,165
Clearing account	(154,552)		7,892	(146,660)
Total Clearing Balance	<u>(154,552)</u>	<u>107,165</u>	<u>7,892</u>	<u>(39,495)</u>
Total Liabilities and Clearing Balance	<u>\$ 130,986</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 130,986</u>
APPROPRIATIONS AND REVENUES				
Appropriations	\$10,351,127			\$10,351,127
Charges for services	6,868,000		\$884,451	7,752,451
Miscellaneous revenue	77,209			77,209
Total Appropriations and Revenue	<u>17,296,336</u>		<u>884,451</u>	<u>18,180,787</u>
EXPENDITURES	7,152,577	(107,165)	(38,300)	7,007,112
OTHER USES	9,606,785		836,724	10,443,509
Total Expenditures and Other Uses	<u>16,759,362</u>	<u>(107,165)</u>	<u>798,424</u>	<u>17,450,621</u>
Excess of Appropriations and Revenues Over (Under) Expenditures and Other Uses	536,974	107,165	86,027	730,166
Clearing Balance, July 1, 1985, as restated	<u>(691,526)</u>		<u>(78,135)</u>	<u>(769,661)</u>
Clearing Balance, June 30, 1986	<u>\$ (154,552)</u>	<u>\$ 107,165</u>	<u>\$ 7,892</u>	<u>\$ (39,495)</u>

11. Fixed Assets

The following schedule presents a summary of the fixed assets recorded in the California Exposition and State Fair Enterprise Fund as of June 30, 1986:

Land	\$ 1,643,577
Buildings and improvements	25,982,448
Equipment	<u>218,815</u>
Total Fixed Assets	27,844,840
Less accumulated depreciation	<u>14,714,522</u>
Net Fixed Assets	<u>\$13,130,318</u>

12. Clearing Balance, July 1, 1985, as Restated (GAAP Basis)

The clearing balance of Cal Expo's portion of the State's General Fund was restated to recognize the effect on prior periods of the change in accounting necessary to record compensated absences in accordance with Statement 4 of the National Council on Governmental Accounting. (See Note 13)

The following schedule summarizes the restatement of clearing balance:

Clearing balance, July 1, 1985	\$(691,526)
Prior period adjustment	
Effect of change in accounting for compensated absences	<u>(78,135)</u>
Clearing balance, July 1, 1985, as restated	<u>\$(769,661)</u>

13. Accrued Liability for Compensated Absences

At June 30, 1986, Cal Expo's liability for accumulated vacation, compensated time off, and personal holidays was \$184,704. Of this amount, \$149,536 is applicable to compensated absences earned before February 25, 1986. Accordingly, the beginning balance of contributed capital in the Enterprise Fund has been reduced by this amount.

The liability for compensated absences does not include amounts for accumulated sick leave because employees cannot receive cash for sick leave balances when they leave state service.

Accumulated sick leave may be exchanged upon retirement for service credits in an employee's retirement account.

14. Retirement Contributions

Regular employees of Cal Expo are members of the Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan. The amount that Cal Expo and its employees contribute to the PERS is determined actuarially under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as they are accrued. Cal Expo's share of retirement contributions for fiscal year 1985-86 was \$318,596.

**THE CALIFORNIA EXPOSITION AND STATE FAIR'S
IMPLEMENTATION OF PREVIOUS OFFICE OF
THE AUDITOR GENERAL RECOMMENDATIONS FOR
IMPROVING MANAGEMENT CONTROLS AND SEEKING
ALTERNATIVES TO INCREASE REVENUES**

The Office of the Auditor General issued the report, "Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence," Report P-490, January 1986. Below are the recommendations from this report and a summary of Cal Expo's efforts to implement them.

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

Recommendation

Maintain an allotment expenditure ledger to ensure that Cal Expo has up-to-date records of budgeted and actual expenditures. All expenditures should be encumbered and charged to appropriate budget categories.

Status

Cal Expo now maintains an accurate allotment expenditure ledger.

Recommendation

Determine the amount of and monitor payments due from revenue-producing contracts, and collect revenue promptly. Invoices should be prepared as promptly as possible after amounts are due.

Status

Cal Expo has implemented procedures to verify sales reports from contractors and validate the reports' accuracy. Furthermore, according to Cal Expo's senior accounting officer, Cal Expo generally provides ticket selling and ticket taking services for most revenue contracts. As a result, Cal Expo is able to deduct both the cost of the rent of the facility for an event and also the costs of reimbursable expenses before the contractor is paid. Therefore, Cal Expo obtains the revenue for the event at the time of the event instead of having to bill a contractor.

Recommendation

Review accounts receivable on a regular basis to determine whether accounts are collectible. Collection procedures described in the State Administrative Manual, Section 8710.1, should be followed, and accounts should be written off when necessary.

Status

In testing Cal Expo's financial records, we determined that the June 30, 1986, balance of accounts receivable contained approximately \$127,000 of uncollectible amounts. Although Cal Expo has not yet written off these accounts through the State Board of Control, Cal Expo properly included these amounts in the June 30, 1986, allowance for uncollectible accounts receivable.

Recommendation

Accrue all amounts that should be included in the accounts payable at year end.

Status

Cal Expo did not properly accrue accounts payable at June 30, 1986. As we discuss on pages 17 and 18 of our current report, Cal Expo overstated its June 30, 1986, General Fund and Enterprise Fund accounts payable balances by approximately \$81,000 and \$727,000, respectively.

Recommendation

Review unreimbursed expenditures made from the Revolving Fund to determine which are collectible. Cal Expo should send invoices immediately for those expenditures found to be collectible; the uncollectible ones should be cleared and the Revolving Fund reimbursed. Procedures should be established to present monthly invoices for reimbursement.

Status

Cal Expo still has not improved controls and accountability for its revolving fund. As we discuss on page 21 of our current report, Cal Expo does not promptly submit expenditures for reimbursement and does not maintain a receivables ledger.

Recommendation

Cancel outstanding checks more than two years old and remit those amounts to the Special Deposit Fund. Outstanding checks should be reviewed on a regular basis.

Status

As we discuss on pages 21 and 22 of our current report, Cal Expo has not yet cancelled all long outstanding checks.

To correct deficiencies in its contracting practices and thus to ensure that the State is legally protected, Cal Expo should take the following actions:

Recommendation

Follow all state laws and guidelines pertaining to the administration of contracts and all standard contracting procedures. Accordingly, Cal Expo should submit contracts to the Department of General Services for approval to comply with state requirements and keep all documentation relating to a contract award in a central contracts file. In addition, Cal Expo should ensure that all contracts and agreements are formalized in writing and that the contract unit reviews all contracts before they are signed by the contractor.

Status

Cal Expo has developed a detailed contract administration manual to provide instruction for Cal Expo staff on proper contracting procedures. Cal Expo has also improved its contracting procedures to ensure that contracts are properly reviewed and approved before the contracts are executed. We reviewed 10 (20 percent) of the 51 contracts that had been executed since January 1986; all the contracts have been approved by the Department of General Services if required, have been appropriately reviewed, and have the documentation supporting the contract award and any contract amendments in the central contracts file. However, we also found that although the contract term for 7 contracts in our sample had ended at least 30 days before our test, Cal Expo had not evaluated 5 of the 7 completed contracts as required by Public Contract Code, Section 10347.

Recommendation

Furthermore, Cal Expo should monitor contractors' sales reports and periodically check cash register tapes to ensure that the State is receiving the correct amount of revenues. When the contract specifies, Cal Expo should also require contractors to submit annual statements prepared and certified by an independent accountant.

Status

Cal Expo has implemented procedures to verify monthly sales reports from contractors and validate the reports' accuracy. For example, during the 1986 state fair, Cal Expo staff clandestinely observed contractors at random to ensure that the contractors were accurately recording sales. Cal Expo also used contractors' cash register tapes to verify the accuracy of the contractors' daily sales reports.

Recommendation

Finally, Cal Expo should adhere to the provisions set forth in its contracts to ensure that contractors are providing the correct services for which they contracted and to ensure that contracts are administered in the best interests of the State. Specifically, Cal Expo should conduct a physical inventory of the capital improvements claimed by the food and beverage concessionaire and determine whether these items meet the provisions of the contract. In addition, Cal Expo should ensure that future capital improvements made by the concessionaire are approved by Cal Expo and are not items that are to be provided at the concessionaire's own expense, as specified in the contract.

Status

Cal Expo implemented our recommendations for ensuring that contractors comply with contract requirements. For example, Cal Expo contracted with an independent certified public accountant to conduct a physical inventory of the capital improvements claimed by the food and beverage concessionaire. Cal Expo's contractor determined that of the \$783,145 of capital improvements reported by the concessionaire, \$295,872 are actually capital improvements and \$487,273 are not capital improvements. According to Cal Expo's general manager, the food and beverage concessionaire has agreed to make an additional \$250,000 in capital improvements to the Cal Expo facility.

To improve its control over its fixed assets, Cal Expo should take the following actions:

Recommendation

Correct the inventory records by including the additional pieces of equipment located during the physical inventory and removing those pieces of equipment that could not be located.

Cal Expo should also assign a value to all equipment on the inventory and ensure that the equipment list is kept accurately. In addition, Cal Expo should put identification numbers on all equipment and exercise greater control over sensitive equipment such as calculators, typewriters, and other highly desirable, portable items. Furthermore, Cal Expo should maintain survey records on all equipment removed from inventory records and use accounting and inventory records as controls for each other.

Status

Cal Expo has not significantly improved its control over its fixed assets. Of all of these recommendations, Cal Expo has only implemented procedures to survey and remove surplus equipment from the equipment records. As we discuss on page 16 in our current report, Cal Expo still has poor control over its fixed assets.

To improve the physical condition of the Cal Expo facility and to reduce the State's liability for the health and safety of the public who use the Cal Expo facility, Cal Expo should take the following actions:

Recommendation

Determine which projects identified by the Department of Food and Agriculture should be addressed immediately, such as health and safety hazards and structural deficiencies. In addition, Cal Expo should identify and undertake projects that will bring immediate cost savings for the facility, such as replacing the lighting at the racetrack.

Status

Although Cal Expo has completed approximately \$1 million worth of deferred maintenance projects, as we discuss on pages 12 through 16 of our current report, over \$4.1 million in deferred maintenance remains to be done.

Recommendation

Develop and implement a preventive maintenance plan to reduce the cost of repairs in the future.

Status

Cal Expo has still not completed a formal preventive maintenance plan. However, as we discuss on pages 12 through 16 of our current report, Cal Expo is developing a preventive maintenance plan.

In order to more fully use its facilities during the interim between state fairs and to maximize rental revenue, Cal Expo should take the following actions:

Recommendation

Develop marketing plans for both short-term and long-term periods and ensure staff coordination regarding the availability of facilities to rent. In addition, Cal Expo should accurately estimate and record the costs for each event during the interim between fairs and change its policy of giving every renter three days to set up and tear down events.

Status

Although revenue from interim events increased from fiscal year 1984-85 to fiscal year 1985-86, as we discuss on pages 22 and 23 of our current report, Cal Expo has still not prepared a satisfactory marketing plan and has not estimated and analyzed its costs in renting facilities for interim events.

To meet the State's directive to become less financially dependent on the State's General Fund, Cal Expo management should take the following action:

Recommendation

Continue to explore alternatives to increase revenues and implement practical alternatives to gain additional funding as soon as possible.

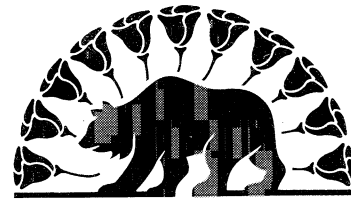
Status

Cal Expo has taken actions to develop alternative sources of revenue, such as broadcasting simulcast horse races and planning to lease part of the Cal Expo grounds for private development. In fiscal year 1985-86, Cal Expo introduced simulcasting which generated revenues of approximately \$2.2 million. In addition, on March 14, 1986, the Cal Expo board of directors approved the general manager's request that Cal Expo proceed with a Request for Proposal for the development of Lot A.* Cal Expo initiated the process in May 1986 with a Request for Qualifications (RFQ) from interested developers. Six developers responded to the RFQ, each proposing to develop a hotel and retail complex on the site. Cal Expo is currently preparing a Request for Proposal for the development of the site.

*Lot A contains approximately 16 acres and is used primarily for overflow parking during the three weeks of the State Fair.

March 24, 1987

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



California
State Fair

Dear Mr. Hayes:

Thank you for the opportunity to review and comment on the draft of your report entitled "The California Exposition and State Fair Has Improved Its Financial Condition and Management Controls But More Improvement Is Needed". Generally, for the period audited we found the report to be factual and objective. Since your report recognizes the many improvements made at the California Exposition and State Fair over the last year, we are limiting our response to a summary of the actions taken or actions we propose to take to address your recommendations and the clarification of one issue.

The clarification relates to Page S-2 and the statement: "...although revenue from the State Fair in 1985-86 declined..."

While this statement is factually accurate, it may be misunderstood. In 1984, the State Fair sold a "pay one price" admission. Under this arrangement, the State Fair was a conduit for passing revenue through to the Carnival, Waterworld, and Rodeo Arena promoter. In 1985, the admission price was solely for admission and did not contain these flow-through revenues. In fact, the State Fair was more financially successful in 1985 and 1986 than it was in 1984. In 1986, the State Fair had the highest number of paid admissions in its history at the Cal Expo site.

The first recommendation addresses the financial solvency of the California Exposition and State Fair and states:

"To meet the State's directive to become less financially dependent of the State's General Fund, the California Exposition and State Fair should continue to seek sources of funding to complete much needed maintenance projects."

It should be noted that Cal Expo did not rely on the General Fund for general operating expenses in 1985/6 nor has Cal Expo received any General Fund support for 1986/7. This is not to say that additional sources of funds are not required to address deferred maintenance projects. Cal Expo has attempted to include in the budget, funds from various sources, for 1986/7 deferred maintenance needs. These funds were not made available to

us. Presently, Cal Expo is not only seeking additional sources of funds but has committed excess revenues and reserves to address these deferred maintenance projects.

In the financial reporting system, seven recommendations are proposed.

The California Exposition and State Fair concurs with all recommendations; and has, in fact, already implemented several recommendations while presently addressing the other recommendations.

In the area of physical assets, the recommendation is for improved control through complete inventorying and valuation of assets.

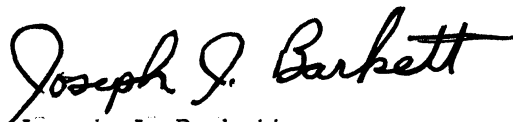
Although this process has begun and will be seen to be significantly improved in the 1986/7 year, more improvement is required.

The final recommendation relates to the interim usage of the facilities, the preparation of a marketing plan and the assignment or proration of expenses.

The California Exposition and State Fair is in concurrence with both these recommendations. We had hoped to have a marketing plan for the 1986/7 fiscal year. With the resignation of the Marketing Manager, this has not been accomplished. Cal Expo still intends to develop this plan along with the development of a justifiable cost assignment system, where each expenditure is coded by both program and project.

Again, we look forward to continuing our cooperation with your staff over the next few years as we implement many of your recommendations and make further improvements to our operation.

Sincerely,



Joseph J. Barkett
General Manager

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps