

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



PERFORMANCE AUDIT OF
41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR

MANAGEMENT REPORT
#19-007

FOR THE AUDIT PERIOD
JANUARY 1, 2017 THROUGH DECEMBER 31, 2018

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AUDIT STAFF

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MANAGEMENT REPORT NUMBER

#19-007

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BACKGROUND

At the request of the California Department of Food and Agriculture's (CDFA), Division of Marketing Services (DMS), Fairs & Exposition Branch (F&E), the CDFA Audit Office conducted a performance audit of the 41st District Agricultural Association, Del Norte County Fair (41st DAA), located in Crescent City, California, for the audit period January 1, 2017 through December 31, 2018. Our primary objectives were to provide transparency over the revenue generated by a local sales tax measure (Measure F) which was enacted to support the 41st DAA. The Del Norte County Fairgrounds Recreation and Park District (Special District), governed by a locally elected five-member Board, was formed to provide oversight over funds generated by Measure F.

Our office reviewed the written Memorandum of Understanding (MOU) that outlines the process by which Measure F funds were to be passed down to the 41st DAA by the Special District. Furthermore, we tested the 41st DAA's 2017 and 2018 expenditures to ensure there were no irregular payments and that the 41st DAA complied with various State laws, policies and procedures applicable to a state entity. In addition, we reviewed personnel, contracting and other operating processes and practices to ensure the 41st DAA operated with adequate administrative controls to safeguard public assets. Whenever necessary, accounting records from prior periods were examined in order to provide context to certain transactions.

AUDIT SCOPE AND OBJECTIVES

The objectives of our audit of the 41st DAA were the following:

- Compile a financial summary of Measure F funds, expenses, and reserves from its inception in 2015 through December 31, 2018.
- Review the adequacy of the Memorandum of Understanding (MOU) established between the Special District and the 41st DAA.
- Test the 41st DAA's 2017 and 2018 expenditures for (i) any irregular payments and (ii) for compliance with State laws, regulations, and policies.
- Test the 41st DAA's internal controls and safeguards over State assets.

AUDIT METHODOLOGY

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

- Interviewed key personnel to gain an understanding of the existing processes that account for Measure F funds.

- Gathered related financial documents and bank statements from the County, Special District, and 41st DAA to account for Measure F funds from its inception.
- Obtained and reviewed the MOU entered into between the Special District and the 41st DAA that indicated how Measure F funds were to be passed down.
- Traced all Measure F funds passed down by the Special District to the 41st DAA from its inception to related bank statements.
- Performed analytical procedures on the 41st DAA's 2017 and 2018 expenditures to search for any unusual items.
- Reviewed all operating and payroll checks issued by the 41st DAA for appropriateness.
- Tested material expenditure amounts for supporting documentation.
- Reviewed the 41st DAA accounting records and source documentation to ensure appropriate record keeping practices were in place during the periods audited and reviewed applicable laws, regulations, and policies significant to our audit objectives.
- 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 41st 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 deficiencies in internal controls that were identified during the course of our audit are included in this report.

We conducted this 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 observations and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations, findings, and recommendations in meeting our audit objectives.

OVERVIEW OF MEASURE F FINANCIAL ACTIVITY

MEASURE F

- In 2015, the taxpayers of Del Norte County approved a special sales tax (.25%) applied countywide, to generate revenue to financially support the 41st DAA.
- Through December 31, 2018, approximately \$2,493,000 has been generated. **Attachment 1** to this report provides a summary of all Measure F financial activity since its inception in 2015.
- The special sales tax is in effect for seven years.

California Department of Tax and Fee Administration (CDTFA)

- The CDTFA is responsible for collecting the special countywide sales tax from retailers within Del Norte County.
- The CDTFA electronically transfers the Measure F funds to the Del Norte County on a monthly basis.

Del Norte County (County)

- Within the County's main accounting system, a special fund was created to hold Measure F funds transferred from the CDTFA.
- Approximately 30% of all Measure F funds will be withheld by the County as a reserve and will not be passed down until after the expiration of the special sales tax measure in 2023.
- As of December 31, 2018, approximately \$1,137,000 was held in reserve.

Del Norte County Fairgrounds Recreation and Park District (Special District)

- The Special District was formed in 2015, to provide oversight of Measure F for the benefit of the 41st DAA.
- The Special District is governed by a five-member Board of Directors elected by district residents.
- In 2016, the Special District established a Memorandum of Understanding (MOU) with the 41st DAA to document the process in which Measure F funds would be provided to the 41st DAA.
- The Special District holds Measure F funds it receives from the County in a local bank account.
- From its inception in 2015, seven operating checks totaling \$778,574 were issued to the 41st DAA to fund operating and maintenance needs.
- As of December 31, 2018, approximately \$489,000 in Measure F funds were held in reserve within the local bank.

41st District Agricultural Association (41st DAA)

- The 41st DAA is governed by a nine-member governor appointed board whose members are separate than those locally elected to govern the Special District.
- To ensure an efficient use of Measure F funds, the 41st DAA's management explained that its goal is to generate enough revenue to offset expenses each year. The Measure F funds are intended to backfill operating losses, rather than fund specific projects. The \$774,574 sent to the 41st DAA by the Special District over the past three years covered operating shortfalls along with emergency and routine maintenance items.

CONCLUSION

Based on the procedures performed as specified within our audit methodology, our office was able to fully account for all Measure F funds without exception. **Attachment 1** to this report summarizes Measure F financial activity from its inception in 2015 through December 31, 2018.

In analyzing the 41st DAA's MOU with the Special District, internal controls, safeguards over assets, and compliance with State laws, regulations, and polices, we identified six areas containing reportable conditions. These conditions and accompanying recommendations are considered weaknesses in the 41st DAA's operations and efforts to comply. We have provided eleven recommendations to improve the operations of the 41st DAA and safeguard assets. The 41st DAA must respond in writing on how these recommendations will be implemented.

REPORTABLE CONDITIONS

FINDING 1 – LACK OF COMPLIANCE WITH THE TERMS OF THE MEMORANDUM OF UNDERSTANDING

The 41st DAA did not comply with the MOU between them and the Special District when requesting financial assistance. The 41st DAA and the Special District entered into a MOU dated September 26, 2016 that listed the terms in which the 41st DAA would request and be awarded financial assistance. The MOU stated the 41st DAA would provide a quarterly financial report and request to the Special District for funding assistance. Furthermore, the Special District, upon receipt of the quarterly report, would make a funding determination within 30 days, and if the 41st DAA received such assistance it must expend the funds in accordance with the conditions set forth by the Special District.

Our office requested copies of any 41st DAA quarterly reports and Special District financial assistance determinations and conditions; however, none were provided. Manager A stated the process to provide financial assistance to the 41st DAA by the Special District had evolved and the Special District wanted to allocate financial assistance in one large amount and allow the 41st DAA to determine the best operating uses for the funding. For example, in January 2018, the Special District provided a check for \$250,000 to the 41st DAA, rather than consider assistance on a quarterly basis. By not following the terms and conditions listed within the MOU, the 41st DAA exposes itself to loss and inefficiencies.

Recommendation:

- 1. The 41st DAA should work with the Special District to determine the specific process it will follow to request financial assistance on a go-forward basis. Furthermore, the MOU between the 41st DAA and Special District should be updated to list all mutually agreed upon terms and conditions between both organizations.*

FINDING 2 – LACK OF COMPLIANCE WITH PAID LEAVE ACCOUNTING POLICIES

The 41st DAA did not comply with attendance record requirements as issued by the California Department of Human Resources (CalHR), which requires employees to submit attendance records on a monthly basis. For the period January 1, 2017 through December 31, 2018, managers of the 41st DAA did not submit monthly attendance records for 15 of 24 months. In addition, for the nine months in which attendance records were submitted they did not contain an approval signature by a member of the Board of Directors indicating the records were reviewed for accuracy within a timely basis. In addition, our office noted numerous instances where employee timecards were not reviewed and approved by their supervisors.

CalHR Human Resources Manual Section 2101, Leave Accounting, requires State entities to maintain accurate and timely leave accounting records. CalHR Section 2101 further states that all employees must submit attendance records each pay period, regardless if leave was used. Furthermore, F&E's Accounting Procedures Manual (APM) Section 17.1 requires that timesheets for all employees must be reviewed and approved by a supervisor.

In addition, our office noted errors within the 41st DAA's accounting for employee paid leave hours. The following items were noted:

- a. 56 hours of paid leave used by employees (approximately \$1,500) were not deducted from related employee's accrued leave balances.
- b. The 41st DAA did not track the accumulation and use of Personal Development Days (PDDs) earned by its employees. The CalHR's Personnel Management Liaisons (PML) #2012-010 provides all State employees two PDDs each fiscal year for activities that promote professional and personal growth. The PDDs must be used within the fiscal year and cannot be accumulated or cashed out.

Recommendations:

2. *The 41st DAA should comply with CalHR Human Resources Manual Section 2101 by requiring all employees to submit attendance records for each pay period, regardless if leave was used.*
3. *The 41st DAA should comply with F&E's APM Section 17.1 by ensuring all employee timecards are reviewed and approved by a supervisor on a monthly basis.*
4. *The 41st DAA should make the necessary corrections to the leave records of the employees whose paid absences were not deducted from leave balances. Furthermore, on a go-forward basis, the accumulation and use of PDDs should be tracked within each employee leave record.*

FINDING 3 – LACK OF COMPLIANCE INVOLVING CERTAIN EXPENDITURE TRANSACTIONS

An analysis of expenses paid by the 41st DAA noted the following lack of compliance:

- a. The 41st DAA made inappropriate alcohol purchases in 2017 and 2018 in the amount of \$1,289. The F&E's APM Section 2.77 – Inappropriate Use of State Funds, prohibits the purchase of alcohol for any reason as it is deemed as having no benefit to the State.
- b. In six instances, daily lodging rates were paid above allowable amounts for staying in Sacramento. The daily lodging rates paid by the 41st DAA ranged from \$149 to \$197 per night. The California Code of Regulations (CCR) 599.619 sets lodging rates for State employees and limits the allowable rate within the Sacramento area to

\$95 per night. An Excessive Lodging Rate Form was not completed or approved by a Board Member prior to the excessive lodging rate being paid.

- c. The 41st DAA did not have written procedures outlining responsibility of the Board of Directors over the use of credit cards as required by F&E's APM Section 15.42. In addition, a credit card control sheet listing all 41st DAA credit cards along with authorized users and approvers was not maintained.

Recommendations:

5. *The 41st DAA should comply with APM Section 2.77 by not purchasing alcohol for any reason.*
6. *The 41st DAA should comply with CCR 599.619 by ensuring daily lodging expenses are not in excess of allowable limits, unless sufficient approval has been obtained.*
7. *The 41st DAA should strengthen internal controls over credit card use by establishing written procedures outlining the responsibility of the Board of Directors over the use of 41st DAA credit cards.*
8. *The 41st DAA should comply with APM Section 15.42 by preparing a credit card control sheet that lists all existing 41st DAA credit cards, along with authorized users and approvers.*

FINDING 4 – LACK OF NOTIFICATION FOR WORK SITUATIONS INVOLVING A PERSONAL RELATIONSHIP

Our office noted two instances in which the 41st DAA did not contact the CDFA Human Resources Branch (HRB) for consultation and resolution for transactions involving related parties. In 2017, a former manager signed checks to pay invoices from a temporary agency for the services of a close family member hired to work at the 41st DAA. In another instance, Manager A signed a \$500 agreement with a family member for services to be performed during the 2018 Fair.

It is the policy of the CDFA to prohibit nepotism and to avoid work situations in which there are personal relationships. Fair CEO's are responsible for contacting the CDFA's HRB for consultation and resolution concerning personal relationships, or request in writing an exception to the CDFA's Nepotism Policy on a case by case basis.

Recommendation:

9. *On a go-forward basis, the 41st DAA should comply with the CDFA's Nepotism Policy by contacting the CDFA's HRB for consultation and resolution, or request in writing an exception to the policy.*

FINDING 5 – LACK OF COMPLIANCE REGARDING STATE VEHICLE USAGE

The 41st DAA did not comply with the State Administrative Manual (SAM) Section 4107 requirements to maintain travel logs for all State vehicles that were driven off State property. As a result, the business purpose of the vehicles usage cannot be determined. The SAM 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 the travel.

Recommendation:

- 10. The 41st DAA should comply with SAM 4107, Travel Logs, by requiring all employees to complete and maintain monthly travel logs (STD 273) for vehicles that are driven off the fairgrounds when conducting official 41st DAA related business.*

FINDING 6 – INTERNAL CONTROL WEAKNESS WITH PROPERTY

The 41st DAA did not conduct an inventory of its physical assets or equipment that is considered sensitive or deemed a high risk of theft or loss. According to the SAM Section 8652, "Departments will make a physical count of all property and reconcile the count with accounting records at least once every three years." The 41st DAA could not provide a recent inventory to meet the SAM requirement.

Recommendation:

- 11. The 41st DAA should strengthen internal controls over its property and comply with SAM 8652 requirements by conducting a physical inventory of its property and sensitive equipment at least once every three years.*

ATTACHMENT 1

Audit of the 41st DAA - Del Norte County Fair
Summary of Measure F Activity
June 1, 2015 through December 31, 2018

	CY 2015	CY 2016	CY 2017	CY 2018	Totals Since Inception
Del Norte County Level:					
	(7 months)				
Beginning Balance:	\$ -	\$ 211,418	\$ 406,301	\$ 639,280	\$ -
add: Measure F Sales Tax	369,009	669,350	643,913 A	810,989 B	2,493,261
add: Interest	102	2,089	4,895	11,948	19,034
less: Sent to Special Fair District	(157,693)	(476,557)	(415,828)	(322,380)	(1,372,459)
less: County Admin Charges	-	-	-	(3,182)	(3,182)
Ending Balance:	<u>\$ 211,418</u>	<u>\$ 406,301</u>	<u>\$ 639,280</u>	<u>\$ 1,136,654</u>	<u>\$ 1,136,654</u>
Special Fair District Level:					
Beginning Balance	\$ -	\$ 109,609	\$ 349,170	\$ 480,263	\$ -
add: Opening Deposits	450				450
add: Sales Tax Sent by County	157,693	476,557	415,828	322,380	1,372,459
less: Special District Expenses	(48,535)	(27,995)	(15,161)	(13,891)	(105,582)
less: Sent to the 41st DAA	-	(209,000)	(269,574)	(300,000)	(778,574)
Ending Balance	<u>\$ 109,609</u>	<u>\$ 349,170</u>	<u>\$ 480,263</u>	<u>\$ 488,753</u>	<u>\$ 488,753</u>

	CY 2015	CY 2016	CY 2017	CY 2018	Totals Since Inception
41st DAA Fair Level Deposits:					
2016					
3/14/16 District Check No. 2007		\$ 85,000			
6/22/16 District Check No. 2016		124,000			
2016 totals:		<u>\$ 209,000</u>			\$ 209,000
2017					
3/22/17 District Check No. 2032			\$ 100,000		
5/03/17 District Check No. 2033			30,000		
5/26/17 District Check No. 2036			139,574		
2017 totals:			<u>\$ 269,574</u>		\$ 269,574
2018					
1/25/18 District Check No. 2053				\$ 250,000	
5/30/18 District Check No. 2059				50,000	
2018 totals:				<u>\$ 300,000</u>	\$ 300,000
					<u>\$ 778,574</u>

A County records show only 11 sales tax transfers in CY 2017.

B County records show 13 sales tax transfers in CY 2018. A CY 2017 sales tax transfer was posted to the wrong year.

Note: Sources of information include County of Del Norte General Ledger Transactions Listing, Special Fair District General Ledger Detail, 41st DAA General Ledger Detail and related bank statements.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

41st District Agricultural Association

Phone 707-464-9556
Fax 707-464-9519

421 Hwy 101 North
Crescent City, CA 95531
1-800-350-9556
E-Mail: info@dnfair.org

April 2, 2019

Dear CDFA Auditing Team,

We have reviewed your findings and recommendations based on your report.

REPORTABLE CONDITIONS

FINDING 1 – LACK OF COMPLIANCE WITH THE TERMS OF THE MEMORANDUM OF UNDERSTANDING

Recommendation: *The 41st DAA should work with the Special District to determine the specific process it will follow to request financial assistance on a go-forward basis. Furthermore, the MOU between the 41 DAA and Special District should be updated to list all mutually agreed upon term and conditions between both organizations.*

Currently the 41st DAA provides a quarterly workflow chart to the Special District that shows how much they will need from the Special District. Based on CDFA's recommendations, the 41s District is asking for allocation quarterly from the Special District based on the work flow chart.

FINDING 2 – LACK OF COMPLIANCE WITH PAID ACCOUNTING POLICIES

Recommendation: *The 41st DAA should comply with CALHR Human Resources Manual Section 2101 by requiring all employees to submit attendance records for each pay period, regardless if leave was used.*

Currently all employees are submitting an attendance record each pay period regardless of leave used.

Recommendation: *The 41st DAA should comply with F&E's APM Section 17.1 by ensuring all employee timecards are received and approved by a supervisor on a monthly basis.*

Currently all employee timecards are received and approved by the supervisor and or board chair on a monthly basis.

Recommendation: *The 41st DAA should make the necessary corrections to the leave records of the employees whose paid absences were not deducted from leave balances. Furthermore, on a go-forward basis, the accumulation and use of PDDs should be tracked within each employee leave record.*

Currently all accumulation and use of PDDs are tracked on the electronic form that was provided to us by the CDFA Auditor. All corrections have been made to the leave records of the employees whose paid absences were not deducted from leave balances.

FINDING 3 – LACK OF COMPLIANCE INVOLVING CERTAIN EXPENDITURE TRANSACTIONS

Recommendation: *The 41st DAA should comply with APM Section 2.77 by not purchasing alcohol for any reason.*

This matter has been rectified and it will not happen again.

Recommendation: The 41st DAA should comply with CCR 599.619 by ensuring daily lodging expenses are not in excess of allowable limits, unless sufficient approval has been obtained.

Currently all lodging expenses are approved by the board prior to making the reservations.

The 41st DAA should strengthen internal controls over credit card use by establishing written procedures outlining the responsibility of the Board of Directors over the use of 41st DAA credit cards.

Currently all expenditures are within the delegation of authority of the CEO. All expenditures made by the CEO on credit cards are approved by the Board Chair. Credit Card purchases by other employees must be approved by the CEO prior to purchasing. A detailed list of purchases are provided to the board for approval.

Recommendation: The 41st DAA should comply with APM Section 15.42 by preparing a credit card control sheet that lists all existing 41st DAA credit cards, along with authorized users and approvers.

Currently the 41st has a list of all credit cards and who is authorized to use them. All purchases are approved prior to purchasing and signed by the board chair.

FINDING 4 – LACK OF NOTIFIATION FOR WORK SITUATIONS INVOLVING A PERSONAL RELATIONSHIP

Recommendation: On a go-forward basis, the 41st DAA should comply with the CDFA's Nepotism Policy by contacting the CDFA's HRB for consultation and resolution, or request in writing an exception to the policy.

Currently there are no family members on payroll. Currently all employees are approved by the board.

FIND 5 – LACK OF COMPLIANCE REGARDING STATE VEHICLE USAGE

Recommendation: The 41st DAA should comply with SAM 4107, Travel Logs, by requiring all employees to complete and maintain monthly travel logs (STD 273) for vehicles that are driven off the fairgrounds when conducting official 41st DAA related business.

Currently all travel and maintenance logs are being recorded. A copy of the travel log is kept in the office.

FINDING 6 – INTERNAL CONTROL WEAKNESS WITH PROPERTY

Recommendation: the 41st DAA should strengthen internal controls over its property and comply with SAM 8652 requirements by conducting a physical inventory of its property and sensitive equipment at least once every three years.

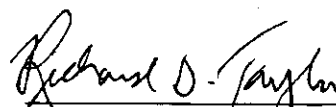
Currently an inventory of all buildings and equipment has been completed.

If you need any additional information please contact us.

Thank you,

Kimberly Floyd
CEO


Chief Executive Officer 4/3/19 DATE


Board President 4/3/19 DATE

CDEA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 41st DAA, Del Norte County, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between January 28, 2019 and February 1, 2019. Throughout fieldwork my staff met with management to discuss our observations, the findings, recommendations, and other issues. My staff met with management on March 1, 2019 to discuss the findings and recommendations, as well as, other issues.

This report is intended for the information of the Division of Marketing Services Fairs and Expositions Branch, the 41st DAA's Board of Directors, and management, however, once finalized this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

February 1, 2019

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Director, Division of Marketing Services
1	Branch Chief, Fairs and Exposition Branch
1	Board Chair, 41st DAA Board of Directors
1	Chief Executive Officer, 41st DAA
1	General Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office