

22ND DISTRICT AGRICULTURAL ASSOCIATION
DEL MAR FAIR
DEL MAR, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 1999

AUDIT STAFF

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MANAGEMENT REPORT NUMBER

00-060

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DEPARTMENT OF FOOD AND AGRICULTURE

1111 Street, Suite A-454
San Francisco, CA 95814
415-754-0535



Ms. Robin Parsky, President
Board of Directors
22nd DAA, Del Mar Fair
2260 Jimmy Durante Blvd.
Del Mar, California 92014

We have applied the procedures enumerated below to the policy established by the Division of Fairs and Expositions (F&E) for the 22nd District Agricultural Association (DAA), Del Mar Fair, Del Mar, California, for the year ended December 31, 1999. We applied these procedures to five areas of the Fair's operations, which included personnel; interim rentals; concessions; commercial space; and box office admissions. We noted certain matters involving its operations that we consider being reportable conditions under standards established by Fairs and Expositions policy. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This report is intended solely for your information and should not be used by those who did not participate in determining the procedures.

In accordance with Government Code section 13402, Fair managers and Boards of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Based on the application of the procedures of the 22nd DAA referred to above, we identified two areas with reportable conditions. These reportable conditions are considered weaknesses in the Fair's operations over personnel and payroll taxes. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how each recommendation will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 22nd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

These agreed-upon procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on the compliance issues. Accordingly, we do not express such an opinion.

REPORTABLE CONDITIONS

PERSONNEL

A review of employee files, payroll calculations, vacation/sick leave, and overtime records, as verified to time cards and Absence and Additional Time Worked Reports, Standard Form 634's, revealed the following discrepancies:

- a. The Fair did not enroll several temporary employees who worked in excess of 1,000 hours within a fiscal year in the Public Employee Retirement System (PERS). The Omnibus Budget Reconciliation Act of 1990 requires part-time, seasonal, or temporary public employees who are not members of a retirement system to be covered either by a qualified retirement plan or by Social Security. Once temporary employees exceed 1,000 hours in a given fiscal year they automatically become members of the PERS. Thus, this eliminates the PST deduction, and FICA comes into effect.
- b. There were six employees whose accumulated vacation hours exceeded 400 hours. The accumulated vacation hours for the six employees totaled 818, 684, 498, 569, 744 and 474 hours as of December 31, 1999. According to the Accounting Procedures Manual, an employee may maintain a running balance of 400 hours of vacation. Furthermore, there were two employees who exceeded 640 hours of annual leave at year-end. The leave balances for these two employees were 756 and 725 hours respectively. According to the Accounting Procedures Manual, an employee cannot exceed 640 hours of annual leave.
- c. The Fair hired independent contractors for positions such as entry assistant, ring crew, and stable manager. However, according to the Internal Revenue Service (IRS) requirements these contractors may appear to be employees. As identified by the IRS, an independent contractor is hired to perform a specific task or provide a certain professional or semi-professional service. Independent contractors receive little or no supervision or direction from management other than defining his/her duties. The Fair utilized a twenty-point independent contractor checklist and determined that the individuals should be classified as independent contractors. After reviewing some of the checklist questions, it appeared that some of these individuals should be classified as employees. Mistakenly classifying an employee as an independent contractor can result in significant fines and penalties for the Fair.

Recommendations

1. *The Fair should enroll temporary employees in the Public Employees' Retirement System once the employees exceed the 1,000 limitation in a given fiscal year.* ✓

Further, the Fair should determine which employees have exceeded the 1,000-hour limitation and notify these employees of their options.

- 2. The Fair should arrange to allow employees time off for excess vacation hours when feasible.*
- 3. Management should review the classification procedure for all individuals hired by the Fair. The Fair should continue to use the twenty-point independent contractor checklist and classify individuals appropriately. In the event that further consultation is needed, the Fair should contact the Employment Development Department for assistance in determining independent contractor/employee status.*

PAYROLL TAXES

The Fair's payroll reports did not support the quarterly payroll tax returns for 1999. The Fair implemented a payroll software system in 1999. According to the Fair, this software was very difficult to implement into the Fair's existing network. Payroll reports generated from the software had many errors and were unreliable. As a result, two of the Fair's quarterly tax return earnings amounts do not reflect what was on the Fair's payroll earnings reports. The earning amounts that were used for the tax returns had to be recomputed based on the amount of withholdings of the employees.

Recommendation

- 4. The Fair should evaluate its payroll software as to its compatibility with the existing network and hardware. The Fair should also ensure that the payroll system is producing accurate and reliable reports.*

NON-REPORTABLE CONDITIONS

PERSONNEL

The Fair allowed 17 temporary employees to work in excess of the 119-day limitation. Each department supervisor tracked the number of days worked by temporary employees, however an orientation day was not counted toward the total. As a result the majority of the temporary employees who exceeded the limitation worked 120 days.

Recommendation

The Fair should continue tracking the amount of days worked and not allow temporary employees to work in excess of 119-day limitation. Furthermore, any orientation should be counted as a day "worked" by temporary employees.

ADMISSIONS

A review of admissions identified the Fair did not utilize Account #850, Cash Over/Under for overages and shortages from the sale of admission tickets. Instead, the Fair combined all overages and shortages and netted the amounts with admission revenue. According to the Accounting Procedures Manual all overages and shortages on sales should be recorded in Account #850.

Recommendation

The Fair should discontinue the process of netting cash overages and shortages with admission sales. The overages and shortages should be identified and recorded in Account #850.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 11, 2000 and September 29, 2000. My staff held a conference call with management and a representative from the Board of Directors on September 29, 2000 to discuss the findings and recommendations, as well as other issues.

Please respond directly to this office, within 30 days, stating your plans for implementing each recommendation requiring a response from you. The response should indicate how and when the implementation will take place (maximum six-month timetable). In addition, please provide an information copy to the Division of Fairs and Expositions.

State of California
Department of Food and Agriculture
1220 N Street, Suite A-454
Sacramento, CA 95814

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record.



Helen Lopez, Acting Audit Chief

September 29, 2000

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



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22ND DISTRICT AGRICULTURAL ASSOCIATION
State of California

December 22, 2000

Ms. Helen Lopez, Acting Chief
Audit Office
1220 N Street, Suite A-454
Sacramento, CA 95814

Dear Helen:

We have reviewed your Management Report #00-060 for the year ended December 31, 1999 and considered your recommendations.

I am pleased to report that the District has addressed all the issues related to accounting and financial management which your office has brought to our attention in your 1999 report.

The following detailed responses are numbered to correspond to your numbered recommendations which are attached for your convenience.

Thank you for your assistance.

Sincerely,

Robin C. Parsky
President

Attachment

22ND DAA RESPONSES TO RECOMMENDATIONS

Department of Food & Agriculture Audit Report For the Year Ended December 31, 1999

PERSONNEL

A. Temporary employees worked in excess of 1,000 within a fiscal year

At the close of the fiscal year June 30, 2000, reports were generated by the District to determine which temporary employees have worked in excess of 1,000 hours. All employees who met these criteria were noted. Their payroll deductions were adjusted to stop the PST deduction, and change them to become members of PERS. Payroll tax deductions were changed so that FICA would be deducted. Each of these employees was assigned a special pay code, so that, if they were to leave the District and be rehired in the future, they would remain members of the Public Employees Retirement System.

Employees were notified of their PERS options. Quarterly reports are being run to determine if any more temporary employees have worked in excess of 1,000 hours in the current fiscal year.

This recommendation is being followed.

B. Employees had accumulated vacation hours or annual leave in excess of balances prescribed by the Department of Fairs & Expositions Accounting Procedures Manual

The District monitors vacation balances and encourages employees to take time off for excess vacation hours whenever feasible. We are the busiest DAA within the state with a 20-day Fair that attracts just under 1.2 million attendees, and we have over 300 interim events each year. We are working with department heads to ensure compliance with the 400-hour vacation policy for non-supervisory employees as well as the 640-hour policy for employees on annual leave. The leave buy-back program will help the DAA to stay within prescribed limits for managerial and supervisory employees.

C. Use of independent contractors for horse show

Staff reviews and completes the Independent Contractor checklist for each contractor with whom a contract is drawn for services performed at the Del Mar National Horse Show. Management will review the classification procedures for the individuals contracted to work for the District. We will follow your recommendation to contact the EDD should clarification be necessary in determining the status of the individuals hired by the District.

PAYROLL TAXES

The Fair should evaluate its payroll software as to its compatibility with the existing network and hardware to ensure the reliability and accuracy of reports.

In 1998, the Department of Food and Agriculture instructed the District to bring its payroll software in-house. The District complied in 1999, but experienced many problems with the implementation and software processing of its very large and complex payroll. The existing configuration of computers and network was not compatible with the new software, causing slowdowns and interruption in the processing of payroll data. In turn, reports generated from this software were incomplete or inaccurate. Staff spent hundreds of hours reconciling data in order to generate accurate reports.

Management has spent considerable time assessing the current in-house software and its compatibility with the District's hardware and network configuration. We have upgraded all computers which process payroll related data, and purchased a server that is dedicated to payroll. With these and other software and hardware upgrades, we are confident that processing of payroll is now more efficient and reliable.

EVALUATION OF DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

A draft copy of this report was forwarded to the management of the 22nd District Agricultural Association (DAA), Del Mar Fair, Del Mar, California, for their review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 22 nd DAA Board of Directors
1	Chief Executive Officer, 22 nd DAA
1	Director, Division of Fairs and Expositions
1	Chief, CDFA Human Resources Branch
3	Chief, CDFA Audit Office