

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE



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

AUDIT REPORT
#24-014

FOR THE AUDIT PERIOD
JANUARY 1, 2022 THROUGH DECEMBER 31, 2023

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AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Jason Jones, CPA
Sanford Lim

Audit Chief
Assistant Audit Chief
Auditor
Auditor

AUDIT REPORT NUMBER

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AUDIT BACKGROUND, SCOPE, AND OBJECTIVES

At the request of the California Department of Food and Agriculture's (CDFA) Division of Marketing Services' (Marketing Division), Fairs & Expositions Branch (F&E), the CDFA Audit Office conducted a performance audit of the 41st District Agricultural Association (DAA), Del Norte County Fair (41st DAA), located in Crescent City, California, for the audit period January 1, 2022 through December 31, 2023. Whenever necessary, accounting records from prior and following periods were also examined to provide context to certain financial transactions and issues.

The objectives of our audit were the following:

- To determine whether state assets are properly safeguarded.
- To determine compliance with state and federal laws, regulations, and policy over human resource transactions.
- To determine compliance with state laws, regulations, and policy over expenditures and procurement.
- To determine compliance with state laws, regulations, and policy over governance.

AUDIT METHODOLOGY

To address the objectives of the performance audit, our office performed the following specific procedures for the periods audited:

- Conducted a risk assessment, including evaluating whether key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key internal controls that were evaluated focused on the safeguarding of assets, compliance over human resource transactions, expenditures and procurement and governance. Deficiencies in the key internal controls that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report. Determined data from the accounting system could be relied on and verification was not necessary because other sufficient evidence was available to address the audit objectives.
- Obtained and reviewed all available supporting documentation for expense reimbursements made to employees during the periods audited. Sought explanations in the instances that records were missing or incomplete.
- Obtained and reviewed the 41st DAA's previously submitted Statement of Operations (STOPs) along with any financial audit and review reports of the 41st DAA prepared by independent Certified Public Accountant (CPA) firms.

- Requested information pertaining to the overall operating practices and policies of the 41st DAA.
- Obtained and reviewed supporting documents for the 41st DAA's operating and other bank accounts. Sought explanations when supporting accounting records were not available.
- Obtained and reviewed written contracts that the 41st DAA entered into with various contractors that were paid by the 41st DAA for services during the audit period. Tested to determine whether the contractors provided invoices prior to payment and whether the total compensation paid to these contractors was correctly reported to the Internal Revenue Service (IRS) as required.
- Examined the 41st DAA payroll processes and transactions to ensure compliance with state and federal laws, policies, and procedures.
- Reviewed applicable laws, regulations, policies, and procedures significant to assets maintained by the 41st DAA.
- Determined verification of the reliability of data from the 41st DAA's accounting system was not necessary because other sufficient evidence was available to address the audit objectives.
- When necessary, followed up on unique situations in which additional explanations and justifications were required to put the transactions in proper context.

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

CONCLUSION

Based on the procedures performed as stated within our audit methodology, our office noted weaknesses and deficiencies within the 41st DAA's administrative controls and operating practices. We have identified 15 areas containing reportable conditions that are specified within the body of this report. In addition, we have provided 44 recommendations to improve the 41st DAA's internal controls, operations, and compliance with state laws and regulations. The 41st DAA must respond in writing on how these recommendations will be implemented.

REPORTABLE CONDITIONS**FINDING #1 – LACK OF CONTROLS USING THE 41ST DAA’S CREDIT CARD**

Our office observed administrative control weaknesses and a lack of compliance with the F&E’s APM requirements over purchases made with the 41st DAA’s credit cards. From 2019 through 2023, various employees used the 41st DAA’s credit cards to make approximately \$359,713 in purchases. The following weaknesses were identified:

Lack of Board Approved Credit Card Policies

The 41st DAA did not provide Board approved policies addressing credit card use for its employees to follow as required. The APM Section 15.42, Credit Card Use, requires the DAA Boards to establish a policy that addresses the following, at a minimum:

- A control list showing authorized users, card type, and limitations
- Board review, authorization, and conditions for use
- Permissible purchases
- Justification for the purchase
- Documentation of purchases with detailed receipts prior to payment
- The return of credit cards when authorization for its use expires

Lack of Supervisory Review

For the \$359,713 in credit card charges made by the 41st DAA employees, \$233,687 of the credit card purchase transactions were not reviewed and approved by an appropriate representative of the 41st DAA. The purpose of the credit card statement review and approval is to determine the appropriateness of the purchase and compliance with state laws, regulations, and policies.

Missing Receipts, Vendor Invoices, or Support

Of the \$359,713 in credit card charges from 2019 through 2023, \$34,637 in receipts were not included with the monthly credit card statements or could not clearly be identified as to the purpose of the purchase. Additionally, the December 2020 credit card statement was not provided.

The APM Section 2.75 states that sound internal controls in accounting dictate that all expenditures be supported by detailed documentation. Additionally, APM Section 8.54 states, if a Fair provides no documented business purpose that reasonably supports a purchase, then the purchase will likely be deemed an inappropriate use of State funds.

Lack of Documentation to Support Food and Beverage Purchases

The 41st DAA employees used the DAA credit cards to purchase food and beverages totaling \$11,903 without providing the necessary supporting documentation to determine allowability. SAM Section 0727 states that, “...It must be clearly shown that it was impractical to conduct the State’s business during working hours and that the meal took place in conditions beyond the

employee's control...". In addition, the APM has further requirements for public relations meals. The APM Section 2.76 requires listing the people benefiting from the meal and documenting the topics discussed and benefits expected. These purchases are improperly made since the requirement for allowability was not met.

Recommendations:

1. *The 41st DAA should comply with APM Section 15.42 by establishing the Board approved policies for credit card use by its employees. All elements required by the APM should be included within the updated policy.*
2. *The 41st DAA should improve its administrative controls by ensuring all credit card purchases are reviewed and approved by a supervisor, the CEO, or a Board Member prior to payment.*
3. *The 41st DAA should review the approximately \$34,637 of credit card charges not supported by receipts to ensure the purchases were business-related. Moving forward, the 41st DAA should improve internal controls by requiring employees to substantiate all DAA credit card purchases with appropriate documentation.*
4. *The 41st DAA should comply with APM Section 2.76 and improve its recordkeeping practices over food and beverage purchases by maintaining a list of all the individuals that benefited from the meal purchases. Furthermore, the 41st DAA should document the topics discussed and benefits it expects to accrue when making purchases.*

FINDING #2 – LACK OF CONTROLS OVER FUEL PURCHASES

For a majority of the audit period, the 41st DAA lacked basic controls to safeguard the use of unleaded, diesel, and propane fuels delivered to the fairgrounds from a local vendor or purchased using the 41st DAA's credit cards. In addition, the 41st DAA did not consistently complete the required travel logs for their state-owned vehicles to show the fuel was used and miles were driven only for state business.

Lack of Usage Logs for Purchased Fuels

The 41st DAA did not consistently track the purpose of the fuel delivered to the fairgrounds or purchased using the 41st DAA credit cards. From 2019 through 2023, the 41st DAA purchased \$42,858 in unleaded, diesel, and propane fuels; however, only \$4,476 indicated the purpose of the purchase, causing a \$38,382 variance. Additionally, of the \$42,858 in purchases, the 41st DAA did not provide any detailed invoices for \$1,732 of fuel purchases. Our office was unable to determine if the approximate \$38,382 of unaccounted fuel purchases were only for conducting state business.

Vehicle Travel Logs were not Completed

The 41st DAA did not require employees to prepare monthly travel logs for the DAAs state-owned vehicles as required by the State Administrative Manual (SAM) Section 4107. Specifically, SAM Section 4107 requires state entities to complete a Standard Form 273 (STD 273), Monthly Travel Log, for all state-owned passenger mobile equipment on a monthly basis. The STD 273 requires the driver of the vehicle to be identified, the date of the vehicle used, beginning and ending odometer readings, and the destination of travel.

Recommendations:

5. *The 41st DAA should improve internal controls by requiring employees to complete fuel logs with sufficient detail, documenting the date, license plate number, number of gallons, and name of the person who obtained fuel from the tanks located on the fairgrounds.*
6. *The 41st DAA should strengthen its controls over its fuel deliveries and usage by periodically reconciling the number of gallons purchased to amounts reflected as used by employees on corresponding fuel logs.*
7. *The 41st DAA should comply with SAM Section 4107 by ensuring employees complete and maintain monthly travel logs for all of its state vehicles.*

FINDING #3 – LACK OF COMPLIANCE WITH CDFA’S NEPOTISM POLICY

From 2021 to 2023, the 41st DAA did not comply with the APM by contacting or notifying the CDFA prior to hiring two 125-day employees related to Manager A (Employee A and Employee B) to work part-time at the fair. It is the policy of the CDFA to prohibit nepotism and to avoid work situations in which there are personal relationships. The DAA’s CEO is responsible for contacting the CDFA’s Human Resources Branch (HRB) for consultation and resolution concerning personal relationships, or request in writing on the Nepotism Exemption Request Form (SO-31) and submitted to the Office of Civil Rights (OCR) for review, and CDFA’s HRB for approval, when the situation arises or prior to making a hiring commitment.

While Employee A left the 41st DAA in December 2023 and Employee B left in 2022, the following instances on non-compliance were identified:

- During the three-year period, Employee A, whom Manager A identified as her daughter, worked alongside Manager A in the 41st DAA’s office. While a Board Member signed Employee A’s timecards, her daily activities, duties and direction were provided by Manager A. During this period, payroll records show Employee A was compensated a total of \$31,493. Although Manager A allowed Employee A to use a building without a contract or payment, the value was minimal.
- In 2021 and 2022, Employee B, whom Manager A identified as her nephew, worked during fairtime and earned a total of \$4,024. All of Employee B’s timecards and paychecks were signed by Manager A.

In addition, in 2023, the 41st DAA paid \$944 via an operating check (signed by a Board Member) to the father of Manager A for the reimbursement of fair items he purchased (\$223) and vehicle mileage incurred for volunteering during fairtime (\$721). While the \$223 reimbursement for miscellaneous items was supported by receipts, a Travel Expense Claim (TEC) was not prepared for the \$721 mileage reimbursement. Instead, the 41st DAA used an amount listed in an unsigned contract between the 41st DAA and Manager A's father.

Recommendations:

8. *The 41st DAA should comply with the CDFFA's Nepotism Policy by contacting the CDFFA's HRB for consultation and resolution, or request in writing an exception to the policy prior to any hiring decisions of family members.*
9. *In the future, the 41st DAA should complete Form SO-31 and receive approval from CDFFA's HRB prior to allowing a manager to directly supervise an individual with whom they have a personal relationship.*
10. *The 41st DAA should comply with its Board Policy by ensuring a contract is entered into for the use of any DAA facilities and that the standard rental fee is collected.*
11. *The 41st DAA should ensure that all contracts for services are signed by both parties prior to the start of any services.*
12. *The 41st DAA should ensure a detailed invoice is provided or that a TEC is properly completed prior to making any reimbursements for vehicle mileage.*

FINDING #4 – FAILURE TO COMPLY WITH OVERSIGHT REQUIREMENTS

The 41st DAA failed to comply with Food and Agricultural Code (FAC) Section 4051 which specifies that a DAA with an annual budget of less than \$5 million shall have its books and accounts reviewed annually (audited at least once every three years) by an independent CPA selected by the Board. The 41st DAA's last independent review report was issued almost twenty-four months after the December 31, 2021 closing accounting period. A CPA firm issued an independent financial report in April 2023 for the period ending December 31, 2021.

Recommendation:

13. *The 41st DAA should ensure they comply with FAC Section 4051 and receive an annual audit or review.*

FINDING #5 – INTERNAL CONTROL WEAKNESSES OVER TRAVEL EXPENSE CLAIMS

The 41st DAA did not always comply with the State Administrative Manual (SAM), CalHR Human Resources Manual, and state travel requirements when making travel arrangements. The following weaknesses were noted:

- a. The 41st DAA improperly reimbursed \$90 to Employee A for lodging, when the employee had already charged the 41st DAA's credit card for the lodging on the same day. Additionally, Employee A did not provide hotel folios or a receipt to support the costs. Employee A should not have claimed lodging since it was paid for by the 41st DAA's credit card.
- b. The 41st DAA paid for hotel rooms in excess of the nightly rate limitations without completing a Standard Form 255C, Excess Lodging Rate Request/Approval (STD 255C), for justification of hotel rates in excess of the \$90 and \$95 limitation, depending on locality. Related accounting records show the rates paid by the 41st DAA for the rooms range from \$107 a night to \$270 a night. From 2019 to 2023, the 41st DAA paid an excess of \$3,878 out of \$12,107 spent on 78 nights for hotel rooms. These rooms were for judges, entertainers, the Western Fair Association Convention (WFA), International Association of Fairs and Expos (IAFE), and the manager conference. Additionally, the 41st DAA did not provide hotel folios for \$47,753 in hotel expenses. Of this amount, \$15,560 is mentioned in the credit card missing receipts section. Without folios, our office was unable to determine if those amounts exceeded the allowable lodging rates. The SAM Section 0715 requires an STD 255C to be completed and approved as justification when hotel rates are incurred in excess of the locality limitation.
- c. There were two instances where hotel folios were not provided with TECs. One TEC was for lodging for an IAFE convention. The other was for lodging during a collaborative meeting at CDFA. Lodging reimbursement for these TECs totaled \$257. The CalHR Human Resources Manual Section 2203 states, "lodging will not be reimbursed without a valid receipt."
- d. There were four instances of travel-related expenses not being reviewed or signed by a board member to ensure state travel guidelines and limitations were followed.

Recommendations:

- 14. The 41st DAA should recoup the improper \$90 reimbursed from Employee A and ensure folios showing the employee incurred any hotel expenses are included in future TECs.*
- 15. The 41st DAA should comply with the SAM requirements and complete an STD 255C prior to paying excessive lodging rates. Any amount in excess should not be allowed.*
- 16. The 41st DAA should ensure the TEC has hotel folios for any lodging reimbursement claims.*
- 17. The 41st DAA should ensure the TEC is reviewed and signed by appropriate representatives.*

FINDING #6 – NON-COMPLIANCE WITH POLICIES INVOLVING PERMANENT EMPLOYEES

An analysis of the 41st DAA's payroll records, transactions, and attendance documentation for its permanent employees identified the following instances of non-compliance with various administrative requirements, state regulations, and policies:

- a. The 41st DAA did not comply with permanent employee attendance record requirements. From 2019 through 2023, approximately 31% (37 out of the 120) of the monthly Standard Form 634s – Absence and Additional Time Worked Reports (STD 634) were not provided to our office. In addition, of the 83 STD 634s presented for our review, 13 (16%) were not signed by a supervisor and 3 (4%) were not signed by the employee. The CalHR Human Resources Manual Section 2101 (CalHR Section 2101) outlines the responsibility for maintaining accurate and timely leave accounting records for their employees. CalHR Section 2101 states, "all employees must submit attendance records each pay period, regardless of if leave was used. Supervisors and managers are responsible for reviewing each employee's attendance record/time sheet for completeness and accuracy of any leave accrued/earned or used, prior to signing. Errors or missing information must be corrected prior to submitting to the department's personnel office. If an employee's attendance record is determined to have errors or it is determined that the employee has insufficient balances for a leave type used, the attendance record must be amended. Attendance records shall be corrected by the pay period following the pay period in which the error occurred."
- b. The 41st DAA made various errors in tracking the accumulation and use of leave hours by its employees. The 41st DAA had the following errors on their employees' leave records:
 - Personal Holidays were not consistently accrued or carried forward to the following years.
 - The prior years ending balances for 2020 and 2021 for one employee was not carried forward to the following year.
 - One employee received overtime at the double time rate multiple times, when he should have only received overtime at the one and half times rate, in 2023.
 - One employee was charged vacation time on Thanksgiving state holidays during 2022 and 2023.

These errors caused the 41st DAA's paid leave liability to be understated by \$7,266 at the end of 2022 and overstated by \$1,801 at the end of 2023.

Additionally, the leave usage shown on an employee's STD 634s (Absence and Additional Time Worked Report) did not match the usage shown on their leave records. Our office used the amounts shown on the employee's leave records, since the STD 634s with differences generally did not show leave usage, while the leave records did. If the STD 634s were given preference, the employee's leave usage would decrease by 128 hours.

Recommendations:

18. *The 41st DAA should comply with CalHR Section 2101 by ensuring all employees prepare and submit an attendance record for each pay period. In addition, the employee's supervisor should review and approve the attendance records within a timely basis.*
19. *The 41st DAA should make any necessary corrections for employee paid leave accruals and usage to ensure year-end records contain only accurate information.*
20. *The 41st DAA should improve internal controls by ensuring paid absences listed on monthly STD 634s match leave usage and accrual on each employee's paid leave records. Furthermore, corrections to any leave usage errors should be made by the subsequent pay period.*

FINDING #7 – INTERNAL CONTROL WEAKNESSES OVER 125-DAY TEMPORARY EMPLOYEES

The 41st DAA did not comply with various administrative requirements as established by the APM, the California Labor Code (CLC), and the State Constitution over 125-day temporary employees. Specifically, the following weaknesses were identified:

- a. From 2019 through 2023, timecards were not consistently reviewed or approved by the employee or employer. Of the 646 timecards that should have been present, only 200 were signed by an employee and 293 were signed by an employer. Additionally, timecards were not consistently retained. Of the 646 timecards that should have been present, 56 could not be located.

The APM Section 17.1, Time Sheets and Leave Records, requires DAAs to maintain timecards for all employees to ensure compliance with labor laws and related overtime and paid leaves.

- b. The 41st DAA did not monitor the number of days temporary employees worked as required by the APM. Therefore, our office used the 41st DAA's payroll records to determine if any temporary employees worked more than the 125-day limitation. Our analysis determined that five employees worked over the 125-day limitation in 2022 and three in 2023. The number of days worked ranged from 162 to 277 days. Article VII, Section 4(l) of the State Constitution exempts a temporary employee from civil service if the employee works less than six months in a calendar year. The CDEFA Legal Office has clarified this to mean 125 days or less. If the 41st DAA worked temporary employees over 125-days, then civil service exemptions might no longer be applicable to the affected employees.
- c. The 41st DAA did not provide a sick leave accrual policy. The CLC Section 246 allows employers to have a policy that lets temporary employees earn sick leave on either an upfront or accrual basis; however, once their minimal amount of time is worked then a policy needs to be implemented. An upfront basis policy has the employee accruing 24

hours of sick leave at once, while the accrual basis has employees earning sick leave at a ratio of 30 hours worked to one hour of sick leave earned.

The 41st DAA's practice was to allow temporary employees to accrue one hour of sick leave for 30 hours worked and use all accrued hours at once, without a yearly usage limitation.

Recommendations:

21. *The 41st DAA should comply with CalHR Section 2101 by ensuring all employees prepare and submit an attendance record for each pay period. In addition, the employee's supervisor should review and approve the attendance records within a timely basis.*
22. *The 41st DAA should comply with the APM and the State Constitution and maintain documentation of the number of days worked towards the limitation for temporary employees.*
23. *The 41st DAA should establish a written policy over its sick leave accruals and ensure the method that is the current practice of the 41st DAA is included in the policy.*

FINDING #8 – INTERNAL CONTROL WEAKNESSES OVER INTERIM REVENUE

Although the 41st DAA's Board of Directors (Board) established interim use of facility policy and delegated authority to the CEO, the following weaknesses were noted:

- a. The 41st DAA did not provide six rental contracts, totaling \$5,424, during the audit period. The interim use of facilities' Board policy on page 5A, item 9, states "All use of the facilities and/or its equipment, shall be covered by a Rental Agreement, duly entered into by staff and approved by the Board."
- b. The 41st DAA entered into eleven rental contracts that did not have clearly identified contract terms, contract price (or in-kind trade), contract conditions, or have a statement of all work to be performed. For example, in an instance the contract said, "Renter shall pay Association the amount of trade for yearly volunteer work." This particular example did not clearly identify the work to be performed in terms of trade, such as number of hours per week or month, type of volunteer work, or the value of the trade. The facilities rented were used for meetings, fund raising, active shooter training, golf, etc. The SCM Section 2.02 defines contract as "an agreement to do or not to do a certain thing. A contract must clearly identify the parties to the contract, the term of the contract, the contract price (or in-kind value), and a contract sets forth terms, conditions, and the statement of all work to be performed."
- c. The 41st DAA did not have 37 out of 113 rental contracts signed by both parties during the audit period. The SCM Section 2.04, Table 2.1, item 6 states "the contract must be signed by contractor... by the person authorized to sign for the agency."

- d. The 41st DAA did not provide evidence of insurance coverage for 46 out of 113 rental contracts during the audit period. The rental agreement requires the renters to provide evidence of insurance coverage.
- e. During the audit period, 32 out of 113 hazardous contracts were not forwarded to the CFSA for liability insurance review and approval as required by the F&E Circular D2014-03.
- f. There was one instance where payment received from the renter was not in accordance with the contract terms. The contract was for the use of a fairground building for worship services for \$700 but the 41st DAA received only \$400. The 41st DAA was unable to explain the \$300 variance.

Recommendations:

24. *The 41st DAA should ensure all contracts are retained for audit.*
25. *The 41st DAA should amend the contract if financial terms are changed.*
26. *The 41st DAA should comply with the SCM by ensuring interim contracts clearly identified the term, price (or in-kind value), set forth terms, conditions, and the statement of all work to be performed.*
27. *The 41st DAA should comply with the SCM by ensuring interim contracts are signed by both authorized parties.*
28. *The 41st DAA should ensure all insurance liabilities are retained for audit.*
29. *The 41st DAA should comply with the F&E Circular D2014-03 and ensure all hazardous contracts and insurance are forwarded to the CFSA for review and approval.*

FINDING #9 – LACK OF CONTROLS AND POLICIES OVER CONTRACTING PROCESSES

Although the 41st DAA established contracting and procurement policies as required by FAC Section 4051, the 41st DAA did not bid required service contracts, exceeded contract payment limitation terms, did not amend contracts, did not issue a Form 1099-NEC, did not complete non-resident withholding of non-California contractors, and did not report new independent contractors to the Employment Development Department (EDD). The policies established by the 41st DAA require contracts for the purchase of goods in excess of \$100,000 to be competitively bid and services in excess of \$10,000 to be competitively bid. The following deficiencies were noted:

- a. Our office observed two contractors were paid over \$10,000 without the 41st DAA providing competitive bidding documentation. One vendor was paid over \$34,000 from 2022 through 2023 to provide sound and lighting for entertainment acts. The other vendor was paid over \$15,000 in 2023 for security services.

- b. Three vendors were paid more than the maximum amount limitations written within their related contracts. For these three vendors, the 41st DAA made payments exceeding maximum contract limits by a total of \$2,100 and \$444 in 2022 and 2023, respectively. The 41st DAA did not amend any of these vendors' contracts prior to making payments that exceeded their maximum limitations.
- c. The 41st DAA did not issue a 1099-NEC to nine contractors in 2022, totaling \$31,735, and one contractor in 2023, totaling \$19,400. Moreover, two contractors' 1099-NECs were overstated. For example, one contractor received an overstated 1099-NEC when a trophy reimbursement of \$700 was included in the reported amount. Another contractor's reported amount was overstated when \$730 in mileage reimbursement was included in the reported amount. The IRS requires organizations to issue a 1099-NEC to contractors when payments of \$600 or more are made during the calendar year.
- d. The 41st DAA did not perform out-of-state tax withholdings for thirteen independent contractors, five in 2022, totaling \$41,185, and eight in 2023, totaling \$102,150, as required. The California Franchise Tax Board (FTB) requires the withholding of 7% of Californian source income from non-California residents when payments are over \$1,500 and a waiver is not granted and provided to the payer.
- e. The 41st DAA did not comply with the requirement to report independent contractors to the EDD when a contract is entered into, or individuals are paid compensation that would require the issuance of an IRS Form 1099-NEC. For 2022 and 2023, each year thirteen contractors were not reported to the EDD as required.

Recommendations:

30. *The 41st DAA should ensure all required contracts are bid in accordance with the Board's established written policies and procedures.*
31. *The 41st DAA should ensure contracts are amended if there are changes in financial terms.*
32. *The 41st DAA should comply with the IRS requirements by ensuring all required independent contractors are issued a 1099-NEC and the amounts are correctly stated.*
33. *The 41st DAA should comply with the FTB requirements by withholding 7% of the total compensation of any out-of-state contractor when required.*
34. *The 41st DAA should comply with the EDD requirements by notifying them of reportable independent contractor agreements once agreements are signed by both parties.*

FINDING #10 – LACK OF ACCOUNTING CONTROLS OVER 41ST DAA PROPERTY

The 41st DAA did not correctly account for its property in the manner required by the SAM and the APM. Pursuant to our analysis of the 41st DAA's fixed asset records, the following control weaknesses were identified:

- a. The 41st DAA did not capitalize or establish long-term liabilities for equipment it acquired through capital leases as required by the Government Accounting Standards Board (GASB). The GASB No. 87 - Accounting for Leases, requires equipment obtained through a capital lease to be recorded on the entity's financial statement as an asset along with the corresponding long-term liability. Our office observed that a long-term capital lease for a copier was not recorded on the 41st DAA's financial statements. Instead, the 41st DAA was incorrectly expensing costs when making the related monthly payment. This error caused the 41st DAA's assets to be understated by \$9,186 at year-end 2022 and 2023. Furthermore, the 41st DAA's liabilities were understated by \$7,655 and \$5,358 at year-end 2022 and 2023, respectively.
- b. The 41st DAA did not prepare a Standard Form 152 - Property Survey Report (STD 152) prior to disposing of accountable equipment items, such as two tractors, a pickup truck, and a copier. Our office identified almost \$50,000 of equipment items listed on the 41st DAA's equipment depreciation schedule that could not be located on the fairgrounds. The 41st DAA's Manager A communicated that the missing equipment was likely disposed of in prior years; however, since no disposal records were maintained, our office cannot confirm this. The DGS requires a STD 152 – Property Survey Report to be prepared when disposing of accountable equipment from a state entity's accounting records.
- c. The 41st DAA did not provide a current inventory listing (Property Register) of its non-monetary equipment items as required by the APM. Non-monetary equipment items are defined as sensitive types of equipment such as computers, tablets, and maintenance tools that are highly susceptible to theft or loss. The APM Section 2.56 requires DAAs to perform periodic physical inventories of its state property. Furthermore, the SAM Section 8652 requires state entities to conduct a physical inventory of all property and reconcile the inventory count with accounting records at least once every three years. All inventory worksheets should be reviewed, signed, and dated both by the person who took the inventory and the CEO.
- d. The 41st DAA did not mark/identify all moveable assets as required by the APM Section 2.55 which states, "All movable items owned by DAA's are to be numerically identified either with a permanent stamp or with property identification (ID) tags. Other Fairs may use a County sticker. ID numbers should also be recorded in the Property Ledger or Property Register as a control over loss or theft of all movable high-risk items."

Recommendations:

35. *The 41st DAA should comply with GASB No. 87 requirements by establishing an asset and a long-term liability for all equipment items obtained through a capital lease.*
36. *The 41st DAA should ensure assets over \$5,000 are depreciated and items under \$5,000 are expensed when acquired.*
37. *The 41st DAA should comply with the SAM and the APM requirements by completing a Property Register of sensitive and high risk non-monetary items as soon as possible. In the future, a physical inventory count should be conducted to update the Property Register at least once every three years. Furthermore, the non-monetary equipment inventory count should be signed and dated by the individual who conducted the physical inventory and reviewed and approved by the CEO.*
38. *The 41st DAA should comply with APM Section 2.55 by ensuring that all movable items owned by the DAA are properly identified with a permanent stamp or property ID tag and that those ID numbers are recorded on the Property Ledger or the Property Register.*

FINDING #11 – LACK OF CONTROL OVER DELEGATION OF AUTHORITY

The 41st DAA did not always comply with the Board-established Delegation of Authority (Delegation), as required by the Contract Manual and the APM requirements. Our office identified 81 checks totaling \$840,500, where Employee A authorized checks above her Delegation. Additionally, all the checks signed over the delegation limit were missing a second signature. According to the Delegation, the check signing limit for Employee A was up to \$5,000 in 2022 and 2023. The checks written above the designated amount required two signatures.

Recommendation:

39. *The 41st DAA should comply with the Board's delegation by ensuring all checks, electronic funds transfer (EFT), and phone payments over \$5,000 have two authorized signatures or approvers.*

FINDING #12 – LACK OF COMPLIANCE OVER COURTESY AND CREDENTIAL TICKETS

The 41st DAA did not retain complete records of free tickets distributed during 2022 and 2023. Additionally, instead of using two types of tickets, courtesy and credential, only one type of ticket was used, credential season and credential single day. The 41st DAA is allowed to distribute two types of free tickets, courtesy and credential. The difference in the ticket type issued is determined by the purpose of the individual when entering the fair. Credential tickets are for admission to a fair without payment of the admission charge when a service is rendered by the person who is admitted, which is necessary for the conduct of the fair, while courtesy tickets are for individuals who do not qualify for a credential ticket and who are not charged for entrance into the fair.

The 41st DAA issued 860 and 1,005 in Credential Seasonal and Credential Single Day tickets, respectively, in 2022 and 1,070 and 1,224 in Credential Seasonal and Credential Single Day, respectively, in 2023, without maintaining complete records on who received the tickets or whether they were considered as Courtesy or Credential. Per FAC Section 3028, each fair shall maintain complete records of credential and courtesy pass admissions which are issued for each fair period.

The FAC Section 3026 limits Courtesy tickets to 4% of prior year's paid admissions. Since the 41st DAA did not have complete records of Credential tickets and did not maintain records of whether the ticket should be classified as a Courtesy or Credential, our office was unable to determine if FAC Section 3026 was followed and ticket numbers reported on Schedule 4 of the Statement of Operations (STOP) was correct.

Recommendation:

40. The 41st DAA should comply with FAC 3028 by maintaining detailed records that track the number of courtesy passes and credential tickets given out each year.

FINDING #13 – FAILURE TO COMPLETE FPPC FORM 802

The 41st DAA failed to comply with California Code of Regulations (CCR) Section 18944.1 by not completing or posting California Form 802, Agency Report of Ticket/Passes Distribution (Form 802) on its website. The Regulation sets out the circumstances under which an agency's distribution of tickets to entertainment events, sporting events, and like occasions would not result in a gift to individuals who attend the function. Furthermore, CCR Section 18944.1 requires the organization to post their ticketing policy on their website.

Recommendations:

41. The 41st DAA should comply with CCR Section 18944.1 by maintaining a completed FPPC Form 802 on its website.

42. The 41st DAA should comply with CCR Section 18944.1 by posting its ticket policy on its website.

FINDING #14 – INTERNAL CONTROL WEAKNESSES OVER SPONSORSHIPS

The 41st DAA failed to establish Board approved procedures for sponsorships as required by the DAA Contract Manual, Section 6.45. Additionally, the 41st DAA did not always enter into written agreements to secure sponsorship funds as required by Food and Agriculture Code (FAC) Section 4051.1. \$43,250 of the \$89,500 (48%) in sponsorship funds received did not have a sponsorship agreement. Without the Board's approved procedures and/or the sponsorship agreements not being completed for all the contributions, our office was unable to determine compliance with the monies received for these sponsorships.

The FAC Section 4051.1 allows for the Board to enter into agreements to secure donations, memberships, and corporate and individual sponsorships, and may enter into marketing and licensing agreements for the receipt of money, services or products in lieu of money, and may employ, or create and participate in an entity, or enter into an agreement with an entity or person to develop, solicit, sell, and service these agreements. Policies also dictate what form the agreement will take and any other requirements as established by the Board.

Recommendation:

43. *The 41st DAA should comply with the DAA Contract Manual by establishing a board-approved procedure for sponsorships. Additionally, the 41st DAA should comply with FAC Section 4051.1 by ensuring they have a written agreement with each sponsor to secure sponsorship funds.*

FINDING #15 – NON-COMPLIANCE OVER PUBLIC RELATIONS AND PROMOTIONAL EXPENSES

In addition to the food and beverages purchased with the 41st DAA credit cards, the 41st DAA purchased \$16,046 of food and beverages with operating checks from 2022 through 2023 that did not comply with all the requirements as specified within the APM Sections 2.76 and 2.77. The 41st DAA did not maintain lists of the individuals who were provided the meals, nor did they prepare documentation listing the topics discussed or specifying the benefit expected to arise to the 41st DAA for these purchases. According to vendor invoices and related documentation, these purchases were for various purposes (lunch auction, Rodeo lunch, Board dinner, Director expense, Fair VIP Sponsor Tent, etc.). The APM Section 2.76 states, "...Claims for payment of promotional or public relations expenses must include the names of all recipients of the item or benefit and the purpose of the expenditure. A claim must justify providing food or a meal by specifying the topics discussed during the event and the necessity of or the benefits expected to accrue to the 41st DAA by entertaining state officials, patrons, or others at a restaurant, hospitality booth or elsewhere..."

Recommendation:

44. *The 41st DAA should review the \$16,046 for appropriateness. Furthermore, the 41st DAA should comply with APM Section 2.76 and improve its recordkeeping practices over food and beverage purchases by maintaining a list of all the individuals that benefited from the meal purchases. Furthermore, the 41st DAA should document the topics discussed and the benefits it expects to accrue when making these purchases.*

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

41st District Agricultural Association
Address: 421 Hwy 101 North, Crescent City, California, 95531
Phone: 707-464-9556
Toll Free: 1-800-350-9556
Fax: 707-464-9519
Email: info@dnfair.org
Website: www.dnfair.org



6/17/2025

California Department of Food and Agriculture Attn: Audit
Office
1220 N ST
Sacramento Ca. 95814

RE: Compliance Audit of the 41st District Agricultural Association

Please accept our responses to the State of California's Department of Food & Agriculture's (CDFA) Compliance Audit of the 41st District Agricultural Association (DAA) for the audit period January 1, 2022 – December 31, 2023.

Finding #1: Lack of Controls using 41st DAA's Credit Card

- a) The 41st DAA has updated their Credit Card Use Policy as well as purchases are signed and approved by the board.
- b) The 41st DAA has corrected the controls of credit card use.
- c) The 41st DAA will ensure appropriate documents are retained for credit card purchases.
- d) The 41st DAA Board President signs all credit card statements to review all credit card transactions.
- e) Moving forward the 41st DAA will maintain a list of guests that attend and what the purpose of the purchase of food and beverage was for.

Finding #2: LACK OF CONTROLS OVER FUEL PURCHASES

- a) The 41st DAA has corrected the controls of fuel purchases by detailed attribute accounting measures, fuel purchase tracking as well as working with the local vendor who delivers the fuel.
- b) Travel log has been installed in the one state vehicle that is used off grounds.

Finding #3: LACK OF COMPLIANCE WITH CDFA'S NEPOTISM POLICY

- a) The 41st DAA had adopted a Nepotism Policy; the policy has become a part of the hiring packet. If there is any family members hired, then an SO-31 form is filled out and sent to you HR and also put in their file. Board approval must be done as well.
- b) In the future the 41st DAA TEC's will be properly completed.
- c) Will ensure all rentals have contracts.
- d) All other findings have been corrected.



Finding #4: FAILURE TO COMPLY WITH OVERSIGHT REQUIREMENTS

The 41st DAA is in the process of completing the final years reviews to bring the DAA current.

Finding #5: INTERNAL CONTROL WEAKNESSES OVER TRAVEL EXPENSE CLAIMS

- a) The 41st DAA has recouped the funds from Employee A for hotel expenses.
- b) The 41st DAA will work to comply with SAM requirements and complete an STD 255C for future excessive lodging rates that exceed the allowed amount.
- c) The 41st DAA has corrected the findings for lodging reimbursement claims.
- d) All Travel Expense Claims have been reviewed and signed by Board Chair.
- e) In the future the 41st DAA TEC's will be properly completed.

Finding #6: NON-COMPLIANCE WITH POLICIES INVOLVING PERMANENT EMPLOYEES

- a) The 41st DAA have corrected the findings by having supervisor review and sign attendance records monthly.
- b) The 41st DAA has corrected all paid leave accruals to make sure that they are accurate.
- c) The 41st DAA have improved internal controls by ensuring paid absences listed on monthly STD 634's match leave usage and accrual on each employee paid leave records.
- d) Moving forward all timecards will be completed and signed by all employees and supervisors.

Finding #7: INTERNAL CONTROL WEAKNESSES OVER 125-DAY TEMPORARY EMPLOYEES

- a) The 41st DAA has corrected the attendance record findings.
- b) The 41st DAA have corrected the findings on documenting number of workdays a temporary employee works.
- c) The 41st DAA adopted a sick leave policy.
- d) Moving forward all timecards will be completed and signed by all employees and supervisors.

FINDING #8 – INTERNAL CONTROL WEAKNESSES OVER INTERIM REVENUE

- a) The 41st DAA has corrected the findings with policy implementation and proper training.
- b) Moving forward, the 41st will retain the documents, will amend documents when needed, and all contracts will have the proper information as needed. All contracts will have the proper insurance needed. All contracts will be signed by both parties. Any hazardous contracts will be sent to and approved by CFSA.
- c) All contracts will have complete terms in the contract.

41st District Agricultural Association
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FINDING #9 – LACK OF CONTROLS AND POLICIES OVER CONTRACTING PROCESSES

- a) The 41st DAA is currently following the Boards Policy and Procedures manual.
- b) The 41st DAA has corrected all findings with proper training and policy implementation.
- c) Moving forward, the 41st DAA will follow the board policies regarding bidding. We will amend the contract when needed.
- d) Moving forward the 41st DAA will include all proper documents with contracts, such as STD 204 and CCC and bid if needed.
- e) 1099's will be issued when needed.
- f) All out of state withholdings will be completed as well as new contracts will be reported to EDD.

FINDING #10 – LACK OF ACCOUNTING CONTROLS OVER 41ST DAA PROPERTY

- a) The 41st DAA is in the process of correcting the lease agreements for the printers and adding them to our long-term capital liability ledger.
- b) The survey ledger has been located and the 41st DAA is in the process of locating the dates the items were surveyed.
- c) The 41st DAA is in the process of updating property ID tags and property ledger on DAA property.
- d) The depreciation file has been corrected and all items over \$5,000 of value will be included in the schedule.
- e) The inventory file has been updated and a complete inventory will be done every 3 years as required.

FINDING #11 – LACK OF CONTROL OVER DELEGATION OF AUTHORITY

The 41st DAA has updated the CEO's Delegation of Authority to comply with the Contract Manual and APM Requirements.

FINDING #12 – LACK OF COMPLIANCE OVER COURTESY AND CREDENTIAL TICKETS

The 41st DAA has corrected its tracking method for credential and courtesy tickets.

FINDING #13 – FAILURE TO COMPLETE FPPC FORM 802

- a) The 41st DAA form 802 is located under page Board of Directors on the current website. An updated form will be updated to the new site that will launch in May.
- b) Ticket Policy has been approved and will be updated on new website.

FINDING #14 – INTERNAL CONTROL WEAKNESSES OVER SPONSORSHIPS

The 41st DAA has corrected the findings by proper training and is working to update their Sponsorship Policy.

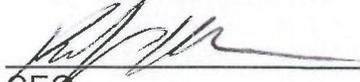
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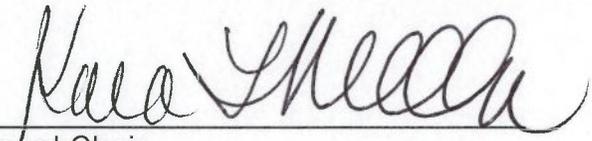
FINDING #15 – NON-COMPLIANCE OVER PUBLIC RELATIONS AND PROMOTIONAL EXPENSES

The 41st DAA is working to improve its documentation regarding food and beverage purchases.

Respectfully submitted,



CEO



Board Chair

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 41st DAA, Del Norte County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report, with the exception of Recommendations #3 and #6.

As stated in Recommendation #3, the 41st DAA should review the approximately \$34,637 in credit card charges not supported by receipts to ensure the purchases were business-related.

As stated in Recommendation #6, the 41st DAA should strengthen its controls over fuel deliveries by periodically reconciling fuel deliveries to usage as shown on the fuel logs.

DISPOSITION OF AUDIT RESULTS

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

This report is intended for the information of the Board, management, and the F&E. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford, CPA
Chief, Audit Office

July 22, 2025

REPORT DISTRIBUTION

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1	Board Chair, 41st DAA Board of Directors
1	Chief Executive Officer, 41st DAA
1	Director, Division of Marketing Services
1	Branch Chief, Fairs and Expositions Branch
1	Director, Administrative Services Division
2	Deputy Secretary and Chief Counsel, CDFFA Legal Office
1	Chief, CDFFA Audit Office