CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE
Karen Ross, Secretary

9/26/2011

Mr. Robert Marani, President
Board of Directors
14th District Agricultural Association
Santa Cruz County Fair
2601 East Lake Avenue
Watsonville, CA 95076

Dear Mr. Marani:

The Department of Food and Agriculture, Audit Office, has completed its audit of the financial records of the 14th District Agricultural Association, Santa Cruz County Fair. The final reports are enclosed.

Sincerely,

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

RECEIVED
OCT 03 2011
14th DIST. AG. ASSN.

Enclosure

cc: Michael Bethke ✓

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2010

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Suzanne Carstensen	Auditor
Sophea Touch	Auditor

MANAGEMENT REPORT NUMBER
#10-011

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Robert Marani, President
Board of Directors
14th DAA, Santa Cruz County Fair
2601 East Lake Avenue
Watsonville, California 92626

In planning and performing our audit of the financial statements of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, Watsonville, California, for the year ended December 31, 2010, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. 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.

SAS No. 115, Communicating Internal Control Related Matters Identified in an Audit, requires the auditor to communicate significant deficiencies and material weaknesses in internal control to management and those charged with governance. Control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely manner. The communication of control deficiencies that are not considered significant deficiencies can be either written or oral. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than consequential will not be prevented or detected. A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

In addition, this Management Report has been expanded to include: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Santa Cruz County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board 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.

Due to the small size of the 14th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 14th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 14th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 14th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 14th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 14th DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: weaknesses in contracting procedures, accounting for fixed assets, cash controls, policy and procedures for sponsorship revenue, and internal control weaknesses over on-site fuel. We have provided 12 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations 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 14th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

WEAKNESSES IN CONTRACTING PROCEDURES

Our office sampled 17 standard agreements for compliance with State rules and regulations, and the following reportable exceptions were noted:

a. Amounts paid by the Fair and services provided by contractors exceeded the contract terms for two contractors. The Fair entered into agreements with Contractor A for electrical work under two contracts totaling $12,687 ($1,200 and $11,487) and with Contractor B for engineering work with a stated maximum amount payable of $4,122. Review of invoices paid by the Fair and IRS Forms 1099 issued by the Fair revealed, in 2010, the Fair paid Contractor A $61,729 in total and Contractor B a total of $30,512. In addition, a comparison of the scope of work under the related contracts with the invoices paid by the Fair identified that services provided exceeded the contract terms.

   Sound business practices and the Division of Fairs and Expositions (F&E) Contract Manual Section 1.05 require all contracts to be in writing and must set forth terms, conditions, and the statement of all work to be performed. Allowing contractors to exceed the stated terms and conditions exposes the Fair to significant risk of loss should a dispute arise. Also, clearly defined terms, including maximum payment amount and scope of work, assist the Fair in determining whether the agreement is subject to other requirements, such as competitive bidding, or review by the Board, F&E or California Fair Services Authority (CFSA).

b. Five personal service contracts, including the agreements discussed above, were not submitted for bid as required. In addition to the agreements discussed previously, the Fair did not go out to bid for three service contracts with a value of $5,000 or more as required. The three contract amounts ranged from $8,638 to $14,707 for admissions, entertainment director, and marketing services. According to Contract Manual Section 2.05, Bidding Requirements, contracts over $5,000 and not otherwise exempt from bidding must be formally bid through either the Request for Proposals or Invitation for Bids process or awarded using the Alternate Bid Process. These procedures benefit the Fair by stimulating competition in a manner conducive to sound fiscal practices. In addition, they are meant to provide prospective contractors fair opportunity to participate in the competitive solicitation process.

c. The Fair did not always submit contracts for review and approval when required. We noted seven contracts were not sent to the CFSA for insurance review and approval when required. Contracted services included circus and animal acts or shows, light and sound services, street sweeping, electrical work, and animal processing. The F&E Contract Manual, §1.20, requires all hazardous contracts up to $75,000 and non-hazardous contracts from $15,000 to $75,000 that require liability insurance to be submitted to CFSA. This process helps protect the Fair's interests, since reviews are meant to ensure sufficient insurance is present and the contract contains all required terms. This was a prior year audit finding.

d. The Fair did not always use the correct Standard Agreement form for service agreements. 3 of 17 contracts reviewed did not use the correct Standard Agreement Form (Std) 213. Instead the Fair used Std 210, which is to be used only for contracts not exceeding $9,999. Additionally, we noted three instances where the Fair used purchase orders to obtain services, such as heater repair, website design and maintenance, and waste/garbage services; these purchases ranged from $622 to $3,760. Services should be obtained using a standard contract agreement describing the responsibilities of each party. Using the correct form helps ensure that contracts contain language necessary to protect the Fair should a dispute arise. This was a prior year audit finding.

e. Four multi-year contracts did not state why a multi-year contract is in the best interests of the Fair. According to F&E Contract Manual Section 5.10, "If a contract is for more than one year (multi-year) or contains options to renew which if exercised would make the contract multi-year, a written justification explaining why it is in the best interest of the DAA must be included in the contract file, and in the contract package if the contract requires F&E approval. This justification may be added to the *Std. 215 Agreement Summary* or prepared on a separate sheet of paper." Unless a multi-year contract is in the best interest of the Fair, contract terms should not exceed one year, as this helps promote open, fair and equal competition among prospective suppliers. Consistent with this, the Fair is required to state why it is in the best interest of the Fair when awarding a multi-year contract.

Recommendations

1. *The Fair should ensure contract terms are clearly defined and limitations are complied with, including the scope of work to be performed and the maximum amount payable.*
2. *The Fair should ensure to comply with competitive bidding requirements for contracts $5,000 or more.*
3. *The Fair should obtain CFSA liability insurance review and approval for hazardous contracts up to $75,000 and non-hazardous contracts from $15,000 to $75,000 that require liability insurance*
4. *All services should be obtained using the proper standard agreement form: Std 210 for agreements totaling less than $10,000 and Std 213 for agreements totaling $10,000 or more.*
5. *For multi-year contracts or contracts with options to renew, the Fair should include in the contract file a written justification explaining why a multi-year contract is in the best interest of the Fair.*

ACCOUNTING FOR FIXED ASSETS

An examination of the Fair's accounting for fixed assets revealed that the Fair did not adequately account for all capital and non-capital property. The Fair included in the cost of a capital project items that do not meet the asset capitalization criteria. In 2010, the Fair completed the Horse Show Arena project, which primarily consisted of replacement of an electrical transformer. The total cost of the project was stated at $20,377. According to APM Section 5.72, assets are capitalized when acquired if costs are $5,000 or more and the useful life is at least one year. Repair and maintenance costs, such as paint, are capitalized only if they significantly extend the life of the asset or if a repair is a component of a much larger expense paid through a variety of sources. Items not meeting the capitalization criteria are expended in the year incurred. Review of the accounting records revealed that costs totaling $7,574 for items such as fence paint, gate hooks and other repair items, and 15 horse jumps purchased for $3,000, were included in the cost of the project. As a result, Account #192, Building and Improvements, and the related accumulated depreciation were overstated $7,574 and $252, respectively, and maintenance and repair expenses were understated by $7,574. Therefore, we have made an adjustment to the financial statements.

Recommendations

6. *The Fair should make the necessary adjustment to the accounting records to remove costs from the Horseshow Arena project that do not meet the F&E capitalization criteria. In the future, the Fair should ensure that only assets with an acquisition cost of at least $5,000 and a normal useful life of at least one year are capitalized.*

CASH CONTROLS

Cash controls were reviewed for all cash accounts and the following exceptions were noted:

a. As noted in our audit reports for the past two years, the Fair did not record in the general ledger an additional cash account that is in the Fair's name. The additional cash account relates to sponsorship revenue collected by the Fair for Junior Livestock Awards. The Fair opened a bank account in 2008 to record the donation revenue and expenses related to the livestock awards. The year-end balance in the account was $6,635.

b. For 2010, the Fair did not complete Form 445, Report of Bank/Savings and Loan Account Outside the State Treasury System. According to APM Section 2.363, if a DAA uses bank or savings and loan accounts, including certificates of deposit, it must submit four copies of the Std. 445 to F&E by August 1st each year. The APM cites SAM Section 7975 as its authority for this policy.

c. The balance in the operating account exceeded the $250,000 amount insured under the Federal Deposit Insurance Corporation (FDIC) for ten months in 2010. FDIC insures accounts in local banks only up to $250,000 and excess amounts would be lost in the event of a bank failure. Also, banking institutions cannot provide the highest possible interest rates to State agencies. The Fair should invest surplus funds in the Local Agency Investment Fund (LAIF) account or other account that offers interest rates higher than those offered by the banking community. This was a prior year audit finding.

Recommendations

7. *The Fair should make the necessary entry to establish the Livestock Awards Account in the accounting records, since this account is in the Fair's name.*
8. *The Fair should complete and submit to F&E Form 445, Report of Bank/Savings and Loan Account Outside the State Treasury System, annually prior to August 1.*
9. *The Fair should transfer their surplus funds to the LAIF or other interest-earning account in order to obtain an improved interest rate and eliminate potential losses to the State.*

POLICY AND PROCEDURES FOR SPONSORSHIP REVENUE

Our office found weaknesses in the 14th DAA's procedures for obtaining sponsorships. We found when reviewing the Fair's sponsorship revenue that the Board of Directors had not established policies and procedures for entering into sponsorship agreements and the securing of sponsorships, as required by the F&E Contract Manual, Section 6.40. In addition, the Fair did not have written agreements for two sponsored projects (Horseshow Restroom Upgrade project and Flagpole project), in which the sponsors oversaw building permanent structures or capital improvements on the fairgrounds. According to the F&E Contract Manual, the DAA Board is to establish "procedures" for entering into sponsorship agreements; each DAA's procedures for securing sponsorships and sponsorship coordinators must be approved by the Board and maintained on file at the DAA's contract office. The DAA then follows the sponsorship procedures set by their Board. These procedures for sponsorship contracting, as well as the contracts themselves, are not subject to the Contract Manual requirements or F&E approval. They are subject to procedures established by the DAA. However, it should be noted that Food and Agriculture Code 4051.1(b) does require F&E pre-notification for sponsorship contracts that exceed $100,000 in value, or have a term of over two years, or contemplate the building of a permanent structure on fair property. Having written agreements for sponsored projects will assist the Fair by defining the scope of the project and the responsibilities of each party.

Recommendations

10. *The Fair Board of Directors should establish written procedures for entering into sponsorship agreements.*
11. *The Fair should retain evidence that it received Notification of Review from F&E for any sponsorship agreement meeting the requirements under Food and Agriculture Code Section 4051.1.*

INTERNAL CONTROL WEAKNESSES OVER ON-SITE FUEL

Our office noted weaknesses in the Fair's internal controls over its management of the on-site fuel tanks used for refueling vehicles and equipment, and which is also purchased from the Fair for use by the Speedway. According to the Fair's general ledger, the Fair made on-site fuel purchases totaling $9,224 in 2010. Upon examination of the fuel consumption reports, we noted the Fair did not reconcile the consumption reports/logs to the amount of fuel purchased and the amount of fuel remaining in the tank at the time of purchase. For fuel used by the Fair, the number of gallons drawn is tracked, as well as the date, the equipment/vehicle consuming the fuel, and the name of the person drawing the fuel. However, the amount of fuel drawn by the Speedway is kept in a separate log and is not verified by Fair personnel. Reconciling the amount of fuel consumed to the amount purchased and remaining in the fuel tank ensures that the fuel usage is adequately reported and usages were solely for authorized purposes. We recommend the Fair keeps only one log, as this will simplify the reconciliation process.

Recommendation

12. *The Fair should improve its internal controls over the usage of its on-site fuel. At a minimum, the Fair should perform a reconciliation between the on-site consumption reports to the amount of fuel purchased and the amount of fuel remaining in the tank at the time of purchase to ensure the fuel usage is solely for business purposes. In addition, the Fair should keep only one log, as this will simplify the reconciliation process.*

NON-REPORTABLE CONDITIONS

ACCOUNTS PAYABLE

The Fair's accounts payables were analyzed and it was identified that the Fair did not properly account for all 2010 payables at year end. During our audit, we noted errors in accounting for liabilities totaling $6,585 that resulted in Account #212, Accounts Payable, being understated at year-end. Property insurance for 2010 in the amount of $2,482 was recorded as a pre-paid expense, although it was not paid until 2011. Since this expense relates to operations for 2010 and was not paid until 2011, it should be recorded as a liability in accounts payable. In addition, the Fair misclassified $4,103 for overpayments made in 2010 related to waste management services and health insurance premiums. Liability accounts, such as accounts payable, normally have a credit balance. The Fair left the overpayments as debit balances in accounts payable. Overpayments of expenses would more appropriately be classified as assets of the Fair as accounts receivable or prepaid expenses/deferred charges. Leaving an overpayment or debit in Accounts Payable resulted in an understatement of the true total of 2010 expenses unpaid at year-end. As a result of these errors, the balance of Account #212, Accounts Payable, was understated by $6,585.

Recommendation

The Fair should ensure it properly classifies all expenditures in the proper accounting period in which they were incurred.

ACCOUNTS RECEIVABLE

A review of accounts receivable revealed the Fair overstated year-end assets by approximately $5,028. This resulted from errors in accounting for three outstanding receivables. First, the Fair did not account for collection of outstanding receivable of $2,009. The Fair had a receivable due to a previous overpayment to the local water agency. In 2010, the $2,009 outstanding overpayment was not being offset in the accounting records by the amount shown on monthly invoices from the water agency. By the end of 2010, the Fair's credit had been offset in full, with no receivable remaining. In another instance, an employee receivable in the amount of $1,169 was recorded twice. Finally, the Junior Livestock Auction has a long-standing receivable in the amount of $1,850 that is doubtful to be collected. An allowance for the doubtful account should be established, to fairly present the realizable value of JLA accounts receivables in the financial statements. According to APM Section 7.21, at a minimum the Fair should annually prepare a list of accounts receivable and reconcile to the general ledger prior to year-end closing and preparation of the STOP.

In addition, we noted the Fair is not invoicing or otherwise trying to collect $657 for six outstanding dishonored checks. The Fair should pursue collection of these accounts. APM Section 2.455 recommends sending at least three statements before considering an account uncollectible. Once collection efforts have been exhausted, the Fair may write off individual amounts up to $500 with Board approval.

Recommendations

The Fair should regularly review the accounts listed in accounts receivables to ensure the balance represents uncollected revenue still outstanding at year-end.

The Fair should pursue collection of outstanding accounts. Once collection efforts have been exhausted, individual amounts up to $500 may be written off with Board approval.

ACCOUNTING FOR CARNIVAL REVENUE

The Fair did not maintain adequate accounting records for its carnival revenue. According to the settlement sheet, the contractor sold $176,795 in onsite tickets; however, no documentation was retained to verify the actual amount sold. In addition, the Fair did not perform a reconciliation between the general ledger and the settlement sheet provided by the carnival contractor. According to the settlement sheet, the amount paid and collected by the Fair is $72,087; however, the amount recorded on its general ledger is $69,853. According to the Fair, the employee who was responsible for reconciling with the carnival contractor and securing the documentation is no longer employed by the Fair and subsequently the Fair has been unable to locate the documentation. Due to the lack of documentation and verification, our office could not determine whether the Fair collected the percentage to which it is entitled.

In addition, the Fair entered into a contract with Vendor A to sell package tickets which includes carnival and admission tickets as a package deal; however, the Fair does not have a formal written agreement. Due to the lack of a contract, we could not determine the percentage of commission to be paid to Vendor A for the ticket sales.

Recommendations

The Fair should reconcile its carnival revenue to ensure that all amounts collected are properly accounted for and recorded.

The Fair should ensure it has a written agreement with third parties engaged to sell tickets. The agreement should clearly state the terms, including commission or other compensation to be paid by the Fair.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

14th District Agricultural Association
SANTA CRUZ COUNTY FAIR
Established 1885

August 2, 2011

Ron Shackelford, CPA
Chief, Audit Office
Department of Food & Agriculture
2014 Capitol Avenue, Suite 1
Sacramento, CA 95811

SUBJECT: **Response to 2010 Audit Report (Management Report #11-011)**

Dear Mr. Shackelford,

We have reviewed your Staff's attached audit report for the year ending December 31, 2010, and provide the following responses to the five (5) Reportable Conditions as noted:

WEAKNESSES IN CONTRACTING PROCEDURES:

a) We understand the possible confusion of the billings for Contractor A ([redacted]) and Contractor B ([redacted]). Both contractors were initially retained to address and resolve some severe "life safety" problems we had identified on an emergency stand-by notice, and were to be paid on a time and material (T & M) basis for each specific project (with the assumption that the cost would not exceed $5,000 per project). Indeed, most of the invoices submitted attempted to break down these respective scope of services per project, but given the fast-paced emergency scope of work involved with the professional services provided by these contractors we may have not properly processed these contracts as required. We will endeavor to do a better job with this in the future.

b) The 2010 Entertainment Director and Marketing Director were on a three-year contract, 2008-2010 (see attachments 1 and 2). These two positions did go out to IFB in 2011 for a one-year contract with three one-year renewal options. With respect to our Admissions Director she is extremely experienced, having worked for the fair for over ten years, maintains excellent records, (the high quality of her records was praised by the 2009 auditors), and we believe it is in the best interest of the Fair to continue using her professional services.

c) We concur that out of approximately 300 contracts that were formally forwarded for review by CFSA for insurance purposes, staff apparently missed 7 contracts that should have been forwarded and reviewed as noted. This oversight represents only a 3% non-compliance ratio for all requisite contracts processed last year, but we will endeavor to do better in the future.

d) Once again, we concur that out of approximately 150 service agreements we processed last year, 3 of the contracts appear to not have been processed with the appropriate Standard Agreement form. This represents a non-compliance factor of approximately 2%, which we will endeavor to do better in the future.

e) The 4 multi-year contracts cited appear to involve prior agreements that were approved a few years ago, e.g., Lease for the Ag. History Project and the Lease for the Ocean Speedway. The Board and Staff will duly note the "written justification" requirements as outlined should these contracts come up for renewal, and/or any future multi-year contracts that the 14th DAA will consider.

2601 East Lake Avenue, Watsonville, CA 95076 • Voice: 831-724-5671 • Fax: 831-761-5827 • www.santacruzcountyfair.com

ACCOUNTING FOR FIXED ASSESTS

Horse Show Project

We viewed all expenses relating to the horse show arena project as a single capital expense for 2010 because it totaled $20,377 well in excess of the $5,000 limit. However, in the interest of bringing closure to 2010, we will accept your recommended adjustments of transferring the painting, totaling $4,574, and the new jumps totaling $3,000, for a combined total of $7,574, to repairs and maintenance.

Would you please provide us with the appropriate adjusting journal entries that would also include the depreciation adjustment?

CASH CONTROLS

a) **Additional Bank Account**
The additional account you are referring to is maintained and under the control of the Junior Livestock Committee. The Fair is not a signatory on this bank account. Its sole purpose is to collect sponsorship money for the purchase of awards for livestock exhibitors. The Fair's name is on the account solely as a safeguard in the unlikely event that the Junior Livestock Committee should dissolve. We do however require the livestock committee to comply with State Contracting Procedures.

It is our understanding that we do not need to include this in our accounting records because it is maintained and controlled by the Junior Livestock Committee.

b) **Form 445 not submitted**
Your statement is incorrect. The form 445 was submitted, with the appropriate number of copies, on August 5, 2010 (please see attachment 3a and 3b).

c) **Bank balance exceeding FDIC insured limit $250,000**
You are correct. From time to time this does happen in the normal course of business. This account is our operating account with [redacted], which is, as you are probably aware, a large cooperative agriculture based private bank, considered one of the largest and safest banks in the world. They have a triple A credit rating from both [redacted] and [redacted]. Management therefore does not consider this a serious risk.

CASH CONTROLS

You will notice, that we have in fact spread our risk by investing surplus funds in CD's with different banks, and have a LAIF account.

Just for the record, the LAIF account had a balance of $145,106 at July 31, 2011 (see attachment 4).

We try to maintain adequate funds in our operating account for working capital requirements, and with an annual budget of approximately $1.4 million, and given the seasonal nature of our industry, our working capital requirements vary considerably from one month to the next.

We will however endeavor to forecast the projected working capital requirements in the future and when we have surplus funds, make appropriate transfers into the LAIF account whenever possible.

POLICY AND PROCEDURES FOR SPONSORSHIP REVENUE

We are in the process of trying to review and adopt an official Sponsorship Policy and Procedure (see attached 5C, board agenda, item IX-2 Old Business). We hope to have this completed within the next two months.

INTERNAL CONTROL WEAKENESSES OVER ON-SITE FUEL

The Fuel Log register now addresses and resolves this oversight, with only two designated maintenance staff authorized to dispense fuel, i.e., both diesel and gasoline (see attachment 6A, 6B, 6C and 6D).

NON-REPORTABLE CONDITIONS

Accounts Payable, Accounts Receivable, Accounting for Carnival Revenue

With respects to accounts payable and accounts receivable, we agree with your findings and are currently reviewing our month end and year-end accounting procedures with a view to improving our financial reporting.

With respect to carnival revenues, we are reviewing our internal control documentation with a view to having improved procedures in place ready for fair time 2011.

As you noted, we have a small administrative staff with often heavy and uneven workloads through the year. We are also facing reductions in revenues due to the loss of F&E funding so we are working within very tight budget constraints. We are therefore facing the challenge that all small organizations face of implementing adequate internal controls with limited resources. We thank you for your observations and will continue to work at improving our policies and procedures given the constraints mentioned above.

Sincerely,

Robert Marani, President
14th DAA Board of Directors

Cc: 14th DAA Board of Directors & Staff
ATTACHMENTS

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 14th DAA, Santa Cruz County Fair, for their review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report with the exception of a few items noted below:

In response to Recommendation #2, our office in unclear on whether the Fair intends to bid all services in excess of $5,000 that are required to be bid. The Fair should ensure contracts requiring a bid are done so in accordance with State rules.

In response to Recommendation #7, the Fair should seek further clarification on whether the JLA should be included in the Fair's financial statements if the Fair disagrees with our recommendation.

In response to Recommendation #8, our office has received the Forms since the conclusion of the audit. Therefore, the additional recommendation is that all documents should be provided at the time of the audit. These findings were brought to the attention of the Fair during the course of fieldwork.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between March 21 and March 30, 2011. My staff met with management on March 30, 2011 to discuss the findings and recommendations, as well as other issues.

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 and its distribution is not limited. Once finalized, this report will be posted to the Reporting Transparency in Government Website as required by Executive Order S-20-09.

Ron Shackelford, CPA
Chief, Audit Office

March 30, 2011

REPORT DISTRIBUTION

Number	Recipient
1	President, 14th DAA Board of Directors
1	Chief Executive Officer, 14th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

RECEIVED
OCT 03 2011
14th DIST. AG. ASSN.

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Suzanne Carstensen	Auditor
Sophea Touch	Auditor

AUDIT REPORT NUMBER

#11-011

14TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA CRUZ COUNTY FAIR
WATSONVILLE, CALIFORNIA

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Robert Marani, President
Board of Directors
14th DAA, Santa Cruz County Fair
2601 E. Lake Ave.
Watsonville, California 92626

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 14th District Agricultural Association (DAA), Santa Cruz County Fair, Watsonville, California, as of December 31, 2010 and 2009, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 14th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 14th DAA, Santa Cruz County Fair, as of December 31, 2010 and 2009, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 14th DAA, Santa Cruz County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.