

**County of Solano  
Office of the Auditor-Controller**



**FOLLOW-UP REVIEW TO THE  
SOLANO COUNTY FAIR FINANCIAL STATEMENT AUDIT  
FOR THE YEARS ENDED DECEMBER 31, 2017 & 2016**

**September 3, 2019**

**Auditor-Controller: Phyllis S. Taynton, CPA  
Deputy Auditor-Controller: Denny Cheuk, CPA  
Auditor: Melinda S. Ingram, CPA**

## **INTRODUCTION/OBJECTIVE/SCOPE OF REVIEW**

Pursuant to the fiscal year 2019/20 audit plan, the Solano County Auditor-Controller's Office Internal Audit Division (IAD) conducted a follow-up review of the Solano County Fair (Fair) financial statement audit dated October 9, 2018 as of and for the years ended December 31, 2017 & 2016.

The purpose of the follow-up review was to evaluate the status of the matters identified during performance of the above referenced financial statement audit. The Follow-Up Review Report contains the four (4) identified matters, auditor recommendations and the Solano County Fair Association (SCFA) management's responses. This follow-up report is limited to reviewing actions taken by the SCFA's management as of August 29, 2019.

We conducted our review in accordance with the *International Standards for the Professional Practice of Internal Auditing* as developed by the Institute of Internal Auditors.

## **BACKGROUND**

The Fair is a discretely presented component unit in the County of Solano's basic financial statements. The Fair is governed by SCFA whose members are appointed by the County's Board of Supervisors. The Fair Association is a 501(c)(3) nonprofit organization established in 1949 to conduct the annual County Fair and oversee the day-to-day operations of the County's fairgrounds property.

The SCFA has been providing educational, cultural, artistic, commercial and recreational programs to the residents of Solano County for over 65 years. The mission of the SCFA is "to ensure a positive experience for the public by providing a year-round multi-purpose venue that showcases and celebrates the wide variety of resources and activities available to our diverse community."

As part of the IAD's audit of the Fair's financial statements as of and for the years ended December 31, 2017 & 2016, we issued our management memo dated October 9, 2018 and an addendum to our management memo dated October 22, 2018. The report identified four (4) matters to be addressed by Solano County Fair Association's management.

## **SUMMARY**

Based on our follow-up review, the SCFA's management has implemented two (2) of the identified matters, Item 2- Solano County Fair Management Reports and Item 4- Compliance with CalPERS Enrollment Requirements. Item 3- Solano County Fair Operations is currently in progress. Item 1- Solano County Fair Reporting Structure has not been implemented.

The IAD recommends the SCFA's management continue to work with the Solano County Board of Supervisors and the Solano County Fair Association Board of Directors to resolve the one outstanding identified matter.

The Internal Audit Division would like to acknowledge the time, cooperation, and assistance of the Solano County Fair Association's management and staff during our review.

**Solano County Fair**  
**Follow-Up Review of Matters Identified from**  
**Financial Statement Audit for the Years Ended December 31, 2017 & 2016**

**FINDING 1: SOLANO COUNTY FAIR REPORTING STRUCTURE**

Based on our audit, we identified an inconsistent reporting structure. The Solano County Fair Association (SCFA) conducts, under an agreement with Solano County (County), the annual County Fair and oversees the day-to-day operations of the County's fairgrounds property. The SCFA is a 510(c)(3) nonprofit organization with its own Articles of Incorporation and By-Laws whose Board Members are appointed by the County's Board of Supervisors.

However, the activities of the Fair are accounted for as an enterprise fund and are presented in the County's Comprehensive Annual Financial Report (CAFR). In government accounting, an enterprise fund entity provides goods or services to the public for a fee that makes the entity self-supporting; similar to a commercial enterprise.

Additionally, staff conducting the Fair and overseeing the day-to-day operations of the fairgrounds property are SCFA employees but are also part of the County's pension (CalPERS) and medical plans.

Accounting for the SCFA's (a nonprofit entity) activities in an enterprise fund while also including the employees of the SCFA within the County's CalPERS plan creates an inconsistent reporting structure.

**Recommendation:** The SCFA Board should work with the County Board of Supervisors to adopt an appropriate reporting structure reflecting Fair operation realities.

**Status:** Recommendation not implemented.

**Management's Response:** SCFA efforts to address this issue are ongoing. Before SCFA can unravel 70 years of comingling of the operational elements of SCFA activities from the property ownership obligations of the County SCFA needed to address the financial reporting deficiencies noted in Item # 2. Now that the reporting practices are in line with accepted accounting practices staff resources can now be directed to separating SCFA operational activities and responsibilities from the County's ownership position.

Key to moving this project forward is a restructuring of the Management Agreement between the County and SCFA. The current Management Agreement perpetuates the old outdated SCFA business model. A Management Agreement that clearly identifies and defines the nature of the relationship between the County and SCFA is mission critical to developing a reporting structure that reflects current Fair operation realities.



## **FINDING 2: SOLANO COUNTY FAIR MANAGEMENT REPORTS**

Based on our audit, the Fair does not follow financial reporting practices consistent with generally accepted accounting principles. The following deficiencies were identified:

As part of the biennial financial statement audit, we routinely provide audit adjustments to present the Fair's operations consistent with generally accepted accounting principles. These adjustments include recognizing depreciation expense, the Fair's share of the County's pension and Other Post-Employment Benefits (OPEB) liabilities, and pension obligation bond debt. In operating an enterprise activity, management should make these types of entries to adequately measure the Fair's operations by including these costs when developing user fees. If these costs are not included in the user fees the Fair may not be recovering all costs of operations.

Additionally, the Fair presents operating statements to the Fair board on a monthly basis which shows the Fair's operations in total by expense category (e.g., salaries/ benefits, services and supplies, utilities, etc.). However, the Fair Board has not routinely been provided expenses by functional cost center (e.g. facility rental) that includes overhead allocated to the cost centers. Allocating overhead costs to all cost centers provides the true cost of departmental operations.

**Recommendation:** By presenting expenses by cost center, management and the Fair Board can better monitor the operations and profitability of the individual cost centers/ departments and make strategic business decisions based on the information.

Present the Fair Board with monthly operating reports, by cost center, that include overhead costs allocated to all cost centers/departments.

**Status:** Recommendation implemented.

## **FINDING 3: SOLANO COUNTY FAIR OPERATIONS**

Based on our review, the Fair continues to experience losses as a result of annual operating activities, resulting in a decline in net position. As previously reported to the SCFA, the historical decline in cash and financial condition of the Fair since December 2000 is presented below.

**Recommendation:** Fair management, in conjunction with the Solano County Board of Supervisors, should pursue plans to address this ongoing structural deficit.

**Status:** Recommendation is in-progress. SCFA management presented to the County Board of Supervisors, on February 5, 2019, a draft business plan addressing the deficit and to improve Fair operations. The business plan was adopted by the SFCA Board on March 20, 2019.

**Management's Response:** SCFA's financial position has significantly improved from December 31, 2017 as reflected by the year-end 2018 numbers. That improvement continues in 2019. Cash on July 31, 2019 was \$505,981. The financial improvement is a result of primarily a combination of increases in facility rental revenue and decreases in operating costs. With a better financial reporting system in place, SCFA staff and Board are currently reviewing all aspects of the operation to uncover more areas where costs can be decreased.

#### **FINDING 4: COMPLIANCE WITH CALPERS ENROLLMENT REQUIREMENTS**

Subsequent to release of the audit report, SCFA management identified an issue with the Fair's compliance with CalPERS enrollment requirements. Several Fair employees benefit eligibility status was inaccurate. Employees initially classified as not eligible for benefits on their hire date were not properly monitored. Benefit related changes to non-benefit eligible employees were not detected and therefore these employees were not reclassified as benefit eligible.

**Recommendation:** Fair management work with the ACO to determine the Fair's compliance with the County's CalPERS contract agreement.

**Status:** Recommendation implemented.