



**Santa Clara County Fairgrounds Management Corporation
Financial and Operational Review
Consulting Engagement Report**

**Prepared by County of Santa Clara
Finance Agency - Internal Audit Division**

Report Date: April 8, 2026
Assignment #: 10376



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Executive Summary

Why this is Important

The Santa Clara County Fairgrounds Management Corporation (FMC) is a California non-profit public benefit corporation established in 1995 to operate the County of Santa Clara's (County) Fairgrounds in the best interest of its residents. FMC organizes and manages the annual County Fair, along with various educational, cultural and community events hosted on the property. Additionally, FMC is licensed to conduct off-track betting operations.

During the County's Finance and Government Operations Committee (FGOC) meeting held on May 28, 2024, committee members emphasized the need for greater detail and transparency in FMC's financial reporting to the County's oversight bodies (e.g., Board of Supervisors and FGOC). Given these concerns, the Internal Audit Division (IAD) initiated a financial review of FMC.

Key areas of concern included:

1. Program Profitability
 - Clear reporting on the profitability of individual activities, programs, and events.
 - Ability to distinguish between revenue-generating and subsidized activities.
2. Vendor Contracts
 - Greater visibility into contract terms, financial obligations, and vendor performance.
 - Transparent reporting on payments, commissions, and revenue-sharing arrangements.
3. Maintenance and Capital Improvements
 - A detailed inventory of deferred maintenance needs.
 - Prioritization of capital improvements with cost estimates and funding sources.
4. Organizational Structure
 - A reassessment of the current relationship between FMC and the County.

IAD developed 12 review procedures to address most of these areas of concern.

What We Found

FMC management made efforts to enhance financial, operational and performance reporting to the County's oversight bodies; however, to further strengthen internal controls and mitigate potential risks, seven improvements were identified in the areas summarized below and detailed in the Findings and Recommendations section.

Operating Effectiveness, Internal Controls and Compliance:

- Non-disclosure of related party transaction
- No evidence of competitive bidding for contracted vendor
- Lack of formal vendor contracts for services rendered
- Noncompliance with contractual terms
- FMC executive responsibilities were delegated to third parties
- Redundant vendor services were identified
- Lack of process for submitting external auditor communications of audit findings to the County for transparency

Audit reports are designed to assist management and provide recommendations for operational improvement. The audit findings and recommendations were discussed with FMC management in April 2026. The report was updated based on feedback from the client and County Administration. There were 10 recommendations made for the seven findings noted above. FMC management agreed with seven of the recommendations and CEO management agreed with one recommendation. Their formal responses are attached herein. The remaining two recommendations were directed to FMC's Board of Directors (1) and the County's oversight bodies (1). Their formal response will be provided after final issuance of the audit report. In accordance with professional auditing standards, IAD intends to perform a follow-up audit on the recommendations and may include the other observation presented in this report.

Objectives

The engagement objectives were to review and evaluate FMC's compliance with contract terms outlined in their agreement with the County, specifically:

- Determine if direct and indirect costs were calculated and allocated in compliance with applicable laws, regulations, and agreement terms (e.g., program allocations, salaries and benefits, administrative costs).
- Review reasonableness of revenues and expenditures reported and the County's contributions to FMC.

Scope

We examined FMC's documents and records for the period January 1, 2017 to December 31, 2023.

Notable Accomplishments

Beginning in September 2024, the Office of the County Executive (CEO) worked with FMC to develop a set of regular reports intended to enhance the information provided to the County for review. These reports are intended to augment the monthly reports that are presented to FMC's Board of Directors. In 2025, FMC created a standard quarterly report template for the County's review consistent with the Management Agreement. Each quarterly report provides a comprehensive summary of current Fairgrounds activities including both ongoing operations managed by FMC and special initiatives led by the County as well as a financial overview. These reports are intended to enhance the level of detail and transparency requested by the County's oversight bodies.

This engagement was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

We would like to thank FMC and County management for their time, cooperation and assistance throughout the engagement.



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April 8, 2026

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Procedures Performed and Results

Below is a summary of the procedures performed and results:

1. Reviewed the following agreements approved by the County's BOS (collectively known as the Agreement) to identify the scope of work, expected deliverables and other compliance requirements for FMC:
 - a. Management Agreement between the County and FMC, dated April 18, 2000,
 - b. Tenth Amendment dated November 15, 2016, extending the term through December 31, 2019,
 - c. Amended and Restated Management Agreement dated January 1, 2020, further extending the terms twenty years thereafter and
 - d. First Amendment to the Management Agreement dated September 22, 2020, addressing the County's use of the Fairgrounds under an emergency.

Results:

No exceptions were noted as a result of applying the procedure.

2. Reviewed meeting minutes of the County's oversight bodies for information related to FMC's operational concerns and financial practices.

Results:

Our review of the meeting minutes indicated that the FGOC requested FMC Administration to enhance reporting by including:

- Greater detail and transparency regarding vendor contracts.
- Profitability analysis of FMC's different activities.
- A comprehensive overview of necessary maintenance and capital improvement needs.
- An updated timeline on progress for long-term redevelopment plans and investment management processes.
- More detailed, transparent financial information for the oversight bodies.
- Information on community-sponsored events that are free to the public, including attendance figures.

Additionally, the minutes reflected concerns about the County subsidizing FMC operations, which is intended to be self-sustaining. The committee members emphasized the need for FMC to prioritize progression towards self-sufficient operations, with the ultimate goal of generating revenue that can be reinvested in proposed capital improvements.

FGOC on May 28, 2024, approved recommendations to restructure FMC's Board of Directors, aiming to integrate its operations with County Administration. According to CEO management, there is a clear disconnect between the role of FMC as an agent of the County and the County's role as the owner of the Fairgrounds. The current governance structure of FMC has created ongoing challenges in ensuring appropriate oversight, accountability, and alignment with County priorities. For instance, the findings in this report will be given to FMC management and their Board of Directors, but the CEO cannot direct them to make the necessary changes.

Furthermore, while FMC's Board of Directors is appointed by the County's Board of Supervisors, it did not consistently function as a governing body responsible for providing strategic direction, exercising fiduciary oversight, and ensuring that FMC operates in accordance with the expectations of managing a public asset.

The FMC Board of Directors, on August 27, 2025, approved the establishment of the FMC Governance Ad Hoc Committee with the purpose of discussing potential changes to the FMC's governance structure.

3. Reviewed FMC's Board of Directors meeting minutes to ensure key financial information impacting their operations was disclosed to the County's oversight bodies (e.g., annual audit reports, budget documents, and cost allocation reports).

Results:

The Agreement requires FMC to submit a proposed annual Operating Budget and Development Plan & Capital Improvement Program Update ("Budget and Business Plan") for the County's approval, which addresses prior year performance and financial projections for the forthcoming budget year. Although not formally amended in the Agreement, the County removed responsibility for any work associated with the future development of the Fairgrounds when FMC was unable to deliver viable plans.

For the period reviewed, we noted the Budget and Business Plans as well as audited financial statements were approved by FMC's Board of Directors and subsequently submitted to the County's oversight bodies; however, disclosure of cost allocation reports was not required. Additionally, the Budget and Business Plan does not include how FMC proposes to fund said improvements and/or how these proposals are in alignment with priorities of the County's Board of Supervisor for the Fairgrounds.

We also examined meeting minutes for FMC's Board of Directors and County oversight bodies subsequent to the period reviewed to determine if decisions or developments result in significant commitments or financial obligations impacting FMC's operations. Below is a summary of our observations:

- a. On November 20, 2024, FMC's Board of Directors approved the Calendar Year 2025 Budget and Business Plan which projected FMC's 2025 revenues at \$10.4 million and expenditures at \$10.3 million. The report was subsequently submitted to the County's oversight bodies who received and reviewed it on December 11, 2024.
- b. FMC management prepared detailed reports in response to requests from the County's oversight bodies, demonstrating a proactive effort to enhance transparency and provide greater clarity regarding FMC's financial operations and strategic planning.
- c. Starting in 2025, FMC provides the County with unaudited income and expense statement for each program activity for both the preceding calendar month and calendar year-to-date along with a comparison of actual income and expenses against amounts projected in the Budget and Business Plan.
- d. Beginning in 2025, the County oversight bodies required FMC to submit quarterly reports for their review. These reports enhance transparency by providing summaries of FMC's activities, including ongoing property management, financial impacts, and special initiatives advanced by the County.

4. Reviewed FMC's Independent Auditor's Reports for the 7-year period from January 1, 2017 to December 31, 2023 to determine if internal control weaknesses or instances of noncompliance with laws and regulations were noted. If applicable, obtained and evaluated FMC's corrective action plan(s).

Results:

We reviewed FMC's Independent Auditors' Reports and noted internal control weaknesses were communicated to their Board of Directors in a separate report. The report identified several areas for improvement to address internal control weaknesses and enhance operational efficiency. FMC management implemented the external auditor's recommendations with the exception of two related to the event parking area, which are detailed in Procedure 11.

We also noted FMC provided Independent Auditor's Reports to the County's oversight bodies; however, the accompanying external auditor's report communicating internal control weaknesses were not included. For additional details, refer to **Findings and Recommendations** section, Finding 7: *Lack of process for submitting external auditor communication of audit findings to the County for transparency.*

5. Reviewed FMC's Internal Revenue Services (IRS) Form 990 - *Return of Organization Exempt From Income Tax* for the 7-year period from January 1, 2017 to December 31, 2023 and reconcile to accounting records for reasonableness (e.g., tax vs. Book reporting).

Results:

No material accounting or compliance issues were noted as a result of applying the procedure.

6. Obtained the direct and indirect costs reports allocated to various FMC programs for the 7-year period from January 1, 2017 to December 31, 2023 to ensure calculations were accurate and complied with applicable laws and regulations, accounting principles and internal policies and procedures.

Results:

No exceptions were noted as a result of applying the procedure.

7. Selected a sample of vendor contracts used for various FMC program activities to ensure payments complied with contract terms and were properly allocated and reported.

Results:

We selected 32 vendor contracts for review and noted the following issues, which are further discussed in the **Findings and Recommendations** section:

- Finding 1: Non-disclosure of related party transaction.
- Finding 2: No evidence of competitive bidding for contracted vendor.
- Finding 3: Lack of formal vendor contracts for services rendered.
- Finding 4: Noncompliance with contractual terms.
- Finding 5: FMC executive responsibilities were delegated to third parties.
- Finding 6: Redundant vendor services were identified.

8. Reviewed FMC's general ledger, revenue register and other relevant reports for the 7-year period from January 1, 2017 to December 31, 2023 to analyze revenue collection trends and inquired about any significant variances noted.

Results:

No exceptions were noted as a result of applying the procedure. Refer to **Appendix A: Schedule of Revenue and Expenses** and **Appendix B: Schedule of Revenue Collections for Program Services** for detailed information on FMC's main programs and trend analysis.

9. Performed an analysis of the County's investments and financial contributions to FMC for the 7-year period from January 1, 2017 to December 31, 2023 to determine if the usage of funds is properly disclosed in financial records (e.g., maintenance and capital improvement, reimbursement for usage of County property and other forms of financial support).

Results:

No exceptions were noted as a result of applying the procedure. We noted the County's investments and financial contributions were properly recorded in FMC's general ledger. Examples of support provided by the County include grants, reimbursements, and other services such as security from the Sheriff's Office and legal assistance from the Office of the County Counsel. Refer to **Appendix A: Schedule of Revenue and Expenses** for a detailed presentation of these categories as separate line items.

10. Obtained data from the County's Facilities and Fleet (FAF) Department detailing maintenance, repair and capital improvement costs related to FMC property for the 7-year period from January 1, 2017 to December 31, 2023 to prepare annual schedules summarizing maintenance activities and capital improvements.

Results:

No exceptions were noted as a result of applying the procedure. Refer to **Appendix C: Capital Improvement Projects and Maintenance Expenses by Category** for detailed information on FAF Department costs incurred during the period reviewed.

11. Conducted interviews with FMC management and staff to obtain background information on the programs and activities under audit and performed walkthroughs to observe key control activities to gain a deeper understanding of operational processes.

Results:

We identified FMC's primary programs included off-track betting, the County Fair, bingo, hosted events, property management and event parking. We also conducted walkthroughs for event parking, bingo and off-track betting operations to observe key activities and gain an understanding of revenue collection and cash deposit procedures.

Based on our observations during the walkthroughs, internal controls over these processes appear reasonable and in compliance with FMC policies and procedures; however, we identified one instance of procedural inefficiency during our walkthrough of event parking operations. Specifically, a parking management system was not installed, despite a prior external auditor’s report indicating that the recommendation had been implemented.

The predecessor external auditor recommended FMC consider installing vehicle counting sensors at parking gate entrances and reconciling daily vehicle counts with cash receipts to strengthen internal controls over parking revenue. The ParkHub Parking Management System was cited as the recommended solution as it offers real-time transaction tracking, faster vehicle ingress and acceptance of all payment types and passes. FMC management did not procure this system. Instead, payments are processed manually using handheld devices.

12. Benchmarked FMC’s financial performance against comparable counties that provide similar services to evaluate revenue sources and analyze costs incurred. Prepared comparable trend analysis and schedule of revenue and expenses for the 7-year period from January 1, 2017 to December 31, 2023.

Results:

We selected the San Mateo County Exposition and Fair Association and the Sonoma County Fair and Exposition for benchmarking purposes. These organizations were identified as comparable due to the similarity of their operations and service offerings, which include off-track betting, County Fairs and hosted events.

Our review included a comparative analysis of revenue collected from off-track betting (“Jockey Club”) and County Fair activities at both peer organizations to benchmark against FMC’s reported revenues over the same 7-year period. We also compiled a Schedule of Revenue and Expenses for both entities using publicly available data from IRS Form 990 filings and Independent Auditor’s Reports and Financial Statements for the period reviewed. Refer to **Appendix D: Benchmark Data** for detailed information.

Additionally, our analysis of expense categories revealed notable differences in security-related expenses among the three organizations. Given the magnitude of this variance, we conducted a trend analysis focused on security expenses for calendar years 2021 to 2023 and found FMC incurred significantly higher security-related costs compared to those reported by the San Mateo County Exposition and Fair Association and the Sonoma County Fair and Exposition. For further details, refer to **Other Observation** section, OBS 1: *Annual Security-Related Expenses*.

Findings and Recommendations

FINDING 1: Non-disclosure of related party transaction.

<p>OBJECTIVE</p>	<p>To determine if adequate policies, procedures, and practices were in place to comply with the terms of the Agreement and applicable guidance.</p>
<p>CRITERIA</p>	<p>Agreement, Exhibit C - Standard Provisions: A. Conflict of Interest states "Contractor shall comply, and require its subcontractors to comply, with all applicable (i) requirements governing avoidance of impermissible client conflicts; and (ii) federal, state and local conflict of interest laws and regulations including, without limitation, California Government Code section 1090 et seq...Failure to do so constitutes a material breach of this Agreement and is grounds for immediate termination of this Agreement by the County.</p> <p>In accepting this Agreement, Contractor covenants that it presently has no interest, and will not acquire any interest, direct or indirect, financial or otherwise, which would conflict in any manner or degree with the performance of this Agreement. Contractor further covenants that, in the performance of this Agreement, it will not employ any contractor or person having such an interest..."</p> <p>California Government Code section 1090 (a) states "Members of the Legislature, state, county, district, judicial district, and city officers or employees shall not be financially interested in any contract made by them in their official capacity, or by any body or board of which they are members. Nor shall state, county, district, judicial district, and city officers or employees be purchasers at any sale or vendors at any purchase made by them in their official capacity."</p> <p>U.S. Government Accountability Office's Standards of Internal Controls in the Federal Government (Green Book), Principle 1 - Demonstrate Commitment to Integrity and Ethical Values, Attribute 1.07: Standards of Conduct states "Management, with oversight from the oversight body, defines the organization's expectations of ethical values in the standards of conduct. Management may consider using policies, operating principles, guidelines, or training to regularly communicate and reinforce the standards of conduct to the organization."</p>
<p>CONDITION</p>	<p>During the audit, we noted FMC management entered into formally executed agreements with 18 vendors, of which, three vendors possibly had familial relationships with FMC officers and/or employees. The three vendors received \$934,162 in payments during calendar years 2017 to 2023.</p> <p>In addition to these apparent familial relationships, one of FMC's managers appears to be listed as the <i>agent for service of process</i> on the vendor's Articles of Organization filed in 2016 with the California Secretary of State, which also raises questions about a potential financial relationship.</p> <p>Moreover, this vendor was suspended by the California Franchise Tax Board in 2018; however, it continued to provide services to FMC for several years thereafter.</p> <p>Conflict of interest laws prohibit public officials from being involved in governmental decisions, including the making of contracts, if the official has a personal financial interest in the decision or contract, which may, in specified</p>

FINDING 1: Non-disclosure of related party transaction (continued).

<p>CONDITION <i>(continued)</i></p>	<p>circumstances, also arise from certain familial relationships. Organizations often require disclosure and strategies to mitigate potential appearance of impropriety or risk that private interests may conflict with official duties, such as the recusal of anyone with a direct or indirect personal, financial, or familial interest with third parties (even if not a financial interest under the law) during the vendor selection process. Evidence of disclosure by or recusal of the personnel with apparent familial relationships with the vendors was not provided by FMC management.</p> <p>Failure to disclose a conflict of interest with a third party prior to executing a contract may result in biased vendor selection that does not serve the organization’s best interests. Such undisclosed relationships or financial ties can lead to perceptions of favoritism, reduced competition, unethical practices, reputational damage, and potential non-compliance with applicable laws and regulations.</p>
<p>RECOMMENDATIONS</p>	<p>1.1 FMC management should amend their General Purchasing Policy to include a Conflict-of-Interest provision with disclosure and mitigation strategies such as a recusal process for personnel with direct or indirect familial or financial interests. Disclosing and excluding vendors with management ties can safeguard the organization's integrity and operational effectiveness, unless formally approved by an independent ethics or vendor selection committee.</p> <p>1.2 FMC management should implement a process to regularly verify that all vendors maintain active and valid licenses and/or registrations with the State of California to reduce the risk of engaging with unqualified or non-compliant vendors.</p> <p>1.3 CEO management should consult with County Counsel to assess whether FMC vendor contracts where FMC officers and/or employees may have had familial and/or financial relationships with the vendor constitute a breach of the ‘Conflict-of-Interest’ clause stated in the Agreement.</p>
<p>PRIORITY/EXPECTED COMPLETION DATE</p>	<p>High (1) – Within one to 3 months after issuance of the final audit report</p>
<p>MANAGEMENT RESPONSES</p>	<p>FMC management: Agreed with recommendations 1.1 and 1.2 CEO management: Agreed with recommendation 1.3</p>

FINDING 2: No evidence of competitive bidding for contracted vendor.

<p>OBJECTIVE</p>	<p>To determine if professional services were obtained through a competitive and transparent vendor selection process.</p>
<p>CRITERIA</p>	<p>FMC Professional Services - Consultant Selections Policy dated October 7, 2022, Section 1. Consultant Selection, states:</p> <p>"1.1 Department Director/Manager or Executive Director determines that outside professional services are needed to fill employment gaps pertaining to certain functions of the organization or to provide specific professional work.</p> <p>1.2 The consultant selection process should include a Request for Proposal (RFP) or Request for Qualifications (RFQ).</p> <p>1.3. Factors which may influence whether or not the RFP or RFQ process is necessary include:</p> <ul style="list-style-type: none"> • Compensation amount of the proposed consultant contract; • Urgency of the work to be undertaken; • Sufficient number of potential consultants for specialized services; • Familiarity with work and/or continuation of effort by consultant(s) currently or recently under contract; • Time elapsed since last "open" selection process for similar professional services." <p>Green Book, Principle 12 - Implement Control Activities, Attribute 12.03: Documentation of Control Activities Through Policies and Procedures states in part "Management documents in policies and procedures for each unit within the entity's organizational structure its responsibility for a business process's objectives and related risks and control activity design, implementation, and operating effectiveness...Each unit also documents policies and procedures in the appropriate level of detail to allow management to effectively monitor the control activity..."</p>
<p>CONDITION</p>	<p>According to Green Book best practices, deploying control activities through well-defined policies and procedures enables management to effectively mitigate risks. Within the purchasing function, adopting competitive bidding practices ensures consistency, transparency, and compliance with procurement standards while also promoting fairness and openness by providing equal opportunities to qualified vendors.</p> <p>Based on discussions with FMC management, we noted long-term vendors providing professional service did not consistently undergo a formal selection or competitive bidding process prior to implementation of the Professional Services-Consultant Selection Policy effective in October 2022.</p> <p>During our analysis, we identified one vendor who provided services from 2017 through 2023, while only being subject to a formal selection process once during that period. Additionally, the co-owners of the vendor entity (as identified in the agreement executed between the vendor and FMC) appear to be relatives of an FMC employee, which does not seem to have been disclosed or otherwise addressed (see Finding #1). The vendor provided a broad range of accounting-related services, including full-cycle accounts payable and receivable processing,</p>

FINDING 2: No evidence of competitive bidding for contracted vendor (continued).

<p>CONDITION <i>(continued)</i></p>	<p>invoice preparation, license fee collections, management of bingo flash card sales, and documentation of food and beverage purchases and inventory. These circumstances highlight the need for enhanced compliance with procurement policies, vendor oversight, and strategic sourcing practices.</p> <p>Without competitive bidding practices, there is a risk that vendors may be selected based on favoritism or personal relationship, resulting in above-market rates/inflated costs, reduced transparency and potential non-compliance with purchasing policies or applicable regulations.</p>
<p>RECOMMENDATION</p>	<p>2.1 FMC management should:</p> <ul style="list-style-type: none"> • Update their Professional Services-Consultant Section Policy to include periodic performance review requirements for long-term, non-competed vendors [e.g., every three years] to ensure service quality remains consistent, pricing is competitive and compliance with regulatory guidance. • Periodically train staff on the new performance review requirements. • Ensure contract terms and conditions include language on the renewal process. • Establish a formal process for monitoring all expiring contracts to ensure sufficient time for undergoing a re-evaluation or competitive bidding process.
<p>PRIORITY/EXPECTED COMPLETION DATE</p>	<p>Medium (2) - Within three to six months after issuance of the final audit report</p>
<p>MANAGEMENT RESPONSES</p>	<p>FMC management: Agreed with recommendation 2.1</p>

FINDING 3: Lack of formal vendor contracts for services rendered.

OBJECTIVE	To ensure FMC management maintained formally executed vendor contracts.
CRITERIA	<p>Agreement - Section 2.05: Contracts and Supplies states "...(e) Notwithstanding anything to the contrary herein, unless Manager has obtained the County's prior written consent, all contracts entered into by Manager (other than Use Agreements) must have terms of one (1) year or less provided, however Manager may allow for the extension or renewal of contracts for additional terms (not to exceed one year at a time) without the consent of the County..."</p> <p>Green Book, Principle 12 - Implement Control Activities, Attribute 12.03: Documentation of Control Activities Through Policies and Procedures states in part "Management documents in policies and procedures for each unit within the entity's organizational structure its responsibility for a business process's objectives and related risks and control activity design, implementation, and operating effectiveness...Each unit also documents policies and procedures in the appropriate level of detail to allow management to effectively monitor the control activity..."</p>
CONDITION	<p>According to Green Book best practices, internal controls are designed to help management achieve business objectives and mitigate risks, including the execution of formal contracts with vendors to prevent unauthorized spending.</p> <p>Based on our review of vendor payments, we noted that seven of 32 tested did not have formally executed contracts. Of which, six were during calendar year 2017 and one in 2023. Payments to these vendors totaled \$433,773.</p> <p>Without a formally executed vendor contract, there is a risk of financial and legal exposure to the organization due to unenforceable terms, increased vulnerability to unauthorized payments or disputes, and the inability to hold vendors accountable for performance or service delivery. Additionally, not establishing detailed guidance within procurement policies and procedures may result in staff not exercising reasonable efforts to conduct due diligence when sourcing professional services from vendors, which could lead to paying higher rates.</p>
RECOMMENDATION	<p>3.1 FMC management should:</p> <ul style="list-style-type: none"> • Update their Professional Services-Consultant Section Policy to include specific criteria for defining the compensation threshold and minimum number of competitors available to perform the scope of work when outsourcing professional services. • Provide the updated Professional Services-Consultant Section Policy to the County's Office of the County Counsel for their review. • Train relevant staff on the updated Professional Services Consultant - Selections Policy to reinforce consistent application and ensure vendors are not engaged or paid without a signed contract in place.
PRIORITY/EXPECTED COMPLETION DATE	Medium (2) - Within three to six months after issuance of the final audit report
MANAGEMENT RESPONSES	FMC management: Agreed with recommendation 3.1

FINDING 4: Noncompliance with contractual terms.

OBJECTIVE	To ensure FMC management complied with vendor contract terms and conditions.
CRITERIA¹	<p>Per the following FMC vendor contracts:</p> <ul style="list-style-type: none"> a. Vendor contract #1 - the scope of services were defined as: licensed security officers to perform unarmed security services at the Off-Tracking Betting facility and gates in the Fairgrounds. b. Vendor contract #2 - the scope of services were defined as: (1) website development and maintenance services for the Hop N Vine, Wednesday Night Music Series, and the 2023 Fair; (2) Google ads grant management, and (3) Graphic Design Services. The specific details of each service are outlined in Exhibit A, "Scope of Work". Additionally, the vendor shall not perform nor receive compensation for any services not identified in the scope of work without the prior approval from FMC and formalized through a contract amendment. c. Vendor contract #3 - the scope of services was defined as: staffing the first aid station with Emergency Medical Technicians for the County Fair during the period from July 26, 2023 to August 6, 2023. <p>Per the language in FMC's vendor contracts, reimbursable expenses were defined as "Coordinator shall be responsible for all expenses incurred...in connection with the work to be performed."</p> <p>Accrual accounting principles under Generally Accepted Accounting Principles (GAAP) require expenses be matched to the period in which the services or benefits are received.</p>
CONDITION	<p>Based on our review of vendor payments, we identified the following six exceptions that did not comply with contractual terms:</p> <ul style="list-style-type: none"> a. Three vendors provided services that were not covered under the contract. The total payments made for the additional service amounted to \$78,775. b. One vendor was paid \$5,694 in calendar year 2020 for services related to the 2021 contract period. The expense was recorded in the 2020 financial statements, and a journal entry was not prepared to reclassify it as a prepaid expense. c. Two vendors were paid a total of \$2,306 for consultant reimbursement expenses explicitly excluded under the contract terms. <p>Without sufficient contract compliance management practices, there is an increased risk of failing to recover funds from vendor overpayments, issuing unauthorized payments and exceeding approved budgetary limits. Additionally, not recognizing expenses in the correct accounting period could result in misstating financial statements or noncompliance with accounting standards.</p>

¹ Vendor names were removed from the audit report to comply with IAD's policies and procedures related to privacy concerns.

FINDING 4: Noncompliance with contractual terms (continued).

RECOMMENDATION	<p>4.1 FMC management should implement the following vendor management controls by:</p> <ul style="list-style-type: none">• Requiring accounts payable or procurement staff to verify invoices match the contract scope of work prior to processing payment.• Training accounts payable and procurement staff on contract compliance requirements and escalation procedures for unapproved services.• Ensuring a formal contract amendment is reviewed and approved before services are performed or paid if additional services outside the original scope are required.• Implementing or reinforcing procedures for reviewing invoices and payments around year-end to properly match expenses with the correct contract period.• Training accounting personnel on accrual basis accounting and proper expense recognition principles to prevent misstatement of financial statements.
PRIORITY/EXPECTED COMPLETION DATE	Medium (2) - Within three to six months after issuance of the final audit report
MANAGEMENT RESPONSES	FMC management: Agreed with recommendation 4.1

FINDING 5: FMC executive responsibilities were delegated to third parties.

<p>OBJECTIVE</p>	<p>To determine if FMC established an appropriate organizational structure and effective oversight of executive responsibilities.</p>
<p>CRITERIA</p>	<p>Green Book, Principle 3 - Establish Structure, Responsibility and Authority, Attribute 3.06: Assignment of Responsibility and Delegation of Authority states " To achieve the entity’s objectives and address related risks, management assigns responsibility and delegates authority to key roles throughout the entity. A key role is a position in the organizational structure that is assigned an overall responsibility of the entity. Generally, key roles relate to senior management positions within an entity.</p> <p>Green Book, Principle 4 - Demonstrate Commitment to Competence, Attribute 4.07: Succession and Contingency Plans and Preparation states "Management defines succession plans for key roles, chooses succession candidates, and trains succession candidates to assume the key roles. If management relies on a service organization to fulfill the assigned responsibilities of key roles in the entity, management assesses whether the service organization can continue in these key roles, identifies other candidate organizations for the roles, and implements processes to enable knowledge sharing with the succession candidate organization."</p> <p>Agreement, Section 3.02: Books and Records states in part "...All books and records of the Property shall be kept at the Property or at the location where any central accounting and bookkeeping services are performed by Manager, but at all times shall be the property of the County."</p>
<p>CONDITION</p>	<p>During our review of vendor contracts, we noted critical responsibilities typically assigned to executive leadership (i.e., Executive Director/CEO and Finance Manager) were delegated to vendors. These responsibilities included the development of FMC's annual budget and strategic plan. The total amount paid for these services between calendar years 2018 and 2020 were \$53,250. While external assistance may be appropriate in limited cases, core responsibilities should remain under the direction and control of internal leadership.</p> <p>Delegating executive responsibilities to external vendors may undermine internal control integrity and result in limited organizational oversight, misaligned or unclear expectations, a lack of accountability, insufficient internal input on critical decisions, loss of institutional knowledge, increased reliance on third parties, or noncompliance with applicable regulations or fiduciary obligations.</p>

FINDING 5: FMC executive responsibilities were delegated to third parties (continued).

<p>RECOMMENDATIONS</p>	<p>5.1 The County’s oversight bodies should:</p> <ul style="list-style-type: none"> • Clearly define and formally document role and responsibilities assigned to FMC executive management, including limitations on the delegation of key leadership functions to ensure overall ownership of organizational oversight is retained or remains with individuals accountable to the County. • Amend the Agreement between the County and FMC to incorporate the Manager’s defined roles, responsibilities and delegation of authority limitations to promote greater transparency in accountability and strengthen governance expectations. <p>5.2 FMC management should:</p> <ul style="list-style-type: none"> • Retain decision-making authority internally (e.g., budgeting and strategic planning) and request County’s approval prior to seeking consultant support for critical operational and internal control functions. • Develop a succession plan for key executive positions, including the Executive Director, to ensure continuity of operations during leadership transitions and reduce reliance on third parties. • Identify internal candidates for executive roles and maintain a talent pipeline through mentorship, professional development and cross-training to mitigate the loss of institutional knowledge in the event of future turnover.
<p>PRIORITY/EXPECTED COMPLETION DATE</p>	<p>Medium (2) - Within three to six months after issuance of the final audit report</p>
<p>MANAGEMENT RESPONSES</p>	<p>County’s oversight bodies: Formal response is pending FMC management: Agreed with recommendation 5.2</p>

FINDING 6: Redundant vendor services were identified.

OBJECTIVE	To determine if FMC has established effective vendor management practices.
CRITERIA	<p>Green Book, Principle 10 - Design Control Activities, Attribute 10.03: Design of Appropriate Types of Control Activities states in part "Management designs appropriate types of control activities for the entity's internal control system, including the entity's information technology, by considering all aspects of its internal control components, relevant business processes, and operating environment. An entity's internal control is flexible to allow management to tailor control activities to meet the entity's unique needs."</p> <p>Green Book, Principle 16 - Perform Monitoring Activities, Attribute 16.04: Internal Control System Monitoring states in part "Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change. Separate evaluations are performed periodically and may provide feedback on the effectiveness of ongoing monitoring."</p>
CONDITION	<p>During our review of vendor contracts, we noted the scope of work included in four of 32 agreements tested were overlapping or duplicative. Multiple vendors were contracted to perform similar services such as marketing, website design, social media and event management. A total of \$178,080 was paid for these services between calendar years 2019 and 2022. These redundancies indicate a lack of centralized contracting practices and an inefficient use of resources.</p> <p>Without an established process for reviewing current contracts for potential redundant or duplicative services, there is a risk of incurring avoidable costs and inefficiencies due to the procurement of overlapping services already covered under existing agreements.</p>
RECOMMENDATION	<p>6.1 FMC management should:</p> <ul style="list-style-type: none"> • Establish a process to review existing service contracts before procuring additional services to ensure they are not already provided. • Establish a centralized database of all active contracts to periodically monitor for potential redundant or overlapping services that should be consolidated. • Periodically train relevant staff on the importance of verifying existing contracts before outsourcing services and emphasize the potential cost savings and risks associated with bypassing this step.
PRIORITY/EXPECTED COMPLETION DATE	Medium (2) - Within three to six months after issuance of the final audit report
MANAGEMENT RESPONSES	FMC management: Agreed with recommendation 6.1

FINDING 7: Lack of process for submitting external auditor communication of audit findings to the County for transparency.

OBJECTIVE	To evaluate the effectiveness of FMC management’s process for communicating information to oversight bodies, ensuring appropriate transparency, accountability, and alignment with expectations.
CRITERIA	<p>In accordance with Generally Accepted Auditing Standards (GAAS), external auditors must obtain a sufficient understanding of internal control to effectively plan the audit and determine the nature, timing, and extent of audit procedures. If external auditors identify control deficiencies that may lead to material misstatements, they must communicate significant and material audit findings and internal control issues to the Board of Directors or equivalent oversight bodies.</p> <p>Agreement, Section 2.08: Budget, Business Plan and Audit states in part "...(h) In conjunction with Manager's submission of the Budget to the County, Manager shall also submit to the County on or before each October 31st (i) an annual business plan for the Property for the upcoming calendar year and (ii) an independent audit of the calendar year preceding such October 31st, with said independent audit being conducted by an entity that is approved by County ("FMC's Auditor")."</p>
CONDITION	<p>FMC's annual financial statements are audited following GAAS, which requires external auditors to communicate any significant deficiencies or material weaknesses in internal controls identified during the audit to the Board of Directors. This communication typically includes recommended actions for management to address the findings and strengthen FMC's internal control environment.</p> <p>During our review of the external auditor's annual communications to FMC management and the Board of Directors issued between 2014 and 2023, we noted that the County's Board of Supervisors (BOS) did not receive these reports, as disclosure was not required under the Agreement. Communications identified numerous observations and recommendations to improve internal controls and enhance operational efficiency. If the County BOS were informed of internal control issues impacting FMC's operations and corrective actions taken by management to mitigate risk, there would be increased transparency to help ensure stronger oversight, accountability, and timely corrective action.</p> <p>Not submitting external auditor communications to all relevant parties creates the risk of oversight bodies not being aware of internal control issues and associated recommendations, potentially resulting in management not being held accountable to address the control deficiencies.</p>

FINDING 7: Lack of process for submitting external auditor communication of audit findings to the County for transparency (continued).

RECOMMENDATION	<p>7.1 FMC's Board of Directors should:</p> <ul style="list-style-type: none"> • Require FMC management to also submit the external auditor's communications on internal control-related matters to the County. • Ensure the County oversight bodies are aware of FMC's external auditor's communication letter by including the report as a standing item on their agenda(s) following issuance of FMC's audited financial statements. • Require FMC management to provide periodic updates to the County oversight bodies on corrective actions taken to timely address control deficiencies and improve operational effectiveness.
PRIORITY/EXPECTED COMPLETION DATE	<p align="center">Medium (2) - Within three to six months after issuance of the final audit report</p>
MANAGEMENT RESPONSES	<p>FMC's Board of Directors: Formal response is pending</p>

Other Observation

The following observation and related suggestions was identified during the engagement for CEO management's consideration. This item is considered less significant compared to formal audit findings as the observation resulted in minor operational or procedural inefficiencies rather than material control weaknesses.

OBS 1 – FMC's annual security-related expenses significantly exceeded peer organizations.

Observation: We noted FMC's security-related expenses for calendar years 2021 to 2023 (ranging from \$626,000 to \$1.8 million) were significantly higher compared to amounts reported by the San Mateo County Exposition and Fair Association and the Sonoma County Fair and Exposition (ranging from \$218,000 to \$543,000). While some level of variation is expected due to differences in event size, location, and risk profile, the magnitude of FMC's higher security costs indicates a need for further review to assess cost drivers, procurement practices and potential opportunities for efficiency. A detailed comparative analysis of security expenses for the three organizations covering the 7-year period is presented at **Appendix D: Benchmark Data**.

Suggestion: FMC management should:

- Conduct a comprehensive review of their security contracts, staffing models, utilization strategies and procurement practices to determine underlying cause(s) of the higher costs.
- Research best practices adopted by peer organizations, which may help achieve cost-effective security operations without compromising public safety.

APPENDIX A: SCHEDULE OF REVENUES AND EXPENSES

Schedule of Revenue and Expenses For the Year Ended December 31, 2017

	Program Services								Total Program Services	Facilities	General & Administrative	Total	
	Off-Track Betting	Events	Anchor Licensees	Parking	RV Park & RV Storage	Food & Beverages	Bingo	Hosted Events					County Fair
Support and Revenue	\$ 1,312,041	\$ 780,913	\$ 1,515,575	\$ 573,300	\$ 482,143	\$ 955,177	\$ 1,654,811	\$ 67,324	\$ 648,928	\$ 7,990,212	-	\$ 6,490	\$ 7,996,702
Cost of Sales	130,550	264,623	-	92,155	-	339,198	1,508,223	26,153	333,251	2,694,153	-	655	2,694,808
Direct Expenses:													
Payroll and employee benefits	167,136	-	30,899	-	-	70,943	-	-	-	268,978	516,866	-	785,844
Repairs and maintenance	6,296	2,000	-	-	-	11,823	294	388	1,199	22,000	98,476	3,422	123,898
Private security	77,141	-	-	-	-	9,729	12,459	2,172	41,262	142,763	275,781	171	418,715
Sheriff's Office security	-	-	-	-	-	-	-	-	18,148	18,148	-	-	18,148
Other	365,776	14,285	3,105	-	-	69,505	15,532	4,076	109,551	581,830	701,051	23,482	1,306,363
Total Direct Expenses	616,349	16,285	34,004	-	-	162,000	28,285	6,636	170,160	1,033,719	1,592,174	27,075	2,652,968
General and Administrative Expenses:													
Payroll and employee benefits	166,683	156,365	-	-	-	42,917	-	-	134,423	500,388	23,079	443,024	966,491
Professional services	-	1,949	-	-	-	-	-	101	1,620	3,670	-	136,343	140,013
Marketing	2,409	416	-	-	-	-	8,965	12,692	179,286	203,768	-	10,840	214,608
Outside services	482	-	-	-	4,000	72,000	-	1,167	12,250	89,899	54,995	196,163	341,057
Legal services-Office of the County Counsel	-	-	-	-	-	-	-	-	-	-	-	61,077	61,077
Other	115,759	78,056	-	-	-	50,424	26,798	14,448	63,444	348,929	273,957	344,516	967,402
Total General and Administrative Expenses	285,333	236,786	-	-	4,000	165,341	35,763	28,408	391,023	1,146,654	352,031	1,191,962	2,690,647
Profit (Loss)	\$ 279,809	\$ 263,219	\$ 1,481,571	\$ 481,145	\$ 478,143	\$ 288,638	\$ 82,540	\$ 6,127	\$ (245,506)	\$ 3,115,686	\$ (1,944,205)	\$ (1,213,202)	\$ (41,721)

Data is based on FMC's Independent Auditor's Report and Financial Statements and general ledger for calendar year 2017.

**Schedule of Revenue and Expenses
For the Year Ended December 31, 2018**

	Program Services								Total Program Services	Facilities	General & Administrative	Total	
	Off-Track Betting	Events	Anchor Licensees	Parking	RV Park & RV Storage	Food & Beverages	Bingo	Hosted Events					County Fair
Support and Revenue	\$ 1,245,353	\$ 822,143	\$ 1,900,847	\$ 586,816	\$ 496,390	\$ 700,466	\$ 1,597,355	\$ 70,909	\$ 1,023,204	\$ 8,443,483	\$ -	\$ 155,993	\$ 8,599,476
Cost of Sales	119,488	277,351	-	59,282	-	152,689	1,538,939	63,897	412,194	2,623,840	-	104	2,623,944
Direct Expenses:													
Payroll and employee benefits	203,612	-	-	100,799	-	148,961	-	-	-	453,372	311,274	828	765,474
Repairs and maintenance	11,734	2,082	-	-	43	10,072	201	-	-	24,132	108,400	7,900	140,432
Private security	91,405	1,116	-	-	10,800	8,577	13,855	2,424	68,603	196,780	128,409	720	325,909
Sheriff's Office security	-	-	-	-	-	-	-	-	28,317	28,317	-	-	28,317
Other	372,464	13,515	11,616	37,899	32,966	89,406	14,101	17,023	113,195	702,185	1,006,377	184,393	1,892,955
Total Direct Expenses	679,215	16,713	11,616	138,698	43,809	257,016	28,157	19,447	210,115	1,404,786	1,554,460	193,841	3,153,087
General and Administrative Expenses:													
Payroll and employee benefits	190,280	219,482	-	-	-	60,280	-	-	143,903	613,945	-	575,001	1,188,946
Professional services	-	-	-	-	-	-	-	-	14,075	14,075	2,014	74,046	90,135
Marketing	2,977	8,640	-	-	-	-	7,794	9,243	118,072	146,726	-	22,487	169,213
Outside services	492	-	-	-	-	79,200	-	4,122	39,425	123,239	55,106	130,720	309,065
Legal services-Office of the County Counsel	-	-	-	-	-	-	-	-	-	-	-	34,287	34,287
Other	104,785	83,882	-	-	-	36,385	17,118	1,653	72,357	316,180	246,915	455,728	1,018,823
Total General and Administrative Expenses	298,534	312,004	-	-	-	175,865	24,912	15,018	387,832	1,214,165	304,035	1,292,269	2,810,469
Profit (Loss)	\$ 148,116	\$ 216,075	\$ 1,889,231	\$ 388,836	\$ 452,581	\$ 114,896	\$ 5,347	\$ (27,453)	\$ 13,063	\$ 3,200,692	\$ (1,858,495)	\$ (1,330,221)	\$ 11,976

Data is based on FMC's Independent Auditor's Report and Financial Statements and general ledger for calendar year 2018.

**Schedule of Revenue and Expenses
For the Year Ended December 31, 2019**

	Program Services									Total Program Services	Facilities	General & Administrative	Total
	Off-Track Betting	Events	Anchor Licensees	Parking	RV Park & RV Storage	Food & Beverages	Bingo	Hosted Events	County Fair				
Support and Revenue													
Support and revenue	\$ 1,143,626	\$ 1,132,470	\$ 1,857,105	\$ 865,818	\$ 479,751	\$ 1,127,895	\$ 1,860,152	\$ 52,673	\$ 676,294	\$ 9,195,785	\$ 116,000	\$ 31,994	\$ 9,343,780
County grants	-	-	-	-	-	-	-	-	232,500	232,500	-	100,000	332,500
Total Support and Revenue	1,143,626	1,132,470	1,857,105	865,818	479,751	1,127,895	1,860,152	52,673	908,794	9,428,285	116,000	131,994	9,676,280
Total Cost of Sales	109,417	475,525	2,405	359,455	-	385,924	1,699,242	64,131	565,813	3,661,913	-	-	3,661,913
Direct Expenses:													
Payroll and employee benefits	341,202	-	-	49,267	-	153,102	-	-	-	543,571	613,469	953	1,157,994
Repairs and maintenance	3,075	4,301	-	500	(43)	7,865	-	-	1,164	16,862	53,032	7,526	77,420
Private security	100,236	720	-	-	-	16,839	15,942	1,323	106,550	241,609	113,078	746	355,431
Sheriff's Office security	-	-	-	-	-	-	-	-	8,720	8,720	-	-	8,720
Other	253,066	12,844	1,113	4,166	33,750	58,508	7,071	16,963	174,275	561,756	578,493	33,180	1,173,430
Total Direct Expenses	697,580	17,865	1,113	53,933	33,707	236,314	23,013	18,286	290,709	1,372,518	1,358,072	42,405	2,772,995
General and Administrative Expenses:													
Payroll and employee benefits	262,173	258,534	16,895	-	-	38,344	-	31,747	90,363	698,055	70,413	942,463	1,710,930
Professional services	-	-	5,919	19,440	-	32,440	-	-	-	57,799	-	147,959	205,758
Marketing	9,922	17,706	-	-	-	-	7,624	15,728	184,948	235,928	-	21,384	257,312
Outside services	506	(857)	-	-	-	81,456	-	3,194	39,954	124,252	66,000	131,687	321,939
Legal services-Office of the County Counsel	-	-	-	-	-	-	-	-	-	-	-	49,041	49,041
Other	54,722	45,916	9,239	209	9,997	17,523	27,660	4,564	33,518	203,346	412,353	51,434	667,133
Total General and Administrative Expenses	327,322	321,299	32,052	19,649	9,997	169,763	35,284	55,232	348,782	1,319,379	548,766	1,343,968	3,212,113
Profit (Loss)	\$ 9,307	\$ 317,782	\$ 1,821,536	\$ 432,782	\$ 436,048	\$ 335,894	\$ 102,613	\$ (84,976)	\$ (296,509)	\$ 3,074,476	\$ (1,790,838)	\$ (1,254,380)	\$ 29,259

Data is based on FMC's Independent Auditor's Report and Financial Statements and general ledger for calendar year 2019.

**Schedule of Revenue and Expenses
For the Year Ended December 31, 2020**

	Program Services								Total Program Services	Facility	General & Administrative	Total
	Off-Track Betting	Property Management	Venue Sales & Event Svc.	Parking	Food & Beverages	Bingo	Hosted Events	County Fair				
Support and Revenue:												
Support and revenue	\$ 651,880	\$ 2,824,025	\$ 395,130	\$ 98,945	\$ 141,903	\$ 329,404	\$ 358	\$ 91,402	\$ 4,533,047	\$ -	\$ 236,912	\$ 4,769,959
County reimbursement	-	-	-	-	-	-	-	-	-	-	511,270	511,270
County labor charges	-	-	-	-	-	-	-	-	-	-	29,760	29,760
Total Support and Revenue	651,880	2,824,025	395,130	98,945	141,903	329,404	358	91,402	4,533,047	-	777,942	5,310,989
Total Cost of Sales	22,367	-	224,040	34,155	25,416	314,929	1,000	23,574	645,482	-	-	645,482
Direct Expenses:												
Payroll and employee benefits	115,298	-	-	22,935	115,012	-	-	-	253,245	373,508	-	626,753
Repairs and maintenance	1,841	-	-	-	2,314	-	-	-	4,156	83,459	750	88,364
Private security	15,015	18,750	88,068	-	1,020	2,340	-	-	125,193	166,008	-	291,201
Sheriff's Office security	-	-	-	-	-	-	-	-	-	-	-	-
Other	19,725	539,249	9,786	1,269	22,085	1,000	375	16,114	609,602	288,571	11,214	909,387
Total Direct Expenses	151,879	557,999	97,854	24,204	140,432	3,340	375	16,114	992,196	911,546	11,964	1,915,705
General and Administrative Expenses:												
Payroll and employee benefits	67,790	21,367	101,068	-	-	-	3,989	-	194,215	2,605	767,449	964,268
Professional services	-	-	-	18,060	29,400	-	-	-	47,460	-	210,143	257,603
Marketing	12,625	1,853	14,378	-	-	6,281	-	23,026	58,162	-	14,567	72,729
Outside services	-	4,800	94	-	24,000	-	7,500	50,975	87,369	1,063	144,815	233,246
Legal services-Office of the County Counsel	-	-	-	-	-	-	-	-	-	-	51,593	51,593
Other	50,610	138,282	(1,502)	1,207	7,154	5,280	-	26,954	227,985	231,749	133,936	593,669
Total General and Administrative Expenses	131,025	166,302	114,037	19,267	60,554	11,561	11,489	100,955	615,190	235,417	1,322,502	2,173,109
Profit (Loss)	\$ 346,609	\$ 2,099,724	\$ (40,800)	\$ 21,318	\$ (84,500)	\$ (426)	\$ (12,506)	\$ (49,240)	\$ 2,280,179	\$ (1,146,963)	\$ (556,523)	\$ 576,692

Data is based on FMC's Independent Auditor's Report and Financial Statements and general ledger for calendar year 2020.

Note: County reimbursement and County labor charges listed above represent reimbursements from the County for usage of the Fairgrounds during the COVID-19 pandemic.

**Schedule of Revenue and Expenses
For the Year Ended December 31, 2021**

	Program Services							Total Program Services	Facility	General & Administrative	Total
	Off-Track Betting	Property Management	Venue Sales & Event Svc.	Food & Beverages	Bingo	Hosted Events	County Fair				
Support and Revenue											
Support and revenue	\$ 1,012,519	\$ 2,978,287	\$ 456,792	\$ 139,806	\$ -	\$ 16,441	\$ 70,231	\$ 4,674,076	\$ -	\$ 1,177,226	\$ 5,851,302
County reimbursement	-	-	-	-	-	-	-	-	-	2,395,639	2,395,639
County labor charges	-	-	-	-	-	-	-	-	-	445,815	445,815
Total Support and Revenue	1,012,519	2,978,287	456,792	139,806	-	16,441	70,231	4,674,076	-	4,018,680	8,692,756
Total Cost of Sales	91,175	-	198,104	57,297	-	34,194	24,391	405,162	-	336,936	742,097
Direct Expenses:											
Payroll and employee benefits	62,345	-	-	101,058	-	-	-	163,404	37,047	-	200,451
Repairs and maintenance	91	-	5,800	3,113	-	-	11,142	20,147	158,617	47	178,811
Private security	56,531	550,274	-	-	-	6,055	13,253	626,113	-	-	626,113
Other	33,723	752,699	3,259	13,306	-	5,810	54,942	863,739	421,599	23,643	1,308,980
Total Direct Expenses	152,691	1,302,973	9,059	117,478	-	11,865	79,337	1,673,402	617,263	23,690	2,314,354
General and Administrative Expenses:											
Payroll and employee benefits	207,647	54,400	36,239	-	-	-	-	298,286	-	794,225	1,092,512
Professional services	-	-	-	-	-	-	-	-	-	263,276	263,276
Marketing	15,082	-	9,432	-	-	5,568	40,096	70,177	-	59,450	129,627
Outside services	1,025	-	-	-	-	8,000	59,665	68,690	438	188,588	257,715
Legal services-Office of the County Counsel	-	-	-	-	-	-	-	-	-	49,419	49,419
Other	32,256	152,055	2,375	5,745	-	26	22,205	214,663	234,833	64,721	514,219
Total General and Administrative Expenses	256,010	206,455	48,047	5,745	-	13,594	121,965	651,816	235,271	1,419,679	2,306,767
Profit (Loss)	\$ 512,642	\$ 1,468,860	\$ 201,582	\$ (40,715)	\$ -	\$ (43,211)	\$ (155,462)	\$ 1,943,697	\$ (852,534)	\$ 2,238,376	\$ 3,329,538

Data is based on FMC's Independent Auditor's Report and Financial Statements and general ledger for calendar year 2021.

Note: County reimbursement and County labor charges listed above represent reimbursements from the County for usage of the Fairgrounds during the COVID-19 pandemic.

**Schedule of Revenue and Expenses
For the Year Ended December 31, 2022**

	Program Services						Total Program Services	Facility	General & Administrative	Total	
	Off-Track Betting	Property Management	Venue Sales & Event Svc.	Food & Beverages	Bingo	Hosted Events					County Fair
Support and Revenue:											
Support and revenue	\$ 1,197,063	\$ 3,223,861	\$ 114,300	\$ 199,770	\$ -	\$ -	\$ 94,344	\$ 4,829,339	\$ -	\$ 1,168,595	\$ 5,997,934
County reimbursement	-	-	-	-	-	-	-	-	-	2,766,253	2,766,253
County labor charges	-	-	-	-	-	-	-	-	-	683,160	683,160
Total Support and Revenue	1,197,063	3,223,861	114,300	199,770	-	-	94,344	4,829,339	-	4,618,008	9,447,347
Total Cost of Sales	97,273	-	5,140	97,576	-	36,850	10,622	247,461	-	585,251	832,712
Direct Expenses:											
Payroll and employee benefits	46,462	-	-	113,393	-	-	-	159,855	50,272	-	210,127
Repairs and maintenance	84,327	18,692	5,363	5,155	-	5,822	43,507	162,866	486,368	28,814	678,048
Private security	104,279	1,158,492	31,978	0	-	7,434	12,921	1,315,104	64,180	74,547	1,453,831
Other	43,372	1,011,641	40,744	939	-	42,986	55,869	1,195,551	328,787	30,107	1,554,445
Total Direct Expenses	278,440	2,188,825	78,085	119,487	-	56,242	112,297	2,833,376	929,607	133,468	3,896,452
General and Administrative Expenses:											
Payroll and employee benefits	309,927	88,869	69,015	-	-	-	-	467,811	-	1,016,555	1,484,366
Professional services	600	-	-	-	-	-	600	1,200	-	293,432	294,632
Marketing	18,767	-	-	-	-	29,253	30,952	78,971	-	59,393	138,364
Outside services	625	70,190	4,000	-	-	47,170	6,177	128,162	-	140,747	268,909
Legal services-Office of the County Counsel	-	-	-	-	-	-	-	-	-	62,568	62,568
Other	44,041	243,664	24	28,720	-	3,922	28,246	348,617	189,124	172,255	709,996
Total General and Administrative Expenses	373,960	402,722	73,039	28,720	-	80,345	65,974	1,024,761	189,124	1,744,949	2,958,835
Profit (Loss)	\$ 447,390	\$ 632,314	\$ (41,964)	\$ (46,013)	\$ -	\$ (173,437)	\$ (94,549)	\$ 723,741	\$ (1,118,732)	\$ 2,154,340	\$ 1,759,349

Data is based on FMC's Independent Auditor's Report and Financial Statements and general ledger for calendar year 2022.

Note: County reimbursement and County labor charges listed above represent reimbursements from the County for usage of the Fairgrounds during the COVID-19 pandemic.

**Schedule of Revenue and Expenses
For the Year Ended December 31, 2023**

	Program Services							Total Program Services	Facility	General & Administrative	Total
	Off-Track Betting	Property Management	Venue Sales & Event Svc.	Food & Beverages	Bingo	Hosted Events	County Fair				
Support and Revenue:											
Support and revenue	\$ 1,215,845	\$ 2,640,420	\$ 1,284,151	\$ 630,986	-	\$ 21,719	\$ 1,422,112	\$ 7,215,233	-	\$ 299,292	\$ 7,514,525
County reimbursement	-	-	-	-	-	-	-	-	-	764,254	764,254
County labor charges	-	-	-	-	-	-	-	-	-	142,110	142,110
Total Support and Revenue	1,215,845	2,640,420	1,284,151	630,986	-	21,719	1,422,112	7,215,233	-	1,205,656	8,420,889
Total Cost of Sales	71,613	-	289,374	240,978	-	139,265	894,122	1,635,353	-	75,983	1,711,335
Direct Expenses:											
Payroll and employee benefits	35,165	-	-	122,266	-	-	-	157,431	83,072	-	240,503
Repairs and maintenance	119,675	31,631	5,148	28,204	-	6,930	-	191,587	767,344	32,948	991,879
Private security	128,581	1,325,850	91,840	-	-	17,202	141,939	1,705,413	-	123,414	1,828,827
Sheriff's Office security	-	-	-	-	-	-	48,494	48,494	-	-	48,494
Other	27,765	838,353	28,002	13,995	-	9,075	75,683	992,874	508,936	31,681	1,533,491
Total Direct Expenses	311,187	2,195,834	124,990	164,465	-	33,207	266,116	3,095,799	1,359,352	188,043	4,643,194
General and Administrative Expenses:											
Payroll and employee benefits	364,113	2,217	-	-	-	-	210,780	645,418	-	921,743	1,567,161
Outside services	1,700	78,602	980	-	-	37,569	129,927	248,778	-	204,657	453,435
Professional services	261	920	-	-	-	-	-	1,181	-	255,600	256,781
Marketing	53,433	-	12,327	-	-	164,470	252,323	482,554	-	75,807	558,360
Legal services-Office of the County Counsel	-	-	-	-	-	-	-	-	-	100,722	100,722
Other	41,301	281,864	93,274	18,479	-	6,458	56,075	429,142	370,598	109,972	909,713
Total General and Administrative Expenses	460,808	363,602	106,581	18,479	-	208,497	649,105	1,807,072	370,598	1,668,501	3,846,172
Profit (Loss)	\$ 372,237	\$ 80,985	\$ 763,204	\$ 207,064	-	\$ (359,249)	\$ (387,231)	\$ 677,009	\$ (1,729,950)	\$ (726,871)	\$ (1,779,812)

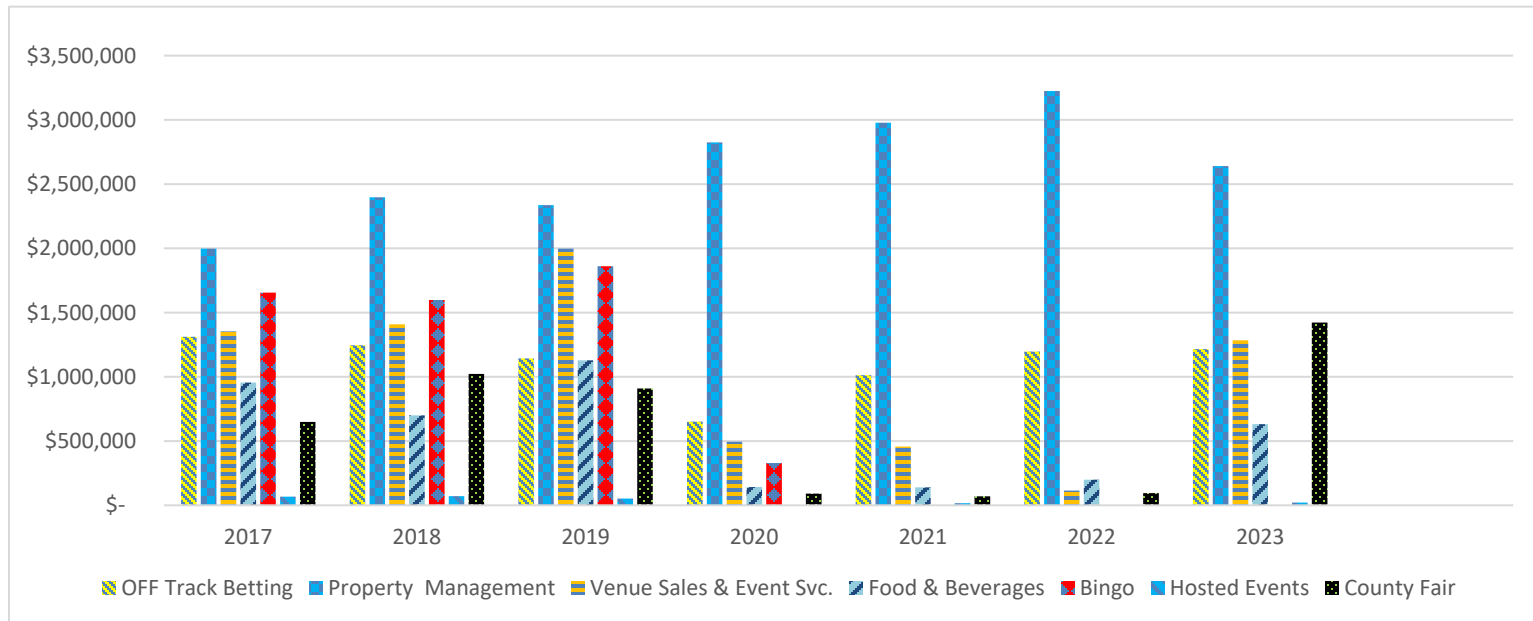
Data is based on FMC's Independent Auditor's Report and Financial Statements and general ledger for calendar year 2023.

Note: County reimbursement and County labor charges listed above represent reimbursements from the County for usage of the Fairgrounds during the COVID-19 pandemic.

APPENDIX B: SCHEDULE OF REVENUE COLLECTIONS FOR PROGRAM SERVICES CALENDAR YEARS 2017-2023

Due to the impact of the COVID-19 pandemic, FMC’s total program services revenue experienced a significant decline from 2020 to 2022. Restrictions on public gatherings led to sharp decreases across key revenue-generating categories such as Venue Sales & Event Services, Food & Beverages, Hosted Events, and the County Fair. Depicted below shows revenue collections, including the gradual recovery beginning in 2023 as operations resumed.

Year	Off-Track Betting	Property Management	Venue Sales & Event Svc.	Food & Beverages	Bingo	Hosted Events	County Fair	Total Program Services
2017	\$ 1,312,041	\$ 1,997,718	\$ 1,354,213	\$ 955,177	\$ 1,654,811	\$ 67,324	\$ 648,928	\$ 7,990,212
2018	\$ 1,245,353	\$ 2,397,237	\$ 1,408,959	\$ 700,466	\$ 1,597,355	\$ 70,909	\$ 1,023,204	\$ 8,443,483
2019	\$ 1,143,626	\$ 2,336,856	\$ 1,998,288	\$ 1,127,895	\$ 1,860,152	\$ 52,673	\$ 908,794	\$ 9,428,284
2020	\$ 651,880	\$ 2,824,025	\$ 494,075	\$ 141,903	\$ 329,404	\$ 358	\$ 91,402	\$ 4,533,047
2021	\$ 1,012,519	\$ 2,978,287	\$ 456,792	\$ 139,806	\$ -	\$ 16,441	\$ 70,231	\$ 4,674,076
2022	\$ 1,197,063	\$ 3,223,861	\$ 114,300	\$ 199,770	\$ -	\$ -	\$ 94,344	\$ 4,829,339
2023	\$ 1,215,845	\$ 2,640,420	\$ 1,284,150	\$ 630,986	\$ -	\$ 21,719	\$ 1,422,112	\$ 7,215,233



APPENDIX C: CAPITAL IMPROVEMENT PROJECTS AND MAINTENANCE EXPENSES BY CATEGORY

(for informational purposes only)

FAF's Capital Improvement Projects Calendar Years 2017-2023

Project #	Project Description	Budget	2017	2018	2019	2020	2021	2022	2023	Total	Completed as of 12/31/2023?
263-BL21001	State House Annex Reroof	\$ 49,513	\$ -	\$ -	\$ -	\$ 855	\$ 48,658	\$ -	\$ -	\$ 49,513	Yes
263-BL21002	Expo Hall Reroof	399,837	-	-	-	-	399,837	-	-	399,837	Yes
263-BL21003	Pavilion Hall Reroof	732,463	-	-	-	-	732,462	-	-	732,463	Yes
263-CP24028	Emergency Repairs Account (- 3-40-430)	49,976	-	-	-	-	-	-	49,976	49,976	Yes
263-BL19014	Fairground Repairs	324,271	-	-	296,379	27,892	-	-	-	324,271	Yes
263-BL20031	Improve Fairgrounds Pavilion ADA	228,818	-	-	-	216,138	12,680	-	-	228,818	Yes
263-BL22006	FY22 Fairground Improvements	387,956	-	-	-	-	-	387,956	-	387,956	Yes
263-BL22016	Fairground Hall Electrical Room Repairs	43,114	-	-	-	-	-	43,114	-	43,114	Yes
263-BL22024	Replace Fairground Rooftop Package Units	553,498	-	-	-	-	-	553,498	-	553,498	Yes
263-BL22025	Replace Fairground OTB VCT Flooring	193,397	-	-	-	-	-	193,397	-	193,397	Yes
263-BL23025	Fairgrounds Expo Hall Improve Electrical	39,673	-	-	-	-	-	3,363	36,310	39,673	Yes
263-BL23026	Fairgrounds Paint Exterior Floricultural	110,926	-	-	-	-	-	-	110,926	110,926	Yes
263-BL23027	Fairgrounds Paint Front Gate B	6,232	-	-	-	-	-	2,282	3,950	6,232	Yes
263-BL23028	Fairgrounds Improve Pavillion Lighting	25,184	-	-	-	-	-	1,356	23,828	25,184	Yes
263-BL23029	Fairgrounds Reroof Concession Circle C	154,322	-	-	-	-	-	-	154,322	154,322	Yes
263-BL23030	Fairgrounds Reroof & Repair Siding	106,254	-	-	-	-	-	-	106,254	106,254	Yes
263-BL23032	Fairgrounds Reroof Wood Cedar Shake_2	153,476	-	-	-	-	-	-	153,476	153,476	Yes
263-BL23033	Fairgrounds Improve Lot Restrooms	107,105	-	-	-	-	-	1,395	105,710	107,105	Yes
263-BL23034	Fairgrounds Improve Service Transformer	56,022	-	-	-	-	-	930	55,092	56,022	Yes
263-BL23060	Fairgrounds Asphalt Repairs	462,571	-	-	-	-	-	-	462,571	462,571	Yes
263-BL23061	Fairground Repaint Various Bldgs.	445,035	-	-	-	-	-	-	445,035	445,035	Yes
263-PL21004	VFA Accruent Assessment Fairgrounds/VMC	221,243	-	-	-	-	221,243	-	-	221,243	Yes
263-PL21007	Fairgrounds Utilities Assessment	456,806	-	-	-	-	-	156,715	300,091	456,806	Yes
263-PL23001	FY23 Fairgrounds Utilities Assessment	3,553	-	-	-	-	-	3,553	-	3,553	Yes
263-BL24014	Fairgrounds Arch Ticket Booth Reroof	60,242	-	-	-	-	-	-	7,620	7,620	No
263-BL24019	Fairgrounds 8 Ticket Booths Repaint	109,312	-	-	-	-	-	-	15,134	15,134	No
263-CP13017	Fairgrounds Development Plan	2,050,000	148,044	-	76,758	9,680	97,450	38,880	42,880	413,692	No
263-BL24063	Expo Hall Ext Painting	185,564	-	-	-	-	-	-	7,391	7,391	No
	Total		\$ 148,044	\$ -	\$ 373,137	\$ 254,565	\$ 1,512,330	\$ 1,386,439	\$ 2,080,566	\$ 5,755,081	

Data provided by FAF and schedule compiled by IAD.

**FAF's Maintenance Expenses by Category
Calendar Years 2017-2023**

Year	A/C	Carpentry	Electrical	Engineering	General Maintenance	Painting	Plumbing	Roofing	Other	Total
2017	\$ -	\$ -	\$ -	\$ -	\$ 707,554	\$ -	\$ -	\$ -	\$ -	\$ 707,554
2018	-	-	-	-	24,271	-	-	-	-	24,271
2019	77,543	63,701	21,062	51,262	92,274	6,362	38,078	95,131	27,274	472,687
2020	22,689	236,024	64,100	56,380	450,366	4,246	310,487	20,851	138,206	1,303,349
2021	29,136	61,720	102,121	43,973	67,538	24,564	84,930	7,602	129,696	551,280
2022	15,575	17,275	39,212	36,838	82,657	10,149	59,552	35,372	153,805	450,435
2023	21,864	64,662	41,239	80,657	70,065	272,508	37,287	6,405	77,317	672,004
Total	\$ 166,807	\$ 443,382	\$ 267,734	\$ 269,110	\$ 1,494,725	\$ 317,829	\$ 530,334	\$ 165,361	\$ 526,298	\$ 4,181,580

Data provided by FAF and schedule compiled by IAD.

APPENDIX D: BENCHMARK DATA

San Mateo County Exposition and Fair Association Schedule of Revenue and Expenses Calendar Years 2017-2023

	2017	2018	2019	2020	2021	2022	2023
Support and Revenue:							
Jockey club (off-track betting)	\$ 2,729,587	\$ 2,614,291	\$ 2,487,780	\$ 1,788,529	\$ 2,032,052	\$ 2,124,366	\$ 2,046,804
County fair	1,924,069	2,138,717	2,138,941	24,887	2,180,595	2,352,264	2,521,710
Other program revenue	7,605,393	8,512,176	8,647,468	5,051,256	6,016,264	8,194,575	8,578,481
Other revenue (incl. from other agencies)	14,466	46,712	59,597	820,410	5,778,700	777,053	1,473,982
Total Support and Revenue	12,273,515	13,311,896	13,333,786	7,685,082	16,007,611	13,448,258	14,620,977
Total Cost of Sales	590,118	500,151	482,575	90,904	78,954	280,436	538,140
Expenses:							
Payroll and employee benefits	5,272,364	6,186,543	6,141,234	4,701,539	7,309,003	5,740,244	5,479,728
Repairs and maintenance	196,909	176,014	328,819	44,638	46,361	74,545	275,591
Marketing	298,616	371,473	310,586	38,720	356,302	479,882	390,413
Security	90,282	174,552	163,881	34,878	218,388	244,233	350,649
Professional services	258,675	240,020	248,168	195,232	229,895	149,757	172,379
Legal services	15,177	16,250	21,896	38,501	46,927	63,143	34,959
Other	5,445,598	4,840,764	4,878,296	2,587,805	3,948,764	4,381,839	4,175,297
Total Expenses	11,577,621	12,005,616	12,092,880	7,641,313	12,155,640	11,133,643	10,879,016
Profit (Loss)	\$ 105,776	\$ 806,129	\$ 758,331	\$ (47,135)	\$ 3,773,017	\$ 2,034,179	\$ 3,203,821

Data is based on IRS Form 990 (Return of Organization Exempt From Income Tax) and Independent Auditor's Reports and Financial Statements for calendar years 2017-2023.

**Sonoma County Fair and Exposition
Schedule of Revenue and Expenses
Calendar Years 2017-2023**

	2017	2018	2019	2020	2021	2022	2023
Support and Revenue:							
Jockey club (off-track betting)	\$ 377,110	\$ 386,873	\$ 371,080	\$ 265,756	\$ 230,061	\$ 72,000	\$ 600
County fair	6,930,736	6,211,395	6,031,341	1,010,697	3,473,345	6,323,752	7,313,782
Other program revenue	2,519,198	4,694,931	4,179,283	3,386,328	4,662,878	4,452,847	3,801,979
Other revenue (incl. grants, PPP loan forgiveness)	1,293,732	673,004	535,071	650,030	1,390,081	701,018	715,829
Total Support and Revenue	11,120,776	11,966,203	11,116,775	5,312,811	9,756,365	11,549,617	11,832,190
Expenses:							
Payroll and employee benefits	6,289,819	5,974,500	6,517,044	3,606,226	3,476,633	5,291,887	6,469,081
Repairs and maintenance	636,649	641,896	627,223	78,519	391,913	420,773	396,749
Marketing	269,469	268,287	292,973	13,899	65,818	240,338	348,069
Security	451,273	548,161	558,633	335,346	364,688	543,369	427,408
Professional services	59,500	37,100	22,500	23,500	111,763	185,350	170,652
Legal services	17,978	58,425	57,741	20,493	6,083	26,790	22,506
Other	3,323,125	2,860,205	2,752,995	1,552,791	1,522,822	3,418,511	3,934,185
Total Expenses	11,047,813	10,388,574	10,829,109	5,630,774	5,939,720	10,127,018	11,768,650
Profit (Loss)	\$ 72,963	\$ 1,577,629	\$ 287,666	\$ (317,963)	\$ 3,816,645	\$ 1,422,599	\$ 63,540

Data is based on IRS Form 990 (Return of Organization Exempt From Income Tax) for calendar years 2017-2023.

County Fair Revenue Comparison

San Mateo County Exposition and Fair Association and Sonoma County Fair and Exposition

2019 (Pre-COVID):

- San Mateo County collected \$1.23 million more than Santa Clara, representing a 135% increase.
- Sonoma County collected \$5.12 million more than Santa Clara, representing a 563% increase.

2023 (Post-COVID Recovery):

- San Mateo County collected \$1.10 million more than Santa Clara, representing a 77% increase.
- Sonoma County collected \$5.89 million more than Santa Clara, representing a 414% increase.

Revenue Collection for County Fairs For the Calendar Years 2017-2023

County Fair			
Year	Santa Clara County	San Mateo County	Sonoma County
2017	\$ 648,928	\$ 1,924,069	\$ 6,930,736
2018	\$ 1,023,204	\$ 2,138,717	\$ 6,211,395
2019	\$ 908,794	\$ 2,138,941	\$ 6,031,341
2020	\$ 91,402	\$ 24,887	\$ 1,010,697
2021	\$ 70,231	\$ 2,180,595	\$ 3,473,345
2022	\$ 94,344	\$ 2,352,264	\$ 6,323,752
2023	\$ 1,422,112	\$ 2,521,710	\$ 7,313,782

Data is based on IRS Form 990 (Return of Organization Exempt From Income Tax) and Independent Auditor's Reports and Financial Statements for calendar years 2017-2023.

Off-Track Betting Revenue Comparison (Calendar Years 2017-2023)

Over the seven-year period, all three counties experienced a decline in off-track betting revenue as follows:

- San Mateo decreased by \$682,783 (25.0%) overall and collected \$830,959 more than Santa Clara in 2023, approximately a 68% difference,
- Sonoma decreased by \$376,510 (99.8%) overall, and
- Santa Clara decreased by \$96,196 (7.3%) overall.

Revenue Collection for Off-Track Betting For the Calendar Years 2017-2023

Off-Track Betting			
Year	Santa Clara County	San Mateo County	Sonoma County
2017	\$ 1,312,041	\$ 2,729,587	\$ 377,110
2018	\$ 1,245,353	\$ 2,614,291	\$ 386,873
2019	\$ 1,143,626	\$ 2,487,780	\$ 371,080
2020	\$ 651,880	\$ 1,788,529	\$ 265,756
2021	\$ 1,012,519	\$ 2,032,052	\$ 230,061
2022	\$ 1,197,063	\$ 2,124,366	\$ 72,000
2023	\$ 1,215,845	\$ 2,046,804	\$ 600

Data is based on IRS Form 990 (Return of Organization Exempt From Income Tax) and Independent Auditor's Reports and Financial Statements for calendar years 2017-2023.

Comparative Security Expenses (Calendar Years 2017-2023)

Based on our analysis, we noted security expenses for Santa Clara (i.e., FMC) significantly increased by \$1.25 million (200%) from 2021 to 2023, far exceeding San Mateo and Sonoma counties. Specifically,

- In 2021, Santa Clara spent \$407,725 (187%) more than San Mateo and \$261,425 (72%) more than Sonoma.
- In 2022, Santa Clara spent \$1,209,598 (495%) more than San Mateo and \$910,462 (167%) more than Sonoma.
- In 2023, Santa Clara spent \$1,526,672 (435%) more than San Mateo and \$1,449,913 (339%) more than Sonoma.

Security Trends For the Calendar Years 2017-2023

Security Expenses			
Year	Santa Clara County	San Mateo County	Sonoma County
2017	\$ 436,863	\$ 90,282	\$ 451,273
2018	\$ 354,226	\$ 174,552	\$ 548,161
2019	\$ 364,151	\$ 163,881	\$ 558,633
2020	\$ 291,201	\$ 34,878	\$ 335,346
2021	\$ 626,113	\$ 218,388	\$ 364,688
2022	\$ 1,453,831	\$ 244,233	\$ 543,369
2023	\$ 1,877,321	\$ 350,649	\$ 427,408

Data is based on IRS Form 990 (Return of Organization Exempt From Income Tax) and Independent Auditor's Reports and Financial Statements for calendar years 2017-2023.

APPENDIX E: DEFINITION OF PRIORITY RATINGS FOR AUDIT RECOMMENDATIONS

Priority Ratings	Definition of Priority Ratings and Suggested Implementation Timeframe
<p>High / Priority One (1)</p>	<p>Priority One recommendations are assigned to the highest assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, which results in the likelihood of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority One recommendations also include issues related to non-compliance with laws, regulations or policies and procedures.</p> <p>Management should urgently implement these recommendations within one to three months after issuance of the final audit report to avoid risk exposure.</p>
<p>Medium / Priority Two (2)</p>	<p>Priority Two recommendations are assigned to the moderately assessed level of risk. For these recommendations, internal controls provide reasonable assurance that the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors; however, additional action is needed to strengthen current practices.</p> <p>Management should promptly implement these recommendations within three to six months after issuance of the final audit report to improve internal control processes.</p>
<p>Low / Priority Three (3)</p>	<p>Priority Three recommendations are assigned to the lowest assessed level of risk. For these recommendations, internal controls are operating as designed to ensure the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors. These recommendations are desired actions to enhance current practices.</p> <p>Management should consider implementing these recommendations within six to 12 months after issuance of the final audit report to provide additional confidence in the internal control system.</p>

APPENDIX F: INTERNAL CONTROLS FRAMEWORK

We utilized guidance in the 2025 U.S. Government Accountability Office’s *Standards for Internal Controls in the Federal Government* (“Green Book”) to evaluate best practices for internal controls within government entities. Internal controls are processes used by management to help achieve their goals and objectives related to operations, reporting, and compliance. The “Green Book” Standards comprise of the following five internal control components and corresponding 17 principles that work together in an integrated framework:

Components	Principles
Control Environment	<ol style="list-style-type: none"> 1. The oversight body and management should demonstrate a commitment to integrity and ethical values. 2. The oversight body should oversee the entity’s internal control system. 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives. 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals. 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Risk Assessment	<ol style="list-style-type: none"> 6. Management should define objectives clearly to enable the identification of risks and define risk tolerances. 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives. 8. Management should consider risks related to fraud, improper payments, and information security when identifying, analyzing, and responding to risks. 9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	<ol style="list-style-type: none"> 10. Management should design control activities to mitigate risks to achieving the entity's objectives to acceptable levels. 11. Management should design general control activities over information technology to mitigate risks to achieving the entity’s objectives to acceptable levels. 12. Management should implement control activities through policies and procedures.
Information and Communication	<ol style="list-style-type: none"> 13. Management should obtain or generate relevant, quality information and use it to support the functioning of the internal control system. 14. Management should internally communicate relevant and quality information, including objectives and responsibilities for internal control, necessary to support the functioning of the internal control system. 15. Management should communicate relevant and quality information with appropriate external parties regarding matters impacting the functioning of the internal control system.
Monitoring	<ol style="list-style-type: none"> 16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. 17. Management should remediate identified internal control deficiencies on a timely basis.

APPENDIX G: PROGRAM BACKGROUND, SCOPE AND METHODOLOGY

PROGRAM BACKGROUND

FMC is a California non-profit public benefit corporation established on March 28, 1995 by the County to operate the County Fairgrounds. Pursuant to a Management Agreement dated April 18, 2000, the County delegated FMC responsibility of managing the fairgrounds property. This agreement was subsequently amended and restated on January 1, 2020, extending the terms for an additional twenty years (collectively known as the Agreement).

Under the terms of the Agreement, FMC is responsible for organizing and operating the annual County Fair along with hosting various educational, cultural and community functions on the property. FMC is also licensed to conduct off-track betting operations. In addition to event management, FMC assumes responsibility for the following:

- overseeing existing and subsequent improvements and activities on the property on behalf of the County,
- advising the County on potential development opportunities of the property, and
- covering annual operating costs, capital improvements and debt obligations through generated revenue and external support.

In alignment with the Management Agreement, FMC additionally provided in-kind use of the County Fairgrounds by hosting critical community-serving events. For example, during calendar year 2025, FMC supported six events including voting operations, the Veterans Autorama and Stand Down, a community dental clinic, and a holiday bike build in partnership with the Santa Clara Valley Health Foundation. According to FMC management, the total in-kind value of these contributions exceeded \$134,000. These efforts advanced FMC's mission, highlighted the Fairgrounds as a vital community asset, and strengthened partnerships with the County and local organizations.

FMC revenue sources include anchor licenses, off-track betting, the annual County Fair, hosted events, food and beverages sales, parking, Bingo, and other activities. The County reimbursed FMC for costs incurred during usage of the facility for COVID-19 testing. Additionally, the State of California periodically awards grants and subsidies to FMC, as well as volunteer support service, primarily for the County Fair, Bingo, and other community events.

While the County retains authority over decisions regarding the Fairgrounds Revitalization Plan, responsibility for execution of the plan was delegated to FMC.

SCOPE AND METHODOLOGY

FMC's documentation and records covering the 10-year period from January 1, 2014 to December 31, 2023 were originally considered for review; however, due to record retention policies, the review primarily focused on documentation available during the 7-year period from January 1, 2017 to December 31, 2023.

We performed the following procedures to achieve the engagement objectives:

- Reviewed applicable laws, regulations, Agreements, and FMC policies/procedures.
- Reviewed meeting minutes for relevant financial information communicated to FMC Board of Directors and County Board of Supervisors.
- Reviewed the direct and indirect cost reports allocated to various FMC programs for accuracy and compliance with applicable laws/regulations and Agreement terms.
- Reviewed FMC's general Ledger, revenue register and other relevant reports to analyze trends for revenue collections and the County's contributions. Inquired about any significant variances noted.

- Selected a sample of vendor contracts used for various FMC program activities to ensure payments complied with contract terms and were properly allocated and reported.
- Performed an analysis of the County's contributions to FMC to determine if the usage of funds was properly disclosed in financial records (e.g., maintenance and capital improvement, reimbursement for County usage of the property, and other forms of financial support).
- Reviewed FMC's Independent Auditor's Reports for the scope period to determine if deficiencies or material weaknesses in internal control over financial reporting or instances of noncompliance with laws and regulations were noted. Where applicable, obtained and evaluated FMC's corrective action plan(s).
- Reviewed FMC's IRS Form 990 (Tax Return of Organization Exempt From Income Tax) for the scope period and reconciled to accounting records for reasonableness (e.g., tax vs. book reporting).
- Obtained data from the County's Facilities and Fleet Department on maintenance, repair, and capital improvement costs incurred for FMC and prepared Schedules of Maintenance and Capital Improvements for the period.
- Performed walkthroughs and interviews.
- Benchmarked FMC's financial performance against comparable nonprofit organizations providing similar services.

April 22, 2026

County of Santa Clara Internal Audit Division
Attn: Tatiana Adair

Subject: Response to Audit Recommendations

Management has reviewed the draft audit report dated March 12, 2026, covering Santa Clara County Fairgrounds Management Corporation (FMC) operations from January 1, 2017, through December 31, 2023.

Since the end of the audit period, there have been significant leadership transitions and operational improvements within the FMC organization. In 2024, the former Executive Director and several senior staff members departed. In July 2024, Armando Carlos and I were appointed as Co-Interim Executive Directors. Effective June 1, 2025, I assumed the role of Executive Director of the Santa Clara County Fairgrounds Management Corporation, with Armando serving as Deputy Executive Director.

We are proud to report that throughout 2024 and 2025, FMC management identified and implemented significant improvements to strengthen internal controls across multiple operational areas identified in the audit. These improvements include restructuring vendor relationships and enhancing oversight, and terminating select contracts with vendors, contractors, and consultants to streamline operations, eliminate duplicative services, and transition essential functions to permanent staff.

Additionally, in 2024, 2025, and the first months of 2026, FMC management collaborated closely with the Office of the County Executive and County Administration to resolve outstanding code compliance issues, restore and activate previously underutilized or neglected spaces, and enhance the overall condition and functionality of the grounds. These improvements have focused on increasing safety, functionality, revenue, and the overall guest experience.

The attached document provides detailed responses to each of the recommendations directed to FMC management in the draft audit report.

Thank you for the opportunity to respond and for your continued partnership.

Sincerely,



Salene Duarte
Executive Director
Santa Clara County Fairground Management Corp.



Responses to County Internal Audit of FMC (April 2026)

FMC management's responses below include and are directed only to recommendations to FMC management. To the extent a recommendation is addressed to the County or the County Executive's Office and not FMC, that recommendation is not included in FMC's responses.

FINDING 1: Non-disclosure of related party transaction.

Recommendation 1.1

FMC management should amend their General Purchasing Policy to include a Conflict-of-Interest provision with disclosure and mitigation strategies such as a process for personnel with direct or indirect familial or financial interests. Disclosing and excluding vendors with management ties can safeguard the organization's integrity and operational effectiveness, unless formally approved by an independent ethics or vendor selection committee.

Response

FMC Management: Agrees. Between October 2025 and March 2026, FMC terminated its relationship with the three individuals identified as possibly having familial relationships with FMC officers and/or employees. FMC is in the process of updating its General Purchasing Policy and plans to include a conflict-of-interest provision that emphasizes transparency, disclosure, and appropriate mitigation measures. Specifically, the policy will require disclosure of any direct or indirect familial or financial interests and establish procedures to ensure such relationships are identified, reviewed, and managed appropriately. Where necessary, and in consultation with counsel, decisions involving potential conflicts will be subject to Board of Directors approval to safeguard the organization's integrity while maintaining operational flexibility for specialized roles.

Status

In Progress

Recommendation 1.2

FMC management should implement a process to regularly verify that all vendors maintain active and valid licenses and/or registrations with the State of California to reduce the risk of engaging with unqualified or non-compliant vendors.

Response

FMC Management: Agrees. In October 2025, FMC management adopted procedures that require the FMC finance team to conduct monthly reviews of all vendor files to ensure that vendors maintain all applicable active and valid licenses and/or registrations required by law for the services provided to FMC.

Status

Complete

FINDING 2: No evidence of competitive bidding for contracted vendor.

Recommendation 2.1

FMC management should:

- Update their Professional Services-Consultant Section Policy to include periodic performance review requirements for long-term, non-competed vendors [e.g., every three years] to ensure service quality remains consistent, pricing is competitive and compliance with regulatory guidance.
- Periodically train staff on the new performance review requirements.
- Ensure contract terms and conditions include language on the renewal process.
- Establish a formal process for monitoring all expiring contracts to ensure sufficient time for undergoing a re-evaluation or competitive bidding process.

Response

FMC Management: Agrees. Under FMC's Management Agreement with the County, FMC cannot enter into service agreements with a term of more than twelve months without the County's prior written consent. All service agreements include terms and conditions that reflect this limited authority.

In 2025, FMC management adopted new procedures for reviewing professional service agreements prior to renewing annual contracts to ensure service quality, competitive pricing, and ongoing compliance with applicable regulations. FMC Management is in the process of updating the Professional Services-Consultant Selections Policy to reflect these procedures.

FMC finance staff members now receive periodic training on performance review requirements for all vendors and consultants. Vendors and consultants must submit detailed, itemized invoices either monthly or upon completion of work that are reviewed prior to payment and inform ongoing performance assessments by FMC of the vendors and consultants. The Finance team monitors vendor and consultant agreements and prepares monthly reports tracking contract terms, key dates, and outstanding balances to support performance evaluations and to ensure adequate time for reevaluation or, when appropriate, a competitive bidding process.

Status

In Progress

FINDING 3: Lack of formal vendor contracts for services rendered.

Recommendation 3.1

FMC management should:

- Update their Professional Services-Consultant Section Policy to include specific criteria for defining the compensation threshold and minimum number of competitors available to perform the scope of work when outsourcing professional services.
- Provide the updated Professional Services-Consultant Section Policy to the County's Office of the County Counsel for their review.
- Train relevant staff on the updated Professional Services Consultant - Selections Policy to reinforce consistent application and ensure vendors are not engaged or paid without a signed contract in place.

Response

FMC Management: Agrees. In 2024, following consultation with County Counsel, FMC management adopted new procedures to ensure that all vendors have a fully executed contract in place and have submitted all required insurance documentation prior to the commencement of any work.

Additionally, staff have been trained to ensure consistent application of these requirements and to ensure that no vendor may commence work or receive payments without a signed contract in place. Any services exceeding the approved contract amount or services outside the scope of the agreement must receive prior documented authorization before work begins.

FMC is in the process of updating its Professional Services-Consultant Selections Policy and General Purchasing Policy with the assistance of County Counsel to clarify these requirements. The updated Policies will include guidelines for not-to-exceed compensation thresholds and consideration of available qualified vendors when procuring professional services.

Status

In Progress

FINDING 4: Noncompliance with contractual terms.

Recommendation 4.1

FMC management should implement the following vendor management controls by:

- Requiring accounts payable or procurement staff to verify invoices match the contract scope of work prior to processing payment.
- Training accounts payable and procurement staff on contract compliance requirements and escalation procedures for unapproved services.
- Ensuring a formal contract amendment is reviewed and approved before services are performed or paid if additional services outside the original scope are required.
- Implementing or reinforcing procedures for reviewing invoices and payments around year-end to properly match expenses with the correct contract period.
- Training accounting personnel on accrual basis accounting and proper expense recognition principles to prevent misstatement of financial statements.

Response

FMC Management: Agrees. In 2024, FMC Management implemented enhanced vendor management controls requiring the Finance team to review each invoice in detail and confirm that services align with the approved contract scope before payments are processed.

Staff responsible for accounts payable and procurement have been trained on contract compliance requirements, including procedures for identifying and escalating unapproved services.

Any services that fall outside the original contract scope or exceed the approved amount must receive prior management authorization and be properly documented before work begins or payment is issued.

Additionally, FMC has strengthened year-end financial review procedures and implemented monthly accrual processes to ensure expenses are recorded in the appropriate period. Accounting personnel have also been trained on accrual-based accounting principles to support accurate financial reporting and prevent misstatements.

Status

Complete and ongoing

FINDING 5: FMC executive responsibilities were delegated to third parties.

Recommendation 5.2

FMC management should:

- Retain decision-making authority internally (e.g., budgeting and strategic planning) and request County's approval prior to seeking consultant support for critical operational and internal control functions.
- Develop a succession plan for key executive positions, including the Executive Director, to ensure continuity of operations during leadership transitions and reduce reliance on third parties.
- Identify internal candidates for executive roles and maintain a talent pipeline through mentorship, professional development and cross-training to mitigate the loss of institutional knowledge in the event of future turnover.

Response

FMC Management: Agrees. All critical operational and internal control functions remain under the authority of the Executive Director and the FMC Board of Directors. Contractors may provide support for the development of specific documents and reports under the direction of the Executive Director and/or the Board of Directors. FMC Management obtains approval for specific projects and contracts from County administration as required under the Management Agreement between FMC and the County.

In 2025, FMC strengthened its organizational structure to support leadership continuity and reduce reliance on consultants. The addition of the Deputy Executive Director position enhances succession planning by providing leadership development, mentorship, and operational oversight. The Executive Director's employment agreement clearly defines the Executive Director's role, responsibilities, and delegated authority from the Board of Directors.

Additionally, FMC is actively developing a succession plan for key executive positions by identifying and preparing internal candidates. This includes ongoing mentorship, professional development, and cross-training across all departments to build a strong talent pipeline and mitigate the risk of institutional knowledge loss during future transitions.

Status

Complete and ongoing regarding maintaining a talent pipeline

FINDING 6: Redundant vendor services were identified.

Recommendation 6.1

FMC management should:

- Establish a process to review existing service contracts before procuring additional services to ensure they are not already provided.
- Establish a centralized database of all active contracts to periodically monitor for potential redundant or overlapping services that should be consolidated.
- Periodically train relevant staff on the importance of verifying existing contracts before outsourcing services and emphasize the potential cost savings and risks associated with bypassing this step.

Response

FMC Management: Agrees. In 2024, FMC conducted a comprehensive audit of all service agreements to identify and eliminate overlapping or duplicate services. Based on that review, several contracts were not renewed. For contracts that were renewed, FMC updated the scopes of work to clearly delineate similar services, ensuring transparency and a consistent understanding of roles and responsibilities.

In 2024, FMC also established a centralized contract tracking system for all active service agreements. This database captures monthly encumbrance amounts, contract terms, key dates, and outstanding balances, and is provided by the Finance team to management on a monthly basis to support ongoing monitoring and decision-making.

Finally, in 2024, FMC implemented procedures requiring staff to review existing contracts prior to procuring new services to avoid duplication. Relevant staff are periodically trained on these requirements, with an emphasis on cost efficiency, risk mitigation, and the importance of leveraging existing agreements before engaging new vendors.

Status

Complete and ongoing regarding periodic training

FINDING 7: Lack of process for submitting external auditor communication of audit findings to the County for transparency.

Recommendation 7.1

FMC's Board of Directors should:

- Require FMC management to also submit the external auditor's communications on internal control-related matters to the County.
- Ensure the County oversight bodies are aware of FMC's external auditor's communication letter by including the report as a standing item on their agenda(s) following issuance of FMC's audited financial statements.
- Require FMC management to provide periodic updates to the County oversight bodies on corrective actions taken to timely address control deficiencies and improve operational effectiveness.

Draft Response

This recommendation will be presented to the FMC Board of Directors for consideration after the Internal Audit Division report is publicly released.

County of Santa Clara

Office of the County Executive

County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110
(408) 299-5105



DATE: April 23, 2026

TO: Robyn Rose, Internal Audit Manager

FROM: James R. Williams, County Executive 

SUBJECT: Office of the County Executive response to Internal Audit Report regarding the Santa Clara County Fairgrounds Management Corporation Financial and Operational Review

Thank you for the opportunity to respond to the Internal Audit Division report regarding Santa Clara County Fairgrounds Management Corporation Financial and Operational Review. As noted in the report, the findings in this report will be given to FMC but the Office of the County Executive cannot direct FMC to make the necessary changes because of the limitations with the current Governance Structure. One recommendation identified in the audit was assigned to the Office of the County Executive and below is the response.

Recommendation 1.3: *CEO management should consult with County Counsel to assess whether FMC vendor contracts where FMC officers and/or employees may have had familial and/or financial relationships with the vendor constitute a breach of the 'Conflict-of-Interest' clause stated in the Agreement.*

Response to Recommendation 1.3: Agree

Section A of Exhibit C of the Amended and Restated Management Agreement (as incorporated into the Agreement in Section 2.11 of the Agreement) outlines the County's Conflict of Interest provisions. The Office of the County Executive will discuss with the Office of the County Counsel to assess whether FMC vendor contracts where FMC officers and/or employees may have had familial and/or financial relationships with the vendor constitute a breach of the 'Conflict-of-Interest' clause stated in the Agreement and will report back on these findings.