



Orange County Auditor-Controller Internal Audit



First Follow-Up
Revenue Generating Lease Audit:
OC Community Resources/OC Parks -
David L. Baker Golf Course Concession

As of May 31, 2017

Audit Number 1642-B (Reference 1559-F1)
Report Date: October 5, 2017



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1642-B
(Reference 1559-F1)

October 5, 2017

TO: Dylan Wright, Director
OC Community Resources

SUBJECT: First Follow-Up Revenue Generating Lease Audit:
OC Community Resources/OC Parks – David L. Baker Golf Course Concession
Original Audit No. 1559, Issued October 11, 2016

We have completed our First Follow-Up Revenue Generating Lease Audit: OC Community Resources/OC Parks – David L. Baker Golf Course Concession as of May 31, 2017. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this Follow-Up Audit will be included in future status reports to the AOC and BOS.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Eric Woolery, Auditor-Controller
Frank Kim, County Executive Officer
Lala Ragen, Deputy Chief Operating Officer
Cymantha Atkinson, Deputy Director of OC Community Resources
Stacy Blackwood, Director of OC Parks, OC Community Resources
Jonathan Nicks, Deputy Director of OC Parks, OC Community Resources
Thea Bullock, Director of Compliance, OC Community Resources
Kirk Holland, Business Manager, OC Community Resources/OC Parks
Connie Chang, Financial and Strategic Planning Manager, OC Community Resources
Brian Rayburn, Business Manager, OC Community Resources
Scott Mayer, Chief Real Estate Officer
Ronald Inouye, Administrative Manager, CEO/Real Estate

*Dylan Wright, Director
OC Community Resources
October 5, 2017*

Other recipients of this report (cont.):

Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
Win Swe, Accounting Manager III, Auditor-Controller/OC Community Resources
Eliseo Gillamac, Accounting Manager II, Auditor-Controller/OC Community Resources
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



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OC Community Resources/OC Parks –
David L. Baker Golf Course Concession
Audit No. 1642-B (Reference 1559-F1)***

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Internal Auditor's Report

**Audit No. 1642-B
(Reference 1559-F1)**

October 5, 2017

TO: Dylan Wright, Director
OC Community Resources

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: First Follow-Up Revenue Generating Lease Audit:
OC Community Resources/OC Parks – David L. Baker Golf Course Concession
Original Audit No. 1559, Issued October 11, 2016

SCOPE

We completed a First Follow-Up Revenue Generating Lease Audit of OC Community Resources (OCCR)/OC Parks – David L. Baker Golf Course Concession. Our audit was limited to reviewing actions taken as of May 31, 2017, to implement the **six (6) recommendations** from our original audit.

BACKGROUND

The David L. Baker Golf Course Concession lease was assigned to CF David L. Baker Arcis LLC (hereinafter referred to as Arcis) on September 16, 2014 and extends through April 30, 2027. The original audit reviewed whether David L. Baker Golf Course Concession's records adequately supported its monthly gross receipts to the County. During the original audit, David L. Baker Golf Course Concession reported approximately \$2.5 million in gross receipts and paid \$395,872 in rent to the County. The original audit identified **six (6) Control Findings** related to unreported banquet service charges, gross receipts reported in the incorrect rent category, consumption of alcoholic beverages on the golf course, numbering of banquet, tournament and room rental agreements, untimely submission of required financial statements, and untimely review and reconciliation of financial statements.

RESULTS

Our First Follow-Up Audit found that OCCR/OC Parks has **implemented two recommendations and four recommendations are in process** from the original audit. A second Follow-Up Audit will be discussed with OCCR regarding the four recommendations that are in process.

Based on our First Follow-Up Audit, the following is the implementation status of the six (6) original recommendations:

Finding No. 1 – Unreported Banquet Service Charges (Control Finding)

Recommendation No. 1: We recommend that OCCR require Arcis to report mandatory banquet service charges as gross receipts to the County and pay the appropriate percentage rent. We further recommend that OCCR require Arcis to pay additional rent owed of \$1,678, and to calculate and pay additional rent owed from March 1, 2016 through the date of correction.



Internal Auditor's Report

Current Status: Implemented. Our First Follow-up Audit found that OCCR required Arcis to report mandatory banquet service charges as gross receipts at the appropriate percentage rent, collected the additional rent owed of \$1,678, and determined that no additional rent was due for the period March 1, 2016 through the date of correction. Due to the actions taken by OCCR, we consider this recommendation implemented.

Finding No. 2 – Gross Receipts Reported in Incorrect Rent Category (Control Finding)

Recommendation No. 2: We recommend that OCCR require Arcis to report golf club and pull cart rental revenue in the Equipment Rental category and pay the appropriate percentage rent. We further recommend that OCCR require Arcis to pay additional rent owed of \$1,323, and to calculate and pay additional rent owed from March 1, 2016 through the date of correction.

Current Status: Implemented. Our First Follow-up Audit found that OCCR required Arcis to report golf club and pull cart rental revenue in the Equipment Rental category at the appropriate percentage rent, collected the \$1,323 additional rent owed, and calculated and collected \$194 additional rent for March 1, 2016 through the date of correction. Due to the actions taken by OCCR, we consider this recommendation implemented.

Finding No. 3 – Consumption of Alcoholic Beverages on Golf Course (Control Finding)

Recommendation No. 3: We recommend that OCCR determine if consumption of alcoholic beverages out on the golf course is acceptable.

Current Status and Planned Action: In Process. While the OCCR Director of Compliance has addressed this finding with the County Executive Officer (CEO), OCCR informed us it does not have the authority to make a determination on behalf of the County. OCCR informed us they can take no further action without direction from the Board of Supervisors or CEO. Therefore, we consider this recommendation to be in process.

Finding No. 4 – Banquet, Tournament, and Room Rental Agreements Are Not Prenumbered (Control Finding)

Recommendation No. 4: We recommend that OCCR require Arcis to utilize prenumbered agreements for banquets, room rentals, and tournaments. We further recommend Arcis account for issued and unissued agreements.

Current Status and Planned Action: In Process. Our First Follow-up Audit found that OCCR notified Arcis to adhere to the requirement that they utilize prenumbered agreements for banquets, room rentals, and tournaments; however, Arcis has not yet provided an account of the issued and unissued agreements. On August 21, 2017, OCCR sent a third letter requesting the accounting of the pre-numbered rental agreements from Arcis. Due to the actions taken by OCCR, we consider this recommendation to be in process.



Internal Auditor's Report

Finding No. 5 – Required Financial Statements Not Submitted Timely (Control Finding)

Recommendation No. 5: We recommend that OCCR ensure Arcis submits the required annual financial statements in a timely manner in compliance with the Agreement.

Current Status and Planned Action: **In Process.** Our First Follow-up Audit found that Arcis did not submit all of the required audited Statement of Gross Receipts and balance sheets and income statements in a timely manner. Although Arcis submitted the audited Statement of Gross Receipts for FY 2015-16, it did not submit the audited Statement of Gross Receipts for FY 2016-17 or the balance sheets and income statements for FYs 2015-16 and 2016-17 (ended February 28, 2017). On August 21, 2017, OCCR sent a third letter requesting the outstanding financial statements from Arcis. While Arcis complied with the financial statement submission requirement on August 25, 2017 by submitting FY 2015-16 and FY 2016-17 balance sheets and income statements, they have not submitted the audited Statement of Gross Receipts for FY 2016-17. Due to the actions taken by OCCR, we consider this recommendation to be in process.

Finding No. 6 – Untimely Review and Reconciliation of Financial Statements (Control Finding)

Recommendation No. 6: We recommend that OCCR obtain, review, and reconcile David L. Baker Concession's annual financial statements in a timely manner.

Current Status and Planned Action: **In Process.** OCCR has not yet completed its reconciliation of the audited Statement of Gross Receipts for FY 2015-16 due to inconsistencies between the categories listed on the audited Statement of Gross Receipts and the approved categories as listed on the contract. On August 21, 2017, OCCR sent a third letter to Arcis requesting the outstanding audited Statement of Gross Receipts for FY 2016-17. Therefore, we consider this recommendation to be in process.

We appreciate the assistance extended to us by the personnel of OC Community Resources/OC Parks, CEO/Real Estate, and OCCR Accounting during our Follow-Up Audit. If you have any questions, please contact me directly at (714) 834-5442 or Nancy Ishida, Senior Audit Manager, at (714) 796-8067.