



Orange County Auditor-Controller Internal Audit



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

For the Period
January 1, 2015 through December 31, 2015

Audit Number 1559
Report Date: October 11, 2016



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

Eric H. Woolery, CPA
Orange County Auditor-Controller

Toni Smart, CPA	Director, Internal Audit
Scott Suzuki, CPA, CIA, CISA	Assistant Director
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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1559

October 11, 2016

TO: Steve Franks, Director
OC Community Resources

SUBJECT: Revenue Generating Lease Audit: OC Community Resources/OC Parks –
David L. Baker Golf Course Concession, PR37A-151

We have completed our revenue generating lease audit of OC Community Resources (OCCR)/OC Parks – David L. Baker Golf Course Concession for the period January 1, 2015 through December 31, 2015. Our final report is attached for your review.

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

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

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
- Lilly Simmering, Deputy Chief Operating Officer
- Stacy Blackwood, Director, OC Community Resources/OC Parks
- Connie Chang, Financial Planning Manager, OC Community Resources
- Brian Rayburn, Business Office Manager, OC Community Resources
- Ron Inouye, Real Property Agent III, CEO/Real Estate
- Nicole Nguyen, Budget Analyst, OC Community Resources
- Tonya Riley, Director, Satellite Accounting Operations, Auditor-Controller
- Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting
- 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. 1559***

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Internal Auditor's Report

Audit No. 1559

October 11, 2016

TO: Steve Franks, Director
OC Community Resources (OCCR)

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

SUBJECT: Revenue Generating Lease Audit: OC Community Resources/OC Parks –
David L. Baker Golf Course Concession, PR37A-151

OBJECTIVES

We performed an audit of certain records and documents for the period January 1, 2015 through December 31, 2015, pertinent to the concession agreement (Agreement) between the County of Orange (County) and CF David L. Baker Arcis LLC (hereinafter referred to as Arcis). The Agreement was assigned to Arcis effective September 16, 2014 and extends through April 30, 2027. In 2008, the Board approved the Consent to Execute a Subconcession Agreement authorizing Evergreen Alliance Golf Limited (EAGL) to operate the golf course as a subtenant; the subconcession agreement with EAGL to operate the golf course remains in force.

The Agreement is for the operation of a golf course, driving range, snack bar, and pro shop located at the County's Mile Square Regional Park. Golf course operations include sales of ancillary services, food, beverages, and the operation of banquet facilities.

1. The primary objective of our audit was to determine whether Arcis' records adequately supported their monthly gross receipts reported to the County and rent owed was properly paid.
2. The secondary objective of our audit was to determine whether Arcis complied with certain financial and other provisions of the Agreement, such as monthly gross receipts statement format and annual financial statement requirements.

In addition, while performing the audit we may identify internal control weaknesses for which we will provide suggestions for improvement.

RESULTS

Objective #1: We found that Arcis' records adequately supported reported gross receipts and rent was properly paid to the County, except for **three (3) Control Findings** regarding: 1) mandatory banquet service charges not reported as gross receipts and related rent owed of \$1,678; 2) gross receipts from club and cart rental reported in an incorrect category and related rent owed of \$1,323; and 3) admission/rental agreements not prenumbered.

Objective #2: We found that Arcis complied with certain provisions of the Agreement, except for **three (3) Control Findings** regarding: 1) consumption of alcoholic beverages on the golf course; 2) untimely review and reconciliation of financial statements by the County; and 3) untimely submission of required financial statements.



Internal Auditor's Report

BACKGROUND

The County of Orange entered into a 40-year Agreement with the concessionaire, dated April 30, 1987, for the operation of the David L. Baker Golf Course. The Agreement was assigned to Arcis effective September 16, 2014 and extends through April 30, 2027. During the 12-month audit period ended December 31, 2015, Arcis reported approximately \$2.5 million in gross receipts and paid rent to the County of \$395,872.

SCOPE AND METHODOLOGY

Our audit was limited to certain records and documents that support Arcis' gross receipts reported to the County for the audit period January 1, 2015 through December 31, 2015. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel at Arcis, EAGL and OCCR during our audit. If you have any questions regarding our revenue generating lease audit, please contact me directly at 714-834-5442, or Carol Swe, Senior Audit Manager at 714-834-5082.



Detailed Findings, Recommendations, and Management Responses

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

Clause 10C of the Agreement, “Definition of Gross Receipts,” requires the concessionaire to report to the County all admission, entry, rental, and other fees of any nature or kind charged by the concessionaire.

A mandatory service charge (approximately 20% of costs) is assessed to customers for banquets held at the David L. Baker Golf Course. Arcis did not report mandatory banquet service charge revenue as gross receipts to the County. For the period from 10/1/2014 through 2/29/2016, service charge revenue was \$55,933 (account 163-500-8565). The rent percentage category for banquet food is 3%; therefore, additional percentage rent of \$1,678 (\$55,933 multiplied by 3%) is owed to the County.

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.

OCCR/Parks Management Response:

Concur: The Monthly Gross Receipts form will be revised to include “Mandatory Banquet Service Charge” of 3%. Concessionaire will be invoiced for the period from 10/1/2014 through 2/29/16 additional rent of \$1,678 (\$55,933 banquet service charge x 3% = \$1,678).

Additional rent owed for the period of March 1, 2016 through date of correction will be invoiced once reported and calculated. Concessionaire will be required to complete a new Monthly Gross Receipt form to report Mandatory Banquet Service Charges monthly to determine the appropriate rent.

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

Clause 7 of the Agreement, “Optional Service or Use” specifically identifies golf club and cart rentals as equipment rentals, which is a 25% rent category.

Arcis reported golf club and pull cart rental revenue in the Pro Shop category (3%) rather than the Equipment Rental category (25%), resulting in an underreporting of gross receipts and underpayment of percentage rent. For the period from 10/1/2014 through 2/29/2016 (account 163-100-8120), golf club and pull cart rental revenue was \$6,015. Therefore, additional percentage rent of \$1,323 ((\$6,015 x (25% - 3%)) is owed to the County.

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.

OCCR/OC Parks Management Response:

Concur: Tenant will be invoiced for additional percentage rent of \$1,323 ((\$6,015 x (25%-3%) = \$1,323)) for incorrect rent categorizing from October 1, 2014 through February 29, 2016 within 30 days. Tenant is required to report rent from golf club and pull cart Pro Shop category to Equipment category from March 1, 2016 forward. Tenant is put on notice to report all golf club and pull/cart rental revenue in the Equipment Rental category and pay the appropriate percentage rent.



Detailed Findings, Recommendations, and Management Responses

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

Board of Supervisors Resolution No. 88-405, dated March 29, 1988, designates the David L. Baker Golf Course as an area within which alcoholic beverages may be consumed; however, the resolution restricts consumption of alcoholic beverages to the restaurant/banquet facility and adjacent outdoor patio/dining areas.

The Pro Shop and Restaurant at David L. Baker Golf Course offer sales of alcoholic beverages, which per discussion with the General Manager, may be consumed out on the golf course. We observed golfers purchasing beer at the restaurant and carrying it on to the course.

Recommendation No. 3:

We recommend that OCCR determine if consumption of alcoholic beverages out on the golf course is acceptable.

OCCR/OC Parks Management Response:

Concur: OCCR will analyze the requirement and seek clarification from the CEO and Board of Supervisors to determine whether the referenced restriction should be modified to meet community needs.

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

Clause 13A of the Agreement, “Records” requires the concessionaire to issue serially numbered tickets for each such admission or rental and keep an adequate record of said tickets, both issued and unissued.

Customers scheduling a banquet, renting the banquet room or conducting a golf tournament are required to sign an agreement with David L. Baker Golf Course; however, these agreements are not prenumbered as required by the Agreement.

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.

OCCR/OC Parks Management Response:

Concur: Tenant will be notified by letter that Tenant is required to (1) use serially pre-numbered rental agreements for its banquet room rental agreements and any agreement for golf tournaments, (2) keep adequate records and maintain appropriate internal controls over pre-numbered tickets, both issued and unissued, and (3) retain all rental agreements for at least seven years ensuring that no rental agreements are discarded prior to expiration of that retention period.

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

Section 13.C of the Agreement, “Financial Statements” as amended states “Within ninety days after the end of each accounting year, CONCESSIONAIRE shall at its own expense submit to Auditor-Controller a balance sheet and income statement prepared or compiled by a Certified Public Accountant (CPA) in accordance with generally accepted accounting principles reflecting business transacted on or from the Premises during the preceding accounting year.”



Detailed Findings, Recommendations, and Management Responses

The CPA must sign and date both the submitted balance sheet and income statement next to a sentence which states: "I certify that this financial information is correct in all material respects."

The Agreement further states that "At the same time, Concessionaire shall submit to Auditor-Controller a Statement of Gross Receipts prepared or compiled and audited by an *independent* CPA reflecting business transacted on or from the Premises during the preceding accounting year...The audit must be performed in accordance with Generally Accepted Auditing Standards (GAAS) authorized by the AICPA."

For the year ending December 31, 2015, Arcis submitted a balance sheet and income statement accompanied by the required certification; however, the statements were submitted over 90 days after the deadline. In addition, Arcis did not provide the audited Statement of Gross Receipts as required.

Recommendation No. 5:

We recommend that OCCR ensure Arcis submits the required annual financial statements in a timely manner in compliance with the Agreement.

OCCR/OC Parks Management Response:

Concur: OCCR Accounting has collaborated with CEO Real Estate and developed and implemented procedures to ensure that audited financial statements are received, reviewed, and reconciled in a timely manner.

Arcis has been notified by CEO Real Estate of the late financial statements and audited statement of gross receipts. Arcis is in the process of supplying the delinquent statements.

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

OCCR did not perform a timely review and reconciliation of the concessionaire's financial statements. The last review and reconciliation of financial statements, provided by Evergreen Alliance Golf Limited, LP, was performed in June 2010 for the year ended December 31, 2009.

Performing the annual reconciliation of the monthly gross receipts reported and the annual financial statements helps detect errors and potential underreporting of gross receipts.

Recommendation No. 6:

We recommend that OCCR obtain, review and reconcile David L. Baker Concession's annual financial statements in a timely manner.

OCCR/OC Parks Management Response:

Concur: OCCR Accounting has collaborated with CEO Real Estate and developed and implemented procedures to ensure that audited financial statements are received, reviewed and reconciled in a timely manner. If additional income is identified, OCCR Accounting will invoice Arcis. CEO Real Estate notified Arcis to submit financial statements and audited statement of gross receipts. Arcis is in the process of supplying the information requested.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses



October 3, 2016

STEVE FRANKS
DIRECTOR
OC COMMUNITY RESOURCES

JENNIFER HAWKINS, DVM
DIRECTOR
OC ANIMAL CARE

RENEE RAMIREZ
INTERIM DIRECTOR
OC COMMUNITY SERVICES

JULIA BIDWELL
INTERIM DIRECTOR
HOUSING COMMUNITY
DEVELOPMENT & HOMELESS
PREVENTION

STACY BLACKWOOD
DIRECTOR
OC PARKS

HELEN FRIED
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

TO: Toni Smart, Director
Auditor-Controller, Internal Audit Division

**RE: AUDIT NO. 1559 REVENUE GENERATING LEASE AUDIT:
OC COMMUNITY RESOURCES/OC PARKS – DAVID L. BAKER
GOLF COURSE CONCESSION, PR37A-151**

The Auditor-Controller Internal Audit Division completed an audit of Revenue Generating Lease Agreement Audit of David L. Baker Golf Course Concession for the period January 1, 2015 through December 31, 2015. Below are OC Community Resources' responses to the audit findings and recommendations, which have been reviewed and approved by the County Executive Office.

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.

OCCR/Parks Management Response:

Concur: The Monthly Gross Receipts form will be revised to include "Mandatory Banquet Service Charge" of 3%. Concessionaire will be invoiced for the period from 10/1/2014 through 2/29/16 additional rent of \$1,678 (\$55,933 banquet service charge x 3% = \$1,678).

Additional rent owed for the period of March 1, 2016 through date of correction will be invoiced once reported and calculated. Concessionaire will be required to complete a new Monthly Gross Receipt form to report Mandatory Banquet Service Charges monthly to determine the appropriate rent.

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.

OCCR/Parks Management Response:

Concur: Tenant will be invoiced for additional percentage rent of \$1,323 ((\$6,015 x (25%-3%) = \$1,323)) for incorrect rent categorizing from



OFFICE OF THE DIRECTOR
1770 NORTH BROADWAY
SANTA ANA, CA 92706-
2642
PHONE: 714.480.2788
FAX: 714.480.2899



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (continued)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1559
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OCTOBER 3, 2016

October 1, 2014 through February 29, 2016 within 30 days. Tenant is required to report rent from golf club and pull cart Pro Shop category to Equipment category from March 1, 2016 forward. Tenant is put on notice to report all golf club and pull/cart rental revenue in the Equipment Rental category and pay the appropriate percentage rent.

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.

OCCR/Parks Management Response:

Concur: OCCR will analyze the requirement and seek clarification from the CEO and Board of Supervisors to determine whether the referenced restriction should be modified to meet community needs.

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.

OCCR/Parks Management Response:

Concur: Tenant will be notified by letter that Tenant is required to (1) use serially pre-numbered rental agreements for its banquet room rental agreements and any agreement for golf tournaments, (2) keep adequate records and maintain appropriate internal controls over pre-numbered tickets, both issued and unissued, and (3) retain all rental agreements for at least seven years ensuring that no rental agreements are discarded prior to expiration of that retention period.

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.

OCCR/Parks Management Response:

Concur: OCCR Accounting has collaborated with CEO Real Estate and developed and implemented procedures to ensure that audited financial statements are received, reviewed, and reconciled in a timely manner.

Arcis has been notified by CEO Real Estate of the late financial statements and audited statement of gross receipts. Arcis is in the process of supplying the delinquent statements.

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

Recommendation No. 6:

We recommend that OCCR ensure Arcis submits the required annual financial statements in a timely manner in compliance with the Agreement.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (continued)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1559
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OCTOBER 3, 2016

OCCR/Parks Management Response:

Concur: OCCR Accounting has collaborated with CEO Real Estate and developed and implemented procedures to ensure that audited financial statements are received, reviewed and reconciled in a timely manner. If additional income is identified, OCCR Accounting will invoice Arcis. CEO Real Estate notified Arcis to submit financial statements and audited statement of gross receipts. Arcis is in the process of supplying the information requested.

If you have any questions related to these responses, please contact Brian Rayburn, Business Office Manager, OC Community Resources at 714-480-2885.

Sincerely,

Signature  _____ Date 10/3/16

SAF:bwr