

Internal Audit Department

O R A N G E C O U N T Y

REVENUE GENERATING LEASE AUDIT: OC COMMUNITY RESOURCES/ OC PARKS MILE SQUARE GOLF COURSE

For the Period
April 1, 2007 through August 31, 2008

Mile Square Golf Course operates a 36-hole golf course facility located at Mile Square Regional Park in Fountain Valley. Gross receipts reported during the audit period were approximately **\$13.7 million** and rent paid to the County was approximately **\$3.2 million**. This audit is critical because this 40-year lease is estimated to generate over **\$90 million** dollars to OC Parks.

The Internal Audit Department found that Mile Square Golf Course's records adequately supported gross receipts overall and rent owed was properly paid.

AUDIT NO: 2739
REPORT DATE: JULY 9, 2009

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Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
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RISK BASED AUDITING

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 2739 July 9, 2009

TO: Steve Franks, Director
OC Community Resources

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: Revenue Generating Lease Audit:
OC Community Resources/OC Parks -
Mile Square Golf Course, PR37A-152

We have completed our revenue generating lease audit of Mile Square Golf Course for the period April 1, 2007 through August 31, 2008. The final **County Internal Auditor's Report** is attached along with your responses to our recommendations.

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). As a matter of policy, our **first Follow-Up Audit** will now 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 now begin at six months from the release of the first Follow-Up Audit report, by which time **all** recommendations are expected to be addressed and implemented.

At the request to the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the 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 document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material 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 BOS.

Letter from Dr. Peter Hughes, CPA



As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation.

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

ATTACHMENTS

Other recipients of this report listed on the **County Internal Auditor's Report** on page 3.

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OC Community Resources/OC Parks
Mile Square Golf Course
Audit No. 2739***

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April 1, 2007 through August 31, 2008

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County Internal Auditor's Report



Audit No. 2739

July 9, 2009

TO: Steve Franks, Director
OC Community Resources

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: Revenue Generating Lease Audit:
OC Community Resources/OC Parks –
Mile Square Golf Course, PR37A-152

Audit Highlight

Mile Square Golf Course (MSGC) operates a golf course facility and related activities in Fountain Valley. Gross receipts reported during the audit period were approximately **\$13.7 million** and rent paid to the County was approximately **\$3.2 million**. This audit is critical because this 40-year lease is estimated to generate over **\$90 million** dollars to OC Parks.

The Internal Audit Department found that MSGC's records adequately supported gross receipts overall and rent owed was properly paid.

OBJECTIVES

We have performed an audit of certain records and documents for the period April 1, 2007 through August 31, 2008, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Mile Square Golf Course (MSGC), a California limited partnership, dated June 18, 1999. The Agreement is for the operation of a 36-hole golf course facility, driving range, clubhouse, restaurant with banquet facilities, and pro-shop. Our objectives are:

- (1) The primary purpose of our audit is to determine whether MSGC's records adequately supported their monthly gross receipts reported to the County.
- (2) The secondary purpose of our audit is to determine whether MSGC complied with certain other financial provisions of the Agreement, such as accounting methods, 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 identify suggestions for improvement.

BACKGROUND

The County of Orange (County) entered into a 40-year lease agreement (Agreement) with Mile Square Golf Course (MSGC), a California limited partnership, dated June 18, 1999, for the operation of a 36-hole golf course facility, driving range, clubhouse, restaurant with banquet facilities, and pro-shop. During the 17-month period of April 1, 2007 through August 31, 2008, MSGC generated approximately \$13.7 million in gross receipts and paid the County approximately \$3.2 million in rent. It is estimated that over the life of the lease OC Parks will receive over \$90 million in revenues.



SCOPE

Our review was limited to certain records and documents that support MSGC's gross receipts reported to the County for the 17-month audit period of April 1, 2007 to August 31, 2008. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

During our fieldwork, we identified numerous bookkeeping errors which seemed to result from excessive staff turnover at MSGC in the key bookkeeper position. We determined additional review and testing was necessary to ascertain the extent of the errors; therefore, the original audit scope was expanded five months to cover the 17-month period of April 1, 2007 to August 31, 2008.

RESULTS

Below are the results of our audit:

Objective #1 – Adequate Records: Determine whether MSGC's records adequately support monthly gross receipts reported to the County and rent owed is properly paid.

Results: We found MSGC's records adequately supported the reported gross receipts and rent owed was properly paid. We did note one (1) **Control Finding** where record keeping should be enhanced to support the reported gross receipts. (See pages 4-5 for details)

Objective #2 – Compliance: Determine whether MSGC complies with certain other financial provisions of the agreement.

Results: We found MSGC complied with certain other financial provisions of the agreement such as accounting methods, monthly gross receipts statement format, and annual financial statements. We did note one (1) **Control Finding** where MSGC should ensure provisions are complied with the Agreement. (See page 6 for details)

Additional Results: We also identified three (3) **Control Findings** where MSGC should enhance internal controls to further improve completeness and accuracy of reported gross receipts. (See pages 7-8 for details).

See all five (5) **Control Findings** in the Detailed Findings, Recommendations, and Management Responses section of this report. See **Attachment A** for a description of report item classifications.



ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel at MSGC, OC Community Resources, and OC Parks/Real Estate. If you have any questions regarding our limited review of lease revenue, please call me at 834-5475 or Eli Littner, Deputy Director at 834-5899, or Autumn McKinney, Senior Audit Manager at 834-6106.

ATTACHMENT A: Report Item Classifications

ATTACHMENT B: OC Community Resources/OC Parks Responses

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
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Detailed Findings, Recommendations, and Management Responses



Audit Objective #1 – Adequate Records

1. Bookkeeping and Reporting Errors (Control Finding)

Clause 12.A of the Agreement requires MSGC to keep true and complete books, records, and accounts of all financial transactions in the operation of all business activities.

Finding No. 1: We were informed that MSGC experienced high turnover (5 different individuals) in its key bookkeeper/accountant position during the year ended June 30, 2008. In addition, while MSGC does record much of the gross receipts activity into automated cashiering systems, they rely on manual spreadsheets to record the daily gross receipts activity and to support entries to their automated general ledger system. These manual spreadsheets and methodology can be prone to errors. While performing our audit, we noted several bookkeeping and reporting errors:

- Banquet tips are excludable from gross receipts. MSGC properly recorded banquet tips in a separate account from food and beverage sales. However, MSGC incorrectly reduced food and beverage sales by the amount of banquet tips when reporting gross receipts to the County, resulting in underreported gross receipts of \$108,199 and underpaid rent of \$6,492 for the year ended June 30, 2008.
- Gross receipts from golf-related sales were underreported by \$6,666 and rent underpaid by \$1,965 due to an oversight in recording daily sales from 1/4/08 to the general ledger.
- Calculation methodology used to determine the net change in gift card/certificate activity was incorrect, resulting in over/underreported gross receipts each month. For the sample month of March 2008, this amounted to gross receipts over-reported by \$24,126 and rent overpaid by \$1,448.
- The application of a \$2,400 tournament deposit was incorrectly recorded as banquet deposit (30% rent category vs. 6% rent category), resulting in an overpayment of rent of \$576 in March 2008.
- Calculation methodology used to determine the net change in event deposits was incorrect, resulting in over/underreporting of gross receipts each month. For the sample month of March 2008, this amounted to gross receipts underreported by \$5,836 and rent underpaid by \$517.
- Tournament deposit balance as of March 31, 2008 used to calculate rent due included a \$360 deposit that was inadvertently not cleared from MSGC accounting records, resulting in an overpayment of rent of \$108.
- Redemptions of gift cards (golf activity 30%) and gift certificates (Pro Shop 6%) were incorrectly combined in the general ledger account used to track gift certificate (6%) activity, resulting in an overpayment of rent of \$38 on sample day of 3/11/08.
- Banquet deposit balance as of June 30, 2007 used to calculate rent due did not agree to MSGC accounting records for unknown reasons (\$500 variance), resulting in an underpayment of rent of \$30.

Detailed Findings, Recommendations, and Management Responses



- Miscellaneous income recorded in the "Other Income" general ledger account (such as ATM fees charged to customers) was not reported as gross receipts, resulting in underreported gross receipts each month. For the sample month of March 2008, this amounts to gross receipts from ATM fees underreported by \$387 and rent underpaid by \$23.
- Pro Shop sales paid for with gift certificates (gift certificates redeemed) were not reported as gross receipts due to an error in reporting methodology, resulting in underreported gross receipts each month. For the sample month of March 2008, this amounted to gross receipts underreported by \$80 and rent underpaid by \$5.

Because some of these errors and/or incorrect methodology could have an on-going impact resulting in larger amounts of rent over and underpaid, we extended our fieldwork to ensure the errors and incorrect methodology were corrected.

Based on our review of additional documents provided by MSGC, these errors appear to be ultimately corrected during our fieldwork as part of MSGC's year-end closing of its books and accounts and the annual audit performed by their CPA for the Year-End June 30, 2008. As a result, MSGC paid the County \$12,167 in additional rent due. It appears MSGC is now (as of August 2008) using a correct methodology for recording and reporting gross receipts to the County.

Based on our observations, it appears that lack of clear instructions from one bookkeeper to the other may have contributed to the recording and reporting errors and inconsistencies noted above. The current bookkeeper appears to be correctly recording and reporting the gross receipts. Documented procedures for recording transactions and reporting gross receipts and calculating rent could help prevent future errors.

In addition, MSGC should evaluate whether it could record all of its gross receipt activity in its automated cashiering systems (FORE! and Micros). Then, monthly reports from those systems could be compared to general ledger balances to help identify any recording errors. Additionally, it could eliminate the need for some of the manual schedules.

For example, MSGC does not record void activity in the FORE! system (used for starter sheet/golf reservations and cashiering) and instead manually accounts for the voids. Therefore, the FORE! System reports do not accurately reflect golf-related sales (sales totals are overstated). If the voids were recorded in the FORE! System, certain manual schedules may not be needed and instead the system reports (daily and month-end) could be relied on for general ledger reporting and reconciling.

Recommendation No. 1: We recommend that OC Parks request MSGC to evaluate whether it could record all of its gross receipt activity in its cashiering systems in an effort to reduce the reliance on manual schedules.

Detailed Findings, Recommendations, and Management Responses



OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has agreed to evaluate the possibility of importing data from their two Point of Sales (POS) programs (FORE! and Micros) into a journal entry for the general ledger (QuickBooks) to help identify any recording errors (see attached letter). OC Parks will work with MSGC to ensure the evaluation and implementation of any new procedures is providing the appropriate level of assurance of the accuracy of the gross receipts.

Audit Objective No. 2 – Compliance with Agreement

2. Reasonableness and Business Purpose of Complimentary Golf Rounds (Control Finding)

Clause 9 of the Agreement requires MSGC to report as gross receipts the sale price of all goods and products sold whether for cash or credit and whether payment is actually made or not.

Finding No. 2: During our review, we noted that MSGC offers complimentary rounds of golf as promotional and charitable activities. The fair market value of the golf is not reported as gross receipts. OC Parks should evaluate the reasonableness of the quantity and business purposes of the complimentary golf and clarify with MSGC the proper reporting.

MSGC records the number of complimentary golf certificates issued on a manual log. When the complimentary certificate is used, MSGC records the number of rounds in its cashiering system. For the 12-month period of 8/22/06 – 8/21/07, MSGC issued complimentary certificates for approximately 388 rounds of weekday golf including approximately 194 cart rentals (one cart for every two rounds of golf).

The average rate for weekday golf is \$36 and cart rental is \$26. Therefore, the fair market value of the complimentary golf rounds/carts issued is approximately \$19,012 ($388 \times \$36 = \$13,968 + 194 \times \$26 = \$5,044$). Using the 30% percentage rental rate for golf and golf-related activities, rent for these complimentary certificates would amount to \$5,073 for the 12-month period.

Recommendation No. 2: We recommend that OC Parks evaluate the nature and quantity of complimentary golf rounds and if necessary, clarify the proper reporting with MSGC.

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. A past change in the POS system resulted in the complimentary rounds not being properly reported. MSGC has now corrected the POS system to ensure complimentary rounds are properly reported. Additionally, MSGC will reconcile all complimentary rounds since the error was made in the POS system and pay any additional rent amounts that may be due. MSGC has also agreed to value complimentary rounds based on the day and time that each complimentary round is redeemed (see attached letter); OC Parks finds this methodology acceptable.

Detailed Findings, Recommendations, and Management Responses



Other Control Related Findings

3. Reconciling Gift Certificate/Card Activity (Control Finding)

MSGC sells gift cards and certificates to the public for golf, food, and merchandise purchases. Sales and redemptions of gift cards/certificates are recorded in the cashiering systems.

Finding No. 3: As noted above, MSGC utilizes several manually-prepared spreadsheets and schedules to record sales activity to the general ledger. MSGC does not appear to utilize the cashiering system reports to ensure gift card/certificate sales and redemption activity is accurately recorded in the general ledger.

If a comparison had been performed between the manually-prepared schedules, cashiering system reports, and general ledger, the errors noted in Finding No. 1 above may have been detected and corrected in a timely manner.

Recommendation No. 3: We recommend that OC Parks require MSGC to compare system-generated reports to their manually-prepared spreadsheets and general ledger to ensure gift card/certificate net sales activity is accurately reported to the County.

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has implemented this recommendation and is now performing the recommended reconciliation on a monthly basis (see attached letter).

4. Enhanced Controls for Driving Range Tokens (Control Finding)

MSGC sells tokens for customers to obtain buckets of golf balls from an automated machine for use on the driving range. Individual range tokens are sold for \$4. Annual driving range fees are approximately \$399,000, or 4% of annual gross receipts reported to the County.

Each cashier is given a supply of tokens at the beginning of the day and unsold tokens are returned at the end of the shift. MSGC utilizes a daily token inventory sheet to account for the sale of tokens. Range tokens sold are recorded in MSGC's cashiering system.

Finding No. 4: During our sample day of 3/11/08, we noted a small discrepancy between the range tokens sold per the daily token inventory sheets (155) and the range tokens sold per the cashiering system (148).

MSGC informed us that it does not reconcile the range token inventory sheets with range tokens sold per the cashiering system. This reconciliation and review is important to ensure that all range tokens sold are accounted for in the cashiering system and ultimately reported to the County. A person independent of the cashiers should verify the opening and closing range token counts listed on the inventory sheet and reconcile the range token sales per the inventory sheet with the cashiering system.

Detailed Findings, Recommendations, and Management Responses



Recommendation No. 4: We recommend that OC Parks require MSGC to independently verify the daily range token inventory at opening and closing and reconcile range token sales between the inventory sheets and the cashiering system.

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has modified its procedures to ensure that the reconciliation of range tokens is correct and complete. Additionally, MSGC is in the process of upgrading the driving range distribution system that will eliminate the use of the tokens altogether and which will provide an increased level of accountability of range revenues (see attached letter).

5. Enhanced Controls for Mobile Cash Registers (Control Finding)

Clause 12.A of the Agreement requires MSGC to use cash registers that are equipped with devices that lock in sales totals and with counters or grand total accumulators that are not resettable. The counter or grand total accumulator readings should be monitored to ensure that the registers have not been improperly closed out.

Finding No. 5: MSGC utilizes two mobile cash registers to record beverage sales at banquet events. The registers are equipped with counters as required; however, MSGC does not record and monitor the register readings.

Since the mobile cash registers are used for events that can be many days apart, a log should be implemented to record the counter or accumulator readings for each event so that the subsequent event reading can be reconciled to the prior event reading.

Recommendation No. 5: We recommend OC Parks require MSGC to record the accumulator or counter reading on a log after each event and reconcile the subsequent event reading with the prior event reading.

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has modified its procedures and is now keeping a log of the counter readings for the mobile registers before and after an event and performing the required reconciliations (see attached letter).



ATTACHMENT A: Report Item Classifications

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

- ▶ **Material Weaknesses:**
Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.
- ▶ **Significant Issues:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.
- ▶ **Control Findings and/or Efficiency/Effectiveness Issues:**
Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues 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: OC Community Resources/OC Parks Responses

 MEMORANDUM	RECEIVED JUL 06 2009 INTERNAL AUDIT DEPARTMENT	STEVE FRANKS DIRECTOR OC COMMUNITY RESOURCES RYAN DRABEK INTERIM DIRECTOR OC ANIMAL CARE KAREN ROPER DIRECTOR OC COMMUNITY SERVICES MARK DENNY DIRECTOR OC PARKS HELEN FRIED COUNTY LIBRARIAN OC PUBLIC LIBRARIES
DATE: July 6, 2009		
TO: Peter Hughes, Director, Internal Audit Department		
FROM: Steve Franks, Director, OC Community Resources		
SUBJECT: Response to Draft Report on Revenue Generating Lease Audit of Mile Square Golf Course – Audit 2739		

OC Community Resources (OCCR) has reviewed the Internal Audit Department's Draft Report on Revenue Generating Lease Audit (Audit No. 2739) of the lease agreement (Agreement) between the County of Orange (County) and Mile Square Golf Course, L.P., (MSGC) for the Mile Square Golf Course. The Agreement is for the operation of a 36-hole golf course facility that includes a driving range, pro shop, and a clubhouse with restaurant and banquet facilities. **During the 12-month audit period of June 1, 2007 to June 30, 2008, MSGC generated approximately \$9.2 million in gross receipts and paid the County approximately \$2.2 million in rent.**

We understand that the primary purpose of Internal Audit's review was to determine whether MSGC's records adequately supported their monthly gross receipts reported to the County. We also understand that Internal Audit reviewed compliance with certain other provisions of the Agreement such as accounting methods, monthly gross receipts statement format and annual financial statement requirements.

The audit concluded that MSGC's records adequately supported gross receipts reported to the County and that rent owed was properly paid. The audit also concluded that MSGC has complied with the financial provisions of the Agreement. However, the audit identified five Control Findings related to record-keeping, lease compliance or internal controls.

OCCR staff provided MSGC with a copy of Audit No. 2739 and discussed with MSGC management the findings, OCCR responses to the findings and any required actions. The OCCR Responses are provided on the following pages, immediately below the Internal Audit Department descriptions, findings and recommendations (shown as indented, in italics and with a smaller font).

Bookkeeping and Reporting Errors (Control Finding)

Clause 12.A of the Agreement requires MSGC to keep true and complete books, records, and accounts of all financial transactions in the operation of all business activities.

***Finding No. 1:** We were informed that MSGC experienced high turnover (5 different individuals) in its key bookkeeper/accountant position during the year ended June 30, 2008. In addition, while MSGC does record much of the gross receipts activity into automated cashiers systems, they rely on manual spreadsheets to record the daily gross receipts activity and to support entries to their automated general ledger system. These manual spreadsheets and methodology can be prone to errors. While performing our audit, we noted several bookkeeping and reporting errors:*


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Detailed Findings, Recommendations, and Management Responses



ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

Response to Draft Report on Revenue Generating Lease Audit of Mile Square Golf Course – Audit 2739
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- *Banquet tips are excludable from gross receipts. MSGC properly recorded banquet tips in a separate account from food and beverage sales. However, MSGC incorrectly reduced food and beverage sales by the amount of banquet tips when reporting gross receipts to the County, resulting in underreported gross receipts of \$108,199 and underpaid rent of \$6,492 for the year ended June 30, 2008.*
- *Gross receipts from golf-related sales were underreported by \$6,666 and rent underpaid by \$1,965 due to an oversight in recording daily sales from 1/4/08 to the general ledger.*
- *Calculation methodology used to determine the net change in gift card/certificate activity was incorrect, resulting in over/underreported gross receipts each month. For the sample month of March 2008, this amounted to gross receipts over-reported by \$24,126 and rent overpaid by \$1,448.*
- *The application of a \$2,400 tournament deposit was incorrectly recorded as banquet deposit (30% rent category vs. 6% rent category), resulting in an overpayment of rent of \$576 in March 2008.*
- *Calculation methodology used to determine the net change in event deposits was incorrect, resulting in over/underreporting of gross receipts each month. For the sample month of March 2008, this amounted to gross receipts underreported by \$5,836 and rent underpaid by \$517.*
- *Tournament deposit balance as of March 31, 2008 used to calculate rent due included a \$360 deposit that was inadvertently not cleared from MSGC accounting records, resulting in an overpayment of rent of \$108.*
- *Redemptions of gift cards (golf activity 30%) and gift certificates (Pro Shop 6%) were incorrectly combined in the general ledger account used to track gift certificate (6%) activity, resulting in an overpayment of rent of \$38 on sample day of 3/11/08.*
- *Banquet deposit balance as of June 30, 2007 used to calculate rent due did not agree to MSGC accounting records for unknown reasons (\$500 variance), resulting in an underpayment of rent of \$30.*
- *Miscellaneous income recorded in the "Other Income" general ledger account (such as ATM fees charged to customers) was not reported as gross receipts, resulting in underreported gross receipts each month. For the sample month of March 2008, this amounts to gross receipts from ATM fees underreported by \$387 and rent underpaid by \$23.*
- *Pro Shop sales paid for with gift certificates (gift certificates redeemed) were not reported as gross receipts due to an error in reporting methodology, resulting in underreported gross receipts each month. For the sample month of March 2008, this amounted to gross receipts underreported by \$80 and rent underpaid by \$5.*

Because some of these errors and/or incorrect methodology could have an on-going impact resulting in larger amounts of rent over and underpaid, we extended our fieldwork to ensure the errors and incorrect methodology were corrected.

Based on our review of additional documents provided by MSGC, these errors appear to be ultimately corrected during our fieldwork as part of MSGC's year-end closing of its books and accounts and the annual audit performed by their CPA for the Year-End June 30, 2008. As a result, MSGC paid the County \$12,167 in additional rent due. It appears MSGC is now (as of August 2008) using a correct methodology for recording and reporting gross receipts to the County.

Based on our observations, it appears that lack of clear instructions from one bookkeeper to the other may have contributed to the recording and reporting errors and inconsistencies noted above. The current bookkeeper appears to be correctly recording and reporting the gross receipts. Documented procedures for recording transactions and reporting gross receipts and calculating rent could help prevent future errors.

In addition, MSGC should evaluate whether it could record all of its gross receipt activity in its automated cashiering systems (FORE! and Micros). Then, monthly reports from those systems could

Detailed Findings, Recommendations, and Management Responses



ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

Response to Draft Report on Revenue Generating Lease Audit of Mile Square Golf Course – Audit 2739
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July 6, 2009

be compared to general ledger balances to help identify any recording errors. Additionally, it could eliminate the need for some of the manual schedules.

For example, MSGC does not record void activity in the FORE! system (used for starter sheet/golf reservations and cashiering) and instead manually accounts for the voids. Therefore, the FORE! System reports do not accurately reflect golf-related sales (sales totals are overstated). If the voids were recorded in the FORE! System, certain manual schedules may not be needed and instead the system reports (daily and month-end) could be relied upon for general ledger reporting and reconciling.

Recommendation No. 1: *We recommend that OC Parks request MSGC to evaluate whether it could record all of its gross receipt activity in its cashiering systems in an effort to reduce the reliance on manual schedules.*

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has agreed to evaluate the possibility of importing data from their two Point of Sales (POS) programs (FORE! and Micros) into a journal entry for the general ledger (QuickBooks) to help identify any recording errors (see attached letter). OC Parks will work with MSGC to ensure the evaluation and implementation of any new procedures is providing the appropriate level of assurance of the accuracy of the gross receipts.

Reasonableness and Business Purpose of Complimentary Golf Rounds (Control Finding)

Clause 9 of the Agreement requires MSGC to report as gross receipts the sale price of all goods and products sold whether for cash or credit and whether payment is actually made or not.

Finding No. 2: *During our review, we noted that MSGC offers complimentary rounds of golf as promotional and charitable activities. The fair market value of the golf is not reported as gross receipts. OC Parks should evaluate the reasonableness of the quantity and business purposes of the complimentary golf and clarify with MSGC the proper reporting.*

MSGC records the number of complimentary golf certificates issued on a manual log. When the complimentary certificate is used, MSGC records the number of rounds in its cashiering system. For the 12-month period of 8/22/06 – 8/21/07, MSGC issued complimentary certificates for approximately 388 rounds of weekday golf including approximately 194 cart rentals (one cart for every two rounds of golf).

*The average rate for weekday golf is \$36 and cart rental is \$26. Therefore, the fair market value of the complimentary golf rounds/carts issued is approximately \$19,012 (388 * \$36 = \$13,968 + 194 * \$26 = \$5,044). Using the 30% percentage rental rate for golf and golf-related activities, rent for these complimentary certificates would amount to \$5,073 for the 12-month period.*

Recommendation No. 2: *We recommend that OC Parks evaluate the nature and quantity of complimentary golf rounds and if necessary, clarify the proper reporting with MSGC.*

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. A past change in the POS system resulted in the complimentary rounds not being properly reported. MSGC has now corrected the POS system to ensure complimentary rounds are properly reported. Additionally, MSGC will reconcile all complimentary rounds since the error was made in the POS system and pay any additional rent amounts that may be due. MSGC has also agreed to value complimentary rounds based on the day and time that each complimentary round is redeemed (see attached letter); OC Parks finds this methodology acceptable.

Detailed Findings, Recommendations, and Management Responses



ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

Response to Draft Report on Revenue Generating Lease Audit of Mile Square Golf Course – Audit 2739
Page 4 of 5
July 6, 2009

Reconciling Gift Certificate/Card Activity (Control Finding)

MSGC sells gift cards and certificates to the public for golf, food, and merchandise purchases. Sales and redemptions of gift cards/certificates are recorded in the cashiering systems.

***Finding No. 3:** As noted above, MSGC utilizes several manually-prepared spreadsheets and schedules to record sales activity to the general ledger. MSGC does not appear to utilize the cashiering system reports to ensure gift card/certificate sales and redemption activity is accurately recorded in the general ledger.*

If a comparison had been performed between the manually-prepared schedules, cashiering system reports, and general ledger, the errors noted in Finding No. 1 above may have been detected and corrected in a timely manner.

***Recommendation No. 3:** We recommend that OC Parks require MSGC to compare system-generated reports to their manually-prepared spreadsheets and general ledger to ensure gift card/certificate net sales activity is accurately reported to the County.*

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has implemented this recommendation and is now performing the recommended reconciliation on a monthly basis (see attached letter).

Enhanced Controls for Driving Range Tokens (Control Finding)

MSGC sells tokens for customers to obtain buckets of golf balls from an automated machine for use on the driving range. Individual range tokens are sold for \$4. Annual driving range fees are approximately \$399,000, or 4% of annual gross receipts reported to the County.

Each cashier is given a supply of tokens at the beginning of the day and unsold tokens are returned at the end of the shift. MSGC utilizes a daily token inventory sheet to account for the sale of tokens. Range tokens sold are recorded in MSGC's cashiering system.

***Finding No. 4:** During our sample day of 3/11/08, we noted a small discrepancy between the range tokens sold per the daily token inventory sheets (155) and the range tokens sold per the cashiering system (148).*

MSGC informed us that it does not reconcile the range token inventory sheets with range tokens sold per the cashiering system. This reconciliation and review is important to ensure that all range tokens sold are accounted for in the cashiering system and ultimately reported to the County. A person independent of the cashiers should verify the opening and closing range token counts listed on the inventory sheet and reconcile the range token sales per the inventory sheet with the cashiering system.

***Recommendation No. 4:** We recommend that OC Parks require MSGC to independently verify the daily range token inventory at opening and closing and reconcile range token sales between the inventory sheets and the cashiering system.*

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has modified its procedures to ensure that the reconciliation of range tokens is correct and complete. Additionally, MSGC is in the process of upgrading the driving range distribution system that will eliminate the use of the tokens altogether and which will provide an increased level of accountability of range revenues (see attached letter).

Detailed Findings, Recommendations, and Management Responses



ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

Response to Draft Report on Revenue Generating Lease Audit of Mile Square Golf Course – Audit 2739
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Enhanced Controls for Mobile Cash Registers (Control Finding)

Clause 12.A of the Agreement requires MSGC to use cash registers that are equipped with devices that lock in sales totals and with counters or grand total accumulators that are not resettable. The counter or grand total accumulator readings should be monitored to ensure that the registers have not been improperly closed out.

***Finding No. 5:** MSGC utilizes two mobile cash registers to record beverage sales at banquet events. The registers are equipped with counters as required; however, MSGC does not record and monitor the register readings.*

Since the mobile cash registers are used for events that can be many days apart, a log should be implemented to record the counter or accumulator readings for each event so that the subsequent event reading can be reconciled to the prior event reading.

***Recommendation No. 5:** We recommend OC Parks require MSGC to record the accumulator or counter reading on a log after each event and reconcile the subsequent event reading with the prior event reading.*

OC Community Resources/OC Parks Response: OC Parks agrees with the recommendation and has discussed the finding with MSGC. MSGC has modified its procedures and is now keeping a log of the counter readings for the mobile registers before and after an event and performing the required reconciliations (see attached letter).

Thank you for allowing us to respond to your Draft Letter. If you have any questions or need additional information, please feel free to contact Michael Hentzen of my staff at (949) 923-3753.



Steve Franks, Director

Attachment: Mile Square Letter Dated June 2, 2009

- c: Alisa Drakodaidis, Deputy CEO, OC Infrastructure
- Mark Denny, Director, OC Community Resources/OC Parks
- Michael Brajdic, Deputy Director, OC Community Resources/OC Parks
- Kirk Holland, Program Manager, OC Community Resources/OC Parks
- Rich Adler, Real Estate Manager, OC Community Resources/OC Parks/Real Estate
- Michael Hentzen, Lease Manager, OC Community Resources/ OC Parks/Real Estate
- Anna Peters, Director of Administrative Services, OC Community Resources
- Tonya Burnett, Accounting Manager, OC Community Resources/ Accounting
- Win Swe, Manager, OC Community Resources/Accounting
- Viet Pham, Accountant II, OC Community Resources/Accounting

Detailed Findings, Recommendations, and Management Responses



ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)



MILE SQUARE golf course

10401 Warner Avenue • Fountain Valley, California 92708 • (714) 962-5541 • Fax (714) 962-3541

June 2, 2009

Mr. Michael Hentzen
County of Orange
13042 Old Myford Road
Irvine, CA 92602

Re: **Audit No. 2739**

Dear Mr. Hentzen,

I am pleased to provide to you the responses from Mile Square Golf Course from the most recent audit that was performed between the County of Orange (County) and Mile Square Golf Course (MSGC), a California limited partnership, dated June 18, 1999.

Our responses were from the recommendations that were made by the County and the findings from their auditors during their audit.

County Recommendation 1: We recommend that OC Parks request MSGC to evaluate whether it could record all of its gross receipt activity in its cashiering systems in an effort to reduce the reliance of manual schedules.

Comments by Mile Square Golf Course:
MSGC will evaluate the possibility to import data from the two point of sales programs into a journal entry for Quickbooks.

County Recommendation 2: We recommend that OC Parks evaluate the nature and quantity of complimentary golf rounds and if necessary, clarify the proper reporting with MSGC.

Comments by Mile Square Golf Course:
MSGC will place a value to each complimentary golf round and report each complimentary round as well as pay rent on these rounds. MSGC will identify each complimentary round based on which course is being used along with the time and day that each complimentary round is redeemed.

County Recommendation 3: We recommend that OC Parks require MSGC to compare system-generated reports to their manually-prepared spreadsheets and general ledger to ensure gift card/certificate new sale activity is accurately reported to the County.

Comments by Mile Square Golf Course:
MSGC has already implemented gift card/certificate reconciliation with monthly activity reports with sales journal monthly totals.

Detailed Findings, Recommendations, and Management Responses



ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

County Recommendation 4: We recommend that OC Parks require MSGC to independently verify the daily range token inventory at opening and closing and reconcile range token sales between the inventory sheets and the cashing system.

Comments by Mile Square Golf Course:

MSGC has already made changes to ensure that the reconciliation of the range tokens being turned back in is correct and complete. MSGC is also in the process of upgrading their driving range distribution system that will eliminate tokens and the need to manually count these tokens at the conclusion of each day.

As with other county facilities, MSGC has always had video surveillance of their golf staff as well as a policy that requires the staff to give receipts for each purchase made.

County Recommendation 5: We recommend OC Parks require MSGC to record the accumulator or counter reading on a log after each event and reconcile the subsequent event reading with the prior event reading.

Comments by Mile Square Golf Course:

MSGC has begun logging the cash register reading counter that is being recorded before and after the event on cash register readings as required by OC Parks.

If you have any additional questions regarding the responses, please feel free to contact me at my office at (714) 962-5541 ext.221.

Thank you,

A handwritten signature in black ink that reads "Scott Chaffin".

Scott Chaffin
General Manager
Mile Square Golf Course