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**AUDITOR-CONTROLLER RELEASES AUDIT OF SALT CREEK BEACH  
CONCESSIONS LEASE**

*Audit Identifies 7 Control Findings Concerning the Leaseholder and OCCR Oversight*  
<http://bit.ly/29907pj>

**June 30, 2016** – Orange County Auditor-Controller Eric H. Woolery, CPA today released an audit of the Salt Creek Beach Concession Lease. The audit covered the lease agreement between the County of Orange and leaseholders John and Sherry Efstathiou, for period from September 1, 2014 through August 31, 2015. According to Woolery, “Some of the findings revealed problems with our department’s satellite accounting operations which we are addressing. This underscores why it is so important that Internal Audit is part of the Auditor-Controller’s office so that we can identify and correct problems early.”

The audit identified seven control findings on the part of the lease holder, Orange County Community Resources (OCCR) and satellite accounting. A control finding concerns one or more of the following: internal controls, compliance, effectiveness and efficiency.

1. **Failure to comply with hours of operation and failure to notify OCCR** when concessions were not open or available. The lease agreement states that the Concession will pay damages for each day the concession is not open or the shuttle is not operating. The shuttle service was not in operation for the entire month of December 2014 and January 2015. OCCR was not notified as required and OCCR did not detect the closure and lack of compliance, resulting in \$2,079<sup>1</sup> owed to the County
2. **Concessionaire failed to establish an accounting year.** As a result, different accounting years were used for gross receipt reporting and for the annual financial statements. This is important as it sets the time period for determining compliance with minimum annual rent, financial statement deadlines, rent credits etc.

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<sup>1</sup> As a result of the Audit, OCCR contacted the lease holders to remind them of the operating requirements under the lease. The liquidated damage of \$2,079 was subsequently paid and included liquidated damages of \$375 and \$1,704 for an ineligible rent credit.

3. **Missing financial statements.** The lease requires the concessionaire to submit a balance sheet and income statement within 90 days after the end of each accounting year, or may be subject to a \$500 fine or pay the County's costs to retain a CPA to prepare the financial statements. The concessionaire did not submit financial statements for the years ending 2012, and 2014 and only submitted an income statement for the year ending 2013 resulting in 3 years of non-compliance. The County may assess penalties totaling \$1500 (\$500 for each year of non-compliance).
4. **OCCR Accounting failed to perform a timely review and reconciliation of concessions' financial statements.** No review or reconciliation of financial statements had been performed since August 2010.
5. **Monthly gross receipt statements not properly prepared.** Minor discrepancies were discovered that with proper review could have been detected. The risk is that errors in calculating rent could go undetected.
6. **Equipment Rental and Security Deposit Agreements not retained.** When customers rent beach equipment, the concession uses a pre-numbered rental agreement for security deposits. In violation of the lease agreement, when the rental property was returned the agreement was discarded. This made it impossible to validate the return of security deposits. Unreturned security deposits are reportable as gross receipts to the County.
7. **Security deposits not properly monitored.** The concessionaire is required to maintain a security deposit in the amount of \$6,000 with a major financial institution with the County as assignee. OCCR has not updated their security deposit records since the initial deposit dated January 7, 2013.

The Internal Audit Division of the Orange County Auditor-Controller's office will conduct a structured and rigorous follow-up audit beginning in six months (December 2016). The results of this follow up audit will be provided to the County Board of Supervisors and the public.

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