



Orange County Auditor-Controller Internal Audit



Revenue Generating Lease Audit
OC Community Resources/OC Parks -
Mile Square Golf Course (PR37A-152)

For the Period
January 1, 2016 through December 31, 2016

Audit Number 1637
Report Date: August 28, 2017



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AUDITOR-CONTROLLER
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ERIC H. WOOLERY, CPA
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Transmittal Letter

Audit No. 1637

August 28, 2017

TO: Dylan Wright, Director
OC Community Resources

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 January 1, 2016 through December 31, 2016. 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 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
- 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
- Connie Chang, Financial and Strategic Planning Manager, OC Community Resources
- Kirk Holland, Business Manager, OC Community Resources/OC Parks

*Dylan Wright, Director
OC Community Resources
August 28, 2017*

Other recipients of this report (continued):

Brian Rayburn, Business Office Manager, OC Community Resources
Lindsay Brennan, Budget Analyst, OC Community Resources/OC Parks
Nicole Nguyen, Budget Analyst, OC Community Resources
Scott Mayer, Chief Real Estate Officer, CEO/Real Estate
Ronald Inouye, Administrative Manager I, CEO/Real Estate
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting
Eliseo Gillamac, Accounting Manager II, 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 – Mile Square Golf Course
Audit No. 1637*

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Internal Auditor's Report

Audit No. 1637

August 28, 2017

TO: Dylan Wright, Director
OC Community Resources

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

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

OBJECTIVES

We performed an audit of certain records and documents for the period January 1, 2016 through December 31, 2016, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Mile Square Golf Course (MSGC) dated June 18, 1999. The Agreement is for the operation and maintenance of a 36-hole golf course facility. Our audit objectives were:

1. To determine whether MSGC's records adequately supported its monthly gross receipts reported to the County and rent owed was properly paid.
2. To determine whether MSGC complied with certain other financial provisions of the Agreement, such as monthly gross receipts form format and annual financial statement requirements.
3. To identify any internal control weaknesses while performing the audit, and provide suggestions for improvement.

RESULTS

Objective #1: We found that overall, MSGC's records adequately supported its monthly gross receipts reported to the County; however rent owed was not properly paid as we identified **one (1) Critical Control Weakness** related to the minimum annual rent being calculated incorrectly, **one (1) Significant Control Weakness** related to the security deposit not being revised, and **one (1) Control Finding** related to the incorrect amount being deducted from gross receipts.

Objective #2: We found that MSGC complied with certain other financial provisions of the Agreement such as the monthly gross receipts form format and annual financial statement requirements. We identified **three (3) Control Findings** related to unredeemed golf lesson gift certificates not being reported as gross receipts, a charitable event which was not properly pre-approved, and green fee analysis not being submitted to the Director of OC Parks.

Objective #3: We found **one (1) Control Finding** that MSGC did not provide cash register receipts to customers for food and beverage purchases.



Internal Auditor's Report

BACKGROUND

The County entered into a 40-year 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. The Agreement included the lessee's renovation of the existing 18-hole golf course (the Classic Course) and development of an additional 18-hole golf course (the Players' Course). During the 12-month period of January 1, 2016 through December 31, 2016, MSGC generated approximately **\$9.1 million** in gross receipts and paid the County approximately **\$2.5 million** in rent.

The Public Facilities & Resources Department/Harbor, Beaches, & Parks Division originally executed the Mile Square Golf Course lease; however, during 2007, the Board of Supervisors (BOS) reorganized County departments, placing County parks under the Orange County Community Resources Department (OCCR) and changing the name of the Harbor, Beaches, and Parks division to OC Parks. OC Parks had its own real estate staff administering its leases until January 13, 2015, when the BOS centralized County real estate functions and approved the reassignment of eight County real estate staff positions to County Executive Office/Real Estate (CEO/Real Estate). Four of those eight real estate positions were from OC Parks. Therefore, although CEO/Real Estate did not originally oversee this Agreement, it is currently responsible for administering this Agreement and responding to real estate recommendations from this audit.

SCOPE AND METHODOLOGY

Our review was limited to certain records and documents that support MSGC's gross receipts reported to the County for the 12-month audit period of January 1, 2016 through December 31, 2016. For minimum rent only, we expanded our audit period to cover July 1, 2001 through December 31, 2016. We also reviewed their compliance with certain other provisions of the Agreement, such as monthly gross receipts form format and annual financial statement requirements. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation for gross receipts, as well as ensuring completeness of remitted gross receipts.

We understand that MSGC has stated that the Agreement with MSGC as written may not reflect the actual agreement between the contracting parties. In conducting this review, we have not investigated any such contentions. We have not interviewed anybody about any such contentions. Our review is based on the Agreement with MSGC as written and we have limited our review to the Agreement as written.

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 generally be scheduled 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 generally be scheduled 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



Internal Auditor's Report

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.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for the OCCR's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the OCCR's operating procedures, accounting practices, and compliance with County policy.

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 MSGC, OC Community Resources/OC Parks, CEO/Real Estate, and OCCR Accounting during our audit. If you have any questions regarding our Revenue Generating Lease Audit, please contact me directly at (714) 834-5442, or Nancy Ishida, Senior Audit Manager, at (714) 796-8067.



Detailed Findings, Recommendations, and Management Responses

Finding No. 1 – Minimum Annual Rent Was Incorrect (Critical Control Weakness)

The minimum annual rent was incorrect due to rent calculation errors. The Agreement requires MSGC to pay either the minimum annual rent or percentage rent, whichever is greater. Due to the factors mentioned below, MSGC underpaid the County a total of **\$2,994,238** for the period July 1, 2001 through December 31, 2016.

1. Operation Period

The Operation Period minimum annual rent was calculated incorrectly due to an error in the date used for the commencement of operations.

The Agreement Section 7, RENT, Section A.2 states, “The minimum annual rent for the Operation Period shall be as follows:

First Year of the Operation Period	\$1,800,000
Second Year of the Operation Period	\$1,850,000
Third Year of the Operation Period	\$1,900,000
Fourth Year of the Operation Period	\$1,950,000
Fifth Year of the Operation Period	\$2,000,000
Sixth Year of the Operation Period	\$2,050,000
Seventh Year of the Operation Period	\$2,100,000
and thereafter subject to revision...	

The commencement date of the Operation Period shall be the earlier of (a) or (b):

- a) The first day of the first full month following the date both 18-hole golf courses are fully built or renovated, as the case may be, and are open to the public; or
- b) The third anniversary of the effective date of this Lease.”

In its calculation of minimum annual rent, OC Parks Real Estate commenced the Operation Period based on (b) above, which resulted in the minimum annual rent increasing March 2002; however, based on research conducted, the second course was finished during February 2001 and, based on (a) above, the minimum annual rent should have been increased as of March 2001, which is the earlier date. MSGC paid a total of \$1,778,464 during the Second Year of the Operation Period; however, the minimum annual rent should have been \$1,850,000, which resulted in an underpayment of **\$71,536** (\$1,850,000 less \$1,778,464).

2. 2009 Minimum Annual Rent Revision

There was a calculation error during the 2009 minimum annual rent revision.

The Agreement Section 8, REVISION OF RENT, states, “On the tenth (10th) anniversary of the effective date of this Lease, and every five (5) years thereafter, the minimum annual rent shall be automatically adjusted to the greater of the following:

- (1) Seventy percent (70%) of the average (mean) annual rent paid by TENANT to LESSOR for the preceding three (3) years, or



Detailed Findings, Recommendations, and Management Responses

(2) The base minimum annual rent of Two Million One Hundred Thousand Dollars (\$2,100,000) adjusted in proportion to changes in the Consumer Price Index for Los Angeles-Anaheim-Riverside (All Urban Consumers-All Items) promulgated by the Bureau of Labor Statistics of the U.S. Department of Labor.

This automatic adjustment shall be calculated by means of the following formula:

$$A = \$2,100,000 \times B/C$$

A = Annual Rent

B = Monthly index for the fourth month prior to the month in which each rental rate is to become effective

C = Monthly index for the month in which the Lease becomes effective”

At the time of the 2009 revision, using the formula above, OC Parks Real Estate used the March 2008 (the monthly index for the month in which the existing Minimum Annual Rent became effective) Consumer Price Index (CPI) number for “C” instead of July 1999 (the month the lease became effective). The revised amount calculated by OC Parks Real Estate showed the minimum annual rent should remain at \$2,100,000; however, had the correct CPI number for the 2009 revision been used, the minimum annual rent would have increased to \$2,803,918, which would have increased the rent owed to the County. MSGC paid a total of \$12,707,609 from July 2009 to June 2014; however, based on the corrected minimum annual rent, they should have paid \$14,019,590. This resulted in an underpayment of **\$1,311,981** (\$14,019,590 less \$12,707,609).

3. 2014 Minimum Annual Rent Revision

Due to an oversight, OC Parks Real Estate did not revise the minimum annual rent in 2014, as required by the Agreement (See No. 2 above). In 2014, the minimum annual rent should have increased to \$3,071,358. MSGC paid a total of \$6,067,673 from July 2014 to December 2016; however, based on the corrected minimum annual rent they should have paid \$7,678,394. This resulted in an underpayment of **\$1,610,721** (\$7,678,394 less \$6,067,673).

MSGC underpaid rent to the County by a total of **\$2,994,238** (sum of \$71,536, \$1,311,981, and \$1,610,721).

Recommendation No. 1:

We recommend OCCR/OC Parks work with CEO/Real Estate to collect the underpayment of rent of **\$2,994,238** from MSGC. We also recommend OCCR/OC Parks review the minimum annual rent subsequent to the audit period and collect any additional rent due through the month of correction. Additionally, we recommend that CEO/Real Estate implement policies and procedures to ensure minimum annual rent revisions are accurate and timely.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate are currently coordinating with MSGC to address the underpayment of rent and establish procedures to verify minimum annual rent updates are completed on time and calculations comply with lease terms.

CEO/Real Estate Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate are currently coordinating with MSGC to address the underpayment of rent and establish procedures to verify minimum annual rent updates are completed on time and calculations comply with lease terms.



Detailed Findings, Recommendations, and Management Responses

Finding No. 2 – Security Deposit Revision Was Not Performed (Significant Control Weakness)

OC Parks Real Estate did not revise MSGC’s security deposit as required by the Agreement.

The Agreement Section 13, SECURITY DEPOSIT, states, “During the term of this Lease and subject to the provisions for adjustment as provided hereinafter, TENANT shall provide LESSOR with a security deposit in the sum of Fifty Thousand Dollars (\$50,000). Concurrently with each revision of the rent pursuant to the Clause entitled REVISION OF RENT, the security deposit to be provided by TENANT shall be adjusted in proportion to changes in the Consumer Price Index for Los Angeles-Anaheim-Riverside (All Urban Consumers-All Items) promulgated by the Bureau of Labor Statistics of the U.S. Department of Labor, or any replacement index published thereto.”

MSGC’s security deposit was scheduled to be revised for July 1, 2014; however, due to an oversight, this revision never occurred. MSGC had been maintaining a security deposit of \$66,760, which should have been increased to \$73,128 in July 2014. MSGC was not informed to increase its deposit and has, therefore, not been maintaining a sufficient deposit amount.

Recommendation No. 2:

We recommend CEO/Real Estate revise the security deposit calculation and collect the additional deposit owed by MSGC. Additionally, we recommend CEO/Real Estate create policies and procedures to review and revise security deposits as required by the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will revise the security deposit calculation, collect additional deposit owed, and establish procedures to verify that security deposits are consistent with the Agreement.

CEO/Real Estate Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will revise the security deposit calculation, take steps to collect additional deposit owed, and establish procedures to verify that security deposits are consistent with the Agreement.

Finding No. 3 – Unredeemed Golf Lesson Gift Certificates Are Not Reported as Gross Receipts (Control Finding)

MSGC sells gift certificates for golf lessons with one of their golf professionals (pros). These golf lesson gift certificates are purchased at the Pro Shop, but are not reported to the County as gross receipts because MSGC plans to forward this money to the golf pros upon redemption; however, as of December 31, 2015, outstanding golf lesson gift certificates totaled \$23,870. The following schedule shows the unredeemed golf lesson gift certificate amounts by year purchased:



Detailed Findings, Recommendations, and Management Responses

Unredeemed Golf Lesson Certificates

Year	Amount Not Redeemed
1998	\$440.00
1999	455.00
2000	1,485.00
2001	1,490.00
2002	2,165.00
2003	1,965.00
2004	1,530.00
2005	1,515.00
2006	1,805.00
2007	1,685.00
2008	1,185.00
2009	915.00
2010	960.00
2011	805.00
2012	935.00
2013	2,860.00
2014	880.00
2015	795.00
Total	\$23,870.00

The Agreement Section 9, DEFINITION OF GROSS RECEIPTS, states, "The term "gross receipts" upon which percentage rents for this Lease shall include...

- F. Gross receipts for golf lessons by PGA golf pros affiliated with TENANT, whereby TENANT does not receive or retain any revenue, are hereby excluded from gross receipts for percentage rent purposes."

With the exception of one 2004 golf lesson gift certificate redeemed in 2009, MSGC's redemption records show no recent redemptions of golf lesson gift certificates and payments to golf pros for certificates issued prior to 2008. There appears to be a reduced likelihood of payment to the golf pros as the certificates age. If potential gross receipts for golf lesson gift certificates were based on certificates issued prior to 2016, unreported gross receipts would be \$23,870, resulting in additional rent of \$3,581 (\$23,870 multiplied by Golf Lesson Percentage Rent 15%).

Recommendation No. 3:

We recommend OCCR/OC Parks determine the amount of prior year golf lesson gift certificates that should be reported as gross receipts.



Detailed Findings, Recommendations, and Management Responses

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will confer with MSGC to determine when unredeemed gift certificates should be booked as "Golf Instruction" revenue and ensure that gross receipts and appropriate percentage rent are properly reported to the County. If a gift certificate is redeemed after it is closed out on MSGC's books, MSGC can reflect that amount as a credit on the report to OCCR/OC Parks.

Finding No. 4 – Prior Written Consent Was Not Obtained for Charitable Event (Control Finding)

MSGC conducts an annual golf tournament that benefits a local charity.

The Agreement Section 9.D states, "TENANT shall be excused from paying rent on any amount received on a non-profit basis in conjunction with the conducting of golf tournaments and events for the benefit of non-profit charitable organizations approved in writing in advance, by LESSOR."

MSGC did not obtain written approval in advance for the charitable event. MSGC informed us they were not aware of the prior approval requirement for charitable events.

Recommendation No. 4:

We recommend OCCR/OC Parks require MSGC to obtain written approval prior to hosting charitable events as required by the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate notified MSGC of the requirement to obtain written approval prior to hosting charitable events as required by the Agreement.

Finding No. 5 – Restaurant Tips Were Erroneously Deducted As Banquet Service Charges (Control Finding)

MSGC was erroneously deducting the restaurant tips, instead of the banquet service charges, from the Food and Beverage category on the gross receipts form.

CEO/Real Estate confirmed that since these banquet service charges are treated the same as tips, with all money received being distributed to the banquet employees, these charges may be excluded from gross receipts used to calculate rent owed to the County.

The Agreement Section 9.G states, "Gratuities/tips accepted on behalf of employees or charged by TENANT for the benefit of its employees and paid to employees are hereby excluded from gross receipts."

MSGC originally included the banquet service charges in the banquet food general ledger revenue account, which is included in the Food & Beverage category of the gross receipts form submitted to the County. Instead of deducting banquet service charges from the banquet food revenue when preparing the gross receipts form, MSGC had been incorrectly deducting restaurant tips, which had already been excluded. Since MSGC's restaurant tips were lower than its banquet service charges, this has resulted in an overstatement of Food & Beverage gross receipts and an overpayment of rent.



Detailed Findings, Recommendations, and Management Responses

The overpayment occurred due to an error in MSGC's methodology for calculating Food & Beverage gross receipts. Since MSGC included banquet service charges in its general ledger, they should have deducted banquet service charges to arrive at the reportable gross receipts amount, not restaurant tips.

For the two months we sampled, MSGC included a total of \$47,692 of banquet service charges in its banquet food revenue general ledger account; however, MSGC incorrectly deducted restaurant tips of \$15,356 instead of the banquet service charges when preparing its gross receipts forms. Therefore, for the two months sampled, MSGC over-reported its Food & Beverage gross receipts by a total of \$32,336 (\$47,692 less \$15,356), which resulted in an overpayment of rent of \$1,940 (\$32,336 multiplied by 6%) for the months of May and December 2016.

Recommendation No. 5:

We recommend OCCR/OC Parks require MSGC to correct its methodology for calculating Food & Beverage gross receipts and document its procedure to help ensure its gross receipts are accurately reported to the County. Additionally, OCCR/OC Parks should work with MSGC to determine if additional credits are due to MSGC.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will notify Tenant in writing to correct methodology for calculating "Food & Beverage" gross receipts. Additionally, OCCR/OC Parks will determine if additional credits are due.

Finding No. 6 – Green Fees Comparison Was Not Submitted (Control Finding)

MSGC has not submitted its green fees comparison to the Director of OC Parks as required by the Agreement.

The Agreement under "General Conditions Section 4.B, Greens Fees" states, "TENANT agrees to maintain moderate-priced greens fees for the golf courses comparable to other concessionaire-operated public golf courses charging moderate-priced greens fees throughout the entire term of the Lease. On the fifth (5th) anniversary of the Effective Date of this Lease and every three (3) years thereafter, TENANT shall submit to the Director a report demonstrating that the greens fees for the golf courses are within the range of other moderate-priced concessionaire-operated public golf courses in the Orange County area."

MSGC informed us they were not aware of this requirement in the Agreement. The periodic review of fees helps to ensure that MSGC continues to be a moderate-priced concessionaire-operated public golf course in the Orange County area.

Recommendation No. 6:

We recommend that OCCR/OC Parks require MSGC to submit a report of green fees to the Director of OC Parks as required by the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will notify MSGC to submit a green fee comparison report in writing to the OC Parks Director that "demonstrat[es] that the greens fees for the golf courses are within the range of other moderate-priced concessionaire-operated public golf courses in the Orange County area" as required by the Agreement. MSGC will have three months from time of notice to submit the completed report.



Detailed Findings, Recommendations, and Management Responses

Finding No. 7 – Receipts Were Not Provided For Snack Bar Purchases (Control Finding)

Cashiers at the patio snack bar did not provide customer receipts for food and beverage purchases.

During our unannounced visit, we observed that the patio snack bar cashiers did not give customers receipts for food and beverage purchases. Additionally, we made a purchase for which the cashier did not offer or provide a customer receipt.

MSGC informed us that the point-of-sale cashiering system in the patio snack bar was only able to generate one paper receipt per transaction, which MSGC accounting uses to reconcile the cashiering activity, since the cashiering system only generates a summary report and not detailed activity reports.

The Agreement Section 12.A states, “Except as otherwise provided herein, all retail sales and charges shall be recorded by means of cash registers or other comparable devices, which display to the customer the amount of the transaction and automatically issue a receipt. The registers shall be equipped with devices which lock in sales totals and other transaction records, or with counters which are not resettable and which record transaction numbers and sales details.”

The issuing of receipts to customers acts as a control to verify the accuracy and completeness of transactions.

Recommendation No. 7:

We recommend that OCCR/OC Parks require MSGC to provide automatically generated receipts for all purchases and determine if MSGC can enable point-of-sale system control features that are not being utilized, such as generating additional receipts or detailed activity reports.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will notify MSGC of the requirement to provide automatically generated receipts for all purchases as outlined in the Agreement.



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	Significant Control Weaknesses	Control Findings
<p>These are audit findings or a combination of audit 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 its attention immediately.</p>	<p>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.</p>	<p>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.</p>



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Response



August 1, 2017

DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
DEPUTY DIRECTOR
OC COMMUNITY RESOURCES

JENNIFER HAWKINS, DVM
DIRECTOR
OC ANIMAL CARE

RENEE RAMIREZ
DIRECTOR
OC COMMUNITY SERVICES

JULIA BIDWELL
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. 1637 Revenue Generating Lease Audit: OC Community Resources/OC Parks – Mile Square Golf Course (PR37A-152)**

The Auditor-Controller Internal Audit Division completed a Revenue Generating Lease Audit of OC Community Resources (OCCR)/OC Parks – Mile Square Golf Course for the period January 1, 2016 through December 31, 2016. 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 – Minimum Annual Rent Was Incorrect (Critical Control Finding)

Recommendation No. 1:

We recommend OCCR/OC Parks work with CEO/Real Estate to collect the underpayment of rent of \$2,994,238 from MSGC. We also recommend OCCR/OC Parks review the minimum annual rent subsequent to the audit period and collect any additional rent due through the month of correction. Additionally, we recommend that CEO/Real Estate implement policies and procedures to ensure minimum annual rent revisions are accurate and timely.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate are currently coordinating with MSGC to address the underpayment of rent and establish procedures to verify minimum annual rent updates are completed on time and calculations comply with lease terms.

Finding No. 2 – Security Deposit Revision Was Not Performed (Significant Control Weakness)

Recommendation No. 2:

We recommend CEO/Real Estate revise the security deposit calculation and collect the additional deposit owed by MSGC. Additionally, we recommend CEO/Real Estate create policies and procedures to review and revise security deposits as required by the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will revise the security deposit calculation, collect additional deposit owed, and establish procedures to verify that security deposits are consistent with the Agreement.



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Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Response (cont.)

OCCR/OC Parks Management Response to Audit Report #1637
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AUGUST 1, 2017

Finding No. 3 – Unredeemed Golf Lesson Gift Certificates Are Not Reported as Gross Receipts (Control Finding)

Recommendation No. 3:

We recommend OCCR/OC Parks determine the amount of prior year golf lesson gift certificates that should be reported as gross receipts.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks and CEO/Real Estate will confer with MSGC to determine when unredeemed gift certificates should be booked as “Golf Instruction” revenue and ensure that gross receipts and appropriate percentage rent are properly reported to the County. If a gift certificate is redeemed after it is closed out on MSGC’s books, MSGC can reflect that amount as a credit on the report to OCCR/ OC Parks.

Finding No. 4 – Prior Written Consent Was Not Obtained for Charitable Event (Control Finding)

Recommendation No. 4:

We recommend OCCR/OC Parks require MSGC to obtain written approval prior to hosting charitable events as required by the Agreement.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks and CEO/Real Estate notified MSGC of the requirement to obtain written approval prior to hosting charitable events as required by the Agreement.

Finding No. 5 – Restaurant Tips Were Erroneously Deducted As Banquet Service Charges (Control Finding)

Recommendation No. 5:

We recommend OCCR/OC Parks require MSGC to correct its methodology for calculating Food & Beverage gross receipts and document its procedure to help ensure its gross receipts are accurately reported to the County. Additionally, OCCR/OC Parks should work with MSGC to determine if additional credits are due to MSGC.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks and CEO/Real Estate will notify Tenant in writing to correct methodology for calculating “Food & Beverage” gross receipts. Additionally, OCCR/OC Parks will determine if additional credits are due.

Finding No. 6 – Green Fees Comparison Was Not Submitted (Control Finding)

Recommendation No. 6:

We recommend that OCCR/OC Parks require MSGC to submit a report of green fees comparisons to the Director of OC Parks as required by the Agreement.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks and CEO/Real Estate will notify MSGC to submit a green fee comparison report in writing to the OC Parks Director that “demonstrat[es] that the greens fees for the golf courses are within the range of other moderate-priced concessionaire-operated public golf courses in the Orange County area” as required by the Agreement. MSGC will have three months from time of notice to submit the completed report.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Response (cont.)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1637
PAGE 3 OF 3
AUGUST 1, 2017

Finding No. 7 – Receipts Were Not Provided For Snack Bar Purchases (Control Finding)

Recommendation No. 7:

We recommend that OCCR/OC Parks require MSGC to provide automatically generated receipts for all purchases and determine if MSGC can enable point-of-sale system control features that are not being utilized, such as generating additional receipts or detailed activity reports.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks and CEO/Real Estate will notify MSGC of the requirement to provide automatically generated receipts for all purchases as outlined in the Agreement.

If you have any questions related to these responses, please contact Brian Rayburn, Business Office Manager, OC Community Resources at 714-480-2885 or Thea Bullock, Compliance Director at 714-480-2875.

Sincerely,



Signature

7/31/17

Date

DW:bwr



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT C: CEO/Real Estate Management Response



County of Orange

County Executive Office

August 7, 2017

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

RE: Audit No. 1637 Revenue Generating Lease Audit
OC Community Resources/OC Parks – Mile Square Golf Course
(PR37A-152)

The Auditor-Controller Internal Audit Division completed a Revenue Generating Operating Agreement of Mile Square Golf Course. Below are CEO Real Estate's responses to the audit findings and recommendations, which have been reviewed and approved by the Chief Real Estate Officer on behalf of the County Executive Office.

Finding No. 1 – Minimum Annual Rent Was Incorrect (Critical Control Finding)

Recommendation No. 1:

We recommend OCCR/OC Parks work with CEO/Real Estate to collect the underpayment of rent of \$2,994,238 from MSGC. We also recommend OCCR/OC Parks review the minimum annual rent subsequent to the audit period and collect any additional rent due through the month of correction. Additionally, we recommend that CEO/Real Estate implement policies and procedures to ensure minimum annual rent revisions are accurate and timely.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate are currently coordinating with MSGC to address the underpayment of rent and establish procedures to verify minimum annual rent updates are completed on time and calculations comply with lease terms.

Finding No. 2 – Security Deposit Revision Was Not Performed (Significant Control Weakness)

Recommendation No. 2:

We recommend CEO/Real Estate revise the security deposit calculation and collect the additional deposit owed by MSGC. Additionally, we recommend CEO/Real Estate create policies and procedures to review and revise security deposits as required by the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks and CEO/Real Estate will revise the security deposit calculation, take steps to collect additional deposit owed, and establish procedures to verify that security deposits are consistent with the Agreement.

Sincerely,

Scott D. Mayer
Chief Real Estate Officer

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