

Internal Audit Department

O R A N G E County in the USA
6th Largest County

Revenue Generating Lease Audit: OC PUBLIC WORKS RIVER VIEW GOLF COURSE

For the Period
April 1, 2011 through March 31, 2012

**\$1.76M GROSS RECEIPTS
ANNUALLY
\$90,400 RENT TO THE
COUNTY ANNUALLY**

River View Golf Course operates a golf course located on the County's Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. During the 12-month audit period of April 1, 2011 through March 31, 2012, River View Golf Course reported approximately **\$1.76 million** in gross receipts and paid rent to the County of about **\$90,400**.

The Internal Audit Department found that River View Golf Course's records adequately supported reported gross receipts and rent owed was properly paid. We identified **two (2) Control Findings** related to 1) documentation and monitoring of the days the golf course is deemed restricted or unplayable for extended periods due to overflow from the Santa Ana River and 2) establishing written agreements with the independent golf professionals.

AUDIT NO: 1135
REPORT DATE: SEPTEMBER 25, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Audit Manager: Lily Chin, CPA, CGMA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CGMA**
Director Certified Compliance & Ethics Professional (CCEP)
 Certified Information Technology Professional (CITP)
 Certified Internal Auditor (CIA)
 Certified Fraud Examiner (CFE)
 Certified in Financial Forensics (CFF)
 Chartered Global Management Accountant (CGMA)
 E-mail: peter.hughes@iad.ocgov.com

Eli Littner **CPA, CIA, CFE, CFS, CISA**
 Deputy Director Certified Fraud Specialist (CFS)
 Certified Information Systems Auditor (CISA)

Michael J. Goodwin **CPA, CIA**
 Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
 Senior Audit Manager

Autumn McKinney **CPA, CIA, CISA, CGFM**
 Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
 Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1135 September 25, 2012

TO: Ignacio Ochoa, Interim Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Revenue Generating Lease Audit:
OC Public Works River View Golf Course,
E01-1008, 1008.1, 1051.01, 1052.01, 1053
Santa Ana River Channel

We have completed our revenue generating lease audit of River View Golf Course for the period April 1, 2011 through March 31, 2012. The final **Internal Auditor's Report** is attached along with your responses to our recommendations. We performed this Revenue Generating Lease Audit in accordance with our FY 2011-12 Audit Plan approved by the Audit Oversight Committee.

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 audit recommendations are expected to be addressed and implemented.

At the request of 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.

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 recommendations.

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 **OC Internal Auditor's Report** on page 3.

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OC Public Works River View Golf Course
Audit No. 1135***

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April 1, 2011 through March 31, 2012

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Audit No. 1135

September 25, 2012

TO: Ignacio Ochoa, Interim Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

A handwritten signature in blue ink that reads "Peter Hughes".

SUBJECT: Revenue Generating Lease Audit:
OC Public Works River View Golf Course,
E01-1008, 1008.1, 1051.01, 1052.01, 1053

Audit Highlight

River View Golf Course operates a golf course located on the County's Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana.

Gross receipts generated during the 12-month audit period were approximately **\$1.76 million** and rent paid to the County was about **\$90,400**.

The Internal Audit Department found that River View Golf Course's records adequately supported reported gross receipts and rent owed was properly paid. We identified **two (2) Control Findings** related to 1) documentation and monitoring of the days the golf course is deemed restricted or unplayable for extended periods due to overflow from the Santa Ana River and 2) establishing written agreements with the independent golf professionals.

OBJECTIVE

We have performed an audit of certain records and documents for the period from April 1, 2011 through March 31, 2012, pertinent to the lease agreement (Agreement) between the Orange County Flood Control District (County) and River View Golf Course, a California General Partnership (River View), dated September 2, 1969, as amended and assigned. The Agreement is for the operation of a golf course, snack bar, pro shop and golf instruction. Our audit objectives were:

- (1) The primary objective of our audit is to determine whether River View's records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.
- (2) The secondary objective of our audit is to determine whether River View complies with certain other financial provisions of the Agreement, such as accounting methods, annual audited financial statements, and monthly gross receipts statement format.

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

RESULTS

Objective #1: We found that River View's records adequately supported reported gross receipts and rent owed was properly paid. We identified **two (2) Control Findings** related to 1) documentation and monitoring of the days the golf course is deemed restricted or unplayable for extended periods due to overflow from the Santa Ana River and 2) establishing written agreements with the independent golf professionals.

Objective #2: We found that River View overall complied with certain other financial provisions of the Agreement such as accounting methods, annual audited financial statements, and the monthly gross receipts statement format.

OC Internal Auditor's Report



The following *Summary of Findings and Recommendations* shows our findings and recommendations for this audit. See further discussion in the *Detailed Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification - See Attachment A	Finding Description	Recommendation	Agreement by Management?	Page No. in Audit Report
1	Control Finding	Better documentation and monitoring needed for days the golf course is deemed restricted or unplayable for extended periods due to overflow from the Santa Ana River.	OCPW implement procedures to better document and monitor unplayable days when they exist for an extended period of time.	Yes	Pg. 4-5
2	Control Finding	River View does not have formal written agreement with the golf pros.	River View establish written agreements with the golf pros defining roles and responsibilities related to use of premises for golf instruction.	Yes	Pg. 5

BACKGROUND

The Orange County Flood Control District (County) entered into a lease agreement (Agreement) with River View dated September 2, 1969, as amended and assigned, for the operation of a golf course, snack bar, pro shop and golf instruction located on the Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. During the 12-month audit period, River View reported approximately \$1.76 million in gross receipts and paid the County approximately \$90,400 in rent.

SCOPE

Our audit was limited to certain records and documents that support River View's gross receipts reported to the County for the 12-month audit period of April 1, 2011 to March 31, 2012. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel at River View Golf Course and OC Public Works. If you have any questions regarding our revenue generating lease audit, please call me directly at (714) 834-5475; or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Attachments



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Robert J. Franz, Interim County Executive Officer
Kevin Onuma, Manager, OCPW/OC Flood
Mary Fitzgerald, Director, OCPW/Administrative Services
Randi Dunlap, Manager, OCPW/Administrative Services
Carolee Condon, Manager, OCPW/Real Estate Services
Josie Alvarez, Property Management Supervisor, OCPW/Real Estate Services
Catherine Lapid, Real Property Agent, OCPW/Real Estate Services
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Salvador Lopez, Chief, OCPW/Accounting/Santa Ana River, Watershed, Flood, Leases and Infrastructure
Brian Cich, Senior Accountant, OCPW/Accounting/Leases and Infrastructure
Larry Stansifer, Administrative Manager, OCPW/Fleet & Procurement Services - Administrative Services
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors

Detailed Findings, Recommendations and Management Responses



1. Better Documentation and Monitoring Needed for Extended Unplayable Days (Control Finding)

Clause 13 of the Agreement states: “Should golf holes located within the Leased Land become unplayable for any period in excess of seven (7) consecutive days because of water flowing in the Santa Ana River, construction undertaken to repair flood damage or destruction, modification or improvement to flood control or water conservation facilities, the income produced by business operations on or from the Joint Leasehold during such period shall not be included in gross receipts for purposes of calculating Percentage Rent.”

Clause 13 of the Agreement also states that River View is to notify the OCPW/Real Estate Director in writing within 24 hours after said golf holes are unplayable.

The County’s portion of the property is known as the “west” side of the Santa Ana River and the City of Santa Ana property is known as the “east” side. The water overflow area is typically on the County’s west side.

Finding No. 1: OCPW’s documentation and monitoring of unplayable days, when they are for extended periods (such as over 60 consecutive days), should be improved. During the audit, we noted an extended period of 115 consecutive days that were reported as unplayable by River View as described below.

On December 20, 2010, River View notified the County in writing that “... due to Santa Ana River flow we are not playing the full eighteen hole course. As of dawn December 18, 2010 all play is restricted to the east side of the river.” For the period of December 18, 2010 to April 11, 2011, 115 consecutive days were reported as unplayable by River View on the monthly rent reports submitted to the County. As such, for the period of December 18, 2010 to April 11, 2011, gross receipts of about \$254,000 were not subject to percentage rent and percentage rent of about \$13,800 was not owed to the County. To protect the County, there is a minimum annual rent that must be paid, but percentage rent is typically higher than minimum annual rent. Therefore, the net impact is that River View did receive a rent exclusion of about \$13,800 for the period the County’s west side of the course was unplayable.

We did not see any other instances of extended unplayable golf days during the period of January 2006 to March 2012. From January 2006 to November 2010, there were seven (7) months that River View reported unplayable golf days ranging from 7 to 15 days in each month.

According to OCPW, this extended period of unplayable days was caused by the OC Flood’s release of water (when the rainfall was high) from Seven Oaks Dam and through Prado Dam to assess the Santa Ana River Channel capacity. However, in our review of applicable OCPW files (Real Estate and Accounting), we did not see any correspondence or documentation of discussions of the unplayable days such as the cause or reasonableness, beyond the initial notification provided by River View on December 20, 2010 that the west side was unplayable.



Because there may be multiple considerations when determining the degree and length of unplayable days, OCPW should develop a process to better document and communicate the unplayable days when they exist for an extended period of time (such as more than 60 days). OCPW/Real Estate, with the assistance of OCPW/Accounting, should monitor the monthly rent reports submitted to the County for extended periods of unplayable days and should initiate and document discussions with River View and/or OC Flood regarding the assessment of unplayable days.

Recommendation No. 1: We recommend that OCPW implement procedures to better document and monitor unplayable days when they exist for an extended period of time.

OC Public Works Response:

Concur. OC Public Works will consult with OCPW/Accounting on a process for notifying OCPW/Real Estate Services when the tenant's gross revenue reports reflect unplayable periods exceeding 60 consecutive days. Under such circumstances, OCPW/Real Estate Services will conduct appropriate inquiries and document any findings regarding the unplayable days and their effect on gross receipts.

2. **Written Agreement Needed between River View and Golf Professionals** (Control Finding)

Finding No. 2: We found that there were no written agreements between River View and the golf professionals prescribing the terms, conditions, and responsibilities for the golf lesson activity. River View considers the golf professionals to be independent contractors. This was a recommendation in our prior audit report (No. 2736) dated May 23, 2008.

Recommendation No. 2: We recommend that OC Public Works require River View establish written agreements with the golf professionals ensuring terms, conditions, and responsibilities related to golf instruction are defined.

OC Public Works Response:

Concur. Although not a specific requirement of the Agreement, OC Public Works will recommend on the basis of good business practice that River View Golf enter into written agreements outlining the basic terms and conditions under which a golf professional may conduct his or her activities on the premises.



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:**

Audit findings or a combination of Significant Control Weaknesses that represent serious exceptions to the audit objective(s) and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

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

▶ **Control Findings:**

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.

Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: OC Public Works Responses



Ignacio Ochoa, Interim Director
300 N. Flower Street
Santa Ana, CA
P.O. Box 4048
Santa Ana, CA 92702-4048
Telephone: (714) 834-2300
Fax: (714) 834-5188

memo

DATE: September 21, 2012
TO: Dr. Peter Hughes, CPA, Director
Internal Audit Department
FROM: Ignacio Ochoa, Interim Director *mf*
SUBJECT: Response to OC Public Works – River View Golf Course, Audit No. 1135

I am pleased to provide OC Public Works' response to the Internal Audit Department's Draft Report on the OC Public Works – River View Golf Course Audit No. 1135. Our response has been reviewed and approved by the County Executive Office.

We will work to implement the Internal Audit Department's recommendations as indicated in our responses.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

Should you have any questions regarding OC Public Works' responses to the recommendations, or require additional information on these items, please contact Randi Dunlap at (714) 667-3282 or Mary Fitzgerald at (714) 667-9701.

Thank you.

Attachment

c: Mary Fitzgerald, Director, Administrative Services, OC Public Works
Randi Dunlap, Manager, Administrative Services, OC Public Works

Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: OC Public Works Responses (continued)

OC Public Works Fee Generated Revenue, Audit No. 1135
Page 2 of 3

OC Public Works Responses to the Internal Audit Department's Draft Report: OC Public Works River View Golf Course, Audit No. 1135

Finding No. 1

OCPW's documentation and monitoring of unplayable days, when they are for extended periods (such as over 60 consecutive days), should be improved. During the audit, we noted an extended period of 115 consecutive days that were reported as unplayable by River View as described below.

On December 20, 2010, River View notified the County in writing that "... due to Santa Ana River flow we are not playing the full eighteen hole course. As of dawn December 18, 2010 all play is restricted to the east side of the river." For the period of December 18, 2010 to April 11, 2011, 115 consecutive days were reported as unplayable by River View on the monthly rent reports submitted to the County. As such, for the period of December 18, 2010 to April 11, 2011, gross receipts of about \$254,000 were not subject to percentage rent and percentage rent of about \$13,800 was not owed to the County. To protect the County, there is a minimum annual rent that must be paid, but percentage rent is typically higher than minimum annual rent. Therefore, the net impact is that River View did receive a rent exclusion of about \$13,800 for the period the County's west side of the course was unplayable.

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According to OCPW, this extended period of unplayable days was caused by the OC Flood release of water (when the rainfall was high) from Seven Oaks Dam and through Prado Dam to assess the Santa Ana River Channel capacity. However, in our review of applicable OCPW files (Real Estate and Accounting), we did not see any correspondence or documentation of discussions of the unplayable days such as the cause or reasonableness, beyond the initial notification provided by River View on December 20, 2010 that the west side was unplayable.

Because there may be multiple considerations when determining the degree and length of unplayable days, OCPW should develop a process to better document and communicate the unplayable days when they exist for an extended period of time (such as more than 60 days). OCPW/Real Estate, with the assistance of OCPW/Accounting, should monitor the monthly rent reports submitted to the County for extended periods of unplayable days and should initiate and document discussions with River View and/or OC Flood regarding the assessment of unplayable days. **(Control Finding)**

Recommendation No. 1

We recommend that OCPW implement procedures to better document and monitor unplayable days when they exist for an extended period of time.

OC Public Works Management Response:

Concur. OC Public Works will consult with OCPW/Accounting on a process for notifying OCPW/Real Estate Services when the tenant's gross revenue reports reflect unplayable periods exceeding 60 consecutive days. Under such circumstances, OCPW/Real Estate Services will conduct appropriate inquiries and document any findings regarding the unplayable days and their effect on gross receipts.



ATTACHMENT B: OC Public Works Responses (continued)

OC Public Works Fee Generated Revenue, Audit No. 1135
Page 3 of 3

Finding No. 2

We found that there were no written agreements between River View and the golf pros prescribing the terms, conditions, and responsibilities for the golf lesson activity. River View considers the golf pros to be independent contractors. This was a recommendation in our prior audit report (No. 2736) dated May 23, 2008. **(Control Finding)**.

Recommendation No. 2

We recommend that OC Public Works require River View establish written agreements with the golf pros ensuring terms, conditions, and responsibilities related to golf instruction are defined.

OC Public Works Management Response:

Concur. Although not a specific requirement of the Agreement, OC Public Works will recommend on the basis of good business practice that River View Golf enter into written agreements outlining the basic terms and conditions under which a golf professional may conduct his or her activities on the premises.