



Orange County Auditor-Controller Internal Audit



Revenue Generating Lease Audit: OCCR Salt Creek Beach Concession

For the Period September 1, 2014 through August 31, 2015.

Audit Number 1558
June 28, 2016



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1558

June 28, 2016

TO: Steve Franks, Director
OC Community Resources

FROM: Revenue Generating Lease Audit: OCCR/OC Parks – Salt Creek Beach Concession,
BE74Q-151

We have completed our revenue generating lease audit of Salt Creek Beach Concession for the period September 1, 2014 through August 31, 2015. Our final report is attached for your review.

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

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

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
Mark Denny, Chief Operating Officer
Jessica Witt, Deputy Chief Operating Officer
Stacy Blackwood, Director, OC Community Resources/OC Parks
Connie Chang, Financial Planning Manager, OC Community Resources
Brian Rayburn, Manager, OC Community Resources
Doug Berry, Administrative Manager I, OC Community Resources
Ron Inouye, Real Property Agent III, CEO/Real Estate
Nicole Nguyen, Budget Analyst, OC Community Resources
Tonya Riley, Director, Satellite Accounting Operations, Auditor-Controller
Win Swe, Administrative Manager III, Auditor-Controller/OCCR Accounting
Susan Long, Administrative 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 - Salt Creek Beach Concession
Audit No. 1558***

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Internal Auditor's Report

Audit No. 1558

June 28, 2016

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

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

SUBJECT: Revenue Generating Lease Audit: OCCR/OC Parks – Salt Creek Beach Concession,
BE74Q-151

OBJECTIVES

We performed an audit of certain records and documents for the period September 1, 2014 through August 31, 2015, pertinent to the lease agreement (Agreement) between the County of Orange (County) and John and Sherry Efstathiou, sole proprietors (hereinafter referred to as Salt Creek Beach Concession). The Agreement is for ten years for the operation of the sale of concession food, beverages, and sundries, beach related rentals and shuttle service located at Salt Creek Beach Park.

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

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

RESULTS

Objective #1: We found that Salt Creek Beach Concession's records adequately supported reported gross receipts and rent was properly paid to the County, except for **two (2) Control Findings** regarding 1) non-compliance with operating hours and related amounts owed of \$2,097 and 2) rental agreements not retained for equipment rentals and security deposits.

Objective #2: We found that Salt Creek Beach Concession complied with some financial provisions of the Lease Agreement. However, we identified **five (5) Control Findings** regarding: 1) accounting year not formally established between Salt Creek Beach Concession and the County, 2) missing financial statements and related penalties of \$1,500 owed by Salt Creek Beach Concession, 3) untimely review and reconciliation of financial statements by the County, 4) monthly gross receipts statements not properly prepared by Salt Creek Beach Concession, and 5) security deposit not properly monitored by the County.



Internal Auditor's Report

BACKGROUND

The County of Orange entered into a ten-year lease agreement with John and Sherry Efstathiou, sole proprietors, dated April 1, 2011, for the operation of the sale of concession food, beverages, and sundries, beach related rentals and shuttle service located at Salt Creek Beach Park. During the twelve-month audit period ending August 31, 2015, Salt Creek Beach Concession reported \$282,207 in gross receipts and paid rent to the County of \$36,117.

SCOPE AND METHODOLOGY

Our audit was limited to certain records and documents that support Salt Creek Beach Concession's gross receipts reported to the County for the audit period September 1, 2014 through August 31, 2015. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

FOLLOW-UP PROCESS

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

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

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

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

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel at Salt Creek Beach Concession and OCCR during our audit. If you have any questions regarding our revenue generating lease audit, please contact me directly at (714) 834-5442, or Nancy Ishida, Senior Audit Manager at (714) 796-8067.



Detailed Findings, Recommendations, and Management Responses

Finding No. 1 – Noncompliance with Hours of Operation (Control Finding)

Section 22.F of the lease agreement requires the Salt Creek Beach Concession to maintain the minimum operating hours of:

- Summer Season: Daily 8am – 7pm and holidays/special events 8am – 9pm
- Fall, Winter, and Spring Seasons: Weekends 8am – 5pm
- Spring Break and special events: Daily 8am – 5pm

The minimum operating hours for the shuttle service are:

- Summer Season: Weekends 9am – 7pm and weekdays 9am – 5pm
- Fall, Winter, and Spring Seasons: Weekends 9am – 5pm
- Spring Break and special events: Daily 9am – 5pm

Section 7.C of the lease agreement states, “CONCESSIONAIRE shall notify COUNTY representative(s) as designated by the Director of OC Parks of any day when the concession will not be open or the shuttle will not be operating for the minimum Hours of Operations. Notification can be by phone, voicemail, fax or email and shall be no later than 5:00 pm on the subject day...request must include a justification; justification cannot be based on weather conditions or lack of customers.”

Section 7.C of the lease agreement also states that Salt Creek Beach Concession agrees to pay liquidated damages for each day the concession is not open or the shuttle is not operating for the minimum Hours of Operation, as defined above, in accordance with the following schedule:

<u>Circumstance</u>	<u>Liquidated Damages Per Day</u>	<u>Closed Days Not Subject to Liquidated Damages</u>
Concession not open Summer Season day	\$100	0
Concession not open Fall, Winter, Spring weekend day	50	15**
Shuttle service not operating Summer Season day	50	0
Shuttle service not operating Fall, Winter, Spring weekend day	25	15**

*** Limited to not more than six consecutive weekend days*

Section 7.B of the lease agreement states that Salt Creek Beach Concession is ineligible to receive the Enhanced Performance Rent Credit if liquidated damages are assessed by the County.

Salt Creek Beach Concession was not in compliance with the Hours of Operation requirements of the lease agreement. During our audit, we conducted a site visit on October 11, 2015 and found the shuttle service was not in service at 10am. The required operating hours for the shuttle service are 9am – 5pm. Also during our audit, we discovered both the concession and the shuttle service were not in operation on the weekend of February 28, 2015. Salt Creek Beach Concession did not inform OC Community Resources (OCCR) of this closure or deviation from the shuttle service operating schedule as required by the lease agreement.



Detailed Findings, Recommendations, and Management Responses

We were also informed by OCCR that the concession and the shuttle service were not in operation during the entire months of December 2014 and January 2015. Salt Creek Beach Concession did not inform OCCR of their closure as required by the lease agreement and did not seek proper authorization from OCCR. This closure was not detected by OCCR until the Auditor-Controller/OCCR Accounting questioned why Salt Creek Beach Concession had not reported any gross receipts for the months of December 2014 and January 2015. According to Salt Creek Beach Concession they were closed due to weather conditions or lack of employees.

As allowed by the lease agreement, OCCR assessed Salt Creek Beach Concession liquidated damages for the months of December 2014 and January 2015 in the amount of \$375. Because liquidated damages are assessed, Salt Creek Beach Concession is no longer eligible for the Enhanced Performance Rent Credit of \$1,704. Therefore, the total amount owed by Salt Creek Beach Concession was calculated to be \$2,079 (\$375 + \$1,704). However, OCCR did not make this assessment until August 31, 2015, eight months after the closures as OCCR was initially unaware of the closures.

In our discussions with OCCR, they indicated that park staff and rangers periodically monitor Salt Creek Beach Concession's compliance with Hours of Operation. However, it appears that OCCR should evaluate whether this process can be improved.

Recommendation No. 1:

We recommend that OCCR formally remind Salt Creek Beach Concession to notify the County of any non-operating days and deviations from the required schedules. We also recommend that OCCR collect any monies owed for non-compliance, including the \$2,097 owed. We also recommend that OCCR evaluate their monitoring process to see if improvements can be made to help ensure that Salt Creek Beach Concession is complying with the required Hours of Operation and notifying the County timely about any deviations.

OCCR/OC Parks Management Response:

Concur. CEO Real Estate sent a letter to Salt Creek Beach Concession on May 18, 2016, to formally remind Salt Creek of the terms of the lease agreement and liquidated damages. OCCR Accounting has received the amount due for non-compliance as noted in the audit (\$2,097).

Within the next 90 days, OC Parks will develop a procedure to observe and track whether Salt Creek Beach Concession is closed during scheduled operating hours. Additionally, to assist in the monitoring process for Hours of Operation, the Monthly Gross Receipt form will be revised to include a section to indicate when the Concession and Shuttle are "Non-Operation." Each month's form will be signed by Salt Creek Beach Concession and include the following declaration: "Under Penalty of Perjury I certify that the information prepared above is correct." The updated form will be utilized within 30 days.

Finding No. 2 – Accounting Year Not Formally Established (Control Finding)

Section 11.B of the lease agreement states in part, "The Accounting year may be established by CONCESSIONAIRE, provided CONCESSIONAIRE notifies Auditor-Controller in writing of the accounting year to be used...In the event CONCESSIONAIRE fails to establish an accounting year of its choice, regardless of the cause, the accounting year shall be synonymous with the twelve-month period contained in the first one-year term of the Lease...Once an accounting year is established, it shall be continued through the term of the Lease unless Auditor-Controller specially approves in writing a different accounting year."



Detailed Findings, Recommendations, and Management Responses

There was no written communication between the County and Salt Creek Beach Concession to establish an initial accounting period that was different than the default at lease inception or the subsequent change of accounting period, resulting in different accounting years used for gross receipt reporting (including rent credits) and for the annual financial statements. See **Finding No. 3** below. For 2015, we were informed the County and lessee both verbally agreed to establish the calendar year (January 1st – December 31st) as the accounting year.

The accounting year is important as it sets the time period for determining various items such as compliance with minimum annual rent, financial statement deadlines, rent credits, etc. OCCR should ensure the accounting year is properly established at the lease inception.

Recommendation No. 2:

We recommend that OCCR ensure the current accounting period is clearly established in writing between the County and Salt Creek Beach Concession so that the time period for gross receipts reporting, financial statements, and other financial provisions of the lease agreement are consistent and agreed upon.

OCCR/OC Parks Management Response:

Concur. CEO Real Estate sent a letter confirming the accounting period and copied OCCR Accounting on May 13, 2016. The letter confirmed that effective January 1, 2016, the Accounting Year is from January 1st to December 31st.

Finding No. 3 – Missing Financial Statements and Related Penalties Owed (Control Finding)

Section 11.C of the lease agreement states, “Within ninety (90) days after the end of each accounting year, CONCESSIONAIRE shall submit to Auditor-Controller a balance sheet and income statement prepared in accordance with generally accepted accounting principles reflecting business transacted on or from the Premises during the preceding accounting year. The CONCESSIONAIRE must attest under penalty of perjury that the balance sheet and income statement submitted are an accurate representation of CONCESSIONAIRE’s records as reported to the United States of America for income tax purposes.”

Section 11.D of the lease agreement states, “...in the event that CONCESSIONAIRE fails to submit the required financial statements within thirty (30) business days following the due date (90 days after the end of each accounting year)...the Director of OC Parks may require CONCESSIONAIRE to submit the greater of:

- (1) \$500 fine or
- (2) Any and all costs incurred by COUNTY for a Certified Public Accountant hired by the COUNTY to prepare the required financial statements, including an administrative fee equal to fifteen percent (15%) of those costs.”

Salt Creek Beach Concession did not submit any financial statements for the years ended 2012 and 2014 and only submitted an income statement (missing the balance sheet) for the year ended 2013. This results in three years of non-compliance with the financial statement requirements of the lease agreement. As such, the County may assess penalties per the above lease terms of \$500 per year for a total of \$1,500 owed by Salt Creek Beach Concession.



Detailed Findings, Recommendations, and Management Responses

In addition, the 2013 financial statement (income statement) was for the 12-month period of June 1, 2012 through May 31, 2013, which may not be the same time period used for other financial provisions of the lease. We were informed the County and Salt Creek Beach Concession both verbally agreed to establish the calendar year as the accounting year. See **Finding No.2** above.

Recommendation No. 3:

We recommend that OCCR require Salt Creek Beach Concession to submit the required financial statements. We also recommend that OCCR determine whether to assess Salt Creek Beach Concession a penalty for failure to submit the required 2012, 2013, and 2014 financial statements.

OCCR/OC Parks Management Response:

Concur. CEO Real Estate sent a letter to Salt Creek Concession on May 13, 2016 (1) reminding the tenant of its contractual obligation to regularly submit financial statements, (2) requesting the outstanding financial statements, and (3) notifying Salt Creek Beach Concession that a \$1,500 penalty would be assessed if the requested documents were not received in a timely fashion. Outstanding financial statements were received by OC Parks on May 20, 2016. Prior to submitting the outstanding financial statements on May 20, 2016, the vendor indicated that the missing financial statements were submitted on time but were sent to the Treasurer-Tax Collector, where rental payments are sent, rather than to OC Parks. OC Parks will not assess the penalty since (1) financial reports were received and (2) the vendor indicated that they had been submitted previously to the County on time. OCCR contacted the Treasurer-Tax Collector to verify vendor's statements, but was unable to validate that the financial statements were received by the Treasurer-Tax Collector.

Finding No. 4 – Untimely Review and Reconciliation of Financial Statements (Control Finding)

OCCR did not perform a timely review and reconciliation of Salt Creek Beach Concession's financial statements. When we started our audit, the last review and reconciliation of Salt Creek Beach Concession's financial statements was performed in August 2010 for the year ended May 31, 2010 financial statements. No review and reconciliation of financial statements had been performed since nor had the missing financial statements discussed in **Finding No. 3** been detected.

In addition, we noted OCCR made a minor (\$6) data entry error for the November 2014 equipment rentals (beach chairs and umbrellas) on the spreadsheets utilized for reconciling the gross receipts statements. While this error amount is not significant, performing the annual reconciliation of the monthly gross receipts reported and the annual financial statements helps detect posting errors and any potential underreporting of gross receipts.

Recommendation No. 4:

We recommend that OCCR review and reconcile Salt Creek Beach Concession's annual financial statements in a timely manner.

OCCR/OC Parks Management Response:

Concur. OCCR Accounting is revising current procedures to include this task with the posting and tracking of payments. This will ensure that the receipt of financial statements are tracked and received timely. Procedures will also include the timely reconciliation and review by the Accounting Manager for invoicing of any amounts due. The procedure will be in place within 30 days.



Detailed Findings, Recommendations, and Management Responses

Finding No. 5 – Monthly Gross Receipt Statements Not Properly Prepared (Control Finding)

Section 9.A of the lease agreement states, "...The statement shall be signed by CONCESSIONAIRE or CONCESSIONAIRE's responsible agent under penalty of perjury, and shall be in the form prescribed by Auditor-Controller."

Based on our review of Salt Creek Beach Concession's monthly gross receipt statements for the audit period, Salt Creek Beach Concession did not sign the March 2015 monthly gross receipts statement as required. Also, the monthly gross receipts statements for September 2014 through August 31, 2015 submitted by Salt Creek Beach Concession had "monthly" amounts rather than "year to date" amounts recorded in the Year-to-Date columns.

These discrepancies were not detected by OCCR. Without a proper review by the County, there is a risk that errors in calculating rent owed and minimum annual rent could go undetected.

Recommendation No. 5:

We recommend that OCCR require Salt Creek Beach Concession to submit monthly gross receipts statements that comply with the lease agreement. We also recommend that OCCR perform timely reviews to ensure the monthly gross receipts statements submitted by Salt Creek Beach Concession are properly prepared, Salt Creek Beach Concession is notified of any errors detected, and corrections are made in a timely manner.

OCCR/OC Parks Management Response:

Concur. CEO Real Estate sent a letter to Salt Creek Beach Concession on May 13, 2016, to formally remind Salt Creek that the monthly gross receipts statements must be properly prepared in accordance with the lease agreement. OCCR Accounting will review the monthly gross receipts statement and ensure compliance with the lease agreement including the statement for "Days of Non-Operation" from Finding No. 1 above. The timely review of the Monthly Gross Receipt form will be incorporated into the current procedures for Amounts Receivable within 30 days.

Finding No. 6 – Agreements Not Retained For Equipment Rentals and Security Deposits (Control Finding)

Section 11.A of the lease agreement states in part, "The records must be supported by source documents such as sales slips, cash register tapes, purchase invoice or other pertinent documents. All copies of voided documents should be retained, along with the reasons for voiding and signature of person approving the void...In the event of admission charges or rentals, CONCESSIONAIRE shall issue serially numbered tickets for each such admission or rental and shall keep an adequate record of said tickets, both issued and unissued."

Salt Creek Beach Concession utilizes pre-numbered rental agreements for the rental of beach related equipment. The lessee retains either \$20 in cash, a credit card, or a driver license as a form of security deposit and documents this on the rental agreement. Upon return of rental equipment, we were informed the security deposit is returned; however, the rental agreement is discarded. Therefore, we were unable to validate the return of the security deposits during our audit testing. Any unreturned security deposits are reportable as gross receipts to the County.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 6:

We recommend that OCCR require Salt Beach Creek Concession to retain all pre-numbered rental agreements and to document the collection and return of security deposits.

OCCR/Parks Management Response:

Concur. CEO Real Estate sent a letter to Salt Creek Beach Concession on May 13, 2016, reminding the vendor of the requirement to retain all rental agreements at all times during the term of the lease. Concessionaire will also be required to note on the rental agreement the collection and return of any security deposit associated with the rental agreement.

Finding No. 7 – Security Deposit Not Properly Monitored (Control Finding)

As required by the lease agreement, Salt Creek Beach Concession maintains a security deposit in the form of a certificate of deposit with a financial institution in the amount of \$6,000. Security deposit records maintained by OCCR had not been updated since the initial deposit dated January 7, 2013 with a balance of \$6,088. At our request, Salt Creek Beach Concession obtained a statement from their financial institution indicating a balance of \$7,365 in the form of a three-month certificate of deposit. However, we were unable to determine if the County was still the assignee or beneficiary on the account.

A periodic review is needed to validate the existence of the certificate of deposit and that the County continues to be an assignee. A valid security deposit is important in the event the leasee fails to pay amounts owed or goes out of business.

Recommendation No. 7:

We recommend that OCCR require Salt Creek Beach Concession to provide either a certificate of deposit renewal notice and/or a bank statement at least once a year and update the accounting records accordingly. We also recommend that OCCR require Salt Creek Beach Concession to confirm or add the County of Orange as the assignee or beneficiary.

OCCR/Parks Management Response:

Concur. CEO Real Estate sent a letter to Salt Creek Concession on May 13, 2016, reminding the vendor of the requirement to provide proof of deposit from a financial institution annually in conjunction with the required financial statements. This process will be incorporated into all OCCR lease agreements where the required deposit is being held by a party outside the County.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

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

▶ **Critical Control Weaknesses:**

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

▶ **Significant Control Weaknesses:**

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

▶ **Control Findings:**

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



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses



June 16, 2016

STEVE FRANKS
DIRECTOR
OC COMMUNITY RESOURCES

JENNIFER HAWKINS, DVM
DIRECTOR
OC ANIMAL CARE

RENEE RAMIREZ
INTERIM DIRECTOR
OC COMMUNITY SERVICES

JULIA BIDWELL
INTERIM DIRECTOR
HOUSING COMMUNITY
DEVELOPMENT & HOMELESS
PREVENTION

STACY BLACKWOOD
DIRECTOR
OC PARKS

HELEN FRIED
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

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

**RE: AUDIT NO. 1558 REVENUE GENERATING LEASE AUDIT: OC
COMMUNITY RESOURCES/OC PARKS-SALT CREEK BEACH
CONCESSION, BE74Q-151**

The Auditor-Controller Internal Audit Division completed an audit of OC Community Resources (OCCR)/OC Parks – Salt Creek Beach Concession for the period September 1, 2014 through August 31, 2015. Below are OC Community Resources' responses to the audit findings and recommendations, which have been reviewed and approved by the County Executive Office.

Finding No. 1 – Noncompliance with Hours of Operation (Control Finding)

Recommendation No. 1:

We recommend that OCCR formally remind Salt Creek Beach Concession to notify the County of any non-operating days and deviations from the required schedules. We also recommend that OCCR collect any monies owed for non-compliance, including the \$2,097 owed. We also recommend that OCCR evaluate their monitoring process to see if improvements can be made to help ensure that Salt Creek Beach Concession is complying with the required Hours of Operation and notifying the County timely about any deviations.

OCCR/Parks Management Response:

Concur: CEO Real Estate sent a letter to Salt Creek Beach Concession on May 18, 2016, to formally remind Salt Creek of the terms of the lease agreement and liquidated damages. OCCR Accounting has received the amount due for non-compliance as noted in the audit (\$2,097).

Within the next 90 days, OC Parks will develop a procedure to observe and track whether the Salt Creek Beach Concession is closed during scheduled operating hours. Additionally, to assist in the monitoring process for Hours of Operation, the Monthly Gross Receipt Form will be revised to include a section to indicate when the Concession and Shuttle are "Non-Operation." Each month's form will signed by Salt Creek Beach Concession and include the following declaration: "Under Penalty of Perjury I certify that the information prepared above is correct." The updated form will be utilized within 30 days.

Finding No. 2: Accounting Year Not Formally Established (Control Finding)

Recommendation No. 2:

We recommend that OCCR ensure the current accounting period is clearly established in writing between the County and Salt Creek Beach Concession so that the time period for gross receipts reporting, financial statements, and



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Detailed Findings, Recommendations, and Management Responses

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

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1558
PAGE 2 OF 3
JUNE 16, 2016

other financial provisions of the lease agreement are consistent and agreed upon.

OCCR/OC Parks Management Response:

Concur: CEO Real Estate sent a letter confirming the accounting period and copied OCCR Accounting on May 13, 2016. The letter confirmed that effective January 1, 2016, the Accounting Year is from January 1st to December 31st.

Finding No. 3: Missing Financial Statements and Related Penalties Owed (Control Finding)

Recommendation No. 3:

We recommend that OCCR require Salt Creek Beach Concession to submit the required financial statements. We also recommend that OCCR determine whether to assess Salt Creek Beach Concession a penalty for failure to submit the required 2012, 2013, and 2014 financial statements.

OCCR/OC Parks Management Response:

Concur: CEO Real Estate sent a letter to Salt Creek Beach Concession on May 13, 2016 (1) reminding the tenant of its contractual obligation to regularly submit financial statements, (2) requesting the outstanding financial statements, and (3) notifying Salt Creek Beach Concession that a \$1500 penalty would be assessed if the requested documents were not received in a timely fashion. Outstanding financial statements were received by OC Parks on May 20, 2016. Prior to submitting the outstanding financial statements on May 20, 2016, the vendor indicated that the missing financial statements were submitted on time but were sent to the Treasurer-Tax Collector, where rental payments are sent, rather than to OC Parks. OC Parks will not assess the penalty since (1) the financial reports were received and (2) the vendor indicated that they had been submitted previously to the County on time. OCCR contacted the Treasurer-Tax Collector to verify the vendor's statements, but was unable to validate that the financial statements were received by the Treasurer-Tax Collector.

Finding No. 4: Untimely Review and Reconciliation of Financial Statements (Control Finding)

Recommendation No. 4:

We recommend that OCCR review and reconcile Salt Creek Beach Concession's annual financial statements in a timely manner.

OCCR/OC Parks Management Response:

Concur: OCCR Accounting is revising current procedures to include this task with the posting and tracking of payments. This will ensure that the receipt of financial statements are tracked and received timely. Procedures will also include the timely reconciliation and review by the Accounting manager for invoicing of any amounts due. The procedure will be in place within 30 days.

Finding No. 5: Monthly Gross Receipt Statements Not Properly Prepared (Control Finding)

Recommendation No. 5:

We recommend that OCCR require Salt Creek Beach Concession to submit monthly gross receipts statements that comply with the lease agreement. We also recommend that OCCR perform timely reviews to ensure the monthly gross receipts statements submitted by Salt Creek Beach Concession are properly prepared, Salt Creek Beach Concession is notified of any errors detected, and corrections are made in a timely manner.



Detailed Findings, Recommendations, and Management Responses

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

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1558
PAGE 3 OF 3
JUNE 16, 2016

OCCR/OC Parks Management Response:

Concur: CEO Real Estate sent a letter to Salt Creek Beach Concession on May 13, 2016, to formally remind Salt Creek that the monthly gross receipts statements must be properly prepared in accordance with the lease agreement. OCCR Accounting will review the monthly gross receipts statement and ensure compliance with the lease agreement including the statement for "Days of Non-Operation" from Finding No. 1 above. The timely review of the Monthly Gross Receipt form will be incorporated into the current procedures for Accounts Receivable within 30 days.

Finding No. 6: Agreements Not Retained For Equipment Rentals and Security Deposits (Control Finding)

Recommendation No. 6:

We recommend that OCCR require Salt Beach Creek Concession to retain all pre-numbered rental agreements and to document the collection and return of security deposits.

OCCR/Parks Management Response:

Concur: CEO Real Estate sent a letter to Salt Creek Beach Concession on May 13, 2016, reminding the vendor of the requirement to retain all rental agreements at all times during the term of the lease. Concessionaire will also be required to note on the rental agreement the collection and return of any security deposit associated with the rental agreement.

Finding No. 7: Security Deposit Not Properly Monitored (Control Finding)

Recommendation No. 7:

We recommend that OCCR require Salt Creek Beach Concession to provide either a certificate of deposit renewal notice and/or a bank statement at least once a year and update the accounting records accordingly. We also recommend that OCCR require Salt Creek Beach Concession to confirm or add the County of Orange as the assignee or beneficiary.

OCCR/Parks Management Response:

Concur: CEO Real Estate sent a letter to Salt Creek Beach Concession on May 13, 2016, reminding the vendor of the requirement to provide proof of deposit from a financial institution annually in conjunction with the required financial statements. This process will be incorporated into all OCCR lease agreement where the required deposit is being held by a party outside the County.

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

Sincerely,

Signature

Date

SAF:bwr