FINAL CLOSE-OUT FIRST FOLLOW-UP AUDIT:

REVIEW OF CONCESSION REVENUE OC COMMUNITY RESOURCES/OC PARKS DAVID L. BAKER MEMORIAL GOLF COURSE ORIGINAL AUDIT NO. 2738

AS OF APRIL 30, 2009

OC Community Resources/OC Parks and David L. Baker Memorial Golf Course satisfactorily implemented or addressed all thirteen (13) recommendations from our original audit report.

During the original audit, David L. Baker Memorial Golf Course reported approximately \$2.8 million in gross receipts and paid rent to the County of approximately \$413,000. Over its 40 year life, this concession agreement is estimated to generate over \$13 million in rent to OC Parks.

AUDIT NO: 2840-B REPORT DATE: MAY 29, 2009

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Providing Facts and Perspectives Countywide

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA





Transmittal Letter

Audit No. 2840-B May 29, 2009

- TO: Steve Franks, Director OC Community Resources
- **FROM:** Dr. Peter Hughes, CPA County Internal Auditor
- SUBJECT: First and Final Close-Out Follow-Up Audit of Review of Concession Revenue - David L. Baker Memorial Golf Course (Original Audit No. 2738, Issued May 20, 2008)

We have completed a First and Final Close-Out Follow-Up Audit of Review of Concession Revenue - David L. Baker Memorial Golf Course. Our audit was limited to reviewing, as of April 30, 2009, actions taken to implement the thirteen (13) recommendations in our original report dated May 20, 2008.

The results of our Follow-Up Audit are discussed in the OC Internal Auditor's **Executive Report** following this transmittal letter. Because satisfactory corrective action has been taken for all recommendations, this report represents the close-out of the original audit.

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.

ATTACHMENTS

Other recipients of this report listed on the **OC Internal Auditor's Executive Report** on page 5.

Table of Contents



First and Final Close-Out Follow-Up Audit: Review of Concession Revenue David L. Baker Memorial Golf Course (Original Audit No. 2738) Audit No. 2840-B

As of April 30, 2009

Transmittal Letter	i
Results	1
1. Additional Rent Owed – Non Alcoholic Beverages (Three Control Findings)	2
2. Reasonableness and Business Purpose of Complimentary Golf Rounds (Control Finding)	2
3. Reporting Fair Market Value of Barter Transactions (Control Finding)	2
4. Periodic Reconciliation of Daily Starter Sheets (Control Finding)	3
5. Segregation of Duties Risk (Control Finding)	3
6. Tournament and Banquet Documentation (Two Control Findings)	3
7. Reporting of Gift Certificates and Event Deposits (Two Control Findings)	3
8. Attestation for Monthly Statement of Gross Receipts (Control Finding)	4
9. Clarifying Golf Lessons Reporting Category (Control Finding)	4
Other Matters Noted During Follow-Up Audit	



Audit No. 2840-B

May 29, 2009

TO:	Steve Franks, Director
	OC Community Resources
FROM:	Dr. Peter Hughes CPAVA No. 100
	Dr. Peter Hughes, CPA
SUBJECT:	First and Final Close-Out Follow-Up Audit of Review of Concession Revenue - David L. Baker Memorial Golf Course (Original Audit No. 2738, Issued May 20, 2008)

Scope of Review

We have completed a First and Final Close-Out Follow-Up Audit of Review of Concession Revenue - David L. Baker Memorial Golf Course, currently operated by Eagle Golf. Our audit was limited to reviewing actions taken as of April 30, 2009 to implement the thirteen (13) recommendations made in our original audit report.

By Minute Order dated April 15, 2008 (subsequent to our original audit), the Board of Supervisors approved the Consent to Assignment of Concession Agreement from American Golf Corporation (American Golf) to CNL Income EAGL Leasehold Golf, LLC (CNL). The Board of Supervisors also authorized CNL to enter into a Sub-Concession Agreement with Evergreen Alliance Golf Limited, L.P. (Eagle Golf) for the operation of the golf course. Our follow-up audit included reviewing Eagle Golf's records as applicable to the original recommendations.

Background

The original audit reviewed whether American Golf Corporation's records adequately supported their monthly gross receipts reported to the County. During the original audit, the golf course generated approximately \$2.8 million in gross receipts and the rent paid to the County was approximately \$413,000. The original audit identified thirteen (13) recommendations related to the additional rent owed on reported non-alcoholic beverages, reasonableness of complimentary golf rounds, reporting barter transactions, starter sheets reconciliation, segregation of duties, special events documentation, reporting of gift certificates and event deposits, attestation on the monthly gross receipts statement, and clarification on golf lessons.

Results

OC Community Resources/OC Parks (OC Parks), American Golf and Eagle Golf successfully implemented or addressed all thirteen (13) recommendations from the original audit report. As such, this report represents the **final close-out** of the original audit. Following is the implementation status of the thirteen (13) original recommendations:



1. Additional Rent Owed – Non Alcoholic Beverages (Three Control Findings) <u>Recommendation No. 1</u>: We recommend that OC Parks require American Golf to pay additional rent of \$1,464 owed for November 1, 2006 through October 31, 2007.

<u>Current Status</u>: **Implemented.** Our review of documentation provided by OC Parks found that American Golf paid the additional rent owed.

<u>Recommendation No. 2</u>: We also recommend that OC Parks require American Golf to pay additional estimated rent of \$4,148 owed for the period January 1, 2004 through October 31, 2006.

<u>Current Status</u>: **Implemented.** Our review of documentation provided by OC Parks found that American Golf paid the additional rent owed.

<u>Recommendation No. 3</u>: We also recommend that OC Parks require American Golf to calculate and pay additional rent owed for the period November 1, 2007 through the month of correction.

<u>Current Status</u>: **Implemented.** Our review of documentation provided by OC Parks found that American Golf paid the additional rent owed. Additionally, our review of Eagle Golf's September 2008 gross receipts statement found that Eagle Golf is reporting non-alcoholic beverages in the proper percentage rent category.

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

<u>Recommendation No. 4</u>: We recommend that OC Parks evaluate the nature and quantity of complimentary golf rounds and if necessary, clarify the proper reporting with American Golf or its assignee.

<u>Current Status</u>: **Implemented.** OC Parks determined that the fair market value of complimentary golf rounds should be reported as gross receipts, except for on-site employees and regional managers playing the course as part of operational evaluations. Our review of documentation provided by OC Parks found that Eagle Golf is properly reporting the fair market value of complimentary golf rounds as gross receipts effective March 2009.

3. Reporting Fair Market Value of Barter Transactions (Control Finding)

<u>Recommendation No. 5</u>: We recommend that OC Parks require American Golf or its assignee to report the fair market value of barter transactions as gross receipts to the County.

<u>Current Status</u>: **Implemented.** Our review of documentation provided by OC Parks found that Eagle Golf is properly reporting the fair market value of the barter transactions effective March 2009.



4. Periodic Reconciliation of Daily Starter Sheets (Control Finding)

<u>Recommendation No. 6</u>: We recommend that OC Parks require American Golf or its assignee to periodically reconcile the rounds of golf recorded on the daily starter sheet with the cashiering system. Documentation of the reconciliation should be retained.

<u>Current Status</u>: **Implemented.** Our review of documentation provided by OC Parks found that Eagle Golf has implemented the recommendation by integrating its starter sheet with the cashiering system where by the total number of golf rounds reserved, walk-ins played, and no shows are accounted for and reconciled with paid golf rounds.

5. Segregation of Duties Risk (Control Finding)

<u>Recommendation No. 7</u>: We recommend that OC Parks evaluate whether American Golf or its assignee should implement additional controls to further mitigate the segregation of duties risk.

<u>Current Status</u>: **Implemented.** OC Parks evaluated the American Golf's written cash handling policy (which included random surprise cash and other audits to help mitigate the segregation of duties risk) and determined it acceptable. The same policy is currently being used by Eagle Golf. As such, we considered the recommendation to be implemented.

6. Tournament and Banquet Documentation (Two Control Findings) <u>Recommendation No. 8</u>: We recommend that OC Parks require American Golf or its assignee to use sequentially numbered event agreements.

<u>Current Status</u>: **Not Implemented/Closed.** Our review of supporting documentation provided by OC Parks found that Eagle Golf's event agreement forms are not sequentially numbered. Instead, Eagle Golf implemented a new procedure wherein the cash register receipts are stapled to the event agreement forms to help ensure that event receipts are recorded in the cash register. At this time, we will not pursue the sequential numbering of the forms. However, in future audits we may re-evaluate the need for sequentially numbered forms.

<u>Recommendation No. 9</u>: We also recommend that OC Parks remind American Golf or its assignee that written event agreements with a customer signature should be retained for tournaments, banquets, and any other events.

<u>Current Status</u>: **Implemented.** Our review of supporting documentation provided by OC Parks for a sample of two events in September 2008 found that the Eagle Golf's event agreement forms were properly documented with appropriate customer signatures.

7. Reporting of Gift Certificates and Event Deposits (Two Control Findings) <u>Recommendation No. 10</u>: We recommend that OC Parks require American Golf or its assignee to report gift certificates as gross receipts when sold.



<u>Current Status</u>: **Implemented/Closed.** This recommendation was considered implemented for American Golf. American Golf's gift certificates were sold and could be redeemed at any of their nationwide courses. Under those circumstances, OC Parks determined that reporting the gift certificates when redeemed (rather than when sold) was acceptable and in the County's interest.

Currently, Eagle Golf reports gift certificates when redeemed. However, Eagle Golf's gift certificates can only be used at the same David L. Baker location where they are sold from. Therefore, the gift certificates should be reported as gross receipts when sold (not redeemed). OC Parks stated it will request Eagle Golf to report gift certificates as gross receipts when sold. As this recommendation was implemented for American Golf, we will not pursue further as part of this follow-up audit.

<u>Recommendation No. 11</u>: We recommend that OC Parks require American Golf or its assignee to report event deposits as gross receipts when collected.

<u>Current Status</u>: **Implemented.** We reviewed supporting documentation provided by OC Parks and found that Eagle Golf properly reports event deposits as gross receipts when collected effective February 2009.

8. Attestation for Monthly Statement of Gross Receipts (Control Finding)

<u>Recommendation No. 12</u>: We recommend that OC Parks require American Golf or its assignee to sign on the monthly Statement of Gross Receipts submitted to the County that they "certify under penalty of perjury that this report is true and correct to the best of my knowledge."

<u>Current Status</u>: **Implemented.** Our review of Eagle Golf's March 2009 monthly Statement of Gross Receipts found that the attestation was properly included.

9. Clarifying Golf Lessons Reporting Category (Control Finding)

<u>Recommendation No. 13</u>: We recommend that OC Parks consider whether the approval and proper rent category for golf lessons be clarified in writing and provided to American Golf or its assignee.

<u>Current Status</u>: **Implemented.** OC Parks provided a memo to Eagle Golf that approved the golf lessons and defined the percentage rent.

Other Matters Noted During Follow-Up Audit:

- <u>Misclassification of Club/Cart Rentals</u>: During our testing of September 2008 gross receipts, we found that Eagle Golf misclassified gross receipts from golf club/pull cart rentals as ProShop (3% rent) rather than Equipment Rentals (25% rent). Eagle Golf acknowledged this error and corrected the misclassification effective March 2009.
- <u>Tobacco Sales</u>: During our testing of September 2008 gross receipts, we found that Eagle Golf was selling tobacco. The County prohibits the sale of tobacco from the leased premises. OC Parks instructed Eagle Golf to discontinue the tobacco sales and Eagle Golf agreed.



We appreciate the cooperation and assistance extended to us by OCCR/OC Parks, OCCR/Accounting, and Eagle Golf during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Autumn McKinney, Senior Audit Manager at 834-6106.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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