

Internal Audit Department

O R A N G E C O U N T Y
5th Largest County in the USA

FINAL CLOSE-OUT FIRST FOLLOW-UP AUDIT:

REVIEW OF LEASE REVENUE OC PUBLIC WORKS LAKE FOREST GOLF AND PRACTICE CENTER

AS OF MARCH 5, 2010

\$2M GROSS RECEIPTS
ANNUALLY
\$148K RENT PAID TO THE
COUNTY ANNUALLY

OC Public Works and Lake Forest Golf and Practice Center satisfactorily implemented or addressed all nine (9) recommendations from our original audit report.

During the original audit, Lake Forest Golf and Practice Center reported approximately \$2 million in gross receipts and paid rent to the County of approximately \$148,000. Over its 35 year term, this lease agreement is estimated to generate over **\$4.1 million** in rent to the County.

AUDIT NO: 2840-D
REPORT DATE: JUNE 29, 2010
(Original Audit No. 2737)

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Deputy Director: [Eli Littner, CPA, CIA](#)
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RISK BASED AUDITING

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



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For the Most Outstanding Article of the Year



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 2840-D June 29, 2010

TO: Jess Carbajal, Director
OC Public Works

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

SUBJECT: **First and Final Close-Out** Follow-Up
Audit of Review of Lease Revenue for
Lake Forest Golf and Practice Center,
Original Audit No. 2737, Issued October
7, 2008

We have completed a First and Final Close-Out Follow-Up Audit of Review of Lease Revenue for Lake Forest Golf and Practice Center. Our audit was limited to reviewing, as of March 5, 2010, as extended, actions taken to implement the nine (9) recommendations in our original report dated October 7, 2008.

The results of our Follow-Up Audit are discussed in the **OC Internal Auditor's 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 Board of Supervisors (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 are listed on the **OC Internal Auditor's Report** on page 4.

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OC Public Works
Lake Forest Golf and Practice Center (Original Audit No. 2737)
Audit No. 2840-D*

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OC Internal Auditor's Report



Audit No. 2840-D

June 29, 2010

TO: Jess Carbajal, Director
OC Public Works

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

SUBJECT: **First and Final Close-Out** Follow-Up Audit of Review of Lease Revenue for Lake Forest Golf and Practice Center, Original Audit No. 2737, Issued October 7, 2008

Scope of Review

We have completed a First and Final Close-Out Follow-Up Audit of Review of Lease Revenue for Lake Forest Golf and Practice Center, operated by American Golf Corporation (American Golf). Our audit was limited to reviewing actions taken as of June 30, 2009 and subsequent actions taken as of March 5, 2010 to implement the nine (9) recommendations made in our original audit report.

Background

The original audit reviewed whether American Golf's records adequately supported their monthly gross receipts reported to the County. During the original audit, the golf course generated approximately \$2 million in gross receipts and the rent paid to the County was approximately \$148,000. The original audit identified ten (10) findings and nine (9) recommendations. A recommendation for one (1) finding was not required as American Golf agreed to take corrective action prior to the original audit report being issued. The nine (9) remaining recommendations related to enhancing controls over range card and barbecue sales, reasonableness of complimentary golf rounds, misclassification of chipping fees, third party golf camp documentation, reporting membership sales, reporting fair market value of barter transactions, and reporting charitable donations.

Results

OC Public Works and American Golf implemented all nine (9) 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 original recommendations:

1. Enhanced Controls for Range Card Sales (Control Finding)

Recommendation No. 1: We recommend that OC Public Works require American Golf to independently verify the daily range card inventory at opening and closing and reconcile range card sales between Pro Shop Open/Closing Checklist and the cash register.

Current Status: **Implemented.** Our review of the Pro Shop Open/Closing Checklist and the cash register sales report for two sample days of 9/13/08 and 10/8/08 found that American Golf verified the range card inventory and reconciled the sales between the Pro Shop Open/Closing Checklist and the cash register sales report.



2. Enhanced Controls for Barbeque Sales (Control Finding)

Recommendation No. 2: We recommend that OC Public Works require American Golf to enhance controls for BBQ sales to include proper utilization of the Convenience Cart Form to record beginning and ending inventory, and a documented supervisory review to verify the inventories and reconcile with gross receipts recorded. A battery operated cash register should also be considered.

Current Status: **Implemented/Closed.** American Golf informed us that a stand alone cash register was implemented to record barbeque sales; however, the BBQ sales have since been discontinued. As result, the original recommendation is no longer applicable. Therefore, we considered this recommendation implemented/closed.

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

Recommendation No. 3: We recommend that OC Public Works evaluate the nature and quantity of complimentary golf rounds and if necessary, clarify the proper reporting with American Golf.

Current Status: **Implemented.** OC Public Works 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 for the sample month of April 2009 found that American Golf properly reported the fair market value of complimentary golf rounds as gross receipts.

4. Misclassification of Chipping Fees (Control Finding)

Recommendation No. 4: We recommend that OC Public Works require American Golf to report all future chipping fees in the golf services category (5% rent) and evaluate a rent credit if requested by American Golf.

Current Status: **Implemented.** Our review of documentation for the sample month of November 2008 found that American Golf reported chipping fees in the golf services category.

5. Third Party Golf Camps/Lessons (Two Control Findings)

Recommendation No. 5: We recommend that OC Public Works evaluate whether American Golf should be required to report future amounts for golf camps/lessons provided for third party organizations at the gross amount charged to the camp/lesson participants.

Current Status: **Implemented.** Our review of documentation found that OC Public Works evaluated and advised American Golf on April 20, 2009 to report 100% of the camp/lessons fees collected by third party organizations.

Recommendation No. 6: We recommend that OC Public Works require American Golf to retain the rosters for all third party organization camps/lessons.

Current Status: **Implemented.** Our review of documentation for June and July 2009 found that American Golf is retaining the rosters for third party organization camps/lessons.



6. Allocation of Green Fees for Online Fee Reservations (Control Finding)

Recommendation No. 7: No recommendation was required as American Golf agreed to take corrective action prior to the original audit report being issued.

Current Status: Not required.

7. Reporting of So Cal Golfer Club Membership Sales (Control Finding)

Recommendation No. 8: We recommend that OC Public Works require American Golf to report the full amount of So Cal Golfer Club memberships as gross receipts when sold.

Current Status: **Implemented.** Our review of documentation for the sample month of March 2009 found that American Golf reported the full amount of memberships when sold.

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

Recommendation No. 9: We recommend that OC Public Works require American Golf to report the fair market value of barter transactions as gross receipts to the County.

Current Status: **Implemented.** Our review of documentation found that American Golf reported the fair market value of barter transactions for the sample months of May 2009 through July 2009. We were informed by American Golf that it will no longer accept barter transactions.

9. Reporting of National and Local Charitable Donations (Control Finding)

Recommendation No. 10: We recommend that OC Public Works clarify in writing to American Golf whether the charitable activities are permitted and excludable from gross receipts at Lake Forest.

Current Status: **Implemented.** OC Public Works required American Golf to obtain written permission from the County prior to conducting any charitable activity on the premises. American Golf submitted written permission requests to OCPW with additional description of the charitable activities. OCPW reviewed American Golf's written request dated January 19, 2010 and obtained County Counsel's advice to ensure granting permission for the activities complied with County policy. On March 4, 2010, OCPW clarified in writing to American Golf that the charitable fundraising activities are permitted and the proceeds are excludable from gross receipts.

We appreciate the cooperation and assistance extended to us by OC Public Works during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

OC Internal Auditor's Report



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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