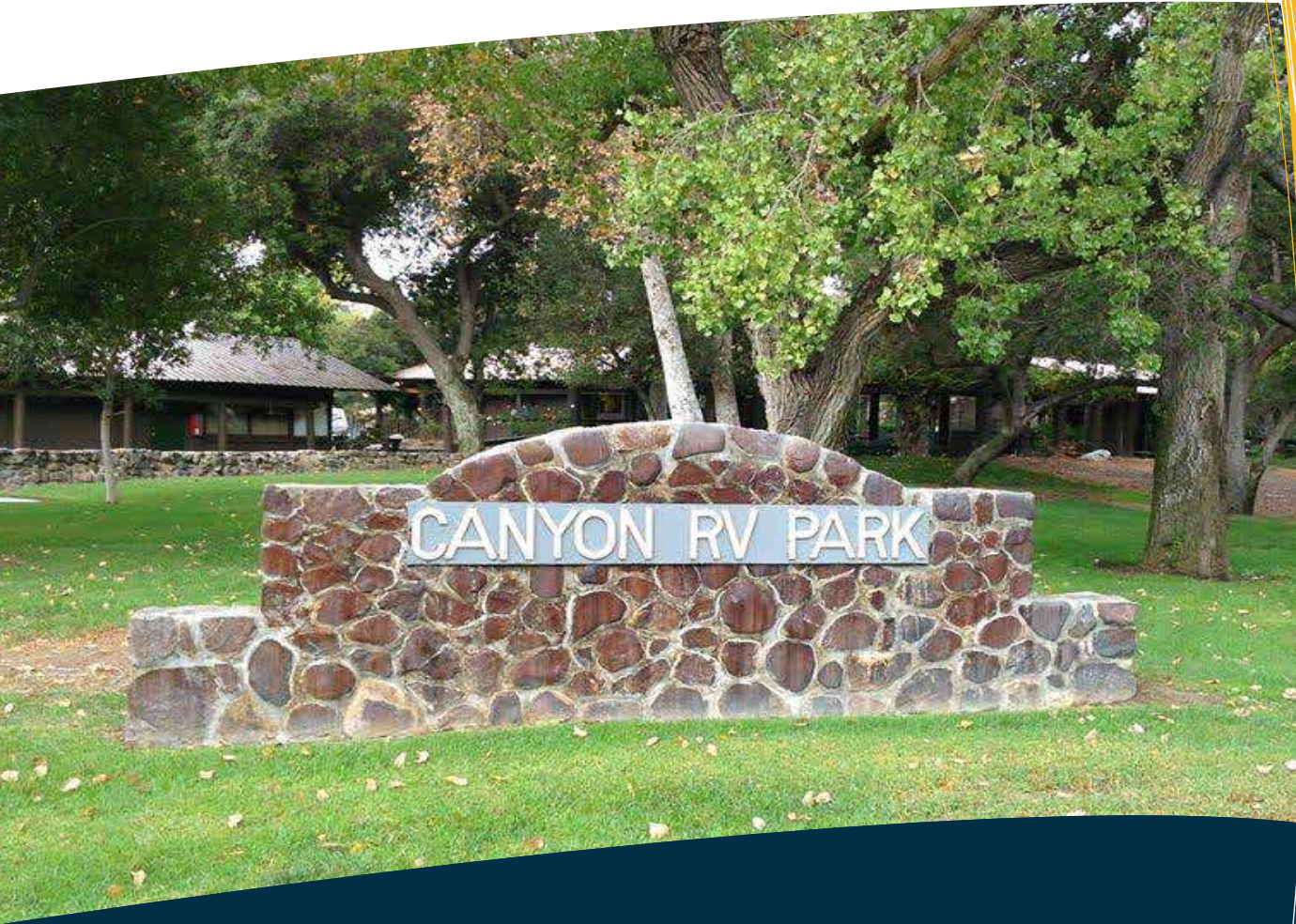




Orange County Auditor-Controller Internal Audit



Revenue Generating Lease Audit:
OC Community Resources/OC Parks –
Canyon R.V./Featherly Park, PR09B-16

For the Period
September 1, 2015 through August 31, 2016

Audit Number 1641
Report Date: June 22, 2017



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

Eric H. Woolery, CPA
Orange County Auditor-Controller

| | |
|--|---------------------------------|
| Toni Smart, CPA | Director, Internal Audit |
| Scott Suzuki, CPA, CIA, CISA | Assistant Director |
| Nancy N. Ishida, CPA, CIA, CISA | Senior Audit Manager III |
| Elizabeth Wylde, CPA | Audit Manager I |
| Anisha John | Senior Auditor |

12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Auditor-Controller Web Site
www.ac.ocgov.com



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1641

June 22, 2017

TO: Dylan Wright, Director
OC Community Resources

SUBJECT: Revenue Generating Lease Audit: OC Community Resources/OC Parks –
Canyon R.V./Featherly Park, PR09B-16

We have completed our Revenue Generating Lease Audit of Canyon R.V./Featherly Park, for the period of September 1, 2015 through August 31, 2016. Attached is our final report 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 that your department 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
- Lilly Simmering, 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

*Dylan Wright, Director
OC Community Resources
June 22, 2017*

Other recipients of this report (cont.):

Kirk Holland, Business Manager, OC Community Resources/OC Parks
Brian Rayburn, Business Office Manager, OC Community Resources
Scott Mayer, Chief Real Estate Officer, CEO/Real Estate
Ronald Inouye, Administrative Manager, CEO/Real Estate
Nicole Nguyen, Budget Analyst, OC Community Resources
Lindsay Brennan, Budget Analyst, OC Community Resources/OC Parks
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



Table of Contents

*Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Canyon R.V./Featherly Park
Audit No. 1641*

For the Period September 1, 2015 through August 31, 2016

| | |
|---|----|
| Transmittal Letter | i |
| Internal Auditor's Report | |
| OBJECTIVES | 1 |
| RESULTS | 1 |
| BACKGROUND | 2 |
| SCOPE AND METHODOLOGY | 2 |
| FOLLOW-UP PROCESS | 2 |
| MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL | 2 |
| Detailed Findings, Recommendations, and Management Responses | |
| Finding No. 1 – Orange County Ropes Course Lacks Adequate Internal Controls and Financial Records (Significant Control Weakness) | 4 |
| Finding No. 2 – Canyon R.V. and OC Ropes Course Did Not Calculate OC Ropes Course Gross Receipts in Accordance With the Sub-Operating Agreement (Significant Control Weakness) | 5 |
| Finding No. 3 – The Sub-Operating Agreement Needs to be Reviewed (Control Finding) | 6 |
| Finding No. 4 – Inaccurate Reservation Records (Control Finding) | 7 |
| Finding No. 5 – Receipts Were Not Provided for Food and Beverage Purchases (Control Finding) | 8 |
| Finding No. 6 – Certified Financial Statements for 2014 and 2015 Were Not Submitted in a Timely Manner (Control Finding) | 8 |
| Finding No. 7 – Canyon R.V. Includes Parking Revenue in OC Ropes Course Revenue (Control Finding) | 9 |
| Finding No. 8 – Storage Trailers Parked in the Canyon R.V. Designated Parking Lot (Control Finding) | 10 |
| ATTACHMENT A: Report Item Classifications | 11 |
| ATTACHMENT B: OCCR/OC Parks Management Response | 12 |



Internal Auditor's Report

Audit No. 1641

June 22, 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 –
Canyon R.V./Featherly Park, PR09B-16

OBJECTIVES

We performed an audit of certain records and documents for the period of September 1, 2015 through August 31, 2016, pertinent to the lease agreement (Agreement) dated June 15, 1998 between the County of Orange (County) and Canyon Recreational Vehicle Park (Canyon R.V.), a California general partnership. The Agreement is primarily to promote the development and operation of a public recreational vehicle park, campground and other compatible services. We performed this audit in accordance with the FY 2016-17 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and the Board of Supervisors. Our audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* prescribed by the Institute of Internal Auditors. Our audit objectives were:

1. To determine whether Canyon R.V.'s records adequately supported the monthly gross receipts and rent payments reported to the County.
2. To determine whether Canyon R.V. complied with certain other provisions of the Agreement, such as accounting methods, payment procedures, 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 Canyon R.V.'s records, in general, adequately supported gross receipts reported to the County and rent payments were remitted properly to the County with the exception of **two (2) Significant Control Weaknesses** and **four (4) Control Findings**. The **two (2) Significant Control Weaknesses** related to the sub-operator's, OC Ropes Course, lack of records and internal controls over gross receipts and Canyon R.V.'s non-compliance with the required method of collecting gross receipts from OC Ropes Course. The **four (4) Control Findings** related to inaccurate reservation records, misclassified parking revenue, storage trailers parked on the premises, and review of the sub-operating agreement between Canyon R.V. and OC Ropes Course (Sub-Operating Agreement).

Objective #2: We found that Canyon R.V. complied with other provisions of the Agreement; however, we identified **one (1) Control Finding**. This finding included Canyon R.V.'s non-submission of certified financial statements.



Internal Auditor's Report

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

These findings are further described in the Detailed Findings, Recommendations, and Management Responses section of this report.

BACKGROUND

The County of Orange entered into a 30-year Agreement with Canyon Recreational Vehicle Park, a California general partnership, dated June 15, 1998. The purpose of the Agreement was for Canyon R.V. to develop and operate a public recreational vehicle park and campground. For the period September 1, 2015 through August 31, 2016, Canyon R.V. reported gross receipts of **\$1,791,014** to the County and paid **\$235,742** in rent to the County.

On February 28, 2017, the Board of Supervisors (BOS) approved the Concession Lease Assignment and Consent Agreement of the Lease Agreement for Canyon Recreational Vehicle Park from Canyon Recreational Vehicle Park, a California general partnership, to Canyon RV Park, Inc., a California corporation.

Canyon R.V. entered into a five-year Sub-Operating Agreement with the option to extend the agreement for two (2) additional five-year terms with Rock City Climbing Center, a sole proprietor on October 2, 2002. The purpose of the Sub-Operating Agreement is for Rock City Climbing Center, now operating as OC Ropes Course, to operate a ropes challenge course on a portion of the Canyon R.V. premises. For the period September 1, 2015 through August 31, 2016, OC Ropes Course paid **\$8,183** in rent to the County.

SCOPE AND METHODOLOGY

Our audit was limited to certain records and documents that support the gross receipts Canyon R.V. reported to the County for the period September 1, 2015 through August 31, 2016. Our audit included inquiry, auditor observation, and limited testing to assess the adequacy of documentation for gross receipts and ensure completeness of remitted gross receipts. In addition, we reviewed certain other provisions of the Agreement, such as accounting methods, payment procedures, and annual financial statement requirements.

FOLLOW-UP PROCESS

The scheduling of a Follow-Up Audit on the eight (8) recommendations will be discussed with OC Community Resources (OCCR)/OC Parks management.

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.



Internal Auditor's Report

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 audit enhances and complements, but does not substitute for 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 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 Canyon R.V., OC Ropes Course, 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 – Orange County Ropes Course Lacks Adequate Internal Controls and Financial Records (Significant Control Weakness)

In October 2002, Canyon R.V. and Rock City, now known as Orange County Ropes Course (OC Ropes Course), signed a five-year Sub-Operating Agreement, with two options to extend, allowing OC Ropes Course to utilize a portion of the County's property to operate a ropes challenge course. The Sub-Operating Agreement Section 1, "Master Agreement" states, "This agreement is and shall be at all times subject and subordinate to the terms and conditions of the Master Agreement with the County of Orange, California."

OC Ropes Course does not have a system in place to document the fees collected in order to provide reasonable assurance that they have accurately recorded all gross receipts. OC Ropes Course does not maintain adequate records of the number of ropes course participants, paid observers, and the related fees collected.

OC Ropes Course records credit cards using a card reader on the owner's mobile phone. However, OC Ropes Course does not have any method for recording cash and checks received from participants such as a cashiering system or receipt books. The event calendar is not a sufficient record since it is not complete or comprehensive, and it also includes events at other locations. Since the OC Ropes Course fees can vary between participants and are not always consistent with its advertised rates, it is important that a record-keeping system be in place and records are retained. In addition, since the OC Ropes Course commingles its gross receipts with monies from the owner's other businesses, we were unable to identify the amount of cash collected from the OC Ropes Course.

The Sub-Operating Agreement between Canyon R.V. (Operator) and OC Ropes Course (Sub-Operator) Section 12, "Records and Accounts" states, "Sub-Operator shall at all times during the term of this Agreement keep or cause to be kept true and complete books, records and accounts of all financial transactions relating to operation of the Premises as a ropes course. All such books, records and account shall be available upon reasonable advance notice and during regular business hours, for inspection and copying by the Operator or if required under the Master Agreement."

In addition, the Agreement between the County and Canyon R.V. Section 14.A, "Records" states, "TENANT shall, at all times during the term of this Lease, keep or cause to be kept true and complete books, records, and accounts of all financial transactions in the operation of all business activities, of whatever nature, conducted in pursuance of the rights granted herein. The records must be supported by source documents such as sales slips, cash register tapes, purchase invoices, or other pertinent documents.

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. Totals registered shall be read and recorded by TENANT at the beginning and end of each business day."



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 1:

We recommend that OCCR/OC Parks inform Canyon R.V. that the Agreement and Sub-Operating Agreement require OC Ropes Course to utilize cash controls such as a cashiering and/or reservation system or pre-numbered receipts, and to maintain source documents supporting the amount of gross receipts generated by the OC Ropes Course. The OC Ropes Course should also maintain financial records that separately identify all gross receipts from the OC Ropes Course and retain the records and supporting documents as required by the Agreement.

OCCR/OC Parks Management Response:

Concur – OC Parks and CEO/Real Estate concur with the finding, but will allow Canyon R.V. to change the Sub-Operating Agreement with OC Ropes Course to be a fixed monthly rent as proposed by Canyon R.V. during the renewal process. Gross receipts from the ropes course will not be required by the County if the Sub-Operating Agreement is changed to a fixed fee basis. County will review and concur to appropriate new Sub Operating Agreement.

Finding No. 2 – Canyon R.V. and OC Ropes Course Did Not Calculate OC Ropes Course Gross Receipts in Accordance With the Sub-Operating Agreement (Significant Control Weakness)

The Sub-Operating Agreement between Canyon R.V. and OC Ropes Course required OC Ropes Course to pay Canyon R.V. 20% rent on all gross receipts it received from participants. Based on research, the County receives half of the rent Canyon R.V. collects from OC Ropes Course (i.e., 10% of OC Ropes Course gross receipts), which for the period September 1, 2015 through August 31, 2016, was \$8,183. However, Canyon R.V. calculated OC Ropes Course's rent based on a different, undocumented arrangement with OC Ropes Course.

Instead of calculating OC Ropes Course rent based on a percentage of its gross receipts as required by the Sub-Operating Agreement, Canyon R.V. charged OC Ropes Course participants a parking fee of \$5 per car, which it incorrectly reported as OC Ropes Course gross receipts instead of Canyon R.V.'s parking receipts (See [Finding No. 7](#)). Additionally Canyon R.V. staff calculated the rest of OC Ropes Course gross receipts based on Canyon R.V.'s headcount of car occupants, at \$2 per person rather than basing gross receipts on fees paid by OC Ropes Course participants and observers. Although Canyon R.V. did have a record of the periodic charges to the OC Ropes credit card, it did not retain the source documentation supporting the daily car occupant count on which the credit card payments were based.

OC Ropes Course informed us that they had been paying the \$2 fee per car occupant to Canyon R.V. because that had been the procedure since the OC Ropes Course began operating at that site. Canyon R.V. informed us that it needed to utilize a different method of charging rent because the OC Ropes Course lacked sufficient records (See [Finding No. 1](#)).

The Sub-Operating Agreement Section 11, "Rents" states, "Sub-Operator shall pay to Operator, Rent for the Premises and Ropes Course, the following amounts:

- (a) Sub-Operator shall collect a fee for each and every participant in a ropes course event at the Park. Sub-Operator shall pay to Operator 20% of all receipts from participant fees, which shall be mailed to the corporate office in Torrance.



Detailed Findings, Recommendations, and Management Responses

- (b) Rent shall be computed based on any and all fees collected by Sub-Operator “as and when collected”

The current process for calculating gross receipts based on car occupant headcount and parking fees does not comply with the terms of the Sub-Operating Agreement. In addition, the unapproved methodology used to calculate OC Ropes Course gross receipts would fail to include ropes course fees collected from the RV park participants who walk to the ropes course or participants who do not park in the Canyon R.V. parking lot. At the time of fieldwork, OC Ropes Course’s website advertised fees that ranged from approximately \$18 to \$35 per participant with a \$3 fee for observers. OC Ropes Course informed us that actual fees sometimes vary from advertised rates.

Recommendation No. 2:

We recommend that OCCR/OC Parks require Canyon R.V. to comply with the Sub-Operating Agreement requirement that the OC Ropes Course pay rent to Canyon R.V. based on the percentage of its gross receipts stated in its Sub-Operating Agreement. In addition, we recommend that OCCR/OC Parks require Canyon R.V. to retain the source documents that support the gross receipts reported to the County.

OCCR/OC Parks Management Response:

Concur – OC Parks and CEO/Real Estate concur with the finding, but will allow Canyon R.V. to change the Sub-Operating Agreement with OC Ropes Course to be a fixed monthly rent as proposed by Canyon R.V. during the renewal process. Documentation of gross receipts from the ropes course will not be required by the County if the Sub-Operating Agreement is changed to a fixed fee basis. County will review and concur to appropriate new Sub Operating Agreement.

Finding No. 3 – The Sub-Operating Agreement Needs to be Reviewed (Control Finding)

The Sub-Operating Agreement between Canyon R.V. (Operator) and OC Ropes Course (Sub-Operator) Section 12, “Records and Accounts” states, “Operator shall not be held responsible to County for the accuracy of record keeping, reporting and payment of the percentage rents due hereunder by Sub-Operator herein.”

The arrangement between Canyon R.V. and OC Ropes Course does not provide oversight or accountability for OC Ropes Course’s compliance with the requirements of the Sub-Operating Agreement.

Recommendation No. 3:

We recommend that OCCR/OC Parks review the Sub-Operating Agreement between Canyon R.V. and OC Ropes Course to determine if the Sub-Operating Agreement complies with the County’s Agreement with Canyon R.V.

OCCR/OC Parks Management Response:

Concur – CEO/Real Estate and OC Parks have reviewed both the Sub-Operating Agreement and the Lease between the County and Canyon R.V. Upon approval by the Director/OC Parks, Canyon R.V. can use the premise for an outdoor rope course, since this use is ancillary to the required use and service of the master lease.



Detailed Findings, Recommendations, and Management Responses

Finding No. 4 – Inaccurate Reservation Records (Control Finding)

An observation of occupied recreational vehicle (RV) sites on August 31, 2016 and additional detailed testing of RV reservations resulted in three inconsistencies in Canyon R.V.'s records.

We observed a sample of 35 occupied RV sites and compared them with Canyon R.V.'s reservation records. Of the 35 occupied sites tested, Canyon R.V. did not have any record of a reservation for one of the observed occupied sites and was unable to explain the discrepancy.

In another test, we traced nine RV site reservations through Canyon R.V.'s supporting records. Of the nine sites tested, we found two instances of inconsistent information in Canyon R.V.'s records.

The first instance concerned a camper's two-day reservation for two sites on the Canyon R.V. reservation calendar. The camper's reservation slip for these dates listed both of the site numbers, but it only charged fees for one site. Canyon R.V. informed us the camper only paid for the one site. Although Canyon R.V.'s reservation calendar also had the camper's name listed for the other site, there was no payment recorded for that site.

In another instance, a reservation slip for a one-week reservation, covering August 24, 2016 through August 31, 2016, listed two sites but the fees listed on the slip only covered the cost of one site. The reservation calendar showed one site as reserved by the camper from August 24, 2016 through August 30, 2016, and the other site as reserved by the camper starting on August 31, 2016.

The inconsistency of Canyon R.V.'s reservation records increases the risk that gross receipts from RV site rentals may be reported inaccurately, and creates a potential for underpayment of rent to the County.

The Agreement Section 14.A, "Records" states, "TENANT shall, at all times during the term of this Lease, keep or cause to be kept true and complete books, records, and accounts of all financial transactions in the operation of all business activities, of whatever nature, conducted in pursuance of the rights granted herein. The records must be supported by source documents such as sales slips, cash register tapes, purchase invoices, or other pertinent documents."

Recommendation No. 4:

We recommend that OCCR/OC Parks require Canyon R.V. to complete reservation slip information accurately and completely in order to present a true account of all reservations. Additionally, we recommend that OCCR/OC Parks require Canyon R.V. to establish controls, such as a quality control review by a person independent of recording reservations, to help ensure all reservations are accurately recorded in the reservation system and gross receipts are accurately reported.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks will request that Canyon R.V. ensure it collects complete reservation slip information accurately and completely and provide documentation of the process. Additionally, OCCR/OC Parks will ask Canyon R.V. to establish additional controls to help ensure reservations are accurately recorded in the reservation system and gross receipts are accurately reported.



Detailed Findings, Recommendations, and Management Responses

Finding No. 5 – Receipts Were Not Provided for Food and Beverage Purchases (Control Finding)

We observed that the cashier did not provide receipts to customers for food and beverage purchases. In addition, the cashier did not provide a receipt for an auditor's purchase on August 31, 2016, until requested to do so.

The Agreement Section 14.A, "Records" states, "TENANT shall, at all times during the term of this Lease, keep or cause to be kept true and complete books, records, and accounts of all financial transactions in the operation of all business activities, of whatever nature, conducted in pursuance of the rights granted herein. The records must be supported by source documents such as sales slips, cash register tapes, purchase invoices, or other pertinent documents.

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. Totals registered shall be read and recorded by TENANT at the beginning and end of each business day."

The Agreement requires customer receipts as a control over the accuracy and completeness of information. Failure to provide receipts to customers at the time of sale can result in an increased risk of errors in the recording and reporting of cashier transactions.

Recommendation No. 5:

We recommend that OCCR/OC Parks require Canyon R.V. to provide cash register receipts for customer food and beverage purchases.

OCCR/OC Parks Management Response:

Concur – CEO/Real Estate will inform Canyon R.V. that all purchases shall be accompanied by a receipt to the customer as required by its Lease.

Finding No. 6 – Certified Financial Statements for 2014 and 2015 Were Not Submitted in a Timely Manner (Control Finding)

Canyon R.V. did not submit its annual certified financial statements for the years ended December 31, 2014 and 2015 in a timely manner. The certified financial statements for 2014 were not submitted until July 22, 2016, and the certified financial statements for 2015 have not been submitted as of April 20, 2017.

The Agreement Section 14.C, "Financial Statements" states, "Within ninety (90) days after the end of each accounting year, TENANT shall at his own expense submit to Auditor-Controller a balance sheet and income statement prepared by a Certified Public Accountant who is a member of AICPA and the California Society of CPAs, reflecting business transacted on or from the Premises during the preceding accounting year. The Certified Public Accountant must attest that the balance sheet and income statement submitted are an accurate representation of TENANT's records as reported to the United States of America for income tax purposes. At the same time, TENANT shall submit to Auditor-Controller a statement certified as to accuracy by a Public



Detailed Findings, Recommendations, and Management Responses

Accountant who is a member of AICPA and the California Society of CPAs, wherein the total gross receipts for the accounting year are classified according to the categories of business established for percentage rent and listed in the Clause entitled RENT and the Clause entitled RENT FOR OPTIONAL SERVICES AND USES and for any other business conducted on or from the Premises”

Recommendation No. 6:

We recommend that OCCR/OC Parks require Canyon R.V. to submit their certified financial statements for 2015, and implement procedures to ensure its certified financial statements are submitted to OCCR/OC Parks in a timely manner.

OCCR/OC Parks Management Response:

Concur – Canyon R.V. has submitted certified financial statement for 2015 to OCCR/OC Parks. OCCR Accounting has updated its procedures to include a process to monitor receipt of financial statements and to notify CEO Real Estate when overdue.

Finding No. 7 – Canyon R.V. Includes Parking Revenue in OC Ropes Course Revenue (Control Finding)

Canyon R.V. charges OC Ropes Course participants a \$5 parking fee per car as they enter the park, which Canyon R.V. classifies as OC Ropes Course revenue. The Sub-Operating Agreement requires Canyon R.V. to calculate OC Ropes Course gross receipts based on actual gross receipts, such as fees (See **Finding No. 2**). The \$5 parking fee collected by Canyon R.V. is not included in the Day Use/Public Parking category of the Monthly Gross Receipts Form, which has a different rent percentage than OC Ropes Course gross receipts.

Canyon R.V. employees charge cars a \$5 parking fee before allowing them admission to the parking lot. There are no receipts or tickets given to participants to confirm they paid their parking fee and that all parking fees were reported to the County.

The Agreement Section 14, “Records” states, “In the event of admission charges or rentals, TENANT shall issue serially numbered tickets for each such admission or rental and shall keep an adequate record of said tickets, both issued and unissued.”

The Agreement Section 8 states that the percentage of gross receipts for calculating Day Use/Public Parking rent is 5%.

The parking fees collected by Canyon R.V. may be misclassified as part of the OC Ropes Course gross receipts rather than parking gross receipts. In addition, the lack of tickets or receipts to control the completeness of parking admissions increases the risk of under reported parking gross receipts.

Recommendation No. 7:

We recommend that OCCR/OC Parks determine whether the parking fees Canyon R.V. collects from OC Ropes Course participants should be reported to the County as gross receipts from Day Use/Public Parking or part of the gross receipts from OC Ropes Course. We also recommend that OCCR/OC Parks requires Canyon R.V. to supply serially pre-numbered parking receipts to



Detailed Findings, Recommendations, and Management Responses

entering vehicles not covered by an existing rental reservation and maintain records of parking receipts issued and unissued.

OCCR/OC Parks Management Response:

Concur – The Sub Operating Agreement between Canyon R.V. and OC Ropes Course is currently being renewed and CEO/Real Estate will review the renewal draft sub operating agreement. This renewed sub operating agreement will do away with the current flat rate parking charge to park patrons who are visiting the park for the ropes course. The amended lease will also do away with the need for supporting source documents.

OCCR/OC Parks will require Canyon R.V. to use serially pre-numbered parking receipts for vehicles not covered by the existing rental reservation system and maintain parking receipts issued and unissued.

Finding No. 8 – Storage Trailers Parked in the Canyon R.V. Designated Parking Lot (Control Finding)

Canyon R.V. allows RV campers to bring storage trailers and park them in the section of the park designated for parking. The campers do not pay for this extra storage and are only required to move their trailers when they leave. On August 31, 2016, we observed 12 trailers parked in the parking lot.

Canyon R.V. informed us they considered the storage of these trailers in the parking lot to be a part of their rental reservations; therefore, they did not charge campers additional amounts for using the parking lot.

The Agreement Section 5.B, “Optional Services and Uses” states, “Subject to prior written approval of Director, Operator is granted the option to provide those additional services and uses which are ancillary to and compatible with the required services and uses herein.” However, CEO/Real Estate informed us there was no prior approval granted for the storage of these trailers in the parking lot.

The free storage of trailers in the parking lot could potentially result in an under reporting of gross receipts.

Recommendation No. 8:

We recommend OCCR/OC Parks determine whether Canyon R.V. should charge campers additional fees for storing their trailers in the parking lot. If they determine that this activity is subject to rent, we recommend that OCCR/OC Parks work with Canyon R.V. to determine the fees that they should charge and the amount of rent due to the County.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks will determine whether Canyon R.V. should charge campers additional fees for storing trailers in the parking lot.



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 Response



June 20, 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. 1641 Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Canyon R.V./Featherly
Park, PR09B-16**

The Auditor-Controller Internal Audit Division completed a Revenue Generating Lease Audit of OC Community Resources (OCCR)/OC Parks – Canyon R.V./Featherly Park for the period September 1, 2015 through August 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 – Orange County Ropes Course Lacks Adequate Internal Controls and Financial Records (Significant Control Weakness)

Recommendation No. 1:

We recommend that OCCR/OC Parks inform Canyon R.V. that the Agreement and Sub-Operating Agreement require OC Ropes Course to utilize cash controls such as a cashiering and/or reservation system or pre-numbered receipts, and to maintain source documents supporting the amount of gross receipts generated by the OC Ropes Course. The OC Ropes Course should also maintain financial records that separately identify all gross receipts from the OC Ropes Course and retain the records and supporting documents as required by the Agreement.

OCCR/OC Parks Management Response:

Concur – OC Parks and CEO/Real Estate concur with the finding, but will allow Canyon R.V. to change the Sub-Operating Agreement with OC Ropes Course to be a fixed monthly rent as proposed by Canyon RV during the renewal process. Gross receipts from the ropes course will not be required by the County if the Sub-Operating Agreement is changed to a fixed fee basis. County will review and concur to appropriate new Sub Operating Agreement.

Finding No. 2 – Canyon R.V. and OC Ropes Course Did Not Calculate OC Ropes Course Gross Receipts in Accordance With the Sub-Operating Agreement (Significant Control Weakness)

Recommendation No. 2:

We recommend that OCCR/OC Parks require Canyon R.V. to comply with the Sub-Operating Agreement requirement that the OC Ropes Course pay rent to Canyon R.V. based on the percentage of its gross receipts stated in its Sub-Operating Agreement. In addition, we recommend that OCCR/OC Parks require Canyon R.V. to retain the source documents that support the gross receipts reported to the County.



OFFICE OF THE DIRECTOR
1770 NORTH BROADWAY
SANTA ANA, CA 92706-
2642
PHONE: 714.480.2788
FAX: 714.480.2899



Detailed Findings, Recommendations, and Management Responses

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

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1641
PAGE 2 OF 4
JUNE 20, 2017

OCCR/OC Parks Management Response:

Concur - OC Parks and CEO/Real Estate concur with the finding, but will allow Canyon R.V. to change the Sub-Operating Agreement with OC Ropes Course to be a fixed monthly rent as proposed by Canyon RV during the renewal process. Documentation of gross receipts from the ropes course will not be required by the County if the Sub-Operating Agreement is changed to a fixed fee basis. County will review and concur to appropriate new Sub Operating Agreement.

Finding No. 3 – The Sub-Operating Agreement Needs to be Reviewed (Control Finding)

Recommendation No. 3:

We recommend that OCCR/OC Parks review the Sub-Operating Agreement between Canyon R.V. and OC Ropes Course to determine if the Sub-Operating Agreement complies with the County's Agreement with Canyon R.V.

OCCR/OC Parks Management Response:

Concur - CEO/Real Estate and OC Parks have reviewed both the Sub-Operating Agreement and the Lease between the County and Canyon R.V. Upon approval by the Director/OC Parks, Canyon R.V. can use the premise for an outdoor rope course, since this use is ancillary to the required use and service of the master lease.

Finding No. 4 – Inaccurate Reservation Records (Control Finding)

Recommendation No. 4:

We recommend that OCCR/OC Parks require Canyon R.V. to complete reservation slip information accurately and completely in order to present a true account of all reservations. Additionally, we recommend that OCCR/OC Parks require Canyon R.V. to establish controls, such as a quality control review by a person independent of recording reservations, to help ensure all reservations are accurately recorded in the reservation system and gross receipts are accurately reported.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will request that Canyon R.V. ensure it collects complete reservation slip information accurately and completely and provide documentation of the process. Additionally, OCCR/OC Parks will ask Canyon R.V. to establish additional controls to help ensure reservations are accurately recorded in the reservation system and gross receipts are accurately reported.

Finding No. 5 – Receipts Were Not Provided for Food and Beverage Purchases (Control Finding)

Recommendation No. 5:

We recommend that OCCR/OC Parks require Canyon R.V. to provide cash register receipts for customer food and beverage purchases.

OCCR/OC Parks Management Response:

Concur - CEO/Real Estate will inform Canyon R.V. that all purchases shall be accompanied by a receipt to the customer as required by its Lease.

Finding No. 6 – Certified Financial Statements for 2014 and 2015 Were Not Submitted in a Timely Manner (Control Finding)



Detailed Findings, Recommendations, and Management Responses

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

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1641
PAGE 3 OF 4
JUNE 20, 2017

Recommendation No. 6:

We recommend that OCCR/OC Parks require Canyon R.V. to submit their certified financial statements for 2015, and implement procedures to ensure its certified financial statements are submitted to OCCR/OC Parks in a timely manner.

OCCR/OC Parks Management Response:

Concur - Canyon R.V. has submitted certified financial statement for 2015 to OCCR/OC Parks. OCCR Accounting has updated its procedures to include a process to monitor receipt of financial statements and to notify CEO Real Estate when overdue.

Finding No. 7 – Canyon R.V. Includes Parking Revenue in OC Ropes Course Revenue (Control Finding)

Recommendation No. 7:

We recommend that OCCR/OC Parks determine whether the parking fees Canyon R.V. collects from OC Ropes Course participants should be reported to the County as gross receipts from Day Use/Public Parking or part of the gross receipts from the OC Ropes Course. We also recommend that OCCR/OC Parks require Canyon R.V. to supply serially pre-numbered parking receipts to entering vehicles not covered by an existing rental reservation and maintain records of parking receipts issued and unissued.

OCCR/OC Parks Management Response:

Concur - The Sub Operating Agreement between Canyon R.V. and OC Ropes Course is currently being renewed and CEO/Real Estate will review the renewal draft sub operating agreement. This renewed sub operating agreement will do away with the current flat rate parking charge to park patrons who are visiting the park for the ropes course. The amended lease will also do away with the need for supporting source documents.

OCCR/OC Parks will require Canyon R.V. to use serially pre-numbered parking receipts for vehicles not covered by the existing rental reservation system and maintain parking receipts issued and unissued.

Finding No. 8 – Storage Trailers Parked in the Canyon R.V. Designated Parking Lot (Control Finding)

Recommendation No. 8:

We recommend OCCR/OC Parks determine whether Canyon R.V. should charge campers additional fees for storing their trailers in the parking lot. If they determine that this activity is subject to rent, we recommend that OCCR/OC Parks work with Canyon R.V. to determine the fees that they should charge and the amount of rent due to the County.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will determine whether Canyon R.V. should charge campers additional fees for storing trailers in the parking lot.

If you have any questions related to these responses, please contact Thea Bullock, Compliance Director, OC Community Resources at 714-480-2875.



Detailed Findings, Recommendations, and Management Responses

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

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1641
PAGE 4 OF 4
JUNE 20, 2017

Sincerely,



Signature



Date

DW:bwr