



Orange County Auditor-Controller Internal Audit



Lease Audit: Irvine Park Railroad

For the Year Ended December 31, 2018

Audit Number 1870
Report Date: May 7, 2019



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

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1870

May 7, 2019

TO: Dylan Wright, Director
OC Community Resources

SUBJECT: Lease Audit: Irvine Park Railroad

We have completed our lease audit of Irvine Park Railroad for the year ended December 31, 2018. Our final report is attached for your review.

A handwritten signature in blue ink that reads "E. H. Woolery".

Eric H. Woolery, CPA
Auditor-Controller

Attachments

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Frank Kim, County Executive Officer
Lala Ragen, Deputy Chief Operating Officer
Thomas Miller, Chief Real Estate Officer
Ronald Inouye, Real Property Agent III
Cymantha Atkinson, Deputy Director of OC Community Resources
Stacy Blackwood, Director of OC Parks, OC Community Resources
Jeff Kirkpatrick, Compliance Manager, OC Community Resources
Connie Chang, Financial and Strategic Planning Manager, OC Community Resources
Kirk Holland, OC Parks Business Office Manager, OC Community Resources
Brian Rayburn, Business Office Manager, OC Community Resources
Salvador Lopez, Chief Deputy Auditor-Controller
Bill Malohn, Accounting Manager III, Auditor-Controller/OCCR Accounting
Eliseo Gillamac, Accounting Manager II, Auditor-Controller/OCCR Accounting
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Vavrinek, Trine, Day & Co., LLP, County External Auditor



Table of Contents

*Lease Audit: Irvine Park Railroad
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For the Year Ended December 30, 2018

Transmittal Letter	i
Internal Auditor's Report	1
Objectives	1
Results	1
Background	1
Scope	2
Management's Responsibility for Internal Control	2
Inherent Limitations in Any System of Internal Control	2
Acknowledgement	2



Internal Auditor's Report

Audit No. 1870

May 7, 2019

TO: Dylan Wright, Director
OC Community Resources

FROM: Eric H. Woolery, CPA
Auditor-Controller

SUBJECT: Lease Audit: Irvine Park Railroad

Objectives

We performed an audit of certain records and documents for the year ended December 31, 2018, pertinent to the lease agreement between the County of Orange (County) and Irvine Park Railroad, Inc., Irvine Park Rentals, Inc., and Irvine Park Concessions, Inc. (Irvine Park Railroad). We performed this audit in accordance with the Engagement Letter for Auditor-Controller Audit Services for the year ending June 30, 2019. We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing* prescribed by the International Internal Audit Standards Board. The objectives of this audit were:

1. Determine whether Irvine Park Railroad's records adequately support monthly gross receipts reported to the County and rent owed is properly paid.
2. Determine whether Irvine Park Railroad complied with certain other financial provisions of the agreement, such as financial statements, accounting methods, and monthly gross receipts statement format.
3. Identify any internal control weaknesses noted while performing the audit, and provide suggestions for improvement.

Results

We found that Irvine Park Railroad's records adequately supported the reported gross receipts and rent owed was properly paid. Irvine Park Railroad complied with certain other financial provisions of the agreement, and internal controls were effective.

Background

The County of Orange entered into an agreement with Irvine Park Railroad in December 1995, amended and restated on October 28, 2008, for the operation of a train ride concession and other park concessions at Irvine Regional Park. During the audit period, Irvine Park Railroad reported approximately \$4.2 million in gross receipts and paid the County \$631,081 in rent.



Internal Auditor's Report

Scope

Our audit was limited to certain records and documents that support Irvine Park Railroad's gross receipts reported to the County for the year ended December 31, 2018. We also reviewed Irvine Park's compliance with certain other provisions of the agreement, such as monthly gross receipts form format and annual financial statement requirements. Our audit included inquiry, auditor observation, and limited testing to assess the adequacy of documentation and ensure accuracy and completeness of reported gross receipts.

Management's Responsibility for Internal Control

In accordance with the Auditor-Controller's County Accounting Manual Procedure 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 the 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. 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 Orange County Community Resources' (OCCR) 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, collusion, and poor judgment. 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.

Acknowledgement

We appreciate the courtesy extended to us by the personnel at Irvine Park Railroad, OCCR/OC Parks, and OCCR Accounting during our audit. If you have any questions regarding our audit, please contact me at (714) 834-2456.