

# Internal Audit Department

O R A N G E C O U N T Y

## REVIEW OF LEASE REVENUE LAKE FOREST GOLF AND PRACTICE CENTER

For the Period  
April 1, 2007 through March 31, 2008

American Golf Corporation operates the Lake Forest Golf and Practice Center located at El Toro Retarding Basin. Annual gross receipts generated are approximately \$2 million and rent paid to the County is approximately \$148,000. American Golf Corporation also pays rent to the City of Lake Forest for the adjacent property.

The Internal Audit Department found that American Golf Corporation's records for the Lake Forest Golf and Practice Center adequately supported gross receipts and overall rent was properly paid.

AUDIT NO: 2737  
REPORT DATE: OCTOBER 7, 2008

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## Internal Audit Department

*Providing Facts and Perspectives Countywide*

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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 2737    October 7, 2008**

**TO:** Bryan Speegle, Director  
OC Public Works

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

**SUBJECT:** Review of Lease Revenue for Lake  
Forest Golf and Practice Center, Parcels  
J01B01 & PC58W-151

We have completed our review of lease revenue for the Lake Forest Golf and Practice Center for the period April 1, 2007 through March 31, 2008. On March 18, 2008 by resolution of the Board of Supervisors, the Resources & Development Management Department (RDMD) was reorganized. The reorganization established OC Public Works. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

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). As a matter of policy, our **first Follow-Up Audit** will now 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 now begin at six months from the release of the first Follow-Up Audit report, by which time **all** recommendations are expected to be addressed and implemented.

At the request to the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the 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 document to facilitate our review.

# Letter from Director Peter Hughes



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.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation.

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

## **ATTACHMENTS**

Other recipients of this report listed on the Internal Auditor's Report on page 3.

# OC Internal Audit Report



## *Review of Lease Revenue for Lake Forest Golf and Practice Center Audit No. 2737*

For the Period  
April 1, 2007 through March 31, 2008

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## INTERNAL AUDITOR'S REPORT

**Audit No. 2737**

**October 7, 2008**

TO: Bryan Speegle, Director  
OC Public Works

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

SUBJECT: Review of Lease Revenue for Lake Forest Golf and  
Practice Center, Parcels J01B01 and PC58W-151

### Audit Highlight

American Golf Corporate operates the Lake Forest Golf and Practice Center located at El Toro Retarding Basin.

Annual gross receipts generated are approximately \$2 million and rent paid to the County is approximately \$148,000.

American Golf Corporation also pays rent to the City of Lake Forest for the adjacent property.

The Internal Audit Department found that American Golf Corporation's records for the Lake Forest Golf and Practice Center adequately supported gross receipts and overall rent was properly paid.

### OBJECTIVES

We have performed a review of certain records and documents for the period April 1, 2007 through March 31, 2008, pertinent to the concession agreement (Agreement) between the County of Orange (County) and American Golf Corporation, a California Corporation (American Golf), dated January 31, 1990, as amended. The Agreement is for the operation of a 9-hole golf course, driving range, snack bar, pro shop and golf instruction at the El Toro Retarding Basin.

The primary purpose of our review is to determine whether American Golf's records for the Lake Forest Golf and Practice Center adequately supported their monthly gross receipts reported to the County. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures.

### BACKGROUND

The County of Orange Flood Control District (County) entered into a lease agreement (Agreement) with American Golf Corporation, a California Corporation (American Golf) dated January 31, 1990, as amended, for the operation of a 9-hole golf course, driving range, snack bar, pro shop and golf instruction located at the El Toro Retarding Basin in conjunction with adjacent land owned by the City of Lake Forest. During the 12-month audit period ending March 31, 2008, American Golf generated approximately \$2 million in gross receipts at the Lake Forest Golf and Practice Center and paid the County approximately \$148,000 in rent. American Golf also pays rent to the City of Lake Forest for the adjacent property.

On March 18, 2008 by resolution of the Board of Supervisors, Resources & Development Management Department (RDMD) was reorganized. The reorganization established the OC Public Works which includes Flood Control.



## SCOPE

Our review was limited to certain records and documents that support American Golf's gross receipts reported to the County for the 12-month audit period of April 1, 2007 to March 31, 2008. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures. Our review included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

## CONCLUSION

Based on our review, we find that American Golf's records for Lake Forest Golf and Practice Center adequately supported monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we did identify 10 control findings related to compliance with the Agreement or improvements to internal controls which are noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

## ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel at American Golf, OC Public Works/Real Estate, and OC Public Works/Accounting. If you have any questions regarding our limited review of lease revenue, please call me at 834-5475 or Eli Littner, Deputy Director at 834-5899, or Autumn McKinney, Senior Audit Manager at 834-6106.

**ATTACHMENT A: Report Item Classifications**  
**ATTACHMENT B: OC Public Works Responses**



## Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### Enhanced Controls for Range Card Sales

The driving range is a key gross receipt category for the Lake Forest Golf and Practice Center (Lake Forest). During the 12-month audit period of April 1, 2007 to March 31, 2008, total driving range gross receipts amounted to approximately \$777,000 and represented 39% of total gross receipts reported to the County. Lake Forest sells prepaid range cards for bucket of balls for the driving range in denominations of \$6, \$10, \$20, \$50, and \$100 individually or in discounted combination packages.

Lake Forest utilizes a daily Pro Shop Open/Closing Checklist to account for the inventory of range cards kept in the cash register. Range cards sold are recorded in Lake Forest's point of sale cashiering system.

**Finding No. 1:** During our two sample days of 8/10/07 and 8/11/07, we noted discrepancies between the range cards sold per the inventory on the Pro Shop Open/Closing Checklist (Checklist) and the range cards sold per the cash register. Some examples:

- 8/10/07: There were 21 \$10 range card sales recorded in the cash register, but not accounted for in the Checklist inventory (21 range cards unaccounted for).
- 8/11/07: There were 46 \$20 range cards and 11 \$50 range cards sold per the Checklist inventory, but only 41 \$20 range cards and 6 \$50 range cards sold per the cash register (10 range cards unaccounted for).

Lake Forest informed us that it does not reconcile or review the range card inventory per the Checklist with range cards sold per the cash register. This reconciliation and review is important because there is a lack of segregation of duties for range card sales. The cashiers have access to the range cards inventory kept in the cash register drawer and record range card sales in the cash register.

Since the range cards have cash values and the cashiers' duties may not practically be further segregated, compensating controls should be in place to ensure range cards are controlled and range card sales are completely recorded in the cash register. A person independent of the cashiers should verify the opening and closing range cards counts listed on the Checklist and reconcile the range card sales per the Checklist with the cash register sales.

**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 the Pro Shop Open/Closing Checklist and the cash register.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf agrees with the control recommendation and will amend its Cash Handling Policy to include verification of the daily range card inventory at opening and closing and reconciliation of the range card sales between the Pro Shop Open/Closing Checklist and the cash register. These will be handled by two separate people to ensure segregation of duties. In the event that there are deficiencies in the implementation of these policies and procedures, additional training will be provided by the regional manager. Scheduled completion date is September 1, 2008.



## Enhanced Controls for Barbeque Sales

Lake Forest typically has a barbeque (BBQ) event on the weekends, and sometimes on Thursday and on Friday. Lake Forest utilizes a "Calif Convenience Cart on Course Sales Count" form (Convenience Cart Form) to summarize the BBQ sales. For the sample day of 8/10/07, the reported BBQ sales were \$118.

**Finding No. 2:** During our audit, we were informed that due to a power outlet limitation at the BBQ location, a cash register is not used to record BBQ sales and customers are not provided receipts. All monies collected are kept in a portable cash box until the end of the event.

There is a lack of segregation of duties as the same person receives BBQ orders, collects money from customers, cooks the food and gives beverages to customers, manually summarizes the sales on the Convenience Cart Form, and records sales at the end of the event in a summary entry on the cash register.

In addition, the Convenience Cart Form is designed to account for the inventory of food and beverages sold. However, the form is not being completed at that detail level and essentially only summary information is listed on the form.

Since the BBQ duties may not practically be further segregated, compensating controls should be implemented to ensure BBQ gross receipts are accurately and completely reported.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and has discussed the findings with American Golf. A Convenience Cart and On Course Sales Control Sheet will be used by Lake Forest Golf and Practice Center to document supervisory review and reconciliation of the beginning and ending inventory and the cash box. In the event that there are deficiencies in the implementation of these policies and procedures, additional training will be provided by the regional manager. In addition, a battery-operated cash register will be evaluated for future use and OC Public Works will review American Golf's conclusions. Scheduled completion date is September 1, 2008.



## Reasonableness and Business Purpose of Complimentary Golf Rounds

Clause 9.E of the Agreement requires American Golf to report as gross receipts the fair rental of facilities used by American Golf or its employees other than to conduct permitted business activities. Clause 9.B of the Agreement requires American Golf to report as gross receipts all charges made for the sale or rendition on or from the leased premises whether payments are actually made or not.

**Finding No. 3:** During our audit, we noted that American Golf employees receive complimentary rounds of golf during non-peak hours. Also, American Golf offers complimentary rounds of golf to individuals and companies for various reasons.

For the 12-month audit period, American Golf recorded 56,778 rounds of golf in its cashiering system which included the following complimentary rounds:

- 457 Employee Rounds: Recipients were on-site employees and off-site American Golf Corporation employees. Records were not maintained to distinguish the two groups of employees.
- 715 Industry Rounds: Recipients were from charity and promotional activities and some minimal barter transactions.
- 565 Student Rounds: Recipients were students that purchased certain golf class packages that included complimentary rounds of golf.
- 262 Ambassador Rounds: Recipients were volunteers that conduct fundraising activities; educate guests on proper golf course etiquette, rules and safety; and help make the game of golf accessible to people of all ages and backgrounds. The volunteers are organized through a non-profit organization affiliated with American Golf.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and has discussed the findings with American Golf. American Golf responded that it is an industry standard practice for a small percentage of overall rounds to be complimentary. Complimentary rounds generally include employee rounds and promotional and charity rounds. Promotional and charity rounds generally provide a service to the community and support fundraising causes important to the golf course's local community. Promotional rounds are a means to create awareness of the golf course and to attract players that may not otherwise patronize Lake Forest Golf and Practice Center. As a general rule, complimentary rounds are guided towards off-peak hours, i.e., rounds late in the day or extremely early in the morning and typically on workdays, to ensure not displacing customers in the higher-rate tee time categories.

OC Public Works discussed reporting procedures with American Golf. American Golf agrees to limit employee complimentary rounds to on-site Lake Forest Golf and Practice Center employees and to regional managers playing the course as part of an operational evaluation. American Golf will be required to identify the employee recipients of the complimentary rounds. All other charity or promotional complimentary rounds will be calculated on the fair market value of the tee time at the time the round is played and rental to the County shall be paid accordingly. Scheduled completion date is September 1, 2008.



## Misclassification of Chipping Fees

Clause 6.B of the Agreement (as amended) states that chipping fees are to be classified as golf services with a percentage rent of 5%.

**Finding No. 4:** American Golf reported gross receipts for chipping fees in the driving range category which is subject to percentage rent of 12%. Therefore, American Golf overpaid rent to the County for chipping fees by about 7% (12% less 5%).

For the two sample months of August 2007 and February 2008, chipping fees were approximately \$1,890 and \$1,600 respectively, and rent was overpaid by approximately \$132 and \$112, respectively.

**Recommendation No. 4:** We recommend 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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf agrees and has changed the classification of chipping fees. Scheduled completion date is September 1, 2008.

## Third Party Golf Camps/Lessons

Lake Forest has agreements with third party organizations (US Sports Camps/Nike Golf Camps, Saddleback Valley Unified School District, and Lake Mission Viejo Association) to provide summer camps and golf lessons. Under each agreement, Lake Forest is paid net golf lesson fees amounting to 69% to 79% of the total camp/lesson fees collected by these organizations from the camp/lesson participants. The remainder is retained by the third party organizations.

**Finding No. 5:** Gross receipts reported to the County for third party organization camps/lessons is the net amount paid to Lake Forest and not the gross amount paid to the third party by the camp/lesson participant. The additional rent owed to the County is minimal (estimated to be less than \$500 annually).

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and will survey other golf course facilities leased from the County to determine if the gross amount due to the County is customarily based on the amount charged to the camp/lesson participants or the net amount paid to the golf course tenant. Future reporting requirements will be made consistent among all County golf facilities. Scheduled completion date is October 1, 2008.



**Finding No. 6:** The amounts paid to Lake Forest by the third party organizations (US Sports Camps/Nike Golf Camps, Saddleback Valley Unified School District, and Lake Mission Viejo Association) is based upon the number of participants and agreed upon rates. Lake Forest maintains a roster for each camp/class to account for the number of participants for billing purposes. However, these rosters are not retained to support the calculations and monies collected.

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

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf agrees to retain membership rosters provided for each camp/class to account for the number of participants. Scheduled completion date is September 1, 2008.

## Allocation of Green Fees for Online Tee Reservations

Golfers may reserve a tee time and pay for green fees online. American Golf Corporate Accounting allocates these internet sales to the applicable golf course semi-monthly.

**Finding No. 7:** During our audit, we noted that the green fees paid online are allocated 75% to green fees and 25% to cart fees. Lake Forest does not have golf carts for rent. The online green fees should be allocated 100% to green fees. Rent was overpaid to the County because green fees are subject to a 4.8% rent and cart fees are subject to a 5% rent. The overpaid rent is minimal (estimated to be less than \$500 annually).

American Golf informed us it would correct this misallocation effective May 2008.

**Recommendation No. 7:** No recommendation is required as American Golf has agreed to correct the overpayment of rent for green fees paid online.

**OC Public Works Response:** None required.

Implemented. OC Public Works agrees with the recommendation and discussed the findings with American Golf; the overpayment of rent was corrected as of May 2008.

## Reporting of So Cal Golfer Club Membership Sales

Clause 9.B of the Agreement requires American Golf to report as gross receipts all charges made for the sale or rendition on or from the leased premises whether for cash or credit and whether payments are actually made or not, and whether the services are actually performed or not.

**Finding No. 8:** American Golf offers So Cal Golfer Club memberships for \$49.95 annually which allows members to play golf at discounted rates. American Golf reports \$20.00 per membership as gross receipts when sold. The remaining \$29.95 is amortized and recorded as gross receipts over the next 12-month period. The So Cal Golfers Club membership should be reported as gross receipts in its entirety when sold.



**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf responded that, following Generally Accepted Accounting Practices, it recognizes membership revenue pro-rated over the term of the 12-month membership. Following the County's recommendation, American Golf will report membership sales as revenue upon receipt with the understanding that, should the membership fee be refunded, the revenue will be reversed to reflect the refunded membership fee. Scheduled completion date is September 1, 2008.

## Reporting Fair Market Value of Barter Transactions

**Finding No. 9:** Lake Forest informed us that it exchanges complimentary rounds of golf for photography services for pictures posted on the wall inside the Pro Shop. The complimentary rounds of golf are recorded as industry complimentary rounds (see Finding No. 3 above) and the fair market value is not reported as gross receipts to the County. The fair market value of barter transactions should be reported as gross receipts.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. There is only one remaining bartering arrangement, and it will be converted to report fair market value of bartering transactions, which is the agreement with Cypress Golf, a national account for the selling of tee times that typically would otherwise go unsold, i.e., off-peak tee times. Lake Forest Golf and Practice Center is no longer bartering for photography services. American Golf agrees to assign the appropriate fair market value of green fees at the time the rounds are granted or played according to the selling of tee times granted to Cypress in return for their on-line assistance with filling vacant tee times. Scheduled completion date is September 1, 2008.

## Reporting of National and Local Charitable Donations

Clause 4.A and 4.B of the Agreement does not specify charitable activities as a required or optional services/use.

**Finding No. 10:** Lake Forest accepts donations on behalf of American Golf foundations for designated charities (e.g., Jordan and Kyra Foundation, referred to as a national charity because donations are accepted at all American Golf courses). The donations are recorded in the point of sale cashiering system and are periodically remitted to the recipient in their entirety. Lake Forest informed us that the donors do not receive services or discounts for the donations. The donations are not reported as gross receipts and no rent is paid to the County for these activities. Total donations accepted for the sample months of August 2007 and February 2008 were \$282.50.



**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and will require American Golf to obtain written permission for any charitable activity it wishes to conduct on the premises. Scheduled completion date is October 1, 2008.



## ATTACHMENT A: Report Item Classifications


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

- ▶ **Material Weaknesses:**  
Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.
- ▶ **Significant Issues:**  
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.
- ▶ **Control Findings and/or Efficiency/Effectiveness Issues:**  
Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.





## ATTACHMENT B: OC Public Works Responses



**memo**

*Bryan Speegle, Director*  
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P.O. Box 4048  
Santa Ana, CA 92702-4048  
Telephone: (714) 834-2300  
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**DATE:** October 2, 2008

**TO:** Peter Hughes, Ph.D., CPA, Director  
Internal Audit Department

**FROM:** Director, OC Public Works

**SUBJECT:** Response to Review of Lease Revenue for Lake Forest Golf and Practice Center Audit No. 2737

RECEIVED  
INTERNAL AUDIT DEPARTMENT  
2008 OCT -6 PM 1:56

I am pleased to provide OC Public Works' response to the Internal Audit Department's Draft Report on Review of Lease Revenue for Lake Forest Golf and Practice Center. Our response has been reviewed and approved by the County Executive Office.

While there were no material weaknesses of significant issues, we will work to implement the Internal Audit Department's recommendations as indicated in our following responses.

**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 the Pro Shop Open/Closing Checklist and the cash register.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf agrees with the control recommendation and will amend its Cash Handling Policy to include verification of the daily range card inventory at opening and closing and reconciliation of the range card sales between the Pro Shop Open/Closing Checklist and the cash register. These will be handled by two separate people to ensure segregation of duties. In the event that there are deficiencies in the implementation of these policies and procedures, additional training will be provided by the regional manager. Scheduled completion date is September 1, 2008.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and has discussed the findings with American Golf. A Convenience Cart and On Course Sales Control Sheet will be used by Lake Forest Golf and Practice Center to document supervisory review and reconciliation of the beginning and ending inventory and the cash box. In the event that there are deficiencies in the implementation of these policies and procedures, additional training will be provided by the regional manager. In addition, a battery-operated cash register



## ATTACHMENT B: OC Public Works Responses Continued

Audit No. 2737  
Page 2 of 4

will be evaluated for future use and OC Public Works will review American Golf's conclusions. Scheduled completion date is September 1, 2008.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and has discussed the findings with American Golf. American Golf responded that it is an industry standard practice for a small percentage of overall rounds to be complimentary. Complimentary rounds generally include employee rounds and promotional and charity rounds. Promotional and charity rounds generally provide a service to the community and support fundraising causes important to the golf course's local community. Promotional rounds are a means to create awareness of the golf course and to attract players that may not otherwise patronize Lake Forest Golf and Practice Center. As a general rule, complimentary rounds are guided towards off-peak hours, i.e., rounds late in the day or extremely early in the morning and typically on workdays, to ensure not displacing customers in the higher-rate tee time categories.

OC Public Works discussed reporting procedures with American Golf. American Golf agrees to limit employee complimentary rounds to on-site Lake Forest Golf and Practice Center employees and to regional managers playing the course as part of an operational evaluation. American Golf will be required to identify the employee recipients of the complimentary rounds. All other charity or promotional complimentary rounds will be calculated on the fair market value of the tee time at the time the round is played and rental to the County shall be paid accordingly. Scheduled completion date is September 1, 2008.

**Recommendation No. 4:** We recommend 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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf agrees and has changed the classification of chipping fees. Scheduled completion date is September 1, 2008.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and will survey other golf course facilities leased from the County to determine if the gross amount due to the County is customarily based on the amount charged to the camp/lesson participants or the net amount paid to the golf course tenant. Future reporting requirements will be made consistent among all County golf facilities. Scheduled completion date is October 1, 2008.

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

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf agrees to retain membership rosters



## ATTACHMENT B: OC Public Works Responses Continued

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provided for each camp/class to account for the number of participants. Scheduled completion date is September 1, 2008.

**Recommendation No. 7:** No recommendation is required as American Golf has agreed to correct the overpayment of rent for green fees paid online.

**OC Public Works Response:** Implemented. OC Public Works agrees with the recommendation and discussed the findings with American Golf; the overpayment of rent was corrected as of May 2008.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. American Golf responded that, following Generally Accepted Accounting Practices, it recognizes membership revenue pro-rated over the term of the 12-month membership. Following the County's recommendation, American Golf will report membership sales as revenue upon receipt with the understanding that, should the membership fee be refunded, the revenue will be reversed to reflect the refunded membership fee. Scheduled completion date is September 1, 2008.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and discussed the findings with American Golf. There is only one remaining bartering arrangement, and it will be converted to report fair market value of bartering transactions, which is the agreement with Cypress Golf, a national account for the selling of tee times that typically would otherwise go unsold, i.e., off-peak tee times. Lake Forest Golf and Practice Center is no longer bartering for photography services. American Golf agrees to assign the appropriate fair market value of green fees at the time the rounds are granted or played according to the selling of tee times granted to Cypress in return for their on-line assistance with filling vacant tee times. Scheduled completion date is September 1, 2008.

**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.

**OC Public Works Response:** Concur. OC Public Works agrees with the recommendation and will require American Golf to obtain written permission for any charitable activity it wishes to conduct on the premises. Scheduled completion date is October 1, 2008.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

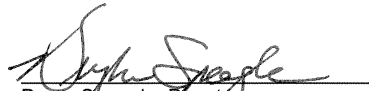
Should you have any questions regarding OC Public Works' responses to the Internal Audit Department's recommendations, or require additional information on these items, please



## ATTACHMENT B: OC Public Works Responses Continued

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contact Debra Lakin, Chief, OC Public Works/Central Quality Assurance at (714) 834-5593.  
Thank you.

  
Bryan Speegle, Director

cc: Dori Malloy, Director, OC Public Works/OC Facilities  
Ignacio Ochoa, Director, OC Public Works/OC Road & Flood  
Carlos Bustamante, Director, OC Public Works/Administration  
Tony Ferrulli, Manager, OC Public Works /Real Estate & Asset Management  
Carolee Condon, Chief, OC Public Works/Real Estate Services  
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