





















# Letter from Dr. Peter Hughes, CPA

## Transmittal Letter



**Audit No. 1346 December 15, 2014**

**TO:** Steve Franks, Director  
OC Community Resources

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

**SUBJECT:** Revenue Generating Lease Audit of  
OC Parks/Peacock Hill Equestrian Center  
PR23A-9M1

We have completed our revenue generating lease audit of Peacock Hill Equestrian Center for the period April 1, 2013 through March 31, 2014. We performed this audit in accordance with our *FY 2013-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

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). Our **First Follow-Up Audit** will 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 begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of 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 recommendation is 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 form to facilitate our review.

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 are listed on the **OC Internal Auditor's Report** on page 3.



# Table of Contents

**Revenue Generating Lease Audit of  
OC Parks/Peacock Hill Equestrian Center  
Audit No. 1346**

For the Period April 1, 2013 through March 31, 2014

<b>Transmittal Letter</b>	<b>i</b>
<b>OC Internal Auditor's Report</b>	
<b>OBJECTIVES</b>	<b>1</b>
<b>RESULTS</b>	<b>1</b>
<b>BACKGROUND</b>	<b>2</b>
<b>SCOPE</b>	<b>2</b>
<b>Detailed Results, Findings, Recommendations and Management Responses</b>	
<b>Finding No. 1 – Security Deposits Received from Boarders Not Reported as Gross Receipts (Control Finding)</b>	<b>4</b>
<b>ATTACHMENT A: Report Item Classifications</b>	<b>5</b>
<b>ATTACHMENT B: OC Parks Management Response</b>	<b>6</b>



# OC Internal Auditor's Report

**Audit No. 1346**

**December 15, 2014**

TO: Steve Franks, Director  
OC Community Resources

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

SUBJECT: Revenue Generating Lease Audit of  
OC Parks/Peacock Hill Equestrian Center, PR23A-9M1

## Audit Highlight

Robin Bisogno, and The Bisogno Company, dba Country Trails and Riding School operates the Peacock Hill Equestrian Center at the County of Orange Irvine Regional Park.

During the 12-month audit period from April 1, 2013 to March 31, 2014, Peacock Hill generated approximately **\$1.05 million** in gross receipts and paid the County approximately **\$84,000** in rent.

We found that Peacock Hill's records adequately supported reported gross receipts and rent paid, except for unreported security deposits. We identified **one (1) Control Finding** on reporting the security deposits from boarders as gross receipts when received.

## OBJECTIVES

We have performed an audit of certain records and documents for the period from April 1, 2013 through March 31, 2014, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Robin Bisogno and The Bisogno Company, dba Country Trails and Riding School, as assigned, dated May 3, 2005. The Agreement is for the operation of an equestrian center known as the Peacock Hill Equestrian Center located at the County of Orange Irvine Regional Park. Our audit objectives were:

1. The primary objective of our audit is to determine whether Peacock Hill Equestrian Center's records adequately supported their monthly gross receipts reported to the County and rent owed is properly paid.
2. The secondary objective of our audit is to determine whether Peacock Hill Equestrian Center complies with certain other financial provisions of the Agreement, such as monthly gross receipts statement format and annual financial statement requirements.

In addition, while performing the audit we may identify internal control weaknesses for which we will identify suggestions for improvement.

## RESULTS

**Objective #1:** We found that Peacock Hill Equestrian Center's records adequately supported gross receipts reported to the County and rent owed was properly paid. We identified **one (1) Control Finding** on unreported security deposits received from boarders.

**Objective #2:** We found that Peacock Hill Equestrian Center complied with certain other financial provisions of the Lease Agreement such as the monthly gross receipts statement format and annual financial statement requirements.



# OC Internal Auditor's Report

The following *Summary of Findings and Recommendations* shows our finding and recommendation for this audit. See further discussion in the *Detailed Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification - See Attachment A	Finding Description	Recommendation	Agreement by Management?	Page No. in Audit Report
1.	<b>Control Finding</b>	Security deposits paid by boarders were not reported as gross receipts when received.	Peacock Hill report security deposits as gross receipts when received from boarders.	Yes	p. 4

## BACKGROUND

The County of Orange (County) entered into a 20-year lease agreement with Robin Bisogno and The Bisogno Company, a Delaware corporation, dba Country Trails and Riding School, as assigned, dated May 3, 2005, for the operation of the Peacock Hill Equestrian Center located within Irvine Regional Park. Peacock Hill Equestrian Center provides services that include boarding of horses, sale of horse-care equipment and products, storage for horse trailers and tack rooms, riding lessons, and trail rides. During the 12-month audit period ending March 31, 2014, Peacock Hill Equestrian Center generated approximately **\$1.05** million in gross receipts and paid the County approximately **\$84,000** in rent.

## SCOPE

Our audit was limited to certain records and documents that support Peacock Hill Equestrian Center's gross receipts reported to the County for the twelve-month audit period from April 1, 2013 through March 31, 2014. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

## Acknowledgment

We appreciate the courtesy extended to us by the personnel at Peacock Hill Equestrian Center, OC Parks and OC Community Resources (OCCR)/Accounting Services during our audit. If you have any questions regarding our revenue generating lease audit, please contact me directly at (714) 834-5475, or Alan Marcum, Senior Audit Manager at 834-4119.

# OC Internal Auditor's Report



## Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Michael B. Giancola, County Executive Officer  
Mark Denny, Chief Operating Officer  
Mike Kerr, Assistant to the Chief Operating Officer  
Stacy Blackwood, Director, OC Parks  
Rich Adler, Manager, OC Parks/Real Estate  
Andrea Richards, Real Property Agent III, OC Parks/Real Estate  
Salvador Lopez, Section Manager, OCCR/Accounting Services  
Susan Long, Manager, OCCR/Accounting Services  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor

# Detailed Results, Findings, Recommendations and Management Responses



## **Finding 1 – Security Deposits Received from Boarders Not Reported as Gross Receipts (Control Finding)**

Clause 9.C of the Agreement states that gross receipts include all admissions, entry, rental, and other fees of any nature or kind charged by tenant including but not limited to security deposits or waiting list deposits accepted by tenant.

Peacock Hill Equestrian Center charges boarders a security deposit of one month's horse boarding fee. The security deposit is refunded to the boarder within sixty (60) days of the date of termination of boarding.

**Finding No. 1:** We found that Peacock Hill did not report security deposits as gross receipts when received as required by the lease agreement. For the sample month of March 2014, Peacock Hill received \$3,015 in security deposits from boarders, but it was not reported as gross receipts, resulting in underpaid rent of \$241.20 (\$3,015 x 8% rent). Peacock Hill informed us that they did not report security deposits since they will be refunded to the boarders when the boarding agreements terminate. For the audit period of April 1, 2013 through March 31, 2014 and subsequent period of April 1, 2014 through June 30, 2014, Peacock Hill informed us that the percentage rents owed for security deposits are \$1,334.05 and \$60.00, respectively.

**Recommendation No. 1:** We recommend OC Parks require Peacock Hill to report security deposits as gross receipts when received and pay rent owed through the audit period and the month of correction.

**OC Parks Management Response: Concur.** Peacock Hill will be reporting gross receipts on security deposits and will be paying or deducting the percentage rent on the net amount. The gross receipts report form has been revised to include a line item for security deposits. Additionally, Peacock Hill has paid the County the owed back rent of \$1,394.05.

# Detailed Results, Findings, Recommendations and Management Responses



## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations 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 Results, Findings, Recommendations and Management Responses



## ATTACHMENT B: OC Parks Management Response



### MEMORANDUM

**STEVE FRANKS**  
DIRECTOR  
OC COMMUNITY RESOURCES

**RYAN DRABEK**  
DIRECTOR  
OC ANIMAL CARE

**KAREN ROPER**  
DIRECTOR  
OC COMMUNITY SERVICES

**STACY BLACKWOOD**  
DIRECTOR  
OC PARKS

**HELEN FRIED**  
COUNTY LIBRARIAN  
OC PUBLIC LIBRARIES

**DATE:** November 4, 2014  
**TO:** Peter Hughes, Director, Internal Audit Department  
**FROM:** Steve Franks, Director, OC Community Resources

**SUBJECT: RESPONSE TO REVENUE GENERATING PRICE AGREEMENT AUDIT OF PEACOCK HILL EQUESTRIAN CENTER**

OC Community Resources has reviewed the Revenue Generating Price Agreement Audit of Peacock Hill Equestrian Center for the period of April 1, 2013 through March 31, 2014. Our response to the Audit Report is attached.

If you have any questions, please contact me at (714) 480-2788.

Attachment: OC Community Resources Response to Audit

c: Mike Giancola, County Executive Officer  
Mark Denny, Chief Operating Officer  
Stacy Blackwood, Director, OC Parks

RECEIVED  
INTERNAL AUDIT DEPARTMENT  
2014 NOV -5 PM 1:13

1770 NORTH BROADWAY, SANTA ANA, CA 92706-2642 • PHONE (714) 480-2788 FAX (714) 480-2899



# Detailed Results, Findings, Recommendations and Management Responses



## ATTACHMENT B: OC Parks Management Response (continued)

### OC Community Resources Response to Revenue Generating Lease Audit of Peacock Hill Equestrian Center

**Recommendation No. 1:** We recommend that OC Parks require Peacock Hill to report security deposits as gross receipts when received and pay rent owed through the audit period and the month of correction.

**OC Parks Management Response: Concur.** Peacock Hill will be reporting gross receipts on security deposits and will be paying or deducting the percentage rent on the net amount. The gross receipts report form has been revised to include a line item for security deposits. Additionally, Peacock Hill has paid the County the owed back rent of \$1,394.05.