



Orange County Auditor-Controller Internal Audit



Revenue Generating Lease Audit:
OC Community Resources/OC Parks -
Strawberry Farms Golf Club (PR48A-28)

For the Period
April 1, 2016 through March 31, 2017

Audit Number 1638
Report Date: August 29, 2017



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Transmittal Letter

Audit No. 1638

August 29, 2017

TO: Dylan Wright, Director
OC Community Resources

SUBJECT: Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Strawberry Farms Golf Club (PR48A-28)

We have completed our Revenue Generating Lease Audit of Strawberry Farms Golf Club for the period April 1, 2016 through March 31, 2017. Our final report is attached 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 your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

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
- Lala Ragen, 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
- Kirk Holland, Business Manager, OC Community Resources/OC Parks
- Brian Rayburn, Business Office Manager, OC Community Resources

*Dylan Wright, Director
OC Community Resources
August 29, 2017*

Other recipients of this report (continued):

Lindsay Brennan, Budget Analyst, OC Community Resources/OC Parks
Nicole Nguyen, Budget Analyst, OC Community Resources
Scott Mayer, Chief Real Estate Office, CEO/Real Estate
Ronald Inouye, Administrative Manager I, CEO/Real Estate
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
Win Swe, 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
Macias Gini & O'Connell LLP, County External Auditor



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OC Community Resources/OC Parks – Strawberry Farms Golf Club
Audit No. 1638***

For the Period April 1, 2016 through March 31, 2017

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Internal Auditor's Report

Audit No. 1638

August 29, 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 – Strawberry Farms Golf Club (PR48A-28)

OBJECTIVES

We performed an audit of certain records and documents for the period April 1, 2016 through March 31, 2017 pertinent to the lease agreement (Agreement) between the County of Orange (County) and Strawberry Farms Golf Club, LLC (SFGC). The Agreement is for the development, construction, and operation of an 18-hole public golf course and related golf facilities. 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. The objectives of this audit were to:

1. Determine whether SFGC's records adequately supported its monthly gross receipts reported to the County and rent owed was properly paid.
2. Determine whether SFGC complied with certain other financial provisions of the Agreement, such as monthly gross receipts statement format and annual financial statement requirements.
3. Identify any internal control weaknesses while performing the audit, and provide suggestions for improvement.

RESULTS

Objective #1: We found that overall, SFGC's records adequately supported gross receipts reported to the County and rent owed was properly paid.

Objective #2: We found that SFGC complied with certain other financial provisions of the lease agreement such as the monthly gross receipts statement format.

Objective #3: We found **two (2) Control Findings** related to missing transaction numbers and inadequate controls over beverage cart gross receipts.

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



Internal Auditor's Report

BACKGROUND

On November 8, 1996, the County entered into a 45-year lease with Sand Canyon LLC for the development, construction, and operation of an 18-hole public golf course and related golf facilities at Mason Regional Park (Agreement). On November 20, 2007, the County consented to assign the Agreement to SFGC. The land on which Strawberry Farms Golf Course resides is partly County owned land and partly Irvine Ranch Water District (IRWD) owned land. Therefore, the rent collected on SFGC's gross receipts (or minimum rent if higher) is allocated 50% to the County and 50% to IRWD. SFGC reported gross receipts of **\$8,327,194** for the audit period from April 1, 2016 through March 31, 2017 and paid total rent of **\$1,105,228**, of which the County received **\$552,614**.

SCOPE AND METHODOLOGY

Our audit was limited to certain records and documents that support SFGC's gross receipts reported to the County for the audit period from April 1, 2016 through March 31, 2017. We also reviewed their 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 completeness of reported gross receipts.

FOLLOW-UP PROCESS

The scheduling of a Follow-Up Audit on the two (2) 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. 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.



Internal Auditor's Report

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel at Strawberry Farms Golf Club, OC Community Resources, 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 – Gaps in the Point-of-Sale (POS) System’s Sequential Transaction Numbers (Control Finding)

The POS system had numerous unexplained gaps in its sequentially assigned transaction numbers.

SFGC has used the IBS POS system (POS system) for more than 10 years with periodic upgrades. SFGC uses this POS system for the Golf Shop (for booking reservations, generating starter/tee sheets, daily sales, membership data, etc.) and its food and beverage operations.

The POS system is designed to generate sequential transaction numbers; however, the transaction number log for the four dates tested had numerous gaps in the sequential numbering of transactions. One sampled day from July 2016 had 47 missing transaction numbers out of 238 transactions (20%). Another sampled day in February 2017 had 12 missing transaction numbers out of 169 transactions (7%).

The automatic sequential numbering of transactions is an internal control that helps ensure the completeness of gross receipts information reported to the County. In response to our inquiry, the POS system’s client support team informed SFGC management that the gaps in sequential transaction numbers were the result of multiple issues with the POS system, some of which should be resolved once SFGC upgrades its POS system to the latest version.

Agreement Section 13.A states, “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.”

Recommendation No. 1:

We recommend that OCCR/OC Parks require SFGC to ensure that the POS system assigns serial transaction numbers without unexplained gaps. Until this issue has been corrected, OCCR/OC Parks should require SFGC to implement a mitigating control over missing transactions numbers, such as a documented supervisory review of the transaction number gaps.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks and CEO Real Estate to notify SFGC to implement a mitigating control that requires supervisors to review and note transaction number gaps that occur with the Point of Sale System until the System issue is corrected to maintain sequentially assigned transaction numbers. SFGC to provide documentation to County of the mitigating controls by February 2018.

Finding No. 2 – Inadequate Controls Over Beverage Cart Inventory and Gross Receipts (Control Finding)

The POS system beverage cart sales Z-total report did not match the manual “beverage cart inventory sheet” (inventory sheet) completed by the beverage cart employee (employee) while selling refreshments on the golf course. In addition, the supervisor did not always sign the inventory sheets.



Detailed Findings, Recommendations, and Management Responses

As a convenience to golfers, SFGC uses a beverage cart to sell snacks and drinks on the golf course. The small cart does not have a cash register, so the employee keeps track of the sales and inventory by using a detailed manual inventory sheet. The employee uses a manual credit card imprinting device to create customer credit card receipts, but there are no customer receipts given for cash sales. At the end of the day, the employee inputs the entire beverage cart inventory sold into the POS system, which calculates the sales totals based on the item codes and quantity.

On July 23, 2016, the inventory sheet indicated 37 sports drinks sold for cash; however, the POS receipt showed only seven sports drinks sold for cash. The person who approved the inventory sheet did not note the discrepancy. Since the employees keep all cash in excess of the sales amount shown in the POS system as their tips, this difference would be difficult to detect, unless a person independent of the beverage cart sales, performed a reconciliation of the POS information to the inventory sheet and/or does a physical count of the inventory.

Additionally, in February 2017, there were five days out of 28 days, on which the supervisor did not sign the inventory sheets as required by SFGC procedures. SFGC management informed us that the new supervisor might not have been aware of the procedure.

The Agreement Section 13.A requires SFGC “to keep or cause to be kept true and complete books, records, and accounts of all financial transaction 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. 2:

We recommend that OCCR/OC Parks require SFGC to implement policy and procedures to help ensure that all cash collected from the beverage cart and all inventory sold are accurately recorded in the POS system. An independent person, such as a supervisor or manager, should reconcile the beverage cart cash and inventory information input into the POS system to the inventory sheet and/or physical inventory and this review should be documented in writing.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks will require SFGC to implement procedures to ensure that sales and transactions from the beverage cart are accurately recorded in the POS system. In addition, the requirement to document and complete a reconciliation of the cash, inventory and POS system will be communicated to SFGC. The notification will include instructions to have a supervisor or manager review as part of the process to be completed by February 2018.



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 | Significant Control Weaknesses | Control Findings |
|---|--|--|
| <p>These are audit findings or a combination of audit 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 its attention immediately.</p> | <p>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.</p> | <p>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.</p> |



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses



DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
DEPUTY DIRECTOR
OC COMMUNITY RESOURCES

JENNIFER HAWKINS, DVM
DIRECTOR
OC ANIMAL CARE

RENEE RAMIREZ
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OC COMMUNITY SERVICES

JULIA BIDWELL
DIRECTOR
HOUSING & COMMUNITY
DEVELOPMENT & HOMELESS
PREVENTION

STACY BLACKWOOD
DIRECTOR
OC PARKS

HELEN FRIED
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

August 28, 2017

TO: Toni Smart, Director
Auditor-Controller, Internal Audit Division

RE: **AUDIT NO. 1638 Revenue Generating Lease Audit: OC Community Resources/OC Parks- Strawberry Farms Golf Club**

The Auditor-Controller Internal Audit Division completed a Revenue Generating Lease Audit of OC Community Resources (OCCR)/OC Parks – Strawberry Farms Golf Club for the period April 1, 2016 through March 31, 2017. The OC Community Resources' responses to the audit findings and recommendations have been reviewed and approved by the County Executive Office.

Finding No. 1 – Gaps in the Point-of-Sale (POS) System’s Sequential Transaction Numbers (Control Finding)

Recommendation No. 1:

We recommend that OCCR/OC Parks require SFGC to ensure that the POS system assigns serial transaction numbers without unexplained gaps. Until this issue has been corrected, OCCR/OC Parks should require SFGC to implement a mitigating control over missing transactions numbers, such as a documented supervisory review of the transaction number gaps.

OCCR/OC Parks Management Response:

Concur OCCR/OC Parks and CEO Real Estate to notify SFGC to implement a mitigating control that requires supervisors to review and note transaction number gaps that occur with the Point of Sale System until the System issue is corrected to maintain sequentially assigned transaction numbers. SFGC to provide documentation to County of the mitigating controls by February 2018.

Finding No. 2 – Inadequate Controls Over Beverage Cart Inventory and Gross Receipts (Control Finding)

Recommendation No. 2:

We recommend that OCCR/OC Parks require SFGC to implement policy and procedures to help ensure that all cash collected from the beverage cart and all inventory sold are accurately recorded in the POS system. An independent person, such as a supervisor or manager, should reconcile the beverage cart cash and inventory information input into the POS system to the inventory sheet and/or physical inventory and this review should be documented in writing.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks will require SFGC to implement procedures to ensure that sales and transactions from the beverage cart are accurately recorded in the POS system. In addition, the requirement to document and complete a reconciliation of the cash, inventory and POS system will be communicated to SFGC. The notification will include instructions to have a supervisor or manager review as part of the process to be completed by February 2018.



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Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Response cont.


OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1638
PAGE 2 OF 2
AUGUST 28, 2017

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

Sincerely,



Signature



Date

DW:tlb