

# Internal Audit Department

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

## REVIEW OF LEASE REVENUE RIVER VIEW GOLF COURSE

For the Period  
July 1, 2006 through June 30, 2007

River View Golf operates a golf course located on the County's Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. Annual gross receipts generated are approximately \$1.5 million and rent paid to the County is approximately \$81,000.

The Internal Audit Department found that River View Golf's records adequately supported gross receipts and overall rent was properly paid.

AUDIT NO: 2736  
REPORT DATE: MAY 23, 2008

Audit Director: Peter Hughes, Ph.D., MBA, CPA  
Deputy Director: Eli Littner, CPA, CIA  
Sr. Audit Manager: Autumn McKinney, CPA, CIA  
Audit Manager: Lily Chin, CPA



**Internal Audit Department**

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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. 2736 May 23, 2008**

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

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

**SUBJECT:** Review of Lease Revenue for River View  
Golf Course, E01-1008, 1008.1, 1051.01,  
1052.01, 1053

We have completed our review of lease revenue for River View Golf for the period July 1, 2006 through June 30, 2007. 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. 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** 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 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.

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July 1, 2006 through June 30, 2007

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## INTERNAL AUDITOR'S REPORT

AUDIT No. 2736

MAY 23, 2008

TO: Bryan Speegle, Director  
OC Public Works

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

SUBJECT: Review of Lease Revenue for River View Golf Course,  
E01-1008, 1008.1, 1051.01, 1052.01, 1053

### Audit Highlight

River View Golf operates a golf course located on the County's Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. Annual gross receipts generated are approximately \$1.5 million and rent paid to the County is approximately \$81,000.

The Internal Audit Department found that River View Golf's records adequately supported gross receipts and overall rent was properly paid.

### OBJECTIVES

We have performed a review of certain records and documents for the period from July 1, 2006 through June 30, 2007, pertinent to the lease agreement (Agreement) between the Orange County Flood Control District (County) and River View Golf, a California General Partnership (River View), dated September 2, 1969, as amended and assigned. The Agreement is for the operation of a golf course, snack bar, pro shop and golf instruction.

The primary purpose of our review is to determine whether River View's records 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 Orange County Flood Control District (County) entered into a lease agreement (Agreement) with River View dated September 2, 1969, as amended and assigned, for the operation of a golf course, snack bar, pro shop and golf instruction located on the Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. During the 2006 calendar year, River View generated approximately \$1.5 million in gross receipts and paid the County approximately \$81,000 in rent.

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



## SCOPE

Our review was limited to certain records and documents that support River View Golf's gross receipts reported to the County for 12-month period of July 1, 2006 to June 30, 2007. 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 River View's records adequately supported monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we identified eight (8) control findings 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 River View, OC Public Works/Real Estate Services, and OC Public Works/Accounting Services. If you have any questions regarding our limited review of lease revenue, please call me, Eli Littner, Deputy Audit Director, at (714) 834-5899, or Autumn McKinney, Senior Audit Manager, at (714) 834-6106.

**Attachment A: Report Item Classifications**

**Attachment B: OC Public Works Management Responses**



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

Members, Board of Supervisors  
Members, Audit Oversight Committee  
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Brian Cich, Senior Accountant I, OC Public Works/Accounting/Leases and Infrastructure  
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Darlene J. Bloom, Clerk of the Board of Supervisors



## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### Additional Rent Owed Due to Clerical Error

**Finding No. 1:** River View underreported gross receipts for one of two sample months we tested. For the month of December 2006, gross receipts were underreported by \$8,379 in the category of "Green Fees, Driving Range, Equipment, Other," resulting in rent owed of \$503 (6% of gross receipts). Based on our discussions with River View, the under reporting appears to be due to an inadvertent clerical error.

**Recommendation No. 1:** We recommend that OC Public Works require River View to pay additional rent of \$503 owed for December 2006.

**OC Public Works Response:** OC Public Works concurs with Recommendation 1. River View will be advised to pay the additional rent of \$503.

### Numbering Range Cards

River View offers range cards for sale. The range card allows the player to pre-pay for 10 bucket of ball rentals for the driving range. In addition to recording range card sales in the cashiering system, River View maintains a manual log that documents the date of sale, amount, and purchaser's first name.

Clause 16.A of the Agreement requires that serially numbered tickets be issued for rentals and other admission charges and that an accurate record of the tickets, both issued and unissued, be maintained.

**Finding No. 2:** River View's range cards are not numbered.

**Recommendation No. 2:** We recommend OC Public Works require River View to use serially numbered range cards.

**OC Public Works Response:** OC Public Works concurs with Recommendation 2. River View will be required to use serially numbered range cards and will be given sixty (60) days to implement this procedure in order to comply with the Agreement.

### Automatically Issuing Register Receipts

Clause 16.A of the Agreement requires that all retail sales and charges be recorded by means of cash registers and automatically issue a receipt.

**Finding No. 3:** During our review, we noted that a cash register receipt was not issued automatically. It was issued only upon customer's request.

**Recommendation No. 3:** We recommend that OC Public Works require River View to automatically issue cash register receipts.



**OC Public Works Response:** OC Public Works concurs with Recommendation 3 and will require River View to automatically issue cash register receipts for all sales and charges as defined in Clause 16.A of the Agreement and will be given thirty (30) days to implement this procedure.

## Golf Lesson Documentation

Clause 16.A of the Agreement requires records be supported by source documents and requires all sales and charges be recorded in a cash register or be issued a pre-numbered handwritten receipt. Clause 12.A. of the Agreement states that gross receipts include charges made for the sale of services of any nature or kind, payment is actually made or not and whether the services are actually performed or not.

**Findings Nos. 4 and 5:** Golf lesson fees are not recorded in River View's cashiering system and the golf pros do not issue pre-numbered handwritten receipts.

**Recommendation No. 4:** We recommend that OC Public Works require River View to ensure its golf pros issue pre-numbered handwritten receipts when lesson fees are collected.

**OC Public Works Response:** OC Public Works concurs with Recommendation 4 and will direct River View to issue pre-numbered receipts from its golf pros when fees are collected. River View will have thirty (30) days to make the above-referenced change.

**Recommendation No. 5:** We also recommend that OC Public Works require River View to ensure its golf pros submit copies of each handwritten receipt to River View as support for lesson fees reported to the County.

**OC Public Works Response:** OC Public Works concurs with Recommendation 5 and will inform River View that its golf pro's are required to submit handwritten receipts to River View as support for lesson fees reported to the County. River View will be given thirty (30) days to comply. OC Public Works will recommend that the golf pros use money receipt booklets with numbered triplicate receipts to comply with this request.

**Finding No. 6:** During our review, we found that one golf pro reports lesson fees on a cash basis while another golf pro reports lesson fees when the first lesson is held even though monies may have been collected in advance.

**Recommendation No. 6:** We recommend that OC Public Works require River View to ensure its golf pros report all lesson fees as gross receipts when collected.

**OC Public Works Response:** OC Public Works concurs with Recommendation 6 and will inform River View that the golf pros are required to report lesson fees when the fees are collected in order to standardize the process. River View shall have thirty (30) days to implement this practice.



## Segregation of Duties Risk

**Finding No. 7:** The same employee records golf reservations on the starter sheet; records sales in the cash register; and provides the bucket of range balls, pull cart rentals, and golf club rentals to customers (for which there is no other source documentation). River View has determined that the cost of hiring an additional employee to allow for better segregation of duties exceeds the benefit. This appears reasonable.

To help mitigate the risk of having the same person perform these duties, River View has implemented a surveillance camera that records activity at the starter counter, snack bar, and first tee. Automatically issuing cash register receipts to customers, as recommended above in item No. 3, is also important to mitigate the risk.

RDMD should also consider discussing other options with River View, such as posting a sign by the cash registers advising customers to contact a designated person if a receipt is not provided.

**Recommendation No. 7:** We recommend that OC Public Works evaluate whether River View should implement additional controls to further mitigate the segregation of duties risk.

**OC Public Works Response:** OC Public Works concurs with Recommendation 7 and will advise River View to automatically issue receipts for all sales and charges, and to post a sign advising customers to expect a receipt with all transactions, including golf lessons.

## Golf Pro Items for Clarification

**Finding No. 8:** We identified the following areas that may need clarification in writing:

- River View started a summer junior golf program in June 2007. River View did not obtain approval from the County for the program. River View informed us that approval was not required because the junior program is for golf lessons and golf lessons are an approved usage under the Agreement. River View was planning to start a winter junior golf program in December 2007.
- River View charges various commission rates to its three golf pros. River View informed us that the intent of the commissions are to pass through the rent owed to the County (6%) and the City of Santa Ana for golf lessons from the golf pros and it does not profit from the commissions. Commissions paid to River View by two golf pros are 12% of lesson fees and the third golf pro pays 20% of lesson fees. Also, a commission of 10% is paid for the junior golf program. River View informed us that it eventually plans to charge an industry rate of 15% to all three golf pros. RDMD should determine whether the commissions or any excess commission (commission less rent paid) should be reported as gross receipts to the County.
- During our review, we found that there were no written agreements between River View and the golf pros prescribing the terms and conditions for the golf lesson activity. River View informed us that the golf pros are considered to be independent contractors.



**Recommendation No. 8:** We recommend that OC Public Works evaluate whether any of the above items should be clarified in writing.

**OC Public Works Response:**

Junior Golf Program – A flyer regarding a junior golf program offered at River View indicates that the scheduled activities include golf lessons, golf-related workshops, and participation in golf tournaments. Based on these offerings, the junior golf program is a permissible use and the County receives 6% of gross receipts. Nonetheless, OC Public Works will advise River View that no special authorization is required to hold junior golf programs, provided activities offered are limited to golf-related activities and services.

Golf Pro Commissions – River View includes in the gross revenue reports, the entire fee charged by the golf pros. If River View were to then also report the commission it receives on those same golf pro fees, River View would be paying gross revenue rent twice on the same fees collected. OC Public Works is satisfied that River View is adequately reporting revenue derived from golf pro fees.

Golf Pro Agreements – Although not a specific requirement of the Agreement, OC Public Works will suggest to River View Golf that it is good business practice to have a written agreement outlining the basic terms and conditions under which a golf pro may conduct his or her activities on the premises.



## 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 Management Responses



Bryan Speegle, Director  
300 N. Flower Street  
Santa Ana, CA  
P. O. Box 4048  
Santa Ana, CA 92702-4048  
Telephone: (714) 244-2300  
Fax: (714) 244-5188

### memo

DATE: May 7 2008

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

FROM: Director, OC Public Works

SUBJECT: Response to Lease Revenue Audit No. 2736 – River View Golf Course

RECEIVED  
INTERNAL AUDIT DEPARTMENT  
MAY 13 PM 2:09

OC Public Works (OCPW) has reviewed the Draft Report of the Internal Audit Department's Review of Lease Revenue of the agreement between the Orange County Flood Control District (County) and River View Golf, a California General Partnership (River View), dated September 2, 1969, as amended and assigned. The Agreement is for the operation of a golf course, snack bar, pro shop, and golf instruction located on the County's Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana.

We understand that the primary purpose of Internal Audit's review was to determine whether River View's records adequately supported their monthly gross receipts reported to the County. We also understand that Internal Audit reviewed compliance with certain other provisions of the Agreement such as accounting methods and payment procedures.

The audit concluded that River View's records adequately supported monthly gross receipts reported to the County and no material weaknesses or significant issues were identified; however, the audit identified additional rent owed, areas of non-compliance with the Agreement and areas of improvement to internal controls. The audit made a total of eight recommendations.

OCPW staff provided River View Golf with a copy of Audit No. 2736 and provided an opportunity for River View Golf to respond to the findings and recommendations. No comment has been received from River View. The OCPW Responses are provided on the following pages, immediately below the Internal Audit Department descriptions, findings and recommendations (shown as indented, in italics and with a smaller font).

#### **Additional Rent Owed Due to Clerical Error**

***Finding No. 1:** River View underreported gross receipts for one of two sample months we tested. For the month of December 2006, gross receipts were underreported by \$8,379 in the category of "Green Fees, Driving Range, Equipment, Other," resulting in rent owed of \$503 (6% of gross receipts). Based on our discussions with River View, the under reporting appears to be due to an inadvertent clerical error.*

***Recommendation No. 1:** We recommend that RDMD require River View to pay additional rent of \$503 owed for December 2006.*



## ATTACHMENT B: OC Public Works Management Responses (continued)

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**OCPW Response:** OC Public Works concurs with Recommendation 1. River View will be advised to pay the additional rent of \$503.

### **Numbering Range Cards**

*River View offers range cards for sale. The range card allows the player to pre-pay for 10 bucket of ball rentals for the driving range. In addition to recording range card sales in the cashiering system, River View maintains a manual log that documents the date of sale, amount, and purchaser's first name.*

*Clause 16.A of the Agreement requires that serially numbered tickets be issued for rentals and other admission charges and that an accurate record of the tickets, both issued and unissued, be maintained.*

**Findings No. 2:** *River View's range cards are not numbered.*

**Recommendation No. 2:** *We recommend RDMD require River View to use serially numbered range cards.*

**OCPW Response:** OC Public Works concurs with Recommendation 2. River View will be required to use serially numbered range cards and will be given sixty (60) days to implement this procedure in order to comply with the Agreement.

### **Automatically Issuing Register Receipts**

*Clause 16.A of the Agreement requires that all retail sales and charges be recorded by means of cash registers and automatically issue a receipt.*

**Finding No. 3:** *During our review, we noted that a cash register receipt was not issued automatically. It was issued only upon customer's request.*

**Recommendation No. 3:** *We recommend that RDMD require River View to automatically issue cash register receipts.*

**OCPW Response:** OC Public Works concurs with Recommendation 3 and will require River View to automatically issue cash register receipts for all sales and charges as defined in Clause 16.A of the Agreement and will be given thirty (30) days to implement this procedure.

### **Golf Lesson Documentation**

*Clause 16.A of the Agreement requires records be supported by source documents and requires all sales and charges be recorded in a cash register or be issued a pre-numbered handwritten receipt. Clause 12.A. of the Agreement states that gross receipts include charges made for the sale of services of any nature or kind, payment is actually made or not and whether the services are actually performed or not.*

**Finding Nos. 4 and 5:** *Golf lesson fees are not recorded in River View's cashiering system and the golf pro's do not issue pre-numbered handwritten receipts.*



## ATTACHMENT B: OC Public Works Management Responses (continued)

Page 3 of 5

**Recommendation No. 4:** We recommend that RDMD require River View to ensure its golf pro's issue pre-numbered handwritten receipts when lesson fees are collected.

**OCPW Response:** OC Public Works concurs with Recommendation 4 and will direct River View to issue pre-numbered receipts from its golf pros when fees are collected. River View will have thirty (30) days to make the above-referenced change.

**Recommendation No. 5:** We also recommend that RDMD require River View to ensure its golf pro's submit copies of each handwritten receipt to River View as support for lesson fees reported to the County.

**OCPW Response:** OC Public Works concurs with Recommendation 5 and will inform River View that its golf pro's are required to submit handwritten receipts to River View as support for lesson fees reported to the County. River View will be given thirty (30) days to comply. OC Public Works will recommend that the golf pros use money receipt booklets with numbered triplicate receipts to comply with this request.

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RDMD should also consider discussing other options with River View, such as posting a sign by the cash registers advising customers to contact a designated person if a receipt is not provided.

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**OCPW Response:** OC Public Works concurs with Recommendation 7 and will advise River View to automatically issue receipts for all sales and charges, and to post a sign advising customers to expect a receipt with all transactions, including golf lessons.



## ATTACHMENT B: OC Public Works Management Responses (continued)

Page 4 of 5

### Golf Pro Items for Clarification

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- During our review, we found that there were no written agreements between River View and the golf pro's prescribing the terms and conditions for the golf lesson activity. River View informed us that the golf pro's are considered to be independent contractors.

**Recommendation No. 8:** We recommend that RDMD evaluate whether any of the above items should be clarified in writing.

### **OCPW Response:**

Junior Golf Program - A flyer regarding a junior golf program offered at River View indicates that the scheduled activities include golf lessons, golf-related workshops, and participation in golf tournaments. Based on these offerings, the junior golf program is a permissible use and the County receives 6% of gross receipts. Nonetheless, OC Public Works will advise River View that no special authorization is required to hold junior golf programs, provided activities offered are limited to golf-related activities and services.

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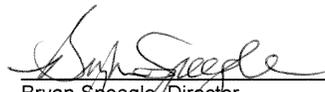
Golf Pro Agreements - Although not a specific requirement of the Agreement, OC Public Works will suggest to River View Golf that it is good business practice to have a written agreement outlining the basic terms and conditions under which a golf pro may conduct his or her activities on the premises.



## ATTACHMENT B: OC Public Works Management Responses (continued)

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Thank you for allowing us to respond to your draft audit report. If you have any questions or need additional information, please feel free to contact Debra Lakin, Chief, OCPW/Central Quality Assurance at (714) 834-5593.

  
Bryan Speegle, Director

Attachments: Letter to River View Golf dated March 28, 2008

cc: Thomas G. Mauk, County Executive Officer  
Alisa Drakodaidis, Deputy CEO/OC Infrastructure  
Dori Malloy, Director, OC Public Works/OC Facilities  
Tony Ferrulli, Manager, OC Public Works/Real Estate & Asset Management  
Carolee Condon, Chief, OC Public Works/Real Estate Services  
Josephine Alvarez, Property Management Supervisor, OC Public Works, Real Estate Services  
Scott Burns, OC Public Works, Real Estate Services  
Carlos Bustamante, Director, OC Public Works/Administration  
Mary Fitzgerald, Manager, OC Public Works/Accounting Services  
Tam Vu, Admin Manager I, OC Public Works/Accounting/Watershed, Flood, Leases & Infrastructure  
Brian Cich, Senior Accountant I, OC Public Works/Accounting/Lease & Infrastructure  
Debra Lakin, Chief, OC Public Works/Central Quality Assurance