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Revenue Generating Lease Audit: OC COMMUNITY RESOURCES/OC PARKS IRVINE PARK RAILROAD &

For the Period February 1, 2009 through January 31, 2010

\$1.25M GROSS RECEIPTS
ANNUALLY
\$188K RENT PAID TO THE
COUNTY ANNUALLY

CONCESSIONS

Irvine Park Railroad & Concessions operates a train ride concession and other park concessions at Irvine Regional Park. Over its approximate twenty-one (21) year term, this lease agreement is estimated to generate approximately \$3.8 million in rent to the County. Rent is paid based on a percentage of gross receipts. We audit the underlying books and records to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. Gross receipts reported during the 12-month audit period were approximately \$1.25 million and rent paid to the County was approximately \$188,000.

The Internal Audit Department found that Irvine Park Railroad & Concessions' records adequately supported gross receipts and rent owed was properly paid. We did identify **three (3) Control Findings** related to improving records and changing the methodology for reporting gross receipts. OC Parks agreed with all three findings and recommendations and has worked with Irvine Park Railroad & Concessions to implement corrective action.

AUDIT NO: 2935 REPORT DATE: OCTOBER 5, 2010

Director: Dr. Peter Hughes, CPA Deputy Director: Eli Littner, CPA, CIA

Senior Audit Manager: Autumn McKinney, CPA, CIA

Audit Manager: Lily Chin, CPA

Senior Internal Auditor: Susan Nestor, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award





GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)
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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter

Audit No. 2935 October 5, 2010

TO: Steve Franks, Director OC Community Resources

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Revenue Generating Lease Audit:

OCCR/OC Parks, Irvine Park Railroad and Concessions, PR23A-19, 101M2

We have completed our revenue generating lease audit of Irvine Park Railroad and Concessions for the period February 1, 2009 through January 31, 2010. The final OC Internal Auditor's Report is attached along with your responses to our recommendations. We performed this Revenue Generating Lease Audit in accordance with our FY 2009-10 Audit Plan approved by the Audit Oversight Committee.

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 <u>begin</u> at <u>six months</u> 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 <u>six months</u> 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 Dr. Peter Hughes, CPA

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.

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OC Internal Auditor's Report



Audit No. 2935

October 5, 2010

TO: Steve Franks, Director

OC Community Resources

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Revenue Generating Lease Audit:

OCCR/OC Parks/Irvine Park Railroad and Concessions,

PR23A-19, 101M2

Audit Highlight

Irvine Park Railroad & Concessions operate a train ride concession and other park concessions at Irvine Regional Park.

Over its approximate twenty-one (21) year term, this lease agreement is estimated to generate about \$3.8 million in rent to the County. Gross receipts generated during the 12-month audit period were about \$1.25 million and rent paid to the County was about \$188,000.

The Internal Audit Department found that Irvine Park Railroad & Concessions' records adequately supported gross receipts and rent owed was properly paid. We did identify three (3) Control Findings related to improving records and changing the methodology for reporting gross receipts.

OBJECTIVES

We have performed an audit of certain records and documents for the period from February 1, 2009 through January 31, 2010, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Irvine Park Railroad and Concessions, dated October 28, 2008. The Agreement is for the operation of a train ride concession and other park concessions at Irvine Regional Park. Our audit objectives are:

- (1) The primary purpose of our audit is to determine whether Irvine Park Railroad and Concessions' records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.
- (2) The secondary purpose of our audit is to determine whether Irvine Park Railroad and Concessions comply with certain other financial provisions of the Agreement, such as accounting methods, 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.

BACKGROUND

The County of Orange entered into an Agreement with Irvine Park Railroad and Concessions, dated October 28, 2008 for the operation of a train ride concession, and other park concessions (bike and boat rentals, food and merchandise sales) at Irvine Regional Park. During the audit period, Irvine Park Railroad and Concessions reported approximately \$1.25 million in gross receipts and paid the County approximately \$188,000 in rent. Over its approximate twenty-one (21) year term, this lease agreement is estimated to generate about \$3.8 million in rent to the County.

OC Internal Auditor's Report



SCOPE

Our audit was limited to certain records and documents that support Irvine Park Railroad and Concessions' gross receipts reported to the County for the 12-month audit period of February 1, 2009 through January 31, 2010. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

RESULTS

Below are the results of our audit:

- Objective #1 Adequate Records: Determine whether Irvine Park Railroad and Concessions' records adequately support monthly gross receipts reported to the County and rent owed is properly paid.
- Results: We found that overall Irvine Park Railroad and Concessions' records adequately supported the reported gross receipts and rent owed was properly paid. We noted two (2) Control Findings where recordkeeping should be improved to support the reported gross receipts. (See page 4 for details).
- Objective #2 Compliance: Determine whether Irvine Park Railroad and Concessions comply with certain other financial provisions of the agreement.
- Results: We found that Irvine Park Railroad and Concessions complied with certain other financial provisions of the agreement such as accounting methods, monthly gross receipts statement format, and annual financial statement requirements. We noted one (1) Control Finding where the methodology for reporting gross receipts should be changed. (See page 5 for details).

See the **three (3) Control Findings** in the Detailed Findings, 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 Irvine Park Railroad and Concessions, OC Parks/Real Estate and OC Community Resources/Accounting Services. If you have any questions regarding our revenue generating lease audit, please call me directly or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Attachment A: Report Item Classifications

Attachment B: OC Parks Responses

OC Internal Auditor's Report



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO, OC Infrastructure
Anna Peters, Director of Administrative Services, OC Community Resources
Mark Denny, Director, OC Community Resources/OC Parks
Michael Brajdic, Deputy Director, OC Community Resources/OC Parks
Kirk Holland, Program Manager, OC Community Resources/OC Parks
Rich Adler, Real Estate Manager, OC Community Resources/OC Parks
Michael Hentzen, Lease Manager, OC Community Resources/OC Parks
Tonya Burnett, Accounting Manager, OC Community Resources/Accounting
Win Swe, Manager, OC Community Resources/Accounting
Yolanda Vazquez, Administrative Mgr I, OC Community Resources/Accounting
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisor



Audit Objective #1 – Adequate Records

1. Maintain Monthly Schedule of Rental Payments (Control Finding)

Clause 12.A of the Agreement requires tenant to maintain "complete books, records, and accounts of all financial transactions...The records must be supported by source documents such as sales slips, cash register tapes...or other pertinent documents."

Irvine Park Railroad and Concessions utilizes numerically sequenced rental agreements for Party Pavilion and Moonbounce rentals. Rentals are generally reserved in advance and full payment is received and recorded in the cash register when the reservation is made. The rental agreements are finalized and filed when the event is held (a later date). Gross receipts for rentals are reported in the month reserved, which is in accordance with the lease agreement.

Finding No. 1: Irvine Park Railroad and Concessions does not maintain a monthly supporting schedule of the Party Pavilion and Moonbounce rental payments received and reported as gross receipts each month. Because the rental agreements are filed when the event occurs (not in sequential order and not by when monies are received) and the cash register tapes do not indicate the rental agreement number, it is difficult to account for the numerical sequence of the rental agreements and completeness of gross receipts reported.

A monthly log/spreadsheet of the rental agreements and associated payments received would improve records and provide better supporting documentation for gross receipts reported to the County.

Recommendation No. 1: We recommend that OC Parks require Irvine Park Railroad and Concessions to maintain a monthly schedule of the rental agreements and payments received for Party Pavilion and Moonbounce rentals.

OC Parks Response: Concur. OC Parks discussed this Finding with Irvine Park Railroad & Concessions' management and they have implemented new procedures to maintain a monthly log/spreadsheet of the rental agreements and payments received for Party Pavilion and Moonbounce rentals.

2. No Supporting Documentation Retained for Voids/Refunds (Control Finding)

Finding No. 2: We found that supporting documents (cash register receipts with employee signature and reason) for voids or refunds were not retained. For the sample month of October 2009, unsupported voids were \$3,120.

Recommendation No. 2: We recommend OC Parks require Irvine Park Railroad and Concessions to retain all supporting documents (cash register receipts with employee signature and reason) related to void or refund transactions.



OC Parks Response: Concur. OC Parks discussed this Finding with Irvine Park Railroad & Concessions' management and they have implemented new procedures to retain all supporting documents (cash register receipts with employee signature and reason) related to void or refund transactions.

Audit Objective #2 – Compliance with Agreement

3. Gross Receipts Reported Should Be Based On Recorded Sales Rather Than Cash Collected (Control Finding)

Clause 12.A of the Agreement requires tenant to maintain "complete books, records, and accounts of all financial transactions...The records must be supported by source documents such as sales slips, cash register tapes...or other pertinent documents."

Finding No. 3: We found that Irvine Park Railroad and Concessions reports gross receipts based on cash collected, i.e. cash in register drawers instead of sales recorded per the cash register tapes. We noted both cash shortages and overages were included in the calculation of gross receipts, and therefore the County rent calculation, resulting in overpaid and underpaid rent to the County. We found that the shortage and overage amounts were not material.

Recommendation No. 3: We recommend that OC Parks require Irvine Park Railroad and Concessions to report gross receipts based on sales recorded in cash registers.

OC Parks Response: Concur. OC Parks discussed this Finding with Irvine Park Railroad & Concessions' management and they have implemented new procedures to report gross receipts based on sales recorded in cash registers and not on cash in register drawers.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings 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/or 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 will generally require management's prompt corrective actions.

Control Findings and/or Efficiency/Effectiveness Issues:

Audit findings concerning <u>internal controls</u>, <u>compliance issues</u>, or <u>efficiency/effectiveness issues</u> 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.



ATTACHMENT B: OCCR/OC Parks Responses



OC COMMUNITY RESOURCES

RYAN DRABEK DIRECTOR OC ANIMAL CARE

MEMORANDUM

KAREN ROPER

OC COMMUNITY SERVICES

DATE: September 29, 2010

INTERNAL AUDIT

MARK DENNY

TO: FROM: Peter Hughes, Director, Internal Audit Department RTMENT Steve Franks, Director, OC Community Resources

HELEN FRIED

SUBJECT:

RESPONSE TO DRAFT REPORT ON REVENUE GENERATING

COUNTY LIBRARIAN OC PUBLIC LIBRARIES

LEASE AUDIT IRVINE PARK RAILROAD & CONCESSIONS - AUDIT NO.

OC Community Resources (OCCR) has reviewed Internal Audit Department's Draft Report on Revenue Generating Lease Audit (Audit No. 2935) of the lease agreement (Agreement) between the County of Orange (County) and Irvine Park Railroad & Concessions. Agreement is for the operation of a train ride concession and other park concession at Irvine Regional Park, which is operated under the purview of OC Parks. During the 12-month audit period, Irvine Park Railroad & Concessions reported approximately \$1.25 million in gross receipts and paid the County approximately \$188,000 in rent.

We understand that the primary purpose of Internal Audit's review (Audit Objective #1) was to determine whether Irvine Park Railroad & Concessions' records adequately supported their monthly gross receipts reported to the County and that rent is properly paid. We also understand that Internal Audit reviewed compliance with certain other provisions of the Agreement (Audit Objective #2) such as accounting methods, monthly gross receipts statement format, and annual financial statement requirements.

The audit concluded that for Audit Objective #1, Irvine Park Railroad & Concessions' management needed records adequately supported gross receipts reported to the County and that rent owed was properly paid. However, two (2) Control Findings were noted where recordkeeping should be enhanced to support the reported gross receipts. The audit also concluded that for Audit Objective #2, Irvine Park Railroad & Concessions has complied with the financial provisions of the Agreement. However, the audit identified one (1) Control Finding where the methodology to report gross receipts should be changed.

OC Parks staff provided Irvine Park Railroad & Concessions' management with a copy of Audit No. 2935 and discussed the findings, OC Parks responses to the findings, and required actions. The OC Parks 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).

Audit Objective #1 - Adequate Records

1. Maintain Monthly Schedule of Rental Payments (Control Finding)

Clause 12.A of the Agraement requires tenant to maintain "complete books, records, and accounts of all financial transactions...The records must be supported by source documents such as sales slips, cash register tapes...or other pertinent documents."

1770 NORTH BROADWAY, SANTA ANA, CA 92705-2642 • PHONE (714) 480-2788 PAX (714) 480-2899



ATTACHMENT B: OCCR/OC Parks Responses (continued)

RESPONSE TO DRAFT REPORT ON REVENUE GENERATING LEASE AUDIT OF IRVINE PARK RAILROAD & CONCESSIONS - AUDIT NO. 2935 PAGE 2 OF 3 SEPTEMBER 29, 2010

irvine Park Railroad & Concessions utilizes numerically sequenced rental agreements for Party Pavilion and Moonbounce rentals. Rentals are generally reserved in advance and full payment is received and recorded in the cash register when the reservation is made. The rental agreements are finalized and filed when the event is held (a later date). Gross receipts for rentals are reported in the month reserved, which is in accordance with the lease agreement.

Finding No. 1: Irvine Park Railroad & Concessions does not maintain a monthly supporting schedule of the Party Pavilion and Moonbounce rental payments received and reported as gross receipts each month. Because the rental agreements are filled when the event occurs (not in sequential order and not by when monies are received) and the cash register tapes do not indicate the rental agreement number, it is difficult to account for the numerical sequence of the rental agreements and completeness of gross receipts reported.

A monthly log/spreadsheet of the rental agreements and associated payments received would improve records and provide better supporting documentation for gross receipts reported to the County.

Recommendation No. 1: We recommend that OC Parks require Irvine Park Railroad & Concessions to maintain a monthly schedule of the rental agreements and payments received for Party Pavilion and Moonbounce rentals.

OC Parks Response: Concur. OC Parks discussed this Finding with Irvine Park Railroad & Concessions' management and they have implemented new procedures to maintain a monthly log/spreadsheet of the rental agreements and payments received for Party Pavillon and Moonbounce rentals.

2. No Supporting Documentation Retained for Voids/Refunds (Control Finding)

Finding No. 2: We found that supporting documents (cash register receipts with employee signature and reason) for volds or retunds were not retained. For the sample month of October 2009, unsupported voids were \$3,120.

Recommendation No. 2: We recommend OC Parks require Irvine Park Railroad & Concessions to retain all supporting documents (cash register receipts with employee signature and reason) related to void or refund transactions.

OC Parks Response: Concur. OC Parks discussed this Finding with Irvine Park Railroad & Concessions' management and they have implemented new procedures to retain all supporting documents (cash register receipts with employee signature and reason) related to void or refund transactions.

Audit Objective #2 - Compliance with Agreement

3. Gross Receipts Reported Should Be Based On Recorded Sales Rather Than Cash Collected (Control Finding)

Clause 12.A of the Agreement requires tenant to maintain "complete books, records, and accounts of all financial transactions...The records must be supported by source documents such as sales slips, cash register tapes...or other pertinent documents."

Finding No. 3: We found that Irvine Park Railroad & Concessions reports gross receipts based on cash collected, i.e. cash in register drawers instead of sales recorded per the cash register tapes. We noted both cash shortages and overages were included in the calculation of gross receipts, and therefore, the County rent calculation, resulting in overpaid and underpaid rent to the County. We found that the shortage and overage amounts were not material.



ATTACHMENT B: OCCR/OC Parks Responses (continued)

RESPONSE TO DRAFT REPORT ON REVENUE GENERATING LEASE AUDIT OF IRVINE PARK RAILROAD & CONCESSIONS – AUDIT NO. 2935 PAGE 3 OF 3 SEPTEMBER 29, 2010
Recommendation No. 3: We recommend that OC Parks require Irvine Park Railroad & Concessions to report gross receipts based on sales recorded in cash registers.
OC Parks Response: Concur. OC Parks discussed this Finding with Irvine Park Railroad & Concessions' management and they have implemented new procedures to report gross receipts based on sales recorded in cash registers and not on cash in register drawers.
Thank you for allowing us to respond to your Draft Report. If you have any questions or need additional information, please contact Michael Hentzen of my staff at (949) 923-3753. Concur: Steve Franks, Director OC Community Resources Concur: Alisa Drakodaidis, Deputy CEO OC Infrastructure
SAF:MH:ye
c: Alisa Drakodaidis, Deputy CEO, OC Infrastructure Mark Denny, Director, OC Community Resources/OC Parks Michael Brajdic, Deputy Director, OC Community Resources/OC Parks Kirk Holland, Program Manager, OC Community Resources/OC Parks Rich Adler, Real Estate Manager, OC Community Resources/OC Parks Michael Hentzen, Lease Manager, OC Community Resources/OC Parks Anna Peters, Director of Administrative Services, OC Community Resources Tonya Burnett, Accounting Manager, OC Community Resources Accounting Win Swe, Manager, OC Community Resources/Accounting Yolanda Vazquez, Administrative Manager I, OC Community Resources/Accounting