



# INTERNAL AUDIT DEPARTMENT



**First and Final Close-Out Follow-Up  
Revenue Generating Lease Audit:  
OC Community Resources/OC Parks -  
Mile Square Golf Course (PR37A-152)**

**As of April 30, 2018**

**Audit No. 1740-E (Reference 1637-F1)  
Report Date: July 26, 2018**

## **OC Board of Supervisors**

Chairman Andrew Do  
1st District

Vice Chairman Shawn Nelson  
4th District

Supervisor Michelle Steel  
2nd District

Supervisor Todd Spitzer  
3rd District

Supervisor Lisa Bartlett  
5th District



## INTERNAL AUDIT DEPARTMENT

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Audit No. 1740-E  
(Reference 1637-F1)

July 26, 2018

To: Dylan Wright, Director  
OC Community Resources

From: Scott Suzuki, CPA, Acting Director  
Internal Audit Department

Subject: First and Final Close-Out Follow-Up Revenue Generating Lease Audit:  
OC Community Resources/OC Parks – Mile Square Golf Course (PR37A-152)

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We have completed a follow-up audit of the Mile Square Golf Course as of April 30, 2018, original Audit No. 1637, dated August 28, 2017. Our final report is attached for your review.

An audit status report is submitted quarterly to the Audit Oversight Committee (AOC) and the Board of Supervisors (Board) detailing 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 future status reports to the AOC and Board.

If you have any questions, please contact me at 714.834.5509 or Michael Dean, Senior Audit Manager, at 714.834.4101.

### Attachments

#### Other recipients of this report:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
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  
Thea Bullock, Director of Compliance & Staff Development, OC Community Resources  
Connie Chang, Finance & Strategic Planning Manager, OC Community Resources  
Brian Rayburn, Business Office Manager, OC Community Resources  
Thomas Miller, Chief Real Estate Officer, CEO/Real Estate  
Ronald Inouye, Administrative Manager, CEO/Real Estate  
Salvador Lopez, Director of Satellite Accounting Operations, Auditor-Controller  
Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting Services  
Foreperson, Grand Jury  
Robin Stieler, Clerk of the Board of Supervisors  
Vavrinek, Trine, Day & Co., LLP, County External Auditor

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## INTRODUCTION

<b>SCOPE</b>	Our audit was limited to reviewing actions taken as of April 30, 2018, to implement recommendations for the one (1) Critical Control Weakness and one (1) Significant Control Weakness from our original audit issued on August 28, 2017. OCCR informed us they will be responsible for following up on the implementation of the recommendations for the five (5) Control Findings from the original audit.
<b>BACKGROUND</b>	The original audit reviewed whether Mile Square Golf Course's records adequately supported its monthly gross receipts reported to the County, rent owed was properly paid, and MSGC complied with certain other financial provision of the Agreement, such as monthly gross receipts form format and annual financial statement requirements. The original audit identified one (1) Critical Control Weakness related to the minimum annual rent being calculated incorrectly and one (1) Significant Control Weakness related to the security deposit not being revised.
<b>RESULTS</b>	Our First Follow-Up Audit found that both original audit recommendations our department was responsible for following-up on were implemented. Because the recommendations were implemented, this report represents the final close-out of the original audit.
<b>ACKNOWLEDGEMENT</b>	We appreciate the assistance extended to us by OCCR/OC Parks and CEO/Real Estate personnel during our Follow-Up Audit.

## CURRENT STATUS OF AUDIT RECOMMENDATIONS

<b>FINDING No. 1</b>	<b>Minimum Annual Rent Was Incorrect</b>
<b>CATEGORY</b>	<b>Critical Control Weakness</b>
<b>RECOMMENDATION</b>	We recommend OCCR/OC Parks work with CEO/Real Estate to collect the underpayment of rent of \$2,994,238 from MSGC. We also recommend OCCR/OC Parks review the minimum annual rent subsequent to the audit period and collect any additional rent due through the month of correction. Additionally, we recommend that CEO/Real Estate implement policies and procedures to ensure minimum annual rent revisions are accurate and timely.
<b>CURRENT STATUS</b>	<b>Implemented.</b> In March 2018, the Board of Supervisors approved the First Amendment to Lease with MSGC. According to this amendment, the County forgave the underpayment of rent in return for a minimum of 85 acres of the property (18 holes), and granted a reduction in rent for the initial 34 months as it states in Section B, Clause 2:



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	<p>“Pursuant to the terms and conditions contained herein, COUNTY agrees to accept TENANT’s return of no less than eighty-five (85) acres of the Premises (“Recovered Acreage”) under this Lease after thirty-four (34) months of the Effective Date of the First Amendment to this Lease as consideration for, and in satisfaction of, all past-due rents owed to COUNTY, as identified by the COUNTY’s Auditor-Controller as \$3,551,046.94 as of December 31, 2017 and including any additional past-due amount from that date through the Effective Date of the First Amendment to this lease. Moreover, the terms of the First Amendment to this Lease represent the COUNTY’s agreement to a reduction in Rents for the initial thirty-four (34) months following the Effective Date of the First Amendment to this Lease... as consideration for TENANT’s Reconfiguration of the Premises pursuant to the of the first Amendment to this Lease, including the Reconfiguration necessary to return the Recovered Acreage to the COUNTY.”</p> <p>In addition, CEO/Real Estate has established procedures to ensure minimum annual rent revisions are timely.</p> <p>Due to the actions taken by OCCR/OC Parks and CEO/Real Estate, we consider this recommendation implemented.</p>
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<b>FINDING No. 2</b>	<b>Security Deposit Revision Was Not Performed</b>
<b>CATEGORY</b>	<b>Significant Control Weakness</b>
<b>RECOMMENDATION</b>	We recommend CEO/Real Estate revise the security deposit calculation and collect the additional deposit owed by MSGC. Additionally, we recommend CEO/Real Estate create policies and procedures to review and revise security deposits as required by the Agreement.
<b>CURRENT STATUS</b>	<p><b>Implemented.</b> We found CEO/Real Estate has revised the security deposit calculation and has collected an additional deposit owed by MSGC. In addition, CEO/Real Estate has established policies and procedures to ensure security deposits are reviewed and revised as required by the Agreement.</p> <p>Due to the actions taken by CEO/Real Estate, we consider this recommendation implemented.</p>

<b>AUDIT TEAM</b>	Michael Dean, CPA, CIA, CISA      Senior Audit Manager Zan Zaman, CPA                      Audit Manager I
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## APPENDIX A: FOLLOW-UP AUDIT IMPLEMENTATION STATUS

Implemented	In Process	Not Implemented	Closed
The department has implemented our recommendation in all respects as verified by the follow-up audit. No further follow-up is required.	The department is in the process of implementing our recommendation. Additional follow-up may be required.	The department has taken no action to implement our recommendation. Additional follow-up may be required.	Circumstances have changed surrounding our original finding/ recommendation that: (1) make it no longer applicable or (2) the department has implemented and will only implement a portion of our recommendation. No further follow-up is required.

