

Internal Audit Department

O R A N G E C O U N T Y L a r g e s t i n t h e U S A

FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT:

REVENUE GENERATING LEASE AUDIT: OCCR/OC PARKS SANTIAGO EQUESTRIAN CENTER

Original Audit No. 2934

AS OF APRIL 5, 2011

\$3.4M Estimated Gross Receipts over Lease Term
\$274,000 Estimated Rent Paid to County Over Lease Term

Our First Follow-Up Audit found that OCCR/OC Parks and Santiago Equestrian Center satisfactorily implemented all three (3) recommendations from our original audit report.

During the original audit, Santiago Equestrian Center reported approximately **\$199,000** in gross receipts and paid rent to the County of approximately **\$16,000**. Over its twenty (20) year term, this lease agreement is estimated to generate approximately **\$274,000** in rent to the County.

AUDIT NO: 1038-D
REPORT DATE: MAY 25, 2011

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Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Audit Manager: Lily Chin, CPA

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 – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1038-D May 25, 2011

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: **First and Final Close-Out** Follow-Up
Audit of Revenue Generating Lease:
OCCR/OC Parks Santiago Equestrian
Center, Original Audit No. 2934, Issued
October 5, 2010

We have completed a First Follow-Up Audit of the Revenue Generating Lease with Santiago Equestrian Center. Our audit was limited to reviewing, as of April 5, 2011, actions taken to implement the three (3) recommendations made in our original report dated October 5, 2010.

The results of our Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for all three (3) recommendations, **this report represents the close-out of the original audit.**

Each month I submit an **Audit Status Report** to the Board of Supervisors (BOS) where I detail any critical and significant control weaknesses 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.

Attachments

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 2.

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Revenue Generating Lease Audit of
OC Community Resources/OC Parks
Santiago Equestrian Center,
Original Audit No. 2934
Audit No. 1038-D***

As of April 5, 2011

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OC Internal Auditor's Report



Audit No. 1038-D

May 25, 2011

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: **First and Final Close-Out** Follow-Up Audit of Revenue Generating Lease:
OCCR/OC Parks Santiago Equestrian Center,
Original Audit No. 2934, Issued October 5, 2010

Scope of Review

We have completed a First Follow-Up Audit of the Revenue Generating Lease with Santiago Equestrian Center. Our audit was limited to reviewing actions taken as of April 5, 2011 to implement the three (3) recommendations made in our original audit report.

Background

The original audit reviewed whether Santiago Equestrian Center's records adequately supported their monthly gross receipts reported to the County. During the original 12-month audit period, Santiago Equestrian Center generated approximately \$199,000 in gross receipts and the rent paid to the County was approximately \$16,000. The original audit identified three (3) **control findings** where no additional rent was owed.

Results

OC Community Resources/OC Parks and Santiago Equestrian Center implemented three (3) recommendations from the original audit report. Following is the implementation status of the original recommendations:

1. Horse Boarding and Trailer Storage Agreements Not Pre-Numbered (**Control Finding**)

Recommendation No. 1: We recommend that OC Parks require Santiago Equestrian Center to use serially numbered horse boarding and trailer storage agreements.

Current Status: Implemented. Our review of the current Boarder List and a sample of boarding agreements and trailer storage agreements found that Santiago Equestrian Center is now sequentially numbering the agreements.



2. Updating Accounts Receivable Records for Billing Amount Changes (Control Finding)

Recommendation No. 2: We recommend that OC Parks require Santiago Equestrian Center to update the accounts receivable records when changes that affect the amounts billed occur.

Current Status: **Implemented.** Our review of a sample of change notifications made in March 2011 and the related accounting records found that Santiago Equestrian Center's accounts receivable records are updated when billing amount changes occur.

3. Accounting Methodology for Reporting Gross Receipts (Control Finding)

Recommendation No. 3: We recommend that OC Parks require Santiago Equestrian Center to either obtain permission for the cash basis of reporting gross receipts or report gross receipts on the accrual basis and pay additional rent owed of \$1,760 for the calendar year of 2009.

Current Status: **Implemented.** Our review of Santiago Equestrian Center's August 2010 Profit and Loss Statement and the Monthly Gross Receipts Statement found that gross receipts are now reported on an accrual basis. The additional rent owed from the original audit of \$1,760 was paid in June 2010.

Acknowledgement

We appreciate the cooperation and assistance extended to us by the personnel at OCCR/OC Parks and Santiago Equestrian Center during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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