



PETER HUGHES, Ph.D, CPA, CIA, CFE, CITP
Director

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INTERNAL AUDIT DEPARTMENT

Audit No. 2345

January 26, 2004

TO: Bryan G. Speegle, Director
Resources and Development Management Department

SUBJECT: Limited Review of Ralph B. Clark Regional Park Softball Complex (Southern California Softball Association)
Project No. PR06A-2M1

We have performed a limited review of certain records and documents for the year ended July 31, 2003, pertinent to the operating agreement (Agreement) between the County of Orange (County) and George E. Abraham dba Southern California Softball Association (SCSA), dated January 7, 1997. The Agreement is for operation and maintenance of the softball complex (Complex) at Ralph B. Clark Regional Park that includes five softball fields, a concession/restroom building and 199 parking spaces.

The primary purpose of our review was to determine whether SCSA's records adequately supported their computation of monthly gross receipt payments to the County. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures.

Based on our review, we find that SCSA has retained sufficient documentation to adequately support monthly gross receipts reported to the County, except for handwritten receipts to support league and tournament fees. We also identified areas of non-compliance with the Agreement and areas for improvement as presented below.

1. Source Documentation for Fees Reported to the County

We reviewed SCSA's records for the sample months of January and April 2003 and identified the following areas where source documentation should be improved:

- a) SCSA does not prepare source documentation (such as handwritten receipts) to support league and tournament fees reported to the County. Clause 12A of the Agreement states that SCSA should keep complete books and records, and that the "records must be supported by source documents such as sales slips, cash register tapes, purchase invoices, or other pertinent documents." This issue was also included in our prior letter dated November 4, 1998.

We reviewed a book of handwritten receipts that SCSA plans to implement in October 2003. The receipts are two-part forms that are sequentially numbered. If SCSA issues these receipts as planned, and accounts for the numerical sequence of the receipts, adequate source documentation will exist for future league and tournament gross receipts.

- b) SCSA does not document descriptions for discounts given. SCSA offers various types of discounts such as league team, frequent play, and customer service accommodations. The "Tournament Sign Up Sheet" indicates the discounted amount, but does not include a description or reason for the discount. Clause 12A of the Agreement states "Operator shall, at all times during the term of this Operating Agreement, keep or cause to be kept true and complete books, records and accounts of all financial transaction in the operation of all business activities." This issue was included in our prior letter dated November 4, 1998.

Recommendation No. 1.A: We recommend that RDMD require SCSA to prepare and retain source documentation for league and tournament fees.

RDMD Response: RDMD agrees with Recommendation No. 1.A.

Action: RDMD discussed this finding with SCSA and, as stated above, in October, SCSA started to issue sequentially handwritten receipts for league and tournament gross receipts.

Recommendation No. 1.B: We recommend that RDMD require SCSA to document the description for discounts on the "Tournament Sign Up Sheet."

RDMD Response: RDMD agrees with Recommendation No. 1.B.

Action: RDMD discussed this finding with SCSA and SCSA has agreed to include a description of the reason for the discount on the Sign Up Sheets.

2. Cash Basis Reporting of Gross Receipts

For the sample months of January and April 2003, we noted that SCSA reported only the cash collected from tournament fees, improperly excluding certain transactions as follows:

- a) Tournament fees due but uncollected (bad debts) were improperly excluded from gross receipts reported to the County. Clause 9 of the Agreement states "Bad debt losses shall not be deducted from gross receipts." For the two sample months tested, gross receipts were reduced by \$152 for uncollected tournament fees.
- b) One of the softball teams was granted a free tournament play (valued at \$250) in exchange for maintaining SCSA's website. The fair value of the tournament play was not reported as gross receipts to the County. Clause 9 of the Agreement states that gross receipts includes "...the value of all consideration, including consideration other than cash, received by Operator or its employees in exchange for the items sold or services rendered."

No additional rent is owed to the County because minimum rent was paid and including the above items in gross receipts would still not have exceeded the minimum rent thresholds for those months.

Recommendation No. 2: We recommend that RDMD require SCSA to include in gross receipts all tournament fees, whether collected or not, and the fair market value of tournament play provided in exchange for services.

RDMD Response: RDMD agrees with Recommendation No. 2.

Action: RDMD discussed this finding with SCSA and SCSA has agreed to not exclude bad debts losses from gross receipts and to include the fair market value of tournament play provided in exchange for services in gross receipts.

3. Monthly Rent Report Provided to the County

We noted that the Monthly Rent Reports submitted by SCSA for July 2002 through May 2003 did not contain the current minimum rent amount. Effective February 2002, the minimum rent increased from \$50,000 to \$56,034 per year. SCSA attempted to adjust the monthly minimum rent amount on the Monthly Rent Report, but the correct amount was not used. As a result, SCSA has underpaid the minimum rent due to the County. As of May 31, 2003, rent of \$42.28 is owed to the County for the period February 2002 to May 2003.

Additionally, we noted that the Monthly Rent Report is not certified under penalty of perjury. Clause 10A of the Agreement states "The statement shall be signed by Operator or Operator's responsible agent under penalty of perjury."

Recommendation No. 3.A: We recommend that RDMD require SCSA to pay rent owed of \$42.48, along with any amounts due subsequent to May 2003.

RDMD Response: RDMD agrees with Recommendation No. 3.A.

Action: RDMD discussed this finding with SCSA and the \$42.48 has been paid. Additionally with the correction of the gross receipts reporting form to reflect the accurate minimum annual rent amount, any additional deficient rent amounts owed have been paid since the form provides for year-to-date calculations.

Recommendation No. 3.B: We also recommend that RDMD require SCSA to revise the Monthly Rent Reports to reflect the current monthly minimum rent amount.

RDMD Response: RDMD agrees with Recommendation No. 3.B.

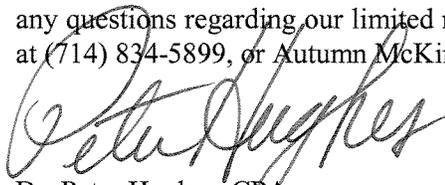
Action: RDMD discussed this finding with SCSA and the gross receipts reporting form has been corrected to reflect the accurate minimum annual rent amount.

Recommendation No. 3.C: We also recommend that RDMD require SCSA to submit Monthly Rent Reports certified under penalty of perjury.

RDMD Response: RDMD agrees with Recommendation No. 3.C.

Action: RDMD discussed this finding with SCSA and the gross receipts reporting form has been modified to add the signed under penalty of perjury statement to the form.

We appreciate the courtesy and cooperation extended to us by the personnel at Southern California Softball Association, RDMD/HBP/Lease Development and Management, and RDMD/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, Audit Manager, at (714) 834-6106.



Dr. Peter Hughes, CPA
Director of Internal Audit

Audit Team:

Eli Littner, Deputy Director, CPA, CIA
Autumn McKinney, Audit Manager, CPA, CIA
Carol Swe, Senior Auditor II, CPA, CIA
Sonia Maceranka, Senior Auditor II

Attachment – RDMD Response

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
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Jennifer Giancarlo, Chief, RDMD/Central Quality Assurance
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

Attachment – RDMD Response



COUNTY OF ORANGE
RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

Bryan Speegle, Director
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RECEIVED

DATE: January 13, 2004
TO: Peter Hughes, Director, Internal Audit Department
FROM: Bryan G. Speegle, Director
Resources and Development Management Department
SUBJECT: Response to Limited Review Audit No. 2345 – Ralph B. Clark Regional Park
Softball Complex (Southern California Softball Association)

JAN 23 2004

**INTERNAL AUDIT
DEPARTMENT**

The Resources and Development Management (RDMD) has reviewed the draft letter of the Internal Audit Department's Limited Review of the Ralph B. Clark Regional Park Softball Complex operating agreement with George Abraham dba Southern California Softball Association (SCSA) for the year ended July 31, 2003. During that period, SCSA operated under the terms and conditions of an Operating Agreement dated January 7, 1997. The agreement is for operation and maintenance of the softball complex at Ralph B. Clark Regional Park that includes five softball fields, a concession/restroom building and 199 parking spaces.

We understand the primary purpose of Internal Audit's review was to determine whether SCSA's records adequately supported their computation of monthly gross receipts rental payments made to the County. We also understand Internal Audit also reviewed compliance with certain other provisions of the lease, such as accounting and payment procedures.

The audit concluded that SCSA has retained sufficient documentation to adequately support monthly rent payments made to the County, except for handwritten receipts to support league and tournament fees. The audit also identified other areas of non-compliance and areas for improvement and made a total of six recommendations.

RDMD staff provided SCSA with a copy of Audit No. 2345 and discussed with SCSA the findings, RDMD's responses to the findings and any required actions. SCSA advised us that the auditors had also discussed the findings with them.

RDMD hereby provides the following "Responses" and "Actions" to the Internal Audit Department's "Findings" and "Recommendations":

1. Source Documentation for Fees Reported to the County

We reviewed SCSA's records for the sample months of January and April 2003 and identified the following areas where source documentation should be improved:

- a) SCSA does not prepare source documentation (such as handwritten receipts) to support league and tournament fees reported to the County. Clause 12A of the Agreement states that SCSA should keep complete books and records, and that the "records must be supported by source documents such as sales slips, cash register tapes, purchase

Attachment – RDMD Response Continued

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Recommendation No. 1.A: We recommend that RDMD require SCSA to prepare and retain source documentation for league and tournament fees.

RDMD Response: RDMD agrees with Recommendation No. 1.A.

Action: RDMD discussed this finding with SCSA and, as stated above, in October, SCSA started to issue sequentially handwritten receipts for league and tournament gross receipts.

Recommendation No. 1.B: We recommend that RDMD require SCSA to document the description for discounts on the “Tournament Sign Up Sheet.”

RDMD Response: RDMD agrees with Recommendation No. 1.B.

Action: RDMD discussed this finding with SCSA and SCSA has agreed to include a description of the reason for the discount on the Sign Up Sheets.

2. Cash Basis Reporting of Gross Receipts

For the sample months of January and April 2003, we noted that SCSA reported only the cash collected from tournament fees, improperly excluding certain transactions as follows:

- i. Tournament fees due but uncollected (bad debts) were improperly excluded from gross receipts reported to the County. Clause 9 of the Agreement states “Bad debt losses shall not be deducted from gross receipts.” For the two sample months tested, gross receipts were reduced by \$152 for uncollected tournament fees.
- ii. One of the softball teams was granted a free tournament play (valued at \$250) in exchange for maintaining SCSA’s website. The fair value of the tournament play was not reported as gross receipts to the County. Clause 9 of the Agreement states that gross receipts includes “...the value of all consideration, including consideration other than cash, received by Operator or its employees in exchange for the items sold or services rendered.”

Attachment – RDMD Response Continued

No additional rent is owed to the County because minimum rent was paid and including the above items in gross receipts would still not have exceeded the minimum rent thresholds for those months.

Recommendation No. 2: We recommend that RDMD require SCSA to include in gross receipts all tournament fees, whether collected or not, and the fair market value of tournament play provided in exchange for services.

RDMD Response: RDMD agrees with Recommendation No. 2.

Action: RDMD discussed this finding with SCSA and SCSA has agreed to not exclude bad debts losses from gross receipts and to include the fair market value of tournament play provided in exchange for services in gross receipts.

3. Monthly Rent Report Provided to the County

We noted that the Monthly Rent Reports submitted by SCSA for July 2002 through May 2003 did not contain the current minimum rent amount. Effective February 2002, the minimum rent increased from \$50,000 to \$56,034 per year. SCSA attempted to adjust the monthly minimum rent amount on the Monthly Rent Report, but the correct amount was not used. As a result, SCSA has underpaid the minimum rent due to the County. As of May 31, 2003, rent of \$42.28 is owed to the County for the period February 2002 to May 2003.

Additionally, we noted that the Monthly Rent Report is not certified under penalty of perjury. Clause 10A of the Agreement states "The statement shall be signed by Operator or Operator's responsible agent under penalty of perjury."

Recommendation No. 3.A: We recommend that RDMD require SCSA to pay rent owed of \$42.48, along with any amounts due subsequent to May 2003.

RDMD Response: RDMD agrees with Recommendation No. 3.A.

Action: RDMD discussed this finding with SCSA and the \$42.48 has been paid. Additionally with the correction of the gross receipts reporting form to reflect the accurate minimum annual rent amount, any additional deficient rent amounts owed have been paid since the form provides for year-to-date calculations.

Recommendation No. 3.B: We also recommend that RDMD require SCSA to revise the Monthly Rent Reports to reflect the current monthly minimum rent amount.

RDMD Response: RDMD agrees with Recommendation No. 3.B.

Action: RDMD discussed this finding with SCSA and the gross receipts reporting form has been corrected to reflect the accurate minimum annual rent amount.

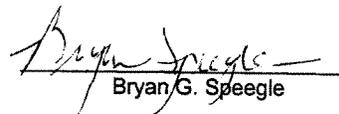
Recommendation No. 3.C: We also recommend that RDMD require SCSA to submit Monthly Rent Reports certified under penalty of perjury.

RDMD Response: RDMD agrees with Recommendation No. 3.C.

Attachment – RDMD Response Continued

Action: RDMD discussed this finding with SCSA and the gross receipts reporting form has been modified to add the signed under penalty of perjury statement to the form.

Thank you for allowing us the opportunity to respond to your draft letter. If you have any questions or need additional information, please feel free to contact Mike Hentzen of my staff at (714) 834-6286 or by email at Michael.Hentzen@pfrd.ocgov.com.


Bryan G. Speegle

James D. Ruth, County Executive Officer
Kevin Thomas, Director, RDMD/Harbors, Beaches & Parks
Bob Hamilton, Manager, RDMD/HBP/Program Management
Mike Hentzen, Leasing Coordinator, RDMD/HBP/Lease Development and Management
Steve Danley, Director, RDMD/Management Services
Mary Fitzgerald, Manager, RDMD/Accounting Services