Limited Review of Canyon Recreational Vehicle Park

FOR THE YEAR ENDED NOVEMBER 30, 2003

REPORT DATE: October 27, 2004

Audit Number 2449

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INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

Limited Review of Canyon Recreational Vehicle Park

For the year ended November 30, 2004

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COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

Integrity
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Transmittal Letter

Audit No. 2449

October 27, 2004

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

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

SUBJECT: Limited Review of Canyon Recreational Vehicle Park
Parcel No. PR09B-16

We have completed our review of Canyon Recreational Vehicle Park for the year ended November 30, 2003. The final report is attached along with your responses to our recommendations. We also attached a Customer Survey of Audit Services. Please complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department. We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Vicki Wilson, Deputy County Executive Officer
Kevin Thomas, Director, RDMD/Harbors, Beaches & Parks
Bob Hamilton, Manager, RDMD/HB&P/Program Management
Rich Adler, Chief, RDMD/HB&P/Lease Management
Mike Hentzen, Leasing Coordinator, RDMD/HB&P/Lease Management
Steve Danley, Director, RDMD/Management Services
Mary Fitzgerald, Manager, RDMD/Accounting Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Teri Marcoot, RDMD/Central Quality Assurance
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

"The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors."

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INTERNAL AUDITOR'S REPORT

Audit No. 2449

October 27, 2004

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

SUBJECT: Limited Review of Canyon Recreational Vehicle Park
Parcel PR09B-16

We have performed a limited review of certain records and documents for the year ended November 30, 2003, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Canyon Recreational Vehicle Park (Canyon RV Park), a California general partnership, dated June 15, 1998. The Agreement is primarily to promote the development and operation of a public recreational vehicle park and campground.

The primary purpose of our review was to determine whether Canyon RV Park's records adequately supported their computation of monthly rent 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 Canyon RV Park has retained sufficient documentation to adequately support monthly gross receipts reported to the County. However, we did identify rent owed, areas of non-compliance with the Agreement, and areas for improvement as presented below.

1. Incorrect Categorization of Gross Receipts
   Canyon RV Park reported the following gross receipts in an incorrect rent category during the review period:

   A. Additional Rent Owed:
      - Approximately $21,000 in Youth Group Camping revenue, which is a 10% category, was reported in the Day Use category at 5%, resulting in $1,050 in additional rent owed to the County.
      - Revenue of $345 received from Rock City (a sub-operator providing rock climbing activities), which is a 10% category, was incorrectly reported in the Day Use category at 5%, resulting in $17 in additional rent owed to the County.

"The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors."

Recommendation No. 1.A.1: We recommend that RDMD require Canyon RV Park to pay $1,067 in additional rent owed during the review period of December 1, 2002 through November 30, 2003.

RDMD Response: RDMD agrees with this recommendation and has discussed this finding with Canyon RV Park. Canyon RV Park has paid the $1,067 in additional rent.

Recommendation No. 1.A.2: We also recommend that RDMD require Canyon RV Park to calculate and pay additional percentage rent owed for the Youth Group Camping revenue prior to December 1, 2002 and subsequent to November 30, 2003.

RDMD Response: RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Subsequently, Canyon RV Park has agreed to review its accounting records for periods prior and subsequent to the audit period and pay any additional amounts that may be owed. Although revenues were rung up properly at the register, the errors occurred when Canyon RV Park staff transferred information from their accounting records to the monthly gross receipts statement form which is submitted to the County. In part, these errors were due to several categories in their accounting system having very similar names. These categories have been renamed so as to avoid any further confusion in the future. This review will be completed by July 30, 2004.

B. No Additional Rent Owed:

No additional rent is owed on the below because the miscategorization occurred between categories with the same rent percentage:

- Group RV camping fees reported in the Youth Group Camping category.
- AT&T sublease fees reported as Cox Communications sublease fees, and vice versa.
- Video game arcade revenues reported in the Day Use category.

Recommendation No. 1.B.1: We recommend that RDMD require Canyon RV Park to report gross receipts in the correct percentage rent category in accordance with the Agreement.

RDMD Response: RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Based on these discussions, Canyon RV Park agreed to review its procedures with staff and provide additional training to ensure revenues are properly reported in the appropriate category. Canyon RV Park management has met with the on-site office personnel and home office personnel to review accounting procedures to ensure that, as revenues are collected, they are properly reported in the appropriate category.

Recommendation No. 1.B.2: We further recommend that RDMD require Canyon RV to revise the monthly gross receipt statement to include a separate line item for each business category as required by the Agreement.

RDMD Response: RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Canyon RV Park has revised their gross receipts statement so that each business category as identified in the lease is a separate line item on the statement.

2. Sub-Operators

Canyon RV Park has agreements with several sub-operators to provide various services at the park (e.g. telephone, laundry, video game arcade, rock climbing). We noted the following issues related to sub-operators.

A. Reporting Net vs. Gross Receipts

The Agreement states that gross receipts shall include "all sums deposited in any coin-operated vending machine (except telephones)" as well as all fees charged on the Premises by the Tenant "or any person acting under contract with Tenant." Canyon RV only reported as gross receipts the fee it received from the sub-operators, rather than the sub-operators' gross receipts. As a result, rent is owed as follows:

- Laundry Services: gross receipts underreported by $4,048 and rent of $202 owed.
- Rock Climbing: gross receipts underreported by $3,125 and rent of $313 owed.

Recommendation No. 2.A: We recommend that RDMD require Canyon RV Park to pay $515 rent owed as a result of underreporting gross receipts from sub-operators during the review period.

RDMD Response: RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Canyon RV Park has paid the additional $515 identified in the audit and in the future will pay percentage rent based on the sub-operators gross receipts and not the amount the sub-operators remits to Canyon RV Park. The monthly gross receipts statement form was revised so as to ensure that rent on these items are properly reported.

B. Sub-Operator Documentation

Canyon RV Park has not consistently obtained documentation from sub-operators to support gross receipts generated on the Premises. Clause 14.A of the Agreement requires Canyon RV Park to maintain records of all financial transactions in the operation of all business activities. Canyon RV Park was unable to provide complete documentation to support telephone, video game arcade, and rock climbing revenues generated during the review period. The amount of gross receipts from these activities is relatively small; however, lack of documentation increases the risk of underpayment of rent.

Recommendation No. 2.B: We recommend that RDMD require Canyon RV Park to obtain documentation to support gross receipts generated by sub-operators on the Premises.

RDMD Response: RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Canyon RV Park will now require each sub-operator to submit gross receipt statements along with remittal of any rent payments for their operations. Additionally, video game arcade revenues are counted by the sub-operator and Canyon RV Park front office staff together in the park office to ensure an accurate accounting of video game arcade revenues.

3. Supporting Documentation

We noted the following areas where supporting documentation and related procedures should be enhanced to help ensure completeness of gross receipts reported to the County.

A. Pre-Numbered Receipts

Canyon RV Park collects fees from the general public for park entry and other activities associated with Day Use Events (e.g. car shows, dog shows, etc.). At the time of collection, the customer is not provided a receipt. In addition, Canyon RV Park issues manual pre-numbered receipts to customers for deposits and final payments made for RV site rentals and group event site fees (youth group camping, company picnics, etc). During our review, we noted a few instances where there was no evidence that a receipt was issued.

Pre-numbered receipts should be issued for each rental or admission charge in accordance with Lease Clause 14.A. The numerical sequence of the receipts should be accounted for and missing receipts investigated. The receipts should be reconciled to cash collections in the daily balancing process to ensure all monies are accounted for.

Recommendation No. 3.A: We recommend that RDMD require Canyon RV Park to issue pre-numbered receipts for each rental and admission charge and account for receipts in the balancing process.

RDMD Response: RDMD agrees with the recommendation and Canyon RV Park has complied with the recommendation. Canyon RV Park now is using a two-part pre-numbered receipt for day use events; pre-numbered receipts already were in use for RV site rentals and group site fees. In addition, all numbered receipts now are accounted for and reconciled back to the cash collected in the daily balancing process.

B. Reservation Application Form

Canyon RV Park prepares a manual Reservation Application form to initially record reservations for group events (e.g. youth group camping, company picnics, car shows, etc.). The Reservation Application contains pertinent information regarding the event such as group name, event dates, group count, fee estimates, and deposit amount. We noted that this form is not pre-numbered or otherwise accounted for. To ensure all fees associated with group events are accounted for and properly reported to the County, the Reservation Application form should be pre-numbered. The Operations Manager should also perform a periodic spot-check of completed application forms to ensure sequence numbers are accounted for and forms are properly entered into the cashiering system.

Recommendation No. 3.B: We recommend that RDMD require Canyon RV Park to pre-number the Reservation Application form. We further recommend that RDMD require Canyon RV Park to periodically spot-check completed application forms to ensure sequence numbers are accounted for and forms are properly entered into the cashiering system.

RDMD Response: RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Canyon RV Park has agreed to pre-number the Reservation Application forms. Additionally, Canyon RV Park will require the Operations Manager to periodically spot-check the completed forms to ensure sequence numbers are accounted for and properly entered into the cashiering system.

C. RV Site Inventory

Canyon RV Park performs physical site checks to ensure those patrons scheduled for departure have appropriately vacated the site. However, the site check does not cover all available sites and documentation is not maintained. An individual that is independent of

the cashiering function should perform and document a complete site check on a daily basis. The on-site manager should be notified of the site check results; however, since that individual is also the cashier, a copy of the site check should be provided directly to the Operations Manager for review. The Operations Manager should periodically agree the site check to the reservation system to ensure occupied sites are correctly accounted for in the reservation system.

Recommendation No. 3.C: We recommend that RDMD require Canyon RV Park to perform and document an independent physical site check of all RV sites and cabins and provide the results to the Operations Manager for review. We further recommend that RDMD require Canyon RV Park to perform an independent periodic reconciliation of the site check to the reservation system.

RDMD Response: RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Canyon RV Park has modified their site inventory system to comply with the recommendation. A Departure Report is printed each day with check-out at 11 am. The Departure Report is then used by a maintenance staff member who physically checks each site to confirm departure. The maintenance staff member documents the Departure Report as to whether the site is vacated or not. The maintenance staff member then returns the Departure Report to the front office Operations Manager for further handling. The Departure Report is attached to the daily reports for that given day. The front office Operations Manager will be responsible for periodic independent spot checks and reconciliation to the reservation system.

D. Occupancy Report

Canyon RV Park manually prepares a report showing daily occupancy of RV sites, cabins, day use events and group camping sites. We noted that the report combines the daily activity of all categories into one number. Also, the monthly occupancy rate is calculated using an incorrect number of available RV sites (calculation is using 120 available sites instead of 137 available sites). For monitoring purposes, it would be more meaningful to track daily occupancy by category and to use total number of available sites when calculating the occupancy rate.

Recommendation No. 3.D: We recommend that RDMD require Canyon RV Park to document daily occupancy statistics by business category and include actual available sites in the occupancy calculation.

RDMD Response: RDMD agrees with the recommendation and Canyon RV Park has complied with the recommendation by revising the occupancy report to reflect the 137 sites available.

4. Financial Statements

Clause 14.C of the Agreement requires Canyon RV Park to submit annual financial statements to the County. Since inception of the current lease term in 1998, RDMD exempted Canyon RV Park from this requirement as the park was undergoing redevelopment and expansion, and gross receipts were under $500,000. Canyon RV Park's gross receipts have exceeded $500,000 for the last few years. As a result, RDMD informed us that it intends to end the exemption and begin requiring Canyon RV Park to submit financial statements required by the Agreement.

Recommendation No. 4: We recommend that RDMD communicate in writing the reinstatement of the financial statement requirements per Clause 14.C of the Agreement.

RDMD Response: RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Although Canyon RV Park did submit annual financial statements, they were incomplete or not being submitted with the required CPA attestations. Commencing with the statements for the year ending December 2003, Canyon RV Park has now submitted financial statements to the County with the required CPA attestations and in accordance with requirements of the lease and will continue to do so for each ensuing year of the contract.

5. Monthly Gross Receipt Statement Provided to the County
The Monthly Gross Receipt Statement submitted by Canyon RV is not certified under penalty of perjury as required by Clause 12 of the Agreement.

Recommendation No. 5: We recommend that RDMD require Canyon RV Park to submit Monthly Gross Receipt Statements certified under penalty of perjury.

RDMD Response: RDMD agrees with the recommendation and commencing with the July 2004 monthly gross receipts statement, Canyon RV Park now certifies each monthly gross receipts statement under penalty of perjury that the information submitted is true and correct as required by Clause 12 of the Agreement.

6. Areas for RDMD Clarification
During our review, we noted the following areas requiring written clarification by RDMD:

- Electricity Charges: Canyon RV Park provides electrical hook-ups for RV sites and charges a fee to customers for their electricity usage. This revenue is not reported to the County. RDMD has indicated to us that exclusion of electricity charges from gross receipts is acceptable; however, approval for this exclusion as well as documentation requirements should be clarified by RDMD in writing.
- Day Use Events: Canyon RV Park occasionally hosts day use events such as dog shows, car shows, etc. RDMD has indicated to us that these events are an allowable optional use per Clause 5.B of the Agreement. RDMD should clarify in writing whether these events should be pre-approved by RDMD before each event or if a blanket approval is sufficient to cover all day use events.
- Internet Services: Canyon RV Park has entered into an agreement with a third-party (sub-operator) to provide wireless internet web services to park guests. Canyon RV Park informed us that they currently do not receive fees from the sub-operator, but hope to generate revenue from this agreement in the future. RDMD has indicated to us that this is an acceptable optional service; however, approval for this service as well as criteria for reporting future revenues and documentation requirements should be clarified by RDMD in writing.
- Employee Residents: Canyon RV Park currently provides RV spaces for six staff workers. RDMD has indicated to us that RV space for four staff workers has been approved. RDMD should clarify in writing approval for RV space as well as reporting requirements for additional staff workers.

Recommendation No. 6: We recommend that RDMD clarify the above items in writing and communicate the results to Canyon RV Park.

RDMD Response: RDMD agrees with the recommendation, and RDMD has complied with the recommendation. A letter dated July 9, 2004 entitled "Clarification of Lease Related Items" was sent to Canyon RV Park to grant approval for the exclusion of pass throughs for electrical charges, day use events, provision of internet services and allowable RV spaces for staff employees. (See attached)

We appreciate the courtesy and cooperation extended to us by the personnel at Canyon RV Park, RDMD//HB&P/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.

Peter Hughes, Ph.D., 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
Toni Smart, Senior Auditor II, CPA

Attachment – RDMD Response

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Vicki Wilson, Deputy County Executive Officer
Kevin Thomas, Director, RDMD/Harbors, Beaches & Parks
Bob Hamilton, Manager, RDMD/HB&P/Program Management
Rich Adler, Chief, RDMD/HB&P/Lease Management
Mike Hentzen, Leasing Coordinator, RDMD/HB&P/Lease Management
Steve Danley, Director, RDMD/Management Services
Mary Fitzgerald, Manager, RDMD/Accounting Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Teri Marcoot, RDMD/Central Quality Assurance
Foreman, Grand Jury
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COUNTY OF ORANGE

RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

RECEIVED
INTERNAL AUDIT DEPARTMENT
2004 OCT 26 AM 9:52

DATE: October 21, 2004

TO: Peter Hughes, Director, Internal Audit Department

FROM: Bryan Speegle, Director
Resources and Development Management Department

SUBJECT: Response to Limited Review Audit No. 2449 – Canyon Recreational Vehicle Park (PR09B-16)

The Resources and Development Management Department (RDMD) has reviewed the draft letter of the Internal Audit Department's Limited Review of the lease between the County of Orange and Canyon Recreational Vehicle Park (Canyon RV Park) for the year ended November 30, 2003. During that period, Canyon RV Park operated under the terms and conditions of a lease agreement dated June 15, 1998 ("the Agreement"). The Agreement (and the prior five-year Operating Agreement) provides for development, operation and maintenance of a public recreation vehicle park and campground at Featherly Regional Park.

Establishment of Canyon RV Park in 1993 replaced a County-run campground which, at the time, had an operating deficit (expenses exceeding revenues) of $450,000 per year. During the initial years of operation, Canyon RV Park paid annual rent to the County at close to the minimum level of $25,000; however, County expenses were limited solely to lease management overhead costs. Upon Canyon RV Park's installation of electrical and water hook-ups at the campsites in 1998, business increased significantly. Gross receipts from the RV park were $765,000 in calendar year 2003, with $72,000 paid in rent to the County. [Two cellular antenna subleases on the property generated additional rent for Canyon RV Park of $24,000 in 2003, 50 percent of which was paid to the County.]

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

The audit concluded that Canyon RV Park retained sufficient documentation to adequately support monthly rent payments made to the County; however, the audit identified additional rent owed, areas of non-compliance with the Agreement and areas for improvements. The audit made a total of six recommendations.

RDMD staff provided Canyon RV Park with a copy of Audit No. 2449 and discussed with Canyon RV Park the findings, RDMD's responses to the findings and any required actions.

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

INTERNAL AUDIT FINDING NO. 1

1. Incorrect Categorization of Gross Receipts

Canyon RV Park reported the following gross receipts in an incorrect rent category during the review period:

A. Additional Rent Owed:

- Approximately $21,000 in Youth Group Camping revenue, which is a 10% category, was reported in the Day Use category at 5%, resulting in $1,050 in additional rent owed to the County.
- Revenue of $345 received from Rock City (a sub-operator providing rock climbing activities), which is a 10% category, was incorrectly reported in the Day Use category at 5%, resulting in $17 in additional rent owed to the County.

Recommendation No. 1.A.1: Internal Audit recommends that RDMD require Canyon RV Park to pay $1,067 in additional rent owed during the review period of December 1, 2002 through November 30, 2003.

RDMD Response: *RDMD agrees with this recommendation and has discussed this finding with Canyon RV Park. Canyon RV Park has paid the $1,067 in additional rent.*

Recommendation No. 1.A.2: Internal Audit also recommends that RDMD require Canyon RV Park to calculate and pay additional percentage rent owed for the Youth Group Camping revenue prior to December 1, 2002 and subsequent to November 30, 2003.

RDMD Response: *RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Subsequently, Canyon RV Park has agreed to review its accounting records for periods prior and subsequent to the audit period and pay any additional amounts that may be owed. Although revenues were rung up properly at the register, the errors occurred when Canyon RV Park staff transferred information from their accounting records to the monthly gross receipts statement form which is submitted to the County. In part, these errors were due to several categories in their accounting system having very similar names. These categories have been renamed so as to avoid any further confusion in the future. This review will be completed by July 30, 2004.*

B. No Additional Rent Owed:

No additional rent is owed on the below because the miscategorization occurred between categories with the same rent percentage:

- Group RV camping fees reported in the Youth Group Camping category.
- AT&T sublease fees reported as Cox Communications sublease fees, and vice versa.
- Video game arcade revenues reported in the Day Use category.

Recommendation No. 1.B.1: Internal Audit recommends that RDMD require Canyon RV Park to report gross receipts in the correct percentage rent category in accordance with the Agreement.

2

RDMD Response: *RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Based on these discussions, Canyon RV Park agreed to review its procedures with staff and provide additional training to ensure revenues are properly reported in the appropriate category. Canyon RV Park management has met with the on-site office personnel and home office personnel to review accounting procedures to ensure that, as revenues are collected, they are properly reported in the appropriate category.*

Recommendation No. 1.B.2: Internal Audit further recommends that RDMD require Canyon RV Park to revise the monthly gross receipt statement to include a separate line item for each business category as required by the Agreement.

RDMD Response: *RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Canyon RV Park has revised their gross receipts statement so that each business category as identified in the lease is a separate line item on the statement.*

INTERNAL AUDIT FINDING NO. 2

2. Sub-Operators

Canyon RV Park has agreements with several sub-operators to provide various services at the park (e.g. telephone, laundry, video game arcade, rock climbing). We noted the following issues related to sub-operators.

A. Reporting Net vs. Gross Receipts

The Agreement states that gross receipts shall include "all sums deposited in any coin-operated vending machine (except telephones)" as well as all fees charged on the Premises by the Tenant "or any person acting under contract with Tenant." Canyon RV only reported as gross receipts the fee it received from the sub-operators, rather than the sub-operators' gross receipts. As a result, rent is owed as follows:

- Laundry Services: gross receipts underreported by $4,048 and rent of $202 owed.
- Rock Climbing: gross receipts underreported by $3,125 and rent of $313 owed.

Recommendation No. 2.A: Internal Audit recommends that RDMD require Canyon RV Park to pay $515 rent owed as a result of underreporting gross receipts from sub-operators during the review period.

RDMD Response: *RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Canyon RV Park has paid the additional $515 identified in the audit and in the future will pay percentage rent based on the sub-operators gross receipts and not the amount the sub-operators remits to Canyon RV Park. The monthly gross receipts statement form was revised so as to ensure that rent on these items are properly reported.*

B. Sub-Operator Documentation

Canyon RV Park has not consistently obtained documentation from sub-operators to support gross receipts generated on the Premises. Clause 14.A of the Agreement requires Canyon RV Park to maintain records of all financial transactions in the operation of all business activities. Canyon RV Park was unable to provide complete documentation to support telephone, video game arcade, and rock climbing revenues generated during the review period. The amount of gross receipts from these activities is relatively small; however, lack of documentation increases the risk of underpayment of rent.

3

Recommendation No. 2.B: Internal Audit recommends that RDMD require Canyon RV Park to obtain documentation to support gross receipts generated by sub-operators on the Premises.

RDMD Response: *RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Canyon RV Park will now require each sub-operator to submit gross receipt statements along with remittal of any rent payments for their operations. Additionally, video game arcade revenues are counted by the sub-operator and Canyon RV Park front office park staff together in the park office to ensure an accurate accounting of video game arcade revenues.*

INTERNAL AUDIT FINDING NO. 3

3. Supporting Documentation

We noted the following areas where supporting documentation and related procedures should be enhanced to help ensure completeness of gross receipts reported to the County.

A. Pre-Numbered Receipts

Canyon RV Park collects fees from the general public for park entry and other activities associated with Day Use Events (e.g., car shows, dog shows, etc.). At the time of collection, the customer is not provided a receipt. In addition, Canyon RV Park issues manual pre-numbered receipts to customers for deposits and final payments made for RV site rentals and group event site fees (youth group camping, company picnics, etc). During our review, we noted a few instances where there was no evidence that a receipt was issued.

Pre-numbered receipts should be issued for each rental or admission charge in accordance with Lease Clause 14.A. The numerical sequence of the receipts should be accounted for and missing receipts investigated. The receipts should be reconciled to cash collections in the daily balancing process to ensure all monies are accounted for.

Recommendation No. 3.A: Internal Audit recommends that RDMD require Canyon RV Park to issue pre-numbered receipts for each rental and admission charge and account for receipts in the balancing process.

RDMD Response: *RDMD agrees with the recommendation and Canyon RV Park has complied with the recommendation. Canyon RV Park now is using a two-part pre-numbered receipt for day use events, pre-numbered receipts already were in use for RV site rentals and group site fees. In addition, all numbered receipts now are accounted for and reconciled back to the cash collected in the daily balancing process.*

B. Reservation Application Form

Canyon RV Park prepares a manual Reservation Application form to record reservations initially for group events (e.g., youth group camping, company picnics, car shows, etc.). The Reservation Application contains pertinent information regarding the event such as group name, event date, group count, fee estimate and deposit amount. We noted that this form is not pre-numbered or otherwise accounted for. To ensure all fees associated with group events are accounted for and properly reported to the County, the Reservation Application form should be pre-numbered. The Operations Manager also should perform a periodic spot-check of completed application forms to ensure sequence numbers are accounted for and forms are properly entered into the cashiering system.

4

Recommendation No. 3.B: Internal Audit recommends that RDMD require Canyon RV Park to pre-number the Reservation Application form. We further recommend that RDMD require Canyon RV Park to periodically spot-check completed application forms to ensure sequence numbers are accounted for and forms are properly entered into the cashiering system.

RDMD Response: *RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Canyon RV Park has agreed to pre-number the Reservation Application forms. Additionally, Canyon RV Park will require the Operations Manager to periodically spot-check the completed forms to ensure sequence numbers are accounted for and properly entered into the cashiering system.*

C. RV Site Inventory

Canyon RV Park performs physical site checks to ensure those patrons scheduled for departure have appropriately vacated the site. However, the site check does not cover all available sites and documentation is not maintained. An individual that is independent of the cashiering function should perform and document a complete site check on a daily basis. The on-site manager should be notified of the site check results; however, since that individual is also the cashier, a copy of the site check should be provided directly to the Operations Manager for review. The Operations Manager should periodically reconcile the site check to the reservation system to ensure occupied sites are correctly accounted for in the reservation system.

Recommendation No. 3.C: Internal Audit recommends that RDMD require Canyon RV Park to perform and document an independent physical site check of all RV sites and cabins and provide the results to the Operations Manager for review. We further recommend that RDMD require Canyon RV Park to perform an independent periodic reconciliation of the site check to the reservation system.

RDMD Response: *RDMD agrees with the recommendation and has discussed this finding with Canyon RV Park. Canyon RV Park has modified their site inventory system to comply with the recommendation. A Departure Report is printed each day with check-out at 11 am. The Departure Report is then used by a maintenance staff member who physically checks each site to confirm departure. The maintenance staff member documents the Departure Report as to whether the site is vacated or not. The maintenance staff member then returns the Departure Report to the front office Operations Manager for further handling. The Departure Report is attached to the daily reports for that given day. The front office Operations Manager will be responsible for periodic independent spot checks and reconciliation to the reservation system.*

D. Occupancy Report

Canyon RV Park manually prepares a report showing daily occupancy of RV sites, cabins, day use events and group camping sites. We noted that the monthly occupancy rate is calculated using an incorrect number of available RV sites (calculation is using 120 available sites instead of 137 available sites).

Recommendation No. 3.D: We recommend that RDMD require Canyon RV Park to document daily occupancy using actual available sites in the occupancy calculation.

RDMD Response: *RDMD agrees with the recommendation and Canyon RV Park has complied with the recommendation by revising the occupancy report to reflect the 137 sites available.*

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INTERNAL AUDIT FINDING NO. 4

4. Financial Statements

Clause 14.C of the Agreement requires Canyon RV Park to submit annual financial statements to the County. Since inception of the current lease term in 1998, RDMD exempted Canyon RV Park from this requirement as the park was undergoing redevelopment and expansion, and gross receipts were under $500,000. Canyon RV Park's gross receipts have exceeded $500,000 for the last few years. As a result, RDMD informed us that it intends to end the exemption and begin requiring Canyon RV Park to submit financial statements required by the Agreement.

Recommendation No. 4: Internal Audit recommends that RDMD communicate in writing the reinstatement of the financial statement requirements per Clause 14.C of the Agreement.

RDMD Response: *RDMD agrees with the recommendation and has discussed the finding with Canyon RV Park. Although Canyon RV Park did submit annual financial statements, they were incomplete or not being submitted with the required CPA attestations. Commencing with the statements for the year ending December 2003, Canyon RV Park has now submitted financial statements to the County with the required CPA attestations and in accordance with requirements of the lease and will continue to do so for each ensuing year of the contract.*

INTERNAL AUDIT FINDING NO. 5

5. Monthly Gross Receipt Statement Provided to the County

The Monthly Gross Receipt Statement submitted by Canyon RV is not certified under penalty of perjury as required by Clause 12 of the Agreement.

Recommendation No. 5: Internal Audit recommends that RDMD require Canyon RV Park to submit Monthly Gross Receipt Statements certified under penalty of perjury.

RDMD Response: *RDMD agrees with the recommendation and commencing with the July 2004 monthly gross receipts statement, Canyon RV Park now certifies each monthly gross receipts statement under penalty of perjury that the information submitted is true and correct as required by Clause 12 of the Agreement.*

INTERNAL AUDIT FINDING NO. 6

6. Areas for RDMD Clarification

During our review, we noted the following areas requiring written clarification by RDMD:

- Electricity Charges: Canyon RV Park provides electrical hook-ups for RV sites and charges a fee to customers for their electricity usage. This revenue is not reported to the County. RDMD has indicated to us that exclusion of electricity charges from gross receipts is acceptable; however, approval for this exclusion as well as documentation requirements should be clarified by RDMD in writing.
- Day Use Events: Canyon RV Park occasionally hosts day use events such as dog shows, car shows, etc. RDMD has indicated to us that these events are an allowable optional use per Clause 5.B of the Agreement. RDMD should clarify in writing whether

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these events should be pre-approved by RDMD before each event or if a blanket approval is sufficient to cover all day use events.

- Internet Services: Canyon RV Park has entered into an agreement with a third-party (sub-operator) to provide wireless internet web services to park guests. Canyon RV Park informed us that they currently do not receive fees from the sub-operator, but hope to generate revenue from this agreement in the future. RDMD has indicated to us that this is an acceptable optional service; however, approval for this service as well as criteria for reporting future revenues and documentation requirements should be clarified by RDMD in writing.
- Employee Residents: Canyon RV Park currently provides RV spaces for six staff workers. RDMD has indicated to us that RV space for four staff workers has been approved. RDMD should clarify in writing approval for RV space as well as reporting requirements for additional staff workers.

Recommendation No. 6: Internal Audit recommends that RDMD clarify the above items in writing and communicate the results to Canyon RV Park.

RDMD Response: *RDMD agrees with the recommendation, and RDMD has complied with the recommendation. A letter dated July 9, 2004 entitled "Clarification of Lease Related Items" was sent to Canyon RV Park to grant approval for the exclusion of pass throughs for electrical charges, day use events, provision of internet services and allowable RV spaces for staff employees. (See attached)*

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.

Sincerely,

Bryan Speegle, Director

cc: Thomas Mauk, County Executive Officer
Vicki Wilson, Deputy County Executive Officer
Kevin Thomas, Director, RDMD/Harbors, Beaches & Parks
Bob Hamilton, Manager, RDMD/HBP/Program Management
Rich Adler, Chief, RDMD/HBP/Lease Management
Mike Hentzen, Leasing Coordinator, RDMD/HBP/Lease Management
Steve Danley, Director, RDMD/Management Services
Mary Fitzgerald, Manager, RDMD/Accounting Services
Brian Murphy, Chief, RDMD/Central Quality Assurance

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COUNTY OF ORANGE

RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

Bryan Speegle, Director
300 N. Flower Street
Santa Ana, CA

P.O. Box 4048
Santa Ana, CA 92702-4048

Telephone: (714) 834-2300
Fax: (714) 834-5188

July 9, 2004

Mr. Vernon St. Clair
Canyon RV Park
25550 Hawthorne Blvd., Suite 106
Torrance, CA 90505

Subject: Clarification of Lease-Related Items

Dear Mr. St. Clair:

As a result of the recent audit of Canyon R.V. Park, I thought it would be helpful to clarify in a single document the status of a number of uses and activities that were either addressed in the lease, were previously approved or are approved by this letter.

- Mobile Homes – As part of your operation, you are authorized to have two mobile homes on site. One mobile home is located near the office. Recently, the mobile home in the maintenance yard was replaced with a new home in a location by Gypsum Creek.

- Staff RV spaces – You are hereby authorized to provide RV spaces for up to four staff workers. Any additional spaces that you provide to staff must be accounted for as part of your gross receipts, and you must pay the normal percentage rent on the fair market value of those spaces. Please create a separate line item on the monthly gross receipts form entitled "Additional Staff RV Spaces" to ensure rent is properly accounted for on any staff spaces in addition to the authorized four spaces.

- Electrical Use Charges – You are hereby allowed to exclude from your gross receipts the direct pass-through charges for electrical use by customers in RV spaces that have sub-meters; you may also exclude the basic service charge allowed by the Public Utilities Commission (currently $3.50/month/customer).

- Extended Stays – You are currently limiting the number of spaces allocated to extended stays to 60. This is a reasonable and appropriate limit. You are also limiting the maximum stay period to six months, not permitting a return for at least a week and prohibiting return to the same site. Please do not increase the number of extended stays or change the maximum stay period without seeking written permission to do so.

- Tent Camping – You are currently limiting tent camping to the youth group camping area and to the individual tent camping area you created. Tent camping is exclusively for groups and families with advance reservations.

- Ropes Course – The approval of the ropes course use, originally constructed and operated by the now defunct Camp Frasier Summer Day Camp, remains valid. The agreement you have with the new operator provides rent payments to you based upon a percentage of gross receipts; consequently, the rent you pay the County must also be based upon the ropes course's gross receipts; in this case, that would be 10% of the gross, not 10% of the rent you collect.

- Day Use Events – You have been permitting day use events, such as dog shows and car shows, since shortly after the inception of the original operating agreement in 1994. These type of events are hereby approved.

- Miscellaneous Optional Uses – Merchandise, packaged food and beverages, video movie rentals, video arcade games and coin-operated washers and dryers are acceptable optional uses at Canyon RV Park. They are typically offered at RV parks and have been offered at the park since the inception of the original operating agreement in 1994.

- Wireless Web Service – You are entering into an agreement to provide wireless web service at Canyon RV Park. The service is being installed by the provider at no cost to you. The provider will receive revenues directly from your customers who subscribe to its service. You have a non-revenue agreement with the provider and view the service solely as an amenity for your customers. The use is hereby approved. Any revenues you receive from the sale of computer peripherals/software related to the web service should be reported in the "Merchandise" category on your monthly rent statements.

If you have any questions about any of the above items, please feel free to call Mike Hentzen at (714) 834-6286 or Rich Adler at (714) 834-6792.

Very truly yours,

Robert E. Hamilton for

Kevin G. Thomas, Director
PFRD/Harbors, Beaches and Park

cc: Rich Adler
Mike Hentzen