

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

Revenue Generating Lease Audit: OC PARKS/ STRAWBERRY FARMS GOLF CLUB, LLC

For the Period
January 1, 2012 through December 31, 2012

**\$7.5M GROSS RECEIPTS FOR
12-MONTH AUDIT PERIOD
\$501K RENT TO THE COUNTY**

Strawberry Farms Golf Club, LLC (SFGC) maintains and operates an eighteen-hole golf course, driving range and pro shop on a parcel owned by the County of Orange (County) within Mason Regional Park and an adjoining parcel surrounding the Sand Canyon Reservoir owned by the Irvine Ranch Water District (IRWD) under the lease agreement with the County. The County and IRWD have agreed to combine said parcels for the purpose of the lease. The County manages this lease on behalf of IRWD, and the rent due from SFGC is allocated equally between the County and IRWD. We audited the underlying books and records to ensure reported gross receipts are supported and rent is properly paid as defined by the lease agreement. During the twelve-month audit period of January 1, 2012 through December 31, 2012, SFGC reported approximately \$7.5 million in gross receipts and paid approximately \$1.002 million in total rent for which the County received about \$501,000 and IRWD received about \$501,000. The lease agreement is estimated to generate over **\$5.01 million** in rent due to the County for the next ten years.

The Internal Audit Department found that Strawberry Farms Golf Club's records adequately supported reported gross receipts and rent owed to the County was properly paid.

AUDIT No: 1231
REPORT DATE: JUNE 27, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Alan Marcum, CPA, CIA
Audit Manager: Lily Chin, CPA, CGMA

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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year



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

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**

Director

Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1231 June 27, 2013

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: Revenue Generating Lease Audit:
OC Parks/Strawberry Farms Golf Club,
LLC, PR48A-28

We have completed our revenue generating lease audit of Strawberry Farms Golf Club, LLC, for the period January 1, 2012 through December 31, 2012. The final **Internal Auditor's Report** is attached. We performed this Revenue Generating Lease Audit in accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee.

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.

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 listed on the **OC Internal Auditor's Report** on page 2.

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OC Parks/Strawberry Farms Golf Club, LLC
Audit No. 1231***

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January 1, 2012 through December 31, 2012

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OC Internal Auditor's Report



Audit Highlight

Strawberry Farms Golf Club maintains and operates an eighteen-hole golf course, driving range and pro shop on a parcel owned by the County of Orange (County) within Mason Regional Park and an adjoining parcel surrounding the Sand Canyon Reservoir owned by Irvine Ranch Water District (IRWD) under the lease agreement with the County. The County and IRWD have agreed to combine said parcels for the purpose of the lease. The County manages this lease, and the rent due from SFGC is allocated equally between the County and IRWD.

SFGC reported approximately **\$7.5 million** in gross receipts for the twelve-month audit period and paid approximately \$1.002 million in total rent for which the County received about **\$501,000** and IRWD received about \$501,000. Over the next ten years, the lease is estimated to generate over **\$5.01 million** in rent to the County.

The Internal Audit Department found that SFGC's records adequately supported reported gross receipts and rent owed was properly paid.

Audit No. 1231

June 27, 2013

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: Revenue Generating Lease Audit:
OC Parks/Strawberry Farms Golf Club, LLC, PR48A-28

OBJECTIVE

We have performed an audit of certain records and documents of Strawberry Farms Golf Club, LLC for the period from January 1, 2012 through December 31, 2012. Strawberry Farms Golf Club, LLC is a lessee, as assigned, under the lease agreement (Lease Agreement) with the County of Orange (County). The Lease Agreement is primarily for the operation and maintenance of an eighteen-hole golf course, driving range and pro shop. Our audit objectives were:

- (1) The primary objective of our audit is to determine whether Strawberry Farms Golf Club's records adequately supported gross receipts reported to the County and paid rent owed.
- (2) The secondary objective of our audit is to determine whether Strawberry Farms Golf Club complies with certain other financial provisions of the Lease Agreement.

In addition, while performing the audit we may identify internal control weaknesses for which we will identify suggestions for improvement.

RESULTS

Objective #1: We found that Strawberry Farms Golf Club's records adequately supported gross receipts reported to the County and rent paid.

Objective #2: We found that Strawberry Farms Golf Club complied with certain other financial provisions of the Lease Agreement such as the monthly gross receipts statement format.



BACKGROUND

The County entered into a 45-year lease agreement with Sand Canyon, LLC, dated November 8, 1996, for the development and operation and maintenance of the Strawberry Farms Golf Club. The golf course is located on a parcel owned by the County within Mason Regional Park and an adjoining parcel surrounding the Sand Canyon Reservoir owned by the Irvine Ranch Water District (IRWD). The County and IRWD have agreed to combine said parcels for the purpose of the lease. The County manages this lease, and the rent due from the golf course is allocated equally between the County and IRWD. This original lease agreement was assigned to Strawberry Farms Golf Club, LLC in 2007.

During the twelve-month audit period from January 1, 2012 through December 31, 2012, Strawberry Farms Golf Club, LLC generated approximately \$7.5 million in gross receipts and paid approximately \$1.002 million in total rent for which the County received about \$501,000 and IRWD received about \$501,000.

SCOPE

Our audit was limited to certain records and documents that support Strawberry Farm Golf Club's gross receipts reported to the County for the twelve-month audit period from January 1, 2012 through December 31, 2012. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

ACKNOWLEDGEMENT

We appreciate the courtesy and cooperation extended to us by the personnel at Strawberry Farms Golf Club, OC Parks and OC Community Resources (OCCR) Accounting Services. If you have any questions regarding our revenue generating lease audit, please call me directly at (714) 834-5475, or Alan Marcum, Senior Audit Manager at (714) 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Anna Peters, Administrative Services Director, OCCR/Administrative Services
Mark Denny, Director, OCCR/OC Parks
Mike Brajdic, Deputy Director, OCCR/OC Parks
Kirk Holland, Program Manager, OCCR/OC Parks/Program Management
Rich Adler, Real Estate Manager, OCCR/OC Parks/Real Estate
Mike Hentzen, Lease Manager, OCCR/OC Parks/Real Estate
Salvador Lopez, Section Manager, OCCR/Accounting
Win Swe, Manager, OCCR/Accounting Services
Paul Cook, General Manager, Irvine Ranch Water District
Robert Jacobson, Treasurer, Irvine Ranch Water District
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Vavrinek, Trine, Day & Co., County External Auditor