



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

*Integrity
Objectivity
Independence*

**SPECIAL PURPOSE REVIEW
OF
PEACOCK HILL
EQUESTRIAN CENTER**

AUDIT NUMBER: 2465

REPORT DATE: January 12, 2005

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
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**SPECIAL PURPOSE REVIEW OF
PEACOCK HILL EQUESTRIAN CENTER**

As of 11/30/04

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**COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT**

OFFICE OF THE DIRECTOR

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Transmittal Letter

Audit No. 2465

January 12, 2005

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

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

SUBJECT: Special Purpose Review of Peacock Hill Equestrian Center, PR 23A-9

We have completed a special purpose review of Peacock Hill Equestrian Center as of November 30, 2004. The final report is attached. 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
Foreman, Grand Jury
Vicki Wilson, Deputy CEO, CEO/Infrastructure & Environmental Services
Kevin Thomas, Director, RDMD/Harbors, Beaches & Parks
Mike Hentzen, Leasing Coordinator, RDMD/HB&P/Lease Management
Steve Danley, Director, RDMD/Administrative Services
Mary Fitzgerald, Manager, RDMD/Accounting Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2465

January 12, 2005

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

SUBJECT: Special Purpose Review of Peacock Hill Equestrian Center, PR23A-9

We have performed a special purpose review of certain records and documents as of November 30, 2004, pertinent to the lease agreement (Agreement) between the County of Orange (County) and William G. Warne and Kathryn Warne dba Peacock Hill Equestrian Center (Peacock Hill), dated October 23, 1979, as amended. The Agreement expired in September 2002 and is currently on a month-to-month holdover. The Agreement is for the operation of an equestrian center at Irvine Regional Park.

RDMD is currently negotiating a new Agreement. The purpose of our review was to perform a high level review of Peacock Hill's accounting records for adequacy and compliance with the Agreement in order to identify any potential issues that should be addressed by RDMD in the new Agreement.

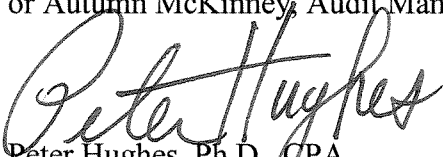
Our special purpose review was limited to performing analytical procedures of gross receipts for reasonableness, a follow-up of issues identified by our prior audit in 1998, and a review of Peacock Hill's and its sublessee's source documents and accounting records. We did not perform detailed testing of transactions or accounting records.

Based on our special purpose review, we found that Peacock Hill's source documents and accounting records generally appear to comply with the Agreement. Gross receipts reported during 2004 appear reasonable based on the limited analytical procedures performed. We did identify some issues that should be considered in the new Agreement as presented below.

- Financial Statement Requirement: RDMD has historically allowed Peacock Hill and its sublessee to provide copies of their tax returns in lieu of the required financial statements. The annual gross receipts are approaching approximately \$1 million dollars and a gross receipts statement audited by a CPA should be required by the new Agreement.
- Security Deposit: RDMD should consider increasing the security deposit in the new Agreement to equal two to three months of actual rent paid rather than two to three months of minimum rent.
- Contract Trainers: Peacock Hill utilizes contract personnel to provide horse training. Handwritten receipts may not be consistently issued to customers by the contractors and the sequential integrity of the prenumbered handwritten receipts may not be consistently accounted for. This issue will be mitigated if the new Agreement allows rent for the horse training to be a flat amount rather than a percentage of gross receipts, as planned.
- Method of Accounting: RDMD previously determined that the impact on rent due to Peacock Hill's cash basis method of reporting gross receipts was not sufficient to enforce a change in accounting methods to comply with the Agreement. RDMD should consider this issue in the new Agreement.
- Liability Release Forms: For trail rides and riding lessons, Peacock Hill's sublessee requires each customer to sign a liability release form. RDMD should consider requiring these forms to be prenumbered and the sequential integrity accounted for in the new Agreement.

We discussed the above issues with RDMD and they were addressing several of these issues before our review started. RDMD has informed us that it agrees with the above issues and is currently working to address the issues in the new Agreement. No specific recommendation is necessary at this time.

We appreciate the courtesy and cooperation extended to us by the personnel at Peacock Hill Equestrian Center and its sublessee, RDMD/HB&P/Lease Management, and RDMD/Accounting Services. If you have any questions regarding our limited review of lease revenue, please call me at (714) 834-5475, Eli Littner, Deputy Audit Director at (714) 834-5899, or Autumn McKinney, Audit Manager at (714) 834-6106.


 Peter Hughes, Ph.D., CPA
 Director, Internal Audit

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
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 Thomas G. Mauk, County Executive Officer
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 Kevin Thomas, Director, RDMD/Harbors, Beaches & Parks
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