



**INTERNAL AUDIT DEPARTMENT**  
**COUNTY OF ORANGE**

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**SPECIAL PURPOSE REVIEW**  
**OF**  
**RENTAL PAYMENTS FROM THE ANAHEIM ARENA**  
**(ARROWHEAD POND OF ANAHEIM)**  
**PARKING FACILITY**  
**AS OF**  
**JUNE 30, 2004**

**AUDIT NUMBER: 2450**

**REPORT DATE: NOVEMBER 15, 2006**

<b>Audit Director:</b>	<b>Peter Hughes, Ph.D., CPA</b>
<b>Deputy Director:</b>	<b>Eli Littner, CPA, CIA</b>
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**Special Purpose Review  
of  
Rental Payments from the Anaheim Arena  
(Arrowhead Pond of Anaheim) Parking Facility**

**As of June 30, 2004**

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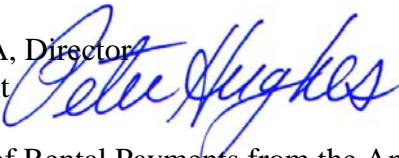
AUTUMN MCKINNEY  
CPA, CIA, CGFM  
AUDIT MANAGER

**Transmittal Letter**

Audit No. 2450

November 15, 2006

TO: Bryan Speegle, Director  
Resources & Development Management Department

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

SUBJECT: Special Purpose Review of Rental Payments from the Anaheim  
Arena (Arrowhead Pond of Anaheim) Parking Facility

We have completed our special purpose review of rental payments from the Anaheim Arena (Arrowhead Pond of Anaheim) Parking Facility as of June 30, 2004. The final report is attached along with your responses to our recommendations.

**Please note**, beginning in January 2005, we implemented a more structured and rigorous Follow-Up Audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). **In the past, we followed-up on lease audit recommendations during a subsequent lease audit, which could be several years later.** As a matter of policy, our first Follow-Up Audit will now begin at six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report by which time all audit recommendations are expected to be addressed or implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. Your office should complete this template as our audit recommendations are implemented. When we perform our Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors (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.

As always, the Internal Audit Department is available to partner with you so that you can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request your office to complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of this report.

Attachment

Other recipients of this report:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
Bill Mahoney, Deputy CEO, Government/Public Services  
Steve Danley, Director, RDMD/Administration  
Bob Wilson, Director, RDMD/Internal Services  
Tony Ferrulli, Manager, RDMD/Asset Management & Real Estate  
Nadeem Majaj, Manager, RDMD/Flood Control  
Josie Alvarez, Real Property Agent, RDMD/Real Estate Services  
Mary Fitzgerald, Manager, RDMD/Accounting Services  
Josie Velasquez, Chief, RDMD/Accounting/Santa Ana River, Watershed, Flood, Leases, and Infrastructure  
Vivienne Thornton, Administrative Manager I, RDMD/Accounting/Watershed, Flood, Leases & Infrastructure  
Brian Cich, Senior Accountant I, RDMD/Accounting/Leases & Infrastructure  
Debra Lakin, Chief, RDMD/Central Quality Assurance  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors



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**INTERNAL AUDITOR'S REPORT**

Audit No. 2450

November 15, 2006

Bryan Speegle, Director  
Resources & Development Management Department  
300 N. Flower Street  
Santa Ana, CA 92703

We have completed a special purpose review of the rental payments from the Anaheim Arena (Arrowhead Pond of Anaheim) Parking Facility as of June 30, 2004, pertinent to the Concession Agreement (Main Lot – parcel E01-1306.03), dated June 26, 1989 and commencing on June 19, 1993, and the Lease Agreement (Katella Lot – parcel E01-1354-2), dated May 1, 1995, between the Orange County Flood Control District (County) and the City of Anaheim. The Agreements are limited to the maintenance and operation of parking facilities for event parking at the Anaheim Arena.

The primary purpose of our special purpose review was to:

1. Review the actions taken as of June 30, 2004 to implement the recommendations made in our prior audit report dated April 15, 1997.
2. Conduct a preliminary survey of Anaheim Arena's parking lot records to assess auditability of the records and, if possible, develop an estimate of monies owed to the County due to conditions identified in the prior audit.

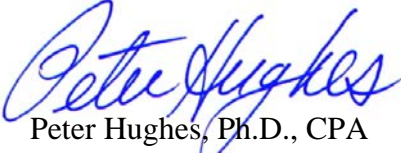
Based on our special purpose review, we find that ten recommendations made in the prior audit were fully implemented and five recommendations were not implemented. We also determined that Anaheim Arena's records were adequate for audit purposes and we identified total rent of \$48,700 owed to the County as shown below:

- Actual rent of \$31,582 for the six year period of 7/1/98 – 6/30/04.
- An additional **“ballpark estimate”** of \$17,118 for the one year period of 7/1/03 – 6/30/04.

**No material weaknesses or significant issues were identified.** However, we did identify 14 control findings related to compliance with the Agreements as noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

We appreciate the courtesy and cooperation extended to us by the personnel at Anaheim Arena, RDMD/Real Estate Services, and RDMD/Accounting Services. If you have any questions regarding our special purpose review, please call me, Eli Littner, Deputy Audit Director, at (714) 834-5899, or Autumn McKinney, Audit Manager, at (714) 834-6106.

Respectfully submitted,



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

Attachment

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
Bill Mahoney, Deputy CEO, Government/Public Services  
Steve Danley, Director, RDMD/Administration  
Bob Wilson, Director, RDMD/Internal Services  
Tony Ferrulli, Manager, RDMD/Asset Management & Real Estate  
Nadeem Majaj, Manager, RDMD/Flood Control  
Josie Alvarez, Real Property Agent, RDMD/Real Estate Services  
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Brian Cich, Senior Accountant I, RDMD/Accounting/Leases & Infrastructure  
Debra Lakin, Chief, RDMD/Central Quality Assurance  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors

## EXECUTIVE SUMMARY

### OBJECTIVES

The Internal Audit Department conducted a special purpose review of the rental payments received from the Anaheim Arena (known as Arrowhead Pond of Anaheim) Parking Facilities pertinent to the Concession and Lease Agreements between the Orange County Flood Control District and the City of Anaheim. The primary purpose of our review was to:

1. Review the actions taken to implement the recommendations made in our prior audit report dated April 15, 1997.
2. Conduct a preliminary survey of Anaheim Arena's parking lot records to assess auditability of the records and if possible, develop an estimate of monies owed to the County due to conditions identified in the prior audit.

### BACKGROUND

The Orange County Flood Control District (County) and the City of Anaheim (City) entered into two agreements for the operation and maintenance of parking facilities as described below:

1. Main Lot: A 55-year Concession Agreement, dated June 26, 1989 and commencing June 19, 1993, as amended, for event parking located adjacent to the Anaheim Arena (parcel E01-1306.03). Rent paid to the County is based on 5% of Net Parking Revenue and 5% of Net Arena Profit.
2. Katella Lot: A 12-year Lease Agreement, dated May 1, 1995, as amended, for event parking located across the street from the Anaheim Arena (parcel E01-1354-2). Rent paid to the County is based on 50% of Gross Parking Revenue. It is our understanding that the County plans to sell this property.

The City of Anaheim has engaged Anaheim Arena Management, LLC (AAM) to operate and manage the Anaheim Arena, including the parking facilities subject to the above two Agreements. For the year ended June 30, 2004, Anaheim Arena reported to the County approximately \$2,671,602 in parking revenue and the County received approximately \$194,206 in rent payments under these two Agreements.

### SCOPE

Our special purpose review was limited to certain records and documents that support Anaheim Arena's rent paid to the County for the year ended June 30, 2004. Our review included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation. Our scope excluded reviewing the following:

1. The Facility Management Agreement (FMA) between the City of Anaheim and AAM for the operation of the Anaheim Arena.
2. The Santa Ana River Parking Lot (parcel E0-1355) used by the Orange County Sheriff-Coroner Department.
3. Any subleases or other agreements between the City of Anaheim and 3<sup>rd</sup> parties regarding operation of the parking facilities.



## CONCLUSION

Based on our special purpose review, we find that that ten recommendations made in the prior audit were fully implemented and five recommendations were not implemented. We also determined that Anaheim Arena's records were adequate for audit purposes and we identified total rent of \$48,700 owed to the County as shown below:

- Actual rent of \$31,582 for the six year period of 7/1/98 – 6/30/04.
- An additional “**ballpark estimate**” of \$17,118 for the one year period of 7/1/03 – 6/30/04.

**No material weaknesses or significant issues were identified.** However, we did identify 14 control findings related to compliance with the Agreements as noted in the Detailed Observations, Recommendations, and Management Responses section of this report. See Attachment A for a description of report item classifications.





## **RDMD OVERALL RESPONSE**

**Many of the 14 control findings noted in the Detailed Observations, Recommendations, and Management Responses section of this report have a commonality. As such, RDMD provided the below overall response as well as individual responses to each recommendation beginning on page 7.**

### **RDMD OVERALL RESPONSE TO REPORT**

Internal Audit conducted a prior Audit of the parking agreements in 1997. Because of the ambiguity of several of the terms of the Concession Agreement, many of the 1997 audit findings were not entirely resolved. Findings No. 1, 2, 5, 6, 9, 10, 11, & 13 in Audit No. 2450 continue to pertain to issues related to the difficulty in interpreting the terms of the Concession Agreement.

RDMD agrees with Internal Audit's recommendations made in Audit No. 2450, and in a letter dated September 29, 2006, advised the City it is expected that Internal Audit's recommendations will be followed. The City was asked to provide any comments back to RDMD by October 10<sup>th</sup> and no comments have been received. Since the last audit, a new management company has taken over the operations of the Arrowhead Pond on behalf of the City. RDMD hopes that the City and its new parking management company will now be more receptive to the recommended actions. In the event that is not the case, RDMD will review the issues with the CEO and County Counsel, and as necessary with the Board of Supervisors. RDMD/Administration will annually review City and management company compliance with the Lease Agreement and ensure continuing compliance with Agreement and the Audit recommendations.



## SUMMARY OF AMOUNTS OWED

Below is summary of actual and estimated rent owed to the County and the report finding number where the issue is further described below.

### Actual:

	Finding No.	FY 03-04	FY 02-03	FY 01-02	FY 00-01	FY 99-00	FY 98-99	Total
Reporting Errors	7	5,038	1,835	2,748	5,754	3,324	2,673	21,372
Estimated vs. Actual Expenses	9	7,209	3,001	--	--	--	--	10,210
Actual Total								\$ 31,582

### Ballpark Estimate:

Main Lot	Finding No.	FY 03-04
Pre-Paid Suite/Club Level Parking	1	17,982
FMV of Employee & Complimentary Parking	3	6,309
County vs. City Spaces Allocation Methodology	5	(7,173)
Ballpark Estimate Total		\$ 17,118

### Amounts Used in Ballpark Estimate:

Main Lot	Rate	Approx. No. of Total Spaces	No. of County Spaces	No. of City Spaces	County Share of Spaces (Note 1)
Lot 1 & 2 (Preferred Parking)	\$15	991	501	490	50.55 %
Lot 3 (Artist/Team Use/Comps)	N/A	104	0	104	0 %
Lot 4 (General Parking)	\$10	1,685	1,444	241	85.70 %
Suite Reserved Parking Spaces		84			
Suite/Club Preferred Season Parking Passes – hockey games for FY 03-04		299			
Suite/Club Preferred Season Parking Passes – concerts/events for FY 03-04		320			

Note 1: After the prior audit, the City of Anaheim and its operator prepared a new map of the Main Lot that better identified County vs. City owned land/parking spaces. The County also reviewed the map. We relied on this map to determine the County share of spaces.



## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### **Pre-Paid Suite and Club Level Parking in Main Lot 1 & 2 (Prior Audit Item I.B.)**

The Concession Agreement requires the City of Anaheim to pay the County rent of 5% of the net parking revenue (after expenses). AAM sells “pre-paid” parking to season ticketholders as part of a package. Suite holders are assigned 1 reserved parking space and 1 to 4 preferred parking passes per suite. Club Level ticketholders generally receive 1 preferred parking pass for every 4 club level seats. For multiple day events (such as the circus), Club Level ticketholders only receive an event ticket and parking pass for every other day. The Suite and Club Level preferred passes allow them to park in the Main Lot 1 & 2.

Our prior audit in 1997 determined that rent was not paid to the County for Suite and Club level parking included in a season package. After the prior audit, the County negotiated and received a settlement for rent owed during the prior audit period and the two years after through June 30, 1998. No agreement was reached regarding the future correct reporting of the prepaid Suite and Club Level parking revenue.

**Finding No. 1 and 2:** Since a resolution was not reached after the prior audit, AAM continued to exclude parking revenue related to Suite and Club Level season parking from the net parking revenue reported to the County. We reviewed AAM’s supporting documentation for a sample of two events and based on the two events, we calculated a **ballpark estimate** of \$17,982 rent owed to the County for the Main Lot during FY 03-04 as shown below:

Event	Total Suite & Club Level Season Parking Revenue		County Share (50.55%)	Less Expenses (24%)	Net County Share	Rent Owed to County (5 %)	No. of Events in FY03-04	Estimated Rent Owed to County FY03-04
3/12/04 - Hockey Game	\$ 5,745	--	\$ 2,904	(\$ 697)	\$ 2,207	\$ 110	45	\$ 4,950
	Total Suite	Total Club						
3/22/04 - Rod Stewart Concert	\$ 3,735	--	\$ 1,888	(\$ 453)	\$ 1,435	\$ 72	126	\$ 9,072
3/22/04 - Rod Stewart Concert	--	\$ 2,325	\$ 1,175	(\$ 282)	\$ 893	\$ 45	88	\$ 3,960
Total								\$ 17,982

**Recommendation No. 1:** We recommend that RDMD require the City of Anaheim and AAM to report and pay rent owed to the County for Suite and Club Level season ticket parking in the Main Lot for the 8 years beginning July 1, 1998 through June 30, 2006. We **estimate** the annual amount of rent owed for FY 03-04 is \$17,982.

**RDMD Response:** RDMD concurs with Recommendation 1 and will advise the City of Anaheim and AAM that Suite and Club Level season parking in the Main Lot is to be reported and paid for the eight years beginning July 1, 1998 through June 30, 2006. The City of Anaheim and AAM will be further advised that it is estimated that \$17,982 is owed for FY 03/04. (Also see RDMD Overall Response at Page 5.)



**Recommendation No. 2:** We also recommend that RDMD require the City of Anaheim and AAM to begin properly reporting and paying rent to the County for Suite and Club Level season ticket parking.

**RDMD Response:** RDMD concurs with Recommendation 2 and will advise the City of Anaheim and AAM to begin to report and pay rent for Suite and Club Level season ticket parking. (Also see RDMD Overall Response at Page 5.)

**FMV of Employee and Complimentary Parking in Main Lot 1, 2, & 4**

Most hourly AAM employees park in the Katella Lot. However, certain AAM employees (such as administrative, management, and disabled) can park in Main Lot 1 & 2. There are certain reserved spaces for the exclusive use of AAM and the City of Anaheim. Also, if there are low attendance events with less utilization of the Main Lot, more employees may be allowed to park in the Main Lot rather than the Katella Lot for that event.

Additionally, complimentary parking occurs. Most of the performer/team complimentary parking (typically required by the artist/team contracts) occurs in Main Lot 3 which is 100% City of Anaheim property. However, there is other complimentary parking (such as VIP and media) that occurs in Main Lot 1, 2, & 4.

**Finding No. 3 and 4:** AAM does not report the fair market value (FMV) of employee and complimentary parking in the Main Lot 1, 2, & 4 to the County. We reviewed AAM's supporting documentation for a sample of two events and based on the two events, we calculated a **ballpark estimate** of \$6,309 rent owed to the County for the Main Lot during FY 03-04 as shown below:

Event	FMV of Employee & Comps - Lot 1 & 2	FMV of Comps - Lot 4	County Share (50.55% or 85.7%)	Less Expenses (24%)	Net County Share	Rent Owed to County (5 %)	No. of Events in FY03-04	Estimate Rent Owed to County FY03-04
3/12/04 - Hockey Game	\$ 945	--	\$ 478	(\$ 115)	\$ 363	\$ 18	45	\$ 810
3/12/04 - Hockey Game	--	\$810	\$ 694	(\$ 166)	\$ 528	\$ 27	45	\$ 1,215
3/22/04 - Rod Stewart Concert	\$ 1,770	--	\$ 895	(\$ 215)	\$ 680	\$ 34	126	\$ 4,284
Total								\$ 6,309

**Recommendation No. 3:** We recommend that RDMD require the City of Anaheim and AAM to report and pay rent owed to the County for the fair market value of employee and complimentary parking in Main Lot 1, 2, & 4 for the 8 years beginning July 1, 1998 through June 30, 2006. We **estimate** the annual amount of rent owed for FY 03-04 is \$6,309.

**RDMD Response:** RDMD concurs with Recommendation 3 and will advise the City of Anaheim and AAM that fair market value of employee and complimentary parking in Main Lots 1, 2 & 4 is to be reported and paid for the eight years beginning July 1, 1998 through June 30, 2006. The City of Anaheim and AAM will be further advised that it is estimated that \$6,309 is due for employee and complimentary parking for FY 03/04. (Also see RDMD Overall Response at Page 5.)



**Recommendation No. 4:** We also recommend that RDMD require the City of Anaheim and AAM to begin properly reporting and paying rent to the County for the fair market value of employee and complimentary parking in Main Lot 1, 2, & 4.

**RDMD Response:** RDMD concurs with Recommendation 4, and will advise the City of Anaheim and AAM that County is to be paid rent for the fair market value of employee and complimentary parking in Main Lots 1, 2 & 4. (Also see RDMD Overall Response at Page 5.)

### **County vs. City Land Allocation Methodology (Prior Audit Item III)**

Our prior audit in 1997 identified that a flat amount of \$2,800 was deducted from the net parking revenue for each event reported to the County because some parking spaces in the Main Lot are on land owned by the City of Anaheim. The \$2,800 was derived from an estimated 400 spaces multiplied by a \$7 parking rate. In the prior audit, it was determined this deduction was not accurate for a variety of reasons. After the prior audit, the County and City of Anaheim were unable to reach agreement on a methodology for calculating a deduction for spaces on City owned land.

After the prior audit, the City of Anaheim and its operator prepared a new map of the Main Lot that better identified County vs. City owned land/parking spaces. The County also reviewed the map. We relied on this map to determine that the City owns about 731 parking spaces in Main Lot 1, 2, & 4.

**Finding No. 5 and 6:** Since a resolution was not reached after the prior audit, AAM continued to deduct \$2,800 from net parking revenue for each event reported to the County. This deduction continues to be inequitable for a variety of reasons:

- The parking rate is no longer \$7. During FY 03-04, the rate was \$10 for general parking and \$15 for preferred.
- The actual number of City-owned spaces in Main Lot 1, 2, & 4 is 731, not 400.
- The \$2,800 is being deducted at gross, rather than net of expenses.
- A flat amount (such as \$2,800) does not take into consideration utilization. The Main Lot may be sold out for some events and not for other events.

Because the \$2,800 is based on a lower parking rate (\$7) and fewer spaces (400), the net impact is that the deduction taken may be too low and rent overpaid as parking rates have increased over time. A deduction for 731 spaces would not be accurate because the lot may not be used at full capacity at each event.

Therefore for FY 03-04, we calculated a **ballpark estimate** of net parking revenue using land ownership percentages and compared the results to the flat \$2,800 deduction used by AAM. Based on our **estimate**, rent of \$7,173 was overpaid to the County in FY 03-04 as shown below:



Event	Parking Revenue - Lot 1 & 2	Parking Revenue - Lot 4	County Share (50.55% or 85.7%)	Less Expenses (30%) – <i>Note 2</i>	Net County Share	Rent Payable to County (5 %)	Actual Rent Paid to County	Rent Over (Under) Paid	No. of Events in FY03-04	Estimated Credit Due to City FY03-04
3/12/04 - Hockey Game	\$ 9,357	--	\$ 4,730	(\$ 1,419)	\$ 3,311	\$ 165				
3/12/04 - Hockey Game	--	\$17,321	\$ 14,844	(\$ 4,453)	\$ 10,391	\$ 520				
Subtotal						\$ 685	\$ 794	(\$ 109)	45	(\$ 4,905)
3/22/04 - Rod Stewart Concert	\$ 4,500	--	\$ 2,275	(\$ 683)	\$ 1,592	\$ 80				
3/22/04 - Rod Stewart Concert	--	\$ 16,110	\$ 13,806	\$ 4,141	\$ 9,665	\$ 483				
Subtotal						\$ 563	\$ 581	(\$ 18)	126	(\$ 2,268)
Total										(\$ 7,173)

*Note 2:* For expenses, we used the estimated rate used by AAM (30%) rather than the actual rate of 24% because the impact of using the actual rate is already calculated in Finding No. 9 below.

**Recommendation No. 5:** We recommend that RDMD require the City of Anaheim and AAM to implement a methodology to equitably allocate net parking revenue between the County and City owned spaces in the Main Lot 1, 2, & 4.

**RDMD Response:** RDMD concurs with Recommendation 5, and will advise the City of Anaheim and AAM to implement a methodology to equitably allocate net parking revenue between County-owned and City-owned spaces in the Main Lots 1, 2 & 4. (Also see RDMD Overall Response at Page 5.)

**Recommendation No. 6:** We also recommend that RDMD consider a credit to the City of Anaheim and AAM for the reallocation of net parking revenue between the County and City owned spaces for the 8 years beginning July 1, 1998 through June 30, 2006. We **estimate** the credit for FY 03-04 to be \$7,173. The credit for the earlier years will be less as the discrepancy between the \$7 rate used and the actual rate charged becomes less.

**RDMD Response:** RDMD concurs with Recommendation 6, and will advise the City of Anaheim and AAM that based on estimations for the FY 03/04 a credit of \$7,173 will be issued for FY 03/04. RDMD will further advise the City of Anaheim and AAM that County may issue additional credits upon receipt, from the City of Anaheim and AAM, of documentation indicating any credits due for July 1, 1998 through June 30, 2003; and July 2004 through June 30, 2006. (Also see RDMD Overall Response at Page 5.)

### **Reporting Errors and Omissions**

**Finding No. 7 and 8:** We performed a reconciliation between parking revenue reported to the County and AAM's accounting records (general ledger) and found parking revenue to be underreported due to various reporting errors/omissions, primarily:





- Hockey prepaid season parking: Parking revenue was reported to the County based on a preliminary settlement of prepaid hockey season parking. However, reported revenues were not adjusted to reflect the final settlement amount. For the period FY 98-99 through FY 03-04, parking revenues for hockey prepaid season parking were underreported by \$388,217.
- Parking revenue from “other” events: Occasionally for certain “Other” events (such a Realtors Awards event), parking fees may be prepaid as part of the total event cost and are not collected at the gate. For “other” events with parking prepaid and not collected at the gate, parking revenue was inadvertently omitted from the rent report submitted to the County. For the period FY 98-99 through FY 03-04, parking revenues for these types of events were underreported by \$349,437.

After deducting parking expenses (ranging each year from 24% to 31%), we calculated rent of \$21,372 owed to the County for FY 98-99 through FY 03-04. A detailed schedule of this calculation was provided to AAM.

**Recommendation No. 7:** We recommend that RDMD require the City of Anaheim to pay rent owed of \$21,372 resulting from reporting errors and omissions for the period FY 98-99 through FY 03-04.

**RDMD Response:** RDMD concurs with Recommendation 7 and will advise the City of Anaheim and AAM to pay \$21,372 for rent owed for FY periods 98/99 through 03/04 resulting from reporting errors and omissions. (Also see RDMD Overall Response at Page 5.)

**Recommendation No. 8:** We also recommend that RDMD require the City of Anaheim and AAM to calculate and pay additional rent owed for reporting errors and omissions for the period July 1, 2004 through the month of correction.

**RDMD Response:** RDMD concurs with Recommendation 8 and will advise the City of Anaheim and AAM to calculate and pay additional rent owed for reporting errors and omissions for the period July 1, 2004 through the month of correction. (Also see RDMD Overall Response at Page 5.)

#### **Estimated vs. Actual Expenses for Main Lot (Prior Audit Item IV)**

Clause 5.B of the Concession Agreement for the Main Lot allows rent paid to the County to be based on net parking revenue. Deductions from gross parking revenue are allowed for “all costs, fees, possessory interest taxes, utility charges, and normal business expenses, including debt service” for parking operations at Anaheim Arena.

The prior audit noted that an estimated expense rate was used, rather than actual expense amounts or rates. The prior audit recommended that the practice of applying estimated rate percentages be evaluated. After the prior audit, the County and the City of Anaheim were unable to reach agreement on expense rates. In May 2002 at the City of Anaheim’s suggestion, the prior operator increased the expense rate from 20% to 30%.

**Finding No. 9, 10, and 11:** Since a resolution was not reached after the prior audit, an estimated expense rate continued to be used as shown in the chart below:



	Estimated Expense Rate (Used in Rent Calculation)	Actual Expense Rate (per AAM's Unaudited Records)
FY 03-04	30 %	23.55 %
FY 02-03	30 %	27.11%
FY 01-02	20% => 30%	30.91 %

Utilizing the above actual expense rates, we calculated rent owed of \$3,001 for FY 02-03 and \$7,209 for FY 03-04. Since the actual expense rate is not determined until the fiscal year has ended, AAM could utilize an estimated rate during the year and make an adjustment annually once the actual rate has been determined.

**Recommendation No. 9:** We recommend that RDMD require the City of Anaheim and AAM to pay rent of \$10,210 owed to the County for adjustments for actual expense rates during the period beginning July 1, 2002 through June 30, 2004.

**RDMD Response:** RDMD concurs with Recommendation 9, and will advise the City of Anaheim and AAM that County is to be paid \$10,210 for adjustments for actual expense rates during the period beginning July 1, 2002 through June 30, 2004. (Also see RDMD Overall Response at Page 5.)

**Recommendation No. 10:** We also recommend that RDMD require the City of Anaheim and AAM to calculate rent over/underpaid for FY 04-05 and FY 05-06 due to discrepancies between estimated expense rates and actual expenses.

**RDMD Response:** RDMD concurs with Recommendation 10, and will advise the City of Anaheim and AAM that overpaid/underpaid rent due to discrepancies between estimated expense rates and actual expenses is to be calculated for FY 04/05 and FY 05/06. (Also see RDMD Overall Response at Page 5.)

**Recommendation No. 11:** We further recommend that RDMD require the City of Anaheim and AAM to annually adjust rent paid to the County for discrepancies between the estimated expense rate used each month and the actual expense rate calculated at year end.

**RDMD Response:** RDMD concurs with Recommendation 11, and will advise the City of Anaheim and AAM that rent is to be adjusted annually for discrepancies between estimated expense rates and actual expenses. (Also see RDMD Overall Response at Page 5.)

#### **Net Arena Profit (Prior Audit No. VII)**

Clause 5 of the Concession Agreement for the Main Lot states that rent shall include 5% of the Net Arena Profit. The Agreement states that "Net Arena Profit shall be computed in the same manner and utilizing the same figures which the operator (AAM) or affiliate of the operator, of the Arena Complex utilizes in computing the consideration which Concessionaire (City of Anaheim) receives from such operator pursuant to their written agreement."

The prior audit in 1997 identified that the prior operator was not incorporating an annual calculation of Net Arena Profit in its calculation of rent due the County. The prior operator stated the calculation was not necessary because the Anaheim Arena had been operating at a loss since inception.





After the prior audit, the City of Anaheim entered into a new Facility Management Agreement (FMA) between the City of Anaheim and the new operator (AAM) dated December 16, 2003. The County was not a party to the FMA with respect to negotiations or approval of the FMA. The new FMA states that the City of Anaheim, the County, and AAM will “share in all Adjusted Net Revenues (if any) in excess of \$12,000,000 for each operating year. This \$12 million threshold is not in the Concession Agreement between the County and the City.

**Finding No. 12:** The current operator (AAM) has not incorporated a calculation for Net Arena Profit in the calculation of rent due the County. AAM stated that Net Arena Profit was not included in the calculation because the Net Arena Profit had not been large enough (i.e. in excess of \$12 million) to warrant allocation in accordance with the FMA. However, it is unclear whether the County should be subject to the \$12 million dollar threshold in the FMA.

For the period 12/16/03 – 6/30/04, AAM calculated Net Arena Profit or “Adjusted Net Revenues” as defined by the FMA to be \$4,664,087 (prior to the \$12 million threshold). If it is determined that the County is not subject to the \$12 million threshold, additional rent of \$233,204 (\$4,664,087 x 5%) would be owed to the County for the 6 ½ months ending June 30, 2004.

**Recommendation No. 12:** We recommend that RDMD obtain County Counsel opinion whether Net Arena Profit defined in the County’s Concession Agreement with the City of Anaheim is subject to the \$12 million threshold prescribed in the FMA between the City of Anaheim and AAM.

**RDMD Response:** RDMD concurs with Recommendation 12 and will seek County Counsel’s opinion whether Net Arena Profit defined in the County’s Concession Agreement with the City of Anaheim is subject to the \$12 million threshold prescribed in the Facility Management Agreement. (Also see RDMD Overall Response at Page 5.)

#### **Annual Financial Statements (Prior Audit Item No. VI)**

The City of Anaheim is required to submit annual financial statements to the County as described below:

- Main Lot: Clause 5 of the Concession Agreement requires the City of Anaheim to annually submit “certified financial statements regarding Net Parking Revenue and Net Arena Profit.” The City of Anaheim should also ensure an audit of the revenues and expenditures of the Anaheim Arena are conducted annually.
- Katella Lot: Clause 14.C of the Lease Agreement requires the City of Anaheim to annually submit a balance sheet and income statement prepared in accordance with generally accepted accounting principles reflecting business transacted from the leased premises. The City of Anaheim should also provide a statement, made under penalty of perjury, of the annual gross parking revenue from the leased premises.

The prior audit in 1997 identified that the City of Anaheim did not submit financial statements that complied with the Concession and Lease Agreements.

**Finding No. 13:** Financial statements submitted for FY 97-98 through FY 03-04 continue to not comply with Concession and Lease Agreements. RDMD sent several letters to the City of Anaheim between 2000 and 2003 detailing the financial statement requirements, along with specific pages of the agreement containing the relevant clauses. Below are the financial statements submitted:



- In 2003, the prior operator (Ogden) submitted financial statements for FY 97-98 through FY 02-03 for Anaheim Arena as a whole. Along with the audited financial statements, some limited agreed upon procedures for parking revenue were performed by the CPA for these years except for FY 02-03. In response to receiving these statements, RDMD sent a letter to Ogden in 2003 stating that the financial statements combined the three parking lots and that more detailed information was needed in order to reconcile the financial statements.
- For the period 7/1/03 – 12/15/03, no financial statements were submitted by the prior operator. The new operator (AAM) was effective 12/16/03.
- For the period 12/16/03 – 6/30/04, the new operator (AAM) submitted audited financial statements for Anaheim Arena as a whole.

The audited financial statements submitted do not appear to comply with the Concession and Lease Agreements because parking revenue and expenditures are in aggregate. For the Main Lot, a separate audited Statement of Net Parking Revenue, that includes gross parking revenue and parking expenses as defined in the Concession Agreement, should be submitted along with the audited financial statements of the Anaheim Arena as a whole. For the Katella Lot, a Statement of Gross Parking Revenue that includes a statement as to completeness under penalty of perjury is required. It doesn't appear that the statement for the Katella Lot needs to be audited.

**Recommendation No. 13:** We recommend that RDMD continue to require the City of Anaheim and AAM to submit annual financial statements that comply with the Agreements.

**RDMD Response:** RDMD concurs with Recommendation 13, and will advise the City of Anaheim and AAM that annual financial statements that comply with the Agreements are to be submitted to RDMD. (Also see RDMD Overall Response at Page 5.)

#### **Employee Parking Count in Katella Lot**

Clause 7 of the Lease Agreement for the Katella Lot requires the City to have an “electromagnetic lane count system at each gate entrance ...” to record vehicle entries to the lot.

**Finding No. 14:** The Katella Lot is used for employee parking and overflow customer parking. The gate entrance is controlled using electronic revenue control equipment. We noted that employees parking in the Katella Lot are instructed to bypass the controlled gate and are manually counted as they enter the lot through an alternate, uncontrolled entrance. AAM explained that this practice helps prevent a backlog at the gate. Manual counts may be susceptible to error and manipulation and provide less assurance as to the accuracy of parking counts. It is our understanding that the County plans to sell the Katella Lot. As this property will be sold, the County should evaluate the cost/benefit of enforcing Clause 7 of the Agreement at this time.

**Recommendation No. 14:** We recommend that RDMD evaluate whether AAM should be required to utilize the electronic revenue control equipment to account for employee parking in the Katella Lot.

**RDMD Response:** The Lease Agreement for the Katella Lot expires in May 2007 and is expected to continue on a month-to-month tenancy until the sale of the Katella Yard property closes. RDMD, therefore, will advise the City of Anaheim and AAM that use of the electronic revenue control equipment is preferable to a manual count. (Also see RDMD Overall Response at Page 5.)



## **ATTACHMENT A: Report Item Classifications**

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For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

### **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address “Material Weaknesses” brought to their attention.

### **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

### **Control Findings:**

Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.





## COUNTY OF ORANGE

### RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

*Bryan Speegle, Director*  
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Santa Ana, CA  
P.O. Box 4048  
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November 3, 2006

Mr. Peter Hughes, Ph.D., CPA  
Director, Internal Audit Department  
400 Civic Center Drive West  
Building 12, Room 232  
Santa Ana, California 92701

RE: RDMD Management Response to Audit No. 2450 Special Purpose Review of Rental Payments from the Anaheim Arena (Arrowhead Pond of Anaheim) Parking Facility

Dear Mr. Hughes:

The City of Anaheim conducts parking operations on Orange County Flood Control District's property at the Katella Maintenance Yard under Lease Agreement dated May 1, 1995. The City also utilizes District property adjacent to the Arrowhead Pond for parking purposes under the terms of Concession Agreement dated June 26, 1989.

Internal Audit conducted a prior Audit of the parking agreements in 1997. Because of the ambiguity of several of the terms of the Concession Agreement, many of the 1997 audit findings were not entirely resolved. Findings No. 1, 2, 5, 6, 9, 10, 11, & 13 in Audit No. 2450 continue to pertain to issues related to the difficulty in interpreting the terms of the Concession Agreement.

RDMD agrees with Internal Audit's recommendations made in Audit No. 2450, and in a letter dated September 29, 2006, advised the City it is expected that Internal Audit's recommendations will be followed. The City was asked to provide any comments back to RDMD by October 10<sup>th</sup> and no comments have been received. Since the last audit, a new management company has taken over the operations of the Arrowhead Pond on behalf of the City. RDMD hopes that the City and its new parking management company will now be more receptive to the recommended actions. In the event that is not the case, RDMD will review the issues with the CEO and County Counsel, and as necessary with the Board of Supervisors. RDMD/Administration will annually review City and management company compliance with the Lease Agreement and ensure continuing compliance with Agreement and the Audit recommendations.

Following are RDMD'S responses to each of Internal Audit's findings and recommendations resulting from the special purpose review of the rental payments received from the Anaheim Arena (known as the Arrowhead Pond of Anaheim) parking facilities pertinent to the Concession and Lease Agreements between Orange County Flood Control District and the City of Anaheim.

**Pre-Paid Suite and Club Level Parking in Main Lot 1 & 2 (Prior Audit Item I.B.)**

The Concession Agreement requires the City of Anaheim to pay the County rent of 5% of the net parking revenue (after expenses). AAM sells "pre-paid" parking to season ticketholders as part of a package. Suite holders are assigned 1 reserved parking space and 1 to 4 preferred parking passes per

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## ATTACHMENT B: RDMD Management Responses (continued)

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suite. Club Level ticketholders generally receive 1 preferred parking pass for every 4 club level seats. For multiple day events (such as the circus), Club Level ticketholders only receive an event ticket and parking pass for every other day. The Suite and Club Level preferred passes allow them to park in the Main Lot 1 & 2.

Our prior audit in 1997 determined that rent was not paid to the County for Suite and Club level parking included in a season package. After the prior audit, the County negotiated and received a settlement for rent owed during the prior audit period and the two years after through June 30, 1998. No agreement was reached regarding the future correct reporting of the prepaid Suite and Club Level parking revenue.

**Finding No. 1 and 2:** Since a resolution was not reached after the prior audit, AAM continued to exclude parking revenue related to Suite and Club Level season parking from the net parking revenue reported to the County. We reviewed AAM's supporting documentation for a sample of two events and based on the two events, we calculated a **ballpark estimate** of \$17,982 rent owed to the County for the Main Lot during FY 03-04 as shown below:

Event	Total Suite & Club Level Season Parking Revenue		County Share (50.55%)	Less Expenses (24%)	Net County Share	Rent Owed to County (5 %)	No. of Events in FY03-04	Estimated Rent Owed to County FY03-04
3/12/04 - Hockey Game	\$ 5,745	--	\$ 2,904	(\$ 697)	\$ 2,207	\$ 110	45	\$ 4,950
	Total Suite	Total Club						
3/22/04 - Rod Stewart Concert	\$ 3,735	--	\$ 1,888	(\$ 453)	\$ 1,435	\$ 72	126	\$ 9,072
3/22/04 - Rod Stewart Concert	--	\$ 2,325	\$ 1,175	(\$ 282)	\$ 893	\$ 45	88	\$ 3,960
Total								\$ 17,982

**Recommendation No. 1:** We recommend that RDMD require the City of Anaheim and AAM to report and pay rent owed to the County for Suite and Club Level season ticket parking in the Main Lot for the 8 years beginning July 1, 1998 through June 30, 2006. We **estimate** the annual amount of rent owed for FY 03-04 is \$17,982.

**RDMD Response:** *RDMD concurs with Recommendation 1 and will advise the City of Anaheim and AAM that Suite and Club Level season parking in the Main Lot is to be reported and paid for the eight years beginning July 1, 1998 through June 30, 2006. The City of Anaheim and AAM will be further advised that it is estimated that \$17,982 is owed for FY 03/04.*

**Recommendation No. 2:** We also recommend that RDMD require the City of Anaheim and AAM to begin properly reporting and paying rent to the County for Suite and Club Level season ticket parking.



## ATTACHMENT B: RDMD Management Responses (continued)

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**RDMD Response:** *RDMD concurs with Recommendation 2 and will advise the City of Anaheim and AAM to begin report and pay rent for Suite and Club Level season ticket parking.*

### **FMV of Employee and Complimentary Parking in Main Lot 1, 2, & 4**

Most hourly AAM employees park in the Katella Lot. However, certain AAM employees (such as administrative, management, and disabled) can park in Main Lot 1 & 2. There are certain reserved spaces for the exclusive use of AAM and the City of Anaheim. Also, if there are low attendance events with less utilization of the Main Lot, more employees may be allowed to park in the Main Lot rather than the Katella Lot for that event.

Additionally, complimentary parking occurs. Most of the performer/team complimentary parking (typically required by the artist/team contracts) occurs in Main Lot 3 which is 100% City of Anaheim property. However, there is other complimentary parking (such as VIP and media) that occurs in Main Lot 1, 2, & 4.

**Finding No. 3 and 4:** AAM does not report the fair market value (FMV) of employee and complimentary parking in the Main Lot 1, 2, & 4 to the County. We reviewed AAM's supporting documentation for a sample of two events and based on the two events, we calculated a **ballpark estimate** of \$6,309 rent owed to the County for the Main Lot during FY 03-04 as shown below:

Event	FMV of Employee & Comps - Lot 1 & 2	FMV of Comps - Lot 4	County Share (50.55% or 85.7%)	Less Expenses (24%)	Net County Share	Rent Owed to County (5 %)	No. of Events in FY03-04	Estimate Rent Owed to County FY03-04
3/12/04 - Hockey Game	\$ 945	--	\$ 478	(\$ 115)	\$ 363	\$ 18	45	\$ 810
3/12/04 - Hockey Game	--	\$810	\$ 694	(\$ 166)	\$ 528	\$ 27	45	\$ 1,215
3/22/04 - Rod Stewart Concert	\$ 1,770	--	\$ 895	(\$ 215)	\$ 680	\$ 34	126	\$ 4,284
Total								\$ 6,309

**Recommendation No. 3:** We recommend that RDMD require the City of Anaheim and AAM to report and pay rent owed to the County for the fair market value of employee and complimentary parking in Main Lot 1, 2, & 4 for the 8 years beginning July 1, 1998 through June 30, 2006. We **estimate** the annual amount of rent owed for FY 03-04 is \$6,309.

**RDMD Response:** *RDMD concurs with Recommendation 3 and will advise the City of Anaheim and AAM that fair market value of employee and complimentary parking in Main Lots 1, 2 & 4 is to be reported and paid for the eight years beginning July 1, 1998 through June 30, 2006. The City of Anaheim and AAM will be further advised that it is estimated that \$6,309 is due for employee and complimentary parking for FY 03/04.*





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**Recommendation No. 4:** We also recommend that RDMD require the City of Anaheim and AAM to begin properly reporting and paying rent to the County for the fair market value of employee and complimentary parking in Main Lot 1, 2, & 4.

**RDMD Response:** *RDMD concurs with Recommendation 4, and will advise the City of Anaheim and AAM that County is to be paid rent for the fair market value of employee and complimentary parking in Main Lots 1, 2 & 4.*

**County vs. City Land Allocation Methodology (Prior Audit Item III)**

Our prior audit in 1997 identified that a flat amount of \$2,800 was deducted from the net parking revenue for each event reported to the County because some parking spaces in the Main Lot are on land owned by the City of Anaheim. The \$2,800 was derived from an estimated 400 spaces multiplied by a \$7 parking rate. In the prior audit, it was determined this deduction was not accurate for a variety of reasons. After the prior audit, the County and City of Anaheim were unable to reach agreement on a methodology for calculating a deduction for spaces on City owned land.

After the prior audit, the City of Anaheim and its operator prepared a new map of the Main Lot that better identified County vs. City owned land/parking spaces. The County also reviewed the map. We relied on this map to determine that the City owns about 731 parking spaces in Main Lot 1, 2, & 4.

**Finding No. 5 and 6:** Since a resolution was not reached after the prior audit, AAM continued to deduct \$2,800 from net parking revenue for each event reported to the County. This deduction continues to be inequitable for a variety of reasons:

- The parking rate is no longer \$7. During FY 03-04, the rate was \$10 for general parking and \$15 for preferred.
- The actual number of City-owned spaces in Main Lot 1, 2, & 4 is 731, not 400.
- The \$2,800 is being deducted at gross, rather than net of expenses.
- A flat amount (such as \$2,800) does not take into consideration utilization. The Main Lot may be sold out for some events and not for other events.

Because the \$2,800 is based on a lower parking rate (\$7) and fewer spaces (400), the net impact is that the deduction taken may be too low and rent overpaid as parking rates have increased over time. A deduction for 731 spaces would not be accurate because the lot may not be used at full capacity at each event.

Therefore for FY 03-04, we calculated a **ballpark estimate** of net parking revenue using land ownership percentages and compared the results to the flat \$2,800 deduction used by AAM. Based on our **estimate**, rent of \$7,173 was overpaid to the County in FY 03-04 as shown below:



## ATTACHMENT B: RDMD Management Responses (continued)

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Event	Parking Revenue - Lot 1 & 2	Parking Revenue - Lot 4	County Share (50.55% or 85.7%)	Less Expenses (30%) – <i>Note 2</i>	Net County Share	Rent Payable to County (5 %)	Actual Rent Paid to County	Rent Over (Under) Paid	No. of Events in FY03-04	Estimated Credit Due to City FY03-04
3/12/04 - Hockey Game	\$ 9,357	--	\$ 4,730	(\$ 1,419)	\$ 3,311	\$ 165				
3/12/04 - Hockey Game	--	\$17,321	\$ 14,844	(\$ 4,453)	\$ 10,391	\$ 520				
Subtotal						\$ 685	\$ 794	(\$ 109)	45	(\$ 4,905)
3/22/04 - Rod Stewart Concert	\$ 4,500	--	\$ 2,275	(\$ 683)	\$ 1,592	\$ 80				
3/22/04 - Rod Stewart Concert	--	\$ 16,110	\$ 13,806	\$ 4,141	\$ 9,665	\$ 483				
Subtotal						\$ 563	\$ 581	(\$ 18)	126	(\$ 2,268)
Total										(\$ 7,173)

*Note 2:* For expenses, we used the estimated rate used by AAM (30%) rather than the actual rate of 24% because the impact of using the actual rate is already calculated in Finding No. 9 below.

**Recommendation No. 5:** We recommend that RDMD require the City of Anaheim and AAM to implement a methodology to equitably allocate net parking revenue between the County and City owned spaces in the Main Lot 1, 2, & 4.

### RDMD Response:

*RDMD concurs with Recommendation 5, and will advise the City of Anaheim and AAM to implement a methodology to equitably allocate net parking revenue between County-owned and City-owned spaces in the Main Lots 1, 2 & 4.*

**Recommendation No. 6:** We also recommend that RDMD consider a credit to the City of Anaheim and AAM for the reallocation of net parking revenue between the County and City owned spaces for the 8 years beginning July 1, 1998 through June 30, 2006. We **estimate** the credit for FY 03-04 to be \$7,173. The credit for the earlier years will be less as the discrepancy between the \$7 rate used and the actual rate charged becomes less.

### RDMD Response:

*RDMD concurs with Recommendation 6, and will advise the City of Anaheim and AAM that based on estimations for the FY 03/04 a credit of \$7,173 will be issued for FY 03/04. RDMD will further advise the City of Anaheim and AAM that County may issue additional credits upon receipt, from the City of Anaheim and AAM, of documentation indicating any credits due for July 1, 1998 through June 30, 2003; and July 2004 through June 30, 2006.*





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**Reporting Errors and Omissions**

**Finding No. 7 and 8:** We performed a reconciliation between parking revenue reported to the County and AAM's accounting records (general ledger) and found parking revenue to be underreported due to various reporting errors/omissions, primarily:

- Hockey prepaid season parking: Parking revenue was reported to the County based on a preliminary settlement of prepaid hockey season parking. However, reported revenues were not adjusted to reflect the final settlement amount. For the period FY 98-99 through FY 03-04, parking revenues for hockey prepaid season parking were underreported by \$388,217.
- Parking revenue from "other" events: Occasionally for certain "Other" events (such a Realtors Awards event), parking fees may be prepaid as part of the total event cost and are not collected at the gate. For "other" events with parking prepaid and not collected at the gate, parking revenue was inadvertently omitted from the rent report submitted to the County. For the period FY 98-99 through FY 03-04, parking revenues for these types of events were underreported by \$349,437.

After deducting parking expenses (ranging each year from 24% to 31%), we calculated rent of \$21,372 owed to the County for FY 98-99 through FY 03-04. A detailed schedule of this calculation was provided to AAM.

**Recommendation No. 7:** We recommend that RDMD require the City of Anaheim to pay rent owed of \$21,372 resulting from reporting errors and omissions for the period FY 98-99 through FY 03-04.

**RDMD Response:**

*RDMD concurs with Recommendation 7 and will advise the City of Anaheim and AAM to pay \$21,372 for rent owed for FY periods 98/99 through 03/04 resulting from reporting errors and omissions.*

**Recommendation No. 8:** We also recommend that RDMD require the City of Anaheim and AAM to calculate and pay additional rent owed for reporting errors and omissions for the period July 1, 2004 through the month of correction.

**RDMD Response:**

*RDMD concurs with Recommendation 8 and will advise the City of Anaheim and AAM to calculate and pay additional rent owed for reporting errors and omissions for the period July 1, 2004 through the month of correction.*



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**Estimated vs. Actual Expenses for Main Lot (Prior Audit Item IV)**

Clause 5.B of the Concession Agreement for the Main Lot allows rent paid to the County to be based on net parking revenue. Deductions from gross parking revenue are allowed for "all costs, fees, possessory interest taxes, utility charges, and normal business expenses, including debt service" for parking operations at Anaheim Arena.

The prior audit noted that an estimated expense rate was used, rather than actual expense amounts or rates. The prior audit recommended that the practice of applying estimated rate percentages be evaluated. After the prior audit, the County and the City of Anaheim were unable to reach agreement on expense rates. In May 2002 at the City of Anaheim's suggestion, the prior operator increased the expense rate from 20% to 30%.

**Finding No. 9, 10, and 11:** Since a resolution was not reached after the prior audit, an estimated expense rate continued to be used as shown in the chart below:

	Estimated Expense Rate (Used in Rent Calculation)	Actual Expense Rate (per AAM's Unaudited Records)
FY 03-04	30 %	23.55 %
FY 02-03	30 %	27.11%
FY 01-02	20% => 30%	30.91 %

Utilizing the above actual expense rates, we calculated rent owed of \$3,001 for FY 02-03 and \$7,209 for FY 03-04. Since the actual expense rate is not determined until the fiscal year has ended, AAM could utilize an estimated rate during the year and make an adjustment annually once the actual rate has been determined.

**Recommendation No. 9:** We recommend that RDMD require the City of Anaheim and AAM to pay rent of \$10,210 owed to the County for adjustments for actual expense rates during the period beginning July 1, 2002 through June 30, 2004.

**RDMD Response:**

*RDMD concurs with Recommendation 9, and will advise the City of Anaheim and AAM that County is to be paid \$10,210 for adjustments for actual expense rates during the period beginning July 1, 2002 through June 30, 2004.*

**Recommendation No. 10:** We also recommend that RDMD require the City of Anaheim and AAM to calculate rent over/underpaid for FY 04-05 and FY 05-06 due to discrepancies between estimated expense rates and actual expenses.

**RDMD Response:**

*RDMD concurs with Recommendation 10, and will advise the City of Anaheim and AAM that overpaid/underpaid rent due to discrepancies between estimated expense rates and actual expenses is to be calculated for FY 04/05 and FY 05/06.*



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**Recommendation No. 11:** We further recommend that RDMD require the City of Anaheim and AAM to annually adjust rent paid to the County for discrepancies between the estimated expense rate used each month and the actual expense rate calculated at year end.

**RDMD Response:**

*RDMD concurs with Recommendation 11, and will advise the City of Anaheim and AAM that rent is to be adjusted annually for discrepancies between estimated expense rates and actual expenses.*

**Net Arena Profit (Prior Audit No. VII)**

Clause 5 of the Concession Agreement for the Main Lot states that rent shall include 5% of the Net Arena Profit. The Agreement states that "Net Arena Profit shall be computed in the same manner and utilizing the same figures which the operator (AAM) or affiliate of the operator, of the Arena Complex utilizes in computing the consideration which Concessionaire (City of Anaheim) receives from such operator pursuant to their written agreement."

The prior audit in 1997 identified that the prior operator was not incorporating an annual calculation of Net Arena Profit in its calculation of rent due the County. The prior operator stated the calculation was not necessary because the Anaheim Arena had been operating at a loss since inception.

After the prior audit, the City of Anaheim entered into a new Facility Management Agreement (FMA) between the City of Anaheim and the new operator (AAM) dated December 16, 2003. The County was not a party to the FMA with respect to negotiations or approval of the FMA. The new FMA states that the City of Anaheim, the County, and AAM will "share in all Adjusted Net Revenues (if any) in excess of \$12,000,000 for each operating year. This \$12 million threshold is not in the Concession Agreement between the County and the City.

**Finding No. 12:** The current operator (AAM) has not incorporated a calculation for Net Arena Profit in the calculation of rent due the County. AAM stated that Net Arena Profit was not included in the calculation because the Net Arena Profit had not been large enough (i.e. in excess of \$12 million) to warrant allocation in accordance with the FMA. However, it is unclear whether the County should be subject to the \$12 million dollar threshold in the FMA.

For the period 12/16/03 – 6/30/04, AAM calculated Net Arena Profit or "Adjusted Net Revenues" as defined by the FMA to be \$4,664,087 (prior to the \$12 million threshold). If it is determined that the County is not subject to the \$12 million threshold, additional rent of \$233,204 (\$4,664,087 x 5%) would be owed to the County for the 6 ½ months ending June 30, 2004.

**Recommendation No. 12:** We recommend that RDMD obtain County Counsel opinion whether Net Arena Profit defined in the County's Concession Agreement with the City of Anaheim is subject to the \$12 million threshold prescribed in the FMA between the City of Anaheim and AAM.



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**RDMD Response:**

*RDMD concurs with Recommendation 12 and will seek County Counsel's opinion whether Net Arena Profit defined in the County's Concession Agreement with the City of Anaheim is subject to the \$12 million threshold prescribed in the Facility Management Agreement.*

**Annual Financial Statements (Prior Audit Item No. VI)**

The City of Anaheim is required to submit annual financial statements to the County as described below:

- **Main Lot:** Clause 5 of the Concession Agreement requires the City of Anaheim to annually submit "certified financial statements regarding Net Parking Revenue and Net Arena Profit." The City of Anaheim should also ensure an audit of the revenues and expenditures of the Anaheim Arena are conducted annually.
- **Katella Lot:** Clause 14.C of the Lease Agreement requires the City of Anaheim to annually submit a balance sheet and income statement prepared in accordance with generally accepted accounting principles reflecting business transacted from the leased premises. The City of Anaheim should also provide a statement, made under penalty of perjury, of the annual gross parking revenue from the leased premises.

The prior audit in 1997 identified that the City of Anaheim did not submit financial statements that complied with the Concession and Lease Agreements.

**Finding No. 13:** Financial statements submitted for FY 97-98 through FY 03-04 continue to not comply with Concession and Lease Agreements. RDMD sent several letters to the City of Anaheim between 2000 and 2003 detailing the financial statement requirements, along with specific pages of the agreement containing the relevant clauses. Below are the financial statements submitted:

- In 2003, the prior operator (Ogden) submitted financial statements for FY 97-98 through FY 02-03 for Anaheim Arena as a whole. Along with the audited financial statements, some limited agreed upon procedures for parking revenue were performed by the CPA for these years except for FY 02-03. In response to receiving these statements, RDMD sent a letter to Ogden in 2003 stating that the financial statements combined the three parking lots and that more detailed information was needed in order to reconcile the financial statements.
- For the period 7/1/03 – 12/15/03, no financial statements were submitted by the prior operator. The new operator (AAM) was effective 12/16/03.
- For the period 12/16/03 – 6/30/04, the new operator (AAM) submitted audited financial statements for Anaheim Arena as a whole.

The audited financial statements submitted do not appear to comply with the Concession and Lease Agreements because parking revenue and expenditures are in aggregate. For the Main Lot, a separate audited Statement of Net Parking Revenue, that includes gross parking revenue and parking expenses as defined in the Concession Agreement, should be submitted along with the audited financial statements of the Anaheim Arena as a whole. For the Katella Lot, a Statement of Gross Parking Revenue that includes a statement as to completeness under penalty of perjury is required. It doesn't appear that the statement for the Katella Lot needs to be audited.



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**Recommendation No. 13:** We recommend that RDMD continue to require the City of Anaheim and AAM to submit annual financial statements that comply with the Agreements.

**RDMD Response:**

*RDMD concurs with Recommendation 13, and will advise the City of Anaheim and AAM that annual financial statements that comply with the Agreements are to be submitted to RDMD.*

**Employee Parking Count in Katella Lot**

Clause 7 of the Lease Agreement for the Katella Lot requires the City to have an "electromagnetic lane count system at each gate entrance ..." to record vehicle entries to the lot.

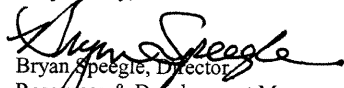
**Finding No. 14:** The Katella Lot is used for employee parking and overflow customer parking. The gate entrance is controlled using electronic revenue control equipment. We noted that employees parking in the Katella Lot are instructed to bypass the controlled gate and are manually counted as they enter the lot through an alternate, uncontrolled entrance. AAM explained that this practice helps prevent a backlog at the gate. Manual counts may be susceptible to error and manipulation and provide less assurance as to the accuracy of parking counts. It is our understanding that the County plans to sell the Katella Lot. As this property will be sold, the County should evaluate the cost/benefit of enforcing Clause 7 of the Agreement at this time.

**Recommendation No. 14:** We recommend that RDMD evaluate whether AAM should be required to utilize the electronic revenue control equipment to account for employee parking in the Katella Lot.

**RDMD Response:**

*The Lease Agreement for the Katella Lot expires in May 2007 and is expected to continue on a month-to-month tenancy until the sale of the Katella Yard property closes. RDMD, therefore, will advise the City of Anaheim and AAM that use of the electronic revenue control equipment is preferable to a manual count.*

Respectfully,

  
Bryan Speegle, Director  
Resources & Development Management Department

c: Josephine Álvarez, RDMD/Real Estate Services  
Steve Danley, Director, RDMD/Administration  
Tony Ferrulli, Manager, RDMD/Asset Management & Real Estate  
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