

Internal Audit Department

O R A N G E C O U N T Y

REVIEW OF CONCESSION REVENUE DAVID L. BAKER GOLF COURSE

For the Period
November 1, 2006 through October 31, 2007

David L. Baker Golf Course operates a golf course located at Mile Square Regional Park. Annual gross receipts generated are approximately \$2.8 million and rent paid to the County is approximately \$413,000.

The Internal Audit Department found that American Golf Corporation's records adequately supported gross receipts. However, additional rent of \$5,612 was identified as owed to the County.

AUDIT NO: 2738

REPORT DATE: MAY 20, 2008

Audit Director: Peter Hughes, Ph.D., MBA, CPA
Deputy Director: Eli Littner, CPA, CIA
Sr. Audit Manager: Autumn McKinney, CPA, CIA
Audit Manager: Kenneth Wong, CPA, CIA



Internal Audit Department

Serving the OC Board of Supervisors since 1995

*2005 Recipient of the Institute of Internal Auditor's
Award for Recognition of Commitment to
Professional Excellence, Quality & Outreach*



Internal Audit Department

Providing Facts and Perspectives Countywide

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
 Office of The Director Certified Compliance & Ethics Professional (CCEP)
 Certified Information Technology Professional (CITP)
 Certified Internal Auditor (CIA)
 Certified Fraud Examiner (CFE)
 E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA
 Deputy Director Certified Fraud Specialist (CFS)
 Certified Information Systems Auditor (CISA)

Michael J. Goodwin CPA, CIA
 Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE
 Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM
 Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
 Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



AUDIT NO. 2738 MAY 20, 2008

TO: Bryan Speegle, Director
OC Public Works

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

SUBJECT: Review of Concession Revenue for
David L. Baker Golf Course

We have completed our review of concession revenue for the David L. Baker Golf Course for the period November 1, 2006 through October 31, 2007. On March 18, 2008 by resolution of the Board of Supervisors, the Resources & Development Management Department (RDMD) was reorganized. The reorganization established OC Public Works and OC Parks (a department under OC Community Resources). During the transition period, OC Public Works provided responses to the recommendations on behalf of OC Parks. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

Please note we have a 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). As a matter of policy, our **first Follow-Up Audit** will now begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

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 six months from the release of the first Follow-Up Audit report, by which time **all** recommendations are expected to be addressed and implemented.

At the request to 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 department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Letter from Director Peter Hughes



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.

As always, the Internal Audit Department is available to partner with your staff so that they 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 recommendation.

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 Internal Auditor's Report on page 2.

OC Internal Audit Report



Review of Concession Revenue for David L. Baker Golf Course Audit No 2738

For the Period
November 1, 2006 through October 31, 2007

Transmittal Letter	i
INTERNAL AUDITOR'S REPORT	1
OBJECTIVES	1
BACKGROUND	1
SCOPE	2
CONCLUSION	2
ACKNOWLEDGMENT	2
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	4
Additional Rent Owed - Non-Alcoholic Beverages Reported as Food	4
Reasonableness and Business Purpose of Complimentary Golf Rounds	5
Reporting Fair Market Value of Barter Transactions	6
Periodic Reconciliation of Daily Starter Sheets	6
Segregation of Duties Risk	7
Tournament and Banquet Documentation	8
Reporting of Gift Certificates and Event Deposits	9
Attestation for Monthly Statement of Gross Receipts	10
Clarifying Golf Lessons Reporting Category	10
ATTACHMENT A: Report Item Classifications	11
ATTACHMENT B: OC Public Works Responses	12



INTERNAL AUDITOR'S REPORT

AUDIT No. 2738

MAY 20, 2008

TO: Bryan Speegle, Director
OC Public Works

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

SUBJECT: Review of Concession Revenue for David L. Baker
Golf Course

Audit Highlight

David L. Baker Golf Course operates a golf course located at Mile Square Regional Park. Annual gross receipts generated are approximately \$2.8 million and rent paid to the County is approximately \$413,000.

The Internal Audit Department found that American Golf Corporation's records adequately supported gross receipts. However, additional rent of \$5,612 was identified as owed to the County.

OBJECTIVES

We have performed a review of certain records and documents for the period from November 1, 2006 through October 31, 2007, pertinent to the concession agreement (Agreement) between the County of Orange (County) and American Golf Corporation, a California Corporation (American Golf), dated April 30, 1987, as amended. The Agreement is for the operation of a golf course, driving range, snack bar, and pro shop located at the County's Mile Square Regional Park.

The primary purpose of our review is to determine whether American Golf's records adequately supported their monthly gross receipts reported to the County. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures.

BACKGROUND

The County of Orange (County) entered into a concession agreement (Agreement) with American Golf Corporation, a California Corporation (American Golf) dated April 30, 1987, as amended, for the operation of a golf course, driving range, snack bar, and pro shop located at the County's Mile Square Regional Park. During the 12-months ended October 31, 2007, American Golf generated approximately \$2.8 million in gross receipts at the David L. Baker Golf Course and paid the County approximately \$413,000 in rent.

On March 18, 2008 by resolution of the Board of Supervisors, Resources & Development Management Department (RDMD) was reorganized. The reorganization established OC Public Works and OC parks (a department under OC Community Resources). During the transition period, OC Public Works provided responses to the recommendations on behalf of OC Parks.



On October 30, 2007, American Golf notified OC Public Works of their intent to transfer operating rights to another course operator and requested the County's consent to assign the Agreement. As of May 9, 2008, OC Public Works is working on the consent which is subject to Board of Supervisor approval.

SCOPE

Our review was limited to certain records and documents that support American Golf's gross receipts reported to the County for the 12-month period of November 1, 2006 to October 31, 2007. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures. Our review included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

CONCLUSION

Based on our review, we find that American Golf's records adequately supported monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we did identify additional rent of \$5,612 owed to the County. We also identified thirteen (13) control findings related to compliance with the Agreement or improvements to internal controls which are noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

If the Board of Supervisors approves American Golf's request to assign the Agreement, OC Public Works should work with the new tenant/assignee to ensure the findings and recommendations related to compliance with the Agreement or improvements to internal controls are implemented.

ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel at American Golf, OC Public Works, OC Parks, and OC Public Works/Accounting. If you have any questions regarding our limited review of concession revenue, please call me at 834-5475 or Eli Littner, Deputy Director at 834-5899, or Autumn McKinney, Senior Audit Manager at 834-6106.

ATTACHMENT A: Report Item Classifications
ATTACHMENT B: OC Public Works Responses



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO, OC Infrastructure
Mark Denny, Director, OC Public Works/OC Parks
Richard Adler, OC Public Works/OC Parks/Program Management
Mike Hentzen, OC Public Works/OC Parks/Program Management
Josie Alvarez, Property Management Supervisor, OC Public Works/Real Estate Services
Catherine Lapid, Real Property Agent, OC Public Works/Real Estate Services
Carlos Bustamante, Director, OC Public Works/Administration
Mary Fitzgerald, Accounting Manager, OC Public Works/Accounting Services
Jenny Tu, Chief, OC Public Works/Accounting/Santa Ana River Watershed, Flood, Leases and Infrastructure
Tam Vu, Admin. Manager I, OC Public Works/Accounting/ Watershed, Flood, Leases and Infrastructure
Brian Cich, Senior Accountant I, OC Public Works/Accounting/Leases and Infrastructure
Debra Lakin, Chief, OC Public Works/Central Quality Assurance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Additional Rent Owed - Non-Alcoholic Beverages Reported as Food

Clause 6.B of the Agreement requires American Golf to pay rent of 3% for "Restaurant/Banquet Food" gross receipts and 5% for "Beverage/Bar" gross receipts.

Finding Nos. 1, 2, and 3: American Golf reported gross receipts from non-alcoholic beverages as Food (3% rent category) rather than Beverages (5% rent category). For the non-alcoholic beverage sales, we calculated additional rent owed of \$1,464 (2% difference x \$73,195) for the period from November 1, 2006 through October 31, 2007.

American Golf informed us that effective January 1, 2004, it established detailed general ledger accounts that clearly differentiated non-alcoholic beverages and alcoholic beverages. Prior to January 1, 2004, the general ledger account descriptions did not make a distinction between non-alcoholic and alcoholic beverages. Therefore, we used the January 1, 2004 date as a starting point to calculate additional rent owed. We estimated additional rent of \$4,148 owed for the period January 1, 2004 through October 30, 2006 as follows:

Average monthly rent owed for 11/1/06 - 10/31/07 (\$1,464/12 months)	\$ 122
Number of months between 1/1/04 and 10/31/06	<u>x 34</u>
Estimated additional rent owed between 1/1/04 and 11/1/06	\$4,148

American Golf will also owe rent for after the audit period end date (November 1, 2007) through the month of correction.

Recommendation No. 1: We recommend that OC Public Works require American Golf to pay additional rent of \$1,464 owed for November 1, 2006 through October 31, 2007.

OC Public Works Response: OC Public Works agrees with the recommendation and has discussed the finding with American Golf. American Golf agrees the rent for non-alcoholic beverages should have been reported in the Beverage category at 5% rather than the Food category at 3% and has recalculated the rent due and submitted a check in the amount of \$4,600.29 for the actual difference due for the period January 1, 2004 to December 31, 2007. Additionally, going forward on the 2008 monthly Statement of Gross Receipts reporting form, non-alcoholic beverages are currently being reported in the 5% Beverage category.

Recommendation No. 2: We also recommend that OC Public Works require American Golf to pay additional estimated rent of \$4,148 owed for the period January 1, 2004 through October 31, 2006.

OC Public Works Response: See response to Recommendation No. 1.

Recommendation No. 3: We also recommend that OC Public Works require American Golf to calculate and pay additional rent owed for the period November 1, 2007 through the month of correction.



OC Public Works Response: See response to Recommendation No. 1.

The remaining findings and recommendations below pertain to compliance with the Agreement or improvements to internal controls.

On October 30, 2007, American Golf notified the former RDMD, now OC Public Works, of their intent to transfer operating rights to another course operator and requested the County's consent to assign the Agreement. As of January 30, 2007, the former RDMD, now OC Public Works, is working on the consent which is subject to Board of Supervisor approval. If approval is received for the assignment, OC Public Works should work with the new tenant/assignee to ensure the below issues are resolved.

Reasonableness and Business Purpose of Complimentary Golf Rounds

Clause 10.E of the Agreement requires American Golf to report as gross receipts the fair rental value of the facility used by American Golf or its employees other than to conduct permitted business activities.

Finding No. 4: During our review, we noted that American Golf offers complimentary rounds of golf for various reasons. The fair market value of the golf is not reported as gross receipts. OC Public Works should evaluate the reasonableness of the quantity and business purposes of the complimentary golf and clarify with American Golf or its assignee the proper reporting.

For the 12-month audit period, American Golf recorded 67,804 rounds of golf in its cashiering system which included the following complimentary rounds.

- 711 Employee Rounds: Recipients were on-site employees and off-site American Golf Corporation employees. Records were not maintained to distinguish the two groups of employees.
- 824 Promotional and Charity Rounds: Recipients were from promotional and charitable activities.
- 128 Ambassador Rounds: Recipients were volunteers that conduct fundraising activities; educate guests on proper golf course etiquette, rules and safety; and help make the game of golf accessible to people of all ages and backgrounds. The volunteers are organized through a non-profit organization affiliated with American Golf.

Recommendation No. 4: We recommend that OC Public Works evaluate the nature and quantity of complimentary golf rounds and if necessary, clarify the proper reporting with American Golf or its assignee.

OC Public Works Response: OC Public Works agrees with the recommendation and has discussed this finding with American Golf. Based on OC Public Works' evaluation of the nature and quantity of complimentary golf rounds as mentioned above, American Golf has agreed that complimentary rounds for which rent shall not be paid will be limited to on-site employees and regional managers who are playing the course as part of an operational evaluation. For all other charity or promotional complimentary rounds, American Golf will report and pay rent on the fair market value of the green fees in effect at the time the round is actually played. This practice is similar to arrangements contained in other County golf course leases.



Reporting Fair Market Value of Barter Transactions

Finding No. 5: American Golf informed us that it exchanges free rounds of golf for certain services provided by outside entities such as golf course signage and an internet service for golf reservations. The free rounds of golf are recorded as promotional rounds (see Finding No. 4 above) and the fair market value is not reported to the County. The fair market value of these barter transactions should be reported as gross receipts.

Recommendation No. 5: We recommend that OC Public Works require American Golf or its assignee to report the fair market value of barter transactions as gross receipts to the County.

OC Public Works Response: OC Public Works agrees with the recommendation and has discussed this finding with American Golf. By letter dated March 31, 2008, American Golf reaffirmed their general corporate prohibition on barter transactions unless approved in writing by a Regional Director. Additionally, American Golf does acknowledge the above-mentioned barter arrangement and has agreed to pay rent on the fair market value of any rounds generated from the current barter arrangement.

Periodic Reconciliation of Daily Starter Sheets

American Golf prepares a daily electronic starter sheet (tee sheet) to document golf reservations and to account for the rounds of golf played. The starter sheet lists the last name of each golfer and the cashiering system transaction number for the sale.

Finding No. 6: American Golf does not summarize the total rounds of golf recorded on the starter sheet. In addition, American Golf does not perform a reconciliation between the total rounds of golf recorded on the daily starter sheet and the cashiering system.

During our audit, we compared the rounds of golf recorded on the daily starter sheet and the cashiering system for a sample of two days. For 9/5/07, the starter sheet was 14 rounds higher than the cashiering system. For 9/22/07, the starter sheet was 14 rounds lower than the cashiering system.

Periodic reconciliations by a person independent of the starter sheet preparation would improve accountability and help to ensure that all golf fees are recorded in the cashiering system. To provide evidence of its occurrence, the reconciliation should be documented and retained.

Recommendation No. 6: We recommend that OC Public Works require American Golf or its assignee to periodically reconcile the rounds of golf recorded on the daily starter sheet with the cashiering system. Documentation of the reconciliation should be retained.

OC Public Works Response: OC Public Works agrees with this recommendation and has discussed the finding with American Golf. By letter dated March 31, 2008, American Golf has submitted its Cash Handling Policy for their cashiering system and starter sheets. The Policy outlines procedures for periodic reconciliations and course audits by the general manager or assistant general manager to verify that all players on the course are properly entered on the starter sheet. Additionally, the reconciliations are periodically audited by the regional manager for compliance with corporate policy. In the event there are deficiencies in the course management following these policies and procedures, American Golf will provide



additional training by the regional manager and/or appropriate disciplinary action will be taken to rectify recurring deficiencies. OC Public Works finds these policies acceptable and OC Public Works will continue to monitor the course for compliance with the established Cash Handling Policy.

Segregation of Duties Risk

Segregation of duties is important to effective internal control in that it helps to reduce the risk of both erroneous and inappropriate actions. When possible, no one person should initiate transactions, record transactions, and reconcile transaction balances.

Finding No. 7: The same employee records golf reservations on the starter sheet; records sales in the point of sale cashiering system; and provides the range cards, cart rentals, and golf club rentals to customers (for which there is no other source documentation). American Golf has determined that the cost of hiring an additional employee to allow for better segregation of duties does not exceed the benefit. This appears reasonable.

To help mitigate the risk of having the same person perform these duties, American Golf does reconcile the quantity of range card stock provided to the employee with the quantity sold in the point of sale cashiering system.

However, for the green fees and rentals, OC Public Works should discuss other possible mitigating controls with American Golf or its assignee, such as surveillance cameras or posting a sign by the cash registers advising customers to contact a designated person if a receipt is not provided.

Recommendation No. 7: We recommend that OC Public Works evaluate whether American Golf or its assignee should implement additional controls to further mitigate the segregation of duties risk.

OC Public Works Response: OC Public Works agrees with the recommendation and has discussed the finding with American Golf. By letter dated March 31, 2008, American Golf submitted its Cash Handling Policy which includes procedures for segregation of duties. Additionally, surveillance cameras are being utilized at the pro shop at the David L. Baker Golf Course. American Golf will also reaffirm its Cash Handling Policy with its employees. OC Public Works finds these Cash Handling Policies acceptable and OC Public Works will continue to monitor the course for compliance with the established Cash Handling Policy.



Tournament and Banquet Documentation

Clause 13.A of the Agreement requires the American Golf to keep true and complete books, records, and accounts of all financial transactions in the operation of all business activities. The records must be supported by source documents such as sales slips, cash register tapes, purchase invoices, or other pertinent documents. In addition, the concessionaire is required to issue serially numbered tickets for each admission or rental and keep an adequate record of said tickets, both issued and unissued.

Findings Nos. 8 and 9: American Golf prepares an event agreement for tournament and banquet reservations that states the cost of the event and payment schedule with the customer's signature. During our review of a sample of ten events, we noted the following:

- Preprinted event agreements are used; however, the agreements were not sequentially numbered.
- Five of the ten events (50%) did not have a written event agreement on file.
- One of the five event agreements on file did not have a customer's signature.

Recommendation No. 8: We recommend that OC Public Works require American Golf or its assignee to use sequentially numbered event agreements.

OC Public Works Response: OC Public Works agrees with the recommendation and has discussed the finding with American Golf. American Golf will now utilize an integrated two-step tournament and banquet deposit tracking system. Each event is required to have a signed contract on file and all events are entered into the Point of Sale (POS) database system. The register tape(s) will be affixed to each contract and these tapes include a daily transaction number. Additionally, to reinforce tracking, each contract will now also be numbered with a number based on the date of the event. This will allow sequential review of contracts by date. The regional manager will periodically audit the event agreement file and the POS database to ensure compliance and validity of bookings. OC Public Works finds American Golf's integrated two-step tournament and banquet deposit tracking system acceptable as it provides an audit trail with cross referencing and supporting documentation.

Recommendation No. 9: We also recommend that OC Public Works remind American Golf or its assignee that written event agreements with a customer signature should be retained for tournaments, banquets, and any other events.

OC Public Works Response: OC Public Works agrees with the recommendation and has discussed the finding with American Golf. American Golf has agreed to conduct additional training for tournament and banquet staff to ensure all documentation for tournaments and banquets is properly signed, documented and retained.



Reporting of Gift Certificates and Event Deposits

Clause 10.A of the Agreement states that gross receipts include the sale price of all goods, wares, merchandise, and products sold on or from the premises whether for cash or credit and whether payment is actually made or not.

Finding No. 10: American Golf reports gift certificates as gross receipts to the County when redeemed and not when sold. Gift certificates should be reported when sold.

Recommendation No. 10: We recommend that OC Public Works require American Golf or its assignee to report gift certificates as gross receipts when sold.

OC Public Works Response: OC Public Works respectively disagrees with the recommendation. American Golf operates multiple golf courses throughout the United States; the company sells gift certificates at all its courses and directly through its website which are redeemable at any American Golf location. This is similar to most franchise operations, such as McDonald's restaurants. As a consequence, certificates sold at the David L. Baker Golf Course are not reported at the time they are sold, as they may be redeemed at another American Golf location. However, all certificates redeemed at the David L. Baker Golf Course, not matter where they are purchased, are reported as revenue by Baker at the time of redemption.

Requiring American Golf to report revenues on certificates sold at Baker at the time of sale would necessitate limiting certificates accepted at Baker to only those sold there; otherwise Baker might be paying rent on revenues spent elsewhere in the American Golf System and never realized at Baker. OC Public Works believes greater revenues are generated under the current certificate reporting procedures, enabling Baker to redeem certificates sold through a much wider marketing and sales network. Similar certificate procedures are in place under other County leases that involve franchise operations, such as the McDonald's restaurant lease at John Wayne Airport.

IAD Comment: The Internal Audit Department accepts OC Public Works response.

Finding No. 11: American Golf reports deposits collected from patrons for events (such as tournaments and banquets) as gross receipts when the event is held and not when the deposits are collected. The deposits should be reported as gross receipts when collected.

Recommendation No. 11: We recommend that OC Public Works require American Golf or its assignee to report event deposits as gross receipts when collected.

OC Public Works Response: OC Public Works agrees with this recommendation and has discussed this finding with American Golf. By letter dated March 31, 2008, American Golf agrees to report event deposits as gross receipts when collected.



Attestation for Monthly Statement of Gross Receipts

Clause 11.A of the Agreement requires American Golf to submit a monthly Statement of Gross Receipts that is signed under penalty of perjury.

Finding No. 12: American Golf submits a monthly Statement of Gross Receipts signed by its Accounting Manager indicating that “the above financial information is correct in all material aspects.” However, the phrase “under penalty of perjury” is missing.

Recommendation No. 12: We recommend that OC Public Works require American Golf or its assignee to sign on the monthly Statement of Gross Receipts submitted to the County that they “certify under penalty of perjury that this report is true and correct to the best of my knowledge.”

OC Public Works Response: OC Public Works agrees with the finding and has discussed the recommendation with American Golf. American Golf has agreed to submit all future monthly Statements of Gross Receipts signed by the Accounting Manager as follows: “certify under of perjury that this report is true and correct to the best of my knowledge.”

Clarifying Golf Lessons Reporting Category

Clauses 4 and 6 of the Agreement describe the usage of the premises and the related percentage rents for the following required services and uses:

- 18-hole Golf Course
- Driving Range
- Restaurant/Banquet facility
- Pro Shop
- Clubhouse
- Pay Phones

Additional services and uses which are ancillary to and compatible with the required services and uses are subject to prior written approval and at the sole discretion of the County.

Finding No. 13: American Golf offers golf lessons at the course. Gross receipts for golf lessons are reported to the County and rent of 3% using the Pro Shop rent percentage is paid. It is reasonable that golf lessons are a compatible service provided on the premises. However, as the rent percentage for golf lessons is not specifically identified in the Agreement, OC Public Works should evaluate whether the approval and proper rent category for golf lessons should be clarified in writing.

Recommendation No. 13: We recommend that OC Public Works consider whether the approval and proper rent category for golf lessons be clarified in writing and provided to American Golf or its assignee.

OC Public Works Response: OC Public Works agrees with the finding and will clarify in writing to American Golf the approval and proper reporting of golf lessons including the applicable percentage rent and the appropriate reporting category.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify 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 address “Material Weaknesses” brought to their attention immediately.
- ▶ **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 and/or Efficiency/Effectiveness Issues:**
Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.

OC Internal Audit Report



ATTACHMENT B: OC Public Works Responses



ORANGE COUNTY

Public Works

Our Community. Our Commitment.

RECEIVED
INTERNAL AUDIT DEPARTMENT

2008 MAY 13 PM 2:09

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

memo

DATE: May 9, 2008
TO: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department
FROM: Director, OC Public Works
SUBJECT: Response to Limited Review Audit No. 2738 – David L. Baker Golf Course –
Mile Square Regional Park

OC Public Works (OCPW) has reviewed the Draft Letter of the Internal Audit Department's Limited Review of the Concession Agreement between the County of Orange (County) and American Golf Corporation, a California corporation, dated April 30, 1987, as amended. The Concession Agreement is for the operation of an 18-hole executive golf course, driving range, snack bar and pro shop located in the County's Mile Square Regional Park. **During the 12-months ended October 31, 2007, American Golf generated approximately \$2.8 million in gross receipts at the David L. Baker Golf Course and paid the County approximately \$413,000 in rent.**

We understand that the primary purpose of Internal Audit's review was to determine whether American Golf's records adequately supported their monthly gross receipts reported to the County. We also understand that Internal Audit reviewed compliance with certain other provisions of the Concession Agreement such as accounting methods and payment procedures.

The audit concluded that American Golf's records adequately supported monthly gross receipts reported to the County and no material weaknesses or significant issues were identified; however, the audit identified additional rent owed, areas of non-compliance with the Concession Agreement and areas of improvement to internal controls. The audit made a total of thirteen recommendations.

OCPW staff provided American Golf with a copy of Audit No. 2738 and discussed with American Golf management the findings, OCPW responses to the findings and any required actions. The OCPW Responses are provided on the following pages, immediately below the Internal Audit Department descriptions, findings and recommendations (shown as indented, in italics and with a smaller font).

Note: Transfer of American Golf's interest in the Concession Agreement to CNL Income EAGL Partners, LLC, is currently pending approval by the Board of Supervisors. Also pending in conjunction with this transfer is approval of CNL Income EAGL Partners entering into a Sub-Concession Agreement with Evergreen Alliance Golf Limited, L.P., (Eagle Golf) for management and operation of the golf course. Eagle Golf has reviewed American Golf's responses and remedies to the audit findings and by letter dated April 7, 2008 supports the responses. In addition, Eagle Golf will be installing a new state-of-the-art IBS Point of Sale system. OCPW believes this will further enhance the financial controls at the golf course.



ATTACHMENT B: OC Public Works Responses (continued)

Page 2 of 8

Additional Rent Owed - Non-Alcoholic Beverages Reported as Food

Clause 6.B of the Agreement requires American Golf to pay rent of 3% for "Restaurant/Banquet Food" gross receipts and 5% for "Beverage/Bar" gross receipts.

Finding Nos. 1, 2, and 3: American Golf reported gross receipts from non-alcoholic beverages as Food (3% rent category) rather than Beverages (5% rent category). For the non-alcoholic beverage sales, we calculated additional rent owed of \$1,464 (2% difference x \$73,195) for the period from November 1, 2006 through October 31, 2007.

American Golf informed us that effective January 1, 2004, it established detailed general ledger accounts that clearly differentiated non-alcoholic beverages and alcoholic beverages. Prior to January 1, 2004, the general ledger account descriptions did not make a distinction between non-alcoholic and alcoholic beverages. Therefore, we used the January 1, 2004 date as a starting point to calculate additional rent owed. We estimated additional rent of \$4,148 owed for the period January 1, 2004 through October 30, 2006 as follows:

Average monthly rent owed for 11/1/06 - 10/31/07 (\$1,464/12 months)	\$ 122
Number of months between 1/1/04 and 10/31/06	<u>x 34</u>
Estimated additional rent owed between 1/1/04 and 11/1/06	\$4,148

American Golf will also owe rent for after the audit period end date (November 1, 2007) through the month of correction.

Recommendation No. 1: We recommend that OC Public Works require American Golf to pay additional rent of \$1,464 owed for November 1, 2006 through October 31, 2007.

OCPW Response:

OC Public Works agrees with the recommendation and has discussed the finding with American Golf. American Golf agrees the rent for non-alcoholic beverages should have been reported in the Beverage category at 5% rather than the Food category at 3% and has recalculated the rent due and submitted a check in the amount of \$4,600.29 for the actual difference due for the period January 1, 2004 to December 31, 2007. Additionally, going forward on the 2008 monthly Statement of Gross Receipts reporting form, non-alcoholic beverages are currently being reported in the 5% Beverage category.

Recommendation No. 2: We also recommend that OC Public Works require American Golf to pay additional estimated rent of \$4,148 owed for the period January 1, 2004 through October 31, 2006.

OCPW Response:

See response to Recommendation No. 1.

Recommendation No. 3: We also recommend that OC Public Works require American Golf to calculate and pay additional rent owed for the period November 1, 2007 through the month of correction.

OCPW Response:

See response to Recommendation No. 1.



ATTACHMENT B: OC Public Works Responses (continued)

Page 3 of 8

Reasonableness and Business Purpose of Complimentary Golf Rounds

Clause 10.E of the Agreement requires American Golf to report as gross receipts the fair rental value of the facility used by American Golf or its employees other than to conduct permitted business activities.

***Finding No. 4:** During our review, we noted that American Golf offers complimentary rounds of golf for various reasons. The fair market value of the golf is not reported as gross receipts. OC Public Works should evaluate the reasonableness of the quantity and business purposes of the complimentary golf and clarify with American Golf or its assignee the proper reporting.*

For the 12-month audit period, American Golf recorded 67,804 rounds of golf in its cashiering system which included the following complimentary rounds.

- *711 Employee Rounds: Recipients were on-site employees and off-site American Golf Corporation employees. Records were not maintained to distinguish the two groups of employees.*
- *824 Promotional and Charity Rounds: Recipients were from promotional and charitable activities.*
- *128 Ambassador Rounds: Recipients were volunteers that conduct fundraising activities; educate guests on proper golf course etiquette, rules and safety; and help make the game of golf accessible to people of all ages and backgrounds. The volunteers are organized through a non-profit organization affiliated with American Golf.*

***Recommendation No. 4:** We recommend that OC Public Works evaluate the nature and quantity of complimentary golf rounds and if necessary, clarify the proper reporting with American Golf or its assignee.*

OCPW Response:

OC Public Works agrees with the recommendation and has discussed this finding with American Golf. Based on OC Public Works' evaluation of the nature and quantity of complimentary golf rounds as mentioned above, American Golf has agreed that complimentary rounds for which rent shall not be paid will be limited to on-site employees and regional managers who are playing the course as part of an operational evaluation. For all other charity or promotional complimentary rounds, American Golf will report and pay rent on the fair market value of the of the green fees in effect at the time the round is actually played. This practice is similar to arrangements contained in other County golf course leases.

Reporting Fair Market Value of Barter Transactions

***Finding No. 5:** American Golf informed us that it exchanges free rounds of golf for certain services provided by outside entities such as golf course signage and an internet service for golf reservations. The free rounds of golf are recorded as promotional rounds (see Finding No. 4 above) and the fair market value is not reported to the County. The fair market value of these barter transactions should be reported as gross receipts.*

***Recommendation No. 5:** We recommend that OC Public Works require American Golf or its assignee to report the fair market value of barter transactions as gross receipts to the County.*

OCPW Response:

OC Public Works agrees with the recommendation and has discussed this finding with American Golf. By letter dated March 31, 2008, American Golf reaffirmed their general corporate prohibition on barter transactions unless approved in writing by a Regional Director.



ATTACHMENT B: OC Public Works Responses (continued)

Page 4 of 8

Additionally, American Golf does acknowledge the above-mentioned barter arrangement and has agreed to pay rent on the fair market value of any rounds generated from the current barter arrangement.

Periodic Reconciliation of Daily Starter Sheets

American Golf prepares a daily electronic starter sheet (tee sheet) to document golf reservations and to account for the rounds of golf played. The starter sheet lists the last name of each golfer and the cashiering system transaction number for the sale.

Finding No. 6: *American Golf does not summarize the total rounds of golf recorded on the starter sheet. In addition, American Golf does not perform a reconciliation between the total rounds of golf recorded on the daily starter sheet and the cashiering system.*

During our audit, we compared the rounds of golf recorded on the daily starter sheet and the cashiering system for a sample of two days. For 9/5/07, the starter sheet was 14 rounds higher than the cashiering system. For 9/22/07, the starter sheet was 14 rounds lower than the cashiering system.

Periodic reconciliations by a person independent of the starter sheet preparation would improve accountability and help to ensure that all golf fees are recorded in the cashiering system. To provide evidence of its occurrence, the reconciliation should be documented and retained.

Recommendation No. 6: *We recommend that OC Public Works require American Golf or its assignee to periodically reconcile the rounds of golf recorded on the daily starter sheet with the cashiering system. Documentation of the reconciliation should be retained.*

OCPW Response:

OC Public Works agrees with this recommendation and has discussed the finding with American Golf. By letter dated March 31, 2008, American Golf has submitted its Cash Handling Policy for their cashiering system and starter sheets. The Policy outlines procedures for periodic reconciliations and course audits by the general manager or assistant general manager to verify that all players on the course are properly entered on the starter sheet. Additionally, the reconciliations are periodically audited by the regional manager for compliance with corporate policy. In the event there are deficiencies in the course management following these policies and procedures, American Golf will provide additional training by the regional manager and/or appropriate disciplinary action will be taken to rectify recurring deficiencies. OC Public Works finds these policies acceptable and OC Public Works will continue to monitor the course for compliance with the established Cash Handling Policy.

Segregation of Duties Risk

Segregation of duties is important to effective internal control in that it helps to reduce the risk of both erroneous and inappropriate actions. When possible, no one person should initiate transactions, record transactions, and reconcile transaction balances.

Finding No. 7: *The same employee records golf reservations on the starter sheet; records sales in the point of sale cashiering system; and provides the range cards, cart rentals, and golf club rentals to customers (for which there is no other source documentation). American Golf has determined that the cost of hiring an additional employee to allow for better segregation of duties does not exceed the benefit. This appears reasonable.*



ATTACHMENT B: OC Public Works Responses (continued)

Page 5 of 8

To help mitigate the risk of having the same person perform these duties, American Golf does reconcile the quantity of range card stock provided to the employee with the quantity sold in the point of sale cashiering system.

However, for the green fees and rentals, OC Public Works should discuss other possible mitigating controls with American Golf or its assignee, such as surveillance cameras or posting a sign by the cash registers advising customers to contact a designated person if a receipt is not provided.

Recommendation No. 7: *We recommend that OC Public Works evaluate whether American Golf or its assignee should implement additional controls to further mitigate the segregation of duties risk.*

OCPW Response:

OC Public Works agrees with the recommendation and has discussed the finding with American Golf. By letter dated March 31, 2008, American Golf submitted its Cash Handling Policy which includes procedures for segregation of duties. Additionally, surveillance cameras are being utilized at the pro shop at David L. Baker Golf Course. American Golf will also reaffirm its Cash Handling Policy with its employees. OC Public Works finds these Cash Handling Policies acceptable and OC Public Works will continue to monitor the course for compliance with the established Cash Handling Policy.

Tournament and Banquet Documentation

Clause 13.A of the Agreement requires the American Golf to keep true and complete books, records, and accounts of all financial transactions in the operation of all business activities. The records must be supported by source documents such as sales slips, cash register tapes, purchase invoices, or other pertinent documents. In addition, the concessionaire is required to issue serially numbered tickets for each admission or rental and keep an adequate record of said tickets, both issued and unissued.

Findings Nos. 8 and 9: *American Golf prepares an event agreement for tournament and banquet reservations that states the cost of the event and payment schedule with the customer's signature. During our review of a sample of ten events, we noted the following:*

- *Preprinted event agreements are used; however, the agreements were not sequentially numbered.*
- *Five of the ten events (50%) did not have a written event agreement on file.*
- *One of the five event agreements on file did not have a customer's signature.*

Recommendation No. 8: *We recommend that OC Public Works require American Golf or its assignee to use sequentially numbered event agreements.*

OCPW Response:

OC Public Works agrees with the recommendation and has discussed the finding with American Golf. American Golf will now utilize an integrated two-step tournament and banquet deposit tracking system. Each event is required to have a signed contract on file and all events are entered into the Point of Sale (POS) database system. The register tape(s) will be affixed to each contract and these tapes include a daily transaction number. Additionally, to reinforce tracking, each contract will now also be numbered with a number based on the date of the event. This will allow sequential review of contracts by date. The regional manager will periodically audit the event agreement file and the POS database to ensure compliance and validity of bookings. OC Public Works finds American Golf's integrated two-step tournament and



ATTACHMENT B: OC Public Works Responses (continued)

Page 6 of 8

banquet deposit tracking system acceptable as it provides an audit trail with cross referencing and supporting documentation.

Recommendation No. 9: *We also recommend that OC Public Works remind American Golf or its assignee that written event agreements with a customer signature should be retained for tournaments, banquets, and any other events.*

OCPW Response:

OC Public Works agrees with the recommendation and has discussed the finding with American Golf. American Golf has agreed to conduct additional training for tournament and banquet staff to ensure all documentation for tournaments and banquets is properly signed, documented and retained.

Reporting of Gift Certificates and Event Reports

Clause 10.A of the Agreement states that gross receipts include the sale price of all goods, wares, merchandise, and products sold on or from the premises whether for cash or credit and whether payment is actually made or not.

Finding No. 10: *American Golf reports gift certificates as gross receipts to the County when redeemed and not when sold. Gift certificates should be reported when sold.*

Recommendation No. 10: *We recommend that OC Public Works require American Golf or its assignee to report gift certificates as gross receipts when sold.*

OCPW Response:

OC Public Works respectively disagrees with the recommendation. American Golf operates multiple golf courses throughout the United States; the company sells gift certificates at all its courses and directly through its website which are redeemable at any American Golf location. This is similar to most franchise operations, such as McDonald's restaurants. As a consequence, certificates sold at the David L. Baker Golf Course are not reported at the time they are sold, as they may be redeemed at another American Golf location. However, all certificates redeemed at David L. Baker Golf Course, no matter where they are purchased, are reported as revenue by Baker at the time of redemption.

Requiring American Golf to report revenues on certificates sold at Baker at the time of sale would necessitate limiting certificates accepted at Baker to only those sold there; otherwise Baker might be paying rent on revenues spent elsewhere in the American Golf system and never realized at Baker. OC Public Works believes greater revenues are generated under the current certificate reporting procedures, enabling Baker to redeem certificates sold through a much wider marketing and sales network. Similar certificate procedures are in place under other County leases that involve franchise operations, such as the McDonald's restaurant lease at John Wayne Airport.

Finding No. 11: *American Golf reports deposits collected from patrons for events (such as tournaments and banquets) as gross receipts when the event is held and not when the deposits are collected. The deposits should be reported as gross receipts when collected.*

Recommendation No. 11: *We recommend that OC Public Works require American Golf or its assignee to report event deposits as gross receipts when collected.*



ATTACHMENT B: OC Public Works Responses (continued)

Page 7 of 8

OCPW Response:

OC Public Works agrees with this recommendation and has discussed this finding with American Golf. By letter dated March, 31, 2008, American Golf agrees to report event deposits as gross receipts when collected.

Attestation for Monthly Statement of Gross Receipts

Clause 11.A of the Agreement requires American Golf to submit a monthly Statement of Gross Receipts that is signed under penalty of perjury.

***Finding No. 12:** American Golf submits a monthly Statement of Gross Receipts signed by its Accounting Manager indicating that "the above financial information is correct in all material aspects." However, the phrase "under penalty of perjury" is missing.*

***Recommendation No. 12:** We recommend that OC Public Works require American Golf or its assignee to sign on the monthly Statement of Gross Receipts submitted to the County that they "certify under penalty of perjury that this report is true and correct to the best of my knowledge."*

OCPW Response:

OC Public Works agrees with the finding and has discussed the recommendation with American Golf. American Golf has agreed to submit all future monthly Statements of Gross Receipts signed by the Accounting Manager as follows: "certify under penalty of perjury that this report is true and correct to the best of my knowledge."

Clarifying Golf Lessons Reporting Category

Clauses 4 and 6 of the Agreement describe the usage of the premises and the related percentage rents for the following required services and uses:

- 18-hole Golf Course
- Driving Range
- Restaurant/Banquet facility
- Pro Shop
- Clubhouse
- Pay Phones

Additional services and uses which are ancillary to and compatible with the required services and uses are subject to prior written approval and at the sole discretion of the County.

***Finding No. 13:** American Golf offers golf lessons at the course. Gross receipts for golf lessons are reported to the County and rent of 3% using the Pro Shop rent percentage is paid. It is reasonable that golf lessons are a compatible service provided on the premises. However, as the rent percentage for golf lessons is not specifically identified in the Agreement, OC Public Works should evaluate whether the approval and proper rent category for golf lessons should be clarified in writing.*

***Recommendation No. 13:** We recommend that OC Public Works consider whether the approval and proper rent category for golf lessons be clarified in writing and provided to American Golf or its assignee.*



ATTACHMENT B: OC Public Works Responses (continued)

Page 8 of 8

OCPW Response:

OC Public Works agrees with the finding and will clarify in writing to American Golf the approval and proper reporting of golf lessons including the applicable percentage rent and the appropriate reporting category.

Thank you for allowing us to respond to your Draft letter. If you have any questions or need additional information, please feel free to contact Debra Lakin, Chief, OCPW/Central Quality Assurance at (714) 834-5593.



Bryan Speegle, Director

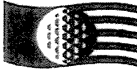
Attachments: American Golf Letter dated March 31, 2008
Eagle Golf Letter dated April 7, 2008

cc: Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO/OC Infrastructure
Mark Denny, Director, OC Public Works/OC Parks
Mike Brajdic, Program Manager, OC Public Works/OC Parks
Michael Hentzen, Admin Manager I, OC Public Works/OC Parks/Lease Management
Carlos Bustamante, Director, OC Public Works/Administration
Mary Fitzgerald, Manager, OC Public Works/Accounting Services
Tam Vu, Admin Manager I, OC Public Works/Accounting/Watershed, Flood, Leases
& Infrastructure
Brian Cich, Senior Accountant I, OC Public Works/Accounting/Lease &
Infrastructure
Debra Lakin, Chief, OC Public Works/Central Quality Assurance



ATTACHMENT B: OC Public Works Responses (continued)

Received: 3/31/08 18:40; 404-209-6881 -> HBP PROGRAM MGMT; Page 2
404-209-6881 Marriott Business Center 08:16:40 p.m. 31-03-2008 2/10


American Golf.

March 31, 2008

via Facsimile

Mr. Michael Hentzen
Resources and Development Management Department
OC Parks/Program Management
300 N. Flower Street, 4th Floor
Santa Ana, CA 92703

Re: Audit No. 2738 - Draft Report on Review of Concession Revenue for David L. Baker Golf Course

Dear Mr. Hentzen:

Pursuant to American Golf Corporation's letter to the County of Orange Auditor-Controller dated March 6, 2008, and the check number 5246296 payable to the County in the amount of \$4,600.29, Audit Findings Numbers 1, 2, and 3 have been resolved per the County's requests. This letter is to address the remaining findings.

Finding No. 4: Reasonableness and Business Purpose of Complimentary Rounds

It is industry standard practice for a small percentage of overall rounds to be complimentary. Complimentary rounds generally include employee rounds and promotional and charity rounds. Promotional and charity rounds generally provide a service to community and support fundraising causes important to the golf courses local community. Promotional rounds are a means to drive awareness of the golf course and to attract players that may not otherwise traditionally patronize David L Baker. As a general rule, complimentary rounds are guided towards off-peak rounds, rounds late in the day or extremely early in the morning and typically on weekdays, so as to not displace customers in the higher-rate tee time categories. American Golf will limit employee complimentary rounds to on-site David L Baker employees and to regional managers playing the course as part of an operational evaluation. All other charity or promotional complimentary rounds

2951 - 28th Street · Santa Monica, California 90405 · Phone: 703.772.3593



ATTACHMENT B: OC Public Works Responses (continued)

Received: 3/31/08 18:41; 404-209-6881 -> HBP PROGRAM MGMT; Page 3
404-209-6881 Marriott Business Center 08:17:03 p.m. 31-03-2008 3/10

David L Baker Golf Course Page 2
March 31, 2008

will be calculated on the fair market value of the tee time at the time the round is actually played and rent shall be paid accordingly.

Finding No. 5: Reporting Fair Market Value of Barter Transactions

Pursuant to American Golf's Contracts Policy, a copy of which is attached to this letter, bartering in exchange for third party's goods or services is not permitted. A Regional Director must approve any exception to this policy, and the Legal Department must prepare a written agreement to document any approved bartering agreement. There is only one bartering arrangement approved for David L Baker golf course and that agreement is with Cypress Golf which is a national account for the selling of tee times that typically would otherwise go unsold ("off-peak tee times"). This arrangement was specifically designed to drive business to David L Baker golf course by utilizing Cypress's network of on-line purveyors of tee-times with strict policies for their sale. Any other bartering arrangements are categorically against company policy and are eliminated with appropriate disciplinary action to any employee entering into those arrangements. American Golf agrees to assign the appropriate fair market value, or green fee at the time the rounds are granted/played, to the tee times/rounds granted to Cypress in return for their on-line assistance with filling vacant tee times.

Finding No. 6: Periodic Reconciliation of Daily Starter Sheets

American Golf does conduct periodic reconciliations of the starter sheets by persons independent of starter sheet preparation. Attached to this letter is a copy of American Golf's Cash Handling Policy. Each general manager or assistant general manager is required to periodically reconcile the cash register detail tape to the starter sheet to ensure that all players on the sheet were properly rung up and, conversely, that all green fees/carts rung up appear on the starter sheet. Additionally, general managers or assistant general managers periodically conduct course audits to verify that all players on the course are properly entered on the starter sheet. These periodic reconciliations are to be documented and recorded and their consistency of performance is ensured by periodic regional director Structured Unit Visits ("SUV's") in which the regional manager audits each general manager for compliance with all corporate policies, including cash handling policies. In the event that there are deficiencies in management's following of these policies and procedures, additional training will be provided by the regional manager and, or, appropriate disciplinary action will be taken to rectify recurring deficiencies.

Finding No. 7: Segregation of Duties Risk

American Golf agrees with the segregation of duties concept and endeavors to separate duties whenever reasonably feasible as related to the volume of business. Without exception, however, our cash handling policy and procedures, as mentioned above and attached hereto, require that a manager, general or assistant, a person other than the person who recorded the transaction or provided the service, perform periodic audits on transaction records and reconcile transaction balances. Additionally, daily closes and daily

2951 - 28th Street - Santa Monica, California 90405 - Phone: 703.772.3593



ATTACHMENT B: OC Public Works Responses (continued)

Received: 3/31/08 18:41; 404-209-6881 -> HBP PROGRAM MGMT; Page 4
404-209-6881 Marriott Business Center 08:17:40 p.m. 31-03-2008 4/10

David L Baker Golf Course Page 3
March 31, 2008

reconciliations are performed only by an assistant general manager or general manager. This segregation of transaction service and reconciliation is an important internal control. Additionally, surveillance cameras are utilized at every point of sale at David L. Baker Golf Course and the surveillance tapes are maintained for 7 days, providing ample opportunity following each daily close to review the tapes to investigate unexplained discrepancies.

Finding No. 8 and 9: Tournament and Banquet Documentation

American Golf utilizes an integrated two step tournament and banquet deposit (and reservation) tracking system that we believe provides necessary cross referencing and audit control. Each event is required to have a signed contract on file. Each contract is then entered and tracked in the event database that is a component of the property's Purchase and Sale ("P.O.S.") system. Events are tracked and reconciled by the name of the event and the date on which it is to occur. Event agreements have no value until they are signed and entered into the P.O.S. database. The regional manager periodically audits the event agreement file and the P.O.S. database to ensure compliance and validity of bookings. To reinforce tracking, we shall number each event contract corresponding to the date it is to occur (March 31, 2008 shall be numbered 033108 and December 25, 2008 shall be numbered 122508 and so on). This numbering system will provide for more accurate management tracking per the date on which the event occurs and will allow for sequential review of contracts by date. In addition, we shall affix the register tape to each contract to reflect the ringing up of every event deposit and these tapes shall also include a daily transaction number. In the event that there are deficiencies in management's following of these policies and procedures, additional training will be provided by the regional manager and, or, appropriate disciplinary action will be taken to rectify recurring deficiencies.

Finding No. 10: Reporting of Gift Certificates

American Golf, following, General Accepted Accounting Practices ("GAAP"), typically records gift certificates as revenue when redeemed. GAAP views gift certificates as a promise to provide a good or service in the future. This procedure has benefited the County because by so recording gift certificate purchases at the time redeemed, David L. Baker golf course has been able to accept and realize revenue from gift certificates sold at other American Golf portfolio courses and from American Golf's website. If revenue is recorded and rent paid at the time the gift certificate is sold, American Golf will need to restrict gift certificates sold and redeemed at David L. Baker to those only sold at David L. Baker.

Finding No. 11: Reporting of Event Deposits

American Golf, following, General Accepted Accounting Practices ("GAAP"), typically records event deposits as revenue when the event is held. GAAP views events deposits as a promise to provide a good or service in the future and the deposit is a percentage of the overall event price. Since an event deposit can be refunded at certain times prior to an

2951 - 28th Street · Santa Monica, California 90405 · Phone: 703.772.3593



ATTACHMENT B: OC Public Works Responses (continued)

Received: 3/31/08 18:42; 404-209-6881 -> HBP PROGRAM MGMT; Page 5
404-209-6881 Marriott Business Center 08:18:17 p.m. 31-03-2008 5 / 10

David L Baker Golf Course Page 4
March 31, 2008

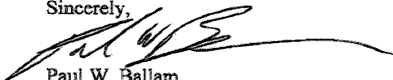
event, it has been determined that it is not fully realized until the event occurs. Following County's recommendation we shall from May 1st onward report the event deposit as revenue upon receipt with the understanding that should the deposit be refunded under normal contract terms, the revenue be reversed to reflect the refunded deposit.

Finding No. 12: Attestation for Monthly Statement of Gross Receipts

All subsequent monthly Statement of Gross Receipts submitted to the County shall be signed by our Accounting Manager as follows: "certify under penalty of perjury that this report is true and correct to the best of my knowledge."

Finding No. 13: Clarifying Golf Lessons Reporting Category

All monies paid to American Golf for golf lessons given at David L Baker are reported and rent to the County calculated at 3% using the pro shop rent percentage paid. No lessons are permitted at David L Baker that are not accounted for through the golf course P.O.S system and therefore, all lessons given at David L Baker require rent paid to the County. Additionally, all fees paid for golf balls used in connection with any golf lesson shall be reported as gross receipts in the "Driving Range" category.


Sincerely,

Paul W. Ballam
Vice President – Business Development

2951 - 28th Street · Santa Monica, California 90405 · Phone: 703.772.3593



ATTACHMENT B: OC Public Works Responses (continued)

Received: 3/31/08 18:42; 404-209-6881 -> HBP PROGRAM MGMT; Page 6
404-209-6881 Marriott Business Center 08:18:35 p.m. 31-03-2008 6/10


American Golf

CONTRACTS POLICY

E. **Human Resources.** Whenever engaging the services of an independent contractor for services other than maintenance or construction (e.g. golf instructors, temporary accountants), the party providing the services must execute the Company's standard form of independent contractor agreement. The form may be obtained from Human Resources. These agreements define the relationship between the Company and the independent contractor and contain other important terms that protect the Company from undue liabilities. An independent contractor agreement must be executed whenever someone who is not an employee is performing services for the Company. There are no exceptions to this policy.

II. Procedures and Prohibitions

A. **Executing Contracts.** General Managers, with the approval of the Regional Director, may execute the following contracts:

1. Standard form agreements (without revision), and standard construction contracts in connection with AFEs with the prior approval of the Maintenance Department.
2. Agreements with a term of no more than one year and a contract value of less than \$10,000.00. These agreements must not: (i) pertain to goods or services that are already the subject of a national or regional vendor agreement, (ii) contain automatic renewal or "evergreen" provisions that allows an agreement to continue for additional term(s) unless a party provides notice of termination within a prescribed time, and (iii) contain liquidated damages provisions that specify an amount of money the Company must pay in the event of a breach or early termination of the contract.

All other contracts must be reviewed by the Legal Department in accordance with each functional department's policies and procedures. All such contracts must be submitted with a completed Contract Submission form, a copy of which is attached to this memo. There are no exceptions to this policy.

B. **Canceling or Terminating Contracts.** The Legal Department must be consulted before any contract is canceled or terminated prior to the date the contract expires. Prematurely terminating a contract can result in substantial legal liability to the Company. There are no exceptions to this policy.


C. **Bartering.** Bartering the Company's goods or services in exchange for a third party's goods or services is not permitted. A Regional Director must approve any exception to this policy, and the Legal Department must prepare a written agreement documenting the bartering arrangement.

HUMAN RESOURCES POLICIES AND PROCEDURES MANUAL		
Policy Number:	Last Revised Date: 04/28/2004	Page Number: 3



ATTACHMENT B: OC Public Works Responses (continued)

Received: 3/31/08 18:43; 404-209-6881 -> HBP PROGRAM MGMT; Page 7
404-209-6881 Marriott Business Center 08:19:04 p.m. 31-03-2008 7/10

 American Golf	Company Guidelines and Policies Cash Handling Procedures	Policy #PAC001.01 Date Issued: 06/11/07
--	---	--

CASH HANDLING POLICY

PURPOSE:

The purpose of this policy is to establish guidelines regarding cash handling procedures for all AGC co-workers at all golf courses.

SCOPE:

Bank Deposits
Register Transactions
Non-POS Registers
POS Registers

POLICY:

BANK DEPOSITS

PUBLIC

- Bank deposits are to be made DAILY before 3PM if your total deposit exceeds \$500 for the day. This includes weekends.

PRIVATE

- Bank deposits are to be made WEEKDAYS before 3PM if your total deposit exceeds \$500 for the day. Monday's bank deposit should be for all weekend business.

SAFETY & GUIDELINES (All Courses)


- When preparing the bank deposit, all counting of cash should be done discreetly out of view of our customers and behind a closed, locked door at all times.
- After cash receipts are counted and bank deposit prepared, the cash should be placed back into the safe until time to go to the bank. Ensure that the safe is SECURE at all times.
- When making the bank deposit, be aware of your surroundings. Observe the area around the depository. Avoid suspicious circumstances or poorly lit locations.
- If you are unable to complete a daily bank deposit due to a safety concern or any other reason, please notify your General Manager or Regional Director immediately.

Cash Policy 061107.doc Page 1 of 4 American Golf®



ATTACHMENT B: OC Public Works Responses (continued)


Received: 3/31/08 18:43; 404-209-6881 -> HBP PROGRAM MGMT; Page 8
404-209-6881 Marriott Business Center 08:19:24 p.m. 31-03-2008 8 / 10

	Company Guidelines and Policies Cash Handling Procedures	Policy #PAC001.01 Date Issued: 06/11/07
REGISTER TRANSACTIONS		
<ul style="list-style-type: none">• Sales must be recorded immediately and accurately. Ring all sales into the register at the time of the transaction (in the golf shop, a foursome paying separately is considered four sales transactions and should be rung up as such).• Do not accumulate sales and ring up at a later time. In private clubs and/or bar operations where running tabs is permitted, each drink served must be rung up at the time of service. If the cash register does not have the capability of adding on to the previous balance, a handwritten notation of the items served must be made on the tab at the time of service.• Do not operate register with an open cash drawer. Drawer must be in the closed/locked position except for the tendering of payment. Use of drawer key is not permitted (must be kept in safe).• Always enter the amount tendered and let register calculate the change (use where register has this capability).• Always use the amount tender key to enter the type of payment (cash, check, credit card, or member charge) as well as the amount of cash tendered.• Ring up tournament and banquet deposits the same day they are received.• Voiding sales:		
NON-POS REGISTERS		
<ol style="list-style-type: none">1. Only the manager should have access to the void key in a register.2. Manager must approve all voids.3. An incorrect ring slip must be filled out for each void.4. When an error is made, close out the transaction and re-ring the transaction correctly.		
POS REGISTERS		
<ol style="list-style-type: none">1. Only Management level access can perform true void at register or management station.2. All requested over rings must be cleared prior to closing days' business.3. An incorrect ring slip should be filled out for each void, otherwise the same information must be written on the manager void receipt.		
Cash Policy 061107.doc	Page 2 of 4	American Golf®



ATTACHMENT B: OC Public Works Responses (continued)


Received: 3/31/08 18:44; 404-209-6881 -> HBP PROGRAM MGMT; Page 9
404-209-6881 Marriott Business Center 08:19:47 p.m. 31-03-2008 9/10

	Company Guidelines and Policies Cash Handling Procedures	Policy #PAC001.01 Date Issued: 06/11/07
<ul style="list-style-type: none">• Do not allow an excessive amount of cash to accumulate in the register. At least two (2) cash drops should be made prior to 1:00 p.m. Cash should be placed inside an envelope and dropped into the safe immediately.• Do not allow the pole display or visual display plate to be obstructed - it must be visible to the customer at all times.• All cash receipts, cash banks for registers, and change fund must be kept in the safe.• Safe change fund is to be used for change only (it is not a petty cash fund). It should be counted and verified DAILY.• No one operating a register should ever subtotal or total that register. If the manager, for any reason, should need to subtotal a machine (X reading), the detail tape must be initialized.• Register Close-Out:<ol style="list-style-type: none">1. No one individual shall both count out the register and ring out the register.2. Only a management person, or individual designated by the manager, shall ring out the register (Z reading). (On POS, "Z" is automatically printed out the following morning when the register is opened).3. All remote registers shall be rung out in the afternoon by management to enable the sales to be input into the Pro Shop register. Sales after this time will be a part of the following day's business.• Only the manager, assistant manager, and designated employees responsible for opening/closing are allowed to have the top safe combination. Only the manager, assistant manager, accounting staff at private clubs, are allowed to have the combination to the bottom section of the safe. Safe combinations must be changed when a combination holder is transferred, terminated, or resigns.• Various random audits should be conducted by management on an on-going basis. These audits include the following:<ol style="list-style-type: none">1. Reconcile cash register detail tape to the starter sheet to ensure that all players on the sheet were properly rung up and, conversely, that all green fees/carts rung up appear on the starter sheet.2. A course audit to verify that all players on the course are properly entered on the starter sheet. Before taking the starter sheet onto the course, take an "X" reading and count the cash to determine if the register balances. With the actual starter sheet in hand, start on the 18th hole and, working in reverse, simply		
Cash Policy 081107.doc	Page 3 of 4	American Golf®



ATTACHMENT B: OC Public Works Responses (continued)

Received: 3/31/08 18:44; 404-209-6881 -> HBP PROGRAM MGMT; Page 10
404-209-6881 Marriott Business Center 08:20:15 p.m. 31-03-2008 10/10

 American Golf	Company Guidelines and Policies Cash Handling Procedures	Policy #PAC001.01 Date Issued: 06/11/07
--	---	--

approach one player of each group and ask for the names of each player in the group. Tell the players you are performing a starter sheet verification. This audit takes approximately one hour and is most effective when conducted in the morning hours before the 1st group of 18 hole players finish.

3. Surprise cash audits at each point of sale. Take an " X " reading and count the cash. Variances can indicate honest mistakes and dishonesty. The purpose of the surprise audit is to determine if there is more cash in the register than has been recorded. When this is discovered, it indicates the employee on the register did not record all sales and was possibly planning to take the overage amount at a later time.

- The daily package retained at the course must contain all of the day's backup information inside the folded starter sheet, i.e., detail tapes, cart tickets, rain checks, incorrect ring slips, deposit slip copy, charge receipt copies, register close out reports, etc.

ACKNOWLEDGEMENT – CASH HANDLING PROCEDURES

PRINT NAME COURSE/CLUB
I have read and fully understand the Cash Handling/Bank Deposit Procedures for American Golf Corporation. I acknowledge that as the General Manager, I am responsible for ensuring these procedures are followed in their entirety at all times.

SIGNATURE

DATE

CONTACT:
Regional Director

RESPONSIBILITY:
All Co-Workers

Cash Policy 061107.doc Page 4 of 4 American Golf®



ATTACHMENT B: OC Public Works Responses (continued)



RESPONSE TO AGC'S FINANCIAL CONTROLS AT DAVID L. BAKER

April 7, 2008

Mr. Michael Hentzen
Resources and Development Management Department
OC Parks/Program Management
300 N. Flower Street, 4th Floor
Santa Ana, CA 92703

Dear Mr. Hentzen

Eagle Golf has reviewed Paul Ballam's Audit Findings Response, dated March 31, 2008 and concurs with his comments and supports his remedies. Eagle Golf understands the importance of tight, financial controls and has them engrained throughout our organization. To ensure that the team at David L. Baker adheres to our controls, Eagle Golf will provide training to the local partners and conduct regular audits throughout the lease term through its Regional Managers, Regional Vice Presidents and the Corporate Accounting Staff.

In addition, Eagle will be installing a state-of-the-art Point of Sale System, IBS. This is a substantial capital investment of approximately \$18,500 which we feel is important to the operation of the golf course. IBS is the industry leading POS system, capable of numerous reporting and operating mechanisms, as well as allowing for even tighter financial controls. For instance, through a fee scheduler, each fee charged to a golfer will be shown on the tee sheet to ensure proper pricing execution and ease of auditing. IBS is also designed to encapsulate all transactions indefinitely, thus allowing Regional level and the Corporate Accounting team ability to research all historical transactions.

In summary, Eagle Golf will institute its financial controls to ensure proper accounting measures are being followed. Eagle Golf supports Orange County involvement and will be an accommodating partner. We look forward to working with you.

Sincerely,


Rob Akers
Regional Vice President