

# Internal Audit Department

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

## REVENUE GENERATING LEASE AUDIT: OC COMMUNITY RESOURCES/OC PARKS RM FISHERIES, INC.

For the Period  
July 1, 2007 through June 30, 2008

RM Fisheries, Inc. operates a fishing concession located at the Laguna Niguel Regional Park. Gross receipts reported during the 12-month audit period were approximately **\$412,000** and rent paid to the County was approximately **\$33,000**. Over its five (5) year term, this lease agreement is estimated to generate over **\$160,000** in rent to the County.

The Internal Audit Department found that RM Fisheries, Inc.'s records overall adequately supported gross receipts and rent owed was properly paid.

AUDIT NO: 2837

REPORT DATE: SEPTEMBER 14, 2009

**Director:** Dr. Peter Hughes, MBA, CPA

Deputy Director: Eli Littner, CPA, CIA

Senior Audit Manager: Autumn McKinney, CPA, CIA

Audit Manager: Lily Chin, CPA



**RISK BASED AUDITING**

GAO & IIA Peer Review Compliant – 2001, 2004, 2007



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For the Most Outstanding Article of the Year



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ORANGE COUNTY BOARD OF SUPERVISORS  
**Internal Audit Department**

GAO & IIA Peer Review Compliant - 2001, 2004, 2007

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 2837    September 14, 2009**

**TO:** Steve Franks, Director  
OC Community Resources

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

**SUBJECT:** Revenue Generating Lease Audit:  
OC Community Resources/OC Parks  
RM Fisheries, Inc., PR70M-101M5

We have completed our revenue generating lease audit of RM Fisheries, Inc. for the period July 1, 2007 through June 30, 2008. The final **OC Internal Auditor's Report** is attached along with your responses to our recommendations. We performed this Revenue Generating Lease Audit in accordance with our FY 2008-09 Audit Plan approved by the Audit Oversight Committee.

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** audit recommendations are expected to be addressed and 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 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 Dr. Peter Hughes, CPA



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 are listed on the **OC Internal Auditor's Report** on page 3.

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OC Community Resources/OC Parks  
RM Fisheries, Inc.  
Audit No. 2837***

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July 1, 2007 through June 30, 2008

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# OC Internal Auditor's Report



**Audit No. 2837**

**September 14, 2009**

TO: Steve Franks, Director  
OC Community Resources

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

SUBJECT: Revenue Generating Lease Audit:  
OC Community Resources/OC Parks  
RM Fisheries, Inc., PR70M-101M5

## Audit Highlight

RM Fisheries, Inc. operates a fishing concession located at the Laguna Niguel Regional Park. Gross receipts generated during the audit period were approximately **\$412,000** and rent paid to the County was approximately **\$33,000**. Over its five (5) year term, this lease agreement is estimated to generate over **\$160,000** in rent to the County.

The Internal Audit Department found that RM Fisheries, Inc.'s records overall adequately supported gross receipts and rent owed was properly paid.

## OBJECTIVES

We have performed an audit of certain records and documents for the period from July 1, 2007 through June 30, 2008, pertinent to the lease agreement (Agreement) between the County of Orange (County) and RM Fisheries, Inc. (RM Fisheries), dated October 25, 2005. The Agreement is for the operation of a fishing concession. Our audit objectives are:

- (1) The primary purpose of our audit is to determine whether RM Fisheries' records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.
- (2) The secondary purpose of our audit is to determine whether RM Fisheries complies with certain other financial provisions of the Agreement, such as accounting methods, monthly gross receipts statement format, and annual financial statement requirements.

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

## BACKGROUND

The County entered into an Agreement with RM Fisheries, Inc., a California corporation, dated October 25, 2005, for the operation of a fishing concession located at the Laguna Niguel Regional Park. During the audit period, RM Fisheries reported approximately \$412,000 in gross receipts and paid the County approximately \$33,000 in rent.



## SCOPE

Our audit was limited to certain records and documents that support RM Fisheries' gross receipts reported to the County for the 12-month period of July 1, 2007 to June 30, 2008. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

## RESULTS

Below are the results of our audit:

**Objective #1 – Adequate Records:** Determine whether RM Fisheries' records adequately support monthly gross receipts reported to the County and rent owed is properly paid.

**Results:** We found RM Fisheries' records overall supported the reported gross receipts and rent owed was properly paid. We noted **five (5) Control Findings** where recordkeeping should be enhanced to support the reported gross receipts. (See pages 4-5 for details)

**Objective #2 – Compliance:** Determine whether RM Fisheries complies with certain other financial provisions of the agreement.

**Results:** We found RM Fisheries generally complied with certain other financial provisions of the agreement such as accounting methods, monthly gross receipts statement format, and annual financial statements. We noted **one (1) Control Finding** where the submitted financial statements did not include the preparer's attestation for its accuracy under the penalty of perjury as required by the agreement. (See page 6 for details)

See all **six (6) Control Findings** in the Detailed Findings, Recommendations, and Management Responses section of this report. See **Attachment A** for a description of report item classifications.

## ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel at RM Fisheries, OC Community Resources/OC Parks/Lease Management, and OC Community Resources/Accounting Services. If you have any questions regarding our review of lease revenue, please call me directly or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

# OC Internal Auditor's Report



**Attachment A: Report Item Classifications**  
**Attachment B: OC Community Resources/OC Parks 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 Community Resources/OC Parks  
Michael Brajdic, Deputy Director, OC Community Resources/OC Parks  
Kirk Holland, Program Manager, OC Community Resources/OC Parks  
Rich Adler, Real Estate Manager, OCCR/OC Parks/Real Estate  
Michael Hentzen, Lease Manager, OCCR/OC Parks/Real Estate  
Andrea Richard, Real Property Agent, OCCR/OC Parks/Real Estate  
Anna Peters, Director of Administrative Services, OC Community Resources  
Tonya Burnett, Accounting Manager, OC Community Resources/Accounting  
Win Swe, Manager, OC Community Resources/Accounting  
Viet Pham, Accountant II, OC Community Resources/Accounting  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors





## Audit Objective #1 – Adequate Records

### 1. Documentation of Fishing Permits Issued Not Retained (2 Control Findings)

Clause 11.A of the Agreement requires RM Fisheries to issue serially numbered tickets for each admission or rental and keep an adequate record of said tickets, both issued and unissued.

RM Fisheries issues three types of fishing permits: adult, youth and float tube. The permits are sequentially pre-numbered and are issued to fishing patrons when sold. The sale is recorded in the cash register which provides the total number of permits sold. RM Fisheries informed us that the starting permit number at the beginning of the day and the ending number at the end of the day are noted on the deposit envelope to determine the number of permits issued. It is reconciled to the number of permits on the cash register tape.

**Finding Nos. 1 and 2:** RM Fisheries does not retain the deposit envelope with the starting and ending numbers of fishing permits issued or maintain a separate log of issued and unissued fishing permits.

**Recommendation No. 1:** We recommend that OC Parks require RM Fisheries maintain a log of the starting and ending numbers of fishing permits issued each day.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying its procedures to maintain a log of the issued and unissued permits. The log was implemented for us as of August 1, 2009.

**Recommendation No. 2:** We also recommend that OC Parks require RM Fisheries to document and retain its reconciliation of the number of permits issued per the log with the number of permits sold per the cash register tape.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying its accounting procedures to document and retain its reconciliation of the number of permits issued per the log with the number of permits sold per the cash register tape.

### 2. Equipment Rental Forms Not Serially Numbered (Control Finding)

Clause 11.A of the Agreement requires RM Fisheries to issue serially numbered tickets for each admission or rental and keep an adequate record of said tickets, both issued and unissued. RM Fisheries offers fishing boats and fishing poles for rental. Customers are required to complete a rental contract which contains the date, customer's name, rental amount, and customer's signature.

# Detailed Findings, Recommendations, and Management Responses



**Finding No. 3:** The fishing boat and fishing pole rental contracts used by RM Fisheries are not serially numbered.

**Recommendation No. 3:** We recommend that OC Parks require RM Fisheries to serially number its equipment rental forms.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by serially numbering its equipment rental forms.

### 3. Supporting Documentation for Voids Not Retained (Control Finding)

Clause 11 of the Agreement requires RM Fisheries to keep true and complete records.

**Finding No. 4:** RM Fisheries does not retain supporting documents (cash register receipts) for voided or canceled transactions. The original cash register receipt along with the reason for the void and supervisor's signature should be documented and retained.

**Recommendation No. 4:** We recommend that OC Parks require RM Fisheries to retain the original cash register receipts for voided or canceled transactions, along with reasons for the void and the supervisor's signature.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying its accounting procedures to retain the original cash register receipt for voided or canceled transactions, along with the reason for the void and a supervisor's signature.

### 4. Special Events Participant Lists Not Consistently Retained (Control Finding)

Clause 11.A of the Agreement requires that RM Fisheries' records be supported by source documents.

RM Fisheries holds a float tube trout fishing event in the winter and a bass tournament in the summer. The float tube trout event is a two-day event limited to 50 participants per day with a \$50 fee per participant. The summer bass tournament is a cash only event with a \$60 entry fee.

**Finding No. 5:** RM Fisheries was unable to locate the participant listing for the float tube trout event held during 2007, but was able to find the list for 2006. For the summer bass tournament, RM Fisheries did not prepare a participant list. Instead, RM Fisheries uses a release and liability form that includes persons name and date, but not amount paid.

**Recommendation No. 5:** We recommend that OC Parks require RM Fisheries to prepare and retain a participant listing or issue sequentially pre-numbered liability release forms for special events that lists the persons name, amount paid, and date paid.



**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying their liability release forms so that the forms are sequentially pre-numbered and each form lists the participant's name, amount paid and the date paid. The forms also have a tear-off section at the bottom that will serve as a receipt to the participant. Each form is also signed by both the participant and the employee handling the transaction.

## Audit Objective #2 – Compliance

### 5. Financial Statement Attestation Missing (Control Finding)

Clause 11.C of the Agreement requires RM Fisheries to submit a balance sheet and income statement prepared by a Certified Public Accountant (CPA). The CPA must attest that the balance sheet and income statement are an accurate representation of RM Fisheries' records as reported to the United States of America for income tax purposes.

**Finding No. 6:** RM Fisheries submitted a balance sheet and income statement for the year ended December 31, 2007 that was prepared by a CPA, but was missing the required attestation.

**Recommendation No. 6:** We recommend that OC Parks require RM Fisheries to submit future balance sheet and income statements with the required attestation by the CPA.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. The annual financial statements submitted by RM Fisheries for the year ending December 2008 contained the required CPA attestation statement.



## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings 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.



## ATTACHMENT B: OC Community Resources/OC Parks Responses

ORANGE COUNTY  
**OC Community Resources**  
*Our Community. Our Commitment.*  
**MEMORANDUM**

**DATE:** September 8, 2009  
**TO:** Peter Hughes, Director, Internal Audit Department  
**FROM:** Director, OC Community Resources  
**SUBJECT:** **Response to Draft Report on Revenue Generating Lease Audit of RM Fisheries, Inc. – Audit No. 2837**

**STEVE FRANKS**  
DIRECTOR  
OC COMMUNITY RESOURCES

**RYAN DRABEK**  
INTERIM DIRECTOR  
OC ANIMAL CARE

**KAREN ROPER**  
DIRECTOR  
OC COMMUNITY SERVICES

**MARK DENNY**  
DIRECTOR  
OC PARKS

**HELEN FRIED**  
COUNTY LIBRARIAN  
OC PUBLIC LIBRARIES

OC Community Resources (OCCR) has reviewed the Internal Audit Department's Draft Report on Revenue Generating Lease Audit (Audit No. 2837) of the lease agreement (Agreement) between the County of Orange (County) and RM Fisheries, Inc. for a fishing concession operation at Laguna Niguel Lake located within Laguna Niguel Regional Park. During the 12 month audit period of July 1, 2007 through June 30, 2008, RM Fisheries generated approximately \$412,000 in gross receipts and \$33,000 was paid to the County in rent.

We understand the primary purpose of Internal Audit's review was to determine whether RM Fisheries' records adequately supported their monthly gross receipts reported to the County. We also understand that Internal Audit reviewed compliance with certain other financial provisions of the Agreement, such as accounting methods, monthly gross receipts statement format, and annual financial statement requirements.

The audit concluded that RM Fisheries' records overall adequately supported the gross receipts reported to the County and that rent owed was properly paid. The audit also concluded that RM Fisheries has generally complied with the financial provisions of the Agreement. However, the audit identified six Control Findings related to record keeping and annual financial statement requirements.

OCCR staff provided RM Fisheries with a copy of Audit No. 2837 and discussed with RM Fisheries the findings, OCCR responses to the finding, and any required actions. The OCCR 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).

### **1. Documentation of Fishing Permits Not Retained (2 Control Findings)**

*Clause 11.A of the Agreement requires RM Fisheries to issue serially numbered tickets for each admission or rental and keep an adequate record of said tickets, both issued and unissued.*

*RM Fisheries issues three types of fishing permits: adult, youth and float tube. The permits are sequentially pre-numbered and are issued to fishing patrons when sold. The sale is recorded in the cash register which provides the total number of permits sold. RM Fisheries informed us that the starting permit number at the beginning of the day and the ending number at the end of the day are noted on the deposit envelope to determine the number of permits issued. It is reconciled to the number of permits on the cash register tape.*

***Finding Nos. 1 and 2:** RM Fisheries did not retain the deposit envelope with the starting and ending number of fishing permits issued or maintain a log of issued and unissued permit fishing.*

1770 NORTH BROADWAY, SANTA ANA, CA 92706-2642 • PHONE (714) 480-2788 FAX (714) 480-2899

# Detailed Findings, Recommendations, and Management Responses



## ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

Response to Draft Report on Revenue Generating Lease Audit of RM Fisheries – Audit 2837  
Page 2 of 4  
September 8, 2009

**Recommendation No. 1:** We recommend that OC Parks require RM Fisheries maintain a log of the starting and ending numbers of fishing permits issued each day.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying its procedures to maintain a log of the issued and unissued permits. The log was implemented for use as of August 1, 2009.

**Recommendation No. 2:** We also recommend that OC Parks require RM Fisheries to document and retain its reconciliation of the number of permits issued per the log with the number of permits sold per the cash register tape.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying its accounting procedures to document and retain its reconciliation of the number of permits issued per the log with the number of permits sold per the cash register tape.

### **2. Equipment Rental Forms Not Serially Numbered (Control Finding)**

Clause 11.A of the Agreement requires RM Fisheries to issue serially numbered tickets for each admission or rental and keep an adequate record of said tickets, both issued and unissued. RM Fisheries offers fishing boats and fishing poles for rental. Customers are required to complete a rental contract which contains the date, customer's name, rental amount, and customer's signature.

**Finding No. 3:** The fishing boat and fishing pole rental contracts used by RM Fisheries are not serially numbered.

**Recommendation No. 3:** We recommend that OC Parks require RM Fisheries to serially number its equipment rental forms.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by serially numbering its equipment rental forms.

### **3. Supporting Documentation for Voids Not Retained (Control Finding)**

Clause 11 of the Agreement requires RM Fisheries to keep true and complete records.

**Finding No. 4:** RM Fisheries does not retain supporting documents (cash register receipts) for voided or canceled transactions. The original cash register receipt along with the reason for the void and supervisor's signature should be documented and retained.

**Recommendation No. 4:** We recommend that OC Parks require RM Fisheries to retain the original cash register receipts for voided or canceled transactions, along with reasons for the void and the supervisor's signature.

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying its accounting procedures to retain the original cash register receipt for voided or canceled transactions, along with the reason for the void and a supervisor's signature.

# Detailed Findings, Recommendations, and Management Responses



## ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

Response to Draft Report on Revenue Generating Lease Audit of RM Fisheries – Audit 2837  
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#### 4. Special Event Lists Not Consistently Retained (Control Finding)

*Clause 11.A of the Agreement requires that RM Fisheries' records be supported by source documents.*

*RM Fisheries holds a float tube trout fishing event in the winter and a bass tournament in the summer. The float tube trout event is a two-day event limited to 50 participants per day with a \$50 fee per participant. The summer bass tournament is a cash only event with a \$60 entry fee.*

***Finding No. 5:** RM Fisheries was unable to locate the participant listing for the float tube trout event held during 2007, but was able to find the list for 2006. For the summer bass tournament, RM Fisheries did not prepare a participant list. Instead, RM Fisheries uses a release and liability form that includes persons' name and date, but not amount paid.*

***Recommendation No. 5:** We recommend that OC Parks require RM Fisheries to prepare and retain a participant listing or issue sequentially pre-numbered liability release forms for special events that lists the persons' name, amount paid, and date paid.*

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and directed RM Fisheries to comply with the recommendation. RM Fisheries has implemented the recommendation by modifying their liability release forms so that the forms are sequentially pre-numbered and each form lists the participant's name, amount paid and the date paid. The forms also have a tear-off section at the bottom that will serve as a receipt to the participant. Each form is also signed by both the participant and the employee handling the transaction.

#### 5. Financial Statement Attestation Missing (Control Finding)

*Clause 11.C of the Agreement requires RM Fisheries to submit a balance sheet and income statement prepared by a Certified Public Accountant (CPA). The CPA must attest that the balance sheet and income statement are an accurate representation of RM Fisheries' records as reported to the United States of America for income tax purposes.*

***Finding No. 6:** RM Fisheries submitted a balance sheet and income statement for the year ended December 31, 2007 that was prepared by a CPA, but was missing the required attestation.*

***Recommendation No. 6:** We recommend that OC Parks require RM Fisheries to submit future balance sheet and income statements with the required attestation by the CPA.*

**OC Community Resources/OC Parks Response:** OC Parks agrees with the recommendation and has directed RM Fisheries to comply with the recommendation. The annual financial statements submitted by RM Fisheries for the year ending December 2008 contained the required CPA attestation statement.

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 Andrea Richard of my staff at (949) 923-3754.

  
\_\_\_\_\_  
Steve Franks, Director

c: Alisa Drakodaidis, Deputy CEO, OC Infrastructure  
Mark Denny, Director, OC Community Resources/OC Parks  
Michael Brajdic, Deputy Director, OC Community Resources/OC Parks



## ATTACHMENT B: OC Community Resources/OC Parks Responses (continued)

Response to Draft Report on Revenue Generating Lease Audit of RM Fisheries – Audit 2837  
Page 4 of 4  
September 8, 2009

Kirk Holland, Program Manager, OC Community Resources/OC Parks  
Rich Adler, Real Estate Manager, OC Community Resources/OC Parks/Real Estate  
Michael Hentzen, Lease Manager, OC Community Resources/ OC Parks/Real Estate  
Andrea Richard, Real Property Agent, OC Community Resources/OC Parks/Real Estate  
Anna Peters, Director of Administrative Services, OC Community Resources  
Tonya Burnett, Accounting Manager, OC Community Resources/ Accounting  
Win Swe, Manager, OC Community Resources/Accounting  
Viet Pham, Accountant II, OC Community Resources/Accounting