# COUNTY OF LOS ANGELES
## DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS


April 14, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION REVENUE AGREEMENT AUDITS**

At the request of the Department of Parks and Recreation (DPR), we contracted with an independent Certified Public Accounting firm, Simpson and Simpson, CPAs, (Simpson) to conduct financial/compliance audits of five golf courses, three equestrian centers and one shooting complex. The purpose of the audits was to determine whether the contractors properly reported their gross receipts and paid the correct rent to the County.

## Review Summary

The audits disclosed that four of the nine contractors had underpaid the County by a total of $36,938, and two of the contractors had overpaid the County by a total of $6,574. The remaining three contractors had properly reported their gross receipts, and paid the correct rent to the County.

Simpson also reported that six of the nine contractors had material weaknesses or significant internal control deficiencies over their financial reporting. These weaknesses included:

- Inadequate separation of duties over cash collections
- Non-compliance with County contract requirements (e.g., insurance coverage, record retention and using a cash register that did not publicly display the amount of each sale)

- Insufficient management review of the monthly report of rent due to the County
- Insufficient understanding of how to use a new cash register credit/debit card system, which resulted in transactions on the cash register tape that should have been voided

Simpson reported that the internal control weaknesses for six of the contractors were material issues which, if not corrected, could result in a misstatement of the contractors' gross receipts.

## Review of Reports

Simpson met with each contractor and DPR to discuss the results of each audit. DPR provided us documentation that they have collected all of the $36,938 in underpayments. DPR has also credited the one contractor who overpaid the County by $1,094, and will be crediting another contractor who overpaid by $5,480.

DPR also provided documentation indicating that they have asked the six contractors to submit corrective action plans to address the control weaknesses identified in the audits. DPR also indicated that they will closely monitor the contractors in the future to ensure proper reporting of gross receipts and payment of rent.

Attached is a summary of the agreements that were audited, and the amounts under/over paid to the County. If you would like to review any of the individual reports, please call me or your staff may call Robert Campbell at (213) 253-0199.

WLW:JLS:RGC:MP

Attachment

c: William T Fujioka, Chief Administrative Officer
Russ Guiney, Director, Department of Parks and Recreation
Public Information Office
Audit Committee

# DEPARTMENT OF PARKS AND RECREATION
# REVENUE AGREEMENT AUDITS

| | Facility | Agreement Type | Audit Period | Rent Due | Rent (Credit) | |
|---|---|---|---|---|---|---|
| 1 | Whittier Narrows Equestrian | Concession | 9/1/05 to 12/31/07 | - | - | (1) |
| 2 | Veterans Park Disc Golf | Concession | 12/1/08 to 5/31/09 | - | ($1,094) | (1),(2) |
| 3 | Schabarum Equestrian | Concession | 2/1/01 to 12/31/08 | - | - | (1) |
| 4 | Marshall Canyon Equestrian | Lease | 12/1/05 to 12/31/07 | $ 418 | - | (1),(3) |
| 5 | Whittier Narrows Shooting Complex | Lease | 1/1/04 to 12/31/07 | $ 721 | - | (1),(3) |
| 6 | Lakewood Golf Course | Lease | 9/1/05 to 12/31/07 | - | - | |
| 7 | El Cariso Golf Course | Lease | 9/1/05 to 12/31/07 | - | ($5,480) | (1),(4) |
| 8 | Whittier Narrows Golf Course | Lease | 9/1/03 to 8/31/06 | $ 7,407 | - | (5) |
| | | | 9/1/06 to 12/31/07 | $21,133 | - | (5),(6) |
| 9 | Mountain Meadows Golf Course | Lease | 1/1/04 to 12/31/08 | $ 7,259 | - | (7) |
| | **TOTAL** | | | **$36,938** | **($6,574)** | |

(1) Simpson identified matters that they deemed to be material issues in the contractor's internal controls over financial reporting.

(2) The overpayment was primarily due to the contractor paying a higher percentage rent than required from March 2009 to May 2009.

(3) The gross receipts reported by the contractor contained minor errors, resulting in an underpayment to the County.

(4) The gross receipts reported by the contractor contained various errors (e.g., double payment of capital improvements, etc.) which resulted in an overpayment to the County.

(5) The underpayment occurred primarily because the contractor inappropriately classified some revenue. For example, membership fees were classified as "Other Revenue," of which the County receives 5%, when the fees should have been classified as "Golf Range Revenue", of which the County receives 33%.

(6) Part of the underpayment was due to differences between the revenue reported to the County and the revenue recorded in the contractor's accounting records.

(7) The gross receipts reported by the contractor contained minor reporting errors, resulting in a $4,738 underpayment. The remaining $2,521 underpayment was due to the contractor incorrectly reporting the number of rounds played, that should have resulted in a portion of the green fees being paid into the Mountain Meadows Golf Course Capital Improvement Trust Fund.