

**Compliance Audit of the  
County of Monterey Parks Department  
Laguna Seca Concession Agreement**

Prepared for the  
Office of the Auditor/Controller  
County of Monterey

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## **Introduction**

The County of Monterey operates the Laguna Seca Park, which is located on property that was formerly a federal government military installation known as Fort Ord. Within the Laguna Seca Park is an automobile race track presently named the Mazda Laguna Seca Raceway, which has been operated by a non-profit organization, the Sports Car Racing Association of the Monterey Peninsula (SCRAMP), since 1957. SCRAMP operates the Mazda Laguna Seca Raceway pursuant to a concession agreement with the County of Monterey dated February 8, 2000, which expires on December 31, 2017. Prior to the completion of the term of this agreement, the County engaged Harvey M. Rose Associates, LLC to perform this compliance audit of SCRAMP to determine the concessionaire's compliance with the terms and conditions of the Laguna Seca Concession Agreement and the Mazda Naming Rights/Sponsorship Agreement for the period FY 2012-13 through FY 2015-16.

To determine compliance with the terms and conditions of the agreements, audit tasks were performed to verify compliance with the concessionaire's primary financial responsibilities to the County, including (1) collection and payment of track rental fees and concession revenues to the County, and (2) collection and expenditure of sponsorship revenues for capital improvements as specified in the agreements. Audit tasks included interviews with key SCAMP and County representatives, review of the initial 2000 concession agreement and subsequent amendments, review of the initial 2001 Sponsorship Agreement with Mazda and subsequent amendments, review of calendars of race track events, and financial reports and other documents prepared by SCRAMP and County staff. Based on these tasks, the following findings and recommendations described in sections 2 through 8 of this report were developed.

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## 1. Internal Control Deficiencies

During the fieldwork period of the audit, from June 16, 2016 through November 6, 2016, numerous staff of the Sports Car Racing Association of the Monterey Peninsula (SCRAMP), and the County of Monterey Parks Department were interviewed pertaining to the financial operations of the February 8, 2000 Concession Agreement for Laguna Seca Raceway. The interviews included the Chief Executive Officer (CEO)/General Manager of SCRAMP, the SCRAMP Chief Financial Officer (CFO), the President of the SCRAMP Board of Governors, and other SCRAMP personnel. County staff interviews included the Director of the Resource Management Agency which oversees the Parks Department, the Parks Department Financial Manager, the Special Events Coordinator who oversees Laguna Seca and other North County parks, and other staff. In addition, billing, financial reporting, budget and other financial and operational records of both SCRAMP and the County Parks Department were reviewed. Based on these interviews, our review of SCRAMP and County records and documentation supporting financial transactions pursuant to the Concession Agreement, several internal control deficiencies were identified. These internal control deficiencies compromised the financial and operating provisions of the Concession Agreement as adopted by the Board of Supervisors on February 8, 2000 and subsequently amended on July 2, 2001, February 5, 2002, December 13, 2006, January 30, 2012, and May 8, 2012.

### *SCRAMP Operates Without Written Financial Policies and Procedures*

Fundamental to ensuring that the County concessionaire (SCRAMP) operated with appropriate and sufficient financial accounting and reporting systems is the requirement that such systems be documented and maintained as formal written financial policies and procedures of the organization. However, following multiple requests of the SCRAMP CEO and CFO, it was determined that SCRAMP operated without written financial policies and procedures<sup>1</sup>. Absent formal written and approved policies and procedures no standard exists to ensure financial operations occur as intended in a consistent, accurate and timely manner.

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<sup>1</sup> Written financial policies and procedures would include budget, accounting, revenue collection and reporting, cash receipt and deposit, investment, audit, etc.

*County Parks Department has no Written Policies and Procedures Pertaining to Oversight, Monitoring, and Accounting for the Financial and Related Operating Terms and Conditions of the Laguna Seca Concession Agreement*

In addition to the interviews of County staff as described above, various County and SCRAMP financial records were examined, including (1) monthly track rental documentation including rental calendars, calculation of track rental fees and administrative overhead charges, (2) quarterly financial statements with an accounting for gross receipts and the calculated concession fee, (3) annual SCRAMP audited financial statements, (4) SCRAMP monthly invoices for 20 percent administrative overhead charges, (5) SCRAMP capital project expenditure schedule (2000 to 2016), and (6) various County reconciliation spreadsheets 2004 to 2016. Although the Department made available concession files with copies of various monthly and quarterly reports, statements and other documents, the Parks Department Finance Manager could not produce a copy of any County Parks Department written policies and procedures pertaining to oversight, monitoring, and accounting for the financial and related operating terms and conditions of the Laguna Seca Concession Agreement. The Finance Manager did provide several summary schedules of concession revenues, track rental fees, delinquent balances and late fees.

We were advised that the schedules, which had been prepared by a prior fiscal manager, included concession interpretation errors and unreconciled amounts dating back about 12 years to 2004. Consequently, the failure to have established written procedures in place from the outset of the Laguna Seca Concession Agreement, combined with unresolved disputes concerning the proper calculation of fees due the County, compromised the County's financial management of the concession agreement. **As a result, neither SCRAMP nor County staff have an accurate agreed upon accounting of the balance, if any that is currently due the County.**



## 1. Internal Control Deficiencies

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*During the Term of the Concession Agreement, the Parks Department Amended the Agreement Without Seeking Board of Supervisors Approval in Violation of Section 14.10 of the Agreement*

### Mazda Track Rental Fees:

During the 16-year term of the Laguna Seca Concession Agreement, the Parks Department modified financial terms and conditions of the Concession Agreement without documenting modifications or seeking approval of the Board of Supervisors. SCRAMP staff reported, and County financial records of revenues received confirm that SCRAMP was paying track rental fees associated with what the concession agreement terms "Mazda Days" through May 2012, but discontinued such payments during the last six months of 2012 and 2013 with the authorization of the then Parks Director. However, neither County Park Department nor SCRAMP staff could provide any written documentation of a directive authorizing the discontinuance of track rental payments. Subsequent to the cessation of payments by SCRAMP, a new Parks Department Finance Manager concluded that such park rental fees should be charged, which SCRAMP disputed. Consequently, a substantial portion of the \$782,332 reported by the Parks Department as the outstanding balance due the County from SCRAMP as of March 1, 2016 relates to charges and late fees associated with the disputed Mazda Days track rental fees. We believe that Section 2c. of Amendment No. 3 to the Concession Agreement, executed on December 13, 2006, clarified whether Mazda Days were subject to track rental fees as follows:

*"The County and SCRAMP agree that SCRAMP may use any of its aforementioned 42 days, to which SCRAMP is entitled pursuant to Sections 3.01.01, 3.01.02, and 3.01.03 of the Concession Agreement, to satisfy its contractual requirement to provide Mazda with 15 days exclusive use of the Raceway. However, if Mazda uses the Raceway for any days in excess of the aforementioned 42 days, then SCRAMP...shall be obligated to pay the daily track rental rate currently in place at the time of the track use..."*

Therefore, based on Amendment No. 3 to the Concession Agreement effective December 13, 2006, SCRAMP was only obligated to pay for Mazda Days to the extent that such days exceeded the 42 days of annual exclusive use granted to SCRAMP under the Concession Agreement. Nevertheless, County Park Department staff acted administratively to amend the terms of the Concession Agreement without seeking approval of the Board of Supervisors and without documenting the changes in writing. Such actions are explicitly

prohibited by Concession Agreement Section 14.10. The issue of fees owed to the County by SCRAMP for days used in excess of those granted by the agreement is further discussed in Section 3 of this report

Track Rental Program Payments:

As with other provisions of the Laguna Seca Concession Agreement, the payment provisions pertaining to the Track Rental Program are not explicit and subject to interpretation. Concession Agreement Section 5.06 A Receipts to County requires that SCRAMP shall, within 30 days following the final day of each month, submit to County payment and support documentation for the track rental program activity of that month. Concession Agreement Section 5.06 B Administrative Charges Retained by SCRAMP states that SCRAMP shall be permitted to collect an administrative overhead charge of up to 20 percent on all track rentals and sign rental fees negotiated by SCRAMP to recover the costs of administering, reserving, and scheduling the track and sign rental programs. Pursuant to these sections, SCRAMP paid 80 percent of track rental fees collected to the County monthly and retained 20 percent for its administrative expenses until 2011 when the County directed SCRAMP to discontinue collecting track rental fees from customers and commence instructing customers to remit 100 percent of the track rental fees, including the 20 percent administrative fees directly to the County. When asked for written documentation of this change to the Concession Agreement, the County Park Department Finance Manager advised us that she could not locate any written documents authorizing this change to the agreement. Administrative amendments to concession agreements and other contracts prepared by County Counsel and approved by the Board of Supervisors undermines County financial policies and procedures and can result in adverse financial and legal consequences for the County.

*The Imprecise Financial Terms and Conditions of the Laguna Seca Concession Agreement  
Contributes to the Weak Internal Controls Governing Its Implementation*

Although the internal control environment pertaining to the Laguna Seca Concession Agreement is poor, it has been exacerbated by the lack of precision in many of the terms and conditions of the agreement. Examples include:

- Calculating and Reporting Track Rental and Concession Fees: The agreement does not include a single section or an exhibit specifying all payments to be made to the County (track rental percentage and concession percentage), how they are to be

calculated, when they are to be made (within X days of month or quarter end), the frequency of payments (monthly, quarterly, annual), or what reporting documentation is required to be submitted with the payments and in what format. Further, the existing agreement describes two types of periodic payments and various factors that can affect the calculation of the amount to be paid, but fails to include a standardized form to be completed that would account for all possible revenues and exclusions, and ensure consistent and accurate calculations for each reporting period. Over the course of the agreement, the concessionaire has developed its own reporting documents and format and made changes at its discretion, which has resulted in unnecessary accounting and reconciliation problems.

- Payment of Track Rental Fees: Concession Agreement Section 5.06 A describes receipts to the County pursuant to the Track Rental Program and states that the concessionaire shall submit to the County payment and support documentation within 30 days following the end of each month, but it does not specify that the payment due shall amount to 80 percent of the track rental fees for the month. Similarly, Concession Agreement Section 5.06 B describes Administrative Charges Retained by SCRAMP and states that SCRAMP shall be permitted to collect an administrative overhead charge of up to 20 percent on all track rentals, but the agreement does not explicitly state whether the concessionaire is to submit 100 percent of track rental program revenue to the County with an invoice for its 20 percent administrative charge, or if the concessionaire is permitted to submit only 80 percent of the track rental program revenue to the County and deduct 20 percent for its administrative charge.
- Application of Track Rental Fees to Track Uses: Concession Agreement Sections 3.01.01, 3.01.02, and 3.01.03 describe the authorized uses of the raceway during each year, including the type of events authorized (major, minor, and promotional) and the number of days associated with each type of event. However nowhere in these sections or in Section 5.06 Track Rental Program Revenues does the agreement explicitly state that the uses permitted by the concessionaire under 3.01.01, 3.01.02 and 3.01.03 are not subject to the track rental fee. Language exempting the concessionaire from track rental fees for the aforementioned days were eventually added under Amendment No. 3 to the agreement on December

13, 2006. Nevertheless, even with the clarifying language, a prior Park Finance Manager interpreted the agreement to require the concessionaire to pay track rental fees for days the track was used by the track sponsor Mazda between 2012 and 2015. This confusion over which track uses are subject to track rental fees and which days are exempt accounts for approximately \$317,237 of the \$782,332 disputed balance owed the County as of March 1, 2016. This issue of track rental fees for excess use of the track by SCRAMP is discussed in more detail in Section 3 of this report.

*Recommendations to Strengthen Internal Controls Over the Financial Management of the Laguna Seca Concession Agreement*

It is recommended that the County Parks Department:

- (1) In conjunction with the County Auditor-Controller review and revise all financial terms and conditions of the Laguna Seca Concession Agreement to clarify all financial, accounting and reporting provisions as necessary, including the addition of required reporting forms and submit the proposed revisions to County Counsel for inclusion in the new agreement.
- (2) Develop comprehensive written policies and procedures pertaining to the oversight, monitoring and accounting for the operations of the Laguna Seca Concession Agreement, and submit such policies and procedures to the Office of the Auditor-Controller for review and approval;
- (3) Reconcile all track rental and concession payments to the County within 60 days following the completion of each month.

## **2. Inadequate Documentation of SCRAMP Financial Operations**

Under its February 2000 Concession Agreement with the County, whose payment terms remain in force, the Sports Car Racing Association of the Monterey Peninsula is currently required to make payments to the County based on a percentage of track rental fees and concession revenues. Eighty (80) percent of track rental fees and 5 percent of concession revenues go to the County. Of the 5 percent, 1.5 percent is required to be deposited by the County in the restricted Laguna Seca Maintenance and Improvements Account, to help pay for capital projects at the Laguna Seca property. The remainder of the money may be used for other purposes. SCRAMP's minimum annual payment to the County is \$375,000, based on a payment of \$75,000 for each of the five major racing events expected to be held at the track each calendar year. The 5 percent payment controls, if it is calculated to be more than the minimum payment level.

The 5 percent payment is to be made quarterly, based on quarters ending March 31, June 30, September 30 and December 31, with payment made not later than 60 days after the end of each quarter.

To document the amount of the quarterly payment being made, SCRAMP is required to provide a quarterly financial statement with each payment. The final payment for each year, due February 28 of the following year, should be accompanied by a report that includes a final accounting of the previous three quarters of payments, with any adjustments required being included as part of the final payment. SCRAMP is also required to provide the County with a copy of its audited financial statement, completed within 180 days after the December 31 end of its fiscal year.

Payment and documentation requirements outlined in the existing Concession Agreement were used to evaluate SCRAMP's documentation practices and to verify the accuracy of SCRAMP payments to the County of Monterey. Due to the fact that racing event revenues are the major source of the 5 percent concession payments to the County, SCRAMP was requested to provide itemized revenue and expenses for a selection of major and minor races that were held during the audit review period of FY 2012-13 through FY 2015-16. SCRAMP Accounting staff was also requested to provide documentation of all expenses incurred and income gained for each of the review years, organized by SCRAMP sponsored events so that the accuracy of annual percentage concession payments to the County of Monterey could be verified. Throughout this project, the audit team requested information and conducted meetings with SCRAMP Accounting and Ticketing Office staff.

As a result of this review, a number of weaknesses were found in SCRAMP's documentation of revenues and expenditures that was used for purposes of supporting its payments to the County.

*Financial Records Prior to 2012 Deleted Due to Technological Challenges.*

## *2. Inadequate Documentation of SCRAMP Financial Operations*

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The SCRAMP Chief Financial Officer reported that SCRAMP had to delete all financial records prior to 2013 because QuickBooks, the business accounting software used by SCRAMP, could no longer support the large volumes of information stored in the system. He also stated that the records that were backed up were difficult to access. For this reason, SCRAMP could not provide information on its finances during 2012. The inability to access 2012 data hampered this review, since a portion of 2012 was part of the time period covered by this audit. Consequently, we were unable to review information for any racing events that occurred in 2012. We recommend that SCRAMP, or a successor concessionaire, develop a formal retention policy for financial records, including when it is appropriate to delete records, how records should be backed up, what records should be saved, and how to ensure saved records will be accessible.

### *SCRAMP Underutilizing Business Accounting Systems Software.*

The SCRAMP CFO was unable to provide revenues and expenses for all SCRAMP sponsored events and activities each calendar year, organized by individual SCRAMP event. The agreed-upon procedures for this compliance audit called for revenues and expenditures for individual events to be reviewed, and how those amounts translated to the payments to the County under the concession agreement. The SCRAMP CFO found it challenging to identify functions within QuickBooks to produce a report in this format. This information was needed to track the revenues and expenses of the selected race events to the aggregate annual SCRAMP financial report to the County. Because SCRAMP was unable to provide this information, the audit team could not verify the accuracy of annual expenses and revenues reported by SCRAMP to the County of Monterey and the annual percentage concession payments by SCRAMP to the County of Monterey from these major race events. SCRAMP or a future concessionaire, should utilize a new financial transaction and accounting system tailored to its financial reporting needs, including requirements of the Concession Agreement with the County. Implementation of the new system should include training staff on use of the new system.

### **3. Concessionaire Fails to Use Financial Data to Manage Operations**

During the period covered by our analysis of Laguna Seca operations (2012-2015), the racetrack operator was the Sports Car Racing Association of Monterey County (SCRAMP), a non-profit firm that had operated the track for more than 50 years.

In interviews, SCRAMP representatives, as well as those of the County, acknowledged that SCRAMP's financial operations, and thus its ability to make required payments to the County from racetrack revenues, were severely hampered by the economic down turn during the Great Recession.

Financial information provided by SCRAMP confirms this. Profit and loss information provided by SCRAMP shows the following results for the four most recently completed calendar years. The SCRAMP fiscal year is also the calendar year.

#### **SCRAMP Net Income Per Profit and Loss Reports**

<b>Year</b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
Revenues	\$4,873,738	9,507,694	10,414,410	11,282,138
Less Cost of Goods Sold	<u>(170,635)</u>	<u>(466,233)</u>	<u>(443,807)</u>	<u>(493,814)</u>
<b>Gross Profit</b>	<b>\$4,703,103</b>	<b>9,041,461</b>	<b>9,970,603</b>	<b>10,788,324</b>
Less Expenses	<u>(6,760,957)</u>	<u>(10,070,578)</u>	<u>(9,162,616)</u>	<u>(10,080,305)</u>
<b>Operating Income</b>	<b>(\$2,057,854)</b>	<b>(\$1,029,117)</b>	<b>\$807,988</b>	<b>\$708,019</b>
Other Income/Contingencies	<u>405,875</u>	<u>886,186</u>	<u>434,109</u>	<u>0</u>
<b>Net Income</b>	<b>(\$1,651,979)</b>	<b>(\$142,931)</b>	<b>\$1,242,097</b>	<b>\$708,019</b>

As the table shows, when only operating results are considered, SCRAMP showed losses of nearly \$3.1 million in 2012 and 2013, followed by gains of slightly more than \$1.5 million in 2014 and 2015. In 2012, 2013 and 2014, net income results were significantly assisted by use of fund balance or other non-operating resources, which reduced the loss from operations in the first two years, and added to the operating profit in 2014.

SCRAMP's audited financial statements also show operational losses of \$1.4 million from operations in 2012, more than \$1.1 million in 2013 and a small operational gain of \$206,000 in 2014. Both the 2013 and 2014 results were bolstered by capital improvements or other releases of previously restricted resources in those years. SCRAMP has still not released its audited financial statement from 2015, which is a violation of its Concession

### 3. Concessionaire Fails to Use Financial Data to Manage Operations

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Agreement with the County, which requires SCRAMP to provide an audited financial statement within 180 days of the end of the prior fiscal year on December 31.

A review of SCRAMP's profit-and-loss statements showed that SCRAMP accounted for operations by setting up separate budgets for each of the five major racing events held at the track during the year, a separate budget and accounting for souvenirs, a non-race general and administrative budget, and a race-related general and administrative budget.

The problem with this system is that major costs, such as salaries, which accounted for from \$1.5 million to nearly \$1.9 million annually during the four years reviewed, were included in the race-related general and administrative budget, and were not allocated out to the major racing cost centers. As a result, the cost of major racing events, race track rentals and other cost centers was understated, which clearly contributed to operating costs for maintenance, which according to interviews was carried out by SCRAMP employees. Consequently, SCRAMP's accounting approach makes it very difficult to determine which of its events or other operations generates enough revenue to not only cover the variable costs of having an event, but a share of the personnel and other fixed costs that are the bulk of SCRAMP's expenses.

From the information SCRAMP did provide, three events are problematic. First, the World Super Bike event generated operating losses totaling more than \$2 million from 2013 through 2015. This means that this event did not even cover the variable costs of putting on the event in any of those years..

Two other events, the Pirelli World Challenge and the Tudor Championship, generated only small profits, versus variable costs, of \$136,680 and \$75,413, respectively, in 2015. The Tudor event had generated more substantial profits, of \$328,000 to \$435,000, in each of the three prior years. Also, SCRAMP's Chief Financial Officer advised that fewer than 5,000 spectators were expected for the second year of the Pirelli event in 2016. A profit of only \$75,211, versus variable costs, had been budgeted for that event.

More generally, our review of data provided by the Ticketing Office found that from 2012 through 2015, more than half the total tickets issued annually for SCRAMP events were complimentary, although many of these tickets were issued to users of luxury suites, and therefore were included in the cost of the suite rental. Ticketing information follows:



**Purchased Versus Complementary Tickets, 2012-2015**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Purchased Tickets By Year	83,786	91,670	51,915	73,932
Complimentary Tickets By Year	<u>109,986</u>	<u>105,865</u>	<u>93,271</u>	<u>132,893</u>
<b>Total Tickets</b>	<b>193,772</b>	<b>197,535</b>	<b>145,186</b>	<b>206,825</b>
<b>Percent Complimentary</b>	<b>56.76%</b>	<b>53.59%</b>	<b>64.24%</b>	<b>64.25%</b>

SCRAMP's unsophisticated accounting system also creates an additional problem, related to its sponsorship agreement with Mazda. Revenues from that agreement, totaling \$1.5 million a year, are split so that 30 percent of the revenues go to SCRAMP to help pay for its operating expenses, with 5 percent of the 30 percent provided to the County under SCRAMP's Concession Agreement with the County. The remaining 70 percent of the Mazda revenue is supposed to be devoted to capital expenditures.

Based on these agreements, SCRAMP should receive \$427,500 annually from the Mazda agreement ( $\$1,500,000 \times 0.3 \times .95$ ). However, SCRAMP claims that it sustains expenditures of \$800,000 annually providing services to Mazda as required under the sponsorship agreement, resulting in an operating loss.

SCRAMP staff was unable to document this \$800,000 expenditure, it was not reflected in the accounting information we received, and Harvey Rose staff were not able to document anything close to \$800,000 in out-of-pocket SCRAMP costs related to the Mazda sponsorship agreement. What we were able to estimate is shown in the following table.

**Estimated Costs to SCRAMP of Mazda Sponsorship Agreement**

<b><u>Item</u></b>	<b><u>Unit Cost</u></b>	<b><u>Total Cost</u></b>	<b><u>Assumptions</u></b>
Luxury Suites	\$13,000/day	\$221,000	40 guests, \$325 each, 16 days, two suites 15 days, one suite other
Food Credit	\$150 guest/event	75,000	100 guests, 5 events
Supertickets	\$60/ticket	6,000	100 tickets
Parking Passes	\$30/pass	1,800	60 passes
Lodging	\$424/night	<u>42,400</u>	100 nights
<b><u>Total</u></b>		<b>\$346,200</b>	

As the table shows, we calculate the approximate out-of-pocket costs for SCRAMP at \$346,200, based on the available information. This assumes that luxury suites, supertickets and parking passes are given free to Mazda could actually be alternatively sold to generate additional revenue, which is not certain. The lodging costs are based on the highest room rental rate found on the website for The Embassy Suites by Hilton Monterey Bay Seaside, which is the designated hotel in the agreement.

Not included in our tally, as an example, are SCRAMP's provision of luxury suites to Mazda for promotional days that are not race days. SCRAMP would clearly have costs for such days, but what they are, or what the relationship is between SCRAMP's cost to operate a luxury suite, and the highest rate charged for them, \$325 per guests, cannot be ascertained from the accounting information provided by SCRAMP. In any event, it's clear that SCRAMP's costs to serve Mazda, while potentially substantial in relation to the \$427,500 in operating revenue it gets from the sponsorship agreement, are nowhere close to the \$800,000 claimed, based on the information available.

We also note that the sponsorship agreement provides offsetting benefits to SCRAMP, chiefly in the form of vehicles provided by Mazda, including nine cars for use by SCRAMP department heads, six cars for track administration, safety and maintenance, including two cars provided to the Monterey County Parks Department and seven trucks or SUVs for maintenance. As an example of the value of these vehicles, we estimate that the nine SCRAMP department-head vehicles, if driven 30 miles a day for 255 days, based on IRS-assumed rates for mileage, are worth \$39,589 per year.

### *3. Concessionaire Fails to Use Financial Data to Manage Operations*

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Based on these issues surrounding SCRAMP's difficulty in using accounting information to manage key aspects of its operations, which may impact its ability to provide revenues to the County under its Concession Agreement, we recommend the following:

- SCRAMP, or any subsequent track operator, should be required to provide a more sophisticated accounting system than SCRAMP currently uses, which allocates personnel and other key fixed costs to major racing events, minor racing events, track rentals, and promotional days, including Mazda days, to determine which activities make significant contributions to SCRAMP's overall bottom line, and which detract. This system should also track out-of-pocket costs related to the Mazda sponsorship agreement.
- Based on the analytical information a more robust accounting system would provide, the track operator should assess changes in its operations, including eliminating the current motorcycle race, which does not even pay for its variable costs, and other races which don't significantly contribute to covering fixed costs. It also should consider renegotiating the Mazda sponsorship agreement to reduce out-of-pocket costs for the track operator in providing services to Mazda.

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#### **4. Concessionaire Track Use Exceeded Concession Agreement Limits**

The Concession Agreement between the County of Monterey and the Sports Car Racing Association of Monterey County (SCRAMP) defines days on which SCRAMP has the right to use Laguna Seca Raceway for SCRAMP-operated events, as opposed to days when the track is rented for use by other entities.

Specifically, the Agreement identifies three categories of SCRAMP events, as follows:

**Major Racing Events**-Agreement Section 2.16 states: "A 'major racing event' means an event of 2 or 3 days duration and anticipated to have an attendance in excess of 5,000 persons per day and which the general public may attend by ticket purchase. It is one of a series of racing events conducted throughout the United States and which is sanctioned and authorized by a nationally or internationally recognized racing organization. It is promoted through major corporate sponsorships with prize purses." The Agreement further includes a unique Laguna Seca event, the Rolex Monterey Motorsports Reunion of classic cars, as a major event. Section 3.01.01 permits five "major spectator race events" annually.

**Minor Racing Events**-Section 2.17 states: "A 'minor racing event' is defined as a racing event organized by a local or regional organization, such as the Sports Car Club of America. The minor racing events are promoted with local sponsors with little, if any, publicity efforts. The primary purpose is to attract a limited audience of not more than 5,000 people per event who are associated with the member organization. Section 3.01.02 states that SCRAMP may use the track for such events for up to 12 days annually "by race related organizations who assist SCRAMP in the management of the major races, for local club race events and other minor race events."

**Track Promotional Use**-Finally, Section 3.01.03 provides, in addition to the above categories, SCRAMP use of the track "for an additional 15 days per year consisting of ten (10) days use of the track for general promotional purposes and five (5) days for press promotional use, in addition to the race event days."

Although not formally stated in the Agreement, the five major racing events have been interpreted to include a maximum total of 15 days track use, so that SCRAMP's total track

access is 42 days-15 major racing days, plus 12 minor racing days, plus 15 promotional days. This interpretation was reaffirmed in a 2006 amendment to the Agreement, which noted that any promotional days provided by SCRAMP to Mazda, under the car maker's sponsorship agreement with SCRAMP were part of the 15 promotional days provided under the Concession Agreement, and any use of the track by Mazda in excess of the 42 days permitted to SCRAMP required separate arrangements, either by paying a track rental fee, or by negotiation with the County for use of the track.

During the course of this review, significant confusion was revealed over both the minor events usage and the promotional events usage.

- SCRAMP's Chief Financial Officer, when asked about the minor events and any revenue associated with them, initially claimed that no such events were scheduled at the track, and ultimately, at the close of the review, claimed that such events were held at the County' behest, not SCRAMP's, and should have been treated as a track rental, to which SCRAMP was entitled to 20 percent of the daily rental amount. We found no language in the original Concession Agreement or any of the amendments compelling this interpretation. Furthermore, queries to SCRAMP's Track Rental Coordinator on this point resulted in receiving a list of minor events that matched the definition in the Agreement, as they were either local Sports Car Club of America events, or events by the Historic Motor Sports Association, a member-supported-organization that sanctions historic races featuring production cars built through 1966 and race cars built through 1984. Also, none of the financial documentation provided by either SCRAMP or the County, showing the receipt of rental revenues and how they were divided, reflected the CFO's claim that minor events were really rentals managed by the County.
- The confusion regarding promotional events relates to SCRAMP's claim of an oral agreement with the former Parks Director, that permitted SCRAMP to provide promotional days to Mazda, that could not be charged to the car maker due to its sponsorship agreement with SCRAMP, without SCRAMP paying the County the 80 percent share of a track rental fee to which the County would otherwise be entitled. This alleged informal arrangement is discussed more fully elsewhere in this report. Again, we note the 2006 amendment to the Agreement cited above,

#### 4. Concessionaire Track Use Exceeded Concession Agreement Limits

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which required a track rental or other arrangements be made for Mazda use of the racetrack for any days in excess of the 42 days' use to which SCRAMP was entitled under the Agreement.

Due to this confusion, Harvey Rose staff decided to plot, for Calendar Years 2011 through 2015, the actual track use by SCRAMP for each of the three categories cited in the Agreement. We note that in addition to these categories, and track rentals, the track is also used by the County for select events, chiefly a charity bicycle race in the spring. The track is also closed on select days for maintenance and set-up, primarily for major racing events. While the Agreement has some standards for how many days should be used for these purposes, it also gives SCRAMP leeway to adjust those periods as necessary for safety reasons, so we determined not to assess that use.

We conducted this analysis using the monthly track calendars prepared for each year, which show who and how the track was to be used each day. We supplemented information from the calendars with other sources, chiefly monthly track rental reports provided by SCRAMP to the County during 2011 and 2012, and both SCRAMP and County databases of track rentals from 2013, 2014 and 2015. Finally, we made a number of queries to the SCRAMP Track Rental Coordinator regarding specific events if we weren't sure whether the event was held, or how it should be characterized between the three use categories. We separately calculated promotional days provided to Mazda by SCRAMP, under its Sponsorship Agreement, and promotional days used by SCRAMP for other purposes. Results of the analysis are shown in the following table:

**Days Use of Laguna Seca Raceway,  
Major, Minor, Mazda and SCRAMP Promotional Events, 2011-2015**

<u>Event Type</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Major Racing Events	18	15	18	19	16
Minor Racing Events	12	12	14	12	12
SCRAMP Promotional	12	15	8	11	14
Mazda Promotional	<u>11*</u>	<u>16*</u>	<u>7</u>	<u>13</u>	<u>13</u>
<b>Total</b>	<b>42</b>	<b>42</b>	<b>47</b>	<b>55</b>	<b>55</b>

\*In 2011 and 2012, SCRAMP paid track rental fees to the County for days used by Mazda for promotional events, as well as for two days in 2011 used by Yamaha, according to information provided by SCRAMP.

Based on the results of the table, we make the following observations:

- In both 2011 and 2012, SCRAMP used only the 42 days permitted by the Concession Agreement, based on SCRAMP track rental memos indicating that SCRAMP paid the County share of a rental fee for the 27 days over those two years the track was used by Mazda or others for promotional or other purposes.
- In 2013, major racing days exceeded the 15-day limit by three days, and minor days exceeded it by two. Also, determining in some cases how a day of track use should be categorized was challenging. For example, we treated practice days prior to the major races, including the Reunion, as promotional days rather than major racing days, which kept the number of racing days generally close to the 15-day limit. The Concession Agreement is not clear on how such days, when actual racing does not occur, are to be treated, and should be clarified on this point.
- In both 2014 and 2015 total SCRAMP track usage days, 55, exceeded the 42-day standard by a wide margin, unless one assumes that the alleged 2012 agreement with the Parks Director permitted Mazda promotional days to occur **in addition to** other promotional days used by SCRAMP, which would directly contravene the 2006 amendment to the Concession Agreement. As discussed elsewhere, the operation of this agreement is not documented, since there's no written record of it even being made. In addition, in both years major race days exceeded the 15-day standard by four and one day, respectively. In 2014 this result assumes, as the SCRAMP Chief Financial Officer insisted in an interview, that the six-day Sports Car Club of America National Runoffs was a major event, rather than a minor one, as local SCCA events were. If that event were reclassified, SCRAMP would have been within the major event limit, but beyond the minor event by one day. Again, this confusion reflects the need to clarify the Concession Agreement.

The fiscal effects of our analysis are reflected in the following table, which takes each year and each category in which SCRAMP exceeded the track use days permitted by the Concession Agreement, and estimates the dollar value of the excess days, based on track rental rates that would have been in effect for those days. Track rental rates vary by the day of the week, month of the year, and the sound level permitted at the track for a given



#### 4. Concessionaire Track Use Exceeded Concession Agreement Limits

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day. For major and minor race days, we assumed a track rental would be required for each day in excess of the annual standard, 15 major race days and 12 minor race days, provided in the Agreement. For promotional days, we assumed a track rental would be required only for promotional days that occurred after the 42<sup>nd</sup> day of track use by SCRAMP for any purpose.

#### **Fiscal Impact of SCRAMP Track Use Exceeding Concession Agreement Limits, 2011 Through 2015**

<b>Year</b>	<b>Rental Fee Due</b>	<b>County Share</b>	<b>Basis</b>
2011	\$40,000	\$32,000	2 Major Race Days
2012	0	0	No Days Exceeded
2013	100,000	80,000	3 major, 2 minor race days
2014	140,000	112,000	4 major, 4 promotional days
2015	<u>165,000</u>	<u>132,000</u>	1 major, 8 promotional days
<b>Total</b>	<b>\$445,000</b>	<b>\$356,000</b>	

As the table shows, rental fees totaling \$445,000 should have been received for track use days by SCRAMP exceeding the standards in the Concession Agreement, with the County receiving \$356,000 as its 80 percent share of such fees under the Agreement. The excess use includes 10 major race days and 14 promotional days over the period review, and the excess use assumes that the overall limit of 42 days of annual use was in effect throughout the period, as opposed to SCRAMP having an oral agreement that permitted it to use the track for additional promotional days, beyond the 42-day maximum in the Agreement, for purposes of its Sponsorship Agreement with Mazda. Such an agreement would have directly contravened the 2006 amendment to the Concession Agreement.

We compared our estimate of monies owed by SCRAMP for these excess use days to estimates made previously by County staff. County staff had estimated \$290,016 was owed to the County, for 44 days when the track was used by Mazda from 2012 through 2015. It's not clear from the work papers how County staff made this calculation. For 2012, it appears County staff compared promotional days, both for Mazda for other SCRAMP purposes, against the 15-day standard for promotional days in the Concession Agreement, and only assumed a rental charge for days in excess of the 15 days **used by**

**Mazda**, plus late fees for those rental fees that were not paid timely. For 2013 and subsequent years, it appears rental fees were assumed for all track days used by Mazda, unless there was separate evidence that a rental fee had already been paid. Late fees were added to these amounts as well. County staff also calculated that the County should have received \$23,750 in fees for press promotional days, based on 5 percent of \$475,000 in fees for such days County staff believes SCRAMP received from 2011 through 2014. It's not clear how that amount was calculated, since none of the documents we received indicated SCRAMP had received revenue for these days, and the current Parks Finance Manager could not explain the estimate.

Based on this analysis, we recommend that the Concession Agreement be rewritten to clarify and actualize the definitions of the days SCRAMP or a future concessionaire is permitted to use the track. This can be done in one of two ways. First, the definitions of major race days, minor race days and promotional days should be made more detailed, especially since some major racing events are currently drawing small crowds. Further, the annual process between the County and concessionaire of establishing a calendar to determine what days the track will be available for rental, should include a specific list of the major, minor and promotional days occurring each year.

Alternatively, the County could simply rewrite the agreement to provide the concessionaire with 42 days of use annually (without any track rental charges), for any purpose, subject to other limitations on noise, traffic, etc. that are imposed. This would give the concessionaire the maximum flexibility to use its allocated days to best generate revenues, 5 percent of which the County would receive under the current financial arrangement in the Agreement. We note that the confusion over the status of minor events suggests that the supposed purpose of such events, to induce members of the Sports Car Club of America and similar groups to volunteer to operate the track for major races, is not being achieved, making the utility of such events suspect, if they don't generate more revenue than a track rental.

There should also be a provision that permits the track concessionaire, on a case-by-case basis, to seek additions to the 42 days of track use it is normally permitted, due to additional events that are either expected to generate significant revenue, or useful publicity for the track. As an example, it seems logical that the track might want to host the Sports Car Club of America National Runoffs, as it did in 2014, as an addition to its

#### *4. Concessionaire Track Use Exceeded Concession Agreement Limits*

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schedule, even if a short-term rental revenue loss would occur, because of the prestige of the event and the potential that it could expand future revenues, either by permitting higher rental rates due to the track's prestige, or an increase in rental volume.

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## **5. Concessionaire's \$18.5 million Capital Expenditures Are Short of \$19.3 million Plan**

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Expenditures by the current concessionaire, Sports Car Racing Association of Monterey County (SCRAMP) for capital improvements to Laguna Seca Raceway are governed by requirements of its Concession Agreement with the County, as approved by both sides in February 2000 and amended several times since then, and by commitments of the five-year Sponsorship Agreements between SCRAMP and Mazda in March 2001, March 2006 and May 2012. These requirements and commitments are described below.

### **Initial Concession Agreement-**

Exhibit C of the February 2000 Concession Agreement listed 37 individual improvement projects, grouped as seven "project components." The agreement included, as Section 5.02, language stating that meeting various milestones in Chapter 6 of the agreement, which related to the Exhibit C projects, would permit the initial five-year term of the Concession Agreement to be extended by up to 25 additional years, with the projects to be completed within 10 years after the date on which an extension was executed. No cost estimate was included for the projects, individually or in total.

### **Concession Agreement Amendment No. 1 and No. 2; Sponsorship Agreement; and Bank Loan Agreement**

Amendment No. 1 to the Concession Agreement, dated July 2001, by which the County approved the first SCRAMP-Mazda Sponsorship Agreement, stated that SCRAMP would use the \$7.5 million received from Mazda "primary for the purpose of capital improvements to the Laguna Seca racing facility." Exhibit A to that agreement listed projects to build new garages, a catering kitchen, new restrooms and hospitality suites, and estimated the total cost for these facilities at \$7.8 million, but did not cost out the individual projects. It also stated that projects would be completed by the end of the 2002 race season, which by the standard schedule would have been in the last three months of that year.

Amendment No. 1 was closely followed by two other agreements. Amendment 2 to the Concession Agreement, approved in February 2002, granted SCRAMP an eight-year

extension to the agreement, based on meeting the capital project milestones required by the original Concession Agreement. A separate agreement, also approved in February 2002, had the County agree to an arrangement in which First National Bank of Central California obtained a security interest in the Sponsorship Agreement as collateral for \$7,112,300 the bank loaned to SCRAMP, to pay for the anticipated capital improvements listed in Amendment No. 1.

### **Concession Agreement Amendment No. 3**

This amendment, dated December 2006, reflects the renewal of the Sponsorship Agreement between SCRAMP and Mazda for an additional five years, from March 2006 to March 2011, for another payment of \$7.5 million, averaging \$1.5 million annually for five years. Exhibit A of the Amendment pledges \$6,853,125 of the \$7.5 million toward capital improvement funding, including \$2.625 million each toward debt service on garage and hospitality suite projects discussed previously, and \$1,603,125 for other safety, participant and facility improvements, including replacing the start/finish bridge.

### **Concession Agreement Amendment No. 5**

This amendment, dated May 2012, reflects the third renewal of the SCRAMP-Mazda agreement, for the period from 2012 through 2017, for another \$7.5 million payment, again averaging \$1.5 million annually. Exhibit A-4 of the Sponsorship Agreement, referenced and incorporated into the Concession Agreement Amendment, requires SCRAMP to spend no less than \$5.25 million on "pre-authorized projects," out of a list of \$7.185 million of such projects listed in the Exhibit, including Turn 4 grandstands, new paddock restrooms, an improved track communications and public address system, and a new start/finish bridge. The Exhibit also stated that if SCRAMP had not committed \$2.625 million toward the list of projects by April 30, 2015, all subsequent payments from Mazda would be paid to the County, rather than to SCRAMP, with the County using the money to reimburse SCRAMP on documentation that the projects were completed.

Based on these documents, we believe SCRAMP has made the following commitments to capital project spending from the Mazda sponsorship revenues:

**SCRAMP Capital Spending Commitment  
From Mazda Sponsorship Revenues**

<b>Commitment Amount</b>	<b>Basis</b>
\$7,112,300	Bank Loan Agreement
6,853,125	Concession Agreement Amendment No. 3
5,250,000	Concession Agreement Amendment No. 5
<b>Total</b>	
<b>\$19,215,425</b>	

As the table shows, since 2001, when it first entered into a Sponsorship Agreement with Mazda, SCRAMP has committed to spending \$19.2 million of those funds on capital improvements to the Laguna Seca raceway. We note that the first \$7,112,300 share of this spending identified is based on our assumption that the \$7,112,300 borrowed from National Bank of Central California for “construction of said improvements,” essentially amounts to spending “primarily for the purpose of capital improvements to the Laguna Seca racing facility,” as stated in Concession Agreement Amendment No. 1.

As part of this review of Laguna Seca operations, we requested detailed information on capital improvements from SCRAMP, such as project budgets, construction invoices, construction progress reports, etc., but received no detailed information. Instead, SCRAMP provided a one-page summary document titled “Who Paid for Capital Projects,” which listed 15 projects, with the amount of the project funded by SCRAMP, and a year, which appears to be the year the project started. We have attached that list to this report.

In total, that list includes 14 projects identified as being paid for in some manner with SCRAMP resources:

- The 2001 suite/garages project, costing \$10.1 million was identified as funded from “sponsorship contract brought in by SCRAMP + SCRAMP bank loan,” which is clearly the bank loans for \$7,112,300 identified previously.
- The 2014 Turn 4 Grandstand and Communications Building projects, totaling \$637,591, were identified as paid for from “SCRAMP bank loan + SCRAMP cash.”

## 5. Concessionaire's \$18.5 million Capital Expenditures Are Short of \$19.3 million Plan

- Five different projects, costing \$6,623,803 were paid for from "Sponsorship contract brought in by SCRAMP." This includes \$3.2 million for the Red Bull spectator center, and \$3 million for MotoGP safety improvements.
- Six different projects, costing \$1,093,076 were paid for from "Cash from SCRAMP operations," including \$400,246 in 2006 for a new scoring tower, \$250,000 in 2006 toward track repaving and \$225,000 to fill in a pond lake bed.

In total, \$18,454,470 in projects were identified as being paid for from SCRAMP-connected sources, including \$17,361,394 specifically from sponsorship contracts. This compares with the \$19,215,425 pledged by SCRAMP to spend on capital improvements in the amendments to the Concession Agreement that relate to the Sponsorship Agreement in Mazda. Based on this review, SCRAMP to date has fallen \$760,955 short of its capital spending commitments. The shortfall grows to \$1,854,031 if only capital expenditures identified by SCRAMP as funded by sponsorship revenues are included.

In addition to tracking capital expenditures across the full time period of SCRAMP's agreements with Mazda, we also attempted to track them over the period from December 31, 2012 through December 31, 2014, by looking at changes in capital value shown in SCRAMP's 2012, 2013 and 2014 audited financial statements. The 2015 statement has still not been issued.

Based on comparing capital values between December 31, 2012 and December 31, 2014, and taking into account depreciation, we calculated that SCRAMP added \$897,080 to capital assets over that period. Subtracting the value of equipment and vehicles from that amount, the net addition is \$673,830, which we believe is additions to buildings. We note that this amount is only slightly higher than the \$637,591 value reported by SCRAMP in its capital projects list for the Turn 4 Grandstand and Communications Building projects. We asked SCRAMP to confirm our estimate based on the audited financial statements, but did not receive a response. We note that the \$673,830 figure compares to \$3.3 million in sponsorship payments SCRAMP was scheduled to receive from Mazda during 2013 and 2014. If the 70 percent spending standard in the Concession Agreement was strictly interpreted to require pay-as-you-go spending of Mazda monies on capital



improvements, SCRAMP should have spent \$2.31 million on capital improvements during this period, about 3.4 times what it actually spent, by our analysis.

SCRAMP contends that because the language of Amendment 5 to the Concession Agreement states that it “is required to spend an amount equal to 70 percent” of the Mazda revenue on capital projects, SCRAMP has not violated the Agreement, because that language only requires spending equivalent to the stated amount, which could come from other sources, as opposed to requiring Mazda revenue be placed in escrow and accumulated to fund such projects, or that such projects be built in stages as the funding is available.

This language should be clarified in any future Concession Agreement with SCRAMP or another concessionaire, in a way that provides flexibility in the timing of capital improvements, but does not permit diverting money intended for capital spending to operational costs.

For example, the \$10.1 million suites/garages project, which appears to have been built in part using \$7,112,300 in bank loans, was started, according to media accounts in February 2002, and completed in January 2003. However, SCRAMP's Chief Financial Officer and the President of its Board of Governors both stated in interviews that the loans for this project weren't fully repaid until 2015. Thus the loans, obtained no later than February 2002 were repaid over approximately 13 years, when at the start of the project, SCRAMP only had a five-year sponsorship agreement with Mazda. Using the sponsorship agreement revenue to collateralize a loan for a period much longer than the period in which the collateral was to be received could be construed to be diverting the sponsorship money to operations, rather than using it for capital projects. Also, long-term loans create an ongoing burden on budgets for any track operator, potentially threatening its financial health.

Language permitting a track operator to collateralize sponsorship revenues over a somewhat longer period than the sponsorship agreement should be permitted, to allow capital projects to move forward quickly. But the period should be less than the 12 years that occurred for the suites/garages financing, to avoid a long-term debt burden.

## 5. Concessionaire's \$18.5 million Capital Expenditures Are Short of \$19.3 million Plan

The Concession Agreement also should be further clarified to list in more detail, either directly in the agreement, or as an attachment to it, the list of capital projects to be built with Mazda sponsorship monies, and the timing for them. For example, both Amendment No. 3, in 2006, and Amendment No. 5, in 2012, listed a new start/finish bridge among the projects to be paid for with Mazda sponsorship revenues. That project has still not been completed as of this report.

Finally, we note that the SCRAMP list of capital projects includes two projects, \$2.5 million in repaving in 2006, and \$110,000 for Turn 10 showers, that were paid for by the County of Monterey, from the Laguna Seca Maintenance and Improvements Account, which is identified in the 2000 Concession Agreement as a restricted County fund which was to be repository of all County revenues from daily track rentals and other sources, plus \$60,000 annually from the 5 percent concession fee paid by SCRAMP to the County from non-track-revenue grow receipts, increasing to \$65,000 annually in 2009.

The Parks Department should provide the Board of Supervisors an accounting of the status of this fund, and a plan for capital expenditures from it. We note that use restrictions provided in 1974, when the federal government transferred Laguna Seca, and the remainder of Fort Ord, to the County, state that third-party revenues received by the County from Laguna Seca, "shall be used by the Grantee solely for the recreation development, operations, or maintenance at the subject property (Laguna Seca Recreation Area) to achieve the program of utilization, and if met, then other properties used for park and recreation purposes." The County should also document either that no monies received from Laguna Seca have been used for other park properties, or document the basis on which it has concluded that expenditures of all funds received from Laguna Seca were not needed to "achieve the program of utilization."

## **6. Inconsistent Cash Handling Policies and Practices at Events**

### **Best Practices for Cash Handling**

There are a series of measures to help organizations ensure that all cash revenue is properly collected, reported, and submitted. These measures, viewed as best practice, typically include written and formalized cash handling procedures, segregation of duties, safe cash storage strategies, reconciliation, routine documentation, and management review of all reconciliation. Each of these measures is independently important but each measure is more effective as part of a broader system with all of these measures as attributes.

Documentation is an important aspect of developing a robust cash handling system. To ensure that all staff are well-versed in an organization's cash handling policies, organizations should have a written policy that is accessible to staff members responsible for cash handling. A formal written policy will minimize any ambiguity about what is expected of employees while handling cash receipts. As part of the documentation process, the cash handling policies must include required strategies and tools to ensure that the source and reason for each cash transaction is recorded. This allows an organization to track the total cash receipts to the goods or services sold.

Ideally, organizations would seek to segregate staff at the four cash handling phases: (1) receiving, (2) recording, (3) depositing, and (4) reconciling cash collected. Segregating each of these duties strengthens an organization's ability to quickly identify the source of any errors and minimize opportunities for staff to mismanage cash funds. However, smaller companies who may not have enough staff for complete segregation may increase monitoring at each stage of the cash handling process to reduce risk.

Organizations should also have safe cash storage strategies, which includes methods to safely guard cash on-hand until it can be deposited in the bank. A safe with a lock and/or combination is recommended as well as locating the safe in a place that is continually visible by department employees but not by the public. In cases where cash boxes are used, they should have a lock, be fire resistant, and not easily moved or concealed. Access should be limited to the person collecting the cash, and should not be shared with other employees.

Best practices also state that cash collected should be reconciled on a daily basis, matching the records of the cash collected to the cash register record and other systems used to log each cash transaction. Industry standards also recommend that a manager or supervisor should review and sign all reconciliations to show approval from a senior staff member.

### **Cash Handling Evaluation Methodology**

Because SCRAMP does not have written policies on cash handling, the audit team requested SCRAMP's Chief Financial Officer (CFO) to provide an oral description of SCRAMP's cash handling procedures. The audit team then submitted a written draft to the CFO of the SCRAMP cash handling process for review and verification in advance of a scheduled observation of SCRAMP's cash handling procedures during the Pirelli World Challenge held October 7-9, 2016 at the Mazda Raceway Laguna Seca. The audit team used the CFO's description of SCRAMP's cash handling process to assess whether SCRAMP volunteers and staff consistently complied with the procedures. Exhibit 1 at the end of this section shows SCRAMP's cash handling procedures as described by SCRAMP's CFO.

The audit team also compared SCRAMP's procedures with industry best practices.

At the observation of the 2016 Pirelli World Challenge, the audit team observed ticket sales at the two operational gates (South Boundary and A-Road), all concession stand sales, souvenir store sales, and the recording of cash collected at the end of the race day. The audit team also met with the SCRAMP CFO throughout the race day to seek clarifications as needed.

The audit team also conducted a file review of all cash accounting records for six major race events. The audit team compared the total cash amounts reported as collected by SCRAMP volunteers who sell tickets at the gate to the bank's records of the total cash deposited. The audit team also matched the total ticket revenues with the cost per ticket and the number of tickets sold.

Throughout this project, the audit team conducted meetings and requested information from SCRAMP Accounting staff and the Ticketing Office.

### **SCRAMP Cash Handling in Practice**

The informal cash handling procedures for SCRAMP gate ticket sales incorporated a number of best practices. According to the cash handling process described by the CFO, there is an intentional segregation of duties and processes to double-check the amount of cash on hand with the number of tickets sold each day for a specific event. Because SCRAMP is small organization, all four cash handling phases were not completely segregated but there were planned monitoring tactics in place. The CFO also provided detailed documentation of the amount of cash collected each day for gate ticket sales for the six major race events. The SCRAMP Accounting Office has a safe where all cash on hand is stored before being deposited in the bank.

Although SCRAMP's cash handling practices generally conformed to best practices, the audit team found a few areas for improvement.

*No written cash handling policies and procedures.*

Firstly, there are no written policies or procedures for cash handling at SCRAMP events. According to the SCRAMP CFO, the SCRAMP staff members who oversee cash handling at SCRAMP events have worked with the non-profit organization for over ten years and are well-versed in SCRAMP informal procedures. SCRAMP does not provide training to any of the volunteers at SCRAMP events because many of the volunteers have also worked with SCRAMP for many years. However, should a volunteer or staff member not comply with SCRAMP's informal procedures, SCRAMP has no formal document to show what procedures should have been in place. The lack of written policies and procedures for cash handling leaves SCRAMP unprepared for any instance of non-compliance among SCRAMP staff and volunteers and puts the organization at risk of losing cash revenues.<sup>1</sup> SCRAMP or any successor concessionaire should develop formal written policies and procedures for cash handling at events, provide training in them to all volunteers at the start of each racing season, and provide volunteers with a copy of the written policies and procedures, requiring them to sign an agreement acknowledging receipt and the need to comply with the policies and procedures.

*Inconsistent segregation of duties during race event*

During the observation of cash handling at the 2016 Pirelli World Challenge, the audit team noted that SCRAMP staff and volunteers did not consistently follow SCRAMP's cash handling procedures. As shown in Exhibit 1 below, volunteers should collect cash from ticket sales at the entrance gates under the supervision of assistant directors.<sup>2</sup> SCRAMP Accounting staff, serving as Runners for the event, should collect the excess cash from the volunteers throughout the day and transport the cash to the Accounting office.

However, on the day of our observation, the Admissions Director transported the cash and credit card receipts collected at the A-Road gate to SCRAMP Accounting instead of requesting a Runner.<sup>3</sup> The Admissions Director commented that they ran out of deposit bags and it would simply be easier to transport the cash and credit card receipts herself.

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<sup>1</sup> While the Ticket Manager at the SCRAMP Ticket Office, showed the audit team that there is a hard copy manual with policies and procedures, it has been outdated for many years and staff members no longer use it.

<sup>2</sup> Assistant directors are unpaid volunteer staff who work with the Ticketing Office, and are separate from volunteer staff from service clubs who sell tickets at the gate.

<sup>3</sup> Each gate was staffed with one to two volunteers and one Assistant Director.

The SCRAMP Admissions Director arrived at Gate A-Road to monitor the observation and answer any questions that the audit team might have, even though the Admissions Director does not typically observe ticket gate sales. Because volunteers who receive the cash do not have cash registers or any point of sale system, there is already no segregation of duties for receiving and recording ticket cash sales at the gate. Therefore, when the Admissions Director, who was present during the cash collection, also transported the cash to SCRAMP Accounting, cash collection, reporting, and cash deposit to SCRAMP Accounting became the responsibility of the same group of people. This departure from the informal procedures diminished SCRAMP's ability to control cash flow and identify any problem source should any issues occur. At the South Boundary Gate, the volunteers and SCRAMP staff complied with the informal procedures, and requested a Runner to collect the cash and credit card receipts at the end of the day.

The volunteers at the South Boundary gate commented that cash handling at SCRAMP's ticketing gates varies based on the management style of the Assistant Director assigned. The variation in procedures used for cash handling at SCRAMP events suggest that there is no common understanding of the policies and procedures for cash handling for gate ticket sales.

Cash ticket sales at the entrance gates on race days are a small portion of total event ticket sales, as most tickets are purchased in advance. Therefore, cash gate sales may be a low risk area when looking at SCRAMP's overall race event revenues. SCRAMP could use this information to prioritize which internal controls should be addressed in the immediate, medium, and long-terms.

*Insufficient Control of Raceway Access*

During our observation of the 2016 Pirelli World Challenge, we also observed problems regarding controls on patron entrance to the racetrack. These included the following:

While there is a ticket checkpoint to check that patrons have tickets before their vehicle is allowed to enter the facility, the points at which patrons pick up tickets at will call or purchase them by credit card are beyond the checkpoints, allowing such patrons to enter the facility without verifying that they have paid for and received tickets. SCRAMP or a future concessionaire should relocate will call and credit card purchase areas to a location prior to the checkpoints. There were also no signs directing patrons to current will call and credit card purchase locations. Appropriate signage should also be provided. As an alternative to relocating these ticketing locations, SCRAMP could have traffic control staff, who are positioned after the ticket checkpoints and the ticketing locations, check again for tickets before allowing patrons to park.

We also noted that signage directing patrols to the South Boundary gate entrance, on of two entrances used on the day of our observation, was not adequate, making it very difficult to find the entrance. SCRAMP or a future concessionaire should improve signage along this long entry route to make sure patrols do not get lost while looking for the South Boundary gate.

*Insufficient documentation of concession sales*

SCRAMP sells beverages and other items at concession stands during race events. SCRAMP volunteers at the concession stands do not have functioning cash registers and do not use a revenue log to track the type and number of items that were sold for each cash transaction.<sup>4</sup> In fact, there are no tools available for volunteers to document what was purchased with cash at concession stands. Therefore, SCRAMP has no record of the types and number of items purchased with cash at concession stands during SCRAMP events, other than attempting to reconcile inventories provided at the start of each event day to what remains at the end of each day. This practice leaves SCRAMP at a considerable risk for revenue losses during concession sales. The audit team did note that SCRAMP volunteers were provided with a cash box with a lock to store the cash collected at the concession stands.

On average, from 2013-2015, concessions accounted for 2.9 percent or \$388,055 of SCRAMP's annual revenues. While this is not a large percentage of annual revenues, SCRAMP needs better procedures to prevent revenue loss from concession sales. SCRAMP or a successor concessionaire should purchase and install cash registers for concession sales, or at least develop a receipt system log so that the number of items sold can be matched with the cash received.

*Access to the Accounting safe*

Best practices dictate that organizations should use safes with combinations and/or locks to store cash on hand and access should be limited to the person collecting the cash. The audit team observed two main weaknesses in SCRAMP's cash storage practices during meetings with SCRAMP staff and the observation of cash handling at the 2016 Pirelli World Challenge. Firstly, the Ticketing Office does not have a safe and stores cash in a closet in the ticketing manager's office. While there is a lock on the cupboard, all staff in the Ticketing Office have access to the keys to that cupboard. The audit team understands that the Ticketing Office staff have worked together for many years and that there is a high level of trust among employees. However, it is important to comply with industry

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<sup>4</sup> Some SCRAMP volunteers at concession stands did have cash registers that did not appear to be functioning. In these cases, the volunteers simply used the non-functional cash registers as storage for cash received for the sale of goods and services.

## *6. Inconsistent Cash Handling Practices and Policies at Events*

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standards as it provides measures to guard against any potential mismanagement of cash funds. A safe with a combination and lock should be purchased for the ticketing office, with restricted access to the ticketing manager.

Second, the combination and keys to the safe in the CFO's office is also accessible to the Finance Assistant. The audit team recommends that access to this safe be limited to the CFO.





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## Summary of Recommendations

Based on the findings, conclusions and recommendations described in the preceding sections, the recommendations are summarized below. It is recommended that the Parks Department:

- (1) In conjunction with the County Auditor-Controller review and revise all financial terms and conditions of the Laguna Seca Concession Agreement to clarify all financial, accounting and reporting provisions as necessary, including the addition of required reporting forms and submit the proposed revisions to County Counsel for inclusion in the new agreement.
- (2) Develop comprehensive written policies and procedures pertaining to the oversight, monitoring and accounting for the operations of the Laguna Seca Concession Agreement, and submit such policies and procedures to the Office of the Auditor-Controller for review and approval;
- (3) Reconcile all track rental and concession payments to the County within 60 days following the completion of each month.
- (4) Develop a formal retention policy for financial records, including when to delete records, how to back them up, what records should be saved, and how saved records will be accessible.
- (5) Require SCRAMP or a future concessionaire, to acquire or possess a financial transaction and accounting system tailored to its financial reporting needs, including requirements of the Concession Agreement with the County. Acquisition and implementation of a new system should include training staff on use of the new system.
- (6) Make sure the new accounting system allocates personnel and other key fixed costs to major racing events, minor racing events, track rentals, and promotional days, including Mazda days, to determine which activities make significant contributions to SCRAMP's overall bottom line, and which detract. This system should also track out-of-pocket costs related to the Mazda sponsorship agreement.

Based on the acquisition of a new accounting system, the Parks Department should also require the track operator to use the more robust cost accounting information to assess potential changes in its operations, including eliminating the current motorcycle race, which does not even pay for its variable, and other races which don't significantly contribute to covering fixed costs. It also should consider renegotiating the Mazda sponsorship agreement to reduce out-of-pocket costs for the track operator in providing services to Mazda.

- (7) Amend the concession agreement by clarifying how a day of track use for practice days prior to the major races should be categorized for purposes of accounting for the 42 days granted the concessionaire before assessment of the track rental fee commences. The Concession Agreement is not clear on how practice days, when actual racing does not occur, are to be treated, and should be clarified.
- (8) Amend the Concession Agreement to clarify and actualize the definitions of the days SCRAMPS or a future concessionaire is permitted to use the track. This can be done in one of two ways. First, the definitions of major race days, minor race days and promotional days should be made more detailed, especially since some major racing events are currently drawing small crowds. Further, the annual process between the County and concessionaire of establishing a calendar to determine what days the track will be available for rental, should include a specific list of the major, minor and promotional days occurring each year.

Alternatively, the County could simply rewrite the agreement to provide the concessionaire with 42 days of use annually (without any track rental charges), for any purpose, subject to other limitations on noise, traffic, etc. that are imposed.

- (9) Amend the Concession Agreement by adding a provision that permits the track concessionaire, on a case-by-case basis, to seek additions to the 42 days of track use it is normally permitted, due to additional events that are either expected to generate significant revenue, or useful publicity for the track. As an example, it seems logical that the track might want to host the Sports Car Club of America National Runoffs, as it did in 2014, as an addition to its schedule, even if a short-term rental revenue loss would occur, because of the prestige of the event and

the potential that it could expand future revenues, either by permitting higher rental rates due to the track's prestige, or an increase in rental volume.

- (10) Amend the Concession Agreement to provide flexibility in the timing of capital improvement expenditures, but without permitting diverting money intended for capital spending to operational costs, and requiring expenditures to occur within X years (e.g. not more than 3 years) of receipt of the sponsorship payments.
- (11) The Concession Agreement also should be further clarified to list in more detail, either directly in the agreement, or as an attachment to it, the list of capital projects to be built with Mazda sponsorship monies, and the timing for them.
- (12) Provide the Board of Supervisors an accounting of the status of the Department's Laguna Seca Maintenance and Improvements Account, and a plan for capital expenditures from it, since use restrictions require that these monies be used solely for the recreation development, operations, or maintenance the Laguna Seca Recreation Area to achieve the program of utilization, and if met, then on other properties for park and recreation purposes. The County should also document either that no monies received from Laguna Seca have been used for other park properties, or document the basis on which it has concluded that expenditures of all funds received from Laguna Seca were not needed to achieve the program of utilization restriction in the grant deed from the federal government.
- (13) Develop formal written policies and procedures for cash handling at events, provide training in them to all volunteers at the start of each racing season, and provide volunteers with a copy of the policies and procedures, requiring them to sign an agreement acknowledging receipt and the need to comply.
- (14) Prioritize points in the cash ticketing process where separation of duties is most important as an internal control method, since cash gate sales may be a low risk area overall, because the dollar amounts involved are low.

- (15) Provide improved control of raceway access, including moving will call and credit card ticket sales locations to a point prior to ticketing checkpoints, or providing a second check for tickets prior to permitting patrols to park. Also provide better signage to the South Boundary gate entrance.
  
- (16) Purchase and install cash registers for concession sales, or develop a receipt system log so that the number of items sold can be matched with the cash received.
  
- (17) Provide a safe with combination and lock for the Ticketing Office, restricting access to the Ticketing Manager. Limit access to the safe in the Chief Financial Officer's office to the Chief Financial Officer.