

COUNTY OF MONTEREY
OFFICE OF THE AUDITOR-CONTROLLER
INTERNAL AUDIT DIVISION
LAKE SAN ANTONIO AND LAKE NACIMIENTO OPERATIONS AUDIT
SUPPLEMENTAL REVISED-
AMENDED FOR MANAGEMENT RESPONSES



November 2019

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Executive Summary

Pursuant to Monterey County's 2018-19 Internal Audit Plan as approved by the Board of Supervisors (Board) the Auditor-Controller's Internal Audit Division (IAD) has completed its review of Basecamp's financial activities related to Monterey County's Lake San Antonio and Lake Nacimiento operations. Audit testing focused on Basecamp's processes and included inquiry of Basecamp's management and accounting staff and detail review of financial records maintained by Basecamp.

Summary of Observations and Recommendations:

The following summarizes the IAD's audit recommendations resulting from Internal Audit Observations (IAO). IAO's, referenced by number, are categorized as High, Medium or Low Risk in accordance with the IAD Policy and Operation's Manual approved by the Board of Supervisors. These recommendations have been shared with RMA management. RMA management was asked to develop formal responses containing corrective action plans, which would be documented in the Internal Audit Observations and Recommendation section of this report. The IAD recommends RMA:

High Risk

1. Utility, information technology, fuel, and vehicle lease charges incurred, and paid, by the County on behalf of Basecamp amounting to \$686,953 have not been reimbursed to the County.

RMA should coordinate with Basecamp for immediate payment of amounts owed (\$686,953 identified here and any from years prior to FY2016-17). A status report of the implemented measures and completed recovery should be provided to the CAO, the ACO, and the Board of Supervisors within 60 days of this report. If the payment is not received within 60 days, an update report should be made within 90 days of this report. Equally important, RMA management should develop and implement procedures that ensure timely billing and collection of amounts owed by Basecamp.

2. Financial record keeping and reporting is highly reliant on use of spreadsheets and,
3. Financial transactions are missing supporting documentation.

In accordance with both the original and the newly approved contract with Basecamp, which allows the County to examine and monitor records, documents, and activities, RMA management should perform periodic reviews (at least quarterly) of existing records to ensure amounts recorded and reported to the County are accurate, complete and adequately supported with valid documentation. Such procedures will provide additional assurance, above and beyond, the financial statement audits previously recommended by the IAD and incorporated within the new contract. Further, RMA management should review the results of the financial statement audits and ensure any financial adjustments identified, or improvements to financial operations recommended are addressed adequately and timely.

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Scope & Objectives

The Monterey County Office of the Auditor-Controller, Internal Audit Division has completed its review of the Basecamp Hospitality's (Basecamp) financial activities surrounding Lake San Antonio and Lake Nacimiento. The audit scope covered financial transactions for fiscal year 2017-18. The primary objective was to assess the completeness, accuracy, validity, and timeliness of financial records relating to revenues and expenses reported to the Resource Management Agency (RMA).

Audit Objectives Results

Audit testing revealed three (3) High Risk observations recommending RMA coordinate with Basecamp for immediate payment of \$686,953 owed to the County, report the status of repayment to the CAO, the ACO, and the Board of Supervisors within 60 days of this report, and develop and implement procedures that ensure timely billing and collection of amounts owed by Basecamp. Lastly RMA management should perform periodic reviews of existing records to ensure amounts recorded and reported to the County are accurate, complete and adequately supported with valid documentation, and review the results of the financial statement audits to ensure any financial adjustments identified, or improvements to financial operations recommended are addressed adequately and timely.

Background

Basecamp Hospitality (Basecamp) is a privately-owned park, resort, retail and event management company based in Red Bluff and Fairfield, California. Basecamp (formerly known as Urban Park Concessionaires) specializes in providing a full range of marina and resort services which include retail facilities such as convenience stores and tackle shops, marina operations, storage and boat rentals, lodging rentals, launch ramp operation, and entrance gate operation as well as a full range of reservation and resort management services.

Monterey County has been under contract with Basecamp to manage Lake Nacimiento and Lake San Antonio resorts operations since May 3, 2011. In June 2019, the IAD reviewed revenue and expense transactions recorded on-site at Lake Nacimiento to ensure compliance with the contract and generally accepted accounting principles.

Internal Audit Observations and Recommendations

The following Internal Audit Observation (IAO) detail the criteria (what should be), the condition (what is) and includes corrective action recommendations. These recommendations have been shared with RMA management. RMA management has developed formal responses containing corrective action plans, which are documented within the IAO. Based on audit procedures performed, the IAD noted the following:

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IAO.01 – Basecamp owes \$686,953 to the County. (*High Risk*)

Criteria

Amounts due from Basecamp should be billed and collected within a reasonable time. Per the original contract between the County and Basecamp, Basecamp is to reimburse the County for expenses incurred on behalf of Basecamp as stipulated in the following sections:

- 6.1.17 – All County paid utilities, including phone, internet, electric, and gas; and,
- 6.1.20 – Cost of direct IT Support Services authorized by the County

Condition

Utility, information technology, fuel, and vehicle lease charges incurred, and paid, by the County on behalf of Basecamp amounting to \$686,953 have not been reimbursed to the County as of the time of this observation, July 22, 2019. The total amount due to the County includes \$336,794 for fiscal year 2016-17 and \$350,150 for fiscal year 2017-18. It should be noted that amounts relating to fiscal year 2016-17 remained unbilled for over a year and uncollected for nearly two years. The corresponding ageing of County receivables from Basecamp are as follows:

	Fiscal Years Ended	
Fiscal Year-End	6/30/2017	6/30/2018
Days Outstanding	752	387

Cause

There is no formalized process that tracks the timing of billing, collection, and aging of amounts owed from Basecamp.

Effect

Untimely billing, collection, and lack of oversight of amounts owed directly effects the Lakes Enterprise fund’s cash flow, net position, and the County’s general fund which has historically subsidized the lakes operations. Since our review was limited in scope, we have not examined records prior to FY 2016-17 to investigate if any additional amounts are owed from Basecamp from prior years.

Recommendation

RMA should coordinate with Basecamp for immediate payment of amounts owed (\$686,953 identified here and any from years prior to FY2016-17). A status report of the implemented measures and completed recovery should be provided to the CAO, the ACO, and the Board of Supervisors within 60 days of this report. If the payment is not received within 60 days, an update report should be made within 90 days of this report. Equally important, RMA management should develop and implement procedures that ensure timely billing and collection of amounts owed by Basecamp.

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Management Response

RMA had already identified the outstanding receivable, which is now paid, and was working with Basecamp in providing requested support and reconciling their accruals to the County actuals.

Although RMA staff responsible for processing billings are aware it is their responsibility to follow up on outstanding invoices, there were no formal written procedures. Considering this discovery, Finance has written a formal process for Maintaining Outstanding Invoices and Payments in a Manual Accounts Receivable System (see Attachment A). The process includes a monthly review of outstanding invoices, issuing monthly Statements to customers, and reporting invoices unpaid for 60 days or more to Senior Management.

The internal audit report, which includes RMA's response, provides an official status update of the implemented measures and completed recovery of the receivable to the CAO/ACO/BOS. RMA does not concur with the recommendation for a separate report, as this issue has been resolved.

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IAO.02 – Basecamp’s financial record keeping and reporting is highly reliant on use of spreadsheets. (*High Risk*)

Criteria

Financial record keeping is the process of recording all financial transactions, including records relating to purchases, sales, receipts and payments, as well as accruals for payables or receivables. Best practices dictate the use of accounting software programs to enable accurate and complete recording of financial transactions, as well as storing and retrieving those transactions. Accounting software programs should be subject to information technology structure including general computing controls that restrict user access and application controls that reduce record keeping mistakes.

Condition

Basecamp uses complex spreadsheets containing multiple tabs to record and track financial transactions and report financial results. Use of spreadsheets presents greater risk of misstatements as financial inputs are without information technology structure, are insecure, and vulnerable to inaccuracies.

Cause

Utilizing spreadsheets to record financial transactions is the adopted practice of Basecamp as it relates to the County’s Lakes Resorts financial operations.

Effect

Incorrect spreadsheet inputs and calculations can have a detrimental effect on the accuracy of transactions recorded and balances reported.

Recommendation

In accordance with both the original and the newly approved contract with Basecamp, which allows the County to examine and monitor records, documents, and activities, RMA management should perform periodic reviews (at least quarterly) of existing records to ensure amounts recorded and reported to the County are accurate and complete. Such procedures will provide additional assurance, above and beyond, the financial statement audits previously recommended by the IAD and incorporated within the new contract. Further, RMA management should review the results of the financial statement audits and ensure any financial adjustments identified, or improvements to financial operations recommended are addressed adequately and timely.

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Management Response

The agreement between the County and Basecamp through July 31, 2019, provided the County authority to request an independent audit of Basecamp's expenses at any time. The Resource Management Agency (RMA) requested an audit of Basecamp's expenses for fiscal year (FY) 2014-15, 2015-16, 2016-17, and 2017-18. Basecamp's external auditors issued an unqualified auditor's reports on the Schedule of Expenditures, which means the auditors believe Basecamp's expenses are free of any misrepresentations (see Attachment B and C). The auditors also issued Statement of Accounting Standards (SAS) 114 - Auditor's Communication with Those Charged with Governance letter related to those audits, which revealed no significant audit findings. RMA has requested a final expense audit for the period FY 2018-19 and July 2019 and will provide ACO a copy of both the independent audit of expenditures and SAS 114.

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IAO.03 – Financial transactions are missing supporting documentation. *(High Risk)*

Criteria

Both, the original and recently approved contracts with Basecamp state the “County or its designee will have the right to review, obtain and copy all records pertaining to the performance of the Agreement... Contractor agrees to maintain such records for a period of three (3) years after final payment under the Agreement.”

Condition

Review of revenue and expense transactions tested from the FY 2017-18 period, revealed the following:

- 11 of 134 (8%) of revenue samples tested were not supported with proper documentation. The monetary error was \$13,444 of \$702,132 (2%) the total value of population tested
- 3 of 40 (8%) of expense samples tested were not supported with proper documentation. The monetary error was \$32,125 of \$397,729 (8%) the total value of population tested

Cause

Records are maintained in file boxes which are then sent out for storage at an off-site location. Per Basecamp management missing records were placed in boxes which were either misplaced and/or mislabeled and could not be located.

Effect

Missing documentation prohibits the ability to conclude on the propriety of financial transactions recorded and if considered material would require an adjustment excluding such items under generally accepted auditing standards. Assuming monetary error rates are consistent, if extrapolated across the full year of FY2017-18, exceptions could potentially amount to an overstatement of revenue and understatement of expenses as follows:

	Revenue	Expenses
Total Combined (Lake Nacimiento & Lake San Antonio)	\$4,992,200	\$3,041,119
Monetary Error Rate	2%	8%
Potential Misstatement	\$99,844	\$243,290

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Recommendation

In accordance with both the original and the newly approved contract with Basecamp, which allows the County to examine and monitor records, documents, and activities, RMA management should perform periodic reviews (at least quarterly) of existing records to ensure amounts recorded and reported to the County are adequately supported with valid documentation. Such procedures will provide additional assurance, above and beyond, the financial statement audits previously recommended by the IAD and incorporated within the new contract. Further, RMA management should review the results of the financial statement audits and ensure any financial adjustments identified, or improvements to financial operations recommended are addressed adequately and timely.

Management Response

In accordance with the Agreement between the County and Basecamp, approved by the Board of Supervisors, the Resource Management Agency (RMA) requested Basecamp initiate an independent audit of expenses for Fiscal Year (FY) 2017-18. An audit was performed by an independent audit firm, D.H. Scott and Company, a Certified Public Accountants Partnership and completed on November 14, 2018. D.H. Scott and Company issued a Report of Independent Auditors on Basecamp's Schedule of Expenditures for FY 2017-18, providing an unqualified opinion, which means the auditors believe Basecamp's expenses are free of any misrepresentations (see Attachment B). The auditors also issued Statement of Accounting Standards (SAS) 114 - Auditor's Communication with Those Charged with Governance letter related to those audits, which revealed no significant audit findings. The Resource Management Agency (RMA) reviewed the Audited Schedule of Expenditures and the Report of Independent Auditors and concluded that the report provided reasonable assurance that Basecamp's expenses were free of material misstatements.

The current Operation and Management Agreement ("Agreement") between the County and Basecamp is effective for the period August 1, 2019 through December 31, 2026. The new Agreement requires Basecamp initiate a Financial Statement Audit annually, to include the Balance Sheet, Income statement, Statement of Owner's Equity and Statement of Cash Flows. Additionally, the County can separately request an independent audit of expenses at any time, but not to exceed twice a year. RMA will continue to review the audited reports and implement any agreed upon financial adjustments and/or operational improvements.

The new Agreement with Basecamp restricts their rights to procure goods and services on behalf of the County. RMA will be reviewing Basecamp's invoices to ensure compliance with the terms of the Agreement; including, but not limited to, the County's prior approval to negotiate and contract for goods and services. Any anomalies will be addressed and resolved with Basecamp prior to reimbursing Basecamp for monthly deficits.

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Audit Team

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Original Issued 20th day of August 2019.

Amended to include management responses received on 16th day of September 2019. Amended report issued on 15th day of November 2019

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