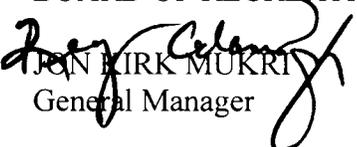


FOR INFORMATION ONLY

CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS

AUGUST 11, 2010

TO: BOARD OF RECREATION AND PARK COMMISSIONERS  
FROM:  JON KIRK MUKRI  
General Manager  
SUBJECT: CITY CONTROLLER "FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS AND RELATED PAYMENTS BY J. H. KISHI COMPANY"

On August 3, 2010, the Office of the City Controller (Controller) released the "Forensic Audit of the Reported Gross Receipts and Related Payments by J. H. Kishi Company".

Audits are routinely performed on concessions as part of the duties and responsibilities of the Department of Recreation and Parks (RAP) Audit Section. J. H. Kishi Company (Kishi) has operated the electric golf carts rental concession since 1975. The last contract began in 1991 and Kishi has operated on a month-to-month basis since the contract expired in 2003.

In January 2009, the Department informed Kishi of the intent to perform an audit on the concession. Due to scheduling conflicts with Kishi, the audit began in April 2009. RAP's initial draft audit found that Kishi underreported gross revenue by \$564,556. Because of the initial finding, RAP requested assistance from the Controller. The Controller reviewed RAP's initial draft audit and believed that a forensic audit of Kishi was appropriate.

The Controller engaged the services of Thompson, Cobb, Bazilio & Associates (TCBA), an independent auditor to perform a forensic audit of Kishi. TCBA reviewed the Department's initial draft findings, interviewed Kishi, observed the golf cart operation, and performed further forensic accounting review.

TCBA found that a substantial portion of RAP's noted discrepancy (\$564,556) was explained by Kishi as loans from Kishi's principals (\$379,000), a wire transfer from a personal account (\$50,000), and underreporting of gross revenues related to golf tournaments (\$34,599). TCBA does not provide information regarding the remaining balance of the discrepancy (\$100,957) but, states that the balance "could also be reasonably explained."

The Controller audit report finds and recommends:

Finding No. 1

Kishi had a poor internal control environment which could lead to the underreporting of revenues, which included: not making deposits on a regular schedule or interval; not maintaining copies of bank deposit slips for deposits of revenues; having an inadequate separation of duties; and, not preparing monthly financial statements or bank reconciliation statements.

Recommendation

Ensure that any future contracts that may involve handling of cash receipts by concessionaires require appropriate internal controls, such as proper separation of duties for cash handling and a clear audit trail to show that all amounts collected have been properly reported.

Finding No. 2

Golf cart rental revenues, specifically from golf tournaments, were not completely reported to the City. Kishi did not maintain a listing of golf tournaments held for the calendar years 2006, 2007, and 2008. Also, RAP did not have a listing of golf tournaments held for calendar years 2006 or 2007.

Recommendation

Consider performing further research to determine the number of golf tournaments held at City golf courses during the 2006 and 2007 calendar years to quantify additional unreported revenues.

Finding No. 3

Kishi underreported revenues by at least \$34,599 during the audit period. Under the terms of the agreement, the City receives 47% of the revenues. The underreported revenue resulted in underpayment of fees to the City in the amount of \$16,262.

Recommendation

Pursue collection for the underpaid rental fees of \$16,262 plus any other amounts determined to be underpaid.

Finding No. 4

RAP took over the collection of cart rental fees on March 1, 2010. Despite Kishi no longer having to perform this key function of the contract, they still receive 53% of the golf cart rental revenues per the contract.

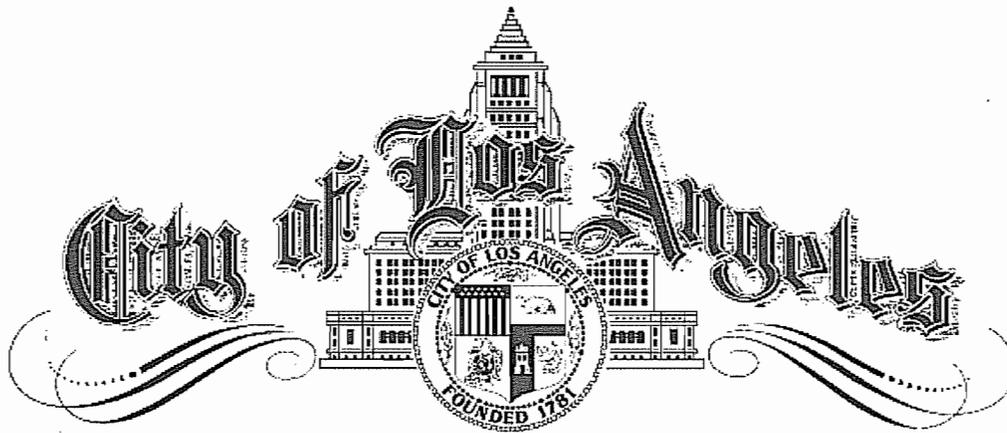
Recommendation

Work to expedite either executing a new contract for golf cart rental operations or bringing the function in-house.

The audit report also notes that since RAP took over the collection of the golf cart fees, revenue collected from March 1, 2010 to May 31, 2010, were 13.9% higher than for the same three-month period in 2009, despite the fact that the number of golf rounds decreased by 4.7% and there had been no change in golf cart rental prices.

A full copy of the Controller audit report is attached for your review. RAP has until September 3, 2010, to submit a response to the Controller on the audit recommendations.

This report was prepared by Robert N. Morales, Senior Management Analyst II, Finance Division.



WENDY GREUEL  
CONTROLLER

August 3, 2010

The Honorable Antonio Villaraigosa  
The Honorable Carmen Trutanich  
Honorable Members of the City Council

As the City faces challenging economic times, it is critically important that City contractors responsible for collecting money owed to the City are doing so appropriately. As City Controller, it is my job to ensure that nothing falls through the cracks, even in a City as large as Los Angeles.

Recently, at the request of the Department of Recreation and Parks (RAP), I conducted the attached audit of a RAP contract with J.H. Kishi (Kishi) which manages golf cart rentals at the City's five major golf courses. The audit examined Kishi's gross receipts and associated payments to the City from 2006-2008.

I am disappointed by the main finding, which indicated Kishi underreported \$34,599 to the City and therefore underpaid the City by at least \$16,262. Our audit found that the root of the problem was that Kishi did not accurately record or report all receipts from rentals for golf tournaments.

Due to Kishi's poor internal controls, which included a manual cash-only system and an irregular deposit schedule, there remains a risk that even more revenues have gone unreported. However, due to lack of documentation or other evidence, we could not determine an additional amount.

RAP has had a contract with Kishi since 1991, and while the original contract expired in 2003, Kishi has been operating on a month to month agreement. The contract requires Kishi to remit rental payments to RAP equal to the greater of \$1 million or 47% of their annual gross receipts. During the three-year period ending December 31, 2008, Kishi paid a total of approximately \$4.6 million in rent based on reported gross receipts of approximately \$9.9 million.

One of Kishi's responsibilities in the original contract was to manage the collection of golf cart rental fees, a responsibility that RAP took over in March 2010. While the City now has control over the revenue receipt process, Kishi is still paid the same percentage, 53% of golf cart rental revenue, for fewer services. Our auditors also noted that RAP revenues increased by 14% over a

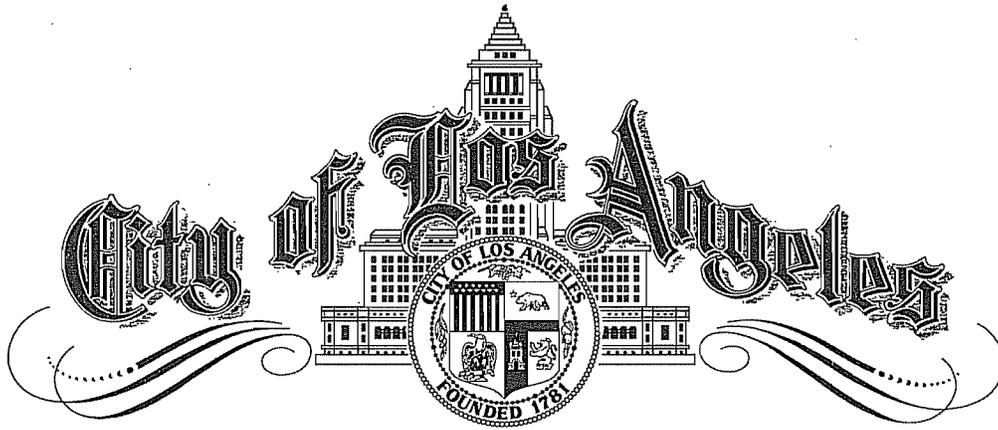
comparative three month period under Kishi, once RAP assumed this responsibility. RAP should work to expedite a new contract that considers this change, and consider other proposals for providing golf cart rentals, that are in the best interest of the City.

Any underreported money to the City concerns me, but in this case we have no idea how much money may still be owed because of Kishi's inadequate internal controls. I look forward to working with all of you to ensure every dollar that belongs to the City is provided to the City so that we can do everything possible to address our budget deficit.

Sincerely,



Wendy Greuel  
City Controller



WENDY GREUEL  
CONTROLLER

August 3, 2010

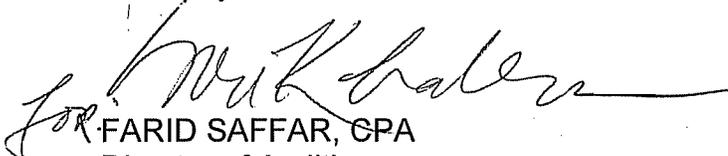
Jon Kirk Mukri, General Manager  
Department of Recreation and Parks  
221 N. Figueroa St., 15<sup>th</sup> Floor  
Los Angeles, CA 90012

Dear Mr. Mukri:

Enclosed is the report entitled, "Forensic Audit of the Reported Gross Receipts and Related Payments by J.H. Kishi Company" for the three year period ending December 31, 2008. A draft of this audit report was provided to your office, and comments provided by your Department at the June 22, 2010 exit conference were evaluated and considered prior to finalizing this report.

Please review the final audit report and advise the Controller's Office by September 3, 2010 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

  
FARID SAFFAR, CPA  
Director of Auditing

Enclosure

cc: Reverend Jeff Carr, Chief of Staff, Office of the Mayor  
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor  
Barry A. Sanders, President of Board of Rec. & Parks Commissioners  
Miguel A. Santana, City Administrative Officer  
June A. Lagmay, City Clerk  
Gerry F. Miller, Chief Legislative Analyst  
Independent Auditors

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT, SYSTEMS, AND FINANCIAL CONSULTANTS

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August 2, 2010

Ms. Wendy Greuel, Controller  
City of Los Angeles Controller's Office  
200 N. Main Street, Suite 300  
Los Angeles, CA 90012

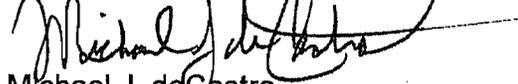
Dear Ms. Greuel:

Thompson, Cobb, Bazilio & Associates (TCBA) has completed its forensic audit of the reported gross receipts and related payments by J.H. Kishi Company (Kishi). Under contract with the Department of Recreation and Parks (RAP), Kishi provides golf rental services at the City's five major golf courses. The contract requires Kishi to remit rental payments to RAP equal to the greater of \$1 million or 47% of golf cart rental gross receipts. Our audit covered reported gross receipts and related payments by Kishi for the years ended December 31, 2008, 2007 and 2006. Attached is the final report on the results of our audit.

We would like to express our appreciation for the cooperation and support provided to us during our audit by both RAP and Kishi personnel.

Please feel free to call me anytime at 310 792-4640 ext. 110 if you should have any questions on the attached report.

Best regards,



Michael J. deCastro  
Principal

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**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS**

**FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
AND RELATED PAYMENTS BY J. H. KISHI COMPANY  
FOR THE YEARS ENDED  
DECEMBER 31, 2008, 2007 AND 2006**

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**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
AND RELATED PAYMENTS BY J.H. KISHI COMPANY**

**EXECUTIVE SUMMARY**

At the request of the City of Los Angeles Controller's Office, Thompson, Cobb, Bazilio & Associates, PC was engaged to conduct a forensic audit of the reported gross receipts and related payments by J.H. Kishi Company (Kishi) for the years ended December 31, 2008, 2007 and 2006.

The primary objective of our audit was to determine whether Kishi paid the rental and other fees due to the City accurately and in a timely manner; and if underreporting of revenue was found, to estimate the amount of underpayment due to the City.

Overall, our audit concluded that Kishi underreported revenues by at least \$34,599. Under the contract terms, the City receives 47% of the golf cart rental revenues. Therefore, the underreported \$34,599 in rental fees resulted in underpaid fees of \$16,262.

The \$34,599 results solely from unreported revenues from tournaments (Kishi reported some, but not all, tournament revenues). Due to Kishi's poor internal controls and a lack of documentation, we could not quantify the amount of any additional potential underreported revenues. For example, Kishi may have failed to report revenues for other tournaments, but neither Kishi nor the Department of Recreation and Parks (RAP) maintained a listing of all golf tournaments held during the three year audit period. We recommend that RAP management consider additional research, in an attempt to identify additional tournaments that were held where Kishi did not report any revenues to the City.

Effective March 1, 2010, RAP took over the collection of cart rental receipts from Kishi. It should be noted that cart rental revenues from March 1, 2010 to May 31, 2010 were 14% higher than collections for the same three month period in 2009. This increase occurred, even though there was no change in rental prices, and the number of golf rounds decreased by 5% from 2009 to 2010 for the three months sampled.

**Conclusion**

In conclusion, Kishi had a poor internal control environment which could lead to underreporting of revenues. Based on the increased revenue since RAP took over the collection function, there is a reasonable possibility that Kishi significantly underreported revenue from tournaments, as well as from regular rounds of play. However, other than the \$34,599 discussed above, the amount of any additional underreported revenues, if any, cannot be quantified due to a lack of an audit trail.

**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
AND RELATED PAYMENTS BY J.H. KISHI COMPANY**

**CONTROLLER'S ACCOUNTABILITY PLAN**

|    | <b>RECOMMENDATIONS</b>   | <b>PAGE REFERENCE</b> | <b>MAYOR ACTION REQUIRED</b> | <b>COUNCIL ACTION REQUIRED</b> | <b>DEPARTMENT ACTION REQUIRED</b> |
|----|--|-----------------------|------------------------------|--------------------------------|-----------------------------------|
|    | RAP management:  |                       |                              |                                |                                   |
| 1. | Ensure that any future contracts that may involve handing of cash receipts by concessionaires require appropriate internal controls, such as proper separation of duties for cash handling and a clear audit trail to show that all amounts collected have been properly reported. | 8                     |                              |                                | RAP                               |
| 2. | Consider performing further research to determine the number of golf tournaments held at City golf courses during the 2006 and 2007 calendar years to quantify additional unreported revenues.   | 8                     |                              |                                | RAP                               |
| 3. | Pursue collection for the underpaid rental fees of \$16,262 plus any other amounts determined to be underpaid.   | 8                     |                              |                                | RAP                               |
| 4. | Work to expedite either executing a new contract for the golf cart rental operations or bringing the function in-house.  | 9                     |                              |                                | RAP                               |

**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
AND RELATED PAYMENTS BY J.H. KISHI COMPANY**

**BACKGROUND, OBJECTIVES, AND METHODOLOGY**

**BACKGROUND**

The Department of Recreation and Parks (RAP) contracts with J.H. Kishi Company (Kishi), an S-corporation, to provide golf cart rental services at the City's five major golf courses; Griffith Park, Rancho Park, Sepulveda, Woodley Lakes, and Hansen Dam. Kishi's current contract was executed on January 28, 1991 for a term of twelve (12) years, ending in 2003. Since that time, Kishi has been operating under a month to month agreement, as allowed by the contract upon mutual agreement by both parties.

The contract requires Kishi to remit rental payments to RAP equal to the greater of \$1 million or 47% of their annual gross receipts. Rental payments are to be paid monthly, within 15 days of month-end, along with specified amounts for utilities. The term "gross receipts" includes the total amount received for the rental of golf carts or any related services, and excludes cash discounts and courtesy passes, as approved by the City. Kishi generally accepts only cash. Checks are accepted for tournaments.

During the three-year period ending December 31, 2008, Kishi paid total rent of approximately \$4.6 million based on reported gross receipts of approximately \$9.9 million.

In 2009, RAP conducted a preliminary review to determine if Kishi complied with the contract's terms and conditions. Regarding the collections and financial reporting process, RAP's review focused on tracing amounts noted on detail source documents to the monthly reports submitted to the City. Kishi used a manual system of recording, and RAP found that Kishi did not record nor fully report all receipts from rentals from tournaments, and that some supporting tournament receipts were missing. RAP also noted that there was a difference of approximately \$565,000 between reported gross receipts and bank deposits, raising additional questions regarding potential underreported revenue.

**OBJECTIVES AND METHODOLOGY**

The primary objectives of this audit were to determine whether Kishi paid the rental and other fees due to the City accurately and in a timely manner; and if underreporting of revenue was found, to calculate the amount of underpayment due to the City. To accomplish the above objectives, we obtained a detailed understanding of Kishi's business operations and documented and assessed the adequacy of internal controls over the collection and reporting of golf cart rental revenues.

**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
AND RELATED PAYMENTS BY J.H. KISHI COMPANY**

The scope of our audit included the 3-year period from January 1, 2006 through December 31, 2008. Our fieldwork ended April 27, 2010. However, at the exit conference, RAP produced data through May 31, 2010 showing the amount of golf cart revenues and the number of rounds of golf. Since this information was considered critical to the audit, with respect to this data, we extended our fieldwork through May 31, 2010, in order to review the reasonableness of the reported data.

The following are the audit steps performed:

- 1) Held a kick-off meeting with City Controller staff and RAP key staff members to discuss the task order objectives, as well as the consultant's expectations, deliverables, and timeline.
- 2) Inventoried available documents in the possession of RAP and the City Controller's Office.
- 3) Obtained and reviewed supporting documents provided by RAP auditors in connection with a preliminary review performed in 2009 on Kishi's collections and financial reporting process. Met with RAP staff that conducted the review to obtain a detailed understanding of potential issues.
- 4) Provided a document request to RAP and Kishi for any other relevant documents.
- 5) Examined the contract between RAP and Kishi to determine if it adequately defined what "gross receipts" are for the purposes of the revenue-sharing agreement and if it contains specific cash handling procedures and financial reporting requirements.
- 6) Gained an understanding of Kishi's business and financial reporting process by analyzing documents, conducting interviews, and observing golf rental operations.
- 7) Gained an understanding of the oversight procedures and practices used by RAP by analyzing documents and conducting interviews. Also, determined if RAP conducts surprise cash counts or inspections and uses

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methods such as “mystery shoppers” and customer surveys as part of vendor oversight.

- 8) Reviewed Kishi’s procedures to document, report, and remit gross receipts to RAP, including how Kishi tracks and controls the use of free or complimentary (“comps”) golf carts. At a minimum, the vendor should be required to track the type of comps used and to report monthly to the City the reasons for the comps, who authorized the comps, what customers used the comps, and how many times.
- 9) Determined if Kishi’s cash management procedures include specific policies concerning how to control, account for and report cash received, including, but not limited to:
  - Segregation of duties (for example, the cashier should not reconcile the cash count to the register tape totals);
  - Detailed reporting;
  - Reconciliation of daily bank deposits by city, not vendor staff;
  - A computerized point-of-sale (“POS”) cash register system;
  - Paper and electronic transaction records; and
  - Daily cash register reports.
- 10) Assessed the availability of key documents needed to verify gross receipts such as bank statements, bank deposit slips and cash register tapes.
- 11) Documented possible schemes (and the likelihood) to underreport gross receipts. Schemes could include collecting rentals, but not ringing up the sale; not making deposits timely or at all; continually delaying deposits; and not making full deposits by withholding cash.

**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
AND RELATED PAYMENTS BY J.H. KISHI COMPANY**

**RESULTS OF REVIEW**

**Kishi Underreported Golf Cart Revenues by at Least \$34,599 During the Three Year Audit Period. However, Based on Kishi's Inadequate Financial Management System and Internal Controls, There Could be Additional Unreported Revenues.**

RAP's preliminary review identified that Kishi underreported revenues by at least \$34,599 during the audit period. Based on our audit, which included a review of the RAP auditor's workpapers, we agree with this amount. The \$34,599 results solely from unreported revenues related to tournaments (Kishi reported some, but not all, tournament revenues). Under the contract terms, the City receives 47% of the golf cart revenues. Therefore, the underreported \$34,599 in rental fees, resulted in underpaid fees of \$16,262 (see Exhibit 1).

Due to Kishi's poor internal controls, there is a risk that other revenues may have gone unreported. However, due to a lack of documentation, we were unable to quantify the amount of any additional potential unreported revenues. For example, Kishi may have failed to report revenues for other tournaments, but neither Kishi nor RAP maintained a listing of all golf tournaments held during the three year audit period.

Following is a listing of weaknesses that we identified in Kishi's internal control structure (see Exhibit 2 for a flowchart of Kishi's golf rental process for recording, depositing, and reported revenues).

1. Golf rental revenues, specifically from golf tournaments, were not completely reported to the City. The daily record that summarized daily rental revenues did not clearly indicate revenue from tournaments. Because the daily record was the basis for the monthly revenue summary, which in turn was the basis for the calculation of the 47% City share, there was a strong indication of underreporting of golf cart tournament revenues to the City.
2. There was no mechanism in place to monitor collection of rentals from shotgun golf tournaments (usually paid by the tournament organizer).
3. Kishi did not maintain a listing of golf tournaments held for the years 2006, 2007, and 2008 to prove that they have in fact declared the accurate amount of golf rental revenue from tournaments. (Note: RAP did have a listing of golf tournaments for 2008, but not 2006 and 2007).
4. Cash receipts from golf cart revenue may not be deposited intact in the same form and amount since deposits were not made on a regular schedule or interval.

**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
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5. Deposits to Kishi's depository account occurred at irregular intervals. Sometimes receipts from one or two golf courses were not deposited for an entire month.
6. Matching of deposits to daily rental records is difficult to perform since Kishi did not maintain copies of bank deposit slips for deposits of golf cart receipts and did not make deposits for such revenue on a daily basis.
7. There was an inadequate separation of duties. Review of daily records, monthly summarization of revenues and deposit of cash receipts were performed by a single person (the bookkeeper who is a family member).
8. Monthly financial statements were not prepared.
9. Bank reconciliation statements were not prepared.

The Kishi contract states that the concessionaire shall utilize cash handling and sales recording systems described in detail in Exhibit B to the contract. However, Exhibit B contains limited cash handling and sales recording system or procedural guidance. While current procedures for golf cart rentals do not involve handling of cash receipts for rentals by the concessionaire, any future contracts that may involve handing of cash receipts by concessionaires should require appropriate internal controls, such as proper separation of duties for cash handling and a clear audit trail to show that all amounts collected have been properly reported.

As previously stated, RAP noted a difference of approximately \$565,000 based on a comparison between total golf cart revenue per Monthly Cash Remittance Advices prepared by Kishi, versus the deposits posted to Kishi's bank statements for the three years 2006, 2007 and 2008. RAP initially questioned this amount as potential unreported revenue.

Although a large excess of bank deposits over reported revenues could be an indication of underreported revenues, there may also be valid reasons for the discrepancy. However, Kishi's poor internal controls make it difficult, if not impossible, to relate receipts to bank deposits.

Based on our review of a sample of posted bank deposits and supporting documents submitted by Kishi, we found no conclusive evidence that the excess of deposits against the reported golf cart revenues per the cash remittance advices were related to unreported revenue. For example, a substantial portion of RAP'S noted discrepancy, \$379,000, was explained by Kishi as loans from Kishi's principals. Our review of the supporting documents showed that this amount was in fact transferred from the personal bank accounts of the principals.

**CITY OF LOS ANGELES  
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An additional incoming wire transfer of \$50,000 from a personal account was also added to Kishi's bank balance. Other additions to the bank balance could also be reasonably explained.

RAP should consider performing further research to determine the number of golf tournaments held at City golf courses during the 2006 and 2007 calendar years so that the amount of unreported golf cart rental revenue can be quantified and the City paid their proper revenue share. However, beyond this research, we recommend that no further substantive testwork be performed due to the lack of documentation and the poor audit trail.

**Recommendations**

**RAP management:**

- 1) Ensure that any future contracts that may involve handing of cash receipts by concessionaires require appropriate internal controls, such as proper separation of duties for cash handling and a clear audit trail to show that all amounts collected have been properly reported.**
- 2) Consider performing further research to determine the number of golf tournaments held at City golf courses during the 2006 and 2007 calendar years to quantify additional unreported revenues.**
- 3) Pursue collection for the underpaid rental fees of \$16,262 plus any other amounts determined to be underpaid.**

**Revenues After Kishi Stopped Collecting Golf Cart Rental Fees Have Increased Significantly, Despite the Fact That the Number of Golf Rounds Has Decreased.**

To supplement our review of the potential for unreported revenue, we compared reported revenue for the first three months under new procedures where rental receipts are collected by RAP, with revenue reported prior to those procedures being implemented. We also examined Kishi's financial statements compiled by Kishi's accountant and income tax returns for 2007 and 2008.

Effective March 1, 2010, RAP took over the collection of cart rental receipts from Kishi. Our review found that cart rental revenues from March 1, 2010 to May 31, 2010 were 14% higher than collections for the same three month period in 2009. This increase occurred, even though there was no change in rental prices, and

**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
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the number of golf rounds actually decreased by 5% from 2009 to 2010 for the three months sampled.

| <b>Comparison of 2009 to 2010 Cart Revenues and Golf Rounds</b> |                      |                      |            |                          |
|---|----------------------|----------------------|------------|--------------------------|
|   | 3/1/09 to<br>5/31/09 | 3/1/10 to<br>5/31/10 | Difference | Percentage<br>Difference |
| Golf Cart Revenues  | \$780,292            | \$888,896            | \$108,604  | 13.9%                    |
| Rounds of Golf  | 167,379              | 159,448              | (7,931)    | -4.7%                    |

Our analysis of annual financial statements and income tax returns showed that revenue reported to RAP was consistent with Kishi's financial statements and tax returns for the periods reviewed. However, it must be noted that the financial statements show net losses of \$231,455 and \$112,803 for 2008 and 2007, respectively. This would cause one to question why Kishi would seek to continue this contract.

Month to Month Contract

As previously indicated, the City's contract with Kishi has been operated on a month to month basis since 2003, for more than seven years. Even though RAP took over the collection function in March 2010, Kishi still receives 53% of the cart rental revenues, despite not having to perform a key function of the contract (Kishi still provides the golf carts). Because of this arrangement, RAP should work to expedite either executing a new contract for the golf cart rental operations or bringing the function in-house.

**Recommendation**

- 4) RAP work to expedite either executing a new contract for the golf cart rental operations or bringing the function in-house.**

**LIMITATIONS AND RESTRICTIONS**

This report relates only to matters referred to herein and does not extend to any financial or performance reports pertaining to Kishi taken as a whole. This report is intended solely for the information and use of management of the City of Los Angeles Controller's office and Department of Recreations and Parks and is not intended to be and should not be used by anyone other than these specified parties.

April 27, 2010  
Torrance, California

**CITY OF LOS ANGELES  
DEPARTMENT OF RECREATION AND PARKS  
FORENSIC AUDIT OF THE REPORTED GROSS RECEIPTS  
AND RELATED PAYMENTS BY J.H. KISHI COMPANY**

**Exhibit 1**

**J.H. Kishi Co.  
Forensic Audit of Reported Gross Receipts and Related Payments  
Preliminary Estimate of Underreported Revenue  
For the Years 2006, 2007 and 2008**

**Should be Gross Revenue:**

Gross Revenues Per Cash Remittance Advice:

|   |      |              |           |               |
|---|------|--------------|-----------|---------------|
|   | 2006 | \$ 3,462,356 |           |               |
|   | 2007 | 3,376,820    |           |               |
|   | 2008 | 3,146,074    | \$        | 9,985,250     |
| Add: Unreported revenues  |      |              |           |               |
| Shotgun tournaments (with receipts)   |      | 16,303       |           |               |
| Shotgun tournaments (no receipts, but identified from RAP list of tournaments held in various courses during the years 2006, 2007 and 2008)** |      | 15,576       |           |               |
| Straight tee tournaments (with receipts)  |      | 2,720        |           | 34,599        |
| Total Should be gross revenue   |      |              | \$        | 10,019,849    |
| Less: Reported revenue per Cash Remittance Advice above   |      |              |           | (9,985,250)   |
| <b>Underreported revenue</b>  |      |              | <b>\$</b> | <b>34,599</b> |
| Multiply by 47% City's share  |      |              |           | 47%           |
| Amount due City   |      |              | \$        | 16,262        |

\*\* A complete listing of golf tournaments held during 2006 and 2007 was not available. Neither RAP nor Kishi maintained a listing of golf tournaments. Thus, we were unable to determine the amount of unreported golf cart rental revenues related to tournament play.

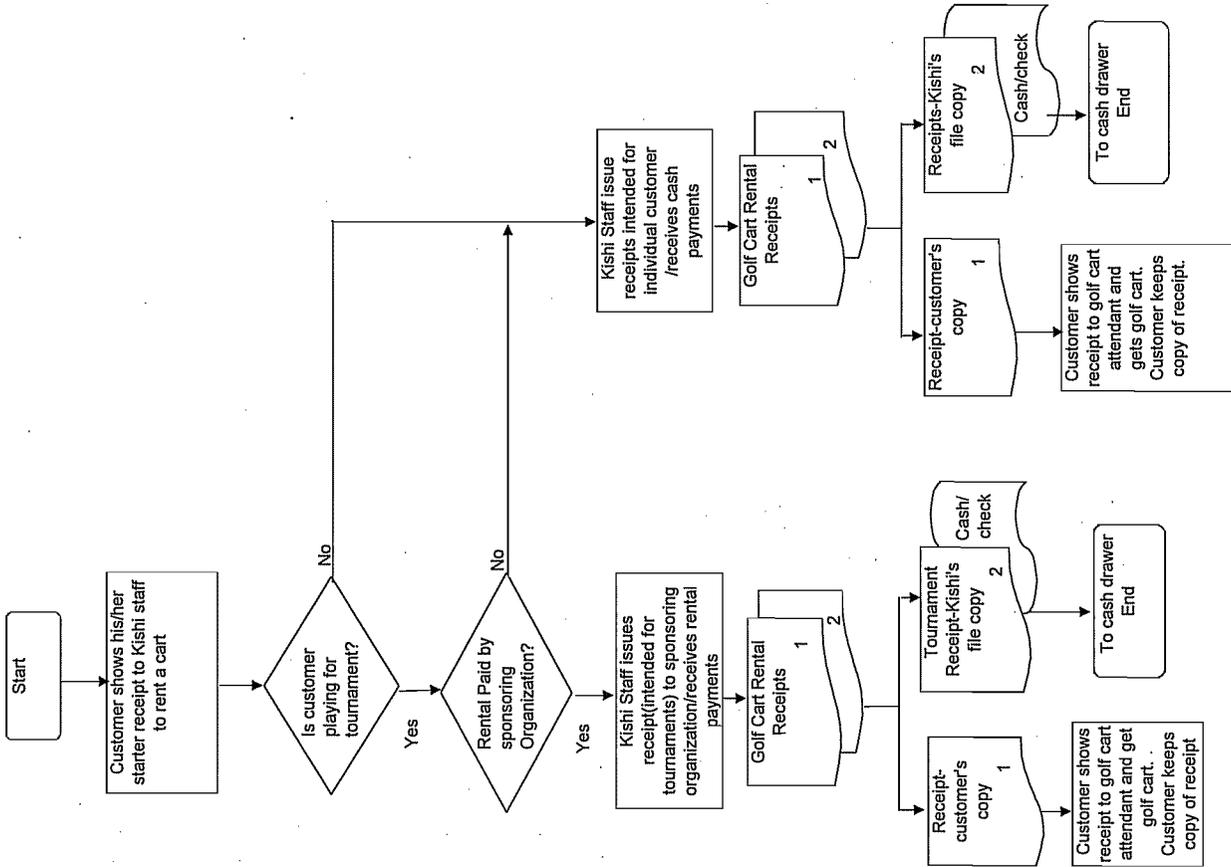
**Note:**

The above amounts were taken from the RAP auditor's working papers. TCBA reviewed the RAP auditor working papers for adequacy of supporting documentation for the above schedule.

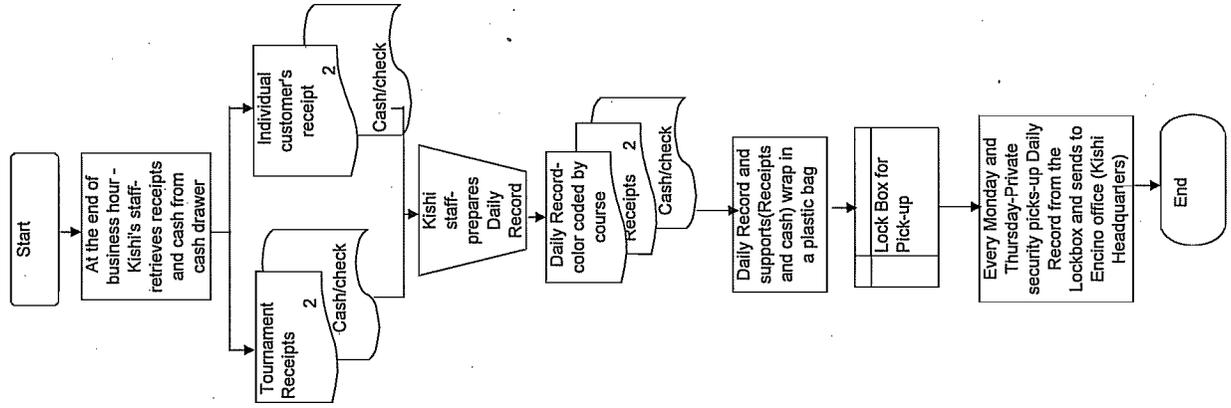
**Conclusion:**

Kishi underreported revenues by at least \$34,599 during the three year audit period.

GOLF CART RENTAL PROCESS



DAILY GOLF CART RENTAL REPORTING



J. H. KISHI, INC.  
FLOW CHART OF REVENUE SUMMARIZATION AND DEPOSITS

