

**Audit of  
Team Classic Golf Services, Inc.  
d/b/a  
Orange County National Golf  
Center and Lodge**

**Report by the  
Office of County Comptroller**

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**Report No. 404  
January 2010**

## TABLE OF CONTENTS

Transmittal Letter .....	1
Executive Summary .....	2
Action Plan.....	4
Introduction .....	7
Background .....	8
Scope, Objectives, and Methodology .....	10
Overall Evaluation .....	12
Recommendations for Improvement .....	13
1. Orange County Utilities Should Monitor the Financial Condition and Related Party Transactions of OCNG .....	14
2. OCNG Should Cooperate with Local Youth Programs to Provide Free Golf Instruction to Orange County Resident Youths.....	18
3. Access to the Server Should Be Restricted .....	21
4. Privileged User Access to the Point-of-Sale Application Should Be Restricted to Appropriate Individuals .....	22
5. OCNG Should Ensure the Reporting Requirements for PCI Data Security Standards are met.....	24

January 26, 2010

Richard T. Crotty, County Mayor  
And  
Board of County Commissioners

We have conducted an audit of Team Classic Golf Services, Inc. doing business as Orange County National Golf Center & Lodge. The audit was limited to a review of compliance with the 1994 Lease Agreement as amended between Orange County and the Orange County National Golf Center & Lodge. The period audited was January 1, 2008 through April 30, 2009.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Responses to our Recommendations for Improvement were received from the General Manager of the Orange County National Golf Center & Lodge and from the Deputy Director of Orange County Utilities and are incorporated herein.

We appreciate the cooperation of the personnel of the Orange County National Golf Center & Lodge and the Orange County Utilities Department during the course of the audit.

Martha O. Haynie, CPA  
County Comptroller

c: Bruce Gerlander, President, Team Classic Golf Services, Inc.  
Ajit Lalchandani, County Administrator  
Raymond Hanson, P.E., Director, Orange County Utilities Department

# EXECUTIVE SUMMARY

## Executive Summary

The scope of our audit of Team Classic Golf Services, Inc. doing business as Orange County National Golf Center & Lodge (OCNG), focused on their operations and their relationship as the tenant in the 1994 Lease, as amended (Lease) of land jointly owned by the County and the City of Orlando (together as landlord). Our objective was to determine OCNG's compliance with the Lease. In conjunction with that objective, we tested and evaluated whether internal controls over the reporting of rounds played and the computation for additional rent were adequate.

The audit included a review of the data and records in support of the lease payments made to the County. The audit period was from January 1, 2008 through April 30, 2009, although transactions occurring prior and subsequent to the period were included as appropriate.

Based on the work performed, OCNG materially complied with the Lease. In our opinion, OCNG's internal controls over the reporting of rounds played and the computation for additional rent were adequate. Opportunities for improvement were noted and are included in the Recommendations for Improvement section of this report. Recommendations for Improvement are directed to Orange County Utilities (identified in the Lease as the representative of the landlord) or to OCNG's management to address the following:

- Orange County Utilities did not closely monitor OCNG's operations. We noted that prior to the audit period, Utilities did not request (for review) copies of OCNG's audited financial statements.
- During the audit period OCNG did not retain evidence adequate to support compliance with the Lease terms requiring 80 hours per month of free golf instruction to Orange County resident youths.
- Access to OCNG's point-of-sale application server was not restricted to appropriately authorized individuals.
- Privileged user access to OCNG's point of sales application was not restricted to only appropriately authorized individuals.
- OCNG should seek clarification as to the proper Payment Card Industry Self Assessment questionnaire to complete.

Management concurred with all five Recommendations for Improvement. Corrective action is completed, underway, or planned as noted herein.

# ACTION PLAN

**AUDIT OF THE ORANGE COUNTY NATIONAL GOLF CENTER & LODGE  
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We recommend Orange County Utilities closely monitors the financial activities of OCNG through review of the annual audited financial statements to determine if all claimed adjustments made in the determination of additional rent due are proper and allowable.	✓			✓	
2.	We recommend the following:					
A)	OCNG continues to work with the County, the City of Orlando, and Orange County School Board to coordinate and inform a greater number of Orange County resident youths about the opportunity to receive free golf instruction.	✓			✓	
B)	OCNG retains appropriate records to allow verification of meeting the Lease requirement of providing a minimum of 80 hours of free golf instruction to Orange County resident youths. This documentation should include the dates and times of instruction provided, as well as the names and addresses of the students receiving instruction.	✓			✓	
C)	The County should periodically monitor OCNG to ensure compliance with lease terms related to free golf instruction for Orange County youths.	✓			✓	

**AUDIT OF THE ORANGE COUNTY NATIONAL GOLF CENTER & LODGE  
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
3.	We recommend the following:					
A)	Physical access to the server housing the point-of-sale application should be secured and not accessible by the application's users. User administration functions should be performed from a workstation containing the point-of-sale application's management console.	✓				✓
B)	The Generic ID should be removed.	✓			Completed	
C)	Vendor access should be controlled. Procedures should be implemented that require management to evaluate and monitor each requested access.	✓			✓	
4.	We recommend the following:					
A)	Create a reduced access class that only contains those application functions that are needed by Pro Shop staff. The accountant's access should be analyzed to determine access needs and either removed or significantly restricted.	✓			✓	
B)	The generic IDs should be removed. When access is needed, identifiable user credentials should be used.	✓			Completed	
5.	We recommend OCNG ensures the reporting requirements for PCI Data Security Standards are met.	✓			✓	



# INTRODUCTION

## Background

In February 1994, Orange County (County) and the City of Orlando (City) jointly entered into a 30-year agreement, leasing land to Team Classic Golf Services, Inc. doing business as Orange County National Golf Center & Lodge (OCNG) to create, as stated in the lease document, “a high quality golf course development that is, however, first and foremost a reclaimed water site compatible with the existing Water Conserv II facilities.” The 1994 Lease, as amended (Lease) has two automatic renewal options for an additional 15 years and subsequent 10 years, providing a possible total 55-year lease term.

OCNG is located on 911 acres of land jointly owned by the County and the City. The land is held as a part of Water Conserv II, a cooperative water reuse project by the County and the City together with the agricultural community.



OCNG is currently a Delaware corporation formed for the purpose of constructing and operating the golf course improvements on the leased land. The OCNG facilities that make up the “golf course improvements” referenced in the Lease currently include:

- Two 18-hole championship golf courses (Crooked Cat and Panther Lake),

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## INTRODUCTION



Audit of the Orange County  
National Golf Center & Lodge

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- One 9-hole executive golf course,
- Golfer's lodge for transient overnight stays,



- The clubhouse that contains the administrative offices, the pro shop retail merchandising store, food and beverage facilities and locker rooms,
- The maintenance building,
- The golf education ("institute") building,
- The golf studio, a 43 acre driving range, and a putting practice facility.

OCNG owns the leasehold improvements but holds no interest in the land or water reclamation facilities incorporated into the design and construction of the golf course improvements.

The Lease called for progressively higher rents to be paid as the development matured. The base monthly rent began upon the opening of the first 18-hole course. Base rent is computed by applying a greens fee factor (adjusted annually for Consumer Price Index increases) to the number of rounds played on the two 18-hole courses. Starting in the eleventh year of operations, additional rent was computed and assessed as a percentage of an adjusted net income (no additional rent was due if adjusted net income was not realized). In the fifteenth year and thereafter, additional rent will be computed as the greater of seven percent of gross receipts from cart and greens fees or 10 percent of the adjusted net income derived from the golf course improvements. The County provides free reclaimed water

for irrigation for the first 20 years of the lease. Lease terms provide that one of the “Landlord’s objective and goal is to cause the Reclaimed Water Facilities to result in the maximum feasible reuse capacity, with an expectation of five million gallons per day of reclaimed water use.”

OCNG has been the recipient of numerous awards over the years. It has been highly ranked in many prestigious golfing industry surveys. Professional Golf Association Tour Qualifying School (PGA Tour Q-School) Finals were held at OCNG in 2003, 2005, and 2007. They are again scheduled to be held at OCNG in 2010.

### **Scope, Objectives, and Methodology**

The scope of our audit of Team Classic Golf Services, Inc. focused on their operation of OCNG and their relationship as the tenant to the County and the City of Orlando as landlord. The audit included a review of the data and records in support of the lease payments made to the County pursuant to the Lease. The audit period was from January 1, 2008 through April 30, 2009, although transactions occurring prior and subsequent to the period were included as appropriate.

Our objective was to determine OCNG’s compliance (as tenant) with the Lease between the County and the City of Orlando (as landlord). In conjunction with that objective, we were to determine if internal controls over the reporting of rounds played and the computation for additional rent were adequate.

Our audit methodology included obtaining an understanding of the internal controls by interviewing OCNG and Orange County Utilities personnel and, as appropriate, performing a walk-through of relevant transactions and internal controls. This was done through observation and examination of supporting documentation and records.

To determine compliance with the Lease Agreement’s provisions for the payment of rent based upon a tiered structure of a base rent (computed by applying an annually adjusted greens fee factor to the number of rounds played

on the two 18-hole courses), and additional rent based upon a percentage of an adjusted net income:

- We reviewed OCNG's point of sale and golf reservation systems through inquiry and observation. We reconciled reports generated by the two systems to independent manual records from the starter stations for the number of golf rounds played.
- To determine the financial position of Team Classic Golf Services, Inc. for the year ended December 31, 2008, we relied upon the "Report of Independent Certified Public Accountants." The "Report of Independent Certified Public Accountants" provided an unqualified opinion on the consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows as presenting fairly, in all material respects, the financial position of Team Classic Golf Services, Inc., as of the report date of issue, April 27, 2009. In accordance with Government Auditing Standards, July 2007 Revision, Chapter 7.42, we met with OCNG's independent certified public accountants and obtained adequate evidence upon which to base our reliance.

The Lease contained additional terms beyond the computation of rent amounts. Certain terms pertain to the use, operation, and maintenance of the reclaimed water facilities built in conjunction with the golf improvements. To determine compliance with those terms we obtained statements from Orange County Public Utilities Engineering Division's Chief Engineer related to their monitoring and assessment of the condition of the water reclamation facilities built as a part of the golf courses.

To determine compliance with Lease terms related to Orange County residents' preferential access and rates to the golf courses, we reviewed fee schedules and other supporting documentation provided by OCNG management.

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## INTRODUCTION



Audit of the Orange County  
National Golf Center & Lodge

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The Lease contained terms requiring the monthly provision of a minimum number of free golf instruction hours to Orange County resident youths. To determine compliance with these terms we reviewed the contract and reports received from a related party provider. We also inquired at other youth organizations as to their knowledge of the opportunities for free golf instruction at OCNG.

Management's written responses to our recommendations have not been subjected to our examination procedures and, accordingly, we express no opinion on them.

## Overall Evaluation

Based on the work performed, OCNG materially complied with the 1994 Lease Agreement, as amended. In our opinion, OCNG's internal controls over the reporting of rounds played and the computation for additional rent was adequate. Opportunities for improvement were noted and are described herein.

# RECOMMENDATIONS FOR IMPROVEMENT

**1. Orange County Utilities Should Monitor the Financial Condition and Related Party Transactions of OCNG**

Orange County Utilities did not closely monitor OCNG's operations. During our review, we noted that Utilities did not request copies of the audited financial statements prior to the audit period.

The lease terms called for rent to be computed and tiered, dependent upon the year of operation after the opening of the first 18-hole course. The base rent in any year of the lease is based upon a greens fee factor (annually adjusted for consumer price index increases) applied to the number of rounds played on the 18-hole courses. The adjusted greens fee factor for the audit period was \$1.37 per round. The reported number of rounds played includes those receiving complementary rounds. Starting in the eleventh year and continuing to the fifteenth year of operations, additional rent was possible if an adjusted profit was realized. The additional rent is computed as 10 percent of OCNG's income less expenses, capital costs, debt service costs, and equity preferred payments. In the fifteenth year and thereafter, additional rent will be computed as the greater of seven percent of gross receipts from cart and greens fees or 10 percent of the net income (less depreciation) derived from the golf course improvements.

We reviewed all of OCNG's audited financial statements issued since the inception of the corporation. Except for the Sixth Lease Amendment (which allowed OCNG to assign, or transfer the lease or any of its rights with the express consent in writing by the County and City), our review found no documented actions taken by Utilities to any of the following disclosures found in the audited financial statements subsequently submitted to the County:

- A) OCNG is currently and has been involved in several complex related party transactions. The material transactions between related parties were disclosed in OCNG's annual audited financial statements. Since the formation of OCNG's corporate entity and



subsequent awards of the Lease and water reclamation projects in 1994, the corporate structure changed. Two wholly owned subsidiaries were created (the Phil Ritson's 19<sup>th</sup> Hole, Inc. for food and beverage operations and the Phil Ritson Golf Institute, Inc. for golf education and curriculum). Later in 1997, subsequent stock purchase agreements resulted in all of the company's Class A voting common stock and nonvoting preferred stock being held by AIG Global Real Estate Investments Corporation (AIGGREIC).

On-going material transactions between the related parties include the following:

- The issuance of nonvoting preferred stock of Team Classic to AIGGREIC in exchange for the funding of deficit operations;
  - Asset management fees;
  - The annual allocation of parent company expenses including the allocation of the general manager position's salary; and,
  - The residual value insurance outstanding on the senior note of \$51.5 million and certain other insurance coverage were obtained through AIGGREIC affiliates.
- B) In March 1998, OCNG notified the insurer of the senior note (an AIGGREIC affiliate) that OCNG had violated certain requirements of the Note Indenture including making payments in excess of pre-established project cost levels (as set forth in the Indenture), spending proceeds on expenditures not designated as part of the Project, and the existence of liens on the collateralized assets. This appears to be when the relationship between OCNG and AIG Global Real Estate began. The insurer later waived these events of default when OCNG entered into an interim loan with AIGGREIC and the subsequent stock

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## RECOMMENDATIONS FOR IMPROVEMENT



Audit of the Orange County  
National Golf Center & Lodge

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purchase agreement noted above that included settlement of the amounts owed from the interim loan.

- C) As a part of the stock purchase agreement noted above, OCNG distributed its shares of the Phil Ritson Golf Institute, Inc to the Class B common stock shareholders on December 31, 1998. All assets and liabilities of that subsidiary were removed from the consolidated balance sheet of OCNG in accordance with generally accepted accounting principles. In connection with the distribution to the stockholders, OCNG wrote off a receivable from the Institute of \$191,742 in that year.
- D) A write off of \$390,092 for certain leasehold improvements related to trailers used for temporary offices prior to the completion of the administrative buildings and included in other expenses was noted in the audited consolidated financial statements for the year ended December 31, 1998.
- E) The audited consolidated financial statements for the year ended December 31, 2003, recorded a \$1,309,993 loss on the disposal related to the closure of a large putting course and the abandonment of plans for construction of a third golf course.

While these transactions occurred prior to the lease term allowing additional rent due on adjusted net profit, the transactions have a negative impact on the computation for additional rent. The above transactions provided the County a basis to question the amount of debt required to construct the golf improvements remaining in operation during the audit period.

Generally accepted accounting principles require disclosure of material related party transactions or of common ownership or management control relationships. The standards acknowledge that except for routine transactions, it will generally not be possible to determine whether a particular transaction would have taken place if the parties had not been related, or assuming it would have taken place,

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## RECOMMENDATIONS FOR IMPROVEMENT



Audit of the Orange County  
National Golf Center & Lodge

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what the terms and manner of settlement would have been. Accordingly, it is difficult to substantiate representations that a transaction was consummated on terms equivalent to those that prevail in arm's-length transactions.

When seeking funding for the development of the golf course facilities, OCNG as a newly formed company did not have a history/experience in the type project awarded although several initial stockholders were from the professional golfing industry. Audited financial statements for the years ended December 31, 1997, and 1998, disclosed violations of note indentures. Additional equity was required at that time. It was during this time frame that OCNG became involved with AIGGREIC, including entering into a 90-day loan of \$20 million. This loan was settled as a part of a stock purchase agreement that resulted in AIGGREIC obtaining control of the company, with then existing stockholders receiving class B nonvoting common stock and a minority interest.

The initial \$51.5 million senior note and residual value insurance were executed prior to the stock purchase agreement with AIGGREIC. However, the subsequent short term \$20 million loan and resulting stock purchase agreement between OCNG and AIGGREIC, transforms those previous transactions into related party agreements. Therefore it is difficult to substantiate the actual need to have entered into the additional financing transactions between the related parties that increased debt issuance costs, interest expense, and future preferred equity payments. The debt service requirements together with the asset management fees and the accumulated dividend obligation on the preferred stock amount to the largest costs and obligations to OCNG during the audit period. Those costs reduce the ability of the County to receive additional rent. As noted above, the terms of the Lease do allow debt service costs and equity preferred payments as adjustments in determining profit for the assessment of additional rent.

OCNG has not generated a profit in any operating year since the Lease was executed in 1994. The County did not receive additional rent in 2008 (the eleventh year) because of the recorded losses. It should be noted that the County,

when negotiating and then entering into that Lease, anticipated receiving additional rent computed as a percentage of profits generated after 10 years of operations.

**We Recommend** Orange County Utilities closely monitors the financial activities of OCNG through review of the annual audited financial statements to determine if all claimed adjustments made in the determination of additional rent due are proper and allowable.

**Orange County Management’s Response:**

Concur. We will ensure that processes are in place and staff assigned to receive the annual audited financial statements and review for contract compliance.

**2. OCNG Should Cooperate with Local Youth Programs to Provide Free Golf Instruction to Orange County Resident Youths**

During the audit period, OCNG did not retain evidence adequate to support compliance with the Lease terms requiring 80 hours per month of free golf instruction to Orange County resident youths. To provide this service, OCNG had contracted with a third-party company controlled by a minority stockholder and former president of OCNG. The monthly reports submitted by the third-party were in summary form and did not identify student names, residences, or dates and times of instruction. This contract expired in March 2009 (during the audit period). Since that time OCNG has operated the program in-house.



Prior to March 2009, OCNG did not coordinate with the parks and recreation departments of the County or City of Orlando, or with Orange County Public Schools Athletics Department to ensure that the youths in Orange County were aware of the availability of a free program for golf instruction.

Section 5.6 of the Lease states:

*“A primary and important mission of the parties is to make the golf course facilities on the Project reasonably available to children, including minorities, so that they will understand and appreciate golf at an early age and continue to have an opportunity to engage in and appreciate the sport thereafter...In that regard, Tenant [OCNG] shall provide eighty (80) hours per month of free instruction time for children through programs of the Orange County Shool Board, the City of Orlando Recreation Department and Orange County Recreational Department, or other programs deemed acceptable...”*

Prior to the end of the service provider’s contract OCNG did not actively pursue marketing the availability of free golf instruction to the children/youths of the residents of the County. The County did not monitor OCNG’s activities to ensure that the program for youths was in place and effective. Subsequent to our inquires to both the County Recreation and Parks Department and to OCNG’s management, the two groups are working together to coordinate offering youth golfing programs to a greater number of Orange County resident youths. The location of the golf course is remote and away from most schools and community centers serving area youth. OCNG Management cited the remote location of the complex as a challenge to the youth program. A primary and important mission of the Lease Agreement is to provide resident youths with free golf instruction opportunities. Due to the lack of supporting documentation, we were unable to verify if the goals were met in the audit period.

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## RECOMMENDATIONS FOR IMPROVEMENT



Audit of the Orange County  
National Golf Center & Lodge

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### **We Recommend** the following:

- A) OCNG continues to work with the County, the City of Orlando, and Orange County School Board to coordinate and inform a greater number of Orange County resident youths about the opportunity to receive free golf instruction.
- B) OCNG retains appropriate records to allow verification of meeting the Lease requirement of providing a minimum of 80 hours of free golf instruction to Orange County resident youths. This documentation should include the dates and times of instruction provided, as well as the names and addresses of the students receiving instruction.
- C) The County should periodically monitor OCNG to ensure compliance with lease terms related to free golf instruction for Orange County youths.

### **OCNG Management's Response:**

- A) Concur. We have implemented programs since March 2009 that have generated interest and participation in excess of minimum requirements.
- B) Concur. Documentation has been in detailed format since this past summer.

### **Orange County Utilities Management's Response:**

- C) Concur. We will ensure that processes are in place and staff assigned to monitor this provision in the contract. We will also follow-up with Orange County Parks and Recreation to facilitate program development with OCNG.

### **3. Access to the Server Should Be Restricted**

During our review of the server that houses the point-of-sale application, we noted the following:

- A) The server is located in the Pro Shop director's office that has a combination lock on the door, and the combination is known by all Pro Shop staff. Physical access to a server should be limited to technical staff that needs the ability to maintain the hardware and/or software.

We were informed that point-of-sale application users needed to access the server to administer application permissions. Those administrative functions could not be performed from a workstation because of the type of client configuration utilized at OCNG. Further, we noted that Food and Beverage management uses special software, due to their remote location, to access the server and perform their security administration tasks. This software could be used to alleviate the need to login directly to a server.

- B) A generic user ID was used by more than one person to login to the Server. Generic IDs inhibit the ability to identify the person actually performing privileged activities. Their use should be limited to situations where an alternative is not feasible. In this case, it does not appear a generic user ID is necessary.
- C) The vendor of the application remotely accessed the server without requesting permission from designated staff at OCNG. Vendor access should be controlled to allow management the ability to evaluate and monitor each requested access.

Direct access to the server provides the ability to affect logging levels, install and uninstall applications, change system configuration settings, and start and shut down computer services. These types of activities could have a negative impact on the point-of-sale application.

**We Recommend** the following:

- A) Physical access to the server housing the point-of-sale application should be secured and not accessible by the application's users. User administration functions should be performed from a workstation containing the point-of-sale application's management console.
- B) The Generic ID should be removed.
- C) Vendor access should be controlled. Procedures should be implemented that require management to evaluate and monitor each requested access.

**OCNG Management's Response:**

- A) Concur. We are in the process of completing a secure cabinet design.
- B) Concur. Completed.
- C) Concur. We are working on internal protocols to comply while not putting operations at risk due to one person IT staff.

**4. Privileged User Access to the Point-of-Sale Application Should Be Restricted to Appropriate Individuals**

During our review of the point-of-sale application that processes the financial transactions of the Pro Shop, restaurant, and lodge; we noted the following:

- A) A highly privileged class of permissions was assigned not only to Pro Shop management who are administrators, but also to all Pro Shop staff, including part-time staff and an accountant. The scope of the highly privileged class of permissions contains the ability to void an entire transaction, void a tender from a previous round, process tax exempt sales, perform



price overrides, reset the audit trail file, add/delete or modify users, etc. Additionally, management was not aware of all the privileges included in this class. To minimize risk of unauthorized transactions, the administration of user access to an application's functional capabilities should be governed by a hierarchy of limited privileged access.

We were informed that the point-of-sale application vendor created all the Employee Class privileges based on meetings with OCNG management during the application's installation. Pro Shop and Food and Beverage management rarely modify these privileges and primarily just add and remove users as needed due to staff turnover.

- B) The point-of-sale application has generic user IDs that were created during the implementation of the system. Except for one of these IDs, neither the Pro Shop Director nor the Food and Beverage Director knew who would use these IDs. The use of generic IDs reduces accountability when they are used by several individuals and may increase the use of sharing individual IDs.

**We Recommend** the following:

- A) Create a reduced access class that only contains those application functions that are needed by Pro Shop staff. The accountant's access should be analyzed to determine access needs and either removed or significantly restricted.
- B) The generic IDs should be removed. When access is needed, identifiable user credentials should be used.

**OCNG Management's Response:**

- A) Concur. We are in the process of changing.
- B) Concur. Completed.

**5. OCNG Should Ensure the Reporting Requirements for PCI Data Security Standards are met.**

We requested information about the computer environment, including the latest Payment Card Industry (PCI) Data Security Standard annual self-assessment. As a result of our inquiry, we were provided with a completed standardized Self Assessment Questionnaire (SAQ) that is designed for payment card transaction processing operations that do not electronically store payment card data. During subsequent information gathering, we became aware that the applications at OCNG store credit card data. As such, it is likely that OCNG would need to prepare a more comprehensive assessment.

The PCI Data Security Standard includes requirements for security management, policies, procedures, network architecture, software design, and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. The SAQ is designed to help organizations determine whether they meet the requirements of the PCI Data Security Standard.

Not addressing the appropriate scope of electronic controls could expose OCNG to potential losses if credit card data is breached and key controls are not present and functioning. This condition may even lead to non-compliance penalties being levied by the organization that authorizes and settles their card transactions.

**We Recommend** OCNG ensures the reporting requirements for PCI Data Security Standards are met.

**OCNG Management's Response:**

Concur. We have completed approximately 75 percent of all required tasks. Tasks should be complete by end of Q1 2010.