

Internal Audit Department

O R A N G E C O U N T Y
 6th Largest County in the USA

FINAL CLOSE-OUT FIRST FOLLOW-UP AUDIT:

REVENUE GENERATING LEASE AUDIT OC PUBLIC WORKS BELLA'S KITCHEN

**\$869,000 GROSS RECEIPTS
 ANNUALLY
 \$87,000 RENT PAID TO THE
 COUNTY ANNUALLY**

AS OF JULY 30, 2010

Our First Follow-Up Audit found that OC Public Works and Bella's Kitchen satisfactorily implemented all five (5) recommendations from our original audit report.

During the original audit, Bella's Kitchen reported approximately \$869,000 in gross receipts and paid rent to the County of approximately \$87,000. Over its 10 year term as extended, this lease agreement is estimated to generate over **\$693,000** in rent to the County.

**AUDIT NO: 1038-A
 REPORT DATE: NOVEMBER 23, 2010
 (Original Audit No. 2838)**

Director: [Dr. Peter Hughes, CPA](#)
 Deputy Director: [Eli Littner, CPA, CIA](#)
 Senior Audit Manager: [Autumn McKinney, CPA, CIA](#)
 Audit Manager: [Lily Chin, CPA](#)

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach



GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF**
Director of Internal Audit Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner **CPA, CIA, CFE, CFS, CISA**
Deputy Director Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael J. Goodwin **CPA, CIA**
Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
Senior Audit Manager

Autumn McKinney **CPA, CIA, CISA, CGFM**
Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the
OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1038-A November 23, 2010

TO: Jess Carbajal, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up
Audit of Revenue Generating Lease
Audit for Bella's Kitchen, Original Audit
No. 2838, Issued June 5, 2009

We have completed a First Follow-Up Audit of Revenue Generating Lease Audit for Bella's Kitchen. Our audit was limited to reviewing, as of July 30, 2010, actions taken to implement the five (5) recommendations in our original report dated June 5, 2009.

The results of our Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for all recommendations, **this report represents the close-out of the original audit.**

Each month I submit an **Audit Status Report** to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Attachments

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.



Table of Contents

*First and Final Close-Out Follow-Up Audit:
Revenue Generating Lease Audit
OC Public Works
Bella's Kitchen (Original Audit No. 2838)
Audit No. 1038-A*

As of July 30, 2010

Transmittal Letter	i
OC Internal Auditor's Report	
Scope of Review	1
Background	1
Results	1
1. Inadequate Locker Fee Records (Control Finding)	1
2. Rent Overpaid on Sales Tax (Control Finding)	2
3. Gift Certificates Not Serially Numbered (Control Finding)	2
4. Catering Invoices Not Serially Numbered (Control Finding)	2
5. Supporting Documentation for Voids (Control Finding)	2

OC Internal Auditor's Report



Audit No. 1038-A

November 23, 2010

TO: Jess Carbajal, Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

A handwritten signature in blue ink, reading "Peter Hughes", is placed over the "FROM:" line.

SUBJECT: **First and Final Close-Out** Follow-Up Audit of Revenue Generating Lease Audit
for Bella's Kitchen, Original Audit No. 2838, Issued June 5, 2009

Scope of Review

We have completed a First Follow-Up Audit of Revenue Generating Lease Audit for Bella's Kitchen. Our audit was limited to reviewing actions taken as of July 30, 2010 to implement the five (5) recommendations made in our original audit report.

Background

The original audit reviewed whether Bella's Kitchen's records adequately supported their monthly gross receipts reported to the County. During the original audit, Bella's Kitchen generated approximately \$869,000 in gross receipts and the rent paid to the County was approximately \$87,000. The original audit identified four (4) findings where recordkeeping should be enhanced to support the reported gross receipts and one (1) recommendation where rent was overpaid due to sales tax reported as gross receipts.

Results

OC Public Works and Bella's Kitchen implemented or addressed all five (5) recommendations from the original audit report. Following is the implementation status of the original recommendations:

1. Inadequate Locker Fee Records (Control Finding)

Recommendation No. 1: We recommend that OC Public Works require Bella's Kitchen to enable a separate ring key/category in its cash register for locker fees and record all locker transactions in its cash register.

Current Status: **Implemented.** Our review of the cash register tapes for two sample days of 6/1/10 and 6/29/10 found that Bella's Kitchen enabled a "Locker" ring key in its cash register to record locker fees received.

OC Internal Auditor's Report



2. Rent Overpaid on Sales Tax (Control Finding)

Recommendation No. 2: We recommend that OC Public Works evaluate whether rent overpaid due to sales tax should be refunded to Bella's Kitchen.

Current Status: **Implemented.** Our review of supporting documentation found that OC Public Works determined it was proper to refund the overpaid rent and OC Public Works issued a credit to Bella's Kitchen in April 2009 and May 2009.

3. Gift Certificates Not Serially Numbered (Control Finding)

Recommendation No. 3: We recommend that OC Public Works require Bella's Kitchen to use serially numbered gift certificates and maintain a log of issued and unissued certificates.

Current Status: **Implemented.** Our review of a sample of three gift certificates issued in December 2009 found that gift certificates are serially pre-numbered and Bella's Kitchen uses the gift certificate booklet stub as a log.

4. Catering Invoices Not Serially Numbered (Control Finding)

Recommendation No. 4: We recommend that OC Public Works require Bella's Kitchen to serially number its catering invoices.

Current Status: **Implemented.** Our review of three sampled invoices from July 2009 found that Bella's Kitchen serially numbers its catering invoices.

5. Supporting Documentation for Voids (Control Finding)

Recommendation No. 5: We recommend that OC Public Works require Bella's Kitchen to retain all supporting documents (cash register receipts) related to voided or canceled transactions along with reasons for the void/cancellation noted.

Current Status: **Implemented.** Our review of three sampled days from June 2010 found that Bella's Kitchen has taken corrective action to implement a policy for retaining the cash register receipts for voided and canceled transactions and documenting the reasons. In the sample days tested, we did find some receipts were not retained or did not list reasons. However, there was reasonable improvement made since the original audit and we consider this recommendation to be substantially implemented.

We appreciate the cooperation and assistance extended to us by OC Public Works and Bella's Kitchen during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

OC Internal Auditor's Report



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Alisa Drakodaidis, Deputy CEO, CEO/OC Infrastructure

Carlos Bustamante, Director, OCPW/Administration

Joseph Edwards, Manager, OCPW/Real Estate and Facilities

Thomas Mason, Manager, OCPW/Corporate Real Estate

Josie Alvarez, Property Management Supervisor, OCPW/Real Estate Services

Erika St. John, Real Property Technician, OCPW/Real Estate Services

Larry Stansifer, Manager, OCPW/Administration

Mary Fitzgerald, Accounting Manager, OCPW/Accounting Services

Tam Vu, Manager, OCPW/Accounting/Santa Ana River, Watershed, Flood, Leases and Infrastructure

David Santalahti, Manager, OCPW/Accounting/Watershed, Flood, Leases & Infrastructure

Brian Cich, Senior Accountant, OCPW/Accounting/Leases and Infrastructure

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors