

Internal Audit Department

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

FINAL CLOSE-OUT

SECOND FOLLOW-UP AUDIT

REVENUE GENERATING LEASE AUDIT: OC DANA POINT HARBOR DANA POINT YACHT CLUB

AS OF NOVEMBER 7, 2011

**\$1.5 MILLION GROSS
RECEIPTS ANNUALLY
\$82,000 RENT PAID TO
THE COUNTY ANNUALLY**

OC Dana Point Harbor and Dana Point Yacht Club took satisfactory corrective action to implement the two (2) remaining recommendations from our First Follow-Up Audit, dated August 5, 2011. The original audit contained fifteen (15) recommendations.

During the original one-year audit period, Dana Point Yacht Club reported \$1.5 million in gross receipts and paid \$82,000 in rent to the County. For the period of June 30, 1998 (lease assignment) through November 31, 2012 (lease expiration date), the lease is estimated to generate over \$1 million in rent to the County.

AUDIT NO: 1136-A

REPORT DATE: DECEMBER 13, 2011
(ORIGINAL AUDIT NOS. 2839/2937-E)

Director: Dr. Peter Hughes, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Senior Internal Auditor: Susan Nestor, CPA, CIA

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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



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 to IAD 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
Director

Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF
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
Deputy Director

CPA, CIA, CFE, CFS, CISA
Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael Goodwin
Senior Audit Manager

CPA, CIA

Alan Marcum
Senior Audit Manager

MBA, CPA, CIA, CFE

Autumn McKinney
Senior Audit Manager

CPA, CIA, CISA, CGFM
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. 1136-A December 13, 2011

TO: Brad Gross, Director
OC Dana Point Harbor

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

SUBJECT: **Second and Final Close-Out** Follow-Up
Audit of Revenue Generating Lease
Audit: OC Dana Point Harbor - Dana
Point Yacht Club, Original Audit No.
2839, Issued September 23, 2009

We have completed a Second Follow-Up Audit of Revenue Generating Lease Audit: OC Dana Point Harbor - Dana Point Yacht Club. Our audit was limited to reviewing, as of November 7, 2011, actions taken to implement (2) two recommendations from our original audit. We conducted this Second Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found that OC Dana Point Harbor and Dana Point Yacht Club **implemented the two (2) remaining recommendations. As such, this report represents the final close-out of the original audit.**

Each month I submit an **Audit Status Report** to the 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.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 6.

Table of Contents



*Second and Final Close-Out Follow-Up Audit of Revenue Generating Lease
Audit: OC Dana Point Harbor - Dana Point Yacht Club
Audit No. 1136-A*

As of November 7, 2011

Transmittal Letter	i
OC Internal Auditor's Report	
Scope of Review	1
Background	1
Results	1
1. Rent Owed for Non-Member Surcharge and Misc. Service Fees (2 Control Findings)	1
2. Rent Recovery Reduces Catering Gross Receipts (2 Control Findings)	2
3. Certain Catering Charges For Member Events Not Reported as Gross Receipts (Control Finding)	3
4. Minor Rent Categories Need Clarification (Control Finding)	3
5. Membership Fees Are Exempt From Percentage Rent (Control Finding)	3
6. Missing POS System Transaction Numbers (Chits) (Control Finding)	3
7. Retention of Daily Food Sale Handwritten Tickets and Periodic Comparison to Point-of-Sale Cashiering System Reports (2 Control Findings)	4
8. Missing Merchandise Handwritten Receipts and Untimely Recording (2 Control Findings)	4
9. Participant Listings for Sailing Lesson and Cruise/Race Applications Are Not Retained (Control Finding)	4
10. Customer Signed Catering Contracts (Control Finding)	5
11. Untimely Submission of Financial Statements (Control Finding)	5

OC Internal Auditor's Report



Audit No. 1136-A

December 13, 2011

TO: Brad Gross, Director
OC Dana Point Harbor

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

SUBJECT: **Second and Final Close-Out** Follow-Up Audit of Revenue Generating Lease
Audit: OC Dana Point Harbor - Dana Point Yacht Club, Original Audit No. 2839,
Issued September 23, 2009

Scope of Review

We have completed a Second Follow-Up Audit of Revenue Generating Lease Audit: OC Dana Point Harbor - Dana Point Yacht Club. Our audit was limited to reviewing, as of November 7, 2011, actions taken to implement two (2) recommendations remaining from our First Follow-Up audit report dated August 5, 2011 (Audit No. 2937-E).

Background

The original audit reviewed whether Dana Point Yacht Club's records adequately supported monthly gross receipts reported to the County and rent was properly paid. During the original audit period, Dana Point Yacht Club reported \$1.5 million in gross receipts and paid \$82,000 in rent to the County. The original audit identified fifteen (15) recommendations related to additional rent owed and where recordkeeping should be enhanced to support reported gross receipts.

Results

Our Second Follow-Up Audit indicated OC Dana Point Harbor (OC DPH) and Dana Point Yacht Club (DPYC) took satisfactory corrective action to **implement the two (2) remaining recommendations. This report represents the final close-out of the original audit.**

Based on the two Follow-Up Audits we conducted, the following is the implementation status of the fifteen (15) original recommendations. The item number from the original report is shown before each heading.

1. Rent Owed for Non-Member Surcharge and Misc. Service Fees (2 Control Findings)

Recommendation No. 1: We recommend that OC DPH require DPYC to begin reporting non-member surcharges, miscellaneous room rentals, and miscellaneous food/beverage service fees as gross receipts to the County and pay the appropriate percentage rent.

OC Internal Auditor's Report



Current Status: **Implemented (Second Follow-Up Audit).** Our review of DPYC's gross receipts statement for the month of August 2011 found that DPYC is now reporting non-member surcharges, miscellaneous room rentals, and miscellaneous food/beverage service fees as gross receipts to the County.

Recommendation No. 2: We also recommend that OC DPH require DPYC to pay additional rent owed of \$938.

Current Status: **Implemented (First Follow-Up Audit).** Our review of documentation provided by OC DPH found that DPYC has paid additional rent owed of \$938. Therefore, we consider this recommendation implemented.

2. Rent Recovery Reduces Catering Gross Receipts (2 Control Findings)

Recommendation No. 3: We recommend that OC DPH require DPYC to discontinue reducing catering gross receipts for the rent expense being passed on to customers by its caterer.

Current Status: **Closed (First Follow-Up Audit).** Subsequent to the original audit, DPYC terminated its exclusive catering agreement with the Turnip Rose and allowed members and non-members to utilize their own caterers for special events. This arrangement lasted for about two years. Effective February 21, 2011, DPYC entered into a new exclusive catering agreement with ZCater, Inc. The new agreement provides that the caterer will be compensated by DPYC for 100% of member catering services and 80% of non-member catered events (DPYC retains 20% of non-member events).

Under the former agreement with the Turnip Rose, the Turnip Rose coordinated events and remitted a percentage of gross receipts (net of the rent expenses passed on to customers) to DPYC. In turn, DPYC reported the reduced amount to the County. Under the new agreement, DPYC will coordinate the events, collect customer payments, and reimburse the caterer for its costs per the agreement. As such, reported gross receipts will not be reduced since the rent expense will not be passed on to the customer. Therefore, we consider this recommendation closed.

Recommendation No. 4: We also recommend that OC DPH require DPYC to pay additional rent owed of \$164 for the sample month of June 2008.

Current Status: **Implemented (First Follow-Up Audit).** Our review of documentation provided by OC DPH found that DPYC has paid additional rent owed of \$164. Therefore, we consider this recommendation implemented.

OC Internal Auditor's Report



3. Certain Catering Charges For Member Events Not Reported as Gross Receipts (Control Finding)

Recommendation No. 5: We recommend that OC DPH require DPYC to begin reporting the caterer's 20% fee, server costs, and pass-through costs as gross receipts to the County.

Current Status: **Closed (First Follow-Up Audit).** See status above for Recommendation No. 3. This recommendation is no longer applicable and we consider this recommendation closed.

4. Minor Rent Categories Need Clarification (Control Finding)

Recommendation No. 6: We recommend that OC DPH determine whether the percentage rent categories for cruise/race fees, sailing lessons, and advertising are proper.

Current Status: **Implemented (First Follow-Up Audit).** In a March 22, 2010 letter to DPYC, OC DPH verified and communicated that the percentage rent categories for cruise/race fees, sailing lessons, and advertising are proper. Therefore, we consider this recommendation implemented.

5. Membership Fees Are Exempt From Percentage Rent (Control Finding)

Recommendation No. 7: We recommend that OC DPH require DPYC to report the membership fees as gross receipts not subject to rent on the monthly rent reports submitted to the County.

Current Status: **Implemented (First Follow-Up Audit).** We reviewed DPYC's gross receipts statement submitted to the County for the sample month of June 2010 and found that DPYC membership fees are now being reported as a not subject to rent line item. Therefore, we consider this recommendation implemented.

6. Missing POS System Transaction Numbers (Chits) (Control Finding)

Recommendation No. 8: We recommend that OC DPH require DPYC to research and determine the causes for missing transaction numbers.

Current Status: **Implemented (First Follow-Up Audit).** DPYC informed us that after the original audit they researched the cause for the missing transaction numbers. They determined that transaction numbers are generated each time staff makes a periodic sales query of the POS cashing system. DPYC has requested staff to print out chits (receipts) when making a sales query to account for the transaction numbers. This appears reasonable. Therefore, we consider this recommendation implemented.

OC Internal Auditor's Report



7. Retention of Daily Food Sale Handwritten Tickets and Periodic Comparison to Point-of-Sale Cashiering System Reports (2 Control Findings)

Recommendation No. 9: We recommend that DPYC retain the pre-numbered handwritten food tickets for a minimum of 5 years plus the current year.

Current Status: **Closed (First Follow-Up Audit).** DPYC informed us that it has discontinued the practice of using numbered handwritten tickets for ordering purposes. Instead, food orders are entered directly into the POS system. Therefore, this recommendation is no longer applicable and we consider it closed.

Recommendation No. 10: We recommend that OC DPH require DPYC to periodically reconcile the handwritten ticket sales with the POS cashiering system reports. The reconciliation should be documented.

Current Status: **Closed (First Follow-Up Audit).** See status above for Recommendation No. 9. This recommendation is no longer applicable and we consider it closed.

8. Missing Merchandise Handwritten Receipts and Untimely Recording (2 Control Findings)

Recommendation No. 11: We recommend that OC DPH require DPYC to account for the numerical sequence of the merchandise handwritten receipts to ensure there are no missing receipts and that all receipts are recorded in the POS cashiering system.

Current Status: **Closed (First Follow-Up Audit).** DPYC has discontinued the practice of using numbered handwritten tickets for merchandise sales. Merchandise sales are now entered directly into the POS cashiering system. Therefore, this recommendation is no longer applicable and we consider it closed.

Recommendation No. 12: We recommend that OC DPH require DPYC to record merchandise sales in its POS cashiering system on a daily basis.

Current Status: **Implemented (First Follow-Up Audit).** DPYC has discontinued the practice of using numbered handwritten tickets for merchandise sales. Merchandise sales are now entered directly into the POS system at the time of purchase. Therefore, we consider this recommendation implemented.

9. Participant Listings for Sailing Lesson and Cruise/Race Applications Are Not Retained (Control Finding)

Recommendation No. 13: We recommend that OC DPH require DPYC to prepare and retain participant listings for the sailing lessons and cruise/racing events.

OC Internal Auditor's Report



Current Status: **Implemented (First Follow-Up Audit).** Our review of the sample Midwinter Regatta 2010 and Thirsty Thursdays Summer Sail participant listings found that DPYC is preparing and retaining participant listings for the sailing lessons and cruise/racing events. Therefore, we consider this recommendation implemented.

10. Customer Signed Catering Contracts (Control Finding)

Recommendation No. 14: We recommend that OC DPH require DPYC to receive and retain signed customer contracts/invoices for each banquet from the caterer.

Current Status: **Implemented (First Follow-Up Audit).** Our review of the sample December 4, 2009 Single Event Facilities License Agreement - Retirement Reception documentation found that DPYC is receiving and retaining signed customer contracts and invoices for banquets. Therefore, we consider this recommendation implemented.

11. Untimely Submission of Financial Statements (Control Finding)

Recommendation No. 15: We recommend that OC DPH require DPYC to submit the required 2007 and 2008 Statement of Gross Receipts and submit future financial statements in a timely manner.

Current Status: **Implemented (Second Follow-Up Audit).** DPYC submitted its 2007 through 2010 audited Statements of Gross Receipts, compiled Financial Statements, and related attestations to the County.

Note: DPYC's 2007 and 2008 audited Statements of Gross Receipts excluded auditing the underlying records of DPYC's third party caterer as required by the lease agreement. The underlying records of the third party caterer were important as they supported gross receipts paid by catering customers to the caterer and reported to DPYC. Effective January 1, 2009, DPYC canceled the exclusive contract with its third party caterer and banquet customers were allowed to utilize caterers of their choice. DPYC's 2009 and 2010 audited Statement of Gross Receipts appear to fully comply with the lease agreement as there was no exclusion by the CPA. We did note that reported banquet gross receipts for 2009 and 2010 were reduced from prior years. Effective February 21, 2011, DPYC entered into an exclusive contract with a new third party caterer. Under this new agreement, we were informed by DPYC that catering customers and club members (for club food purchases) will make payments directly to DPYC. This will help facilitate no exclusions in the 2011 audit process by their CPA.

The current lease agreement with DPYC expires on November 30, 2012 and OC DPH is beginning negotiations for a new lease agreement. OC DPH informed us they will ensure the new lease agreement will explicitly state the annual gross receipts audit requirement includes third party catering activity. As such, we consider this recommendation to be implemented for audit purposes.

We appreciate the courtesy and cooperation extended to us by the personnel at Dana Point Yacht Club, OC Dana Point Harbor, and OC Public Works/Accounting Services. 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, OC Infrastructure
Paul Lawrence, Manager, OC Dana Point Harbor
Jonathan Bordeaux, Real Property Manager, OC Dana Point Harbor
Mary Fitzgerald, Accounting Manager, OC Public Works/Accounting Services
Betsy Estrada, Chief, OCPW/Accounting Services/External Claims
Jeanette Tyler, Senior Accountant/Auditor I, OC Public Works/Accounting Services
Carol Lai, Accountant/Auditor II, OC Public Works/Accounting Services
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors