



INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT

LIMITED REVIEW OF LEASE REVENUE

FOR

RANCHO BEACH HOUSE, INC.

ORIGINAL AUDIT No. 2461

AS OF

January 31, 2007

AUDIT NUMBER: 2545-C

REPORT DATE: JUNE 29, 2007

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Final Close-Out

**First Follow-Up Audit
Limited Review of Lease Revenue for Rancho Beach House, Inc.
Original Audit No. 2461**

**As of
January 31, 2007**

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Perspectives Countywide*

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

Transmittal Letter

Audit No. 2545-C

June 29, 2007

TO: George Carvalho, Director
Dana Point Harbor Department (DPHD)

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: **Final Close-Out** First Follow-Up Audit of the
Limited Review of Lease Revenue for Rancho
Beach House, Inc., Original Audit No. 2461

We have completed the First Follow-Up Audit of the Limited Review of Lease Revenue for Rancho Beach House, Inc. Our audit was limited to reviewing actions taken, as of January 31, 2007, to implement the recommendations made in our original audit report dated March 30, 2005. The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

This report represents the final report. As satisfactory corrective action has been taken and/or the items are closed for the twelve (12) recommendations, **this report represents the final close-out of the 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.

We appreciate the cooperation and assistance extended to us by your staff during our follow-up audit.

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Paul Lawrence, Operations Manager, DPHD
Louis McClure, Budget Officer, DPHD
Gregory Dean, Lease Compliance Specialist, DPHD
Mary Fitzgerald, Manager, RDMD/Accounting Services
Betsy Estrada, Chief, RDMD/Acct Svcs/External Claims/HB&P Programs
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT
FINAL CLOSE-OUT

Audit No. 2545-C

June 29, 2007

George Caravalho, Director
Dana Point Harbor Department
24650 Dana Point Harbor Drive
Dana Point, CA 92629

We have completed the First Follow-Up Audit of the Limited Review of Lease Revenue for Rancho Beach House (RBH), Inc. Our audit was limited to reviewing actions taken, as of January 31, 2007, to implement the recommendations made in our original audit report dated March 30, 2005.

The original audit report contained twelve (12) recommendations. This First Follow-Up Audit found the following:

- Eight (8) recommendations were fully implemented.
- One (1) recommendation was fully implemented during the draft report process.
- One (1) recommendation was no longer applicable.
- One (1) recommendation was partially implemented/closed
- One (1) recommendation was not implemented/closed.

The one (1) recommendation fully implemented during the draft report process and the two (2) recommendations that have been closed are noted below along with a comment on their current status. The item numbers from the March 30, 2005 report are shown in parentheses after the heading.

As satisfactory correction action was taken and/or the item was closed for all twelve (12) recommendations, **this report represents the final close-out of the original audit.**

1. Pre-numbered Banquet Contracts and Orders (No. 1A)

Recommendation: We recommend that DPHD require RBH to use pre-numbered documents for banquet contracts and banquet orders, and to account for the sequential integrity of the documents.

DPHD Planned Action: DPHD has reviewed this matter internally, and in consideration of the relatively small amount of sales involved, has chosen not to pursue this matter further at this time.

Current Status: **Not Implemented/Closed.** Internal Audit accepts DPHD's planned action and considers this recommendation closed for follow-up purposes.

2. Financial Statements (No. 4)

Recommendation: We recommend that DPHD require RBH to submit financial statements that comply with Clause 12.C of the Agreement.

Current Status: **Partially Implemented/Closed.** Rancho Beach House submitted a balance sheet and income statement for the years ended December 31, 2004, 2005, and 2006. In addition, Rancho Beach House submitted gross receipts statements compiled by a Certified Public Accountant (CPA) for the years ended December 31, 2004, 2005, and 2006. However, the CPA's compilation reports did not include a statement that the compilation was performed in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. We discussed this issue with Rancho Beach House and provided them with a copy of the correct report wording. Rancho Beach House has provided the information to their CPA. As this recommendation has been substantially implemented, we will consider this recommendation closed for follow-up purposes.

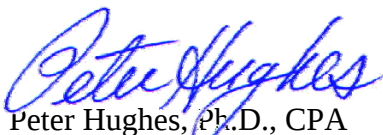
3. Valet Parking (No. 6)

Recommendation: We recommend that DPHD review and determine the appropriate reporting of the valet parking activity.

Current Status: **Fully Implemented During Draft Report Process.** Subsequent to our original audit, RBH began reporting gross receipts and paying rent to the County for valet parking activity. In a letter dated May 1, 2007, DPHD authorized the conduct of valet parking for the remainder of the Rancho Beach House lease.

We appreciate the courtesy and cooperation extended to us by the personnel at Rancho Beach House, DPHD, and RDMD/Accounting Services 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.

Sincerely,


Peter Hughes, Ph.D., CPA
Director, Internal Audit



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Paul Lawrence, Operations Manager, DPHD

Louis McClure, Budget Officer, DPHD

Gregory Dean, Lease Compliance Specialist, DPHD

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