

INTERNAL AUDIT DEPARTMENT COUNTY OF ORANGE

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

Integrity • Objectivity • Independence

Final Close-Out

LIMITED REVIEW OF LICENSE REVENUE FOR SCIENCE ENRICHMENT SERVICES, INC.

For the Period September 1, 2005 through August 31, 2006

AUDIT NUMBER: 2645

Audit Director: P Deputy Director: E Senior Audit Manager: A Audit Manager: L REPORT DATE: JUNE 25, 2007

Peter Hughes, Ph.D., CPA Eli Littner, CPA, CIA Autumn McKinney, CPA, CIA Lily Chin, CPA

Final Close-Out

LIMITED REVIEW OF LICENSE REVENUE SCIENCE ENRICHMENT SERVICES, INC.

For the Period September 1, 2005 through August 31, 2006

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COUNTY OF ORANGE BOARD OF SUPERVISORS' INTERNAL AUDIT DEPARTMENT

Transmittal Letter

Audit No. 2645

June 25, 2007

TO: Bryan Speegle, Director Resources and Development Management Department

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

SUBJECT: Final Close-Out Limited Review of License Revenue for Science Enrichment Services, Inc.

We have completed our limited review of license revenue for Science Enrichment Services, Inc. for the period September 1, 2005 through August 31, 2006. The final **Internal Auditor's Report** is attached along with your response to our one recommendation.

This report represents the final report. In addition, during the draft report process RDMD made satisfactory corrective action to implement the one recommendation. Therefore, we will not perform a follow-up audit and 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. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with RDMD so that you can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request RDMD complete a <u>Customer Survey of Audit</u> <u>Services.</u> You will receive the survey shortly after the distribution of our final report.

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Providing Facts and Perspectives Countywide

OFFICE OF THE DIRECTOR

DR. PETER HUGHES

PH.D., MBA, CPA, Certified Compliance & Ethics Professional (CCEP) Certified Information Technology Professional (CITP) Certified Internal Auditor (CIA) Certified Fraud Examiner (CFE)

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(714) 834-5475 (714) 834-2880 Fax

OC FRAUD HOTLINE (714) 834-3608 Bryan Speegle, Director Resources and Development Management Department June 25, 2007 Page ii

Attachment

Other recipients of this report: Members, Board of Supervisors Members, Audit Oversight Committee Thomas G. Mauk, County Executive Officer Alisa Drakodaidis, Deputy CEO/Infrastructure & Environmental Services Parker Hancock, Director, RDMD/Harbors, Beaches & Parks Richard Adler, Chief, RDMD/HB&P/Lease Development and Management Mike Hentzen, Lease Coordinator, RDMD/HB&P/Lease Development and Management Andrea Richard, Lease Compliance Officer, RDMD/HB&P/Lease Development and Management Steve Danley, Director, RDMD/Administration Mary Fitzgerald, Manager, RDMD/Accounting Services Josie Velasquez, Chief, RDMD/Accounting/Santa Ana River, Watershed, Flood, Leases and Infrastructure Vivienne Thornton, Admin. Manager I, RDMD/Accounting/Watershed, Flood, Leases and Infrastructure Brian Cich, Senior Accountant I, RDMD/Accounting/Leases and Infrastructure Debra Lakin, Chief, RDMD/Central Quality Assurance Foreperson, Grand Jury Darlene J. Bloom, Clerk of the Board of Supervisors

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COUNTY OF ORANGE BOARD OF SUPERVISORS' INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT

Audit No. 2645

June 25, 2007

- TO: Bryan Speegle, Director Resources and Development Management Department
- SUBJECT: Final Close-Out Limited Review of License Revenue for Science Enrichment Services, Inc.

We have performed a limited review of certain records and documents for the period from September 1, 2005 through August 31, 2006, pertinent to the license agreement (Agreement) between the County of Orange (County) and Science Enrichment Services, Inc. dba Science Adventures (Science Enrichment), dated May 12, 2004. The Agreement is limited to the operation of summer day camp programs in the County's regional parks.

The primary purpose of our review is to determine whether Science Enrichment's records adequately supported their gross receipts reported to the County. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures.

Based on our limited review, we find that Science Enrichment has retained sufficient documentation to adequately support monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we did identify one control finding which is noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

In addition, during the draft report process RDMD made satisfactory corrective action to implement the one recommendation. Therefore, we will not perform a follow-up audit and this report represents the final close-out of the audit.

We appreciate the courtesy and cooperation extended to us by the personnel at Science Enrichment, RDMD/Harbors, Beaches & Parks, and RDMD/Accounting. If you have any questions regarding our limited review of license revenue, please call me directly or Eli Littner, Deputy Director at (714) 834-5899 or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Bryan Speegle, Director Resources and Development Management Department June 25, 2007 Page 2

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

Attachment A – Report Item Classifications Attachment B – RDMD Management Responses

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/Infrastructure & Environmental Services Parker Hancock, Director, RDMD/Harbors, Beaches & Parks Richard Adler, Chief, RDMD/HB&P/Lease Development and Management Mike Hentzen, Lease Coordinator, RDMD/HB&P/Lease Development and Management Andrea Richard, Lease Compliance Officer, RDMD/HB&P/Lease Development and Management Steve Danley, Director, RDMD/Administration Mary Fitzgerald, Manager, RDMD/Accounting Services Josie Velasquez, Chief, RDMD/Accounting/Santa Ana River, Watershed, Flood, Leases and Infrastructure Vivienne Thornton, Admin. Manager I, RDMD/Accounting/Watershed, Flood, Leases and Infrastructure Brian Cich, Senior Accountant I, RDMD/Accounting/Leases and Infrastructure Debra Lakin, Chief, RDMD/Central Quality Assurance Foreperson, Grand Jury Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted a limited review of license revenue for Science Enrichment Services, Inc. dba Science Adventures (Science Enrichment) for the primary purpose of determining whether Science Enrichment's records adequately supported their monthly gross receipts reported to the County.

BACKGROUND

The County of Orange entered into a license agreement (Agreement) with Science Enrichment Services, Inc. dated May 12, 2004, for the operation of summer day camp in the County's regional parks. In June 2006, Science Enrichment became a division of the Knowledge Learning Corporation. During the 12 month review period, Science Enrichment reported \$100,557 in gross receipts and paid the County \$12,067 in license fees.

SCOPE

Our review was limited to certain records and documents that support Science Enrichment's gross receipts reported to the County for 12 month period of September 1, 2005 to August 31, 2006. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures. Our review included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

CONCLUSION

Based on our limited review, we find that Science Enrichment has retained sufficient documentation to adequately support monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we identified one control finding which is noted in the Detailed Observations, Recommendations, and Management Responses section of this report. See Attachment A for a description of report item classifications.

Upon reviewing RDMD's Management Response and supporting documentation provided, we determined that RDMD has taken satisfactory corrective action to implement our one recommendation that was a relatively minor item. As such, we will not perform a follow-up audit and this report represents the final close-out of the audit.



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Refund Processing Fee

Clause 2 of the General Provisions of the Agreement defines gross receipts to include all admission, entry, rental, and other fees of any nature or kind charged by the Licensee. Science Enrichment charges a \$25 processing fee when a parent requests a refund.

Finding No. 1: During our testing of two sample camp sessions, we noted that Science Enrichment charged three refund processing fees, for a total of \$75. The \$75 was not reported as gross receipts to the County. Science Enrichment informed us that it did not report the fees because it was established to help recover their administrative costs incurred in processing refunds. However, in accordance with the Agreement this fee should be reported as gross receipts.

Recommendation No. 1: We recommend RDMD require Science Enrichment report refund processing fees as gross receipts.

RDMD Response: Concur. RDMD provided Science Enrichment with a copy of Audit No. 2645 and discussed the finding with Science Enrichment's Accounting Manager. In accordance with the terms of the Agreement, Science Enrichment will now report processing fees as gross receipts. Also, at RDMD's request, Science Enrichment calculated thirty-one refund processing fees not reported for the 2006 season and submitted a check for \$94 (31 x \$25 x 12%). Attached is Science Enrichment's Amy Wiedner email, KLC Check No. 100055396, and RDMD receipt No. R070940.



For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

Material Weaknesses:

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address "Material Weaknesses" brought to their attention.

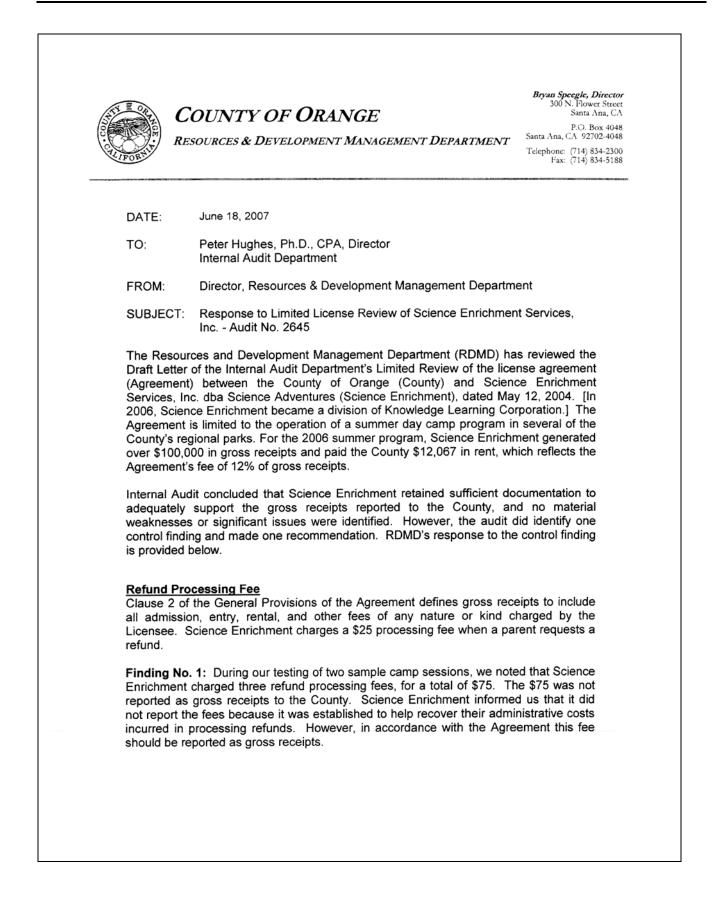
Significant Issues:

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

Control Findings:

Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.







Recommendation No. 1: We recommend RDMD require Science Enrichment report refund processing fees as gross receipts.

RDMD Response: Concur. RDMD provided Science Enrichment with a copy of Audit No. 2645 and discussed the finding with Science Enrichment's Accounting Manager. In accordance with the terms of the Agreement, Science Enrichment will now report processing fees as gross receipts. Also, at RDMD's request, Science Enrichment calculated thirty-one refund processing fees not reported for the 2006 season and submitted a check for \$93 (31 X \$25 X 12%) Attached Science Enrichment's Amy Wiedner email, KLC Check No. 100055396, and RDMD receipt No. R0709040.

Based on the abovementioned documentation and the relatively minor nature of the finding, we request that the Final Audit Report also be issued as a Final Close-Out Audit Report.

Thank you for allowing us to respond to your draft report. If you have any questions or need additional information, please feel free to contact Andrea Richard of my staff at (714) 834-4677.

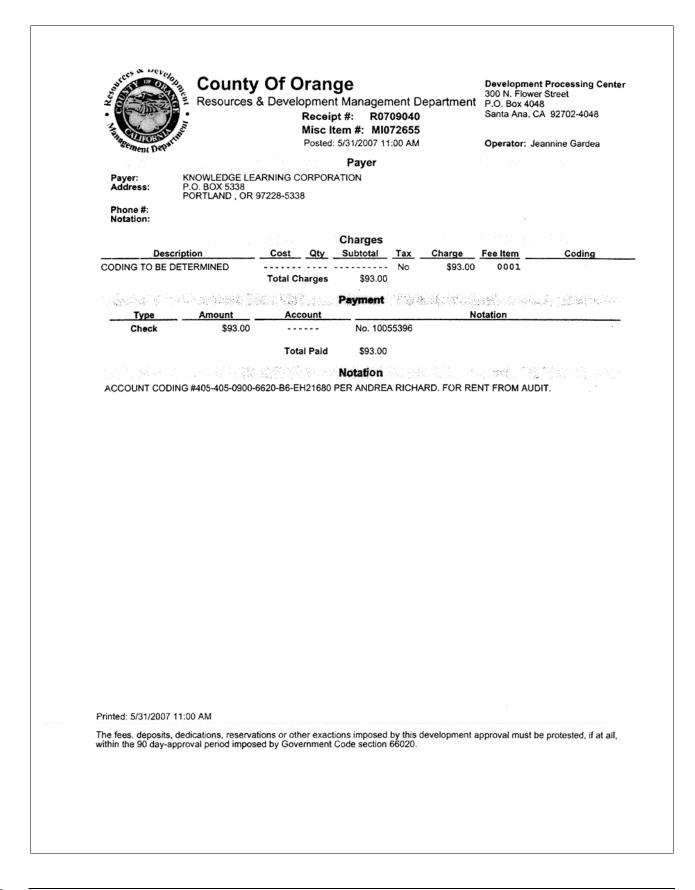
13 Je Willow to- Bryan Speegle, Director

Attachments

cc: Thomas G. Mauk, County Executive Officer Alisa Drakodaidis, Deputy CEO/Infrastructure & Environmental Services Parker Hancock, Director, RDMD/Harbors, Beaches, & Parks Mark Denny, Assistant Director, RDMD/Harbors, Beaches & Park Mike Brajdic, Program Manager, RDMD/HBP/Program Management Mike Hentzen, Leasing Coordinator, RDMD/HBP/Lease Management Andrea Richard, Real Property Agent, RDMD/HBP/Lease Management Steve Danley, Director, RDMD/Administration Mary Fitzgerald, Manager, RDMD/Accounting Services Debra Lakin, Chief, RDMD/Central Quality Assurance Diane Villanueva, CEO



Limited Review of License Revenue for Science Enrichment Services, Inc. Resources and Development Management Department Audit No. 2645



Limited Review of License Revenue for Science Enrichment Services, Inc. Resources and Development Management Department Audit No. 2645

. . . . - an an a PAYEE: ORANGE CO TREASURER-TAX COLLECTOR P.O. BOX 1982 SANTA ANA, CA 92702 33 DATE: 29-MAX-07 CHECKNO: 10055396 AMOUNT: ********93.00 VENDOR: ORANGE CO 40533 INVOICE DATE 14-MAY-07 DESCRIPTION VON 020010 121 FACT P.O NO. GROSS AMT. 020010051407 DISCOUNT NET AMOUNT 93.0 0.00 93.00 KNOWLEDGE LEARNING CORPORATION TOTALS 93.00 VERIFY THE AUTHENTICITY OF THIS MULTI-TOME SECURITY DOCUMENT. CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM nics of G MA NA. Knowledge Learning Corporation-+ 64-1278 102 Where Lifetime Learning Beginst PO Box \$338 DATE CHECK NO. AMOUNT Portland, OR 97228-5338 29-MAY-07 10055396 *********93,00 Ninety-Three Dollars And 00 Cents**** DOLLARS \Box PAY TO THE ORDER OF: ORANGE CO TREASURER-TAX COLLECTOR P.O. BOX 1982 SANTA ANA, CA 92702 AUTHORIZED SIGNATURE "010055396" "061112788" 003299128266" THIS DOCUMENT HAS COLORED PRINTING ON WRITE PAPER. THE SHADING CHANGES GRADUALLY FROM DARK TO LIGHT.

Limited Review of License Revenue for Science Enrichment Services, Inc. Resources and Development Management Department Audit No. 2645