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

FIRST FOLLOW-UP AUDIT

LIMITED REVIEW OF LEASE REVENUE FOR NEWPORT DUNES WATERFRONT RESORT

ORIGINAL AUDIT NO. 2462

AS OF SEPTEMBER 30, 2006

AUDIT NUMBER: 2650-C **REPORT DATE: April 9, 2007**

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
Senior Audit Manager:	Autumn McKinney, CPA, CIA
In-Charge Auditor:	Carol Swe, CPA, CIA

First Follow-Up Audit
Limited Review of Lease Revenue for
Newport Dunes Waterfront Resort
Original Audit No. 2462

As of
September 30, 2006

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Office of the Director
DR. PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

ELI LITTNER	MICHAEL J. GOODWIN	ALAN MARCUM	AUTUMN MCKINNEY
CPA, CIA, CFE, CFS, CISA	CPA, CIA	MBA, CPA, CIA, CFE	CPA, CIA, CGFM
DEPUTY DIRECTOR	SENIOR AUDIT MANAGER	SENIOR AUDIT MANAGER	SENIOR AUDIT MANAGER

Transmittal Letter

Audit No. 2650-C

April 9, 2007

TO: Bryan G. Speegle, Director
Resources and Development Management Department

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

Peter Hughes

SUBJECT: Initial Follow-Up Audit of Limited Review of Lease Revenue for Newport Dunes Waterfront Resort, Original Audit No. 2462

We have completed the First Follow-Up Audit of the Limited Review of Lease Revenue for Newport Dunes Waterfront Resort. Our audit was limited to reviewing actions taken, as of September 30, 2006, to implement the recommendations made in our original audit report dated April 7, 2006. The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

At the request of the Audit Oversight Committee (AOC), we are to bring to their attention any audit recommendations we find still not addressed, resolved, or implemented after our **Second Follow-Up Audit**. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for their discussion. The Second Follow-Up Audit will be conducted six months from the date of this report (**April 9, 2007).** We have provided a Second Follow-Up Audit Report Form for completion prior to our Second Follow-Up 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.

As always, the Internal Audit Department is available to partner with you 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.

Attachment A: Report Item Classification
Attachment B: RDMD Management Responses

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, Interim Director, RDMD/Harbors, Beaches & Parks
Rich Adler, Chief, RDMD/HB&P/Lease Management
Mike Hentzen, Leasing Coordinator, RDMD/HB&P/Lease Management
Andrea Richard, Lease Compliance Officer, RDMD/HB&P/Lease 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, Administrative Manager I, RDMD/Accounting/Watershed, Flood, Leases & Infrastructure
Brian Cich, Senior Accountant I, RDMD/Accounting/Leases & Infrastructure
Debra Lakin, Chief, RDMD/Central Quality Assurance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

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AUTUMN MCKINNEY
CPA, CIA, CGFM
SENIOR AUDIT MANAGER

INTERNAL AUDITOR'S REPORT

Audit No. 2650-C

April 9, 2007

Bryan Speegle, Director
Resources & Development Management Department
300 N. Flower Street
Santa Ana, CA 92703

We have completed the First Follow-Up Audit of the Limited Review of Lease Revenue for Newport Dunes Waterfront Resort. Our audit was limited to reviewing actions taken, as of September 30, 2006, to implement the recommendations made in our original audit report dated April 7, 2006.

The original audit report contained nineteen (19) recommendations. This First Follow-Up Audit found the following:

- Fifteen (15) recommendations were fully implemented.
- One (1) recommendation was partially implemented.
- One (1) recommendation is in process.
- One (1) recommendation was not implemented.
- One (1) recommendation is no longer applicable.

The **three (3)** audit report recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the April 7, 2006 report is shown in parentheses after the heading. We believe the remaining recommendations are still appropriate and further efforts should be made to fully implement it.

Note: The three items that are not fully implemented in this Follow-Up Audit report are considered a "**control finding**." See *Attachment A* for a description of Report Item Classifications.

1. Incorrect Credit (No. 6)

Recommendation: We recommend that RDMD require NDWR to provide documentation to support adjustments before authorizing future credits against monthly rent.

Current Status: **Partially Implemented.** In 2006, NDWR noticed that 2004 and 2005 gross receipts reported to the County were more than reported in its audited financial statements. As these discrepancies existed, NDWR took two credits amounting to $4,244 in May 2006 without providing adequate supporting documentation to the County and without obtaining the County's pre-approval. NDWR provided copies of the audited statements showing the variances, but did not provide additional detailed information (including an explanation or analysis) that would be needed by the County to determine the validity of the credits. During our fieldwork, NDWR provided additional documentation and explanation for the credits taken in May 2006. As a result, it was determined that NDWR owes the County $1,390 for incorrect credits taken.

RDMD Planned Action: RDMD, in concert with Internal Audit, reviewed the supporting documentation and determined that NDWR owed an additional $1,390 for incorrect credits taken. When this was brought to NDWR's attention, NDWR paid the $1,390 (see attached RDMD Receipt No. RO705458). Also, as a result of this most recent review, NDWR is more acutely aware of the level of supporting detail RDMD requires to review the appropriateness of any such future rent credit and the need to obtain prior approval from RDMD. In addition, as part of RDMD's normal reconciliation of the monthly gross receipts statements and the audited annual financial statements, RDMD continues to scrutinize the statements for any unauthorized credits.

2. Mobile Cash Registers (No. 8)

Recommendation: We recommend that RDMD require NDWR to monitor the completeness of sales activity recorded on those mobile cash registers as evidenced by the sequential z-out numbers.

Current Status: **In Process.** NDWR is in the process of implementing a tracking log for each mobile register. The log will be used to record the opening and closing readings from each register and to identify breaks in sequence from one day to the next.

RDMD Planned Action: RDMD facilitated a meeting between RDMD, Internal Audit and NDWR to review the existing accounting procedures for the mobile cash registers. All agreed the existing procedures were not entirely adequate and NDWR agreed to implement additional procedures as articulated by Internal Audit for the mobile cash registers, including replacement of outdated registers, implementation of a tracking log, retention of support documentation and instituting new procedures for the daily resetting of the registers. RDMD will continue to monitor NDWR for compliance with the agreed upon additional procedures.

3. Adequacy of Supporting Records – Serially Numbered Forms (No. 10)

Recommendation: We recommend that RDMD require NDWR to ensure adequate control is maintained over future AquaPark wristbands. Wristbands should be issued in sequential order and all wristbands should be accounted for, including issued and unissued.

Current Status: **Not Implemented.** It appears that NDWR did not maintain adequate documentation of AquaPark wristbands. NDWR indicated they will work to improve documentation when the AquaPark reopens for seasonal business in the spring or summer 2007.

RDMD Planned Action: RDMD facilitated a meeting between RDMD, Internal Audit and NDWR to review the existing accounting procedures and supporting documentation for AquaPark revenues, including supporting documentation for the wristbands. All agreed the existing procedures were not entirely adequate and NDWR agreed to implement additional procedures as articulated by Internal Audit for AquaPark revenues including adequate retention of supporting documentation. RDMD will follow-up with NDWR in early June 2007 for compliance with the agreed upon additional procedures.

We appreciate the cooperation and assistance extended to us by the personnel of RDMD and RDMD/Accounting 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

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

Attachment A: Report Item Classification
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
- Parker Hancock, Interim Director, RDMD/Harbors, Beaches & Parks
- Rich Adler, Chief, RDMD/HB&P/Lease Management
- Mike Hentzen, Leasing Coordinator, RDMD/HB&P/Lease Management
- Andrea Richard, Lease Compliance Officer, RDMD/HB&P/Lease 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, Administrative Manager I, RDMD/Accounting/Watershed, Flood, Leases & Infrastructure
- Brian Cich, Senior Accountant I, RDMD/Accounting/Leases & Infrastructure
- Debra Lakin, Chief, RDMD/Central Quality Assurance
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify 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 address "Material Weaknesses" brought to their attention immediately.

Significant Issues:
Audit findings or a combination of Control Findings that represent a 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.

COUNTY OF ORANGE

RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

Bryan Speegle, Director
300 N. Flower Street
Santa Ana, CA

P.O. Box 4048
Santa Ana, CA 92702-4048

Telephone: (714) 834-2300
Fax: (714) 834-5188

RECEIVED
INTERNAL AUDIT DEPARTMENT
2007 APR -9 AM 9:42

DATE: April 4, 2007

TO: Peter Hughes, Director, Internal Audit

FROM: Director, Resources and Development Management Department

SUBJECT: Response to Audit No. 2650-C Draft Report on First Follow-Up of the Limited Review of Newport Dunes Waterfront Resort, Original Audit No. 2462, Issued April 7, 2006

We have reviewed the Draft First Follow-Up Limited Review Audit of Newport Dunes Waterfront Resort (NDWR) on the status of the nineteen recommendations contained in the original audit. Of these nineteen recommendations, fifteen were fully implemented, one was partially implemented (Finding No. 6), one was in process (Finding No. 8), one was not implemented (Finding No. 10), and one recommendation is no longer applicable. The Follow-Up Audit also reiterated that the three remaining recommendations are still appropriate and further efforts should be made to fully implement them. Resources and Development Management Department (RDMD) agrees and has taken the following actions described below:

1. Finding No. 6 – Incorrect Credit

Excerpt from Original Audit:

Recommendation: We [Internal Audit] recommend that RDMD require NDWR to provide documentation to support adjustments before authorizing future credits against monthly rent.

Excerpt from Draft Follow-up Audit:

*Current Status: **Partially Implemented.** In 2006, NDWR noticed that 2004 and 2005 gross receipts reported to the County were more than reported in its audited financial statements. As these discrepancies existed, NDWR took two credits amounting to $4,244 in May 2006 without providing adequate supporting documentation to the County and without obtaining the County's pre-approval. NDWR provided copies of the audited statements showing the variances, but did not provide additional detailed information (including an explanation or analysis) that would be needed by the County to determine the validity of the credits. During our fieldwork, NDWR provided additional documentation and explanation for the credits taken in May 2006. As a result, it was determined that NDWR owes the County $1,390 for incorrect credits taken.*

<u>RDMD Action Taken</u>

RDMD, in concert with Internal Audit, reviewed the supporting documentation and determined that NDWR owed an additional $1,390 for incorrect credits taken. When this was brought to NDWR's attention, NDWR paid the $1,390 (see attached RDMD Receipt No. RO705458). Also, as a result of this most recent review, NDWR is more acutely aware of the level of supporting detail RDMD requires to review the appropriateness of any such future rent credit and the need to obtain prior approval from RDMD. In addition, as part of RDMD's normal reconciliation of the monthly gross receipts statements and the audited annual financial statements, RDMD continues to scrutinize the statements for any unauthorized credits.

2. Finding No. 8 – Mobile Cash Registers

Excerpt from Original Audit:

<u>Recommendation</u>: We [Internal Audit] recommend that RDMD require NDWR to monitor the completeness of sales activity recorded on those mobile cash registers as evidenced by sequential z-out numbers.

Excerpt from Draft Follow-up Audit:

<u>Current Status</u>: ***In Process.*** *NDWR is in the process of implementing a tracking log for each mobile register. The log will be used to record the opening and closing readings from each register and to identify breaks in sequence from one day to the next.*

<u>RDMD Action Taken</u>

RDMD facilitated a meeting between RDMD, Internal Audit and NDWR to review the existing accounting procedures for the mobile cash registers. All agreed the existing procedures were not entirely adequate and NDWR agreed to implement additional procedures as articulated by Internal Audit for the mobile cash registers, including replacement of outdated registers, implementation of a tracking log, retention of support documentation and instituting new procedures for the daily resetting of the registers. RDMD will continue to monitor NDWR for compliance with the agreed upon additional procedures.

3. Finding No. 10 – Adequacy of Supporting Records – Serially Numbered Forms

Excerpt from Original Audit:

<u>Recommendation</u>: We [Internal Audit] recommend that RDMD require NDWR to ensure adequate control is maintained over future AquaPark wristbands. Wristbands should be issued in sequential order and all wristbands should be accounted for, including issued and unissued.

Excerpt from Draft Follow-up Audit:

*Current Status: **Not Implemented.** It appears that NDWR did not maintain adequate documentation of AquaPark wristbands. NDWR indicated they will work to improve documentation when the AquaPark reopens for seasonal business in the spring or summer 2007.*

RDMD Action Taken

RDMD facilitated a meeting between RDMD, Internal Audit and NDWR to review the existing accounting procedures and supporting documentation for AquaPark revenues, including supporting documentation for the wristbands. All agreed the existing procedures were not entirely adequate and NDWR agreed to implement additional procedures as articulated by Internal Audit for AquaPark revenues including adequate retention of supporting documentation. RDMD will follow-up with NDWR in early June 2007 for compliance with the agreed upon additional procedures.

Thank you for allowing us the opportunity to respond to the draft report. Please attach a copy of this memorandum to your final report.

If you have any questions or need additional information, please contact Mike Hentzen, Lease Coordinator, RDMD/Harbors, Beaches & Parks/Real Estate at (714) 834-6286 or Debra Lakin, Chief, RDMD/Central Quality Assurance at (714) 834-5593.

Bob Wilson

for Bryan Speegle, Director

Attachment

cc: Parker Hancock, Director, RDMD/Harbors, Beaches & Parks
Mark Denny, Assistant Director, RDMD/HBP
Mike Brajdic, Program Manager, RDMD/HBP
Steve Danley, Director, RDMD/Administration
Debra Lakin, Chief, RDMD/Central Quality Assurance
Mary Fitzgerald, Manager, RDMD/Accounting Services
Mike Hentzen, Lease Coordinator, RDMD/HBP/Lease Management
Andrea Richard, Lease Compliance Officer, RDMD/HBP/Lease Management

County Of Orange
Resources & Development Management Department

Receipt #: R0705458
Misc Item #: MI071518
Posted: 3/30/2007 7:40 AM

Development Processing Center
300 N. Flower Street
P.O. Box 4048
Santa Ana, CA 92702-4048

Operator: Jeannine Gardea

Payer

Payer: NEWPORT DUNES RESORT AND MARINA
Address: 6310 SAN VICENTE BLVD. SUITE 560
Los Angeles, CA 90048

Phone #:
Notation:

Charges

Description	Cost	Qty	Subtotal	Tax	Charge	Fee Item	Coding
CODING TO BE DETERMINED	-------	----	-----------	No	$1,390.00	0001	
	Total Charges		$1,390.00				

Payment

Type	Amount	Account	Notation
Check	$1,390.00	------	No. 000356

Total Paid $1,390.00

Notation

Account coding #106-106-900-6620-72-EN34016 Per Brian Cich for AUDIT 2462, 2005 CRE

Printed: 3/30/2007 6:40 AM

The fees, deposits, dedications, reservations or other exactions imposed by this development approval must be protested, if at all, within the 90 day-approval period imposed by Government Code section 66020.

Ent	Name	Acct No	Invoice	Date	P.O. Num	Reference	Amount	Discount	Net
740	Newport Dunes Reso	2580	03/14/07	3/15/2007		AUDIT 2462, 2005 CRE	1,390.00	0.00	1,390.00

Payor: NEWPORT DUNES RESORT AND MARINA
Payee: COUNTY OF ORANGE

Date 3/28/2007 **Check No.** 000356 **Check Amount** 1,390.00

Retain this statement for your records

NEWPORT DUNES RESORT AND MARINA
6310 San Vicente Blvd., Suite 560
Los Angeles, CA. 90048

City National Bank
400 North Roxbury Drive
Beverly Hills, CA. 90210

16-1606
1220

Date 3/28/2007 Check No. 000356 Check Amount **1,390.00**

One Thousand Three Hundred Ninety AND 00/100 Dollars

Pay to the order of:

COUNTY OF ORANGE

VOID IF NOT CASHED WITHIN 90 DAYS WITHIN DATE OF ISSUE