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

For the Period August 1, 2007 through July 31, 2008

Dana Point Yacht Club (DPYC) operates a yacht club with public banquet facilities located in the Dana Point Harbor. Gross receipts reported during the 12-month audit period were approximately **\$1.5 million** and rent paid to the County was approximately **\$82,405**. For the period of June 30, 1998 (lease assignment) through November 31, 2012 (lease expiration date), this lease is estimated to generate over **\$1 million** in rent to the County.

The Internal Audit Department found that overall DPYC's records adequately supported gross receipts and rent owed was properly paid.

> AUDIT NO: 2839 REPORT DATE: SEPTEMBER 23, 2009

Director: Dr. Peter Hughes, MBA, CPA 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

2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year

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

Department nternal Audit

O

0

Ш

G

Z

1

M

O

Corange county board of supervisors' Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes Director E-mail:	Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE Certified Compliance & Ethics Professional (CCEP) Certified Information Technology Professional (CITP) Certified Internal Auditor (CIA) Certified Fraud Examiner (CFE) peter.hughes@iad.ocgov.com
Eli Littner Deputy Director	CPA, CIA, CFE, CFS, CISA Certified Fraud Specialist (CFS) Certified Information Systems Auditor (CISA)
Michael J. Goodwin Senior Audit Manager Alan Marcum	CPA, CIA MBA, CPA, CIA, CFE
Senior Audit Manager 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: <u>www.ocgov.com/audit</u>



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA





Transmittal Letter

Audit No. 2839	September 23, 2009

- TO: Brad Gross, Director OC Dana Point Harbor
- **FROM:** Dr. Peter Hughes, CPA, Director Internal Audit Department
- SUBJECT: Revenue Generating Lease Audit: OC Dana Point Harbor, Dana Point Yacht Club, HA78H-24-23, 23.1

We have completed our revenue generating lease audit of Dana Point Yacht Club for the period August 1, 2007 through July 31, 2008. The final **OC Internal Auditor's Report** is attached along with your responses to our recommendations. We performed this Revenue Generating Lease Audit in accordance with our FY 2008-09 Audit Plan approved by the Audit Oversight Committee.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will now begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will now begin at <u>six months</u> from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Letter from Dr. Peter Hughes, CPA



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.

As always, the Internal Audit Department is available to partner with your staff so that they 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 recommendation.

Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Attachments

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

Table of Contents



Revenue Generating Lease Audit: OC Dana Point Harbor Dana Point Yacht Club Audit No. 2839

For the Period August 1, 2007 through July 31, 2008

Transmittal Letter			
OC Internal Auditor's Report			
OBJECTIVE	1		
BACKGROUND	1		
SCOPE	2		
RESULTS	2		
ACKNOWLEDGMENT	2		
Detailed Findings, Recommendations and Management Responses			
1. Rent Owed for Non-Member Surcharge and Misc. Service Fees (2 Control Findings)	4		
2. Rent Recovery Reduces Catering Gross Receipts (2 Control Findings)	4		
3. Certain Catering Charges For Member Events Not Reported as Gross Receipts (Control Finding)	5		
4. Minor Rent Categories Need Clarification (Control Finding)	6		
5. Membership Fees Are Exempt From Percentage Rent (Control Finding)	6		
6. Missing POS System Transaction Numbers (Chits) (Control Finding)	7		
7. Retention of Daily Food Sale Handwritten Tickets and Periodic Comparison to Point-of-Sale Cashiering System Reports	-		
(2 Control Findings)	7		
8. Missing Merchandise Handwritten Receipts and Untimely Recording (2 Control Findings)	8		
9. Participant Listings for Sailing Lesson and Cruise/Race Applications Are Not Retained (Control Finding)	9		
10. Customer Signed Catering Contracts (Control Finding)	9		
11. Untimely Submission of Financial Statements (Control Finding)	10		
ATTACHMENT A: Report Item Classifications	11		
ATTACHMENT B: OC Dana Point Harbor Responses	12		



Audit No. 2839

September 23, 2009

- TO: Brad Gross, Director OC Dana Point Harbor
- FROM: Dr. Peter Hughes, CPA, Director Setury ughes Internal Audit Department
- SUBJECT: Revenue Generating Lease Audit: OC Dana Point Harbor, Dana Point Yacht Club HA78H-24-23, 23.1

Audit Highlight

Dana Point Yacht Club (DPYC) operates a yacht club with public banquet facilities located at the Dana Point Harbor.

Gross receipts reported during the 12month audit period were approximately \$1.5 million and rent paid to the County was approximately **\$82.405**. For the period June 30, 1998 (lease assignment) through November 30, 2012 (lease expiration date), this lease is estimated to generate over **\$1 million** in rent to the County.

The Internal Audit Department found that overall DPYC's records adequately supported gross receipts and rent owed was properly paid.

OBJECTIVE

We have performed an audit of certain records and documents for the period from August 1, 2007 through July 31, 2008, pertinent to the lease agreement (Agreement) between the County of Orange (County) and the Dana Point Yacht Club, dated November 24, 1982, as amended, and assigned on June 30, 1998. The Agreement is for the operation of a yacht club located at the Dana Point Harbor. Our audit objectives were:

- (1) The primary purpose of our audit is to determine whether Dana Point Yacht Club's records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.
- (2) The secondary purpose of our audit is to determine whether Dana Point Yacht Club complies with certain other financial provisions of the Agreement, such as accounting methods, monthly gross receipts statement format, and annual financial statement requirements.

In addition, while performing the audit we may identify internal control weaknesses for which we will identify suggestions for improvement.

BACKGROUND

The County entered into an Agreement with the Dana Point Yacht Club (DPYC), originally dated November 24, 1982, as amended and assigned to DPYC on June 30, 1998, for the operation of a yacht club with public banquet facilities located at the Dana Point Harbor. Operations include food and beverage services and boating, social, and youth programs and educational activities. During the 12-month audit period, Dana Point Yacht Club reported approximately \$1.5 million in gross receipts and paid the County approximately \$82,405 in rent.



SCOPE

Our audit was limited to certain records and documents that support Dana Point Yacht Club's gross receipts reported to the County for the 12-month audit period of August 1, 2007 to July 31, 2008. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

RESULTS

Below are the results of our audit:

Objective #1 – Adequate Records: Determine whether Dana Point Yacht Club's records adequately support monthly gross receipts reported to the County and rent owed is properly paid.

Results: We found that overall Dana Point Yacht Club's records adequately supported reported gross receipts and rent owed was properly paid. We noted **five (5) Control Findings** where additional rent of \$1,139 is owed and **eight (8) Control Findings** where recordkeeping should be enhanced to support the reported gross receipts. (See pages 4 - 9 for details).

Objective #2 – Compliance: Determine whether Dana Point Yacht Club complies with certain other financial provisions of the agreement.

Results: We found that Dana Point Yacht Club generally complied with certain other financial provisions of the agreement such as accounting methods, monthly gross receipts statement format, and annual financial statements. We noted **one (1) Control Finding** where Dana Point Yacht Club did not comply with the financial statement provision of the Agreement. (See page 10 for details).

We also noted **one (1)** Control Finding regarding clarification of the proper rent classification for minor gross receipt activities. (See page 6 for details).

See all **fifteen (15) Control Findings** in the Detailed Findings, Recommendations, and Management Responses section of this report. See **Attachment A** for a description of report item classifications.

ACKNOWLEDGMENT

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 regarding our audit, please call me directly; or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Attachment A:Report Item ClassificationsAttachment B:OC Dana Point Harbor Responses



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, Manager, OC Dana Point Harbor Phoebe Siemion, Budget Officer, 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 Anne Tran, 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



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

The Dana Point Yacht Club (DPYC) assesses a 20% surcharge to non-members for purchases of food/beverages at the club facilities. They also charge fees for miscellaneous room rentals and miscellaneous food/beverage services (e.g. corkage fee).

Clause 12.B of the Agreement defines gross receipts, in part, as "charges made by LESSEE for the sale or rendition on or from the Demised Premises of services of any nature and kind whatsoever..."

Finding Nos. 1 and 2: The DPYC does not report the 20% non-member food/beverage surcharge, miscellaneous room rental fees, and miscellaneous food/beverage service fees as gross receipts to the County. For the 12-month audit period, non-member surcharges, room rentals, and food/beverage service fees were \$13,701 (account 50200), \$13,361 (account 50400) and \$1,794 (account 40050), respectively. Rent of \$938 ((13,701 + 13,361 + 1,794) x 3.25%)) is owed.

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 DPH Response: Concur. The attached Letter from OC DPH requires DPYC to immediately begin reporting non-member surcharges, miscellaneous room rental, and miscellaneous food/beverage service fees as gross receipts to the County and pay the appropriate percentage rent. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to pay OC DPH the additional rent owed of \$938 for the 12-month audit period, non-member surcharges, room rentals, and food/beverage service fees by no later than thirty (30) days from the date of the Letter and OC DPH shall verify said payment at that time.

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

DPYC utilizes a third party caterer, Turnip Rose, to cater public banquets and member events. The Turnip Rose charges the public banquet customers an additional fee of 5% to cover the percentage rent that it is required to pay DPYC. A similar fee of 3.25% is charged to DPYC for its member events.

Finding Nos. 3 and 4: DPYC reduces banquet and member event gross receipts reported to the County for the 5% and 3.25% charged by the caterer to recover the County rent expense. The Agreement does not allow gross receipts to be reduced for rent expenses passed on to customers. For the sample month of June 2008, gross receipts were reduced by 3,729 (2,434 + 1,295) and rent of 164 ($2,434 \times 5\% + 1,295 \times 3.25\%$) is owed.



Subsequent to our audit period, DPYC discontinued using Turnip Rose as its exclusive caterer for the facility. Our recommendation below continues to apply to any caterer providing service at DPYC.

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.

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to immediately discontinue reducing catering gross receipts for the rent expense being passed on to customers by its caterer. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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.

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to pay OC DPH the additional rent owed of \$164 for the sample month of June 2008, which is to be paid by no later than thirty (30) days from the date of the Letter and OC DPH shall verify said payment at that time.

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

DPYC utilizes a third party caterer, Turnip Rose, to cater member events and public banquets. For the member events, the caterer charges DPYC its costs for the food plus a 20% fee. The caterer also charges DPYC for server costs and certain pass-through costs for other supplies.

Finding No. 5: The 20% fee, server costs, and pass-through costs charged by the caterer are not reported to the County as gross receipts. Only the food costs are reported as gross receipts. For the sample month of June 2008, the 20% fees were \$472, server costs were \$220, and pass-through charges were \$453, for a total of \$1,145 not reported. Additional rent owed for the month of June 2008 is \$37 (\$1,145 x 3.25%).

Subsequent to our audit period, DPYC discontinued using Turnip Rose as its exclusive caterer for the facility. Our recommendation below continues to apply to any caterer providing service at DPYC.

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.

OC DPH Response: Concur. The attached Letter form OC DPH requires DYPC to begin reporting the caterer's 20% fee, server costs, and pass-through costs as gross receipts to the County. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.



4. Minor Rent Categories Need Clarification (Control Finding)

DPYC receives minor revenue for cruise/race fees, sailing lessons, and advertising in its member newsletter.

Finding No. 6: The Agreement appears to allow these activities, but does not clearly specify the percentage rent categories for these activities. Currently, DPYC classifies and pays rent on these activities as follows:

- Cruise and Race Fees 5%
- Sailing Lessons 10%
- Advertising Revenue 10%

Recommendation No. 6: We recommend that OC DPH determine whether the percentage rent categories for the above activities are proper.

OC DPH Response: Concur. The attached Letter from OC DPH memorializes DPYC has been paying the correct percentage rents for Cruise and Race Fees at 5% and, Sailing Lessons and Advertising Revenue each at 10%.

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

Prior to the assignment of the current Agreement to DPYC in June 30, 1998, DPYC operated under a sublease with the Dana Point Marina Company and was located on the East Marina premises (parcel 10). In the consent to the prior sublease, <u>the County allowed membership fees</u> charged by DPYC to be exempt from rent.

Finding No. 7: The current Agreement with DPYC (located on parcel 23) is silent as to whether membership fees are exempt from rent. In discussions with Dana Point Harbor, they indicated that the intent was for membership fees to be exempt from rent. At the next opportunity to update the Agreement (such as the expiration in November 30, 2012), the rent exemption for membership fees should be addressed/documented. In the meantime, DPYC should report the membership fees (and related fees such as late fees) as gross receipts not subject to rent on the monthly rent report submitted to the County.

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.

OC DPH Response: Concur. The attached Letter from OC DPH memorializes that DPYC's membership fees are intended to be exempt from gross receipts and therefore, not subject to rent on the monthly rent reports submitted to the County.



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

Clause 14 of the Agreement states that the cash registers shall be equipped with devices which lock in sales totals and other transaction records, or with counters which are not resettable and which record transaction numbers and sales details.

Finding No. 8: We were informed by DPYC that its Point-of-Sale (POS) cashiering system does not have a zero-out counter (z number) or grand total sales accumulator feature. Instead, the POS cashiering system assigns a sequential number to each transaction (i.e. transaction numbers or chits) that can not be overridden. For the oyster bar, we reviewed the transaction numbers for a sample of 3 days in June 2008 to ensure there were no breaks in sequence and the first/last transaction number of the prior/subsequent day were in numerical sequence.

We identified 14 breaks or missing transaction numbers in our sample of 3 days. For 7 of 14 the missing transaction numbers, DPYC determined the transaction numbers were for voids. However, DPYC could not provide explanations for the remaining 7 missing transaction numbers. It may be that the missing transaction numbers are for other transactions, such as closing out the cash registers daily. However, DPYC should research and determine the reasons. DPYC was unaware of the missing transaction numbers.

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

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to research and determine the causes for several missing transaction numbers at the Oyster Bar for the sample period of three days in June 2008; and DPYC is to report their findings to OC DPH. In addition, OC DPH requires DPYC to use a Point-of-Sale (POS) cashiering system that has a zero-out counter (z number) or grand total sales accumulator feature. OC DPH shall follow up with DPYC on both items as described, within thirty (30) days from the date of the Letter to verify compliance.

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

DPYC utilizes a third party caterer, Turnip Rose, to provide food services at the dining room and oyster bar. The customer food orders are written on pre-numbered tickets and given to cooks to prepare the orders. When the customer is ready to pay, the order is entered into DPYC's Point of Sale (POS) cashiering system. The handwritten tickets and daily POS cashiering reports are provided to the on-site Turnip Rose Food Service Manager. The handwritten tickets and POS cashiering reports are then sent to the Turnip Rose corporate office and the sequential completeness of the handwritten ticket numbers are verified.

Subsequent to our audit period, DPYC discontinued using Turnip Rose to provide food services at the dining room and oyster bar. DPYC now provides the food services inhouse. Our recommendations below continue to apply to DPYC.



Finding No. 9: After 30 days, the pre-numbered handwritten tickets are destroyed by DPYC's caterer, Turnip Rose. Clause 14 of the Agreement requires DPYC to retain adequate documentation to support gross receipts. The handwritten tickets should be retained for a minimum of 5 years plus the current year.

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

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to immediately begin to retain the pre-numbered handwritten food tickets for a minimum of 5 years, plus the current year. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

Finding No. 10: Neither DPYC or its caterer periodically reconcile the handwritten ticket sales with the POS cashiering reports to ensure all food activity is recorded in the POS cashiering system.

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.

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to periodically reconcile the handwritten ticket sales with the POS cashiering system reports, which reconciliation is to be documented. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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

The DPYC gift shop sells miscellaneous items such as sweatshirts, t-shirts, caps, mugs, etc. The gift shop sales are recorded on pre-numbered handwritten receipts and then recorded on DPYC's point-of-sale (POS) cashiering system.

Finding No. 11: We found the numerical sequence of the handwritten receipts were not accounted for. In our review of the sample month of June 2008, we found three instances of gaps in ticket sequences for a total of 12 missing handwritten receipts. No sales were recorded in DPYC's POS cashiering system for the missing handwritten receipts.

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.

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC immediately begin accounting 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. OC DPH shall follow up with DPHC within thirty (30) days form the date of the Letter to verify compliance.



Finding No. 12: We also found that merchandise sales were not always recorded timely in the POS cashiering system. In our review of the sample month of June 2008, we found merchandise sales recorded on four handwritten receipts which were not entered into DPYC's POS cashiering system until 14 days after the handwritten receipt date.

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

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to immediately begin recording merchandise sales in its POS cashiering system on a daily basis. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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

DPYC offers junior sailing lessons and cruise/racing events. Participants submit application forms to DPYC.

Finding No. 13: The application forms are not sequentially numbered. In lieu of that, participant listings for the sailing lessons and cruise/racing events should be prepared and retained.

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 DPH Response: Concur. The attached Letter from OC DPH requires DPYC to immediately begin preparing and retaining participant listings for the sailing lessons and cruise/racing events. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

10. Customer Signed Catering Contracts (Control Finding)

DPYC utilizes a third party caterer, Turnip Rose, to cater public banquets and member events. The caterer prepares sequentially numbered contracts/invoices when the banquet is confirmed with the customer.

Finding No. 14: When the banquet is held and the final payment is made, the customer does not sign the catering contract/invoice. The customer's signature helps to provide evidence that the amounts reported by the caterer to DPYC are accurate.

Subsequent to our audit period, DPYC discontinued using Turnip Rose as its exclusive caterer for the facility. Our recommendation below continues to apply to any caterer providing service at DPYC.

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



OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to receive and retain signed customer contracts/invoices for each banquet from the caterer. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

11. Untimely Submission of Financial Statements (Control Finding)

Clause 14 of the Agreement requires that within 90 days after the end of each accounting year, DPYC shall submit to the County a balance sheet and income statement (Statement of Financial Position and Statement of Revenues, Expenses, and Changes in Net Assets for non-profit entity) prepared or audited by a CPA, reflecting business transacted on or from the leased premises. At the same time, DPYC shall submit a statement of gross receipts audited by a CPA.

Finding No. 15: DPYC's required annual financial statements (Statement of Financial Position and Statement of Revenues, Expenses, and Changes in Net Assets) and Statement of Gross Receipts were not submitted to the County timely as shown below. In addition, the 2007 and 2008 Statement of Gross Receipts have not been received yet.

- <u>Year Ended 12/31/06</u>: Due 3/31/06. Financial Statements received on July 14, 2008. Statement of Gross Receipts received on August 5, 2008.
- <u>Year Ended 12/31/07</u>: Due 3/31/07. Financial Statements received on July 14, 2008. Statement of Gross Receipts has not been received (as of 6/23/09).
- <u>Year Ended 12/31/08</u>: Due 3/31/08. Financial Statements received on April 1, 2009. Statement of Gross Receipts has not been received (as of 6/23/09).

Untimely submission of financial statements was also a finding in our prior audit report of DPYC dated November 21, 2000.

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.

OC DPH Response: Concur. The attached Letter from OC DPH requires DPYC to submit the required 2007 and 2008 Statement of Gross Receipts within thirty (30) days from the date of the Letter. In addition, OC DPH shall follow up with DPYC's within thirty (30) days from their Fiscal Year closing, annually, to ensure future financial statements are submitted in a timely manner.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings 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 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 and/or Efficiency/Effectiveness Issues:

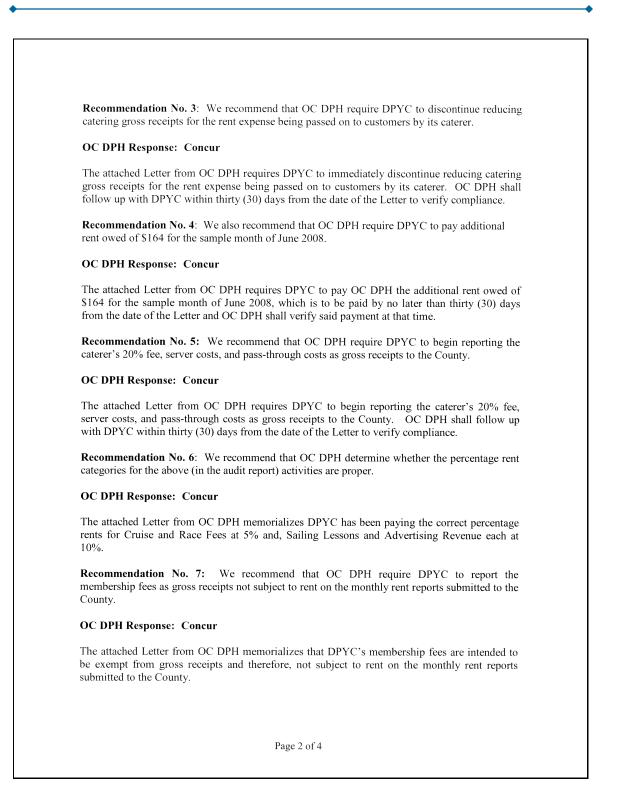
Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.



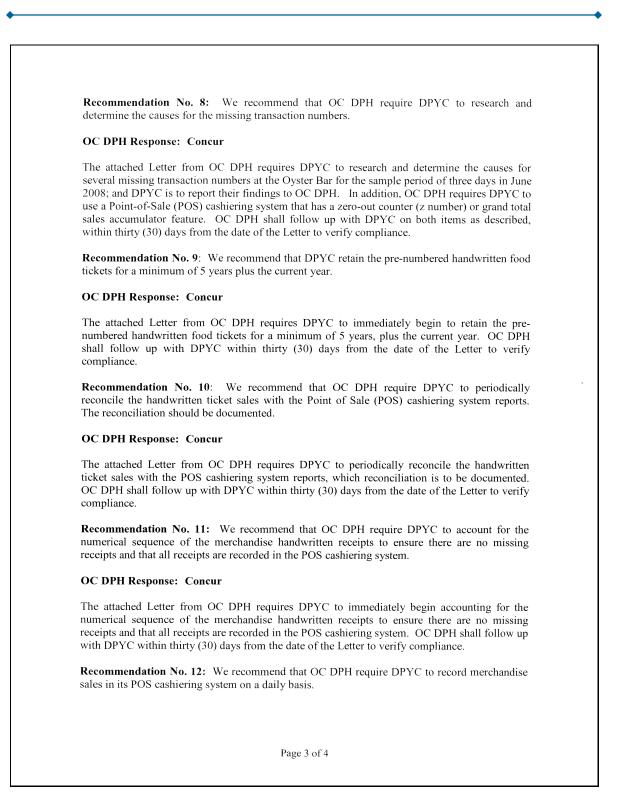
ATTACHMENT B: OC Dana Point Harbor Responses

Sc	DanaPointHarbor	Brad Gross, Directo 24650 Dana Point Harbor Driv Dana Point, CA 9262 Telephone: (949) 923-223 Fax: (949) 923-379
Septen	aber 11, 2009	
-		итериа 200 г
Dr. Pet	er Hughes, Ph.D., MBA, CPA	
	Internal Auditor	ži se
	ie Center Plaza, Room 232 Ana, CA 92701	L S
Re:	Draft Report on Revenue Generating Lease Audit of Dana Poin 23, 23.1	t Yacht Club, HA78H-24-
Dear P	eter,	
the Cor	na Point Harbor appreciates the support provided by Internal Au ntrol Findings and Recommendations (1 through 15) as presente on Revenue Generating Lease Audit of Dana Point Yacht Club	d in the attached draft
to each compli	bunty Executive Office has reviewed and approved of OC Dana l recommendation, which responses are intended to ensure Dana es with all recommendations from the Internal Audit Departmen s recommendations 1 through 15, along with OC Dana Point Har s:	Point Yacht Club fully t. A summary of Internal
Recom	mendation No. 1: We recommend that OC DPH require DPY r surcharges, miscellaneous room rentals, and miscellaneous f	ood/beverage service fees
membe	s receipts to the County and pay the appropriate percentage rent.	
membe as gros	s receipts to the County and pay the appropriate percentage rent. PH Response: Concur	
membe as gross OC DP The att surchar receipts		gin reporting non-member rage service fees as gross DPH shall follow up with
membe as gross OC DP The att surchar receipts DPYC Recom	PH Response: Concur ached Letter from OC DPH requires DPYC to immediately beg ges, miscellaneous room rentals, and miscellaneous food/beve s to the County and pay the appropriate percentage rent. OC 1	gin reporting non-member rage service fees as gross DPH shall follow up with bliance.
membe as gross OC DF The att surchar receipts DPYC Recom rent ow	PH Response: Concur ached Letter from OC DPH requires DPYC to immediately beg ges, miscellaneous room rentals, and miscellaneous food/beve s to the County and pay the appropriate percentage rent. OC 1 within thirty (30) days from the date of the Letter to verify comp mendation No. 2: We also recommend that OC DPH require D	gin reporting non-member rage service fees as gross DPH shall follow up with bliance.











OC DPH Response: Concur

The attached Letter from OC DPH requires DPYC to immediately begin recording merchandise sales in its POS cashiering system on a daily basis. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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 DPH Response: Concur

The attached Letter from OC DPH requires DPYC to immediately being preparing and retaining participant listings for the sailing lessons and cruise/racing events. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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

OC DPH Response: Concur

The attached Letter from OC DPH requires DPYC to receive and retain signed customer contracts/invoices for each banquet from the caterer. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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.

OC DPH Response: Concur

The attached Letter from OC DPH requires DPYC to submit the required 2007 and 2008 Statement of Gross Receipts within thirty (30) days from the date of the Letter. In addition, OC DPH shall follow up with DPYC's within thirty (30) days from their Fiscal Year closing, annually, to ensure future financial statements are submitted in a timely manner.

Thank you and should you have any questions, please call me at 949-923-3798.

Sincere

Brad Gross Director, OC Dana Point Harbor

Enclosures (2)

Cc: Alisa Drakodaidis, Deputy CEO, OC Infrastructure

Page 4 of 4



COUNTY OF SEANSE	ntHarbor	Brad Gross, Direct 24650 Dana Point Harbor Dri Dana Point, CA 9261
Danaron	ппагрог	Telephone: (949) 923-223 Fax: (949) 923-379
September 21, 2009	RECEIV	ED
Kevin Cambell	SEP 15 200	9
General Manager Dana Point Yacht Club 24601 Dana Drive Dana Point, CA 92629	INTERNAL AI DEPARTME	
Re: Draft Report on Revenue G 23, 23.1	enerating Lease Audit of Dana Poir	nt Yacht Club, HA78H-24-
Dear Kevin,		
OC Dana Point Harbor concurs wit County's Internal Audit Departmen Yacht Club (DPYC), audit number	t presented in their Generating Lea	· ·
OC Dana Point Harbor (OC DPH) a acknowledge the recommendations ensure DPYC fully complies with a Internal Audit's recommendations are as follows:	and relative responses, which responses ill recommendations from this audit	onses are intended to t. A summary of the
Recommendation No. 1: We recommunication with the recommunication of the recommunication	s, and miscellaneous food/beverage se	
OC DPH Response: Concur		
OC DPH requires DPYC to immedia rentals, and miscellaneous food/beve appropriate percentage rent. OC DPH the Letter to verify compliance.	rage service fees as gross receipts	to the County and pay the
Recommendation No. 2: We also rec of \$938.	ommend that OC DPH require DPYC	to pay additional rent owed
OC DPH Response: Concur		
OC DPH requires DPYC to pay OC D non-member surcharges, room rentals from the date of the Letter and OC DPI	, and food/beverage service fees by r	no later than thirty (30) days



	. 3: We recommend that OC DPH require DPYC to discontinue reducing catering ent expense being passed on to customers by its caterer.
OC DPH Response:	Concur
being passed on to cu	YC to immediately discontinue reducing catering gross receipts for the rent expense stomers by its caterer. OC DPH shall follow up with DPYC within thirty (30) days etter to verify compliance.
Recommendation No of \$164 for the sample	. 4 : We also recommend that OC DPH require DPYC to pay additional rent owed month of June 2008.
OC DPH Response:	Concur
	C to pay OC DPH the additional rent owed of \$164 for the sample month of June aid by no later than thirty (30) days from the date of the Letter and OC DPH shall that time.
	. 5: We recommend that OC DPH require DPYC to begin reporting the caterer's and pass-through costs as gross receipts to the County.
OC DPH Response:	Concur
*	C to begin reporting the caterer's 20% fee, server costs, and pass-through costs as ounty. OC DPH shall follow up with DPYC within thirty (30) days from the date compliance.
	6 : We recommend that OC DPH determine whether the percentage rent e (in the audit report) activities are proper.
OC DPH Response:	Concur
	s DPYC has been paying the correct percentage rents for Cruise and Race Fees at as and Advertising Revenue each at 10%.
	7: We recommend that OC DPH require DPYC to report the membership fees as eet to rent on the monthly rent reports submitted to the County.
OC DPH Response:	Concur
OC DPH memorializes therefore, not subject to	s that DPYC's membership fees are intended to be exempt from gross receipts and o rent on the monthly rent reports submitted to the County.
	8: We recommend that OC DPH require DPYC to research and determine the transaction numbers.

Page 2 of 4



OC DPH Response: Concur

OC DPH requires DPYC to research and determine the causes for several missing transaction numbers at the Oyster Bar for the sample period of three days in June 2008; and DPYC is to report their findings to OC DPH. In addition, OC DPH requires DPYC to use a Point-of-Sale (POS) cashiering system that has a zero-out counter (z number) or grand total sales accumulator feature. OC DPH shall follow up with DPYC on both items as described, within thirty (30) days from the date of the Letter to verify compliance.

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

OC DPH Response: Concur

OC DPH requires DPYC to immediately begin to retain the pre-numbered handwritten food tickets for a minimum of 5 years, plus the current year. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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

OC DPH Response: Concur

OC DPH requires DPYC to periodically reconcile the handwritten ticket sales with the POS cashiering system reports, which reconciliation is to be documented. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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.

OC DPH Response: Concur

OC DPH requires DPYC to immediately begin accounting 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. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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

OC DPH Response: Concur

OC DPH requires DPYC to immediately begin recording merchandise sales in its POS cashiering system on a daily basis. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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	DPH	Response	: Concur

OC DPH requires DPYC to immediately being preparing and retaining participant listings for the sailing lessons and cruise/racing events. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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

OC DPH Response: Concur

OC DPH requires DPYC to receive and retain signed customer contracts/invoices for each banquet from the caterer. OC DPH shall follow up with DPYC within thirty (30) days from the date of the Letter to verify compliance.

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.

OC DPH Response: Concur

OC DPH requires DPYC to submit the required 2007 and 2008 Statement of Gross Receipts within thirty (30) days from the date of the Letter. In addition, OC DPH shall follow up with DPYC's within thirty (30) days from their Fiscal Year closing, annually, to ensure future financial statements are submitted in a timely manner.

Thank you and should have you have any questions, please call me at 949-923-3787.

mathan W. Boreleau

Jonathan W. Bordeaux Real Property Officer OC Dana Point Harbor

Cc: Brad Gross, Director, OC Dana Point Harbor Autumn McKinney, Senior Audit Manager, Internal Audit Department

ACKNOWLEDGEMENT

Dana Point Yacht Club hereby acknowledges all 15 recommendations as made by the County's Internal Audit Department and with all 15 responses as made by OC Dana Point Harbor. Furthermore, Dana Point Yacht Club shall implement measures to fully comply with all such requirements and responses.

Sign _____ Title ____ Date ____

Page 4 of 4