0

ပ

⋖

 $\mathbf{\alpha}$

Revenue Generating Lease Audit:

OC DANA POINT HARBOR DOLPHIN SAFARI, INC.

For the Period September 1, 2008 through August 31, 2009

\$823K GROSS RECEIPTS
ANNUALLY
\$137K RENT PAID TO THE
COUNTY ANNUALLY

Dolphin Safari, Inc. operates charter vessels and related sales of merchandise, food, and beverages located at OC Dana Point Harbor. Over its five (5) year term, this lease agreement is estimated to generate approximately \$788,000 in rent to the County. Rent is paid based on a percentage of gross receipts. We audit the underlying books and records to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. Gross receipts reported during the 12-month audit period were approximately \$823,000 and rent paid to the County was approximately \$137,000.

The Internal Audit Department found that Dolphin Safari, Inc.'s records adequately supported gross receipts and rent owed was properly paid overall. We did identify **three (3) Control Findings** related to improving recordkeeping and minor amounts of rent owed. OC Dana Point Harbor agreed with all three (3) findings and recommendations and is working with Dolphin Safari, Inc. to implement corrective actions.

AUDIT NO: 2936 REPORT DATE: SEPTEMBER 15, 2010

Director: Dr. Peter Hughes, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Audit Manager: Lily Chin, CPA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010

AICPA American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award





GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE

Director Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA

Deputy Director Certified Fraud Specialist (CFS)

Certified Information Systems Auditor (CISA)

Michael J. Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM

Senior Audit Manager 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. 2936 September 15, 2010

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,

Dolphin Safari, Inc., HA78H-24-003-00

We have completed our revenue generating lease audit of Dolphin Safari, Inc. for the period September 1, 2008 through August 31, 2009. 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 2009-10 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 <u>begin</u> at <u>six months</u> 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 are listed on the OC Internal Auditor's Report on page 3.

Table of Contents



Revenue Generating Lease Audit: OC Dana Point Harbor Dolphin Safari, Inc. Audit No. 2936

For the Period September 1, 2008 through August 31, 2009

Transmittal Letter	İ
OC Internal Auditor's Report	
OBJECTIVES	1
BACKGROUND	1
SCOPE	2
RESULTS	2
Detailed Findings, Recommendations and Management Responses	
Audit Objective #1 – Adequate Records	4
 Consistent Source Documentation for Recording Open Charter Vessels (Control Finding) 	4
2. Rent Owed and Clarification of "At Sea" Sales (Control Finding)	5
3. Rent Owed for Employee Purchases (Control Finding)	6
ATTACHMENT A: Report Item Classifications	7
ATTACHMENT B: OC Dana Point Harbor Responses	8

OC Internal Auditor's Report



Audit No. 2936

September 15, 2010

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/Dolphin Safari, Inc.

HA78H-24-003-00

Audit Highlight

Dolphin Safari, Inc. operates vessel charters and related sales of merchandise, food, and beverages located at OC Dana Point Harbor.

Over the five (5) year term, this lease agreement is estimated to generate about \$788,000 in rent to the County. Gross receipts generated during the 12-month audit period were about \$823,000 and rent paid to the County was about \$137,000.

The Internal Audit
Department found
that Dolphin Safari's
records adequately
supported gross
receipts and rent
owed was properly
paid overall. We did
identify three (3)
Control Findings
related to improving
recordkeeping and
minor amounts of
rent owed.

OBJECTIVES

We have performed an audit of certain records and documents for the period from September 1, 2008 through August 31, 2009, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Dolphin Safari, Inc. (Dolphin Safari), dated July 18, 2007. The Agreement is for the operation of vessel charters and sale of merchandise, food and beverages at OC Dana Point Harbor. Our audit objectives are:

- (1) The primary purpose of our audit is to determine whether Dolphin Safari'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 Dolphin Safari 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 of Orange entered into an Agreement with Dolphin Safari, Inc. (Dolphin Safari), dated July 18, 2007 for the operation of vessel charters and the sale of merchandise, food, and beverages located at OC Dana Point Harbor. During the audit period, Dolphin Safari reported approximately \$823,000 in gross receipts and paid the County approximately \$137,000 in rent. Over the five (5) year term, this lease agreement is estimated to generate about \$788,000 in rent to the County.

OC Internal Auditor's Report



SCOPE

Our audit was limited to certain records and documents that support Dolphin Safari's gross receipts reported to the County for the 12-month audit period of September 1, 2008 through August 31, 2009. 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 Dolphin Safari's records adequately support monthly gross receipts reported to the County and rent owed is properly paid.
- Results: We found that Dolphin Safari's records adequately supported the reported gross receipts and rent owed was properly paid overall. We did identify one (1) Control Finding where recordkeeping should be improved and two (2) Control Findings related to minor amounts of rent owed. (See pages 4 6 for details)
- Objective #2 Compliance: Determine whether Dolphin Safari complies with certain other financial provisions of the agreement.
- **Results:** We found that Dolphin Safari complied with certain other financial provisions of the agreement such as accounting methods, annual financial statements, and monthly gross receipts statement format.

See all **three (3) 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 Dolphin Safari, OC Dana Point Harbor, and OC Public Works/Accounting Services. If you have any questions regarding our revenue generating lease 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 Classifications

Attachment B: OC Dana Point Harbor Responses

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, CEO/OC Infrastructure
Paul Lawrence, Manager, OC Dana Point Harbor
Jonathan Bordeaux, Real Property Officer, OC Dana Point Harbor
Mary Fitzgerald, Accounting Manager, OCPW/Accounting
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 Supervisor



Audit Objective #1 - Adequate Records

1. Consistent Source Documentation for Recording Open Charter Vessels (Control Finding)

Clause 15 of the Agreement requires tenant to at all times keep or cause to be kept true and complete books, records, and accounts of all financial transactions in the operation of all business activities.

Dolphin Safari uses a reservation system to manage its open vessel charters. Reservations can be booked by an employee located at the dock (onsite) or by an offsite employee (over the phone). Customers call in to make a reservation and pay the full amount due with a credit card. Dolphin Safari reports the open charter vessel gross receipts on the cash basis.

Prior to July 2009, payments processed both onsite and offsite were recorded in Dolphin Safari's point of sale (POS) cashiering system. In July 2009, Dolphin Safari implemented Intuit's merchant service module to record the "offsite" payments in their QuickBooks system (rather than using the onsite POS cashiering system).

Finding No. 1: Beginning in July 2009 for offsite reservations only, Dolphin Safari records gross receipts in its general ledger based on the bank statement (daily postings) rather than the reservations system booking reports and POS cashiering system reports. For two sample days in July 2009, we compared the charged amount from the reservations system booking report with the general ledger and found discrepancies of less than \$100.

Because there is a slight timing difference and to be consistent with onsite reservations, gross receipts for the offsite reservations should be recorded based on the reservations system booking reports, rather than the bank statement postings.

Recommendation No. 1: We recommend that OC Dana Point Harbor require Dolphin Safari to use its reservations system booking report when recording gross receipts to its general ledger for offsite reservations.

OC Dana Point Harbor Response: Concur. The attached Letter from OC Dana Point Harbor requires Dolphin Safari to immediately begin using its reservations system booking report when recording gross receipts to its general ledger for offsite reservations. OC Dana Point Harbor shall follow up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.



2. Rent Owed and Clarification of "At Sea" Sales (Control Finding)

Clause 12.A of the Agreement defines gross receipts to include the sales price of all goods, wares, merchandise, and products sold on or from the premises by tenant. Clause 12.B defines gross receipts to include all charges made by tenant.

Finding No. 2: During our review of Dolphin Safari's Profit & Loss Statement for the 12-month audit period, we found that Dolphin Safari did not report the following gross receipts (6% rent category):

- Preordered Snacks for Private Charters \$10,105
- Sale of DVDs \$2,711 (Sold on Boat \$1,898, Sold at Dock/Online \$53, and Resale - \$760)
- Pictures Purchased on Boat \$863

We were informed that pictures on the boat are no longer sold. DVD sales consist of DVDs sold on the boat while at sea, DVDs sold at the harbor dock and online, and DVDs sold for resale. The snacks for private charters are provided upon request and pre-ordered; they are paid for on the day of the event at either the dock or the offsite location and are provided at sea. Dolphin Safari believed that "at sea" sales were not reportable as gross receipts. The lease agreement does not specifically address "at sea" sales.

On February 25, 2010, OC Dana Point Harbor (OC DPH) emailed Dolphin Safari and clarified that sales of DVDs and private charter snacks made "at sea" are not considered gross receipts for rent purposes. Even though the pre-ordered snacks for private charters are paid at the dock or the offsite location, OC DPH has determined the intent was these sales are considered to be "at sea" and are not reportable as gross receipts subject to rent.

However, sales of DVDs and food for open vessel charters made from the leased premises are considered gross receipts subject to rent.

Therefore, only the gross receipts of \$53 for DVDs sold at the dock/online and the \$760 resale DVDs are subject to rent. For the 12-month audit period, this amounts to unreported gross receipts of \$813 (\$53 + \$760) and rent owed of \$48.78 (6% x \$813).

Recommendation No. 2: We recommend that OC Dana Point Harbor require Dolphin Safari to begin reporting DVD sales made from the leased premises (including online sales and resale DVDs) as gross receipts to the County and pay rent owed of \$48.78.

OC Dana Point Harbor Response: Concur. The attached Letter from OC Dana Point Harbor requires Dolphin Safari to begin reporting DVD sales made from the lease premises (including online sales and resale DVDs) as gross receipts to the County and pay rent owed of \$48. OC Dana Point Harbor shall follow-up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.



3. Rent Owed for Employee Purchases (Control Finding)

Clause 12.F(7) states gross receipts shall include the actual charge paid by employee for food and beverages while on duty.

Finding No. 3: We found that employee purchases were not reported as gross receipts to the County. For the 12-month audit period, total employee purchases were \$1,804. Dolphin Safari stated that the employee purchases were primarily for snacks and drinks and were sold at cost. The underreported gross receipts resulted in rent owed of \$108 (6% x \$1,804).

Recommendation No. 3: We recommend OC Dana Point Harbor require Dolphin Safari to begin reporting employee purchases as gross receipts and pay rent owed of \$108.

OC Dana Point Harbor Response: Concur. The attached Letter from OC Dana Point Harbor requires Dolphin Safari to begin reporting employee purchases as gross receipts and pay rent owed of \$108. OC Dana Point Harbor shall follow up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.



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/or 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 will generally require management's prompt corrective actions.

Control Findings:

Audit findings concerning <u>internal controls</u>, <u>compliance issues</u>, or <u>efficiency/effectiveness issues</u> 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.



ATTACHMENT B: OC Dana Point Harbor Responses



Brad Gross, Director 24650 Dana Point Harbor Drive Dana Point, CA 92629

> Telephone: (949) 923-2236 Fax; (949) 923-3792

September 13, 2010

Dr. Peter Hughes, Ph.D., MBA, CPA County Internal Auditor 12 Civic Center Plaza, Room 232 Santa Ana, CA 92701

Re: Draft Report on Revenue Generating Lease Audit No. 2936 of Dolphin Safari, Inc., HA78H-24-003-00

Dear Peter,

OC Dana Point Harbor appreciates the support provided by Internal Audit and we concur with the Control Findings and Recommendations (1 through 3) as presented in the attached draft Report on Revenue Generating Lease Audit of Dolphin Safari, Inc., Audit No. 2936.

The County Executive Office has reviewed and approved OC Dana Point Harbor's responses to each recommendation, which are intended to ensure Dolphin Safari, Inc. fully complies with all recommendations from the Internal Audit Department. A summary of Internal Audit's recommendations 1 through 3, along with OC Dana Point Harbor's responses, are as follows:

Recommendation No. 1: We recommend that OC Dana Point Harbor require Dolphin Safari to use its reservations system booking report when recording gross receipts to its general ledger for offsite reservations.

OC Dana Point Harbor Response: Concur

The attached Letter from OC Dana Point Harbor requires Dolphin Safari to immediately begin using its reservations system booking report when recording gross receipts to its general ledger for offsite reservations. OC Dana Point Harbor shall follow up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.

Recommendation No. 2: We also recommend that OC Dana Point Harbor require Dolphin Safari to begin reporting DVD sales made from the lease premises (including online sales and resale DVDs) as gross receipts to the County and pay rent owed of \$48.78.

OC Dana Point Harbor Response: Concur

The attached Letter from OC Dana Point Harbor requires Dolphin Safari to begin reporting DVD sales made from the lease premises (including online sales and resale DVDs) as gross receipts to the County and pay rent owed of \$48. OC Dana Point Harbor shall follow-up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.

Page 1 of 2



ATTACHMENT B: OC Dana Point Harbor Responses (continued)

Recommendation No. 3: We recommend that OC Dana Point Harbor require Dolphin Safari to begin reporting employee purchases as gross receipts and pay rent owed of \$108.

OC DPH Response: Concur

The attached Letter from OC Dana Point Harbor requires Dolphin Safari to begin reporting employee purchases as gross receipts and pay rent owed of \$108. OC Dana Point Harbor shall follow up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.

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

Sincer

Director, OC Dana Point Harbor

Enclosures (2)

Cc: Alisa Drakodaidis, Deputy CEO, OC Infrastructure

Page 2 of 2



ATTACHMENT B: OC Dana Point Harbor Responses (continued)



Brad Gross, Director 24650 Dana Point Harbor Drive Dana Point, CA 92629

> Telephone: (949) 923-2236 Fax; (949) 923-3792

September 13, 2010

Dave and Gisele Anderson Dolphin Safari, Inc. 3441 Ensenada Place Dana Point, CA 92629

Re: Draft Report on Revenue Generating Lease Audit No. 2936 of Dolphin Safari, Inc., HA78H-24-003-00

Dear Dave and Gisele,

As you know, the County's Internal Audit has conducted their initial Audit No. 2936 of Dolphin Safari, Inc. in which three findings need to be addressed within the next thirty days from this letter. Please recall that I have spoken with Gisele about each of these findings and she indicated that she understands each finding and recommendation, and Dolphin Safari will be making these adjustments. A summary of Internal Audit's recommendations to OC Dana Point Harbor are shown below (Recommendations 1 through 3), along with OC Dana Point Harbor's responses and concurrences to each finding:

Recommendation No. 1: We recommend that OC Dana Point Harbor require Dolphin Safari to use its reservations system booking report when recording gross receipts to its general ledger for offsite reservations.

OC Dana Point Harbor Response: Concur

This Letter requires Dolphin Safari to immediately begin using its reservations system booking report when recording gross receipts to its general ledger for offsite reservations. OC Dana Point Harbor shall follow up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.

Recommendation No. 2: We also recommend that OC Dana Point Harbor require Dolphin Safari to begin reporting DVD sales made from the lease premises (including online sales and resale DVDs) as gross receipts to the County and pay rent owed of \$48.78.

OC Dana Point Harbor Response: Concur

This Letter requires Dolphin Safari to immediately begin reporting DVD sales made from the lease premises (including online sales and resale DVDs) as gross receipts to the County and pay rent owed of \$48.78. OC Dana Point Harbor shall follow-up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.

Page 1 of 2



ATTACHMENT B: OC Dana Point Harbor Responses (continued)

Recommendation No. 3: We recommend that OC Dana Point Harbor require Dolphin Safari to begin reporting employee purchases as gross receipts and pay rent owed of \$108.

OC Dana Point Harbor Response: Concur

Jonathan W Gordean

This Letter requires Dolphin Safari to immediately begin reporting employee purchases as gross receipts and pay rent owed of \$108. OC Dana Point Harbor shall follow up with Dolphin Safari within thirty (30) days from the date of the Letter to verify compliance.

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

Sincerely

Jonathan W. Bordeaux Real Property Officer OC Dana Point Harbor

Cc: Brad Gross, Director, OC Dana Point Harbor

Page 2 of 2