

Internal Audit Department

O R A N G E County in the USA
 6th Largest

FIRST FOLLOW-UP AUDIT:

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

AS OF JUNE 30, 2011

**\$1.5 MILLION GROSS
 RECEIPTS ANNUALLY
 \$82,000 RENT PAID TO
 THE COUNTY ANNUALLY**

OC Dana Point Harbor and Dana Point Yacht Club took satisfactory corrective action to fully implement eight (8) recommendations; one (1) recommendation has been partially implemented; one (1) recommendation is in process; and five (5) recommendations have been closed.

During the original audit period, Dana Point Yacht Club reported \$1.5 million in gross receipts and paid \$82,000 in rent to the County. For the period of June 30, 1998 (lease assignment) through November 31, 2012 (lease expiration date), the lease is estimated to generate over \$1 million in rent to the County.

AUDIT NO: 2937-E
 REPORT DATE: AUGUST 5, 2011
 (ORIGINAL AUDIT No. 2839)

Director: Dr. Peter Hughes, 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, 2010



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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



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



2008 Association of Local Government Auditors' Bronze Website Award



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



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 2937-E August 5, 2011

TO: Brad Gross, Director
OC Dana Point Harbor

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Audit of Revenue
Generating Lease Audit: OC Dana Point
Harbor - Dana Point Yacht Club, Original
Audit No. 2839, Issued September 23,
2009

We have completed a First Follow-Up Audit of Revenue Generating Lease Audit: OC Dana Point Harbor - Dana Point Yacht Club. Our audit was limited to reviewing, as of June 30, 2011, actions taken to implement fifteen (15) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the [OC Internal Auditor's Report](#) following this transmittal letter. Because there are two recommendations pending implementation, we have attached a Second Follow-Up Audit Report Form. Your department should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will obtain the completed document to facilitate our review.

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.

Other recipients of this report are listed on the [OC Internal Auditor's Report](#) on page 5.

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OC Dana Point Harbor - Dana Point Yacht Club
Audit No. 2937-E*

As of June 30, 2011

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OC Internal Auditor's Report



Audit No. 2937-E

August 5, 2011

TO: Brad Gross, Director
OC Dana Point Harbor

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Audit of Revenue Generating Lease Audit: OC Dana Point Harbor - Dana Point Yacht Club, Original Audit No. 2839, Issued September 23, 2009

Scope of Review

We have completed a First Follow-Up Audit of Revenue Generating Lease Audit: OC Dana Point Harbor - Dana Point Yacht Club. Our audit was limited to reviewing, as of June 30, 2011, actions taken to implement fifteen (15) recommendations from our original audit.

Background

The original audit reviewed whether Dana Point Yacht Club's records adequately supported monthly gross receipts reported to the County and rent was properly paid. During the original audit period, Dana Point Yacht Club reported \$1.5 million in gross receipts and paid \$82,000 in rent to the County. The original audit identified fifteen (15) recommendations related to additional rent owed and where recordkeeping should be enhanced to support reported gross receipts.

Results

Our First Follow-Up Audit indicated that OC Dana Point Harbor (OC DPH) and Dana Point Yacht Club (DPYC) took satisfactory corrective action to fully implement eight (8) recommendations; one (1) recommendation has been partially implemented; one (1) recommendation is in process; and five (5) recommendations have been closed. We believe the remaining two (2) recommendations are still appropriate and further efforts should be made to fully implement them. All of the original recommendations are noted below along with a comment on their current status. The item number from the original report is shown before each heading.

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

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 Internal Auditor's Report



Current Status: Partially Implemented. Our review of DPYC's gross receipts statement for the sample months of January 2010 and May 2011 found that DPYC is now reporting miscellaneous food/beverage service fees as gross receipts to the County. Additionally, DPYC informed us it no longer charges non-members a "surcharge." However, DPYC is not reporting non-member food/beverage revenue (previously classified as surcharges) or miscellaneous room rentals as gross receipts to the County. For the six months ended June 30, 2011, non-member revenue and miscellaneous room rentals totaled \$269. No additional rent is owed as DPYC is paying minimum rent and gross receipts during this time period did not exceed the threshold for percentage rent. DPYC informed us that it will begin reporting the non-member revenue and miscellaneous room rentals on the August 2011 gross receipts statement submitted to the County. Based on the work performed, we consider this recommendation partially implemented.

OC Dana Point Harbor Action Plan: OC Dana Point Harbor will follow-up with DPYC to ensure they begin reporting their non-member revenue and miscellaneous room rentals on the August 2011 gross receipts statement submitted to the County. OC Dana Point Harbor will then report to Internal Audit by October 12, 2011 with our follow-up findings of DPYC's compliance of this requirement.

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

Current Status: Implemented. Our review of documentation provided by OC DPH found that DPYC has paid additional rent owed of \$938. Therefore, we consider this recommendation implemented.

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

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.

Current Status: Closed. Subsequent to the original audit, DPYC terminated its exclusive catering agreement with the Turnip Rose and allowed members and non-members to utilize their own caterers for special events. This arrangement lasted for about two years. Effective February 21, 2011, DPYC entered into a new exclusive catering agreement with ZCater, Inc. The new agreement provides that the caterer will be compensated by DPYC for 100% of member catering services and 80% of non-member catered events (DPYC retains 20% of non-member events).

Under the former agreement with the Turnip Rose, the Turnip Rose coordinated events and remitted a percentage of gross receipts (net of the rent expenses passed on to customers) to DPYC. In turn, DPYC reported the reduced amount to the County. Under the new agreement, DPYC will coordinate the events, collect customer payments, and reimburse the caterer for its costs per the agreement. As such, reported gross receipts will not be reduced since the rent expense will not be passed on to the customer. Therefore, we consider this recommendation closed.

OC Internal Auditor's Report



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.

Current Status: **Implemented.** Our review of documentation provided by OC DPH found that DPYC has paid additional rent owed of \$164. Therefore, we consider this recommendation implemented.

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

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.

Current Status: **Closed.** See status above for Recommendation No. 3. This recommendation is no longer applicable and we consider this recommendation closed.

4. **Minor Rent Categories Need Clarification (Control Finding)**

Recommendation No. 6: We recommend that OC DPH determine whether the percentage rent categories for cruise/race fees, sailing lessons, and advertising are proper.

Current Status: **Implemented.** In a March 22, 2010 letter to DPYC, OC DPH verified and communicated that the percentage rent categories for cruise/race fees, sailing lessons, and advertising are proper. Therefore, we consider this recommendation implemented.

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

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.

Current Status: **Implemented.** We reviewed DPYC's gross receipts statement submitted to the County for the sample month of June 2010 and found that DPYC membership fees are now being reported as a not subject to rent line item. Therefore, we consider this recommendation implemented.

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

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

Current Status: **Implemented.** DPYC informed us that after the original audit they researched the cause for the missing transaction numbers. They determined that transaction numbers are generated each time staff makes a periodic sales query of the POS cashiering system. DPYC has requested staff to print out chits (receipts) when making a sales query to account for the transaction numbers. This appears reasonable. Therefore, we consider this recommendation implemented.

OC Internal Auditor's Report



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

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

Current Status: **Closed.** DPYC informed us that it has discontinued the practice of using numbered handwritten tickets for ordering purposes. Instead, food orders are entered directly into the POS system. Therefore, this recommendation is no longer applicable and we consider it closed.

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.

Current Status: **Closed.** See status above for Recommendation No. 9. This recommendation is no longer applicable and we consider it closed.

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

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.

Current Status: **Closed.** DPYC has discontinued the practice of using numbered handwritten tickets for merchandise sales. Merchandise sales are now entered directly into the POS cashiering system. Therefore, this recommendation is no longer applicable and we consider it closed.

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

Current Status: **Implemented.** DPYC has discontinued the practice of using numbered handwritten tickets for merchandise sales. Merchandise sales are now entered directly into the POS system at the time of purchase. Therefore, we consider this recommendation implemented.

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

Recommendation No. 13: We recommend that OC DPH require DPYC to prepare and retain participant listings for the sailing lessons and cruise/racing events.

Current Status: **Implemented.** Our review of the sample Midwinter Regatta 2010 and Thirsty Thursdays Summer Sail participant listings found that DPYC is preparing and retaining participant listings for the sailing lessons and cruise/racing events. Therefore, we consider this recommendation implemented.

OC Internal Auditor's Report



10. Customer Signed Catering Contracts (Control Finding)

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

Current Status: **Implemented.** Our review of the sample December 4, 2009 Single Event Facilities License Agreement - Retirement Reception documentation found that DPYC is receiving and retaining signed customer contracts and invoices for banquets. Therefore, we consider this recommendation implemented.

11. Untimely Submission of Financial Statements (Control Finding)

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.

Current Status: **In Process.** DPYC and their CPA informed us that supporting records for the audit were provided to their CPA on July 18, 2011. DPYC estimates the CPA's audit of DPYC's Annual Gross Receipts Statements for 2007 through 2010 will be completed by August 2011. Therefore, we consider this recommendation to be in process.

OC Dana Point Harbor Action Plan: OC Dana Point Harbor will follow-up with DPYC to ensure DPYC's Annual Gross Receipts Statements for 2007 through 2010 will be completed by August 2011. OC Dana Point Harbor will then report to Internal Audit by October 12, 2011 with our follow-up findings of DPYC's compliance of this requirement.

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, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

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
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
Jeanette Tyler, 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