



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
OC Dana Point Harbor Special Revenue Fund 108
Selected Processes & Controls

For the Period of January 1, 2015
through December 31, 2015

Audit Number 1423
Report Date: April 24, 2017



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
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Transmittal Letter

Audit No. 1423

April 24, 2017

TO: Dylan Wright, Director
OC Community Resources

SUBJECT: Internal Control Audit:
OC Dana Point Harbor Special Revenue Fund 108 Selected Processes &
Controls

We have completed our Internal Control Audit of selected processes and controls of the OC Dana Point Harbor Special Revenue Fund 108 for the period January 1, 2015 through December 31, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a quarterly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter 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 AOC and BOS.

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

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Lilly Simmering, Deputy Chief Operating Officer
- Cymantha Atkinson, Deputy Director of OCCR
- Thea Bullock, Director of Compliance, OCCR
- Connie Chang, Financial Planning Manager, OCCR
- Brian Rayburn, Business Office Manager, OCCR
- Stacy Blackwood, Director of OC Parks, OCCR
- Jonathan Nicks, Deputy Director of OC Parks, OCCR
- Bill Reiter, Parks Division Manager, OCCR/OC Parks
- Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
- Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Selected Processes & Controls
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Internal Auditor's Report

Audit No. 1423

April 24, 2017

TO: Dylan Wright, Director
OC Community Resources

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Internal Control Audit:
OC Dana Point Harbor Special Revenue Fund 108 Selected Processes & Controls

OBJECTIVES

We have completed our Internal Control Audit of selected processes and controls of OC Dana Point Harbor (OCDPH) Special Revenue Fund 108 (Fund 108) for the period January 1, 2015 through December 31, 2015. We performed this audit in accordance with the FY 2015-16 Audit Plan and Risk Assessment, approved by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS), to ensure the special revenue fund is properly administered and maintained in compliance with County policy and procedures and is utilized in accordance with fund requirements. Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. The objectives of this audit were to:

1. Follow-up on action taken to address the recommendations stated in the FY 2013-14 Grand Jury Report entitled "Dana Point Harbor Revitalization – 15 Years of Planning: What Has Been Learned?" as applicable to Fund 108.
2. Evaluate if internal controls are in place to ensure labor costs incurred for non-OCDPH business are monitored, properly recorded, and allocated to OC Community Resources (OCCR).
3. Evaluate if internal controls are in place to ensure vendor payments made to Project Dimensions, Inc. (PDI) are valid, adequately supported, properly recorded, reasonable, and that management reviews and approvals are performed.
4. Determine if administration of Fund 108 is effective and efficient (e.g., no backlogs, duplication of work, benefit from automating a manual process).

Ancillary to these objectives, we examined areas related to parking enforcement services during FY 2014-15 and FY 2015-16 and facility reservations during the first six months of 2016 for the OC Sailing & Events Center. This additional work resulted in the identification of opportunities for improvement that are included in the last section of our report.

RESULTS

Objective 1: Our audit found that actions were taken to address eight recommendations stated in the FY 2013-14 Grand Jury Report entitled "Dana Point Harbor Revitalization – 15 Years of Planning: What has Been Learned?"; however, OCCR is in the process of addressing one recommendation. We identified **one (1) Efficiency and Effectiveness Finding** regarding completion of a cost analysis for having two marina management companies.



Internal Auditor's Report

Objective 2: Our audit found that internal controls were in place to ensure labor costs incurred for non-OCDPH business were properly monitored, recorded, and allocated to OCCR. **We have no findings and recommendations under this objective.**

Objective 3: Our audit found that internal controls were in place to ensure payments made to PDI were valid, adequately supported, properly recorded, reasonable, and management reviews and approvals were performed. While **we have no findings and recommendations under this objective**, we have other information related to this objective discussed later in the report.

Objective 4: Our audit did not disclose any instances concerning duplication of work, backlogs, or manual processes that could benefit from being automated. **We have no findings and recommendations under this objective.**

During our audit, we also identified **seven (7) Control Findings** related to parking enforcement services at the harbor and facility rentals at the OC Sailing & Events Center.

BACKGROUND

The mission of OCDPH is to “provide public coastal access, environmental stewardship, and maintain a diverse regional recreational facility so all users and visitors may experience the unique Dana Point Harbor resource in a safe and enjoyable way.”

OCDPH has both landside and waterside components that provide services, opportunities, and enjoyment to thousands of visitors every year.

- **Waterside:** There are two marinas with approximately 2,400 boat slips and a variety of recreational, sporting, and commercial boating amenities. The public launch ramp provides ocean access to boaters. The pier at the west end of the harbor is ADA accessible and is a place for people to fish and enjoy the scenery. There are also numerous programs offered at Dana Point Harbor to educate participants about the ocean, habitat, and boating.
- **Landside:** Includes Dana Wharf and Mariner's Village for shopping and dining, the Marina Inn (a 136-room hotel), the Ocean Institute, Baby Beach, and the County-operated OC Sailing & Events Center. There is a walking trail allowing people to walk the entire perimeter of the harbor and public parking. Benches and grassy areas provide relaxing resting areas next to the water.

In December 1998, the BOS approved the goal and objectives for Dana Point Harbor Revitalization Plan (Plan) to replace aging structures and to upgrade harbor amenities. The construction phase commenced in 2015 after the County obtained a Coastal Development Permit for the Plan.

Subsequent to the audit period, OCDPH went through the following organizational and personnel changes:

- Effective May 12, 2016, the former Director of OCDPH retired from the County.



Internal Auditor's Report

- On June 14, 2016, the BOS adopted Resolution No. 16-049 to approve the reorganization of OCDPH into OC Parks, a division of OCCR. As part of this reorganization, the BOS directed the Director of OC Parks to assume the authority, responsibility, duties, and obligations of the former Director of OCDPH.
- Effective September 30, 2016, the former Deputy Director of OCDPH transferred to another County department.
- In October 2017, the Auditor-Controller's (A-C) Office created Chart of Account (COFA) Document 1695 to transfer Fund 108 to OCCR as the controlling department; however, the nature of the revenue sources and financing uses of the fund remained the same.

OCDPH Special Revenue Fund 108

The purpose of a special revenue fund is to establish accountability for general government financial resources that are restricted by law or contractual agreement to specific purposes other than debt service or major capital projects. Fund 108 is the operating fund for OCDPH and is a non-major special revenue fund in the County's accounting system. All operating activities are recorded in this fund. Monies received in Fund 108 shall be expended only "for the promotion and accommodation of commerce, navigation, and fisheries, for the protection of the lands within boundaries of the cities and counties, and for the promotion, accommodation, establishment, improvement, operation, and maintenance of the public recreational beaches and coastline for the benefit for all the people of the State."

OCDPH's revenue sources are primarily rents and concessions and its major expenditure is for professional and specialized services.

Table 1. Fund 108 Overview

Authority for Fund Establishment	For the Year Ended 12/31/2015		Fund Balance As of 12/31/2015
	Expenditures	Revenues	
Used for deposit of monies received pursuant to Chapter 321(a) of the Statutes of 1961, which gave certain Tidelands and Submerged Land of the Dana Point Area to the County of Orange.	\$21,571,545	\$27,307,494	\$64,005,015

SCOPE AND METHODOLOGY

Our audit covered the period January 1, 2015 through December 31, 2015, and included selected processes and controls of Fund 108. Our scope and methodology included:

1. Obtaining an understanding of the nature, purpose, and requirements concerning sources and uses of Fund 108 to ensure the special revenue fund is used for specific purposes. We accomplished this by obtaining documentation (COFA) from A-C General Accounting for the establishment of Fund 108 and reviewing financial data and reports downloaded from the CAPS+ Data Warehouse.
2. Evaluating if actions were taken to address the recommendations made in the FY 2013-14 Grand Jury Report (Report) entitled "Dana Point Harbor Revitalization – 15 Years of Planning: What Has Been Learned?"



Internal Auditor's Report

We accomplished this by obtaining an understanding of the findings and recommendations stated in the Report and the County's responses, inquiry with personnel, and reviewing documents to determine the status of the recommendations.

3. Evaluating the processes and internal controls in OCDPH and OCCR to ensure labor costs incurred for non-OCDPH business were monitored, properly recorded, and allocated. Our scope was limited to reviewing accounting practices and management reviews/approvals of recording and processing non-OCDPH business for OCDPH employees.
4. Evaluating the processes and internal controls over vendor payments made during the audit period to PDI. We accomplished this by obtaining an understanding of the processes and procedures in reviewing and approving the payments and performing testing of transactions.
5. Ensuring OCDPH received parking enforcement services it paid for and that certain controls for administering facility rentals at the OC Sailing & Events Center were in place. We accomplished this through inquiry with personnel and by obtaining an understanding of the processes and documents used in administering parking enforcement services at the harbor for FY 2014-15 and FY 2015-16 and for administering facility rentals at the OC Sailing & Events Center during the first six months of 2016.

During our audit fieldwork, the BOS adopted Resolution No. 16-049 to approve the reorganization of OCDPH into OCCR. Since our audit objectives and period pertain to the operations and processes of the OCDPH prior to the merger and as a separate department, some issues identified may no longer apply under OCCR. The purpose of this audit is to bring awareness of specific areas at the harbor where internal controls can be enhanced and lessons learned shared. As such, we will state the corresponding new processes and procedures implemented subsequent to the reorganization; however, detailed reviews and examination of such policies and procedures will be performed during our Follow-Up Audit.

Scope Exclusions

Our audit scope excluded the following areas:

- We did not evaluate the performance of any aspect of the Plan, award of any contracts associated with the Plan, nor the performance of any contractor involved with the Plan.
- We did not examine revenues and expenditures pertaining to revenue generating operating/ lease agreements for facilities and services located in the harbor.
- We did not review payments made to contractors for supporting the daily operations of the OCDPH.
- We did not review salary and benefits costs incurred for positions and other internal service charges to Fund 108.

FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the AOC and the BOS. Our **First Follow-Up Audit** will generally begin at six months from the official release of the report.



Internal Auditor's Report

A copy of 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 generally begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented.

We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC 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 form to facilitate our review.

MANAGEMENT'S RESPONSIBILITIES FOR INTERNAL CONTROLS

In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our Internal Control Audit enhances and complements, but does not substitute for OCCR's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the OCCR's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of OC Dana Point Harbor, OC Community Resources, and Auditor-Controller Satellite Accounting Operations during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

Objective 1: Follow-up on action taken to address the recommendations stated in the FY 2013-14 Grand Jury Report entitled “Dana Point Harbor Revitalization – 15 Years of Planning: What Has Been Learned?” as applicable to Fund 108

AUDIT STEPS

To accomplish this objective, we performed the following audit steps:

- ✓ Reviewed the FY 2013-14 Grand Jury Report entitled “Dana Point Harbor Revitalization – 15 Years of Planning: What Has Been Learned?” to understand the findings and recommendations.
- ✓ Reviewed the BOS’ approved response to the FY 2013-14 Grand Jury Report “Dana Point Harbor Revitalization – 15 Years of Planning: What Has Been Learned?” to understand actions taken.
- ✓ Inquired with personnel at OCDPH, OCCR, and OC Public Works (OCPW) and reviewed pertinent documents to validate that the County has taken actions to address the recommendations.

CONCLUSION

Our audit found that actions were taken to address eight recommendations stated in the FY 2013-14 Grand Jury Report entitled “Dana Point Harbor Revitalization – 15 Years of Planning: What has Been Learned?”; however, OCCR is in the process of addressing one recommendation. We identified **one (1) Efficiency and Effectiveness Finding** regarding the completion of a cost analysis of having two marina management companies.

Finding No. 1 – The County Is in the Process of Addressing One Recommendation Made in the FY 2013-14 Grand Jury Report (Efficiency and Effectiveness Finding)

The Grand Jury Report recommendation item R.9 stated, “The CEO and Dana Point Harbor Director should do a cost analysis for the efficiency of operating two marina management companies under two separate operating agreements with the County that duplicate services for boaters”.

The County responded, “The recommendation has not been implemented but will be implemented in the future. Prior to the expiration of the current Dana Point Marina Company operating agreement in February 2021, a cost analysis will be conducted for both the east and west basins as well as looking at continued feasibility and appropriateness of using operating agreements vs. leases.”

Our audit found that the County is in the process of addressing this recommendation. Currently, the County has a month-to-month agreement with T.B.W. for managing the West Basin Marina, and a 20-year operating agreement with Dana Point Marina Company to manage the East Basin Marina. This agreement will expire in 2021; therefore, the County has an ongoing contractual obligation until the current contract ends in 2021. As part of the Plan, in March 2016, the County issued a Request for Qualification (RFQ) to solicit a qualified developer to form a public-private partnership (P3) for the Project. The selected developer will also operate and maintain the harbor leases.



Detailed Findings, Recommendations, and Management Responses

Subsequent to the OCDPH and OCCR merger, OC Parks informed us they will continue to evaluate various options for operating the East Basin and West Basin marinas while reviewing the RFQs.

As such, it appears to be reasonable and cost-effective to delay conducting a cost analysis over managing the two marinas until the P3 is formed and/or when the current contract for the East Basin approaches conclusion.

Recommendation No. 1:

We recommend OCCR continue to evaluate various options for operating the East Basin and West Basin marinas.

OCCR/OC Parks Management Response:

Concur – OCCR will continue to evaluate various options for operating the East Basin and West Basin marinas.

Objective 2: Evaluate if internal controls are in place to ensure labor costs incurred for non-OCDPH business are properly monitored, recorded, and allocated to OCCR.

AUDIT STEPS

To accomplish this objective, we performed the following audit steps:

- ✓ Performed a walk-through of the OCDPH and OCCR Accounting job billing process to ensure labor costs incurred for non-OCDPH business are monitored. (Note: OCDPH uses OCCR Accounting for accounting support)
- ✓ Inquired with personnel at OCDPH, OCCR, and A-C and reviewed pertinent documents, e.g., timesheets and payroll reports to ensure all productive hours have a job number (billable or non-billable) for billing purposes and all billable hours are being charged properly.
- ✓ Performed testing of transactions by selecting two pay periods for two OCDPH employees providing full-time support to OCCR and verifying billable labor hours are properly monitored and recorded.

CONCLUSION

Our audit found there were controls in place to ensure labor costs incurred for non-OCDPH business are properly monitored, recorded, and allocated to OCCR.

Objective 3: Evaluate if internal controls are in place to ensure vendor payments made to Project Dimensions, Inc. (PDI) are valid, adequately supported, properly recorded, reasonable, and that management reviews and approvals are performed.

AUDIT STEPS

To accomplish this objective, we performed the following audit steps:

- ✓ Performed a walk-through of the OCDPH and OCCR Accounting payment process related to PDI to identify key controls over management reviews and approvals.



Detailed Findings, Recommendations, and Management Responses

- ✓ Reviewed financial data to gain an understanding of PDI's payment requests.
- ✓ Reviewed all eleven of PDI's payment requests during the audit period and performed testwork on five attributes to evaluate if the payment requests were appropriate, properly supported, and reasonable.
- ✓ Interviewed PDI's personnel with time charged in May and June 2015 to understand their roles and responsibilities for the Plan and to determine that individual time charged was appropriate.
- ✓ Evaluated the overall time charged during the audit (January ~ December 2015) to determine reasonableness. Note: We only provide a conclusion on the reasonableness of the time incurred based on work performed and comment on any excessive time charges, if any.
- ✓ Evaluated the time tracking mechanism and billing process at PDI to determine its reliability.
- ✓ Interviewed the Director of OCPW to understand his role in overseeing the work performed by PDI during the audit period.
- ✓ Inquired with the County Chief Real Estate Officer to understand his role in overseeing the work performed by PDI during the audit period.

CONCLUSION

Our audit found that internal controls were in place to ensure payments made to PDI are valid, adequately supported, properly recorded, reasonable, and management reviews and approvals were performed.

OTHER INFORMATION

OCDPH has an Architect-Engineer Project Management Services Agreement with PDI for the Plan. The original contract commenced on March 25, 2003, with a contract total amount of \$6,982,000 for 60 months. The scope of work included contract administration and project management services for the implementation of the Plan, including, but not limited to: (1) oversight and administration of the design and engineering process, (2) oversight and administration of the Entitlement/CEQA compliance process, and (3) management, administration, and oversight of the construction process (including materials testing and inspection, geotechnical studies and inspections, planning approvals and required permits for completion of the demolition and construction). Subsequently, there were multiple contract amendments to extend contract terms and to increase the contract sum.

The amended contract amount is **\$13,776,010**. Actual payments made to PDI for the contract period March 25, 2003, through February 11, 2016, equal **\$10,664,465**.

According to the current terms, the amount billed is based on actual time and materials and any allowable reimbursements. During our audit period, **eleven (11) payments ranging from \$268 to \$79,239, totaling \$556,745, were made to PDI.**



Detailed Findings, Recommendations, and Management Responses

Table 2: PDI Contract & Amendments

Description	BOS Approval Date	Effective Date	Amount	Term	Contract Type
Original Agreement Dana Point Harbor Master Plan Implementation	March 25, 2003	March 25, 2003	\$6,982,000	60 months	Not to exceed fixed fee and actual reimbursements
Amendment 1 Extended contract term to 75 months and increased \$600,000 in compensation	July 19, 2005	July 19, 2005	↑\$600,000	Through June 25, 2009	No changes
Amendment 2 Increased \$900,000 for additional scope	June 27, 2006	July 1, 2006	↑\$900,000	No changes	Fixed monthly fee and actual reimbursements
Amendment 3 Extended the agreement for 3 more years	June 2, 2009	June 26, 2009	No changes	Through June 25, 2012	No changes
Amendment 4 Extended the agreement for 1 year and increased contract amount of \$882,700 in exchange for a 10% rate reduction under the Voluntary Contract Cost Reduction Program	June 21, 2011	June 26, 2012	↑\$882,700	Through June 25, 2013	No changes
Amendment 5 Extended the agreement for 5 more years and increased contact amount of \$4,411,310	April 16, 2013	June 26, 2013	↑\$4,411,310	Through June 25, 2018	Time & Materials and actual reimbursements
Total Contract Amount			\$13,776,010	15 years, 3 months	

In 2015, the County obtained a Coastal Development Permit and the Plan has transitioned into the construction phase where PDI was tasked to perform a fiscal study for funding the Plan. Based on the fiscal study, the County determined to proceed with a public-private partnership known as P3. We were informed that the total payments to PDI is anticipated to be under the total contract amount as amended.

Overview of PDI Payment Review Process

PDI submits a payment request and supporting documentation (timesheets, copies of invoices, etc.) to OCDPH on a monthly basis. We were informed PDI revised the format of the payment requests in 2015. This new format provided detailed information for the billing and allows a third-party review of the charges.

OCDPH performs a technical review to ensure the appropriateness of the hours charged and that reimbursement requests are allowable and/or pre-approved. We were informed that since OCPW and CEO Real Estate were involved in providing technical support to the OCDPH on this project for a period, the former OCDPH Director forwarded PDI payment requests to the Director of OCPW and Chief Real Estate Officer for additional review and approval.



Detailed Findings, Recommendations, and Management Responses

Based on our review, we found that the Director of OCPW performed a thorough secondary review of PDI's invoice to determine if it was adequately supported and if the hours charged were reasonable. He forwarded any concerns/issues to the former Director of OCDPH, who had the final authority to approve the payment.

Lastly, the payment request was forwarded to OCCR Accounting for review to ensure accuracy and compliance with contract terms and conditions prior to processing it in the County accounting system.

We selected two payments for May and June 2015 totaling \$154,439 and found that reviews and approvals were conducted at OCDPH and OCCR Accounting. As such, we concluded that controls are in place to ensure payments made to PDI are valid, adequately supported, properly recorded, and management reviews and approvals are performed.

In addition, we reviewed all 11 payment requests during the audit period and supporting documentation; interviewed PDI's personnel on their roles and responsibilities; and obtained an understanding of the overall charges and PDI's billing mechanism/process. We found the charges pertained to staff time preparing for meetings, attending meetings, and preparing deliverables, e.g., a fiscal study for County personnel and other agencies. Total hours charged appeared reasonable.

Merger with OC Parks

Because of the recent reorganization, OC Parks is now responsible for monitoring the PDI contract and has implemented new policies and procedures for managing the PDI contract. In July 2016, the Deputy Director of OC Parks informed PDI of new procedures, which included the following:

- Identified the primary point of contact at OC Parks for all work and tasks related to the contract;
- Requested a detailed update from PDI on all current work performed to provide an overview of the scope of work, current status, and estimated time/costs for completion; and
- Informed PDI of a new mandatory pre-approval process for all new tasks.

Since the new procedures were implemented subsequent to the audit period, we have not conducted any review to evaluate the effectiveness of the new internal controls to monitor PDI's contract; however, we may validate the new procedures in a Follow-Up Audit, if new tasks have been paid for.

Objective 4: Determine if administration of OCDPH Special Revenue Fund 108 is effective and efficient (e.g., no backlogs, duplication of work, benefit in automating manual process).

CONCLUSION

Based on our audit, we did not observe any instances of backlogs, duplicated work, or manual processes that could benefit from being automated in OCDPH processes and administration of Fund 108. As such, we have no findings under this objective.



Detailed Findings, Recommendations, and Management Responses

Other: Ancillary to our audit's original objectives, we examined two additional areas related to parking enforcement in the harbor and the rental of facilities at the OC Sailing & Events Center.

Harbor Parking Enforcement

OCDPH and the City of Dana Point (City) receive parking enforcement services from the OC Sheriff's Department (OCSD). There are five Community Service Officers (CSO) that provide parking enforcement services in the harbor and the City as part of the police services contract. OCDPH pays for one CSO position and the City is responsible for the other four positions. If a CSO position is vacant during any pay period, OCDPH receives an allocated vacancy credit.

Since similar service is provided to two different jurisdictions, different citation books are used for parking violations occurring in the harbor versus the City, e.g., parking citations issued in the OCDPH jurisdiction are from the specific book and will be posted in Fund 108 as revenue.

During the audit period, total parking enforcement expenses and revenues recorded in Fund 108 were \$116,355.56 and \$40,704, respectively.

With respect to ensuring only valid parking enforcement expenses are charged to Fund 108, we found:

Finding No. 2 – A Memorandum or Agreement Was Not Created Detailing Parking Enforcement Services or Coverage (Control Finding)

Our audit found that the OCDPH receives parking enforcement support in the harbor area; however, there is no written agreement or memorandum of understanding (MOU) between OCDPH and OCSD describing details of the service, e.g., coverage, issuance of credits. Subsequent to the merger with OC Parks, the harbor continues to use parking enforcement services from OCSD. We found that although there is a signed Cost Applied Summary for the parking enforcement costs, there continues to be no MOU or a written agreement between OC Parks and OCSD for the service after the merger.

Since an MOU or a written agreement is an important document to outline the expectations and duties between parties, it should be created to entail the service or coverage of a CSO position in the harbor and the conditions under which OCDPH would be entitled to a credit, e.g., vacancy credit and how it should be allocated.

Recommendation No. 2:

We recommend OCCR partner with OCSD to review the current business arrangement and create an MOU or written agreement for the provision of parking enforcement services. This agreement should clearly identify the coverage of the service and the handling of any credits.

OCCR/OC Parks Management Response:

Concur – OCCR will partner with OCSD to review the current business arrangement and explore different options for the future.



Detailed Findings, Recommendations, and Management Responses

Finding No. 3 – A Mechanism to Measure the Parking Enforcement Service Received in the Harbor Was Not Established (Control Finding)

OCDPH pays for one full-time equivalent (FTE) of a CSO position to service OCDPH. Due to operational needs, five CSOs mutually provide full-time coverage to OCDPH and the City; however, there is no mechanism to measure and track services provided to OCDPH at any given time.

Since the CSO cost is recorded in Fund 108, which is established for specific purposes, a system should be in place to measure the support received by OCDPH and to allow an independent verification of expenses charged to Fund 108.

Recommendation No. 3:

We recommend OCCR partner with OCSD to explore ways to establish a system or mechanism to track the amount of time that CSOs spend on performing services for the harbor that, at a minimum, includes a record or patrol schedule showing deployment of a CSO to harbor related activities.

OCCR/OC Parks Management Response:

Concur – OCCR will partner with OCSD to explore ways to monitor the time that CSOs spend performing services for the harbor.

Finding No. 4 – A Discrepancy Was Noted Between the Actual and the Proposed Community Service Officer Charges from July Through December 2015 (Control Finding)

We found that the actual monthly amount (excluding any credits) for parking enforcement services was \$10,476 for July through December 2015, whereas the final proposed charges for FY 2015-16 was \$121,075 or \$10,098.58 per month. This resulted in a discrepancy of \$377.42 each month (\$10,476 less \$10,098.58 equals \$377.42) from July through December 2015 or \$2,264.52 during the audit period.

Recommendation No. 4:

We recommend OCCR partner with OCSD to determine the actual cost for the entire service period (Fiscal Year 2015-16) and make applicable corrective adjustments to Fund 108.

OCCR/OC Parks Management Response:

Concur – Subsequent to the release of the Draft Audit Report, OCSD provided documentation to Internal Audit demonstrating that OCSD had prepared a revised Cost Applied (dated March 8, 2016) that determined and properly adjusted charges for the actual cost of services in FY 15-16. OCCR will continue to work with OCSD to review and reconcile charges.

Finding No. 5 – Controls Were Not in Place to Ensure Certain Journal Vouchers Posted to Fund 108 Were Accurate (Control Finding)

The cost of the parking enforcement services is processed via a journal voucher on a monthly basis. We found that controls were not in place at OCDPH to ensure these journal vouchers posted to Fund 108 were accurate, or to identify discrepancies timely.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 5:

We recommend OCCR establish policies and procedures to clearly define the responsibility in the department to ensure that transactions posted to Fund 108 are reviewed and any discrepancies identified are resolved.

OCCR/OC Parks Management Response:

Concur – OCCR will work with OCSD to review Journal Vouchers and supporting documentation prior to posting in CAPS. OCCR will establish policies and procedures to ensure that transactions posted to Fund 108 are reviewed and discrepancies are resolved.

OC Sailing & Events Center

The OC Sailing & Events Center (SEC) is located adjacent to the protected beach in the West Basin of Dana Point Harbor. Its mission is to provide sailing and water based experiences to the community while also hosting social and business events. There are facilities of various sizes in three buildings available for rental use. Rental information is available on the department's website and renters are required to submit the Facility Use Application Packet (Packet) and pay applicable fees in the office for reserving a facility.

On August 20, 2013, the BOS adopted Resolution No. 13-084 to approve the Fee Schedule for using SEC facilities. This schedule includes the rental prices and other applicable fees, e.g., refundable security deposits, overtime charges, etc.

During the audit period, OCDPH received \$102,390 for facility rentals. This amount equals to about 0.4% of total revenue recorded in the fund.

Finding No. 6 – Controls Were Not in Place to Ensure Rental Information Was Accurate and Clear (Control Finding)

Accurate and clear information is critical to prevent a dispute between users and a service provider. It appears that controls were not in place at OCDPH to ensure facility rental information was accurate and clear.

In one instance, we found the Packet contained incorrect fee information as it stated, "If Center is not completely vacated the ending time specified on permits, any additional hours or fraction of hours outside normal Center operating hours will be charged as an overtime cost of \$69/hour for each employee who remains after ending time." The stated overtime cost is inconsistent with the BOS approved rate of \$75/hour.

In another example, we found rental information is confusing. There is one set of available rental time for using the facilities at the SEC listed on the department's website and on the printed Special Event Reservation Information page; we found these available rental times are applicable for the Dana Cove Room, and are different for the other two rooms. We were also informed that renters have various options and limitations when renting specific rooms at the SEC, e.g., renters have options to rent the kitchen area with the Dana Cove Room, and to rent one or two classrooms with the Boat House; however, due to the facility layout, renters cannot reserve any of the classrooms without also renting the Boat House or renting the kitchen area (which requires renting the Dana Cove Room).



Detailed Findings, Recommendations, and Management Responses

Although additional rental information can be communicated verbally upon inquiry, these options and limitations should be clearly stated in the Packet. Information should be accurate and clear to better inform potential renters and to enhance customer satisfaction and avoid disputes.

Subsequent to the reorganization, OC Parks initiated a review and updated the website and other documents. We were informed that the department would continue to review the rental information and update it when necessary.

Recommendation No. 6:

We recommend that OCCR continue to review the current information on the Facility Use Application Packet and the website for renting any facility at the OC Sailing & Events Center, make necessary updates and revisions to ensure proper rental information is delivered to potential renters, and update all relevant documents that would be used as a reference for the rental reservations.

OCCR/OC Parks Management Response:

Concur – OC Parks will continue to review and update the Facility Use Application Packet, documents and website to maintain consistency with other OC Parks locations to ensure proper rental information is available to potential renters.

Finding No. 7 – Facilities Rental Reservation Process Can Be Enhanced (Control Finding)

OCDPH was responsible for overseeing the reservations of the rental facilities at the SEC until the merger in June 2016. OCDPH administrative staff accepted payments for rental facilities in a point-of-sale system and gave receipts to renters. The administrative staff documented the receipt number and amount received on the Application Form, which is maintained in the corresponding binder as a reference. Then the staff input the reservation into an Outlook Calendar, which can be viewed by other staff in the department. OCDPH maintenance staff checked the Outlook Calendar daily to prepare all of the necessary items for the reservation.

In 2016, due to errors, renters were unable to access the facility at the scheduled time on a few occasions. Although the OCDPH has issued credits to the renters for the errors, the reservations process should be enhanced to ensure facilities are accessible and ready for renters at the scheduled time. Subsequent to the reorganization, OC Parks is responsible for handling rental activities at the SEC. We were informed that new processes and procedures to oversee the SEC operations have been implemented, e.g., full utilization of the point-of-sale system including a scheduling feature to ensure all reservations are properly recorded.

OC Park Rangers have taken over responsibilities from the OCDPH maintenance staff to manage the reservations and the rangers are stationed at the facilities full-time to ensure renters have access to the facility and to resolve issues. It appears that the new processes and procedures have enhanced the reservation experience for renters at the SEC.

Recommendation No. 7:

We recommend OCCR continue to evaluate the current reservation process to ensure rental facilities are accessible and ready for renters at scheduled times.



Detailed Findings, Recommendations, and Management Responses

OCCR/OC Parks Management Response:

Concur – OCCR will continue to evaluate the current reservation process. OC Parks implemented new processes and procedures to ensure reservations are properly recorded. Dana Point Harbor's prior practices were discontinued. Additionally, OC Parks has employees stationed at the facilities full-time to ensure renters have access to the facility and are available to resolve issues as needed.

Finding No. 8 – County Facility Use Application Form Was Not Used for All Reservations (Control Finding)

Renters are required to submit the County Facility Use Application Form (Form) and pay for applicable fees in the harbor office for reserving a facility. There are user groups that reserve SEC facilities on a recurring basis and may include multiple reservations on the Form and make a lump sum payment for the reservation.

We found exceptions where OCDPH accepted reservations and lump sum payments from a user group that did not use the Form (OCDPH accepted a Word document or Excel spreadsheet in lieu of the Form). We were informed OCDPH requested that the user group use the proper Form; however, the proper Form was not used until May 2016.

The Form includes all critical elements, e.g., BOS approved rental rates and other charges for the reservation. Using other forms may create confusion on the requested reservations and uncertainty on how the rental amount is calculated. Furthermore, use of other methods is inefficient when reconciling payments with corresponding reservations, which could then result in a duplicate or missing payment not being identified and/or incorrect or duplicate credits being issued. Therefore, OCDPH should accept reservation requests using the proper Form.

Subsequent to the reorganization, we were informed that OC Parks has implemented new policies and procedures to enhance the facility rental procedures, which include requiring the use of the Form for all reservations and supervisory review and approval is required to process a refund or issue a credit.

Recommendation No. 8:

We recommend OCCR ensure the authorized County Facility Use Application Form is used consistently for all SEC facility rentals, and supervisory review and approval is required to process a refund or issue a credit.

OCCR/OC Parks Management Response:

Concur – OC Parks implemented new policies and procedures to enhance the facility rental procedures, which include requiring the use of the Form for all reservations and supervisory review and approval is required to process a refund or issue a credit.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues, which 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.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses



April 11, 2017

DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
DEPUTY DIRECTOR
OC COMMUNITY RESOURCES

JENNIFER HAWKINS, DVM
DIRECTOR
OC ANIMAL CARE

RENEE RAMIREZ
DIRECTOR
OC COMMUNITY SERVICES

JULIA BIDWELL
DIRECTOR
HOUSING & COMMUNITY
DEVELOPMENT & HOMELESS
PREVENTION

STACY BLACKWOOD
DIRECTOR
OC PARKS

HELEN FRIED
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

TO: Toni Smart, Director
Auditor-Controller, Internal Audit Division

**RE: AUDIT NO. 1423 OC Dana Point Harbor Special Revenue Fund 108
Selected Processes & Controls**

The Auditor-Controller Internal Audit Division completed an audit of selected processes and controls of the OC Dana Point Harbor Special Revenue Fund 108 for the period January 1, 2015, through December 31, 2015. Below are OC Community Resources' responses to the audit findings and recommendations, which have been reviewed and approved by the County Executive Office.

Finding No. 1 – The County Is in the Process of Addressing One Recommendation Made in the FY 2013-14 Grand Jury Report (Efficiency and Effectiveness Finding)

Recommendation No. 1:

We recommend OCCR continue to evaluate various options for operating the East Basin and West Basin marinas.

OCCR/OC Parks Management Response:

Concur - OCCR will continue to evaluate various options for operating the East Basin and West Basin marinas.

Finding No. 2 – A Memorandum or Agreement Was Not Created Detailing Parking Enforcement Services or Coverage (Control Finding)

Recommendation No. 2:

We recommend OCCR partner with OCSD to review the current business arrangement and create a MOU or written agreement for the provision of parking enforcement services. This agreement should clearly identify the coverage of the service and the handling of any credits.

OCCR/OC Parks Management Response:

Concur - OCCR will partner with OCSD to review the current business arrangement and explore different options for the future.

Finding No. 3 – A Mechanism to Measure the Parking Enforcement Service Received in the Harbor Was Not Established (Control Finding)

Recommendation No. 3:

We recommend OCCR partner with OCSD to explore ways to establish a system or mechanism to track the amount of time that CSOs spend on performing services for the harbor that at a minimum, includes a record or patrol schedule showing deployment of a CSO to harbor related activities.



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Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (continued)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1423
PAGE 2 OF 3
APRIL 11, 2017

OCCR/OC Parks Management Response:

Concur - OCCR will partner with OCSD to explore ways to monitor the time that CSOs spend performing services for the harbor.

Finding No. 4 – A Discrepancy Was Noted Between the Actual and the Proposed Community Service Officer Charges from July through December 2015 (Control Finding)

Recommendation No. 4:

We recommend OCCR partner with OCSD to determine the actual cost for the entire service period (Fiscal Year 2015-16) and make applicable corrective adjustments to Fund 108.

OCCR/OC Parks Management Response:

Concur - Subsequent to the release of the Draft Audit Report, OCSD provided documentation to Internal Audit demonstrating that OCSD had prepared a revised Cost Applied (dated March 8, 2016) that determined and properly adjusted charges for the actual cost of services in FY 15-16. OCCR will continue to work with OCSD to review and reconcile charges..

Finding No. 5 – Controls Were Not in Place to Ensure Certain Journal Vouchers Posted to Fund 108 Were Accurate (Control Finding)

Recommendation No. 5:

We recommend OCCR establish policies and procedures to clearly define the responsibility in the department to ensure that transactions posted to Fund 108 are reviewed and any discrepancies identified are resolved.

OCCR/OC Parks Management Response:

Concur - OCCR will work with OCSD to review Journal Vouchers and supporting documentation prior to posting in CAPS. OCCR will establish policies and procedures to ensure that transactions posted to Fund 108 are reviewed and discrepancies are resolved.

Finding No. 6 – Controls Were Not in Place to Ensure Rental Information Was Accurate and Clear (Control Finding)

Recommendation No. 6:

We recommend that OCCR continue to review the current information on the Facility Use Application Packet and the website for renting any facility at the OC Sailing & Events Center and make necessary updates and revisions to ensure proper rental information are delivered to potential renters and update all relevant documents that would be used as a reference for the rental reservations.

OCCR/OC Parks Management Response:

Concur - OC Parks will continue to review and update the Facility Use Application Packet, documents and website to maintain consistency with other OC Parks locations to ensure proper rental information is available to potential renters.

Finding No. 7 – Facilities Rental Reservation Process Can Be Enhanced (Control Finding)

Recommendation No. 7:

We recommend OCCR continue to evaluate the current reservation process to ensure rental facilities are accessible and ready for renters at scheduled times.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (continued)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1423
PAGE 3 OF 3
APRIL 11, 2017

OCCR/OC Parks Management Response:

Concur - OCCR will continue to evaluate the current reservation process. OC Parks implemented new processes and procedures to ensure reservations are properly recorded. Dana Point Harbor's prior practices were discontinued. Additionally, OC Parks has employees stationed at the facilities full-time to ensure renters have access to the facility and are available to resolve issues as needed.

Finding No. 8 – County Facility Use Application Form Was Not Used for All Reservations (Control Finding)

Recommendation No. 8:

We recommend OCCR ensure the authorized County Facility Use Application Form is used consistently for all SEC facility rentals and supervisory review and approval is required to process a refund or issue a credit.

OCCR/OC Parks Management Response:

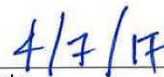
Concur - OC Parks implemented new policies and procedures to enhance the facility rental procedures, which include requiring the use of the Form for all reservations and supervisory review and approval is required to process a refund or issue a credit.

If you have any questions related to these responses, please contact Brian Rayburn, Business Office Manager, OC Community Resources at 714-480-2885.

Sincerely,



Signature



Date

DR:bwr