



Orange County Auditor-Controller Internal Audit



Revenue Generating Operating Agreement Audit:
OC Community Resources/OC Parks –
Vintage Marina Partners, LP, HA78H-24-003

For the Period
April 1, 2015 through March 31, 2016

Audit Number 1531
Report Date: March 2, 2017



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

Eric H. Woolery, CPA
Orange County Auditor-Controller

Toni Smart, CPA	Director, Internal Audit
Scott Suzuki, CPA, CIA, CISA	Assistant Director
Nancy N. Ishida, CPA, CIA, CISA	Senior Audit Manager III
Lisette Free, CPA, CFE	Audit Manager II
Elizabeth Wylde, CPA	Audit Manager I

12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Auditor-Controller Web Site
www.ac.ocgov.com



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1531

March 2, 2017

TO: Steve Franks, Director
OC Community Resources

SUBJECT: Revenue Generating Operating Agreement Audit:
OC Community Resources/OC Parks – Vintage Marina Partners, LP
(HA78H-24-003)

We have completed our Revenue Generating Operating Agreement Audit of OC Community Resources (OCCR)/OC Parks – Vintage Marina Partners, LP for the period of April 1, 2015 through March 31, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and to the Board of Supervisors (BOS) where I detail any critical 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 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.

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
- Stacy Blackwood, Director of OC Parks, OC Community Resources
- Jonathan Nicks, Deputy Director of OC Parks, OC Community Resources
- Thea Bullock, Director of Compliance, OC Community Resources
- Connie Chang, Financial Planning Manager, OC Community Resources
- Brian Rayburn, Business Office Manager, OC Community Resources

Steve Franks, Director
March 2, 2017
Page 2

Scott D. Mayer, Chief Real Estate Officer
Gail Dennis, Administrative Manager, CEO/Real Estate
Steven Wiegmann, Administrative Manager, CEO/Real Estate
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting
Yolanda Razo, Accounting Manager I, Auditor-Controller/OCCR Accounting
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



Table of Contents

***Revenue Generating Operating Agreement Audit:
OC Community Resources/OC Parks –
Vintage Marina Partners, LP
Audit No. 1531***

For the Period April 1, 2015 through March 31, 2016

Transmittal Letter i

Internal Auditor's Report

OBJECTIVES	1
RESULTS	1
BACKGROUND	2
SCOPE AND METHODOLOGY	3
FOLLOW-UP PROCESS	3

Detailed Findings, Recommendations, and Management Responses

Finding No. 1 – Lack of Oversight and Management of Vintage Marina (Significant Control Weakness)	4
Finding No. 2 – Tenants' Gross Receipts Need to be Validated and Reconciled (Significant Control Weakness)	4
Finding No. 3 – Tenants' Rent Payments Are Not Calculated or Reported In Accordance with Lease Agreements (Significant Control Weakness)	6
Finding No. 4 – Required Personal Property Inventories Are Not Performed (Control Finding)	8
Finding No. 5 – Dry Boat Storage Security Deposits Are Not Reconciled (Control Finding)	9
Finding No. 6 – Audited Financial Statements Were Not Submitted Timely (Control Finding)	10
Finding No. 7 – Internal Controls Over the Approval and Monitoring of the Annual Operating Budget Should Be Strengthened (Control Finding)	10
Finding No. 8 – Parent Company Administrative Fees Not Authorized in the Agreement (Control Finding)	12



Table of Contents

Finding No. 9 – Collection of Cash Receipts Should Be Performed, Logged, and Counted by Two Employees (Control Finding)	12
Finding No. 10 – No Written Policies and Procedures for the Procurement of Goods and Services (Control Finding)	13
Finding No. 11 – Serially Pre-Numbered Receipts Should Be Used for Temporary Dry Storage (Control Finding)	13
Finding No. 12 – Cash Register or Point-of-Sale Systems Are Not Used by Tenants (Control Finding)	14
Finding No. 13 – Receipt Was Not Provided to Customer As Required (Control Finding)	14
Finding No. 14 – Lease Agreements Need to be Properly Executed (Control Finding)	15
ATTACHMENT A: Report Item Classifications	17
ATTACHMENT B: OCCR/OC Parks Management Responses	18
ATTACHMENT C: CEO/Real Estate Management Response	23



Internal Auditor's Report

Audit No. 1531

March 2, 2017

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: Revenue Generating Operating Agreement Audit:
OC Community Resources/OC Parks – Vintage Marina Partners, LP
(HA78H-24-003)

OBJECTIVES

We have performed an audit of certain records and documents for the period from April 1, 2015 through March 31, 2016, pertinent to the operating agreement (Agreement) between the County of Orange (County) and Vintage Marina Partners, LP (Vintage Marina).

1. The primary objective of our audit was to determine whether Vintage Marina's records adequately supported their monthly gross receipts reported to the County and gross receipts were properly remitted to the County.
2. A secondary objective of our audit was to determine whether Vintage Marina's records adequately supported their monthly operating expenses reimbursed by the County and Vintage Marina's management fee was properly calculated. Because all of Vintage Marina's operating expenses and related supporting documentation were approved by the OC Dana Point Harbor Department (OC DPH) management and were reviewed by Auditor-Controller (OC Community Resources Satellite Accounting) prior to reimbursement, we performed only a limited review of Vintage Marina's operating expenses and supporting documentation.
3. A third objective of our audit was to determine whether Vintage Marina complied with certain financial and other provisions of the Agreement, such as annual financial statement requirements.

In addition, while performing the audit we may have identified internal control weaknesses for which we provided suggestions for improvement.

RESULTS

Objective #1: We found that Vintage Marina's records, in general, adequately supported gross receipts reported to the County and gross receipts were properly remitted to the County; however, we identified **one (1) Significant Control Weakness** where the rent due was not calculated in accordance with the tenant's lease agreements. Additionally we identified **one (1) Control Finding** where collection of cash receipts should be performed, logged, and counted by two (2) employees.



Internal Auditor's Report

Objective #2: We found that Vintage Marina's records supported their monthly operating expenses reimbursed by the County and Vintage Marina's management fee was properly calculated; however, we identified **one (1) Control Finding** where administrative fees charged to the County were not authorized in the Agreement.

Objective #3: We found that Vintage Marina complied with certain financial and other provisions of the Agreement, such as financial statement requirements; however, we identified **two (2) Significant Control Weaknesses** where tenant's gross receipts needed to be validated and reconciled, and there was a lack of oversight and management of Vintage Marina. Additionally we identified **eight (8) Control Findings** where audited financial statements were not submitted timely, internal controls over safeguarding inventory of personal property and the annual operating budget could be strengthened, lease agreements needed to be properly executed, temporary dry storage receipts were not pre-numbered, receipts were not automatically issued to customers, dry storage security deposits were not reconciled, and cash registers or point-of-sale systems were not utilized.

The review of internal controls also identified **one (1) Control Finding** where the County should provide written guidance to Vintage Marina regarding policies and procedures over procurement processes.

These findings are further described in the Detailed Findings, Recommendations, and Management Responses section of this report.

BACKGROUND

The County and Vintage Marina entered into a 20-year operating agreement on February 6, 2001 to manage and operate certain facilities and services located in the Dana Point Harbor within the City of Dana Point. The facilities and services are located in parcels 3, 3.11, 4, 5, and 7, as well as the Federal Anchorage Area. Services offered include bait receiver, launch ramp with docking facilities for boarding, rigging, and return purposes, dry boat storage facilities to accommodate power boats and mast-up sailboats, hoist/jib crane launching, boat wash area, restrooms, chandlery, restaurants, retail merchandise sales, sport fishing facilities, including bait, tackle and related merchandise sales, and office accommodations for administration of harbor activities. During the 12-month audit period ended March 31, 2016, Vintage Marina reported approximately **\$42.1 million** in gross receipts and remitted approximately **\$6 million** in rent to the County, was reimbursed by the County for approximately **\$2.2 million** of operating expenses and was paid a management fee of **\$1.3 million**.

On June 14, 2016, the Board of Supervisors approved the dissolution of OC DPH, transferred management of Dana Point Harbor to the OC Parks Division of the OC Community Resources Department, and designated the Director of OC Parks to perform all duties previously performed by the Director of the OC DPH. It should be noted that the Vintage Marina lease was managed by the OC DPH during the period covered in this audit.



Internal Auditor's Report

SCOPE AND METHODOLOGY

Our audit was limited to certain records and documents that support Vintage Marina's gross receipts and operating expenses reported to the County for the 12-month audit period from April 1, 2015 through March 31, 2016. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation for gross receipts, operating expenses, and the management fee calculation, as well as ensuring completeness of remitted gross receipts. Our audit did not include compliance with the County's procurement policies and applicable laws.

FOLLOW-UP PROCESS

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). Our **First Follow-Up Audit** will generally begin at six months from the official release of the 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.

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 at Vintage Marina, OCCR/OC Parks, and OCCR Accounting during our audit. If you have any questions regarding our revenue generating operating agreement audit, please contact me directly at (714) 834-5442, or Nancy Ishida, Senior Audit Manager at (714) 796-8067.



Detailed Findings, Recommendations, and Management Responses

Finding No. 1 – Lack of Oversight and Management of Vintage Marina (Significant Control Weakness)

The responsibilities for the oversight and management of the Agreement with Vintage Marina during our audit period had been spread throughout the County. For example, OC DPH was designated to oversee the Agreement with Vintage Marina, CEO/Real Estate provided support for the real estate matters, such as leasing, on behalf of OC Dana Point Harbor, and OCCR Accounting provided accounting related duties. Although this delineation was established, the roles and responsibilities for providing support for specific functions, such as procurement guidance, timely submission of the tenant's audited financial statements, handling inventory and/or annual operating budget questions, were not defined. In addition, OC DPH did not have written policies and procedures for the oversight and management of Vintage Marina in the following areas:

- Practices to ensure compliance with the Agreement.
- Processes to track expenditure and revenue activities.
- Oversight roles and responsibilities for management.

There was no entity specifically designated for the oversight and management of Vintage Marina, which, combined with the lack of written policies and procedures, contributed to problems with oversight. Previously, OC DPH had a staff position responsible for overseeing and providing guidance to Vintage Marina; however, that position had been vacant for a few years.

Recommendation No. 1:

We recommend OCCR/OC Parks prepare written policies and procedures for the oversight and management of the Agreement with Vintage Marina and define the roles and responsibilities of those responsible for performing compliance monitoring and administering the Vintage Marina Agreement.

OCCR/OC Parks Management Response:

Concur: OC Parks and CEO Real Estate are developing written policies and procedures for the oversight and management of the Agreement. Roles and responsibilities of those responsible for performing compliance monitoring and administering of the Agreement will be defined.

Finding No. 2 – Tenants' Gross Receipts Need to be Validated and Reconciled (Significant Control Weakness)

Vintage Marina was responsible for approximately \$42 million in Agreement gross receipts during the audit period. Unless a tenant is audited based on the audit plan schedule (tenant lease agreements specify when audited financial statements are required), those gross receipts are not verified and/or reconciled. An audit plan schedule was developed by OC DPH and Vintage Marina years ago (sometime between 2005 and 2007), alternating the tenants to ensure they would be audited at least once every five years; however, Vintage Marina was unable to provide written documentation that the audit plan schedule and/or any changes to it had been formally approved.



Detailed Findings, Recommendations, and Management Responses

Vintage Marina has hired an external CPA firm to conduct the tenants' financial statement audits; however, since the audit plan schedule had not been communicated to OCCR Accounting, they have not been able to monitor and follow-up on any missing audits. Subsequently, OCCR Accounting only reviews and reconciles the tenants' audited financial statements when it receives a copy of an audit. Additionally, we found OCCR Accounting did not perform timely reviews and reconciliations of the tenants' annual audited financial statements for the year ended June 30, 2015.

Finally, the tenants' annual audited financial statements have not been directly submitted to OCCR Accounting by the external CPA firm as required by the Agreement. The external CPA firm issued examination reports for December 31, 2013 and December 31, 2014 between August 2015 and February 2016, in which the following overpayments/(underpayments) were identified (see similar issue noted in **Finding No. 3**):

Table 1. Tenant Payments

Tenant	Accounting Period	
	2013	2014
Capo Beach Watercraft	\$ 11,352	\$ 10,619
DaVine Food & Wine	36	-
Golden Galleon	(2)	-
Harbor Grill	(1)	-
Slice of New York	1,893	567
The Brig Restaurant	2,273	1,590
Total Overpayments (net)	\$ 15,551	\$ 12,776

Agreement Section 17.E, Financial Statements for Auditor-Controller, requires an "audit program...approved by the Director and the Director of Internal Audit. Said Audit Program shall include but not be limited to the following:

- 1) Establishment of frequency of audits for individual lessees or tenants (but not less than once every five years).
- 2) Establishment of a scope of required services or level of audit required.
- 3) Initial five-year audit schedule (to include all current lessees or tenants).
- 4) All audits shall be conducted by Certified Public Accountants as defined above.
- 5) Copies of all audits shall be provided directly to COUNTY by Vintage Marina's CPA at the same time Vintage Marina's copy is provided to Vintage Marina.
- 6) All audits shall be conducted in accordance with the terms and conditions of the Operating Agreement.

Included with the submittal of financial statements as required above, Vintage Marina is required to submit a listing of audits scheduled for the current accounting year and anticipated completion dates. The Director and the Director of Internal Audit shall approve in writing any changes to the audit program."

There is an increased risk of over and/or under reporting of gross receipts without proper validation and/or reconciliation.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 2:

We recommend OCCR/OC Parks work with Vintage Marina to develop and implement an annual audit plan and process to ensure the audit plan schedule and/or changes are approved in writing and communicated to OCCR Accounting to ensure the external CPA audits of its tenants are conducted timely, according to the Agreement. OCCR/OC Parks should also evaluate the feasibility of conducting interim monitoring audits or other accounting review procedures, in addition to the external audits, to confirm that the gross receipts reported to the County are accurate and adequately supported. In addition, we recommend that OCCR Accounting ensure that the audited financial statements are reviewed and reconciled in a timely manner and any amounts due and/or refunds are processed, including the overpayments/(underpayments) identified above.

OCCR/OC Parks Management Response:

Concur: OC Parks and OCCR Accounting will work with Vintage Marina to develop and implement an annual audit plan, which will be approved in writing by OC Parks and OCCR Accounting. Changes to the audit plan will be approved by OCCR Accounting. OCCR Accounting will evaluate feasibility of interim accounting review to confirm gross receipts reported are accurate and adequately supported.

OCCR Accounting will review audited financial statements in a timely manner and ensure that any refunds/amounts due from those audits are processed. OCCR Accounting will follow up to ensure refunds/underpayments have been accounted for based on the external audits and accounting's reconciliation with the external audit numbers.

Finding No. 3 – Tenants' Rent Payments Are Not Calculated or Reported In Accordance with Lease Agreements (Significant Control Weakness)

Vintage Marina's verification of tenants' rent payments failed to identify that the tenants' payments were not calculated in accordance with the tenant lease agreements. The following items were noted:

1. The statements of gross receipts (or monthly rent reports) were not in the prescribed format required by the tenant leases.
 - a. Tenant invoices did not itemize gross receipts separately by business category. For example, items with the same percentage of rent should still be itemized separately and not grouped as one item on the statement of gross receipts.
 - b. Tenants with business categories with different percentages of rent had not been identified separately in order to apply the correct percentage of rent. The correct amount of rent for these tenants could not be determined due to the lack of detailed information on their statements of gross receipts.
2. Rent payments were calculated based on the greater of the **monthly** minimum rent payment or the monthly percentage of rent, instead of calculating the rent payment based on the greater of the **annual** minimum payment or the annual percentage of rent. Vintage Marina should identify whether the tenants' rent payments are properly calculated based on the tenants' accounting periods.



Detailed Findings, Recommendations, and Management Responses

3. Rent for two tenants was not calculated using the proper accounting periods.

Tenants' individual lease agreement sections, Rent Payment Procedures, requires tenants to provide an accurate statement of gross receipts in a form prescribed by the County. Specifically, "each statement shall indicate:

- 1) One-twelfth of the minimum annual rent payment;
- 2) The total gross receipts for said portion of the accounting year, itemized as to each of the business categories for which a separate percentage rental is established. A breakdown of the gross receipts of each business conducted on the Premises must be attached to each statement where a reported business category is comprised of more than one business operation;
- 3) The related itemized amounts of percentage rent computed as herein provided and the total thereof;
- 4) The total rent previously paid by TENANT for the accounting year within which the preceding month falls; and
- 5) The rent due for the preceding month.
- 6) The amount of Common Area Charges due for the preceding month.

Concurrently with the rendering of each monthly statement, TENANTS shall pay to LESSOR the amount of Common Area Charges and any Additional Rent due plus the greater of the following two amounts:

- 1) The total percentage rent computed for that portion of the accounting year ending with and including the last day of the preceding month [Item (3), above] less total rents previously paid for the accounting year [Item (4), above], or
- 2) One-twelfth of the minimum annual rent, multiplied by the number of months from the beginning of the accounting year to and including the preceding month, less total rents previously paid for the accounting year [Item (4), above]."

This resulted in overpayments/(underpayments) for the following accounting periods:

Table 2. Tenant Payments

Tenant	Accounting Period	
	2015	2016
Chez Nevine	\$ -	\$ 389
Gemmell's Restaurant & Banquet	(111)	-
Harbor Jewelry	234	125
Jon's Fish Market	1,193	676
Slice of New York	1,109	-
Spring	-	765
Super Stop Liquor	1,769	-
The Brig Restaurant	824	225
White Pelican	1,345	-
Total Overpayments (net)	\$ 6,363	\$ 2,180



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 3:

We recommend OCCR/OC Parks require Vintage Marina to verify that the tenants' monthly statements of gross receipts format and monthly rent payments are properly calculated and in accordance with the lease agreements, including the separate identification of business categories with corresponding rent percentages. In addition, we recommend OCCR/OC Parks require Vintage Marina to remit overpayments and bill underpayments to the identified tenants.

Furthermore, we recommend OCCR ensure that Vintage Marina implements procedures to identify whether the remaining tenants' rent payments are properly calculated based on the tenants' accounting periods and that OCCR Accounting review the work.

OCCR/OC Parks Management Response:

Concur: OC Parks will require Vintage Marina to verify that tenants' monthly statement of gross receipts and monthly rent are calculated in accordance with lease agreements. The information will be reviewed by OCCR Accounting to ensure that proper lease terms are used in calculations. OC Parks will require Vintage Marina to remit overpayments and bill underpayments to tenants upon completion of OCCR Accounting's review of Vintage Marina's information.

Vintage Marina is now using a spreadsheet that calculates tenants' gross receipts and rent payments in accordance with lease agreements. OCCR Accounting will review to ensure that proper lease terms are used on calculations. OCCR Accounting will follow up with Vintage Marina to update the spreadsheet as new tenants are added.

Finding No. 4 – Required Personal Property Inventories Are Not Performed (Control Finding)

Internal controls over the safeguarding of personal property purchased on behalf of the County are inadequate. Specific internal control weaknesses included the following:

- Vintage Marina was unable to locate a DeWalt palm orbital sander, which was on their asset inventory list.
- Vintage Marina did not update its inventory list timely when an asset was disposed of, nor did it maintain proper support for the disposed item.
- An independent third party has not completed an annual inventory observation of personal property since inception of the Agreement, which is in non-compliance with the Agreement.
- Vintage Marina has not evaluated the personal property listed in its inventory list to determine if it meets the County's capitalization threshold amounts for accurate financial reporting.
- Vintage Marina's listing of personal inventory is missing critical information such as an adequate asset description, cost amount, property identification tag, location information, and serial number for each asset.



Detailed Findings, Recommendations, and Management Responses

- OC DPH was not performing a reconciliation of the County's inventory ledger to Vintage Marina's inventory list.

Agreement, Section 18, Inventory of Personal Property, states, "any personal property purchased at County's cost during the Agreement term, shall become the personal property of the COUNTY. OPERATOR shall keep record files of receipts and/or invoices of such purchases and maintain all applicable manuals, warranties, guarantees, or licenses that may apply to the personal property...OPERATOR shall keep a current inventory at all times of all personal property on the Premises owned by the COUNTY and the remaining personal property owned by the OPERATOR. Any loss or destruction of personal property shall be immediately reported to the Director."

"At the COUNTY'S cost, commencing on the second anniversary of this Operating Agreement and every year thereafter, an independent third party shall inventory all personal property within the Premises to verify the existence of said personal property owned by the COUNTY and the OPERATOR."

In addition, the County Accounting Manual (CAM) No. FA-4, Fixed Assets – Equipment, states that "location records must be reconciled in total by the property officer to the Auditor-Controller's (A-C) records at least once a year to ensure the department or agency records are in agreement with the A-C's fixed asset equipment records." CAM No. FA-5, Physical Inventory of Fixed Assets, defines the County's capitalization threshold amount and procedures to ensure an accurate and complete inventory of fixed assets.

Recommendation No. 4:

We recommend OCCR/OC Parks ensure an inventory is performed of all personal property purchased by Vintage Marina on behalf of the County as required by the Agreement. In addition, we recommend OCCR/OC Parks ensure any personal property that meets the County's capitalization threshold is identified as required by County's policies and procedures. Furthermore, we recommend OCCR/OC Parks require Vintage Marina's inventory listing to include an adequate asset description, cost amount, property identification tag, location information, and a serial number for each asset.

OCCR/OC Parks Management Response:

Concur: OC Parks will verify an inventory is performed as required by the Agreement and any personal property that meets the County's capitalization threshold is identified. CEO Real Estate will notify Vintage Marina in a letter that lists inventory for each asset, includes an adequate asset description, cost amount, property identification tag, location information and serial number.

Finding No. 5 – Dry Boat Storage Security Deposits Are Not Reconciled (Control Finding)

OCCR Accounting has not reconciled the security deposits for refundable dry boat storage since fiscal year (FY) 2008-09. As of December 2015, Vintage Marina's subsidiary records for dry boat storage security deposits equaled \$91,758. The County's general ledger for refundable security deposits (account no. 108-9130-3VIN) equaled \$95,578. We were informed OCCR Accounting had not performed the reconciliations due to a high volume of vacancies and other priorities.



Detailed Findings, Recommendations, and Management Responses

Reconciliations are a key control in providing effective accounting controls over assets. When reconciliations of security deposits are not performed, there is an increased risk that security deposit balances may not be accurate, and any identification of errors or necessary adjustments to the general ledger would not be made timely.

Recommendation No. 5:

We recommend OCCR work with OCCR Accounting to reconcile dry boat storage security deposits on a monthly basis to ensure errors are identified timely so that any necessary adjustments can be made to the general ledger.

OCCR/OC Parks Management Response:

Concur: OCCR Accounting will require Vintage Marina to verify the accuracy of their subsidiary ledger by confirming with tenants' records. Once Vintage Marina completes verification of their subsidiary ledger, OCCR Accounting will collaborate with Vintage Marina to reconcile their subsidiary ledger with County's general ledger.

Finding No. 6 – Audited Financial Statements Were Not Submitted Timely (Control Finding)

Vintage Marina and its external CPA did not submit the required audited financial statements for the year ended June 30, 2015 to OCCR Accounting. The audited financial statements for June 30, 2015 were due no later than September 30, 2015. Vintage Marina stated that the audit was completed; however, the CPA firm had not provided copies of the audited financial statements.

In addition, OC DPH and OCCR Accounting personnel were uncertain as to who would be responsible for requesting the audited financial statements and ensuring they were received as required.

Agreement, Section 17.E, Financial Statements for Auditor-Controller, requires audited financial statements along with management letters, if any, within ninety (90) days after the end of each fiscal year.

Recommendation No. 6:

We recommend OCCR/OC Parks require Vintage Marina to submit audited financial statements in a timely manner (within 90 days after year-end).

OCCR/OC Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter to submit audited financial statements within 90 days after their fiscal year-end.

Finding No. 7 – Internal Controls Over the Approval and Monitoring of the Annual Operating Budget Should Be Strengthened (Control Finding)

Internal controls over the annual operating budget could be strengthened. Specifically, the following items:



Detailed Findings, Recommendations, and Management Responses

- The annual operating budget for Vintage Marina was approved by the Board of Supervisors (BOS) along with other OC DPH budgets; however, Vintage Marina staff were uncertain about whether the budget should be expensed by line item or in total. Vintage Marina's budget and expenses were coded to object code 1900, Professional/Specialized Services; however, the budget that Vintage Marina received from the OC DPH included various line items.
- At the time the OC DPH managed the Vintage Marina agreement, they did not have a designated individual responsible for monitoring the Vintage Marina operating budget to ensure costs were within budget. Vintage Marina self-reviews its annual operating budget.
- No one independent of Vintage Marina had been evaluating available budget dollars before making payments to ensure Vintage Marina was not exceeding its budget.

The OC DPH staff position that had been responsible for monitoring Vintage Marina operations had been vacant for a few years and the duties had not been reassigned to a specific individual.

The Agreement, Section 10, Annual Operating Budget, requires that "sixty (60) days prior to the end of each of the COUNTY'S Fiscal Years, OPERATOR shall submit in writing to the Director for approval an annual operating budget for the operation, use, construction, reconstruction, management, leasing, maintenance and repair of the Premises. The operating budget shall include such detail as required by the Director, including, but not limited to, the projected Gross Receipts, COUNTY authorized Operating Expenses...and any other cost or expense items required by Director. The Director will approve, conditionally approve or disapprove all or any portion of the proposed operating budget within thirty (30) days from the date the operating budget is submitted. Within ten (10) days from receipt of notice of any conditionally approved or disapproved budget items, OPERATOR shall promptly make all corrections and adjustments as required by the Director.

OPERATOR and Director agree to meet at least once every three months or more frequently as requested by Director during the COUNTY'S Fiscal Year to review and where applicable, to resolve (1) the status of the Operating Budget...(2) maintenance issues, and (3) other issues of concern...OPERATOR shall promptly implement all changes and modifications to the Operating Budget and any other changes or modifications requested by Director to OPERATOR'S operation or management of the Premises."

By not monitoring the budget, there is an increased risk of deviating from the spending plan and of costs exceeding the budget. In addition, by not comparing budgeted to actual expenses, there is an increased risk that financial errors could occur and not be detected.

Recommendation No. 7:

We recommend that OCCR/OC Parks strengthen internal controls over the annual operating budget process by formally documenting and approving the annual operating budget and having an individual independent of Vintage Marina monitor expenditures to ensure that they remain within budget.

OCCR/OC Parks Management Response:

Concur: OC Parks will document and approve the annual operating budget and assign an individual independent of Vintage Marina to monitor expenditures.



Detailed Findings, Recommendations, and Management Responses

Finding No. 8 – Parent Company Administrative Fees Not Authorized in the Agreement (Control Finding)

Vintage Marina's parent company, Giumarra, charged Vintage Marina a benefits administrative fee in the amount of \$7,131 for administering Vintage Marina's health, dental, life, and disability insurance (10% for May 2015 through July 2015 and 3% for August 2015 through March 2016) which Vintage Marina passed to the County as an operating expense. The Chief Financial Officer of Giumarra stated in an email that he, the former OC DPH Director, and Chief Executive Officer of Giumarra held conversations sometime in 2015 regarding an appropriate administrative fee to add to the benefits billings to the County. OC DPH informed us that the former OC DPH Director and Giumarra's Chief Executive Officer, verbally agreed that an additional 3% benefits administrative fee was appropriate since the Agreement provides for a 3% management fee. Vintage was not able to provide written documentation confirming that this additional fee had been properly approved.

Agreement Section 11.E, Management Fee, allows Vintage Marina "to receive a monthly three percent (3%) management fee for undertaking the obligations and requirements of the Agreement. Said fee shall be calculated by multiplying the Gross Receipts collected each month by three percent (3%)."

While the contract allows Vintage Marina to charge a 3% management fee, Giumarra is charging the County an additional 3% benefits administrative fee of \$7,131 which is reported as an operating expense that the Agreement does not specifically identify as an allowable cost.

Recommendation No. 8:

We recommend OCCR/OC Parks consult with County Counsel to determine if the parent company's benefits administrative fee can be charged to the County in addition to Vintage Marina's 3% management fee. If the fee is not allowable, we recommend OCCR/OC Parks require Vintage Marina to reimburse the County for the additional cost of \$7,131 charged to the County for the May 2015 through March 2016 and determine if additional amounts are owed from periods preceding and subsequent to the audited period.

OCCR/OC Parks Management Response:

Concur: County Counsel has determined that the parent company's benefits administrative fee can be charged to the County in addition to Vintage Marina's 3% management fee. CEO Real Estate will notify Vintage Marina that it must identify the benefits administrative fee within the budget line item for salaries and employee benefits for approval by the County.

Finding No. 9 – Collection of Cash Receipts Should Be Performed, Logged, and Counted by Two Employees (Control Finding)

We were informed that two individuals collect the daily cash receipts from the gate box and coin wash boxes; however, the counts were neither logged nor signed by both employees. The collections of cash receipts were only signed by one employee, so we were unable to confirm that two employees had collected the cash.

The use of two people to collect cash is a type of dual control over the handling of cash receipts, which helps detect errors, prevents misappropriation of funds, and safeguard assets.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 9:

We recommend OCCR/OC Parks require Vintage Marina to ensure at least two employees collect and individually count cash receipts collected from the gate box and coin wash boxes to ensure accuracy. The counts should be logged and signed by both employees to provide evidence that the control has been implemented and to establish accountability.

OCCR/OC Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter that it is recommended that at least two employees collect and individually count cash receipts collected from the gate box and coin wash boxes, and that counts be logged and signed by two employees.

Finding No. 10 – No Written Policies and Procedures for the Procurement of Goods and Services (Control Finding)

The OC DPH and Vintage Marina did not have formal documented policies and procedures for Vintage Marina's procurement of goods and services on behalf of the County. Other than the requirement to follow Public Contract Code for public works, the Agreement does not provide purchasing requirements for goods and services. Vintage Marina and the OC DPH had also not determined which written procedures Vintage Marina should follow regarding purchasing personal property meeting the County's capital assets threshold, which may need to be depreciated.

Policies and procedures are an integral part of a successful quality assurance system as it provides personnel with the information to perform their duties properly, facilitates consistency in the quality and integrity of an end-result, ensures compliance with governing documentation, and designates responsibility. Policies and procedures should be documented and effectively communicated to appropriate staff.

Recommendation No. 10:

We recommend that OCCR/OC Parks work with the County Procurement Office to provide Vintage Marina with written policies and procedures for the procurement of goods and services on behalf of the County. Documented policies and procedures should be reviewed, approved by management, and readily accessible for reference by personnel responsible for Vintage Marina operations and oversight.

OCCR/OC Parks Management Response:

Concur: OCCR will review the operating agreement with Vintage Marina in collaboration with CEO Real Estate, County Counsel and the CEO to determine the appropriate process for procuring goods and services that are reimbursed by the County.

Finding No. 11 – Serially Pre-Numbered Receipts Should Be Used for Temporary Dry Storage (Control Finding)

Temporary dry storage rental receipts are not pre-numbered. Pre-numbered receipts would provide for sequential integrity to help ensure the completeness of gross receipts remitted for temporary dry storage.



Detailed Findings, Recommendations, and Management Responses

Agreement section 17, Records and Accounts, states that “in the event of admission charges/entry charges or rentals, OPERATOR shall issue numerically issued serially numbered tickets for each such admission or rental.”

Recommendation No. 11:

We recommend that OCCR/OC Parks require Vintage Marina to use serially pre-numbered documents for temporary dry storage.

OCCR/OC Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter to use serially pre-numbered documents for temporary dry storage.

Finding No. 12 – Cash Register or Point-of-Sale Systems Are Not Used by Tenants (Control Finding)

Harbor Jeweler and Arrow Custom Covers do not utilize a cash register or point-of-sale system to track gross receipts. Harbor Jeweler only has a credit card system to process credit card transactions since the majority of its sales are made by credit card and keeps any cash and checks in a drawer when received. Arrow Custom Covers mainly receives checks due to the nature of its business, which are kept in a drawer until deposited.

Tenants’ lease agreements, section Records and Accounts, requires “all retail sales and charges shall be recorded by means of cash registers or other comparable devices acceptable to the Auditor-Controller...The registers shall be equipped with devices which lock in sales totals and other transaction records and with counters which are not resettable and which record transaction numbers, date and time of sale and other pertinent sales details.”

Recommendation No. 12:

We recommend OCCR/OC Parks require Vintage Marina to ensure tenants with retail sales, record charges by means of cash registers or other comparable devices. The cash register or other comparable devices should be equipped with devices which lock in sales totals and other transaction records and include counters which are not resettable and record transaction numbers, date and time of sale, and other pertinent sales details.

OCCR/OC Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter that tenants with retail sales must record charges by means of cash registers or other comparable devices. These devices should be equipped with devices that lock in sales totals and other transaction records and include counters which that are not resettable and record transaction numbers, date and time of sale and other pertinent sales details.

Finding No. 13 – Receipt Was Not Provided to Customer As Required (Control Finding)

On March 2, 2016, during the purchase of merchandise at Scoop Deck, a receipt was automatically generated by the cash register; however, it was not offered to the customer as required by the lease. The customer requested the receipt and the cashier provided the receipt, which the cashier had previously disposed of in the trash can.



Detailed Findings, Recommendations, and Management Responses

The cashier was unaware of the requirement to provide receipts.

Tenant's lease agreements, section Records and Accounts, require "all retail sales and charges to be recorded by means of cash registers or other comparable devices acceptable to the Auditor-Controller, which display to the customer the amount of the transaction and automatically issue a receipt. Said receipt shall be given to each and every customer..."

Recommendation No. 13:

We recommend OCCR/OC Parks require Vintage Marina to notify its tenants of the requirement for a receipt to be given to each and every customer.

OCCR/OC Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter that it should remind its tenants of the requirement for a receipt to be given to each and every customer.

Finding No. 14 – Lease Agreements Need to be Properly Executed (Control Finding)

The following lease agreements expired and there was no written documentation to exercise the "Option to Extend" or prior written permission from County to exercise the holdover provisions:

Lease agreement expired January 31, 2009:

- Vintage Marina Watercraft (HA78H-24-003-0043)

Lease agreements expired on June 30, 2015:

- Arrow Custom Covers (HA78H-24-003-002) (See **Note** below)
- Downstairs Store (HA78H-24-003-0011) – tenant vacated premises on August 2015.
- Davine Food & Wine and Beyond the Sea (HA78H-24-003-0016) – tenant vacated premises on May 31, 2016.
- Harbor Jewelry (HA78H-24-003-018)
- Woody Hut (HA78H-24-003-022)
- Raj Perfumerie (HA78H-24-003-0023) – tenant vacated premises on January 2016.

The OC DPH management acknowledged that the tenants are now on a tenancy from month-to-month; however, no prior written permission from the County was available to document this agreement. With the revitalization plans at Dana Point Harbor, many tenants have not been exercising the option-to-extend.

The lease agreements have an Option to Extend, as long as the tenant notifies the lessor in writing by a certain date of its intent to exercise the Option to Extend. If no notice is received by such date, the lease expires on such date. Although the leases may have holding over provisions such that tenants continue in possession of the premises with prior written permission from Lessor, after the term of the leases, it should not be considered a renewal of the lease, but a tenancy from month-to-month and shall be governed by the conditions and covenants contained in the leases. Lease agreements cannot generally be changed unless both parties agree.



Detailed Findings, Recommendations, and Management Responses

Note: Arrow Custom Covers declined the Option to Extend the Lease for a five (5) year period, as stated in the First Amendment to Lease dated April 20, 2010; however, the written communication declining this option, and to remain on a month-to-month lease, was dated April 15, 2016. The First Amendment states, "TENANT shall notify LESSOR, in writing, not earlier than July 1, 2014, nor later than December 31, 2014, of its intent to exercise the Option to Extend this Lease, provided for hereinabove. In the event notice is not received by LESSOR by such date, this Lease shall expire June 30, 2015." Therefore, the lease would have expired on June 30, 2015 as stated in the amendment.

Without a properly executed lease agreement, there is a risk that no legal binding agreement exists.

Recommendation No. 14:

We recommend CEO Real Estate ensure that the lease agreements are properly executed and if lease agreements have a holding over provision, to ensure prior permission has been documented in writing.

OCCR/OC Parks Management Response:

Concur: OCCR/OC Parks and CEO Real Estate will implement steps to ensure that lease agreements are properly executed and that prior permission is documented in writing for lease agreement holding over provisions.

CEO/Real Estate Management Response:

Concur: Lease agreements will be documented to include written acceptance or acknowledgement of the exercise of "Option to Extend" provisions or written permission from County to exercise the hold-over provisions so that lease agreements are clear, enforceable and properly executed.



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



February 21, 2017

STEVE FRANKS
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. 1531 REVENUE GENERATING OPERATING
AGREEMENT AUDIT: OC COMMUNITY RESOURCES/OC PARKS
– VINTAGE MARINA PARTNERS (HA78H-24-003)**

The Auditor-Controller Internal Audit Division completed a Revenue Generating Operating Agreement Audit of OC Community Resources (OCCR)/OC Parks – Vintage Marina Partners, LP for the period April 1, 2015 through March 31, 2016. 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 – Lack of Oversight and Management of Vintage Marina
(Significant Control Weakness)**

Recommendation No. 1:

We recommend OCCR/OC Parks prepare written policies and procedures for the oversight and management of the Agreement with Vintage Marina and define the roles and responsibilities of those responsible for performing compliance monitoring and administering the Vintage Marina Agreement.

OCCR/Parks Management Response:

Concur: OC Parks and CEO Real Estate are developing written policies and procedures for the oversight and management of the Agreement. Roles and responsibilities of those responsible for performing compliance monitoring and administering of the Agreement will be defined.

**Finding No. 2 – Tenants' Gross Receipts Need to be Validated and
Reconciled (Significant Control Weakness)**

Recommendation No. 2:

We recommend OCCR/OC Parks work with Vintage Marina to develop and implement an annual audit plan and process to ensure the audit plan schedule and/or changes are approved in writing and communicated to OCCR Accounting to ensure the external CPA audits of its tenants are conducted timely, according to the Agreement. OCCR/OC Parks should also evaluate the feasibility of conducting interim monitoring audits or other accounting review procedures, in addition to the external audits, to confirm that the gross receipts reported to the County are accurate and adequately supported. In addition, we recommend that OCCR Accounting ensure that the audited financial statements are reviewed and reconciled in a timely manner and any amounts due and/or refunds are processed, including the overpayments/ (underpayments) identified above.



OFFICE OF THE DIRECTOR
1770 NORTH BROADWAY
SANTA ANA, CA 92706-
2642
PHONE: 714.480.2788
FAX: 714.480.2899



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (cont.)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1531
PAGE 2 OF 5
FEBRUARY 21, 2017

OCCR/Parks Management Response:

Concur: OC Parks and OCCR Accounting will work with Vintage Marina to develop and implement an annual audit plan, which will be approved in writing by OC Parks and OCCR Accounting. Changes to the audit plan will be approved by OCCR Accounting. OCCR Accounting will evaluate feasibility of interim accounting review to confirm gross receipts reported are accurate and adequately supported.

OCCR Accounting will review audited financial statements in a timely manner and ensure that any refunds/amounts due from those audits are processed. OCCR Accounting will follow up to ensure refunds/underpayments have been accounted for based on the external audits and accountings reconciliation with the external audit numbers.

Finding No. 3 – Tenants’ Rent Payments Are Not Calculated or Reported In Accordance with Lease Agreements (Significant Control Weakness)

Recommendation No. 3:

We recommend OCCR/OC Parks require Vintage Marina to verify that the tenants’ monthly statements of gross receipts format and monthly rent payments are properly calculated and in accordance with the lease agreements, including the separate identification of business categories with corresponding rent percentages. In addition, we recommend OCCR/OC Parks require Vintage Marina to remit overpayments and bill underpayments to the identified tenants.

OCCR/Parks Management Response:

Concur: OC Parks will require Vintage Marina to verify that tenants’ monthly statement of gross receipts and monthly rent are calculated in accordance with lease agreements. The information will be reviewed by OCCR Accounting to ensure that proper lease terms are used in calculations. OC Parks will require Vintage Marina to remit overpayments and bill underpayments to tenants upon completion of OCCR Accounting’s review of Vintage Marina’s information.

Vintage Marina is now using a spreadsheet that calculates tenants’ gross receipts and rent payments in accordance with lease agreements. OCCR Accounting will review to ensure that proper lease terms are used on calculations. OCCR Accounting will follow up with Vintage Marina to update the spreadsheet as new tenants are added.

Finding No. 4 – Required Personal Property Inventories Are Not Performed (Control Finding)

Recommendation No. 4:

We recommend OCCR/OC Parks ensure an inventory is performed of all personal property purchased by Vintage Marina on behalf of the County as required by the Agreement. In addition, we recommend OCCR/OC Parks ensure any personal property that meets the County’s capitalization threshold is identified as required by County’s policies and procedures. Furthermore, we recommend OCCR/OC Parks require Vintage Marina’s inventory listing to include an adequate asset description, cost amount, property identification tag, location information, and a serial number for each asset.

OCCR/Parks Management Response:

Concur: OC Parks will verify an inventory is performed as required by the Agreement and any personal property that meets the County’s capitalization threshold is identified. CEO Real Estate will notify Vintage Marina in a letter that lists inventory for each asset, includes an adequate asset description, cost amount, property identification tag, location information and serial number.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (cont.)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1531
PAGE 3 OF 5
FEBRUARY 21, 2017

Finding No. 5 – Dry Boat Storage Security Deposits Are Not Reconciled (Control Finding)

Recommendation No. 5:

We recommend OCCR work with OCCR Accounting to reconcile dry boat storage security deposits on a monthly basis to ensure errors are identified timely so that any necessary adjustments can be made to the general ledger.

OCCR/Parks Management Response:

Concur: OCCR Accounting will require Vintage Marina to verify the accuracy of their subsidiary ledger by confirming with tenants' records. Once Vintage Marina completes verification of their subsidiary ledger, OCCR Accounting will collaborate with Vintage Marina to reconcile their subsidiary ledger with County's general ledger.

Finding No. 6 – Audited Financial Statements Were Not Submitted Timely (Control Finding)

Recommendation No. 6:

We recommend OCCR/OC Parks require Vintage Marina to submit audited financial statements in a timely manner (within 90 days after year-end).

OCCR/Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter to submit audited financial statements within 90 days after their fiscal year-end.

Finding No. 7 – Internal Controls Over the Approval and Monitoring of the Annual Operating Budget Should Be Strengthened (Control Finding)

Recommendation No. 7:

We recommend that OCCR/OC Parks strengthen internal controls over the annual operating budget process by formally documenting and approving the annual operating budget and having an individual independent of Vintage Marina monitor expenditures to ensure that they remain within budget.

OCCR/Parks Management Response:

Concur: OC Parks will document and approve the annual operating budget and assign an individual independent of Vintage Marina to monitor expenditures.

Finding No. 8 – Parent Company Administrative Fees Not Authorized in the Agreement (Control Finding)

Recommendation No. 8:

We recommend OCCR/OC Parks consult with County Counsel to determine if the parent company's benefits administrative fee can be charged to the County in addition to Vintage Marina's 3% management fee. If the fee is not allowable, we recommend OCCR/OC Parks require Vintage Marina to reimburse the County for the additional cost of \$7,131 charged to the County for the May 2015 through March 2016 and determine if additional amounts are owed from periods preceding and subsequent to the audited period.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (cont.)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1531
PAGE 4 OF 5
FEBRUARY 21, 2017

OCCR/Parks Management Response:

Concur: County Counsel has determined that the parent company's benefits administrative fee can be charged to the County in addition to Vintage Marina's 3% management fee. CEO Real Estate will notify Vintage Marina that it must identify the benefits administrative fee within the budget line item for salaries and employee benefits for approval by the County.

Finding No. 9 – Collection of Cash Receipts Should Be Performed, Logged, and Counted by Two Employees (Control Finding)

Recommendation No. 9:

We recommend OCCR/OC Parks require Vintage Marina to ensure at least two employees collect and individually count cash receipts collected from the gate box and coin wash boxes to ensure accuracy. The counts should be logged and signed by both employees to provide evidence that the control has been implemented and to establish accountability.

OCCR/Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter that it is recommended that at least two employees collect and individually count cash receipts collected from the gate box and coin wash boxes, and that counts be logged and signed by two employees.

Finding No. 10 – No Written Policies and Procedures for the Procurement of Goods and Services (Control Finding)

Recommendation No. 10:

We recommend that OCCR/OC Parks work with the County Procurement Office to provide Vintage Marina with written policies and procedures for the procurement of goods and services on behalf of the County. Documented policies and procedures should be reviewed, approved by management, and readily accessible for reference by personnel responsible for Vintage Marina operations and oversight.

OCCR/Parks Management Response:

Concur: OCCR will review the operating agreement with Vintage Marina in collaboration with CEO Real Estate, County Counsel and the CEO to determine the appropriate process for procuring goods and services that are reimbursed by the County.

Finding No. 11 – Serially Pre-Numbered Receipts Should Be Used for Temporary Dry Storage (Control Finding)

Recommendation No. 11:

We recommend that OCCR/OC Parks require Vintage Marina to use serially pre-numbered documents for temporary dry storage.

OCCR/Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter to use serially pre-numbered documents for temporary dry storage.

Finding No. 12 – Cash Register or Point-of-Sale Systems Are Not Used by Tenants (Control Finding)

Recommendation No. 12:

We recommend OCCR/OC Parks require Vintage Marina to ensure tenants with retail sales, record charges by means of cash registers or other comparable devices. The cash register or other comparable devices should be equipped with devices which lock in sales totals and other



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Responses (cont.)

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1531
PAGE 5 OF 5
FEBRUARY 21, 2017

transaction records and include counters which are not resettable and record transaction numbers, date and time of sale, and other pertinent sales details.

OCCR/Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter that tenants with retail sales must record charges by means of cash registers or other comparable devices. These devices should be equipped with devices that lock in sales totals and other transaction records and include counters which that are not resettable and record transaction numbers, date and time of sale and other pertinent sales details.

Finding No. 13 – Receipt Was Not Provided to Customer As Required (Control Finding)

Recommendation No. 13:

We recommend OCCR/OC Parks require Vintage Marina to notify its tenants of the requirement for a receipt to be given to each and every customer.

OCCR/Parks Management Response:

Concur: CEO Real Estate will notify Vintage Marina in a letter that it should remind its tenants of the requirement for a receipt to be given to each and every customer.

Finding No. 14 – Lease Agreements Need to be Properly Executed (Control Finding)

Recommendation No. 14:

We recommend CEO Real Estate ensure that the lease agreements are properly executed and if lease agreements have a holding over provision, to ensure prior permission has been documented in writing.

OCCR/Parks Management Response:

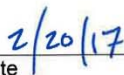
Concur: OCCR/OC Parks and CEO Real Estate will implement steps to ensure that lease agreements are properly executed and that prior permission is documented in writing for lease agreement holding over provisions.

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

SAF:bw



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT C: CEO/Real Estate Management Response



County of Orange

County Executive Office

February 22, 2017

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

**RE: AUDIT NO. 1531 REVENUE GENERATING OPERATING AGREEMENT
AUDIT; OC COMMUNITY RESOURCES/OC PARKS – VINTAGE MARINA
PARTNERS, LP (HA78H-24-003)**

The Auditor-Controller Internal Audit Division completed a Revenue Generating Operating Agreement of Vintage Marina Partners, LP. Below are CEO Real Estate's responses to the audit findings and recommendations, which have been reviewed and approved by the County Executive Office.

Finding No. 14 – Lease Agreements Need to be Properly Executed (Control Finding)

Recommendation No. 14:

We recommend CEO Real Estate ensure that the lease agreements are properly executed and if lease agreements have a holding over provision, to ensure prior permission has been documented in writing.

CEO Real Estate Management Response:

Concur: Lease agreements will be documented to include written acceptance or acknowledgement of the exercise of "Option to Extend" provisions or written permission from County to exercise the hold-over provisions so that lease agreements are clear, enforceable and properly executed.

Sincerely,

Scott D. Mayer
Chief Real Estate Officer