



Orange County Auditor-Controller Internal Audit



Revenue Generating Lease Audit:
OC Community Resources/OC Parks –
Ocean Institute, HA78H-24-133, -134

For the period March 1, 2015
through February 29, 2016

Audit Number 1532
Report Date: May 1, 2017



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Transmittal Letter

Audit No. 1532

May 1, 2017

TO: Dylan Wright, Director
OC Community Resources

SUBJECT: Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Ocean Institute, HA78H-24-133, -134

We have completed our Revenue Generating Lease Audit of Ocean Institute for the period of March 1, 2015 through February 29, 2016. Attached is our final report 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 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.

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 OC Community Resources
- 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 and Strategic Planning Manager, OC Community Resources
- Kirk Holland, Business Manager, OC Community Resources/OC Parks
- Brian Rayburn, Business Office Manager, OC Community Resources

Bill Reiter, Division Manager, OC Community Resources/OC Parks
Nicole Nguyen, Budget Analyst, OC Community Resources
Lindsay Brennan, Budget Analyst, OC Community Resources/OC Parks
Scott 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



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OC Community Resources/OC Parks – Ocean Institute
Audit No. 1532***

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Internal Auditor's Report

Audit No. 1532

May 1, 2017

TO: Dylan Wright, Director
OC Community Resources

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

SUBJECT: Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Ocean Institute, HA78H-24-133, -134

OBJECTIVES

We have performed an audit of certain records and documents for the period of March 1, 2015 through February 29, 2016, pertinent to the lease agreement (Agreement) dated June 29, 1999 and amended on June 21, 2011, between the County of Orange (County) and Ocean Institute, a California non-profit corporation. The Agreement is primarily to develop and operate County approved facilities and programs specifically related to marine science research, marine-related cultural activities/events, protection and conservation of the marine environment, and maritime and marine science education. 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. Determine whether Ocean Institute's records adequately supported the monthly gross receipts and rent payments reported to the County.
2. Determine whether Ocean Institute complies with other provisions of the Agreement, such as accounting methods and payment and annual financial statement requirements.
3. Identify any internal control weaknesses while performing the audit, and provide suggestions for improvement.

RESULTS

Objective #1: We found that Ocean Institute's records, in general, adequately supported gross receipts reported to the County and rent payments were properly remitted to the County; however, we noted the following exceptions: we identified **four (4) Control Findings** related to unpaid rent for miscellaneous income, a room rental that was misclassified as a donation, rent not paid on gross receipts, and deposits for public cruises were not reported as gross receipts when received.

Objective #2: We found that Ocean Institute complied with other provisions of the Agreement; however, we identified **three (3) Control Findings**. These findings include failure to submit non-profit IRS Form 990, the security deposit is not current, and the audit provision within the lease was activated.



Internal Auditor's Report

Objective #3: We found Ocean Institute had sufficient internal controls; however, we identified **three (3) Control Findings** relating to cash registers are not equipped to number transactions or lock in sales, the rental calendar is not reconciled to customer deposits, and boarding passes for public cruises are not pre-numbered

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

BACKGROUND

The County entered into a 35-year Agreement with Friends of the Marine Institute in Orange County, a California non-profit corporation, dated June 29, 1999 and amended on June 21, 2011. In January 2000, the organization was renamed Ocean Institute. The purpose of the Agreement is for Ocean Institute to develop and operate County approved facilities and programs specifically related to marine science research, marine-related cultural activities/events, protection and conservation of the marine environment, and maritime and marine science education. For the year ended February 29, 2016, Ocean Institute reported gross receipts of **\$4,109,448** to the County and paid **\$36,206** in rent.

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

SCOPE AND METHODOLOGY

Our audit was limited to certain records and documents that support Ocean Institute's gross receipts and operating expenses reported to the County for the 12-month audit period from March 1, 2015 through February 29, 2016. Our audit included inquiry, auditor observation, limited testing to assess the adequacy of documentation for gross receipts, ensuring completeness of remitted gross receipts, as well as other provisions of the Agreement, such as accounting methods, payment procedures, and annual financial statement requirements.

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. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will 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



Internal Auditor's Report

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 RESPONSIBILITY FOR INTERNAL CONTROL

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) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for OC Community Resources' (OCCR) 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 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 at Ocean Institute, OCCR/OC Parks, CEO/Real Estate, and OCCR Accounting. If you have any questions regarding our revenue generating lease 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 – Percentage Rent Not Paid on Miscellaneous Income (Control Finding)

Ocean Institute did not report Other Miscellaneous Income (account numbers 4950-100 and 4950-140) as gross receipts subject to rent. There were several special event cruises recorded in the Miscellaneous Income accounts that should have been reported as “Boat Dock for Commercial Cruise” gross receipts, which are subject to rent.

Ocean Institute did not report \$28,350 (Acct # 4950-100) for March 1, 2015 to February 29 2016.

Ocean Institute did not report \$4,500 (Acct # 4950-140) for the sampled month of October 2015.

As such, Ocean Institute owes the County additional rent of \$3,285 $(\$28,350 + \$4,500) \times 10\%$).

Clause 5.C.1., “Optional Uses Subject to Rent,” states, “Boat Dock for any commercial cruises approved by the Director including but not limited to Catalina cruises, cocktail/dinner cruises, wedding ceremonies/cruises, recreational cruises, burials at sea, loading and unloading of passengers for hire, parking of vessels that are not owned or otherwise an asset of TENANT, and “open party”, “open boat” or other such cruises available to the general public. TENANT shall not operate any cruises/charters of a commercial nature without the prior written consent of the Director. TENANT shall not allow loading and/or unloading of passengers from any non-TENANT owned vessel without the prior written consent of the Director.”

Recommendation No. 1:

We recommend OCCR/OC Parks require Ocean Institute to report special cruise events under “Boat Dock for Commercial Cruises” to the County as gross receipts on a monthly basis. Additionally, we recommend OCCR/OC Parks require Ocean Institute to pay additional rent owed of **\$3,285**, and determine if Ocean Institute owes the County additional rent for the months not included in the audit sample.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will notify Ocean Institute to report special cruise events under “Boat Dock for Commercial Cruises” when reporting monthly gross receipts to the County. OCCR Accounting will invoice Ocean Institute in the amount of \$3,285. OCCR Accounting will review gross receipts paid during the months not included in the audit sample to address additional rent adjustments.

Finding No. 2 – Rent Not Paid on Gross Receipts (Control Finding)

Ocean Institute reported the **net** receipt for one transaction instead of the required **gross** receipt amount. The Ocean Institute facility rental had gross receipts of \$1,000; however, Ocean Institute allocated \$166.67 to repair expense and only calculated rent owed to the County based on the net amount of \$833.33 $[\$1,000 - 166.67 = \$833.33]$ resulting in underreported rent of \$16.67 $[\$166.67 \times 10\%]$.



Detailed Findings, Recommendations, and Management Responses

Clause 9 of the Agreement, “Definitions of Gross Receipts,” states, “The term “gross receipts” upon which percentage rents are to be based on the uses permitted pursuant to Clause 5.C. above shall include...All admission, entry, rental, and other fees of any nature or kind received by TENANT (including but not limited to deposits accepted by TENANT).”

Recommendation No. 2:

We recommend OCCR/OC Parks obtain additional rent of **\$16.67** from Ocean Institute and require Ocean Institute to calculate rent based on gross receipts as required by the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will request additional rent of \$16.67 from Ocean Institute and ensure that Ocean Institute calculate rent based on gross receipts as required by the Lease.

Finding No. 3 – Rental Calendar Contained an Error and Was Not Reconciled to Deposits (Control Finding)

Facility rental reservations are recorded on a rental calendar and categorized as either locked/paid, locked/partially paid, locked unpaid, or working. The Surf Deck (Sleeping Deck) facility rental was reserved as locked/paid on February 10, 2016 for a corporate event; however, per Ocean Institute’s CFO, there was no payment received for that rental as it was blocked off to ensure an overnight program would not be booked while another event was taking place on campus. This reservation should have been booked as “locked unpaid” or “working” to ensure that there was no deposit or rental fee expected from this reservation.

The Agreement Section 14.A, “RECORDS AND ACCOUNTS” states, “TENANT shall, at all times during the term of this Lease, keep or cause to be kept true and complete books, records, and accounts of all financial transactions in the operation of all business activities at the Premises, of whatever nature, conducted in pursuance of the rights granted herein. The records must be supported by source documents such as sales slips, cash register tapes, purchase invoices, or other pertinent documents.”

Ocean Institute did not detect the error because the rental calendar is not reconciled to customer deposits to ensure that deposits have been received for all appropriate reservations. Reconciliation of the rental calendar and other rental documentation to the recorded deposits is an internal control procedure which helps ensure all rental deposits have been received and accurately recorded.

Recommendation No. 3:

We recommend that OCCR/OC Parks require Ocean Institute to establish controls, including a reconciliation of the rental calendar to customer deposits, to help ensure that records are correct, and all deposits for events listed in the reservation calendar are accurately recorded.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute to establish controls to ensure that the rental calendar is accurate and that deposits are reconciled and correctly recorded for reservations.



Detailed Findings, Recommendations, and Management Responses

Finding No. 4 – Z-Close Out Tapes Are Not Numbered and Cash Registers Do Not Lock in Sales Totals (Control Finding)

Ocean Institute's Z-close out tapes are not numbered. Ocean Institute informed us it was unaware of the stipulation in their Agreement to equip registers with devices to lock in sales totals with counters that are not resettable, record transaction numbers, and record sales details.

Clause 14.A of the Agreement, "RECORDS AND ACCOUNTS," states, "All retail sales and charges at the Premises shall be recorded by means of cash registers or other comparable devices which display to the customer the amount of the transaction and automatically issues a receipt. The registers shall be equipped with devices which lock in sales totals and other transaction records, or with counters which are not resettable and which record transaction numbers with sales details."

This register feature, which locks in total sales, is an important control in determining the completeness of reported sales receipts.

Recommendation No. 4:

We recommend OCCR/OC Parks require Ocean Institute to set up their cash registers with non-resettable transaction numbering and sales total locking features for the Z-close out tapes on all cash registers.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that retail sales and charges are recorded by means of a device that satisfies the requirements detailed in the Lease, including non-resettable transaction numbering and locking features for close-out tapes.

Finding No. 5 – Security Deposit Was Not Properly Revised or Maintained (Control Finding)

The County did not revise Ocean Institute's security deposit for 2009 or 2016 as required by the Agreement. Therefore, Ocean Institute has not maintained the appropriate amount of security deposit as required by the Agreement.

OCCR Accounting maintained a spreadsheet that agreed to the general ledger, showing a security deposit of \$15,000; however, this amount did not agree to the actual \$11,632 certificate of deposit held by Ocean Institute. We confirmed with CEO/Real Estate that the security deposit amount was not revised in 2009, as required by the Agreement, nor increased in 2016, as required by the Second Amendment to the Agreement.

OCCR Accounting also does not have a bank statement and/or supporting documentation to validate the existence or the amount of the security deposit.



Detailed Findings, Recommendations, and Management Responses

The Agreement Section 12 states in part:

“A security deposit in the sum of Ten Thousand Dollars (\$10,000) shall be provided to LESSOR by TENANT.”

The original Agreement also states that the security deposit shall take one of the forms mentioned below and guarantees the tenant’s full and faithful performance of all the terms, covenants, and conditions of the Lease:

- Cash
- An assignment to the County of a savings deposit
- A Time Certificate of Deposit wherein payable to the County or
- An instrument or instruments of credit and be paid to County”

The Agreement from June 1999 required the deposit to be adjusted every five years based on changes in the Consumer Price Index.

The Second Amendment to Lease Agreement Section 13, “Security Deposit,” dated June 2011 states in part:

“The security deposit will be increased by 15% every five (5) years from the date of the Second Amendment.”

We informed CEO/Real Estate that Ocean Institute’s security deposit had not been updated and, in response, CEO/Real Estate has revised the security deposit as of December 2, 2016. CEO/Real Estate sent a letter to Ocean Institute, notifying that it had until February 1, 2017 to bring the security deposit current. Ocean Institute deposited \$3,723 on February 3, 2017 to bring the security deposit up to the current amount of \$15,355.

Recommendation No. 5:

We recommend that CEO/Real Estate implement a process to ensure that they revise the OCCR/OC Parks lease security deposits timely and notify OCCR/OC Parks, OCCR Accounting, and the lessees of the new security deposit requirements.

OCCR/OC Parks Management Response:

Concur - CEO Real Estate will implement a process to ensure that Lease security deposit revisions, are completed in a timely manner. CEO Real Estate will notify OCCR/OC Parks, OCCR Accounting and Lessee when revisions are made.

CEO/Real Estate Management Response:

Concur - CEO Real Estate will implement a process to ensure that Lease security deposit revisions, as required by the Lease, are completed in a timely manner. As part of the revision process, CEO Real Estate will notify OCCR/OC Parks, OCCR Accounting, and Lessee when revisions are made.



Detailed Findings, Recommendations, and Management Responses

Finding No. 6 – Failure to Submit Form 990 “Return of Organization Exempt from Income Tax” To The County (Control Finding)

Ocean Institute did not submit a copy of its 2014 and 2015 IRS Form 990 “Return of Organization Exempt from Income Tax.”

Clause 14.C of the Agreement, “Financial Statements,” states, “TENANT shall attach to the income statement submitted to LESSOR any Form 990, or similar not-for-profit tax return filed with any governmental agency. TENANT shall provide LESSOR with copies of any Certified Public Accountants’ (CPA) management letters prepared in conjunction with their audits of TENANT’s operations from the Premises. Copies of management letters shall be provided directly to LESSOR by the CPA at the same time TENANT’s copy is provided to TENANT. Upon completion of TENANT’s audit and Board approval process, but no later than one hundred eighty (180) days after the end of each accounting year, TENANT shall submit the statements required above in final form.”

Recommendation No. 6:

We recommend OCCR/OC Parks require Ocean Institute to submit its IRS Form 990, “Return of Organization Exempt from Income Tax” to OCCR Accounting in a timely manner in accordance with the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require Ocean Institute to submit IRS Form 990 to OCCR Accounting with submission of the annual financial report.

Finding No. 7 – Rent Not Paid On Facility Rental Income Incorrectly Recorded as Donation Income (Control Finding)

Ocean Institute incorrectly recorded a \$1,169 facility rental payment received on February 4, 2016 as a donation, resulting in underreported rent of \$116.90 ($\$1,169 \times 10\%$).

Clause 5.C of the Agreement (Optional Uses Subject to Rent) specifies the following uses are subject to percentage rent payments to the County:

- Clause 5.C.4: Meeting and banquet room uses other than the uses permitted pursuant to Clause B.6 above.
- Clause 5.C.5: Theater/Auditorium uses other than the uses permitted pursuant to Clause B.7

Recommendation No. 7:

We recommend OCCR/OC Parks management collect facilities rent owed of **\$116.90**.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute pay the \$116.90 owed for facilities rent.



Detailed Findings, Recommendations, and Management Responses

Finding No. 8 – Public Cruise Deposits Are Not Reported as Gross Receipts When Accepted (Control Finding)

Ocean Institute does not report deposits for public cruises as gross receipts when received. Customers often pay for public cruise events in advance and these deposits should be reported as gross receipts when accepted. Ocean Institute does not report these deposits as gross receipts until the public cruises take place.

Clause 9 of the Agreement (Definition of Gross Receipts) states “As used in this Clause, the term “TENANT” shall include TENANT, TENANT'S agents, sublessee concessionaires, or licensees, or any person acting under contract with TENANT. The term “gross receipts” upon which percentage rents are to be based on the uses permitted pursuant to Clause 5.C. above shall include:...All admission, entry, rental, and other fees of any nature or kind received by TENANT (including but not limited to deposits accepted by TENANT).”

Recommendation No. 8:

We recommend that OCCR/OC Parks require Ocean Institute to report all public cruise deposits as gross receipts upon receipt. We also recommend that OCCR/OC Parks have Ocean Institute determine the amount of unreported deposits received to date and include those deposits on their gross receipts statement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute report public cruise deposits as gross receipts upon receipt and deposit. OCCR/OC Parks will verify that Ocean Institute reviews records to determine the amount of unreported deposits received to date and include unreported deposits on the gross receipts statement.

Finding No. 9 – Boarding Passes for Public Cruises are Not Pre-Numbered (Control Finding)

Ocean Institute issues generic boarding passes for public cruises that are not serially pre-numbered.

The Agreement Section 14.A, “RECORDS AND ACCOUNTS” states... “In the event of admission charges or rentals at the Premises, TENANT shall issue serially numbered tickets for each such admission or rental and shall keep an adequate record of said tickets, both issued and unissued. TENANT shall issue pre-numbered boarding tickets for all boat cruises/charters at the Premises and keep separate records detailing receipts, passenger counts and type of cruise/charter. ”

The numerical sequence of the boarding passes should be accounted for and missing boarding passes investigated. The boarding passes should be reconciled to receipts and cash collections in the daily balancing process to account for all public cruise revenue.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 9:

We recommend that OCCR/OC Parks require Ocean Institute to issue serially pre-numbered boarding tickets for all public cruises.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute issue serially pre-numbered boarding tickets for public cruises.

Finding No. 10 – Audit Cost Provision (Control Finding)

Ocean Institute underreported rent owed to the County for the year ending February 29, 2016 by a total of **\$3,419**, which equals **9.4%** of the total rent paid to the County. Since the amount of underpaid rent exceeds the Agreement audit clause threshold of **two percent (2%)**, OCCR/OC Parks, at the County’s option, may require Ocean Institute to pay for audit costs, if OCCR/OC Parks determines that these amounts are owed to the County.

Clause 14.C of the Agreement, “Financial Statements,” states that Ocean Institute shall bear the full cost of the audit if “the audit reveals an underpayment of more than two percent (2%) between the rent due as reported and paid by TENANT in accordance with this Lease and the rent due as determined by said audit.”

Table 1 - Under-Reported Rent Calculation

Rent Paid	
Rent Paid March 2015 – February 2016	\$36,206
Under-Reported Rent	
Miscellaneous Income for Acct (4950-100) (Finding No. 1)	\$2,835
Miscellaneous Income for two Sampled Months Acct (4950-140) (Finding No. 1)**	450
Net Receipts reported instead of Gross Receipts (Finding No. 2)	17
Misclassified Facility Rental Income (Finding No. 7)	117
Total Under-Reported Rent	\$3,419
Under-Reported Rent Percentage	
\$3,419 / \$36,206	9.4%

**The underreported rent percentage will likely increase once OCCR/OC Parks calculates the unpaid rent on Other Miscellaneous Income for the remaining months of the audit period.

Recommendation No. 10:

We recommend OCCR/OC Parks determine if Ocean Institute should pay for the costs of this audit.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will consider whether Ocean Institute should pay for the costs of the audit.



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



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: OCCR/OC Parks Management Response



April 21, 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
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HOUSING & COMMUNITY
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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. 1532 Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Ocean Institute, HA78H-
24-133, -134**

The Auditor-Controller Internal Audit Division completed a Revenue Generating Lease Audit of OC Community Resources/OC Parks – Ocean Institute for the period March 1, 2015, through February 29, 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 – Percentage Rent Not Paid on Miscellaneous Income (Control Finding)

Recommendation No. 1:

We recommend OCCR/OC Parks require Ocean Institute to report special cruise events under "Boat Dock for Commercial Cruises" to the County as gross receipts on a monthly basis. Additionally, we recommend OCCR/OC Parks require Ocean Institute to pay additional rent owed of \$3,285, and determine if Ocean Institute owes the County additional rent for the months not included in the audit sample.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will notify Ocean Institute to report special cruise events under "Boat Dock for Commercial Cruises" when reporting monthly gross receipts to the County. OCCR Accounting will invoice Ocean Institute in the amount of \$3,285. OCCR Accounting will review gross receipts paid during the months not included in the audit sample to address additional rent adjustments.

Finding No. 2 – Rent Not Paid on Gross Receipts (Control Finding)

Recommendation No. 2:

We recommend OCCR/OC Parks obtain additional rent of \$16.67 from Ocean Institute and require Ocean Institute to calculate rent based on gross receipts as required by the Agreement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will request additional rent of \$16.67 from Ocean Institute and ensure that Ocean Institute calculate rent based on gross receipts as required by the Lease.



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Detailed Findings, Recommendations, and Management Responses

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

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1523
PAGE 2 OF 3
APRIL 21, 2017

Finding No. 3 – Rental Calendar Contained an Error and Was Not Reconciled to Deposits (Control Finding)

Recommendation No. 3:

We recommend that OCCR/OC Parks require Ocean Institute to establish controls, including a reconciliation of the rental calendar to customer deposits, to help ensure that records are correct, and all deposits for events listed in the reservation calendar are accurately recorded.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute to establish controls to ensure that the rental calendar is accurate and that deposits are reconciled and correctly recorded for reservations.

Finding No. 4 – Z-Close Out Tapes Are Not Numbered and Cash Registers Do Not Lock in Sales Totals (Control Finding)

Recommendation No. 4:

We recommend OCCR/OC Parks require Ocean Institute to set up their cash registers with non-resettable transaction numbering and sales total locking features for the Z-close out tapes on all cash registers.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks will require that retail sales and charges are recorded by means of a device that satisfies the requirements detailed in the Lease, including non-resettable transaction numbering and locking features for close-out tapes.

Finding No. 5 – Security Deposit Was Not Properly Revised or Maintained (Control Finding)

Recommendation No. 5:

We recommend that CEO/Real Estate implement a process to ensure that they revise the OCCR/OC Parks lease security deposits timely and notify OCCR/OC Parks, OCCR Accounting, and the lessees of the new security deposit requirements.

OCCR/OC Parks Management Response:

Concur - CEO Real Estate will implement a process to ensure that Lease security deposit revisions, are completed in a timely manner. CEO Real Estate will notify OCCR/OC Parks, OCCR Accounting and Lessee when revisions are made.

Finding No. 6 – Failure to Submit Form 990 “Return of Organization Exempt from Income Tax” To The County (Control Finding)

Recommendation No. 6:

We recommend OCCR/OC Parks require Ocean Institute to submit its IRS Form 990, “Return of Organization Exempt from Income Tax” to OCCR Accounting in a timely manner in accordance with the Agreement.

OCCR/OC Parks Management Response:

Concur – OCCR/OC Parks will require Ocean Institute to submit IRS Form 990 to OCCR Accounting with submission of the annual financial report.

Finding No. 7 – Rent Not Paid On Facility Rental Income Incorrectly Recorded as Donation Income (Control Finding)



Detailed Findings, Recommendations, and Management Responses

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

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1532
PAGE 3 OF 3
APRIL 21, 2017

Recommendation No. 7:

We recommend OCCR/OC Parks management collect facilities rent owed of \$116.90.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute pay the \$116.90 owed for facilities rent.

Finding No. 8 – Public Cruise Deposits Are Not Reported as Gross Receipts When Accepted (Control Finding)

Recommendation No. 8:

We recommend that OCCR/OC Parks require Ocean Institute to report all public cruise deposits as gross receipts upon receipt. We also recommend that OCCR/OC Parks have Ocean Institute determine the amount of unreported deposits received to date and include those deposits on their gross receipts statement.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute report public cruise deposits as gross receipts upon receipt and deposit. OCCR/OC Parks will verify that Ocean Institute reviews records to determine the amount of unreported deposits received to date and include unreported deposits on the gross receipts statement.

Finding No. 9 – Boarding Passes for Public Cruises are Not Pre-Numbered (Control Finding)

Recommendation No. 9:

We recommend that OCCR/OC Parks require Ocean Institute to issue serially pre-numbered boarding tickets for all public cruises.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will require that Ocean Institute issue serially pre-numbered boarding tickets for public cruises.

Finding No. 10 – Audit Cost Provision (Control Finding)

Recommendation No. 10:

We recommend OCCR/OC Parks determine if Ocean Institute should pay for the costs of this audit.

OCCR/OC Parks Management Response:

Concur - OCCR/OC Parks will consider whether Ocean Institute should pay for the costs of the audit.

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

DW:bwr

Date

4/21/17



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT C: CEO/Real Estate Management Response



County of Orange

County Executive Office

April 25, 2017

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

RE: **AUDIT NO. 1532 REVENUE GENERATING LEASE AUDIT**
OC COMMUNITY RESOURCES/OC PARKS
OCEAN INSTITUTE (HA78H-24-133, - 134)

The Auditor-Controller Internal Audit Division completed a Revenue Generating Lease Audit of Ocean Institute. 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. 5 – Security Deposit Was Not Properly Revised or Maintained (Control Finding)

Recommendation No. 5:

We recommend that CEO/Real Estate implement a process to ensure that they revise the OCCR/OC Parks lease security deposits timely and notify OCCR/OC Parks, OCCR Accounting, and the lessees of the new security deposit requirements.

CEO Real Estate Management Response:

Concur: CEO Real Estate will implement a process to ensure that Lease security deposit revisions, as required by the Lease, are completed in a timely manner. As part of the revision process, CEO Real Estate will notify OCCR/OC Parks, OCCR Accounting, and Lessee when revisions are made.

Sincerely,


Scott D. Mayer
Chief Real Estate Officer