



# INTERNAL AUDIT DEPARTMENT



**First Follow-Up Revenue Generating Lease Audit:  
OC Community Resources/OC Parks -  
Ocean Institute (HA78H-24-133, -134)**

**As of March 31, 2018**

**Audit No. 1740-B (Reference 1532-F1)  
Report Date: July 27, 2018**

## OC Board of Supervisors

Chairman Andrew Do  
1st District

Vice Chairman Shawn Nelson  
4th District

Supervisor Michelle Steel  
2nd District

Supervisor Todd Spitzer  
3rd District

Supervisor Lisa Bartlett  
5th District



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Audit No. 1740-B  
(Reference 1532-F1)

July 27, 2018

To: Dylan Wright, Director  
OC Community Resources

From: Scott Suzuki, CPA, Acting Director  
Internal Audit Department

Subject: First Follow-Up Revenue Generating Lease Audit:  
OC Community Resources/OC Parks – Ocean Institute (HA78H-24-133, -134)

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We have completed a follow-up audit of the Ocean Institute as of March 31, 2018, original Audit No. 1532, dated May 1, 2017. Our final report is attached for your review.

An audit status report is submitted quarterly to the Audit Oversight Committee (AOC) and the Board of Supervisors (Board) detailing 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 future status reports to the AOC and Board.

If you have any questions, please contact me at 714.834.5509 or Michael Dean, Senior Audit Manager, at 714.834.4101.

### Attachments

#### Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Frank Kim, County Executive Officer
- Lala Ragen, Deputy Chief Operating Officer
- Cymantha Atkinson, Deputy Director of OC Community Resources
- Stacy Blackwood, Director of OC Parks, OC Community Resources
- Shannon Levin, Harbor Manager, OC Community Resources/OC Parks
- Thea Bullock, Director of Compliance & Staff Development, OC Community Resources
- Connie Chang, Finance & Strategic Planning Manager, OC Community Resources
- Brian Rayburn, Business Office Manager, OC Community Resources
- Thomas Miller, Chief Real Estate Officer
- Gail Dennis, Administrative Manager, CEO/Real Estate
- Steven Wiegmann, Administrative Manager, CEO/Real Estate
- Salvador Lopez, Director of Satellite Accounting Operations, Auditor-Controller
- Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting Services
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Vavrinek, Trine, Day & Co., LLP, County External Auditor

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## INTRODUCTION

<b>SCOPE</b>	Our audit was limited to reviewing actions taken as of March 31, 2018 to implement recommendations for the 10 Control Findings from our original Audit No. 1532, dated May 1, 2017.
<b>BACKGROUND</b>	The original audit reviewed whether Ocean Institute's records adequately supported its monthly gross receipts reported to the County, rent owed was properly paid, and if Ocean Institute complied with certain other financial provisions of the Agreement. The original audit identified 10 Control Findings.
<b>RESULTS</b>	Our First Follow-Up Audit found that OCCR/OC Parks implemented seven (7) recommendations, is in the process of implementing one (1) recommendation, and has not implemented two (2) recommendations from the original audit. OCCR has informed us they will be responsible for following-up on the implementation of the three (3) recommendations that are in process or not implemented.
<b>ACKNOWLEDGEMENT</b>	We appreciate the assistance extended to us by OCCR/OC Parks and CEO/Real Estate personnel during our Follow-Up Audit.

## CURRENT STATUS OF AUDIT RECOMMENDATIONS

<b>FINDING No. 1</b>	<b>Percentage Rent Not Paid on Miscellaneous Income</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	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.
<b>CURRENT STATUS &amp; PLANNED ACTION</b>	<p><b>In Process.</b> On November 2, 2017, OCCR/OC Parks notified Ocean Institute that, "Ocean Institute shall report all special cruise events under Boat Dock for Commercial Cruises when reporting monthly gross receipts to the County."</p> <p>On December 21, 2017, Ocean Institute submitted the additional rent of \$3,285; however, Ocean Institute has not provided documents to determine if any additional rent for the months not included in the audit sample are owed to the County. OCCR indicated that OCCR Accounting, the Harbor Manager, and Ocean Institute personnel are still working on this matter. Therefore, we consider the implementation of this recommendation to be in process.</p>



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<b>FINDING No. 2</b>	<b>Rent Not Paid on Gross Receipts</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	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.
<b>CURRENT STATUS</b>	<b>Implemented.</b> On December 21, 2017, Ocean Institute submitted the additional rent of \$16.67. Due to the actions taken by OCCR/OC Parks and Ocean Institute, we consider this recommendation implemented.

<b>FINDING No. 3</b>	<b>Rental Calendar Contained an Error and Was Not Reconciled to Deposits</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	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.
<b>CURRENT STATUS</b>	<b>Implemented.</b> We found that Ocean Institute has established a process to reconcile revenue and deferred revenue. We reviewed the revenue reconciliation of December 2017 and noted that this process includes a reconciliation of the rental calendar to customer deposits, as recommended. Due to the actions taken by OCCR/OC Parks and Ocean Institute, we consider this recommendation implemented.

<b>FINDING No. 4</b>	<b>Z-Close Out Tapes Are Not Numbered and Cash Registers Do Not Lock in Sales Totals</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	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.



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<b>CURRENT STATUS</b>	<b>Not Implemented.</b> Ocean Institute still uses cash drawers that are part of the QuickBooks POS system. The Z-close out tapes from these devices are not numbered and the cash drawers of the QuickBooks do not lock in total sales, which is an important control in determining the completeness of reported sales receipts. Therefore, we consider this recommendation not implemented.
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<b>FINDING No. 5</b>	<b>Security Deposit Was Not Properly Revised or Maintained</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	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.
<b>CURRENT STATUS</b>	<b>Implemented.</b> CEO/Real Estate staff are currently using an automated tracking system called Visual Lease for all leases. This system has the ability to track all lease activities and notify users about the different action items, such as rent, security deposit increases, expiration dates, and insurance information. Once the system alerts CEO/Real Estate staff, they notify all the involved parties, such as OC Parks and the lessee. We received a copy of an email that was sent automatically to alert CEO/Real Estate regarding Ocean Institute's monthly rent. Due to the actions taken by CEO/Real Estate, we consider this recommendation implemented.

<b>FINDING No. 6</b>	<b>Failure to Submit Form 990 "Return of Organization Exempt from Income Tax" To The County</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	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.
<b>CURRENT STATUS</b>	<b>Implemented.</b> Ocean Institute submitted copies of the IRS Form 990 "Return of Organization Exempt from Income Tax" for 2014, 2015, and 2016 to OCCR Accounting. Due to the actions taken by the OCCR/OC Parks and Ocean Institute, we consider this recommendation implemented.



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<b>FINDING No. 7</b>	<b>Rent Not Paid On Facility Rental Income Incorrectly Recorded as Donation Income</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	We recommend OCCR/OC Parks management collect facilities rent owed of \$116.90.
<b>CURRENT STATUS</b>	<b>Implemented.</b> On December 21, 2017, Ocean Institute submitted the facilities rent owed of \$116.90. Due to the actions taken by OCCR/OC Parks and Ocean Institute, we consider this recommendation implemented.

<b>FINDING No. 8</b>	<b>Public Cruise Deposits Are Not Reported as Gross Receipts When Accepted</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	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.
<b>CURRENT STATUS</b>	<b>Not Implemented.</b> On November 2, 2017, OCCR/OC Parks notified Ocean Institute, "Ocean Institute shall report public cruise deposits as gross receipts upon receipt and deposit. Ocean Institute shall review records to determine the amount of unreported deposits received to date and include unreported deposits on gross receipts statement." Despite this order, the Chief Financial Officer of Ocean Institute indicated that they follow generally accepted accounting principles regarding revenue recognition, indicating they will not report deposits as gross receipts until the event for which the deposit was collected occurs. Therefore, we consider this recommendation not implemented.

<b>FINDING No. 9</b>	<b>Boarding Passes for Public Cruises are Not Pre-Numbered</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	We recommend that OCCR/OC Parks require Ocean Institute to issue serially pre-numbered boarding tickets for all public cruises.



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<b>CURRENT STATUS</b>	<b>Implemented.</b> Ocean Institute has implemented the use of pre-numbered boarding tickets for public cruises. Ocean Institute provided copies of pre-numbered boarding tickets and a copy of the public cruise roster from March 18, 2018. Due to the actions taken by OCCR/OC Parks and Ocean Institute, we consider this recommendation implemented.
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<b>FINDING No. 10</b>	<b>Audit Cost Provision</b>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RECOMMENDATION</b>	We recommend OCCR/OC Parks determine if Ocean Institute should pay for the costs of this audit.
<b>CURRENT STATUS</b>	<b>Implemented.</b> OCCR/OC Parks has determined that Ocean Institute shall not pay for the costs of the audit. Therefore, we consider this implemented.

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<b>AUDIT TEAM</b>	Michael Dean, CPA, CIA, CISA Zan Zaman, CPA	Senior Audit Manager Audit Manager I
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## APPENDIX A: FOLLOW-UP AUDIT IMPLEMENTATION STATUS

Implemented	In Process	Not Implemented	Closed
The department has implemented our recommendation in all respects as verified by the follow-up audit. No further follow-up is required.	The department is in the process of implementing our recommendation. Additional follow-up may be required.	The department has taken no action to implement our recommendation. Additional follow-up may be required.	Circumstances have changed surrounding our original finding/ recommendation that: (1) make it no longer applicable or (2) the department has implemented and will only implement a portion of our recommendation. No further follow-up is required.

