



INTERNAL AUDIT DEPARTMENT



**Revenue Generating Lease Audit:
OC Community Resources/OC Parks -
Sunset Aquatic Park, Ltd., dba
Sunset Aquatic Marina**

For the Year Ended December 31, 2017

**Audit No. 1738
Report Date: August 6, 2018**

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weaknesses**

3

Control Findings

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



INTERNAL AUDIT DEPARTMENT

Revenue Generating Lease Audit:
 OC Community Resources/OC Parks – Sunset Aquatic Park, Ltd., dba
 Sunset Aquatic Marina

August 6, 2018

AUDIT HIGHLIGHTS

SCOPE OF WORK	<p>We completed a revenue generating lease audit of certain records and documents for the year ended December 31, 2017 pertinent to the amended and restated lease agreement (Agreement) between the County of Orange (County) and Sunset Aquatic Park, Ltd., dba Sunset Aquatic Marina dated December 20, 1994.</p> <p>During the calendar year ended 2017, Sunset Aquatic Marina reported gross receipts of approximately \$4.6 million and paid the County approximately \$840,000 in rent.</p>						
RESULTS	<ul style="list-style-type: none"> • We found that, in general, Sunset Aquatic Marina’s records adequately supported its monthly gross receipts remitted and reported to the County. • We found that Sunset Aquatic Marina is generally in compliance with certain other financial provisions of the Agreement. • We noted one area for improving internal control. 						
RISKS	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> • Underreporting of gross receipts • Potential liability due to liveboards at the marina • Cash loss due to inadequate duties segregation • Undetected errors or mishandled transactions 						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1"> <tr> <td data-bbox="99 1472 201 1577">0</td> <td data-bbox="201 1472 391 1577">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1577 201 1682">0</td> <td data-bbox="201 1577 391 1682">SIGNIFICANT CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1682 201 1772">3</td> <td data-bbox="201 1682 391 1772">CONTROL FINDINGS</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	0	SIGNIFICANT CONTROL WEAKNESSES	3	CONTROL FINDINGS	<p>Opportunities for ensuring compliance and enhancing internal control include:</p> <ul style="list-style-type: none"> • Requiring sublessees to report boat repair deposits as gross receipts upon payment. • Determining permissibility of liveboards at the marina. • Segregating cash receipts duties
0	CRITICAL CONTROL WEAKNESSES						
0	SIGNIFICANT CONTROL WEAKNESSES						
3	CONTROL FINDINGS						

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

Audit No. 1738

August 6, 2018

To: Dylan Wright, Director
OC Community Resources

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

Subject: Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Sunset Aquatic Park, Ltd., dba
Sunset Aquatic Marina

We have completed an audit of certain records and documents for the year ended December 31, 2017 pertinent to the amended and restated lease agreement (Agreement) between the County of Orange (County) and Sunset Aquatic Park, Ltd., dba Sunset Aquatic Marina, dated December 20, 1994. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCCR concurred with all of our recommendations and the Internal Audit Department considers OCCR's management's response appropriate.

The scheduling of a Follow-Up Audit on the three (3) recommendations will be discussed with OCCR/OC Parks Management. Additionally, we will request your department to complete a Customer Survey of Audit Services. You will receive the survey shortly after this report is distributed.

We appreciate the courtesy extended to us by the personnel at OC Community Resources, CEO/Real Estate, OCCR Accounting, Sunset Aquatic Park, and Sunset Aquatic Marine Center during our audit. 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
- CEO Distribution
- OC Community Resources Distribution
- Auditor-Controller Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Vavrinek, Trine, Day & Co., LLP, County External Auditor

INTERNAL AUDIT DEPARTMENT

RESULTS

FINDING No. 1	<p>Report Boat Repair Deposits as Gross Receipts</p> <p>Sunset Aquatic Marine Center, a sublessee, does not report boat repair deposits when received.</p> <p>Customers pay a deposit in advance of boat repairs and the deposit is reported as income when the respective boat repair has been completed.</p> <p>Article 11, Section C of the Agreement states, “The term ‘gross receipts’ upon which rents for this Lease are to be based shall include: All admission, entry, rental, and other fees of any nature or kind charged by TENANT (including but not limited to deposits accepted by TENANT).”</p>
CATEGORY	Control Finding
RISK	Not reporting boat repair deposits as gross receipts results in under reporting of monthly gross receipts.
RECOMMENDATION	We recommend that OCCR/OC Parks require Sunset Aquatic Marine Center to report boat repair deposits as gross receipts upon receipt.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks notified tenant by letter that deposits for boat repairs should be reported as gross receipts at the time the deposit is received.

FINDING No. 2	<p>Determine Permissibility of Liveboards at the Marina</p> <p>We reviewed the Rent Roll Detail report for December 2017 and noted five liveboards at the marina.</p> <p>While the Agreement is silent with respect to whether occupancy shall be permitted or prohibited on boats; it does state that any use of the premises, in addition to the required uses, is subject to the prior written approval of the Director of OCCR.</p> <p>Article 5 of the Agreement states, “Subject to the prior written approval of Director..., TENANT is granted the option to provide those additional services and uses which are ancillary to and compatible with the required services and uses herein.”</p>
CATEGORY	Control Finding
RISK	Having liveboards at the marina increases potential liability to the County.



INTERNAL AUDIT DEPARTMENT

RECOMMENDATION	We recommend OCCR/OC Parks determine if liveboards are allowed in the marina.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will review if liveboards are allowed and will document the decision in writing and notify the tenant of the decision.

FINDING No. 3	<p>Properly Segregate Cash Receipts Duties</p> <p>Duties over cash receipts are improperly segregated among staff at the Sunset Aquatic Marine Center. One employee with access to the financial records and accounting processes also has the ability to receive payments (cash and check), make deposits, and prepare the account reconciliations.</p> <p>Duties should be segregated to provide reasonable assurance that transactions are handled appropriately; however, when duties cannot be segregated, compensating controls should be considered.</p>
CATEGORY	Control Finding
RISK	Inadequate segregation of duties over cash receipts increases the risk of cash loss and that transactions could be mishandled or errors can go undetected.
RECOMMENDATION	We recommend OCCR/OC Parks ensure that Sunset Aquatic Marine Center’s cash receipting duties are adequately segregated. Due to staffing levels, mitigating controls could be considered as an alternative, such as requiring independent review of bank reconciliations.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks notified the tenant of the observations regarding the need for segregation of duties and plans to review any mitigating controls proposed by the tenant to address this finding.

AUDIT TEAM	Michael Dean, CPA, CIA, CISA Beth Wylde, CPA Gianne Acosta	Senior Audit Manager Audit Manager I Senior Auditor
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INTERNAL AUDIT DEPARTMENT

APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none">1. Determine whether Sunset Aquatic Marina's records adequately supported its monthly gross receipts remitted and reported to the County.2. Determine whether Sunset Aquatic Marina complied with certain other financial provisions of the Agreement, such as financial statements and monthly gross receipts statement format.3. Identify any internal control weaknesses noted while performing the audit, and provide suggestions for improvement.
SCOPE & METHODOLOGY	<p>Our audit was limited to certain records and documents that support Sunset Aquatic Marina's gross receipts reported to the County for the 12-month period ended December 31, 2017. We also reviewed compliance with certain other provisions of the Agreement, such as accounting records and payment procedures. Our audit included inquiry, auditor observation, and limited testing, to assess the adequacy of documentation and ensure completeness of reported gross receipts.</p>
EXCLUSIONS	<p>We did not review controls over information systems used by Sunset Aquatic Park to record gross receipts. Furthermore, internal control was only reviewed as related to revenue generating lease audit procedures.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for OCCR/OC Parks – Sunset Aquatic Park with a similar scope within the last ten years.</p>
BACKGROUND	<ul style="list-style-type: none">• The County of Orange (County) entered into an amended and restated lease agreement (Agreement) with Sunset Aquatic Park, Ltd., dba Sunset Aquatic Marina, dated December 20, 1994 (PR26A-101, 2.02, 3M1), for the operation of a marina, boat launch, dry boat storage, and marine repair facility located in Seal Beach.• The marine repair facility is operated by Sunset Aquatic Marine Center, Ltd., a sublessee of Sunset Aquatic Marina.



INTERNAL AUDIT DEPARTMENT

PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2017-18 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and the Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	The scheduling of a Follow-Up Audit on the three (3) recommendations will be discussed with OCCR/OC Parks management.
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 are 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 department management's continuing emphasis on control activities and self-assessment of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.



INTERNAL AUDIT DEPARTMENT

APPENDIX B: REPORT ITEM CLASSIFICATIONS

Critical Control Weaknesses	Significant Control Weaknesses	Control Findings
<p>These are audit findings or a combination of audit 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 its attention immediately.</p>	<p>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.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>





July 24, 2018

DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
DEPUTY DIRECTOR
OC COMMUNITY RESOURCES
INTERIM DIRECTOR
OC ANIMAL CARE

RENEE RAMIREZ
DIRECTOR
OC COMMUNITY SERVICES

JULIA BIDWELL
DIRECTOR HOUSING AND
COMMUNITY DEVELOPMENT

STACY BLACKWOOD
DIRECTOR
OC PARKS

TO: Scott Suzuki, Director
Internal Audit Department

**RE: AUDIT NO. 1738 Revenue Generating Lease Audit:
OC Community Resources/OC Parks – Sunset Aquatic Park, Ltd.,
dba Sunset Aquatic Marina**

The Auditor-Controller Internal Audit Division completed a Revenue Generating Lease Audit of OC Community Resources/OC Parks – Sunset Aquatic Park, Ltd., dba Sunset Aquatic Marina for the year ended December 31, 2017. 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 – Report Boat Repair Deposits as Gross Receipts (Control Finding)

Recommendation No. 1:

We recommend that OCCR/OC Parks require Sunset Aquatic Marine Center to report boat repair deposits as gross receipts upon receipt.

OCCR/OC Parks Management Response:

Concur. OCCR/OC Parks notified tenant by letter that deposits for boat repairs should be reported as gross receipts at the time the deposit is received.

Finding No. 2 – Determine Permissibility of Liveaboards at the Marina (Control Finding)

Recommendation No. 2:

We recommend OCCR/OC Parks determine if liveaboards are allowed in the marina.

OCCR/OC Parks Management Response:

Concur. OCCR/OC Parks will review if liveaboards are allowed and will document the decision in writing and notify the tenant of the decision.



OFFICE OF THE DIRECTOR
1770 NORTH BROADWAY
SANTA ANA, CA 92706-
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PHONE: 714.480.2788
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OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1738
PAGE 2 OF 4
JUNE 20, 2017

Finding No. 3 – Properly Segregate Cash Receipts Duties (Control Finding)

Recommendation No. 3:

We recommend OCCR/OC Parks ensure that Sunset Aquatic Marine Center's cash receipting duties are adequately segregated. Due to staffing levels, mitigating controls could be considered as an alternative, such as requiring independent review of bank reconciliations.

OCCR/OC Parks Management Response:

Concur. OCCR/ OC Parks notified the tenant of the observations regarding the need for segregation of duties and plans to review any mitigating controls proposed by the tenant to address this finding.

If you have any questions related to these responses, please contact Thea Bullock, Compliance Director, OC Community Resources at 714-480-2875.

Sincerely,



Signature

7/24/18

Date

DW:tb

