



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

**FIRST FOLLOW-UP REVENUE  
GENERATING LEASE AUDIT:  
OC COMMUNITY  
RESOURCES/OC PARKS -  
PACIFIC ASIAN  
ENTERPRISES, INC.**

**As of June 15, 2017**



**Audit Number 1642-A (Reference 1433-F1)**

**Report Date: August 2, 2017**



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**ERIC H. WOOLERY, CPA**  
AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1642-A**  
**(Reference 1433-F1)**

**August 2, 2017**

**TO:** Dylan Wright, Director  
OC Community Resources

**SUBJECT:** First Follow-Up Revenue Generating Lease Audit:  
OC Community Resources/OC Parks – Pacific Asian Enterprises, Inc.  
Original Audit No. 1433, Issued December 8, 2015

We have completed our First Follow-Up Revenue Generating Lease Audit: OC Community Resources/OC Parks – Pacific Asian Enterprises, Inc. as of June 15, 2017. 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 quarter and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this Follow-Up Audit will be included in future status reports to the AOC and BOS.

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

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

**Attachments**

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Lala Ragen, 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
- Brian Rayburn, Business Office Manager, OC Community Resources
- Kirk Holland, Business Manager, OC Community Resources/OC Parks

*Dylan Wright, Director  
OC Community Resources  
August 2, 2017*

Other recipients of this report (continued):

Bill Reiter, Division Manager, 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  
Nicole Nguyen, Budget Analyst, OC Community Resources  
Lindsay Brennan, Budget Analyst, OC Community Resources/OC Parks  
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:  
Pacific Asian Enterprises, Inc.  
Audit No. 1642-A (Reference 1433-F1)***

As of June 15, 2017

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# Internal Auditor's Report

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**Audit No. 1642-A  
(Reference 1433-F1)**

**August 2, 2017**

TO: Dylan Wright, Director  
OC Community Resources

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

SUBJECT: First Follow-Up Revenue Generating Lease Audit:  
OC Community Resources/OC Parks – Pacific Asian Enterprises, Inc.,  
Original Audit No. 1433, Issued December 8, 2015

## SCOPE

We have completed a First Follow-Up Revenue Generating Lease Audit of OC Community Resources/OC Parks: Pacific Asian Enterprises, Inc. (PAE), HA78H-24-001-01. Our audit was limited to reviewing actions taken, as of June 15, 2017, to implement the **five (5) recommendations** from our original audit.

## BACKGROUND

The original audit reviewed whether PAE's records adequately supported its monthly gross receipts reported to the County. During the original audit period of April 1, 2014 through March 31, 2015, PAE reported approximately **\$211,000** in gross receipts and paid **\$13,000** in percentage rent and **\$144,000** in base rent to the County for total rent paid of **\$157,000**. The original audit identified **five (5) Control Findings** related to underreported gross receipts in the areas of freight fees, insurance commissions, brokerage commission for non-PAE manufactured used boats (two instances), additional source documentation needed to identify the business locations where PAE part sales occur, and PAE's submitted financial statements did not follow the lease agreement requirements.

At the time of the original audit, OC Dana Point Harbor Department (OC DPH) managed Dana Point Harbor including its marina and lessees; however, on June 14, 2016, the County dissolved the OC Dana Point Harbor Department and placed responsibility for management of Dana Point Harbor under the OC Parks Division of the OC Community Resources Department (OCCR).

## RESULTS

Our First Follow-Up Audit of recommendations from the original audit found that OCCR **implemented four (4) recommendations and partially implemented one (1) recommendation**. A second Follow-Up Audit will be discussed with OCCR regarding the partially implemented recommendation.

Based on our First Follow-Up Audit, the following is the implementation status of the five (5) original recommendations:



# Internal Auditor's Report

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## **Finding No. 1 – Unreported Gross Receipts – Freight Charges and Insurance Commissions (Control Finding)**

**Recommendation No. 1:** We recommend that OC DPH require PAE to report freight charges and insurance commissions as gross receipts and pay rent owed of \$6,447. We also recommend that OC DPH require PAE to pay additional rent owed for the period January 1, 2015 through the month of correction.

**Current Status: Implemented.** Our First Follow-Up Audit found that freight and insurance commissions are now reported as gross receipts on a monthly basis and PAE has paid the County the additional rent of \$6,447 for the period March 2012 through December 2014. Additionally, PAE calculated the freight and insurance commissions from January 1, 2015 through June 30, 2016 (month of correction) and identified that they owed the County an additional amount of \$3,764, which was included in the payment sent to the County. Therefore, we consider this recommendation implemented.

## **Finding No. 2 – Unreported Gross Receipts – Sales Commissions from a Non-PAE Manufactured Used Boat (Control Finding)**

**Recommendation No. 2:** We recommend OC DPH require PAE to report new and used boat commissions for all non-PAE manufactured transactions originating in Dana Point Harbor and pay percentage rent owed of \$1,700 for the December 2014 transaction.

**Current Status: Implemented.** Our First Follow-Up Audit found that OCCR informed PAE of the requirement to report new and used boat commissions for all non-PAE manufactured transactions originating in Dana Point Harbor. Additionally, PAE paid the additional rent of \$1,700 for the December 2014 transaction. Therefore, we consider this recommendation implemented.

## **Finding No. 3 – Unreported Gross Receipts – House Only Portion of Sales Commission Reported (Control Finding)**

**Recommendation No. 3:** We recommend that OC DPH require PAE to pay additional percentage rent owed of \$777.

**Current Status: Implemented.** Our First Follow-Up Audit found that PAE paid the additional rent owed of \$777 for the non-PAE manufactured boat sale in December 2014. Therefore, we consider this recommendation implemented.

## **Finding No. 4 – Supporting Documentation for Parts Sales Made by Other PAE Locations (Control Finding)**

**Recommendation No. 4:** We recommend that OC DPH require PAE to include the sales person's information on the sales order form for parts and related sales.



# Internal Auditor's Report

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**Current Status: Implemented.** Our First Follow-Up Audit found that PAE added a space for the salesperson's name on the order form for parts and related sales. Furthermore, we found that PAE has the ability to create reports on its part sales for the entire company and for each location from a centralized database. Accordingly, PAE has a mechanism in place to provide an adequate paper trail for part sales, which ultimately ensures proper reporting of gross receipts to the County. Therefore, we consider this recommendation implemented.

## **Finding No. 5 – Financial Statements Did Not Follow Procedures Required by Lease Agreement (Control Finding)**

**Recommendation No. 5:** We recommend that OC DPH require PAE to submit 2013 and future gross receipts statements that are audited by an independent CPA, as well as the CPA attestation that the compiled balance sheet and income statement are accurate representation of PAE's records as reported for USA income tax purposes.

**Current Status: Partially Implemented.** Our First Follow-Up Audit found that PAE submitted the required annual certified gross receipts forms; however, the financial statements submitted did not include the CPA attestation that the compiled balance sheet and income statement were accurate representations of PAE's records as reported for USA income tax purposes. Therefore, we consider this recommendation partially implemented.

We appreciate the assistance extended to us by the personnel of the OC Community Resources/OC Parks, CEO/Real Estate, and OCCR Accounting during our Follow-Up Audit. If you have any questions, please contact me directly at (714) 834-5442 or Nancy Ishida, Senior Audit Manager at (714) 796-8067.