



# Orange County Auditor-Controller Internal Audit



First Follow-Up Audit:  
Revenue Generating Operating Agreement  
Audit of OC Dana Point Harbor/Dana Point Marina Inn

As of February 28, 2017

Audit Number 1642-G (Reference 1436-F1)  
Report Date: June 8, 2017



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**ERIC H. WOOLERY, CPA**  
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## Transmittal Letter

**Audit No. 1642-G**  
**(Reference 1436-F1)**

**June 8, 2017**

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

**SUBJECT:** First Follow-Up Audit: Revenue Generating Operating Agreement  
Audit of OC Dana Point Harbor/Dana Point Marina Inn,  
Original Audit No. 1436, Issued May 11, 2016

We have completed our First Follow-Up Audit of Revenue Generating Operating Agreement Audit of OC Dana Point Harbor/Dana Point Marina Inn as of February 28, 2017. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a quarterly report 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
- Lilly Simmering, Deputy Chief Operating Officer
- Cymantha Atkinson, 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, Compliance Director, OC Community Resources
- Bill Reiter, Division Manager, OC Community Resources. OC Parks
- Kirk Holland, Business Manager, OC Community Resources/OC Parks
- Brian Rayburn, Business Office Manager, OC Community Resources
- Nicole Nguyen, Budget Analyst, OC Community Resources

*Dylan Wright, Director  
OC Community Resources  
June 8, 2017*

Lindsay Brennan, Budget Analyst, OC Community Resources/OC Parks  
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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# Internal Auditor's Report

**Audit No. 1642-G  
(Reference 1436-F1)**

**June 8, 2017**

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

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

**SUBJECT:** First Follow-Up Audit: Revenue Generating Operating Agreement  
Audit of OC Dana Point Harbor/Dana Point Marina Inn,  
Original Audit No. 1436, Issued May 11, 2016

## SCOPE

We completed our First Follow-Up Audit of Revenue Generating Operating Agreement of OC Dana Point Harbor (OC DPH)/Dana Point Marina Inn. Our audit was limited to reviewing actions taken as of February 28, 2017, to implement the **twelve (12) recommendations** from our original audit.

## BACKGROUND

A five-year operating agreement was entered into by the County and Great Western Hotels Corporation (GWHC) on June 8, 2009, for GWHC to continue to operate the Dana Point Marina Inn (DPMI). The agreement provided for an additional five-year extension at the former OC DPH Director's discretion, which was approved on June 23, 2013. The former OC DPH Department was dissolved and its responsibilities were rolled into OC Community Resources/OC Parks (OC Parks) in or around June 2016.

## RESULTS

Our First Follow-Up Audit found that OC Parks **implemented one (1) recommendation, partially implemented one (1) recommendation, and is in the process of implementing one (1) recommendation. We consider the other nine (9) recommendations closed due to the discontinuance of the employee discount rate program.** The scheduling of a Second Follow-Up Audit on the two remaining recommendations will be discussed with OCCR/OC Parks management.

Based on our First Follow-Up Audit, the following is the implementation status of the twelve (12) original recommendations:

### **Finding No. 1 – OC DPH Did Not Obtain County Counsel Review or Input on Expanded Employee Discount Rate Program or Policies (Critical Control Weakness)**

**Recommendation No. 1:** We recommend that OC DPH seek a County Counsel opinion and work with the CEO to ensure discounts offered to employees of OC DPH, GWHC, and other key business partners (e.g., Dana Point Harbor lessees, operators, contractors, and City of Dana Point employees) are appropriate and do not violate any state laws or County ordinances. As part of this process, OC DPH should determine whether similar employee discounts are also being offered by other County operators and lessees in Dana Point Harbor, and include those discounts in analysis and any corrective action and resulting policy.



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**Current Status: Closed.** Our First Follow-up Audit found that GWHC confirmed with OC Parks in a letter dated October 19, 2016, that the employee discount rate program at Dana Point Marina Inn is no longer active. Since the employee discount rate program has been discontinued and cannot violate any state laws or County ordinances, we consider this recommendation closed.

## **Finding No. 2 – Two Key OC DPH Managers With Contract Oversight Responsibilities Utilized the Employee Discount Rate Program (Critical Control Weakness)**

**Recommendation No. 2:** We recommend that OC DPH work with County Counsel and the CEO to evaluate key OC DPH managers' use of employee discounts to determine if any corrective action is needed.

**Current Status: Closed.** Our First Follow-up Audit found that the Director of the former OC DPH Department retired shortly after the issuance of the original audit report and a County restructure dissolved the OC Dana Point Harbor Department; therefore, we consider this recommendation closed.

## **Finding No. 3 – Two Key Managers of the City of Dana Point Who May Be Designated Employees Utilized the Employee Discount Rate Program (Critical Control Weakness)**

**Recommendation No. 3:** If the employee discount program is to continue, we recommend that OC DPH work with County Counsel and the CEO to evaluate the two key City of Dana Point managers' (one of which is a County Employee) use of employee discounts to determine what responsibilities the County has and whether any corrective action is needed.

**Current Status: Closed.** Our First Follow-up Audit found that the employee rate program is no longer active; therefore, we consider this recommendation closed.

## **Finding No. 4 – Lack of Written Policy and Board of Supervisors' Approval for Expanding Employee Discount Rate Program (Critical Control Weakness)**

**Recommendation No. 4:** If the employee discount program is to continue, we recommend that OC DPH work with County Counsel and the CEO to develop written policies and procedures for the employee discount rate program and obtain necessary approval from the Board of Supervisors. OC DPH should then provide the written policies and procedures to the various participants and eligible employees and ensure the written policies and procedures are being followed.

**Current Status: Closed.** Our First Follow-up Audit found that the employee rate program is no longer active; therefore, we consider this recommendation closed.



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## **Finding No. 5 – Inadequate Documentation Retained for Employee Discount Rate Reservations (Significant Control Weakness)**

**Recommendation No. 5:** If the employee discount program is to continue, we recommend that OC DPH work with GWHC to prepare a written policy and implement a formal process for requesting and approving employee discount rate reservations that includes retention of adequate supporting documentation of the approval. This should include the completion and retention of employee discount request forms and associated approvals and the retention or archival of the “Comments” section or use of a different field that is not periodically purged from the hotel’s reservation and property management system.

Current Status: **Closed.** Our First Follow-up Audit found that the employee rate program is no longer active; therefore, we consider this recommendation closed.

## **Finding No. 6 – Inadequate Oversight of Key Managers’ Usage of Employee Discount Rate Program (Significant Control Weakness)**

**Recommendation No. 6:** If the employee discount program is to continue, we recommend that OC DPH develop a written policy and implement a formal process for supervisory or independent approvals for key managers’ utilization of the employee discount rate program.

Current Status: **Closed.** Our First Follow-up Audit found that the employee rate program is no longer active; therefore, we consider this recommendation closed.

## **Finding No. 7 – Inadequate Oversight of Extended Discount Rate Stays (Significant Control Weakness)**

**Recommendation No. 7:** We recommend that OC DPH work with GWHC to prepare a written policy and implement a formal process requiring additional levels of approvals for extended discounted hotel stays over certain thresholds. This policy should include thresholds for discount percentages and number of nights, as well as allowable purposes or uses for extended discount rate stays. The process should include documentation of the justification for the individual stay and periodic reports of the extended discount hotel stay utilization submitted to OC DPH for their monitoring.

Current Status: **Closed.** Our First Follow-up Audit found that the employee rate program is no longer active; therefore, we consider this recommendation closed.

## **Finding No. 8 – Eligibility for Employee Discount Program Needs to be Better Defined (Significant Control Weakness)**

**Recommendation No. 8:** If the employee discount program is to continue, we recommend that OC DPH work with County Counsel and the CEO to clearly define the eligibility criteria for the employee discount program and whether it is appropriate for the “key business partners” and retired/separated employees to participate. The eligibility criteria should be documented in a written policy and a clear nexus as to how the program benefits or promotes the County.





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Current Status: **Closed.** Our First Follow-up Audit found that the employee rate program is no longer active; therefore, we consider this recommendation closed.

## **Finding No. 9 – Employee Discount Rate Was Allowed to Be Used During Two Nights of 100% Occupancy (Control Finding)**

**Recommendation No. 9:** If the employee discount program is to continue, we recommend that OC DPH remind GWHC that the employee discount rate should not be utilized during periods of 100% occupancy.

Current Status: **Closed.** Our First Follow-up Audit found that the employee rate program is no longer active; therefore, we consider this recommendation closed.

## **Finding No. 10 – No Written Purchasing Policies and Procedures (Control Finding)**

**Recommendation No. 10:** We recommend that OC DPH work with CPO and County Counsel to provide GWHC with written policies, procedures, and training as needed for procurement. The written policies and procedures should clearly define the roles and responsibilities between GWHC, OC DPH, and CPO.

Current Status and Planned Action: **In Process.** Our First Follow-up Audit found that OC Parks has completed its analysis of the items that GWHC purchases; however, it is waiting to develop its recommendations until the County's 2017 Contract Policy Manual (CPM) is approved because the contract between OC Parks and GWHC is going to be based on the 2017 CPM requirements and thresholds. Due to the actions taken by OC Parks, we consider this recommendation to be in process.

## **Finding No. 11 – Annual Gross Receipts Statement Not Audited (Control Finding)**

**Recommendation No. 11:** We recommend that OC DPH require GWHC to submit annual statements of gross receipts that are audited by a CPA.

Current Status and Planned Action: **Partially Implemented.** Our First Follow-up Audit found that GWHC confirmed with OC Parks, in a letter dated October 19, 2016, that they had contracted with an external CPA firm to audit the statements of gross receipts and had enclosed copies of GWHC's audited statements of gross receipts for 2014, 2015, and 2016. However, according to the California Board of Accountancy, the CPA firm partners' licenses had both been revoked effective August 29, 2015, for violations of the Business and Professions Code. OCCR informed us it plans to remind GWHC in writing of the requirement of the Operating Agreement, which states that "Operator shall submit to Auditor-Controller a statement certified as to accuracy by a Certified Public Accountant who is a member of AICPA and the California Society of CPAs, wherein the total Gross Receipts for the accounting year are classified according to the categories of business conducted on or from the Premises," and will ensure appropriate procedures are in place to monitor compliance. As such, we consider this recommendation to be partially implemented.



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## Finding No. 12 – Conference Room Rental Agreements Not Pre-Numbered (Control Finding)

**Recommendation No. 12:** OC DPH require GWHC to use pre-numbered documents for meeting room rentals.

**Current Status: Implemented.** Our First Follow-up Audit found that GWHC confirmed with OC Parks in a letter dated October 19, 2016, that they are using a pre-numbered system for meeting room contracts. We also observed a new meeting room contract that was pre-numbered. Therefore, we consider this recommendation implemented.

We appreciate the assistance extended to us by the personnel of OC Community Resources/OC Parks 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.