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I N T E R N A L A U D I T

**FIRST AND FINAL CLOSE-OUT
FOLLOW-UP REVENUE
GENERATING LEASE AUDIT:**

**OC COMMUNITY
RESOURCES/OC PARKS -
THE IRVINE COMPANY,
BAYSHORE MARINA**

AS OF FEBRUARY 28, 2017



**Audit Number 1642-E (Reference 1557-F1)
Report Date: August 1, 2017**



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ERIC H. WOOLERY, CPA
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Transmittal Letter

Audit No. 1642-E
(Reference 1557-F1)

August 1, 2017

TO: Dylan Wright, Director
OC Community Resources

SUBJECT: First and **Final Close-Out** Follow-Up Revenue Generating Lease Audit:
OC Community Resources/OC Parks – The Irvine Company, Bayshore Marina
Original Audit No. 1557, Issued April 27, 2016

We have completed our First and Final Close-Out Follow-Up Revenue Generating Lease Audit: OC Community Resources/OC Parks – The Irvine Company, Bayshore Marina 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 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 Manager, OC Community Resources
- Kirk Holland, Business Manager, OC Community Resources/OC Parks

*Dylan Wright, Director
OC Community Resources
August 1, 2017*

Other recipients of this report (cont.):

Scott Mayer, Chief Real Estate Officer
Ronald Inouye, 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
Eliseo Gillamac, Accounting Manager II, 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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The Irvine Company, Bayshore Marina
Audit No. 1642-E (Reference 1557-F1)***

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Internal Auditor's Report

**Audit No. 1642-E
(Reference 1557-F1)**

August 1, 2017

TO: Dylan Wright, Director
OC Community Resources

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

SUBJECT: First and Final Close-Out Follow-Up Revenue Generating Lease Audit:
OC Community Resources/OC Parks – The Irvine Company, Bayshore Marina
Original Audit No. 1557, Issued April 27, 2016

SCOPE

We have completed a First and Final Close-Out Follow-Up Revenue Generating Lease Audit of OC Community Resources (OCCR)/OC Parks – The Irvine Company, Bayshore Marina (Bayshore Marina). Our audit was limited to reviewing actions taken, as of February 28, 2017, to implement the **four (4) recommendations** from our original audit.

BACKGROUND

The original audit reviewed whether Bayshore Marina's records adequately supported its monthly gross receipts reported to the County. During the original audit period of August 1, 2014 through July 31, 2015, Bayshore Marina reported approximately **\$2 million** in gross receipts and paid **\$407,390** in rent to the County. The original audit identified **four (4) Control Findings** related to: unreported gross receipts for other miscellaneous income, incorrect minimum amount on monthly gross receipts form, untimely review and reconciliation of audited financial statements, and undocumented agreed-upon percentage of rent for other miscellaneous income.

RESULTS

Our First Follow-Up Audit found that OCCR/OC Parks **implemented the four (4) recommendations** from the original audit. Because the four recommendations were implemented, **this report represents the final close-out of the original audit.**

Based on our First Follow-Up Audit, the following is the implementation status of the four (4) original recommendations:

Finding No. 1 – Unreported Gross Receipts for Other Miscellaneous Income (Control Finding)

Recommendation No. 1: We recommend that OCCR require Bayshore Marina to report Other Miscellaneous Income to the County as gross receipts on a monthly basis. OCCR should require Bayshore Marina to pay additional rent owed of \$85 for the month of July 2015, as well as any amounts owed for the period subsequent to July 2015.



Internal Auditor's Report

Current Status: Implemented. Our First Follow-up Audit found that Other Miscellaneous Income is now reported as gross receipts on a monthly basis and the additional rent of \$85 for the month of July 2015 was received. Additionally, OCCR Accounting performed a reconciliation and identified no additional amounts were owed subsequent to July 2015. Therefore, we consider this recommendation implemented.

Finding No. 2 – Minimum Rent Amount Incorrect on Monthly Gross Receipts Form (Control Finding)

Recommendation No. 2: We recommend that OCCR work with Bayshore Marina to update the monthly Gross Receipts form to reflect the correct amount of minimum annual/monthly rent. OCCR should also verify the minimum annual rent is met by the accounting year end of June 30, 2016.

Current Status: Implemented. Our First Follow-up Audit found that OCCR implemented procedures to verify that Bayshore had met minimum annual rent by the accounting year end of June 30, 2016.

We found that CEO/Real Estate miscalculated the adjusted minimum annual rent effective January 1, 2015, resulting in OCCR overcharging Bayshore Marina \$1,226 in rent for FY 2015-16 and \$10,204 in rent for FY 2016-17, totaling \$11,430. CEO/Real Estate notified Bayshore Marina of this error and the minimum annual rent was corrected on the June 2017 monthly gross receipts form. Additionally, Bayshore Marina has taken credits totaling \$11,430 on their May 2017 & June 2017 gross receipts forms. Therefore, we consider this recommendation implemented.

Finding No. 3 – Untimely Review and Reconciliation of Audited Financial Statements (Control Finding)

Recommendation No. 3: We recommend that OCCR ensure Bayshore Marina's audited Statement of Gross Receipts are reviewed and reconciled in a timely manner and any amounts due are billed timely.

Current Status: Implemented. Our First Follow-up Audit found that OCCR policies and procedures for Gross Receipts reconciliation have been updated to provide a specific timeframe in which reviews and reconciliations must be completed and when amounts due should be billed. Additionally, OCCR Accounting has reconciled the last six years of certified gross receipts forms and the timeliness of the June 2016 reconciliation improved greatly. Therefore, we consider this recommendation implemented.

Finding No. 4 – Agreed-Upon Percentage of Rent for Other Miscellaneous Income Is Not Documented (Control Finding)

Recommendation No. 4: We recommend that OCCR ensure the agreed percentage of rent is documented and communicated to Bayshore Marina for any related amenities, services, and activities.



Internal Auditor's Report

Current Status: Implemented. Our First Follow-up Audit found that OCCR has documented and communicated the agreed-upon percentage for related amenities, services, and activities to Bayshore Marina. Therefore, we consider this recommendation implemented.

We appreciate the assistance extended to us by the personnel of 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.