



Orange County Auditor-Controller Internal Audit



First and Final Close-Out Follow-Up
Revenue Generating Lease Audit:
OC Community Resources/OC Parks -
Newport Dunes Partnership

As of May 10, 2017

Audit Number 1642-C (Reference 1561-F1)

Report Date: August 1, 2017



O R A N G E C O U N T Y
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ERIC H. WOOLERY, CPA
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Transmittal Letter

Audit No. 1642-C
(Reference 1561-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 – Newport Dunes Partnership,
Original Audit No. 1561, Issued September 29, 2016

We have completed our First and Final Close-Out Follow-Up Revenue Generating Lease Audit of OC Community Resources/OC Parks – Newport Dunes Partnership as of May 10, 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*

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/OC Community Resources
Eliseo Gillamac, Accounting Manager II, Auditor-Controller/OC Community Resources
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 – Newport Dunes Partnership
Audit No. 1642-C (Reference 1561-F1)***

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Internal Auditor's Report

**Audit No. 1642-C
(Reference 1561-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 – Newport Dunes Partnership
Original Audit No. 1561, Issued September 29, 2016

SCOPE

We have completed our First and Final Close-Out Follow-Up Revenue Generating Lease Audit for OC Community Resources/OC Parks – Newport Dunes Partnership. Our audit was limited to reviewing actions taken as of May 10, 2017, to implement the **five (5) recommendations** from our original audit.

BACKGROUND

The original audit reviewed whether Newport Dunes Partnership's records adequately supported its monthly gross receipts reported to the County. During the original audit, Newport Dunes Partnership reported approximately **\$18 million** in gross receipts and paid **\$2,936,164** in rent to the County. The original audit identified **one (1) Significant Control Weakness** related to the lack of an adequate control system for parking, and **four (4) Control Findings** related to reconciliations of financial statements not being performed, dredging reserve requirement not in compliance, adequacy of rental agreement supporting records, and optional services and uses not properly authorized.

RESULTS

Our First Follow-Up Audit found that OCCR/OC Parks **implemented the five (5) recommendations** from the original audit. Because the five 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 five (5) original recommendations:

Finding No. 1 – Lack of an Adequate Control System For Parking (Significant Control Weakness)

Recommendation No. 1: We recommend OCCR require Newport Dunes Partnership to maintain an adequate control system to ensure the completeness of the parking activity generated at the gates. The register tapes generated from the gate system should be reconciled to the reports submitted to ensure all parking activities are properly recorded.



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Current Status: Implemented. Our First Follow-up Audit found that OCCR developed detailed written procedures to ensure the completeness of the parking activity generated at the gates. On October 17, 2017, OCCR sent a letter to Newport Dunes Partnership notifying it of the requirements to maintain an adequate control system and to ensure that income from all parking activities is properly recorded. We also observed that Newport Dunes Partnership is using pre-numbered parking tickets for special events. Because of the actions taken by OCCR, we consider this recommendation implemented.

Finding No. 2 – Review and Reconciliation of Audited Financial Statements Not Performed (Control Finding)

Recommendation No. 2: We recommend OCCR develop and implement policies and procedures to ensure Newport Dunes Partnership's audited financial statements are reviewed and reconciled in a timely manner.

Current Status: Implemented. Our First Follow-up Audit found that OCCR developed and implemented procedures to ensure they will review and reconcile the Newport Dunes Partnership audited financial statements in a timely manner. The procedures include key elements regarding the reconciliation, such as analyzing the worksheet, reviews by the supervisor, time deadlines, and workflow process. We also observed that the audited financial statements for 2016 have been reconciled. Therefore, we consider this recommendation implemented.

Finding No. 3 – Dredging Reserve Requirement Not In Compliance (Control Finding)

Recommendation No. 3: We recommend OCCR ensure the County makes the correct annual contribution to the dredging reserve fund as required by the Agreement.

Current Status: Implemented. Our First Follow-up Audit found that OCCR processed a journal voucher dated May 22, 2017, for \$308,200 to the Newport Marina dredging fund. It included the \$272,200 base contribution for FY 2016-17 and \$36,000 from the two prior years. Therefore, we consider this recommendation implemented.

Finding No. 4 – Adequacy of Rental Agreement Supporting Records (Control Finding)

Recommendation No. 4: We recommend OCCR require Newport Dunes Partnership to instruct its staff about the importance of ensuring that the rental agreement forms are complete and accurate. The rental agreements should be reviewed by the Watersports Manager for completeness and accuracy. We also recommend that OCCR require Newport Dunes Partnership to utilize serially pre-numbered rental forms for all rental activity and ensure all rental forms are issued in sequential order and properly accounted for.

Current Status: Implemented. Our First Follow-up Audit found that OCCR notified Newport Dunes Partnership in a letter dated October 17, 2016, about the importance of ensuring that the rental agreement forms are complete and pre-numbered. We also obtained a copy of the written procedures for completing the rental agreement forms, and observed completed copies of pre-numbered equipment, aquatic rentals, and Marketplace Rental forms. Therefore, we consider this recommendation implemented.



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Finding No. 5 – Optional Services and Uses Not Properly Authorized (Control Finding)

Recommendation No. 5: We recommend that OCCR ensure the agreed percentage of rent, if any, for optional services and uses such as Camp James Summer Program is documented and communicated to Newport Dunes Partnership. We also recommend that OCCR require Newport Dunes Partnership to obtain prior written approval from the Director of OC Parks for the collection of charitable donations which benefit non-profit organizations.

Current Status: Implemented. Our First Follow-up Audit found that OCCR sent a letter dated March 21, 2017 to Newport Dunes Partnership informing them of the agreed percentages of rent for the optional services and uses, and granting approval for the 2017 Camp James Summer Program. Additionally, OCCR sent a letter dated October 17, 2016 instructing Newport Dunes Partnership of the requirement to establish a license agreement for all charitable events. Due to the actions taken by OC Parks, we consider this recommendation to be 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.