



INTERNAL AUDIT DEPARTMENT



**Contract Compliance Audit:
OC Community Resources/OC Parks -
Ocean Institute**

**For the Period of July 1, 2020
through September 30, 2021**

**Audit No. 2171
Report Date: June 30, 2022**

Number of Recommendations

0	Critical Compliance Findings
3	Significant Compliance Findings
5	Compliance Findings

OC Board of Supervisors

CHAIRMAN DOUG CHAFFEE
4th DISTRICT

VICE CHAIRMAN DONALD P. WAGNER
3rd DISTRICT

SUPERVISOR ANDREW DO
1st DISTRICT

SUPERVISOR KATRINA FOLEY
2nd DISTRICT

SUPERVISOR LISA A. BARTLETT
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Contract Compliance Audit:
OC Community Resources/OC Parks – Ocean Institute

June 30, 2022

AUDIT HIGHLIGHTS

SCOPE OF WORK	We completed a contract compliance audit of Ocean Institute for the period of July 1, 2020 through September 30, 2021.
RESULTS	<ul style="list-style-type: none"> Ocean Institute's records generally do not adequately support the monthly gross receipts and rent payments reported to the County. Ocean Institute is not in compliance with other provisions of the Agreement.
ISSUES IDENTIFIED	<p>As a result of our review, contract non-compliance issues include:</p> <ul style="list-style-type: none"> Rent under payments due to rent miscalculations. Misclassification of donations and potential rent overpayments. Potential undetected misappropriation of funds or errors in revenue and rent reported. Rent under payments due to misidentification of gross receipts. Under-reporting of rent due to delays in gift card redemption. Uncollectible revenue due to non-enforceable contract. Potential incompleteness of sales receipts and lease non-compliance. Non-compliance with IRS regulations and lease requirements.
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing contract compliance include:</p> <ul style="list-style-type: none"> Establishing a consistent calculation of County rent payments. Maintaining proper accounting and documentation of donations. Submitting required IRS forms timely. Establishing rent and rent-free uses for facility events. Reconciling reservations calendars to gross receipts. Ensuring cash registers are compliant with the lease agreement. Reporting gift cards when sold. Retaining documentation of all fully signed agreements.
0 CRITICAL COMPLIANCE FINDINGS	
3 SIGNIFICANT COMPLIANCE FINDINGS	
5 COMPLIANCE FINDINGS	

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



INTERNAL AUDIT DEPARTMENT

Audit No. 2171

June 30, 2022

To: Dylan Wright
OC Community Resources Director

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Contract Compliance Audit: OC Community Resources/OC Parks – Ocean Institute

We have completed a contract compliance audit of OC Community Resources (OCCR)/OC Parks – Ocean Institute for the period of July 1, 2020 through September 30, 2021. 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/OC Parks concurred with all our recommendations, and the Internal Audit Department considers OCCR/OC Parks' management response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by the personnel at OC Community Resources, CEO/Real Estate, OCCR Accounting, and Ocean Institute during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- CEO Real Estate Distribution
- OC Community Resources Distribution
- Auditor-Controller Satellite Accounting Division Distribution
- Robin Stieler, Clerk of the Board
- Foreperson, Grand Jury
- Eide Bailly LLP, County External Auditor

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RESULTS

FINDING NO. 1	<p>Miscalculation of Rents on Vessels and Events</p> <p>We noted four instances of rent miscalculation for visiting vessels and event receipts.</p> <p>Ocean Institute (OI) generates revenue from visiting vessel docking and event rentals. Based on Lease Agreement Clause 5.C, visiting vessel docking and event rents are, respectively, subject to 25% and 10% of rent due to the County. These gross receipts are distinctly identified on monthly County rent statements. The miscalculations noted were as follows:</p> <ul style="list-style-type: none"> For June 2021, we reviewed gross receipts totaling \$4,000 for the Other Uses Subject to Rent category (e.g., visiting vessels) and noted the gross receipts were underreported by \$1,000 (25%). This resulted in \$250 rent owed to the County. For September 2021, we reviewed gross receipts totaling \$12,000 for the Other Uses Subject to Rent category (e.g., visiting vessels) and noted the gross receipts were underreported by \$2,000 (17%). This resulted in \$500 rent owed to the County. For June 2021 and September 2021, we reviewed the gross receipts totaling \$30,595 for the Meeting, Theatre, Auditorium, Banquet Room category (e.g., events held on OI property), and noted the gross receipts were underreported by \$2,672 (9%). This resulted in \$267 rent owed to the County. <p>For the months reviewed as noted, OI owes the County a total of \$1,017 in underpaid rent.</p>
CATEGORY	Significant Compliance Finding
RECOMMENDATION	<p>OCCR/OC Parks require Ocean Institute to:</p> <ol style="list-style-type: none"> Consistently calculate rent payments, and Pay the County \$1,017 in underpaid rent, plus any additional amounts from other months not listed.
MANAGEMENT RESPONSE	<p>Concur. OCCR/OC Parks will require Ocean Institute to consistently calculate rent payments and pay the County \$1,017 in underpaid rent. OCCR/OC Parks will require Ocean Institute to recalculate rent on vessels and events for months outside the audit period and pay underpaid rent as applicable. This will be done by September 30, 2022.</p>



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FINDING NO. 2	Misclassification of Donations <p>Ocean Institute asserted it was erroneously classifying donations as receipts subject to rent payments. However, OI was not able to provide documentation for the donations.</p> <p>For the period of July 2020 to September 2021, OI reported \$50,500 in visiting vessel gross receipts on the County's monthly rent statements that was stated to be "donations". Donation support for these receipts was not maintained as required per Clause 14A of the Lease. This resulted in a total of \$12,625 in questioned rent payments remitted to the County.</p>
CATEGORY	Significant Compliance Finding
RECOMMENDATION	OCCR/OC Parks require Ocean Institute to properly account for and document donations.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will: <ol style="list-style-type: none">1. Clarify the terms of the lease with Ocean Institute.2. Require Ocean Institute to properly account for and document donations in accordance with the Lease.3. Require Ocean Institute establish a related desk procedure for OCCR/OC Parks review and approval. <p>This will be done by September 30, 2022.</p>

FINDING NO. 3	Reservations Not Reconciled to Gross Receipts <p>Ocean Institute does not reconcile gross receipts against a vessel reservation calendar.</p> <p>Due to a change in maritime directors, calendars from the former director were not available.</p> <p>Reconciling reservations to gross receipts reduces the risk of errors in revenue reported and rents paid to the County.</p>
CATEGORY	Significant Compliance Finding
RECOMMENDATION	OCCR/OC Parks require Ocean Institute to: <ol style="list-style-type: none">A. Establish controls to ensure all reservations are properly accounted for and entered into a reservation calendar, andB. Perform documented monthly reconciliations of reservations to customer payments.



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MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will require Ocean Institute to establish controls to ensure all reservations are properly accounted for and entered into a reservation calendar and perform documented monthly reconciliations of reservations to customer payments. OCCR/OC Parks will also require Ocean Institute to establish a related desk procedure for OCCR/OC Parks review and approval. This will be done by September 30, 2022.
FINDING NO. 4	Rent Not Paid for Birthday Parties <p>Ocean Institute does not itemize birthday party gross receipts to distinguish educational and non-educational components for the applicable 10% rent.</p> <p>OI offers birthday party packages that include educational components such as access to a learning center and a hosted sail raise or a marine life touch tank, with optional upgrades, such as a private squid or fish dissection. Birthday parties are offered to guests of all ages and include non-educational aspects, such as inclusion of furniture and other optional upgrades.</p> <p>We reviewed birthday party revenue totaling \$1,898 for the sampled months of August 2020, June 2021, and September 2021. This amount would be subject to up to \$190 rent owed to the County, if receipts from non-educational aspects of birthday parties were also subject to rent.</p>
CATEGORY	Compliance Finding
RECOMMENDATION	OCCR/OC Parks clarify, in writing, whether non-educational aspects of birthday parties will be subject to rent. If rent will apply, collaborate with Ocean Institute on: <ul style="list-style-type: none">A. A feasible invoicing format, andB. The calculation and payment of rent owed on non-educational aspects of birthday parties, including the months reviewed above.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will clarify in writing that non-educational aspects of birthday parties are subject to rent. OCCR/OC Parks will also collaborate with Ocean Institute on a feasible invoicing format. OCCR/OC Parks will require Ocean Institute to recalculate rent related to non-educational aspects of birthday parties for months outside the audit period and pay underpaid rent as applicable. This will be done by September 30, 2022.



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FINDING No. 5	Gift Cards Not Reported as Receipts When Sold Ocean Institute does not report gift card sales as gross receipts when sold, as required by Clause 9 of the Lease. Cards are reported when redeemed. OI noted this recognition method complies with Generally Accepted Accounting Principles (GAAP) as required for their financial statements.
CATEGORY	Compliance Finding
RECOMMENDATION	OCCR/OC Parks require Ocean Institute to report gift cards as gross receipts upon sale or collaborate with Ocean Institute for a lease amendment.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will require Ocean Institute to report gift cards as gross receipts upon sale and require Ocean Institute to establish a related desk procedure for OCCR/OC Parks review and approval. This will be done by September 30, 2022.

FINDING No. 6	Rental Agreements Not Signed All four visiting vessel rental agreements we reviewed were not signed by Ocean Institute. Although the agreements were signed by the vessel owner, OI could not provide documentation of fully signed agreements as required per Lease Clause 14.A ("Records and Accounts"). OI advised that executed copies were retained by the maritime director, who has since retired.
CATEGORY	Compliance Finding
RECOMMENDATION	OCCR/OC Parks require Ocean Institute to: A. Ensure all agreements are fully executed with all necessary signatures, and B. Establish a procedure to ensure documentation of fully executed agreements are properly retained and available.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will require Ocean Institute to ensure all agreements are fully executed with all necessary signatures per the Lease and establish a procedure for OCCR/OC Parks review and approval, to ensure documentation fully executed agreements are properly retained and available. This will be done by September 30, 2022.



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FINDING NO. 7	Register Z-Close Out Tapes Not Numbered <p>All five Z-close out tapes we reviewed from sampled deposit packets were not numbered.</p> <p>Ocean Institute's cash registers record daily sales totals on unnumbered Z-close out tapes. Per prior Audit No. 1532, OI was made aware of the stipulation in their Agreement to equip registers with devices to lock in sales totals with counters that are not resettable, record transaction numbers, and record sales details.</p> <p>Nonetheless, these controls do not satisfy the requirements of Clause 14 of the Lease, which requires cash registers with devices to lock in sales totals with counters that are not resettable, record transaction numbers, and record sales details.</p>
CATEGORY	Compliance Finding
RECOMMENDATION	OCCR/OC Parks require Ocean Institute to equip cash registers with necessary locking features as required by the lease or collaborate with Ocean Institute for a lease amendment.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will require Ocean Institute to equip cash registers with necessary locking features as required by the lease agreement. This will be done by September 30, 2022.

FINDING NO. 8	Untimely Submission of Form 990 "Return of Organization Exempt from Income Tax" <p>Ocean Institute did not submit a copy of its 2019 and 2020 IRS Form 990 "Return of Organization Exempt from Income Tax" within 180 days after the end of each accounting year, as required by Clause 14 of the Lease.</p> <p>OI indicated this was due to several changes in the external accounting firm used to prepare and submit this form.</p>
CATEGORY	Compliance Finding
RECOMMENDATION	OCCR/OC Parks require Ocean Institute to submit its IRS Form 990, "Return of Organization Exempt from Income Tax" to OCCR Accounting in a timely manner, in accordance with the Agreement.
MANAGEMENT RESPONSE	Concur. OCCR/OC Parks will require Ocean Institute to submit its IRS Form 990, "Return of Organization Exempt from Income Tax" to OCCR Accounting within 180 days after the end of each accounting year, through its external accounting firm and in accordance with the lease agreement. This will be done by September 30, 2022.



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AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE	Assistant Director
	Michael Dean, CPA, CIA, CISA	Senior Audit Manager
	Zan Zaman, CPA, CIA, CISA	Audit Manager
	Gabriela Cabrera	Senior Auditor
	Stephany Pantigoso	Senior Auditor
	Mari Elias, DPA	Administrative Services Manager



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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none">1. Determine whether Ocean Institute's records adequately support the monthly gross receipts and rent payments reported to the County.2. Determine whether Ocean Institute complies with other provisions of the Lease Agreement, such as accounting method, payment, and annual financial statement requirements.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to certain records and documents that support Ocean Institute's gross receipts reported to the County for the 15-month audit period from July 1, 2020 through September 30, 2021. Our methodology included inquiry, observation, examination of documentation, and testing to assess the adequacy of documentation for gross receipts, ensuring the completeness of reported gross receipts, as well as other provisions of the Lease Agreement, such as accounting methods, payment procedures, and annual financial statement requirements.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of internal controls unrelated to gross receipts nor did it include a review or evaluation of the efficiency and effectiveness of general operations unrelated to gross receipts.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Revenue Generating Lease Audit: OC Community Resources/OC Parks – Ocean Institute for the period March 1, 2015 through February 29, 2016, Audit No. 1532, was issued on May 1, 2017.</p>
BACKGROUND	<p>The County entered into a 35-year Agreement with Friends of the Marine Institute in Orange County, a California non-profit corporation, dated June 29, 1999 and amended on June 21, 2011. In January 2000, the organization was renamed Ocean Institute. The purpose of the Agreement is for Ocean Institute to develop and operate County-approved facilities and programs. These programs specifically relate to marine science research, marine-related cultural activities/events, protection and conservation of the marine environment, and maritime and marine science education.</p> <p>From July 1, 2020 through September 30, 2021, Ocean Institute reported gross receipts of \$1,374,737 to the County and paid \$25,670 in rent.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2021-22 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>



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APPENDIX B: FINDING TYPE CLASSIFICATION

Critical Compliance Finding	Significant Compliance Finding	Compliance Finding
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 Compliance Findings brought to its attention immediately.	These are audit findings or a combination of audit findings that represent a significant exception to the audit objective(s) and/or business goals. Significant Compliance Findings require prompt corrective actions.	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. Compliance Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



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APPENDIX C: OC COMMUNITY RESOURCES MANAGEMENT RESPONSE



DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
ASSISTANT DIRECTOR
OC COMMUNITY RESOURCES

JULIE LYONS
DIRECTOR
ADMINISTRATIVE SERVICES

ANDI BERNARD
DIRECTOR
OC ANIMAL CARE

JULIA BIDWELL
DIRECTOR
OC HOUSING & COMMUNITY DEVELOPMENT

RENEE RAMIREZ
DIRECTOR
OC COMMUNITY SERVICES

TOM STARNES
DIRECTOR
OC PARKS

JULIE QUILLMAN
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

OFFICE OF THE DIRECTOR
COUNTY ADMINISTRATION SOUTH
601 N. ROSS STREET, 6TH FLOOR
SANTA ANA, CA 92701
PHONE: 714.480.2788
FAX: 714.480.2899



June 15, 2022

Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Dear Mr. Alonso:

RE: DRAFT INTERNAL AUDIT REPORT NO. 2171

On March 31, 2022, OC Community Resources (OCCR) received a copy of the Internal Audit Department's draft report for Audit No 2171 (Audit). Below please find OCCR's response to the audit finding and recommendation, which has been reviewed and approved by the County Executive Office.

Finding No. 1: Miscalculation of Rents on Vessels and Events (Significant Compliance Finding)

Recommendation:

OCCR/OC Parks require Ocean Institute to:

- A. Consistently calculate rent payments, and
- B. Pay the County \$1,017 in under-paid rent, plus any amounts from other months not listed.

Management Response:

Concur. OCCR/OC Parks will require Ocean Institute to consistently calculate rent payments and pay the County \$1,017 in under-paid rent. OCCR/OC Parks will require Ocean Institute to recalculate rent on vessels and events for months outside the audit period and pay under-paid rent as applicable. This will be done by September 30, 2022.

Finding No. 2: Misclassification of Donations (Significant Compliance Finding)

Recommendation:

OCCR/OC Parks require Ocean Institute to properly account for and document donations.

Management Response:

Concur. OCCR/OC Parks will:

1. Clarify the terms of the lease with Ocean Institute
2. Require Ocean Institute to properly account for and document donations in accordance with the Lease.
3. Require Ocean Institute establish a related desk procedure for OCCR/OC Parks review and approval.

This will be done by September 30, 2022.



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RE: DRAFT INTERNAL AUDIT REPORT NO. 2171
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Finding No. 3: Reservations Not Reconciled to Gross Receipts (Significant Compliance Finding)

Recommendation:

OCCR/OC Parks require Ocean Institute to:

- A. Establish controls to ensure all reservations are properly accounted for and entered into a reservation calendar, and
- B. Perform documented monthly reconciliations of reservations to customer payments.

Management Response:

Concur. OCCR/OC Parks will require Ocean Institute to establish controls to ensure all reservations are properly accounted for and entered into a reservation calendar and perform documented monthly reconciliations of reservations to customer payments. OCCR/OC Parks will also require Ocean Institute to establish a related desk procedure for OCCR/OC Parks review and approval. This will be done by September 30, 2022.

Finding No. 4: Rent Not Paid for Birthday Parties (Compliance Finding)

Recommendation:

OCCR/OC Parks clarify in writing those non-educational aspects of birthday parties are subject to rent. If rent will apply, collaborate with Ocean Institute on:

- A. A feasible invoicing format, and
- B. The calculation and payment of rent owed on non-educational aspects of birthday parties, including the months reviewed above.

Management Response:

Concur. OCCR/OC Parks will clarify in writing that non-educational aspects of birthday parties are subject to rent. OCCR/OC Parks will also collaborate with Ocean Institute on a feasible invoicing format. OCCR/OC Parks will require Ocean Institute to recalculate rent related to non-educational aspects of birthday parties for months outside the audit period and pay under-paid rent as applicable. This will be done by September 30, 2022.

Finding No. 5: Gift Cards Not Reported as Receipts When Sold (Compliance Finding)

Recommendation:

OCCR/OC Parks require Ocean Institute to report gift cards as gross receipts upon sale or collaborate with Ocean Institute for a lease amendment.

Management Response:

Concur. OCCR/OC Parks will require Ocean Institute to report gift cards as gross receipts upon sale and require Ocean Institute to establish a related desk procedure for OCCR/OC Parks review and approval. This will be done by September 30, 2022.

Finding No. 6: Rental Agreements Not Signed (Compliance Finding)

Recommendation:

OCCR/OC Parks require Ocean Institute to:

- A. Ensure all agreements are fully executed with all necessary signatures, and
- B. Establish a procedure to ensure documentation of fully executed agreements are properly retained and available.



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RE: DRAFT INTERNAL AUDIT REPORT NO. 2171
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JUNE 15, 2022

Management Response:

Concur. OCCR/OC Parks will require Ocean Institute to ensure all agreements are fully executed with all necessary signatures per the Lease and establish a procedure for OCCR/OC Parks review and approval, to ensure documentation of fully executed agreements are properly retained and available. This will be done by September 30, 2022.

Finding No. 7: Register Z-Close Out Tapes Not Numbered (Compliance Finding)

Recommendation:

OCCR/OC Parks require Ocean Institute to equip cash registers with necessary locking features as required or collaborate with Ocean Institute for a lease amendment.

Management Response:

Concur. OCCR/OC Parks will require Ocean Institute to equip cash registers with necessary locking features as required by the lease agreement. This will be done by September 30, 2022.

Finding No. 8: Untimely Submission of Form 990 "Return of Organization Exempt from Income Tax" (Compliance Finding)

Recommendation:

OCCR/OC Parks require Ocean Institute to submit its IRS Form 990, "Return of Organization Exempt from Income Tax" to OCCR Accounting in a timely manner, in accordance with the Agreement.

Management Response:


Concur. OCCR/OC Parks will require Ocean Institute to submit its IRS Form 990, "Return of Organization Exempt from Income Tax" to OCCR Accounting within 180 days after the end of each accounting year, through its external accounting firm and in accordance with the lease agreement. This will be done by September 30, 2022.

If you have any questions related to this response, please contact James Dinwiddie at 714-480-2889.

Sincerely,



Dylan Wright, Director
OC Community Resources



Date

