



INTERNAL AUDIT DEPARTMENT



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

As of January 31, 2023

**Audit No. 2289-A (Reference 2171-F1)
Report Date: August 31, 2023**

Recommendation Status

4

Implemented

3

In Process

0

Not Implemented

1

Closed

OC Board of Supervisors

CHAIRMAN DONALD P. WAGNER
3rd DISTRICT

VICE CHAIRMAN ANDREW DO
1st DISTRICT

SUPERVISOR VICENTE SARMIENTO
2nd DISTRICT

SUPERVISOR DOUG CHAFFEE
4th DISTRICT

SUPERVISOR KATRINA FOLEY
5th DISTRICT



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Audit No. 2289-A
(Reference 2171-F1)

August 31, 2023

To: Dylan Wright
OC Community Resources Director

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

Subject: First Follow-Up Contract Compliance Audit: OC Community Resources/OC Parks
– Ocean Institute

We have completed a follow-up audit of OC Community Resources (OCCR)/OC Parks – Ocean Institute as of January 31, 2023, original Audit No. 2171, dated June 30, 2022. Details of our results immediately follow this letter. Additional information including background and our scope is included in Appendix A.

Our first follow-up audit concluded OCCR implemented four (4) recommendations, three (3) recommendations are in process, and one (1) recommendation was closed. At the request of OCCR management, a second follow-up audit will be performed in approximately six months and a follow-up audit report form is attached to facilitate that audit.

We appreciate the assistance extended to us by the personnel at OC Community Resources, CEO/Real Estate, OCCR Accounting, and Ocean Institute during our follow-up audit. If you have any questions, please contact me at (714) 834-5442 or Senior IT Audit Manager Michael Dean at (714) 834-4101.

Attachments

Other recipients of this report:

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

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RESULTS

FINDING NO. 1	Miscalculation of Rents on Vessels and Events
CATEGORY	Significant Compliance Finding
RECOMMENDATION	<p>OCCR/OC Parks require Ocean Institute to:</p> <ul style="list-style-type: none"> A. Consistently calculate rent payments, and B. Pay the County \$1,017 in underpaid rent, plus any additional amounts from other months not listed.
CURRENT STATUS & PLANNED ACTION	<p>In Process. We reviewed Ocean Institute’s general ledger transactions for the months of December 2022 and January 2023 to verify the accuracy of its rent calculations and payments to the County.</p> <ul style="list-style-type: none"> A. We reviewed gross receipts totaling \$46,000 for the Other Uses Subject to Rent category (including visiting vessel rent) and noted gross receipts were underreported by \$9,200 for visiting vessels because they continue to miscalculate gross receipts using the same inappropriate methodology used in our original audit. As a result, \$2,300 (\$9,200 X 25%) in additional rent is due to the County. B. We verified that Ocean Institute did remit payment to the County for the \$1,017 in underpaid rent identified in our original audit. Ocean Institute is continuing to work on its reconciliation of rents paid to the County with a goal to remit payment of any additional amounts owed by the end of September 2023. <p>Based on the actions taken by Ocean Institute, we consider this recommendation in process. In addition, OCCR should require Ocean Institute to pay the County \$2,300 in underpaid rent.</p>



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FINDING No. 2	Misclassification of Donations
CATEGORY	Significant Compliance Finding
RECOMMENDATION	OCCR/OC Parks require Ocean Institute to properly account for and document donations.
CURRENT STATUS & PLANNED ACTION	<p>In Process. Ocean Institute was unable to provide donation reports for December 2022 and January 2023, the two months requested as part of our follow-up. Ocean Institute indicated they were unable to provide us with the donation reports because they recently transitioned vendors for its donation software. As a result, we could not verify the accuracy of the total donations recorded.</p> <p>Ocean Institute did retain limited donation documentation, from which we identified a rental payment miscategorized as an unrestricted donation. It should be noted Ocean Institute later appropriately reclassified the rental payment as an unrelated invoice payment.</p> <p>As a result of our audit, OCCR/OC Parks required Ocean Institute to also prepare a donation records procedure for OCCR's approval. However, OC Parks management suggested changes to incorporate prior to finalizing the procedure. Ocean Institute is working on revising its procedure and documenting OCCR's review and approval.</p> <p>In addition, Ocean Institute should submit proof of donation tracking reports to verify accuracy of the new system.</p> <p>Based on the actions taken by Ocean Institute, we consider this recommendation in process.</p>



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FINDING NO. 3	Reservations Not Reconciled to Gross Receipts
CATEGORY	Significant Compliance Finding
RECOMMENDATION	<p>OCCR/OC Parks require Ocean Institute to:</p> <ul 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.
CURRENT STATUS & PLANNED ACTION	<p>In Process. While Ocean Institute continues improving the accuracy of its rental reservation system, we still observed discrepancies.</p> <ul style="list-style-type: none">A. Ocean Institute established controls to strengthen its reservation process, but we noted continued errors with reservation details which have the potential to impact rent payable to the County (see Finding No. 1).B. Ocean Institute conducts a reconciliation of its reservation activities, however the documentation retained appears incomplete as it lacked common reconciliation markings such as staff signatures and a completion date. Due to missing completion dates, we could not verify whether Ocean Institute's reconciliations were completed timely. <p>Based on the actions taken by Ocean Institute, we consider this recommendation in process.</p>



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FINDING No. 4	Rent Not Paid for Birthday Parties
CATEGORY	Compliance Finding
RECOMMENDATION	<p>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:</p> <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.
CURRENT STATUS	<p>Implemented. OCCR directed Ocean Institute to require birthday events to be deemed non-educational on a prospective basis, therefore making birthday events subject to 10% rent.</p> <ul style="list-style-type: none">A. We verified that Ocean Institute and OCCR Accounting agreed upon a revised invoicing format to account for the newly applicable birthday party rent payable to the County on a prospective basis.B. We confirmed the CEO/Real Estate directive that advised Ocean Institute they no longer needed to recalculate retroactive birthday party rent, as initially noted in the original audit. This directive resulted from Ocean Institute notifying OCCR of the excessive accounting resources needed to verify a potentially immaterial payment to the County. <p>Based on the actions taken by Ocean Institute, we consider this recommendation implemented.</p>



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FINDING NO. 5	Gift Cards Not Reported as Receipts When Sold
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.
CURRENT STATUS	<p>Closed. While OCCR and CEO/Real Estate encouraged Ocean Institute to continue their gift card sales program while reporting sales receipts in accordance with the lease agreement, Ocean Institute discontinued gift card sales because they provided a minimal revenue stream for their gift shop.</p> <p>Ocean Institute indicated they would establish an approved procedure should gift cards be reconsidered in the future.</p> <p>Based on the actions taken by Ocean Institute, we consider this recommendation closed.</p>

FINDING NO. 6	Rental Agreements Not Signed
CATEGORY	Compliance Finding
RECOMMENDATION	<p>OCCR/OC Parks require Ocean Institute to:</p> <ul style="list-style-type: none"> 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.
CURRENT STATUS	<p>Implemented. Ocean Institute adopted a cloud-based storage solution to retain and allow remote access to its agreement copies.</p> <ul style="list-style-type: none"> A. We reviewed four agreements and verified they were fully executed with all necessary signatures. B. We verified Ocean Institute established a procedure to ensure documentation of fully executed agreements are properly retained and available. <p>Based on actions taken by Ocean Institute, we consider this recommendation implemented.</p>



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FINDING NO. 7	Register Z-Close Out Tapes Not Numbered
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.
CURRENT STATUS	<p>Implemented. Ocean Institute implemented a cloud-based point-of-sale system which offers reports identifying all sales transactions plus adjustments by date range. This reporting feature functions as a register locking mechanism for compliance with the lease agreement.</p> <p>In addition to implementing our recommendation, Ocean Institute will continue aligning its cash handling procedure with the new system's details and subsequently obtain OCCR's documented approval of the final procedure.</p> <p>Based on the actions taken by OCCR and Ocean Institute, we consider this recommendation implemented.</p>

FINDING NO. 8	Untimely Submission of Form 990 "Return of Organization Exempt from Income Tax"
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.
CURRENT STATUS	<p>Implemented. OCCR directed Ocean Institute to file its IRS Form 990 to OCCR Accounting within 180 days after concluding each accounting year.</p> <p>We verified that Ocean Institute obtained an extension to file their 2021 Form 990 and subsequently provided OCCR Accounting with a copy on November 15, 2022.</p> <p>Based on actions taken by OCCR and Ocean Institute, we consider this recommendation implemented.</p>



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AUDIT TEAM	Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA, CISA Gabriela Cabrera Stephany Franco Thuy Luu	Senior IT Audit Manager IT Audit Manager Senior Auditor Senior Auditor Staff Specialist
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APPENDIX A: ADDITIONAL INFORMATION

SCOPE	Our follow-up audit was limited to reviewing actions taken by OCCR/OC Parks as of January 31, 2023 to implement the eight (8) recommendations from our original Audit No. 2171, dated June 30, 2022.
BACKGROUND	The original audit evaluated Ocean Institute's records adequately supported the monthly gross receipts and rent payments reported to the County and determined whether Ocean Institute complies with other provisions of the Lease Agreement. The original audit identified three (3) Significant Compliance Findings and five (5) Compliance Findings.
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.



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APPENDIX B: FOLLOW-UP AUDIT IMPLEMENTATION STATUS

Implemented	In Process	Not Implemented	Closed
<p>The department has implemented our recommendation in all respects as verified by the follow-up audit. No further follow-up is required.</p>	<p>The department is in the process of implementing our recommendation. Additional follow-up may be required.</p>	<p>The department has taken no action to implement our recommendation. Additional follow-up may be required.</p>	<p>Circumstances have changed surrounding our original finding/ recommendation that: (1) make it no longer applicable or (2) the department has implemented and will only implement a portion of our recommendation. No further follow-up is required.</p>

