



INTERNAL AUDIT DEPARTMENT



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

As of March 31, 2024

**Audit No. 2171-F2
Report Date: September 30, 2024**

Recommendation Status

**FIRST
FOLLOW-UP**

**SECOND
FOLLOW-UP**

4

Implemented

0

3

In Process

3

0

Not Implemented

0

1

Closed

0

Second Follow-Up totals represent findings that were In Process or Not Implemented at First Follow-Up

OC Board of Supervisors

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3rd DISTRICT

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5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Audit No. 2171-F2

September 30, 2024

To: Dylan Wright
OC Community Resources Director

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

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Alonso
Date: 2024.09.30 16:07:47
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Subject: Second Follow-Up Contract Compliance Audit: OC Community Resources/OC
Parks – Ocean Institute

We have completed a second follow-up audit of OC Community Resources (OCCR)/OC Parks – Ocean Institute as of March 31, 2024, 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 second follow-up audit concluded OCCR is still in process of implementing three recommendations from the original audit. Because the recommendations have not yet been implemented, it will be brought to the attention of the Audit Oversight Committee at its next scheduled meeting.

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 Audit Manager Gianne Morgan at (714) 834-3436.

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	OCCR/OC Parks require Ocean Institute to: A. Consistently calculate rent payments, and B. Pay the County \$1,017 in underpaid rent, plus any additional amounts from other months not listed.



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CURRENT STATUS & PLANNED ACTION

In Process. We noted CEO Real Estate/OC Parks issued guidance to Ocean Institute in March 2024 stating that “rent will be calculated for the total amount of the gross receipts subject to rent... The gross receipt amount will be for the entire cost of the reservation.” We reviewed Ocean Institute’s general ledger transactions for February 2024 to verify the accuracy of its rent calculations and payments to the County.

- A. We noted that Ocean Institute continues to miscalculate rent payments by not accurately reporting gross receipts (i.e., total amount received by customers) to the County in their monthly gross receipts form. Specifically, we noted the amount received for February 2024 per the visiting vessel agreements was \$14,333, but the amount reported to the County was \$12,100, resulting in \$558 of underpaid rent.
- B. Our first follow-up audit noted that Ocean Institute did remit payment for the \$1,017 in underpaid rent identified in the original audit. We also verified that Ocean Institute did remit payment to the County for the \$2,300 in additional underpaid rent identified in the first follow-up audit. However, we did not note any additional payments to the County related to underpaid rent for other months not listed.

Based on the actions taken by Ocean Institute, we consider this recommendation in process. CEO Real Estate/OC Parks issued follow-up letters to Ocean Institute in December 2023 and March 2024 in an effort to ensure outstanding recommendations are implemented. However, as indicated above Ocean Institute has not corrected their rent calculation method. We recommend that OCCR/OC Parks in collaboration with CEO/Real Estate provide more detailed training or guidance to Ocean Institute to ensure their understanding of County’s expectations to implement the recommendation.

CEO/Real Estate indicated they will issue another letter to Ocean Institute to reiterate that rent must be calculated based on the total amount received from customer payments, with no exceptions and require them to submit monthly reconciliations. Specifically, for the next six months, CEO/Real Estate is requiring Ocean Institute to reconcile their vessel and event log, general ledger, and monthly gross receipts form to the total amounts paid pursuant to the visiting vessel agreements. OCCR/Accounting will review the monthly reconciliations to ensure Ocean Institute has corrected their rent calculation method. In addition, the County will request a meeting with Ocean Institute to discuss this process and to ensure appropriate corrective action is taken. See CEO/Real Estate’s detailed action plan in Attachment C.



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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 now maintains a donation log to track unrestricted donations, in-kind donations, and event sponsorships. In addition, they have established a donation desk procedure, which was approved by OCCR/OC Parks and appears to appropriately document steps to record various types and methods of donations.</p> <p>To verify that Ocean Institute properly accounts for donations, we reviewed Ocean Institute’s donation log for March 2024 and reconciled it to their general ledger and the monthly gross receipts form submitted to the County. While most donation log entries agreed to the general ledger, we noted some discrepancies between both documents, indicating that donations are not properly tracked. For example, we noted eight donation entries recorded on the general ledger but not on the donations log. In addition, we noted total amounts were different between the donations log, the general ledger, and the monthly gross receipts form submitted to the County. While this category is not subject to rent, reporting discrepancies could result in misclassifying receipts that may or may not be subject to rent.</p> <p>Based on the actions taken by Ocean Institute, we consider this recommendation in process. CEO Real Estate/OC Parks issued follow-up letters to Ocean Institute in December 2023 and March 2024 in an effort to ensure outstanding recommendations are implemented. However, as indicated above Ocean Institute has not properly accounted for donations. We recommend that OCCR/OC Parks in collaboration with CEO Real Estate provide more detailed training or guidance to Ocean Institute to ensure their understanding of County’s expectations to implement the recommendation.</p> <p>CEO/Real Estate indicated they will issue another letter to Ocean Institute to reiterate the importance of adhering to the approved desk procedure and require them to submit monthly reconciliations. Specifically, for the next six months, CEO/Real Estate will require Ocean Institute to reconcile their donation log, general ledger, and gross receipts form and to designate a responsible staff member to oversee this process. OCCR/Accounting will review the monthly reconciliations to ensure the accurate tracking of donations and consistency across all documentation. In addition, the County will request a meeting with Ocean Institute to discuss this process and to ensure appropriate corrective action is taken. See CEO/Real Estate’s detailed action plan in Attachment C.</p>



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FINDING NO. 3	Reservations Not Reconciled to Gross Receipts
CATEGORY	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.



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CURRENT STATUS & PLANNED ACTION

In Process. While Ocean Institute has established desk procedures for booking reservations and performing monthly reconciliations of reservations, we continue to observe discrepancies and a lack of controls that should be established. We reviewed Ocean Institute’s workbooks supporting February and March 2024 reservation activity and reconciled it to their general ledger and the monthly gross receipts forms submitted to the County, as well as documentation to evidence a reconciliation performed for February 2024.

- A. Ocean Institute tracks their events (reservations) on a workbook, but the total amounts do not reconcile with the general ledger or the monthly gross receipts form submitted to the County, indicating reservations are not properly accounted for.
- B. The reconciliation documentation was not sufficient to evidence a proper monthly reconciliation. While the documentation shows some steps were properly performed based on the established desk procedure, reservations are still not verified against source documents, such as a rental agreement or invoice (i.e., to reconcile to customer payments) and not compared to the reservation calendar. In addition, the documentation still lacks preparer and reviewer initials and dates to evidence appropriate segregation of duties and timely completion.

Based on the actions taken by Ocean Institute, we consider this recommendation in process. CEO Real Estate/OC Parks issued follow-up letters to Ocean Institute in December 2023 and March 2024 in an effort to ensure outstanding recommendations are implemented. However, as indicated above Ocean Institute has not established adequate controls or perform documented monthly reconciliations. We recommend that OCCR/OC Parks in collaboration with CEO Real Estate provide more detailed training or guidance to Ocean Institute to ensure their understanding of County’s expectations to implement the recommendation.

CEO/Real Estate indicated they will issue another letter to Ocean Institute to reiterate the importance of following the desk procedure and outline specific expectations for the reconciliation process, including the necessary documentation and controls required for booking reservations and require them to submit monthly reconciliations. Specifically, for the next six months, CEO/Real Estate will require Ocean Institute to reconcile their reservation log, general ledger, and monthly gross receipts form and to designate a responsible staff member to oversee this process. OCCR/Accounting will review the monthly reconciliations to ensure reservations are properly accounted for and that adequate controls are established. In addition, the County will request a meeting with Ocean Institute to discuss this process and to ensure appropriate corrective action is taken. See CEO/Real Estate’s detailed action plan in Attachment C.



INTERNAL AUDIT DEPARTMENT

AUDIT TEAM	Gianne Morgan, CIA, CISA Gabriela Cabrera, CIA Thuy Luu	Senior Audit Manager 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 and Ocean Institute as of March 31, 2024 to implement the three recommendations in process at the time of our first follow-up Audit No. 2289-A, dated August 31, 2023.
BACKGROUND	The original audit evaluated whether 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 Significant Compliance Findings and five Compliance Findings. The first follow-up audit concluded OCCR implemented four recommendations, three were in process, and one recommendation was closed.



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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>



APPENDIX C: MANAGEMENT RESPONSE



THOMAS A. MILLER

Chief Real Estate Officer
400 West Civic Center Drive, 5th Floor
Santa Ana, CA 92701

September 30, 2024

Internal Audit Department
County of Orange
County Administration South
601 North Ross Street, Suite 528
Santa Ana, CA 92701

RE: Audit No. 2171-F2

Dear Ms. Morgan,

Below are the proposed action plans for each of the three remaining Findings, which remain in process.

1. Miscalculation of Rents on Vessels and Events

Action Plan: CEO Real Estate/OC Parks have issued guidance to Ocean Institute ("OI") stating, "rent will be calculated for the total amount of the gross receipts subject to rent...The gross receipt amount will be for the entire cost of the reservation". However, OI continues to miscalculate rents pursuant to their visiting vessel agreements.

To address this finding CEO/RE will issue a memo reiterating that rent must be calculated based on the total amount received from customer payments, with no exceptions. The memo will also instruct OI to:

- Perform a monthly reconciliation between their vessels and events log, general ledger, and r monthly gross receipts form, with the total amounts paid pursuant to their visiting vessel agreements.
- Submit their monthly general ledger and vessels and events log to OCCR/Accounting for the next six months to ensure OI has corrected their rent calculation method. This process will facilitate timely corrections and enhance compliance, providing ample time to identify and correct any ongoing discrepancies while establishing a consistent reporting routine. Within six months, the County will assess whether continued submissions are necessary.

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2. Miscalculation of Donations

Action Plan:

As a result of this audit, OI developed and implemented a desk procedure, approved by OCCR/OC Parks, which includes the use of a donation log to accurately track donations. However, discrepancies between the donation log and the general ledger persist.

To address this finding, CEO/RE will issue a memo reiterating the importance of adhering to the approved desk procedure to ensure the accurate tracking of donations and consistency across the donation log, general ledger, and monthly gross receipts form. This memo will also instruct OI to:

- Perform a monthly reconciliation between their donation log, general ledger and gross receipts form and designate a responsible staff member to oversee this process.

- Submit their donation log, alongside their monthly general ledger, to OCCR/Accounting for the next six months. This will facilitate oversight and alignment with their financial records. Within six months, the County will assess whether continued submissions are necessary.

3. Reservations Not Reconciled to Gross Receipts

Action Plan:

As a result of this audit, OI developed and implemented a desk procedure, for booking reservations and performing monthly reconciliations, however discrepancies continue, and controls have not been established.

To address this finding, CEO/RE will issue a memo reiterating the importance of following the desk procedure and outline the specific expectations for the reconciliation process, including the necessary documentation and controls required for booking reservations. This memo will also instruct OI to:

- Perform a monthly reconciliation of the reservation log, general ledger and gross receipts form and designate a responsible staff member to oversee this process. The reconciliation should include:
 - A checklist to ensure all necessary steps are completed.
 - Copies of supporting documentation for each reconciliation.
- Submit the reservation log and general ledger to OCCR/Accounting for review over the next six months. Within six months, the County will assess whether continued submissions are necessary.


In closing, the proposed memo will request a meeting between OI and the County to discuss this process in detail and address any questions or concerns OI may have.



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Thank you for your assistance in this matter.


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