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INTERNAL AUDIT DEPARTMENT

Audit No. 2329

January 9, 2004

TO: Vicki Wilson, Director
Public Facilities and Resources Department

SUBJECT: Limited Review of Revenue for Great Western Hotels (d.b.a. Dana Point Marina Inn), Parcel PM 1005-24-8, 9

We have performed a limited review of certain records and documents related to revenue collected during the 12 month period ending April 30, 2003, pertinent to the operating agreement (Agreement) between the County of Orange (County) and Great Western Hotels, (d.b.a. Dana Point Marina Inn) dated February 6, 2001. The Agreement is primarily for the operation of the Dana Point Marina Inn located on parcels 8 and 9. Services offered are primarily lodging.

The primary purpose of our review was to determine whether the Dana Point Marina Inn's records adequately supported gross receipts deposited with the County. We also reviewed compliance with certain other financial provisions of the Agreement, such as financial statements requirements. Because all expenses and related supporting documentation are reviewed by PFRD, our review did not cover supporting documentation for expenses. Our review also did not include compliance with County's procurement policies and applicable laws.

Based on our review, we find that Dana Point Marina Inn has retained sufficient records to support gross receipts deposited with the County. However, we identified areas of non-compliance with the Agreement or where internal controls could and should be improved as presented below.

1. Documentation of Supervisory Reviews

We found no documentation of management or supervisory review for certain activities. For example, we saw no documentation of supervisory approvals for refunds, review of the bank deposits, review of the adjustments to the Daily Activity Report, or the folio review for each shift. Supervisory reviews are an important element of adequate internal controls and documentation should be made of the reviews.

Recommendation No. 1: We recommend that PFRD require the Dana Point Marina Inn to document supervisory reviews.

PFRD Response: PFRD concurs with Recommendation No. 1.

Action: DPMI manager will sign off on all outgoing monies and the Daily Activity Report which indicates adjustments made each day. These signed reports and reviews will be filed for future reference.

2. Transient Occupancy Tax Exemptions

Long-term hotel guests that are exempt from the Transient Occupancy Tax (TOT) have been paying the TOT. This occurred because there is no procedure to identify hotel guests who qualify for the exemption. The City of Dana Point allows for an exclusion to the TOT for permanent residents and/or a period of occupancy over 30 days by written agreement. Not identifying and exempting these guests resulted in overcharges.

Recommendation No. 2: We recommend that PFRD require the Dana Point Marina Inn to establish procedures to identify guests who are exempt from the TOT and allow the appropriate exemption.

PFRD Response: PFRD concurs with Recommendation No. 2.

Action: DPMI is no longer charging the TOT to the guests exempt from this tax. DPMI will create a written procedure to identify extended stay guests that qualify for the TOT exemption and submit such written procedure to PFRD for review and approval.

3. Restrictive Endorsement of Checks Upon Receipt.

Checks received by the hotel are not restrictively endorsed immediately upon receipt, but instead endorsed by the night auditor when the bank deposit is prepared. *County of Orange Accounting Manual Procedure No. C-4, Section 2.4* states "All negotiable instruments, such as checks, warrants, and money orders, should be endorsed with a restrictive endorsement stamp immediately upon receipt."

Recommendation No. 3: We recommend that PFRD require Dana Point Marina Inn to endorse negotiable instruments (checks, money orders, etc.) immediately upon receipt.

PFRD Response: PFRD concurs with Recommendation No. 3.

Action: DPMI had not been endorsing negotiable instruments (checks, money orders, etc.) until after they were posted in the system; however, DPMI will now make the endorsement immediately upon receipt.

4. Use of Counterfeit Detector Pens

When we began our review, the Dana Point Marina Inn possessed but was not using counterfeit detection pens. Upon bringing this to their attention, they immediately began using the pens.

Recommendation No. 4: We recommend that PFRD require Dana Point Marina Inn to continue using the counterfeit detection pen on denominations of \$20 or greater.

PFRD Response: PFRD concurs with Recommendation No. 4.

Action: DPMI will continue to use the counterfeit detector pen on denominations of \$20 or greater.

5. Daily Bank Deposits

Bank deposits are made approximately three times a week. *County of Orange Accounting Manual Procedure No. C-4, Section 1* states “All monies collected or received by County departments/agencies shall be deposited, whenever practical, with the County Treasurer-Tax Collector, or other legal depository, no later than the working day following the date received...If it is not practical to deposit monies by the working day following the date received, then deposits should be made at least monthly or whenever \$100 is accumulated, whichever occurs first.” Dana Point Marina Inn should make daily bank deposits.

Recommendation No. 5: We recommend that PFRD require Dana Point Marina Inn to make bank deposits daily or at least when \$100 is accumulated.

PFRD Response: PFRD concurs with Recommendation No. 5.

Action: DPMI will make bank deposits daily or at least when \$100 is accumulated.

6. Transfer of Accountability

Each shift places the money it receives in an envelope and deposits the envelope in the drop safe. The night auditor takes the money from the envelopes in the safe and prepares the bank deposit. However, no documented transfer of accountability occurs when the money is deposited into the safe. *County of Orange Accounting Manual, Accounting Procedure No. C-4, Section 2.2* states, “...when monies are subsequently transferred between employees during the collection and deposit process, the employees should document the transfer of accountability in writing. In the event of a loss, the transfer of accountability provides management with a method to determine where, when and possibly how the loss occurred.”

Recommendation No. 6: We recommend PFRD require Dana Point Marina Inn to document the transfer of accountability for monies put in the safe. One possible suggestion is

for two shift employees to initial and date either the envelope containing the money or a prepared form attached to the envelope when it is deposited into the drop safe.

PFRD Response: PFRD concurs with Recommendation No. 6.

Action: DPMI will create, and submit to PFRD for approval, a system to document the transfer of accountability for monies deposited into the drop safe.

7. Required Financial Statements Submitted Late

The required financial statements for fiscal year 2001 and 2002 were submitted to the Auditor-Controller within 21 and 9 months, respectively, after the fiscal year end. Clause 16E of the operating agreement states that "...within ninety (90) days after the end of each FY...submit to the Auditor-Controller a balance sheet and income and expense statement...[and] a statement...[of] total gross receipts."

Recommendation No. 7: We recommend that PFRD require the Dana Point Marina Inn to submit future financial statements within 90 days after fiscal year end.

PFRD Response: PFRD concurs with Recommendation No. 7.

Action: DPMI on-site staff does not prepare the financial statements and was unaware that the reports were not being submitted in the required timeframe. PFRD staff has spoken with the DPMI corporate CPA, who stated that the 2003 report is near completion and that future reports will be submitted within the required timeframe.

8. Additional Training for Accounting Software

The hotel staff assigned the accounting responsibilities are not adequately trained on the QuickBooks accounting software. During the audit, requests for standard accounting reports were made, but the hotel staff was unable to generate the reports due to lack of familiarity with the accounting software. We were able to utilize alternate records for our review.

Recommendation No. 8: We recommend that PFRD require Dana Point Marina Inn to provide more QuickBooks training to the hotel staff responsible for operating the accounting system.

PFRD Response: PFRD concurs with Recommendation No. 8.

Action: The on-site staff is currently receiving additional QuickBooks training. Staff had previously been trained in the payables side; however, they are now being trained on the income side of the software. PFRD will supply a list of reports required to ensure that the on-site staff is trained to the level requested by Internal Audit.

9. Written Policies and Procedures

The Dana Point Marina Inn has some written policies and procedures; however, the policies and procedures are not organized in the form of a manual nor are they comprehensive. Policies and procedures are needed including those for:

- Cash receipting (although the hotel did have several useful checklists)
- Changing the safe combination
- Collecting keys from terminated employees
- Purchasing

Recommendation No. 9: We recommend that PFRD require Dana Point Marina Inn to prepare a comprehensive written policy and procedure manual.

PFRD Response: PFRD concurs with Recommendation No. 9.

Action: DPMI will create a written policy and procedures manual, and submit the manual to PFRD by January 5, 2004 for review and approval.

If you have any questions regarding our record survey, please call Eli Littner, Deputy Director, at (714) 834-5899 or Autumn McKinney, Audit Manager at (714) 834-6106. We appreciate the courtesy and cooperation extended to us by the personnel at the Dana Point Marina Inn, PFRD/Real Property, and PFRD/Accounting.



Dr. Peter Hughes, CPA
Director, Internal Audit Department

Attachment – PFRD Response

Audit Team:

Eli Littner, Deputy Director, CPA, CIA
Autumn McKinney, Audit Manager, CPA, CIA
Dan Melton, Principal Auditor, CPA, M-Tax
Winnie Keung, Senior Auditor, CPA

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
James D. Ruth, County Executive Officer
Steve Danley, Director, PFRD/Management Services
Kevin Thomas, Manager, PFRD/Harbors, Beaches, and Parks
Bob Hamilton, Manager, PFRD/HB&P/Program Management & Coordination
Paul Lawrence, Manager, PFRD/HB&P/Lease Development and Management

Mary Fitzgerald, Manager, PFRD/Accounting Services
Kenneth Scattergood, Chief, PFRD/HB&P/Program Support
Barry Permenter, Real Property Agent, PFRD/HB&P/Lease Development and Management
Jackie Cadotte, Lease Compliance, PFRD/HB&P/Lease Development and Management
Jennifer Giancarlo, Chief, PFRD/Management Services/Central Quality Assurance
Grace Dove, Staff Analyst, PFRD/HB&P/Lease Development and Management
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

Attachment: PFRD Response



COUNTY OF ORANGE
PUBLIC FACILITIES & RESOURCES DEPARTMENT

Vicki L. Wilson, Director
300 N. Flower Street
Santa Ana, CA
P.O. Box 4048
Santa Ana, CA 92702-4048
Telephone: (714) 834-2300
Fax: (714) 834-5188

DATE: December 15, 2003
TO: Peter Hughes, Director, Internal Audit Department
FROM: Director, Public Facilities & Resources Department
SUBJECT: Response to Limited Review of Revenue for Great Western Hotels, d.b.a. Dana Point Marina Inn, Parcel PM 1005-24-8, 9 (Audit No. 2329)

RECEIVED
INTERNAL AUDIT DEPARTMENT
2004 JAN -7 AM 10:06

The Public Facilities and Resources Department (PFRD) has received and reviewed the Internal Audit Department's Limited Review of Revenue for Great Western Hotels, d.b.a. Dana Point Marina Inn, (DPMI) in draft form for the 12 month period ending April 30, 2003, pertinent to the operating agreement (Agreement) between the County of Orange (County) and DPMI dated February 6, 2001. The Agreement is primarily for the operation of the DPMI located on parcels 8 and 9. Services offered are primarily lodging.

The primary purpose of the Internal Audit Department's review was to determine whether DPMI's records adequately supported gross receipts deposited with the County. Internal Audit Department also reviewed compliance with certain other provisions of the Agreement, such as financial statements requirements.

It was found that DPMI has retained sufficient records to support gross receipts deposited with the County; however, areas of non-compliance with the Agreement or where internal controls could and should be improved were identified. The Internal Audit Department made nine recommendations.

On October 6, 2003, PFRD staff provided a copy of Audit No. 2329 to DPMI General Manager, David Gentene, and discussed the issues presented in the Audit.

PFRD hereby responds to the Internal Audit Department as follows:

1. Documentation of Supervisory Reviews:

Internal Audit reported that no documentation exists for management and supervisory review of certain activities. Examples include approvals for refunds, review of bank deposits, review of the adjustments to the Daily Activity Report, and the folio review for each shift. Supervisory reviews are an important element of adequate internal controls and documentation should be made of the reviews.

Recommendation No. 1: PFRD require DPMI to document supervisory reviews.

Response: PFRD concurs with Recommendation No. 1

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Attachment: PFRD Response (con't)

PFRD Audit #2329 Response
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a period of occupancy over 30 days by written agreement. Not identifying and exempting these guests resulted in overcharges.

Recommendation No. 2: PFRD require DPMI to establish procedures to identify guests who are exempt from the TOT and allow the appropriate exemption.

Response: PFRD concurs with Recommendation No. 2

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Response: PFRD concurs with Recommendation No. 9.

Action: DPMI will create a written policy and procedures manual, and submit the manual to PFRD by January 5, 2004 for review and approval.

PFRD staff will continue to pursue appropriate responses and actions from DPMI as presented in Audit 2329.


Vicki L. Wilson

cc: James D. Ruth, County Executive Officer
Fred Branca, Assistant County Executive Officer
Kevin Thomas, Director, Harbors, Beaches, and Parks
Mary Fitzgerald, Manager, Accounting Services
Teri Marcoot, Central Quality Assurance
Paul Lawrence, Manager, Dana Point Harbor Leasing & Revitalization
Grace Dove, Dana Point Harbor Administration
Barry Permenter, Dana Point Harbor Administration
Jackie Cadotte, Dana Point Harbor Administration