

INTERNAL AUDIT DEPARTMENT COUNTY OF ORANGE

2005 Recipient of the Institute of Internal Auditors
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LIMITED REVIEW OF LEASE REVENUE DANA WEST YACHT CLUB

For the Period June 1, 2004 through May 31, 2005

AUDIT NUMBER: 2561 REPORT DATE: FEBRUARY 10, 2006

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Deputy Director: Eli Littner, CPA, CIA

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LIMITED REVIEW OF LEASE REVENUE DANA WEST YACHT CLUB

For the Period June 1, 2004 through May 31, 2005

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COUNTY OF ORANGE INTERNAL AUDIT DEPARTMENT

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Transmittal Letter

Audit No. 2561

February 10, 2006

TO: George Caravalho, Director

Dana Point Harbor Department (DPHD)

FROM: Peter Hughes, Ph.D., CPA, Director

Internal Audit Department

SUBJECT: Limited Review of Lease Revenue for Dana West Yacht Club,

Sublease of T.B.W. Company, dba Dana West Marina

Parcel HA78H-24-20, 22

We have completed our limited review of Dana West Yacht Club, a sublease of the lease agreement with T.B.W. Company, dba Dana West Marina, for the period June 1, 2004 through May 31, 2005. The final report is attached along with your responses to our recommendations.

As the Director of Internal Audit Department, I now submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our Follow-Up Audits, any pressing audit or resource issues; as well as, respond to inquiries from the BOS. Therefore, the results of this audit will be included in a future status report to the BOS.

Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will be forwarding to the Dana Point Harbor Department a <u>Customer Survey of Audit Services</u> for completion. The Dana Point Harbor Department will receive the survey shortly after the distribution of this report.

Attachment

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee

George Caravalho, Director, Dana Point Harbor Department February 10, 2006 Page ii

Thomas G. Mauk, County Executive Officer
Paul Lawrence, Manager, DPHD/Leasing & Revitalization
Bryan G. Speegle, Director, RDMD
Mary Fitzgerald, Manager, RDMD/Accounting Services
Betsy Estrada, Chief, RDMD/Accounting Services/External Claims/HB&P Programs
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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INTERNAL AUDITOR'S REPORT

Audit No. 2561

February 10, 2006

ELI LITTNER

CPA, CIA, CFE, CFS CISA

DEPUTY DIRECTOR

TO: George Caravalho, Director

Dana Point Harbor Department (DPHD)

SUBJECT: Limited Review of Lease Revenue for Dana West Yacht Club,

Sublease of T.B.W. Company, dba Dana West Marina

Parcel HA78H-24-20, 22

CPA, CIA

AUDIT MANAGER

We have performed a limited review of certain records and documents of Dana West Yacht Club (DWYC) for the year ended May 31, 2005. DWYC is a sublessee under the lease agreement (Lease Agreement) between the County of Orange (County) and T.B.W. Company, dba Dana West Marina (TBW), dated October 21, 1975, as amended. The Lease Agreement is primarily for the operation of the Dana Point West Marina located at Dana Point Harbor. DWYC, through a sublease with TBW, dated September 23, 1987, operates a yacht club at the marina.

The primary purpose of our review is to determine whether DWYC's records adequately supported gross receipts remitted to the County. We also reviewed compliance with certain other provisions of the Lease Agreement, such as accounting methods and payment procedures.

Based on our limited review, we find that DWYC has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. **No material weaknesses, significant issues, or control findings were identified.** See Attachment A for a description of report item classifications.

We appreciate the courtesy and cooperation extended to us by the personnel at DWYC, TBW, DPHD, and RDMD/Accounting Services. If you have any questions regarding our limited review, please contact Eli Littner, Deputy Director, at (714) 834-5899 or Autumn McKinney, Audit Manager, at (714) 834-6106.

Peter Hughes, Ph.D., CPA Director, Internal Audit George Caravalho, Director, Dana Point Harbor Department February 10, 2006 Page ii

Attachment A – Report Item Classifications

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Paul Lawrence, Manager, DPHD/Leasing & Revitalization

Bryan G. Speegle, Director, RDMD

Mary Fitzgerald, Manager, RDMD/Accounting Services

Betsy Estrada, Chief, RDMD/Accounting Services/External Claims/HB&P Programs

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted a limited review of lease revenue pertinent to the lease agreement with T.B.W. Company, dba Dana West Marina (TBW), for the primary purpose of determining whether the records of Dana West Yacht Club (DWYC), a sublease of TBW, adequately supported gross receipts remitted to the County.

BACKGROUND

The County of Orange entered into a 30-year lease agreement (Lease Agreement) with T.B.W. Company dba Dana West Marina (TBW), dated October 21, 1975, for the operation of the Dana Point West Marina, and other boat-related services, located at Dana Point Harbor. TBW subsequently entered into a sublease with DWYC, dated September 23, 1987, for the operation of a yacht club.

In 2004, DWYC generated over \$490,000 in gross receipts and the County received approximately \$16,000 in rent payments. Pursuant to BOS Resolution #82-577, initiation fees, membership fees, and assessments of approximately \$300,000 were excludable from gross receipts in 2004 and were not included in the above amount. The resolution also allowed DWYC to exclude from gross receipts over \$24,000 in monies collected to cover costs of special events, dinners, etc. held on the premises.

The Lease Agreement with TBW expired October 31, 2005. The County has entered into a management agreement with TBW for the continued operation of the West Marina effective November 1, 2005. The County of Orange also entered into a separate lease agreement directly with DWYC dated November 22, 2005. The new agreement establishes a minimum annual rent plus a percentage rent of 7.5% of gross receipts in excess of \$1.2 million per year.

SCOPE

Our review was limited to certain records and documents that support DWYC's gross receipts reported to TBW and remitted to the County for the one year period of June 1, 2004 to May 31, 2005. We also reviewed compliance with certain other provisions of the Lease Agreement, such as accounting methods and payment procedures. Our review included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

CONCLUSION

Based on our limited review, we find that DWYC has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. **No material weaknesses, significant issues, or control findings were identified.** See Attachment A for a description of report item classifications.

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

Material Weaknesses:

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address "Material Weaknesses" brought to their attention.

Significant Issues:

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

Control Findings:

Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.