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COUNTY OF ORANGE

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FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT

LIMITED REVIEW OF LEASE REVENUE FOR SWALES ANCHORAGE

ORIGINAL AUDIT NO. 2578

As of
April 30, 2007

AUDIT NUMBER: 2650-G **REPORT DATE: JUNE 26, 2007**

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Deputy Director:	**Eli Littner, CPA, CIA**
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Final Close-Out

First Follow-Up Audit
Limited Review of Lease Revenue for Swales Anchorage
Original Audit No. 2578

As of
April 30, 2007

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BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

Transmittal Letter

Audit No. 2650-G

June 26, 2007

TO: Bryan Speegle, Director
Resources and Development Management Department

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Final Close-Out First Follow-Up Audit of the Limited Review of Lease Revenue for Swales Anchorage, Original Audit No. 2578

We have completed the First Follow-Up Audit of the Limited Review of Lease Revenue for Swales Anchorage. Our audit was limited to reviewing actions taken, as of April 30, 2007, to implement the recommendations made in our original audit report dated October 5, 2006. The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

Because satisfactory corrective action has been taken and/or the item was closed for the eleven (11) recommendations, **this report represents the final close-out of the original audit.**

Each month I submit an 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 and the implementation status of audit recommendations as disclosed by our **Follow-Up Audits**. Accordingly, the results of this audit will be included in a future status report to the BOS.

We appreciate the cooperation and assistance extended to us by your staff during our follow-up audit.

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO/Infrastructure & Environmental Services
Parker Hancock, Director, RDMD/Harbors, Beaches, & Parks
Mark Denny, Assistant Director, RDMD/Harbors, Beaches & Parks
Mike Brajdic, Program Manager, RDMD/HBP/Program Management
Rich Adler, Chief, RDMD/HBP/Real Estate
Mike Hentzen, Leasing Coordinator, RDMD/HBP/Real Estate
Andrea Richard, Real Property Agent, RDMD/HBP/Real Estate
Steve Danley, Director, RDMD/Administration

Mary Fitzgerald, Manager, RDMD/Accounting Services
Josie Velasquez, Chief, RDMD/Accounting/Santa Ana River, Watershed, Flood, Leases, and Infrastructure
Vivienne Thornton, Admin. Manager I, RDMD/Accounting/Watershed, Flood, Leases and Infrastructure
Brian Cich, Senior Accountant I, RDMD/Accounting/Leases and Infrastructure
Debra Lakin, Chief, RDMD/Central Quality Assurance

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT

FINAL CLOSE-OUT

Audit No. 2650-G

June 26, 2007

Bryan Speegle, Director
Resources & Development Management Department
300 N. Flower Street
Santa Ana, CA 92703

We have completed the First Follow-Up Audit of the Limited Review of Lease Revenue for Swales Anchorage. Our audit was limited to reviewing actions taken, as of April 30, 2007, to implement the recommendations made in our original audit report dated October 5, 2006.

The original audit report contained eleven (11) recommendations. This First Follow-Up Audit found the following:

- Seven (7) recommendations were fully implemented.
- One (1) recommendation was fully implemented during the draft report process.
- Three (3) recommendations are closed.

The one **(1)** recommendation fully implemented during the draft report process and the three **(3)** recommendations that have been closed are noted below along with a comment on their current status. The item numbers from the October 5, 2006 report are shown in parentheses after the heading.

As satisfactory correction action was taken and/or the item was closed for all eleven (11) recommendations, **this report represents the final close-out of the original audit.**

1. Dinghy Spaces (No. 6)

Recommendation: We recommend that RDMD require Swales Anchorage to prepare a current list or inventory of dinghy tenants.

Current Status: **Closed.** Swales Anchorage has partially completed its inventory of dinghy tenants. As of March 2007 for the 22 dinghy spaces, Swales Anchorage has identified the owner/billing address for 14 tenants, determined 2 are vacant, and currently is researching the remaining 6 tenants. As the remaining 6 dinghy tenants are immaterial relative to the total gross receipts for Swales Anchorage, we will consider this recommendation closed for follow-up purposes.

2. **Dinghy Spaces (No. 7)**

Recommendation: We also recommend that RDMD request Swales Anchorage to begin billing for all dinghy space rentals.

Current Status: **Closed.** For the sample month of March 2007, our follow-up audit found that Swales continues to only bill for 10 of the dinghy space rentals. As there appears to be 20 occupied dinghy slips (22 less 2 vacancies), the remaining 10 tenants still need to be billed (4 tenants plus the 6 tenants that are being researched above in item No. 1.). As the remaining 10 dinghy tenants are immaterial relative to the total gross receipts for Swales Anchorage, we will consider this recommendation closed for follow-up purposes.

3. **Commingled Rental Account (No. 9)**

Recommendation: We recommend that RDMD request Swales Anchorage to record gross receipts reportable to the County in a separate account in its accounting records.

Current Status: **Fully Implemented During Draft Report Process.** In the attached letter dated June 18, 2007, RDMD provided Swales Anchorage's updated accounting records for the months of April and May 2007 evidencing that Swales Anchorage is now recording gross receipts reportable to the County in a separate account.

4. **Security Deposits (No. 10)**

Recommendation: We recommend that RDMD request Swales Anchorage to record security activity in a separate liability account in its accounting records.

Current Status: **Closed.** Swales Anchorage has established a separate liability account in its accounting records specifically for security deposit activity. Since our original audit, Swales reported that there has been no security deposit activity and therefore, no entries have been made in the new liability account. As there has been no security deposit activity, we were unable to further follow-up on this item. However, as Swales Anchorage has set up the liability account in its accounting records, we will consider this recommendation as "closed."

We appreciate the courtesy and cooperation extended to us by the personnel at Swales Anchorage, RDMD/HB&P, and RDMD/Accounting Services during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Sincerely,

Peter Hughes

Peter Hughes, Ph.D., CPA
Director, Internal Audit

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
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Debra Lakin, Chief, RDMD/Central Quality Assurance

COUNTY OF ORANGE

RESOURCES & DEVELOPMENT MANAGEMENT DEPARTMENT

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DATE: June 18, 2007

TO: Peter Hughes, Ph.D., CPA, Director, Internal Audit Department

FROM: Director, Resources and Development Management Department

SUBJECT: Response to Revised Draft Report on First Follow-Up Audit of the Limited Review of Lease Revenue for Swales Anchorage, Original Audit No. 2578, Issued October 6, 2006

We have reviewed the Draft First Follow-Up Audit of the Limited Review of Lease Revenue for Swales Anchorage on the status of the eleven recommendations contained in the original audit (Audit No. 2578). Of these eleven recommendations, seven were fully implemented, three were closed, and one was not implemented (Finding 9). The First Follow-Up Audit also reiterated that the one recommendation not implemented is still appropriate and further efforts should be made to implement it. RDMD agrees and has taken the following action described below:

Item No. 3 – Commingled Rental Account (Original Finding No. 9)

Recommendation: We recommend that RDMD request Swales Anchorage to record gross receipts reportable to the County in a separate account in its accounting records

Status as of April 30, 2007: **Not Implemented.** Swales Anchorage is not recording gross receipts reportable to the County in a separate account in its accounting records.

Current Status: Recommendation has been Implemented. As requested by RDMD, Swales Anchorage is recording gross receipts reportable to the County in a separate account in its accounting records. Updated "Transaction Detail By Account" sheets that show only those revenues reportable to the County for the months of April and May 2007 are attached.

Based on the abovementioned implementation and supporting documentation, we request that the Final Audit Report also be issued as a Final Close-Out Audit Report.

Peter Hughes, Ph.D., CPA, Director, Internal Audit Department
Page 2
June 18, 2007

Thank you for allowing us to respond to your draft report. If you have any questions or need additional information, please contact Andrea Richard of RDMD/HBP/Real Estate at (714) 834-4677.

Bryan Speegle, Director

Attachment

cc: Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO/Infrastructure & Environmental Services
Parker Hancock, Director, RDMD/HBP
Mark Denny, Assistant Director, RDMD/HBP
Mike Brajdic, Program Manager, RDMD/HBP
Rich Adler, Chief, RDMD/HBP/Real Estate
Mike Hentzen, RDMD/HBP/Real Estate
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Diane Villanueva, CEO