

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT:

REVENUE GENERATING LEASE AUDIT: OC DANA POINT HARBOR DOLPHIN SAFARI, INC. Original Audit No. 2936

AS OF APRIL 29, 2011

**\$823,000 GROSS RECEIPTS
ANNUALLY
\$137,000 RENT PAID TO THE
COUNTY ANNUALLY**

Our First Follow-Up Audit found that OC Dana Point Harbor and Dolphin Safari, Inc. satisfactorily implemented all three (3) recommendations from our original audit report.

During the original audit, Dolphin Safari, Inc. reported approximately **\$823,000** in gross receipts and paid rent to the County of approximately **\$137,000**. Over its five-year term, this lease agreement is estimated to generate approximately **\$788,000** in rent to the County.

AUDIT No: 1038-E
REPORT DATE: MAY 26, 2011

Director: Dr. Peter Hughes, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Audit Manager: Lily Chin, CPA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1038-E May 26, 2011

TO: Brad Gross, Director
OC Dana Point Harbor

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up
Audit of Revenue Generating Lease:
OC Dana Point Harbor/Dolphin Safari,
Inc., Original Audit No. 2936, Issued
September 15, 2010

We have completed a First Follow-Up Audit of the Revenue Generating Lease with Dolphin Safari, Inc. Our audit was limited to reviewing, as of April 29, 2011, actions taken to implement the three (3) recommendations made in our original report dated September 15, 2010.

The results of our Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for all three (3) recommendations, **this report represents the close-out of the original audit.**

Each month I submit an **Audit Status Report** to the Board of Supervisors (BOS) where I detail any critical and significant control weaknesses 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.

Attachments

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 2 and 3.

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Revenue Generating Lease Audit of
OC Dana Point Harbor/Dolphin Safari, Inc.,
Original Audit No. 2936
Audit No. 1038-E***

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OC Internal Auditor's Report



Audit No. 1038-E

May 26, 2011

TO: Brad Gross, Director
OC Dana Point Harbor

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up Audit of Revenue Generating Lease:
OC Dana Point Harbor/Dolphin Safari, Inc., Original Audit No. 2936, Issued
September 15, 2010

Scope of Review

We have completed a First Follow-Up Audit of the Revenue Generating Lease with Dolphin Safari, Inc. (Dolphin Safari). Our audit was limited to reviewing actions taken as of April 29, 2011 to implement the three (3) recommendations made in our original audit report.

Background

The original audit reviewed whether Dolphin Safari's records adequately supported their monthly gross receipts reported to the County. During the original 12-month audit period, Dolphin Safari generated approximately \$823,000 in gross receipts and the rent paid to the County was approximately \$137,000. The original audit identified three (3) **control findings**.

Results

OC Dana Point Harbor and Dolphin Safari implemented all three (3) recommendations from the original audit report. Following is the implementation status of the original recommendations:

1. Consistent Source Documentation for Recording Open Charter Vessels (**Control Finding**)

Recommendation No. 1: We recommend that OC Dana Point Harbor require Dolphin Safari to use its reservations system booking report when recording gross receipts to its general ledger for offsite reservations.

Current Status: Implemented. Our review of a sample of the reservation system booking reports for two days, and the monthly general ledger and monthly gross receipts statement for March 2011 found that Dolphin Safari is now using the reservation system booking reports to record gross receipts to its general ledger for offsite reservations.



2. Rent Owed and Clarification of “At Sea” Sales (Control Finding)

Recommendation No. 2: We recommend OC Dana Point Harbor require Dolphin Safari to begin reporting DVD sales made from the leased premises (including online sale and resale DVDs) as gross receipts to the County and pay rent owed of \$48.78.

Current Status: **Implemented.** Subsequent to the original audit, Dolphin Safari decided to make online DVD sales from its other company (Lucid Dreamer Productions) located in San Juan Capistrano, CA. OC Dana Point Harbor determined that on-line DVD sales could be excluded from gross receipts as allowed by a provision in the lease agreement, if the online DVD sales were made by and specifically identifiable with another site owned by the tenant. As a result, only DVD sales sold from the leased premises are now required to be reported to the County.

Our review of the March 2011 general ledger and monthly gross receipts statement found that Dolphin Safari is now reporting DVDs sold from the leased premises as gross receipts to the County. We also verified that Dolphin Safari paid rent owed from the original audit of \$48 in July 2010.

3. Rent Owed for Employee Purchases (Control Finding)

Recommendation No. 3: We recommend that OC Dana Point Harbor require Dolphin Safari to begin reporting employee purchases as gross receipts and pay rent owed of \$108.

Current Status: **Implemented.** Our review of Dolphin Safari's March 2011 general ledger and monthly gross receipts statement to the County found that employee purchases are now reported as gross receipts. We also verified that Dolphin Safari paid rent owed from the original audit of \$108 in July 2010.

Acknowledgement

We appreciate the cooperation and assistance extended to us by the personnel at OC Dana Point Harbor and Dolphin Safari, Inc. 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.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Alisa Drakodaidis, Deputy CEO, OC Infrastructure
Paul Lawrence, Manager, OC Dana Point Harbor
Jonathan Bordeaux, Real Property Officer, OC Dana Point Harbor

OC Internal Auditor's Report



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