



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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LIMITED REVIEW OF LEASE REVENUE
FOR
AVENTURA SAILING ASSOCIATION

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

AUDIT NUMBER: 2564

REPORT DATE: JUNE 7, 2006

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Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Autumn McKinney, CPA, CIA
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**LIMITED REVIEW OF LEASE REVENUE FOR
AVENTURA SAILING ASSOCIATION**

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

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Transmittal Letter

Audit No. 2564

June 7, 2006

TO: George Carvalho, Director
Dana Point Harbor Department (DPHD)

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

SUBJECT: Limited Review of Lease Revenue for Aventura Sailing Association, Sublease of
T.B.W. Company, dba Dana West Marina
Parcel HA78H-24-20, 22

We have completed our limited review of lease revenue for Aventura Sailing Association, 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.

Please note, beginning in January 2005, we implemented a more structured and rigorous Follow-Up Audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). **In the past, we followed-up on lease audit recommendations during a subsequent lease audit, which could be several years later.** As a matter of policy, our first Follow-Up Audit will now begin at six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. The Dana Point Harbor Department should complete this template as our audit recommendations are implemented. When we perform our Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

*George Carvalho, Director
Dana Point Harbor Department
June 7, 2006
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As the Director of Internal Audit, 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 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.

As always, the Internal Audit Department is available to partner with the Dana Point Harbor Department so they can successfully implement or mitigate difficult audit recommendations. 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 Customer Survey of Audit Services 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
- Thomas G. Mauk, County Executive Officer
- Paul Lawrence, Manager, DPHD/Leasing & Revitalization
- 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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CPA, CIA, CGFM
AUDIT MANAGER

INTERNAL AUDITOR'S REPORT

Audit No. 2564

June 7, 2006

TO: George Carvalho, Director
Dana Point Harbor Department (DPHD)

SUBJECT: Limited Review of Lease Revenue for Aventura Sailing Association, Sublease of
T.B.W. Company, dba Dana West Marina
Parcel HA78H-24-20, 22

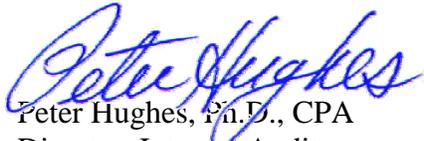
We have performed a limited review of certain records and documents of Aventura Sailing Association (Aventura) for the year ended May 31, 2005. Aventura is a sublessee under the lease agreement (Agreement) between the County of Orange (County) and T.B.W. Company, dba Dana West Marina (TBW), dated October 21, 1975, as amended. The Agreement is primarily for the operation of the Dana Point West Marina located at Dana Point Harbor. Aventura, through a sublease with TBW dated June 5, 1996, operates a sailing club at the marina.

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

Based on our limited review, we find that Aventura has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. **No material weaknesses or significant issues were identified.** We did identify 4 control findings related to compliance with the Agreement or improving controls that are noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

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

*George Carvalho, Director
Dana Point Harbor Department
June 7, 2006
Page ii*


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

Attachment A – Report Item Classifications
Attachment B – DPHD Management Response

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
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 the lease agreement with T.B.W. Company, dba Dana West Marina (TBW), for the primary purpose of determining whether the records of Aventura Sailing Association (Aventura), a sublease of TBW, adequately supported gross receipts remitted to the County.

BACKGROUND

The County of Orange entered into a 30-year lease agreement (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 Aventura, dated June 5, 1996, for the operation of a sailing club. In 2004, Aventura generated over \$662,000 in gross receipts and the County received approximately \$36,000 in rent payments.

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 commencing on November 1, 2005. Effective June 1, 2005, the County of Orange entered into a separate lease agreement directly with Aventura. The new agreement establishes a minimum annual rent plus a percentage rent of 7.5% of gross receipts in excess of \$750,000 per year.

SCOPE

Our review was limited to certain records and documents that support Aventura's gross receipts reported to TBW and remitted to the County for the one year period from June 1, 2004 to May 31, 2005. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and cash handling 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 Aventura has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. **No material weaknesses or significant issues were identified.** We did identify 4 control findings related to compliance with the Agreement or improving controls that are noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Boat Care Services

Aventura provides for the repair, cleaning, and fuel of the charter fleet boats. Most of the boats in the fleet are owned by members. Aventura charges the members for work performed on the members' boats. Daily labor sheets are used to manually record work performed on the charter boats. Those labor sheets are then summarized to charge members for boat care and to report gross receipts to the County.

Finding No. 1: Aventura does not use serially-numbered labor sheets to record services performed on the charter fleet boats. Using serially-numbered forms would help ensure completeness of revenue from boat care services reported as gross receipts. Aventura informed us that it may begin to use individual pre-numbered work orders instead of the daily labor sheets. The pre-numbered work orders are a good idea and would provide acceptable supporting documentation.

Recommendation No. 1: We recommend that DPHD require Aventura to utilize pre-numbered forms (labor sheets or work orders) to record work performed on fleet boats.

DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.

Retail Sales

During 2004, Aventura sold approximately \$12,000 in retail items such as t-shirts and hats. Clause 14 of the General Conditions of the Agreement states that retail sales and charges shall be recorded by means of cash registers or other comparable devices which display the amount of the transaction and automatically issue a receipt.

Finding No. 2: Aventura does not utilize a cash register or pre-numbered handwritten receipts to record retail sales.

Recommendation No. 2: We recommend that DPHD require Aventura to utilize cash registers or pre-numbered receipts to record retail sales.

DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.

Gift Certificates

Clause 12 of the General Conditions of the Agreement states that gross receipts shall include the sales price of all goods, wares, merchandise, and products sold on or from the premises.

Finding No. 3: Aventura reports gift certificates as gross receipts when redeemed rather than sold. This finding was also noted in our prior audit report dated July 3, 2001.

Recommendation No. 3: We recommend that DPHD require Aventura to report gift certificates as gross receipts when sold, rather than redeemed.

DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.



Deposits

Aventura allows members of other affiliated sailing associations to utilize their services. Aventura requires a security deposit from affiliate members for boat charters. As of May 31, 2005, the balance of Affiliate Member Deposits was \$2,000. Clause 12 of the General Conditions of the Agreement states that gross receipts shall include all admission, entry, rental, and other fees of any nature or kind charged, including deposits accepted.

Finding No. 4: Aventura does not report the deposits from affiliated members as gross receipts.

Recommendation No. 4: We recommend that DPHD require Aventura to report security deposits as gross receipts.

DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.



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 or 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.





COUNTY OF ORANGE
DANA POINT HARBOR DEPARTMENT

George A. Carvalho, Director
24650 Dana Point Harbor Drive
Dana Point, CA 92629

Telephone: (949) 923-3798
Fax: (949) 496-1225

DATE: June 1, 2006
TO: Peter Hughes, Ph.D., CPA, Director Internal Audit Department
FROM: George A. Carvalho, Director Dana Point Harbor Department
SUBJECT: Limited Review of Lease Revenue for Aventura Sailing Association, Sublease of T.B.W. Company, dba: Dana West Marina; Parcel HA78H-24-20, 22
CC:

George A. Carvalho
FOR GEORGE A. CARVALHO

Attached are responses to the findings and recommendations of your audit: Limited Review of Lease Revenue for Aventura Sailing Association, Sublease of T.B.W. Company, dba: Dana West Marina, Parcel HA78H-24-20, 22. We concur with your recommendations.

I would like to express my appreciation for your department's work regarding the audit of Aventura Sailing Association.

RECEIVED
INTERNAL AUDIT DEPARTMENT
2006 JUN - 6 AM 10:08



Dana Point Harbor Department Response

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Boat Care Services

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Recommendation No. 1: We recommend that DPHD require Aventura to utilize pre-numbered forms (labor sheets or work orders) to record work performed on fleet boats.

DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.

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Finding No. 2: Aventura does not utilize a cash register or pre-numbered handwritten receipts to record retail sales.

Recommendation No. 2: We recommend that DPHD require Aventura to utilize cash registers or pre-numbered receipts to record retail sales.

DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.

Audit No. 2564



Dana Point Harbor Department Response

Gift Certificates

Clause 12 of the General Conditions of the Agreement states that gross receipts shall include the sales price of all goods, wares, merchandise, and products sold on or from the premises.

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DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.

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Finding No. 4: Aventura does not report the deposits from affiliated members as gross receipts.

Recommendation No. 4: We recommend that DPHD require Aventura to report security deposits as gross receipts.

DPHD Response: DPHD concurs; estimated completion date is June 15, 2006.

Audit No. 2564

