

Internal Audit Department

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

Revenue Generating Lease Audit: **JOHN WAYNE AIRPORT PARADIES-OC, LLC**

For the Period
 March 1, 2011 through February 29, 2012

**\$4.5M GROSS RECEIPTS
 ANNUALLY
 \$1.3M RENT TO THE
 COUNTY ANNUALLY**

Paradies-OC, LLC operates five (5) news and gift concessions at John Wayne Airport Terminals B and C and subleases the operation of one (1) specialty retail store. Over its current ten (10) year term, this lease agreement is estimated to generate approximately **\$10.7 million** in rent to the County. Rent is paid based on a percentage of gross receipts. We audit the underlying books and records to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. During the 12-month audit period of March 1, 2011 through February 29, 2012, Paradies-OC, LLC reported approximately **\$4.5 million** in gross receipts from airport customers and paid the County approximately **\$1.3 million** in rent.

The Internal Audit Department found that Paradies-OC, LLC's records adequately supported gross receipts reported to the County and rent owed was properly paid.

AUDIT NO: 1133

REPORT DATE: JUNE 28, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Senior Internal Auditor: Susan Nestor, CPA, CIA

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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year



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. 1133 June 28, 2012

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Revenue Generating Lease Audit:
John Wayne Airport/Paradies-OC, LLC,
PM 1121-0350-0006

We have completed our revenue generating lease audit of Paradies-OC, LLC, for the period March 1, 2011 through February 29, 2012. The final **Internal Auditor's Report** is attached. We performed this Revenue Generating Lease Audit in accordance with our FY 2011-12 Audit Plan approved by the Audit Oversight Committee.

Each month I submit an **Audit Status Report** to the 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 your staff so that 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 recommendation.

Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Attachments

Other recipients of this report listed on the **OC Internal Auditor's Report** on page 4.

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John Wayne Airport
Paradies-OC, LLC
Audit No. 1133***

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March 1, 2011 through February 29, 2012

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Audit No. 1133

June 28, 2012

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Revenue Generating Lease Audit:
John Wayne Airport, Paradies-OC, LLC,
PM 1121-0350-0006

Audit Highlight

Paradies-OC, LLC has a lease agreement to operate five (5) news and gift concessions at John Wayne Airport Terminals B and C and subleases the operation of one (1) specialty retail store.

Gross receipts generated from airport customers during the 12-month audit period were approximately **\$4.5 million** and rent paid to the County was about **\$1.3 million**. Over its current ten (10) year term, this lease agreement is estimated to generate approximately **\$10.7 million** in rent to the County.

The Internal Audit Department found that Paradies-OC, LLC's records adequately supported reported gross receipts and rent owed was properly paid.

OBJECTIVE

We have performed an audit of certain records and documents for the period of March 1, 2011 through February 29, 2012, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Paradies-OC, LLC (Paradies), dated January 11, 2011. The Agreement is for the operation of news, gift, and specialty retail concessions at the John Wayne Airport Terminals B and C. Our audit objectives were:

- (1) The primary objective of our audit is to determine whether Paradies' records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.
- (2) The secondary objective of our audit is to determine whether Paradies complies with certain other financial provisions of the Agreement, such as accounting methods, monthly gross receipts statement format, and annual financial statement requirements.

In addition, while performing the audit we may identify internal control weaknesses for which we will identify suggestions for improvement.

RESULTS

Objective #1: We found that Paradies' records adequately supported reported gross receipts and rent owed was properly paid.

Objective #2: We found that Paradies complied with certain other financial provisions of the agreement such as accounting methods and monthly gross receipts statement format.

BACKGROUND

The County originally entered into a lease (Agreement) with Paradies-OC, LLC (Paradies), dated June 1, 2008, for the operation of three (3) news and gift concessions in Terminal B.



In conjunction with the addition of JWA's new Terminal C, the County entered into a new Agreement with Paradies, dated January 11, 2011, for the operation of five (5) news, gift, and specialty retail concessions in Terminals B and C. The beginning date of the new Agreement term was Paradies' date of beneficial occupancy (DBO) of the new locations in Terminals B and C, which was November 14, 2011. Until then, gross receipts were reported to the County in accordance with the Agreement dated June 1, 2008.

Therefore, our 12-month audit period covered two lease agreements as follows:

- 3/1/11 - 11/13/11: Prior lease agreement dated June 1, 2008.
- 11/14/11 - 2/29/12: Current lease agreement dated January 1, 2011.

In December 2011, Paradies entered into a Terminal C sublease with Project Horizon, Inc., dba InMotion, for the operation of a specialty retail store. InMotion gross receipts are included in Paradies' gross receipts reported to the County.

During the 12-month audit period, Paradies reported approximately \$4.5 million in gross receipts derived from airport customers and paid the County approximately \$1.3 million in rent. Over its current ten (10) year term, this lease agreement is estimated to generate approximately \$10.7 million in rent to the County.

SCOPE

Our audit was limited to certain records and documents that support Paradies gross receipts reported to the County for the 12-month audit period of March 1, 2011 to February 29, 2012. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel at Paradies, InMotion, and John Wayne Airport. If you have any questions regarding our revenue generating lease audit, please call me directly at (714) 834-5475; 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:

Members, Board of Supervisors
Members, Audit Oversight Committee
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Loan Leblow, Assistant Airport Director, JWA
Roy Freeman, Deputy Airport Director, JWA/Business Development
Barbara Swift, Administrative Manager, JWA/Business Development
Kellie Billante, Asset Manager, JWA/Business Development
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