



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

*Integrity
Objectivity
Independence*

**LIMITED REVIEW OF LEASE REVENUE
FOR
MCDONALD'S CORPORATION**

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

AUDIT NUMBER: 2563

REPORT DATE: July 28, 2005

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

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Transmittal Letter

Audit No. 2563

July 28, 2005

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Limited Review of Lease Revenue for McDonald's Corporation
Parcel No. PM 1121-345-2, 2.1, 2.2

We have completed our limited review of lease revenue for McDonald's Corporation dba Delaware McDonald's Corporation (McDonald's) for the period from June 1, 2004 through May 31, 2005. The final report is attached.

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 or implemented.

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

Mr. Alan Murphy, Director, John Wayne Airport

July 28, 2005

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As the Director of Internal Audit Department, effective December 14, 2004, I make a monthly audit status presentation to the BOS where I detail any significant and material audit findings released in reports during the prior month and the status of audit recommendation implementations as disclosed by Follow-Up Audits. Accordingly, the results of this review will be included in a future summary to the BOS.

Because of these visible changes to our follow-up process, the Internal Audit Department is available to partner with all departments and agencies so that they can successfully implement or address difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report, recommendations or follow-up process.

Additionally, we will be submitting Customer Survey of Audit Services to you shortly. Please complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department. We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Loan Leblow, Assistant Airport Director

Michael VandenBergh, Deputy Airport Director, JWA/Business Development

David De Leon, Manager, JWA/Parking, Ground Transportation and Special Projects

Lori Peters, Deputy Airport Director, JWA/Finance & Administration

Frank Davies, Accounting Manager, JWA/Accounting

Foreman, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2563

July 28, 2005

TO: Alan L. Murphy, Director
John Wayne Airport

SUBJECT: Limited Review of Lease Revenue for McDonald's Corporation
Parcel PM 1121-345-2, 2.1, 2.2

We have performed a limited review of certain records and documents for the year ended May 31, 2005, pertinent to the lease agreement (Agreement) between the County of Orange (County) and McDonald's Corporation dba Delaware McDonald's Corporation (McDonald's), dated June 15, 1990, as amended. The Agreement is limited to the operation of two fast food service areas at John Wayne Airport (JWA).

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

Based on our limited review, we find that McDonald's has retained sufficient documentation to adequately support monthly gross receipts reported to the County. **No material weaknesses, significant issues, or reportable conditions 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 McDonald's, JWA/Business Development, and JWA/Accounting Services. If you have any questions regarding our limited review of lease revenue, please call me, Eli Littner, Deputy Audit Director, at (714) 834-5899, or Autumn McKinney, Audit Manager, at (714) 834-6106.

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

Attachment A – Report Item Classifications

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas Mauk, County Executive Officer
Loan Leblow, Assistant Airport Director
Michael VandenBergh, Deputy Airport Director, JWA/Business Development
David De Leon, Manager, JWA/Parking, Ground Transportation and Special Projects
Lori Peters, Deputy Airport Director, JWA/Finance & Administration
Frank Davies, Accounting Manager, JWA/Accounting
Foreman, 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 for McDonald's Corporation dba Delaware McDonald's Corporation (McDonald's) for the primary purpose of determining whether McDonald's records adequately supported their monthly gross receipts reported to the County.

BACKGROUND

The County of Orange entered into a lease agreement (Agreement) with McDonald's dated June 15, 1990, for the operation of two fast food service areas at John Wayne Airport (JWA). For the year ended September 30, 2004, McDonald's generated approximately \$5.4 million in gross receipts and paid the County approximately \$750,000 in rent.

SCOPE

Our review was limited to certain records and documents that support McDonald's gross receipts reported to the County for the 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 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 McDonald's has retained sufficient documentation to adequately support monthly gross receipts reported to the County. **No material weaknesses, significant issues or reportable conditions were identified.** See Attachment A for a description of report item classifications.



**DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT
RESPONSES**

None Noted.



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 that can result in significant 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 that represent a significant deficiency in the design or operation of processes or internal controls.
- **Reportable Conditions:** Audit findings that require management’s corrective action to implement or enhance processes and internal controls.

