



**INTERNAL AUDIT DEPARTMENT**  
**COUNTY OF ORANGE**

2005 Recipient of the Institute of Internal Auditors  
Award for Excellence

*Integrity ♦ Objectivity ♦ Independence*

**PERFORMANCE MEASURE VALIDATION**  
**OF**  
**JOHN WAYNE AIRPORT**

**AUDIT NUMBER: 2555**

**REPORT DATE: APRIL 14, 2006**

**Audit Director: Peter Hughes, Ph.D., CPA**  
**Deputy Director: Eli Littner, CPA, CIA**  
**Audit Manager: Alan Marcum, MBA, CPA, CIA**  
**Senior Auditor: Toni Smart, CPA**

**PERFORMANCE MEASURE VALIDATION  
OF  
JOHN WAYNE AIRPORT**

**TABLE OF CONTENTS**

Transmittal Letter.....	i
INTERNAL AUDITOR’S REPORT .....	1
SUMMARY TABLE – VALIDATION RESULTS.....	3
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES .....	5
ATTACHMENT A: John Wayne Airport Director Responses .....	6



COUNTY OF ORANGE  
**INTERNAL AUDIT DEPARTMENT**  
2005 Recipient of the Institute of Internal Auditors  
Award for Excellence

*Integrity ♦ Objectivity ♦ Independence*

Office of the Director  
**DR. PETER HUGHES**  
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:  
400 CIVIC CENTER DRIVE WEST  
BUILDING 12, ROOM 232  
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475  
FAX: (714) 834-2880

EMAIL: [peter.hughes@ocgov.com](mailto:peter.hughes@ocgov.com)  
WEBSITE: [www.ocgov.com/audit/](http://www.ocgov.com/audit/)

ELI LITTNER  
CPA, CIA, CFE, CFS, CISA  
DEPUTY DIRECTOR

MICHAEL J. GOODWIN  
CPA, CIA  
AUDIT MANAGER

ALAN MARCUM  
MBA, CPA, CIA, CFE  
AUDIT MANAGER

AUTUMN MCKINNEY  
CPA, CIA, CGFM  
AUDIT MANAGER

---

**Transmittal Letter**

Audit No. 2555

April 14, 2006

TO: Alan L. Murphy, Director  
John Wayne Airport

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

SUBJECT: Performance Measure Validation

We have completed our Performance Measure Validation (PMV) of the January 03 – June 04 Strategy Results included in the 2005 Business Plan. Congratulations on your outstanding efforts regarding your Performance Measurers. Our validation revealed excellence in design, documentation and delivery. The final report is attached along with your responses to our recommendations.

We wish to thank the Airport management and staff for being one of the first departments/agencies at the County to go through a Performance Measurer Validation audit. The interactions with the Airport management and staff provided us with invaluable insights into the development and implementation of the PMV audit process. In addition, in developing our PMV audit process we benchmarked with Maricopa County, Arizona Internal Audit Department's Performance Measurer Certification program. Maricopa County has been conducting their certification program for over five years and has received several awards and has been referred to as the "gold standard" of performance measurement auditing by the Government Accounting Standards Board (GASB). Our approach closely mirrors the award winning approach developed by the Maricopa County Internal Audit Department.

**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). As a matter of policy, our first Follow-Up Audit will now begin no later than 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. However, we will not perform our follow-up until the next Business Plan cycle.

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 will provide a Follow-Up Audit Report Form to you; this template should be completed as our audit recommendations are implemented. When we perform our Follow-Up Audit by the next Business Plan cycle, we will need to obtain the completed document to facilitate our review. 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 John Wayne Airport management and staff so they can successfully implement or mitigate difficult audit recommendations. The Airport Director is free to call me should he wish to discuss any aspect of our audit report or recommendations.

Additionally, we will be forwarding to the Airport Director a Customer Survey of Audit Services for completion. The Airport Director will receive the survey shortly after the distribution of this report. We appreciate the courtesy and cooperation of the Airport Director 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
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



COUNTY OF ORANGE  
**INTERNAL AUDIT DEPARTMENT**  
2005 Recipient of the Institute of Internal Auditors  
Award for Excellence

*Integrity ♦ Objectivity ♦ Independence*

**Office of the Director**  
**DR. PETER HUGHES**  
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:  
400 CIVIC CENTER DRIVE WEST  
BUILDING 12, ROOM 232  
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475  
FAX: (714) 834-2880

EMAIL: [peter.hughes@ocgov.com](mailto:peter.hughes@ocgov.com)  
WEBSITE: [www.ocgov.com/audit/](http://www.ocgov.com/audit/)

ELI LITTNER  
CPA, CIA, CFE, CFS, CISA  
DEPUTY DIRECTOR

MICHAEL J. GOODWIN  
CPA, CIA  
AUDIT MANAGER

ALAN MARCUM  
MBA, CPA, CIA, CFE  
AUDIT MANAGER

AUTUMN MCKINNEY  
CPA, CIA, CGFM  
AUDIT MANAGER

---

**INTERNAL AUDITOR'S REPORT**

Audit No. 2555

April 14, 2006

TO: Alan L. Murphy, Director  
John Wayne Airport

SUBJECT: Performance Measure Validation

We have completed our Performance Measure Validation (PMV) to validate the accuracy of the January 03 – June 04 Strategy Results reported in your 2005 Business Plan. Congratulations on your outstanding efforts regarding your Performance Measurers. Our validation revealed excellence in design, documentation and delivery. Our audit included obtaining an understanding of the methodology in place for collecting and reporting Strategy Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 45 Strategies, and we selected a sample of 10 Strategies and Results for testing your supporting documentation. Our audit scope did not include an assessment of the appropriateness of your Strategies based on your mission, goals and objectives.

We have initiated our PMV audits at the request of the Audit Oversight Committee. Our approach is to review performance measure results, assign validation ratings, report conclusions, and make recommendations. Our validation program is designed to provide assurance to the Board of Supervisors, the County Executive Officer, and you and other stakeholders that reported Outcome Indicators are reliable and can be utilized in decision making covering Government resources with confidence.

We wish to thank the Airport management and staff for being one of the first departments/agencies at the County to go through a Performance Measurer Validation audit. The interactions with the Airport management and staff provided us with invaluable insights into the development and implementation of the PMV audit process. In addition, in developing our PMV audit process we benchmarked with Maricopa County, Arizona Internal Audit Department's Performance Measurer Certification program. Maricopa County has been conducting their certification program for over five years and has received several awards and has been referred to as the "gold standard" of performance measurement auditing by the Government Accounting Standards Board (GASB). Our approach closely mirrors the award winning approach developed by the Maricopa County Internal Audit Department.

We conducted our audit in accordance with the Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors and with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.


For each Outcome Indicator tested, we reported the results using one of the three Rating Definitions shown below.

Rating Definitions		
<b>5 Star</b>	★★★★★	We found adequate supporting documentation.
<b>4 Star</b>	★★★★	We found adequate supporting documentation with some recommendations for improvement.
<b>3 Star</b>	★★★	We noted opportunities for improvement.

Based on our audit of the January 03 – June 04 Strategy Results reported in your 2005 Business Plan, we rated 80 percent of your reported Strategy Results as 5 Star. The 2005 Business Plan contained 45 Strategies, and we tested 10 Strategy Results and rated eight (8) as 5 Star and two (2) as 4 Star. On page 3 we have provided a table (Summary Table – Validation Results) that lists for each Strategy, the reported results, and our rating of the accuracy of the John Wayne Airport results. For the Strategy Results that were rated a 4 Star, we have provided detail of these, along with recommendations for enhancements over the gathering and reporting of the Strategy Results in the Findings, Recommendations and Management Responses section of this report.

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of the John Wayne Airport. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at (714) 834-5899 or Alan Marcum, Audit Manager, at (714) 834-4119.

Respectfully Submitted,

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

Attachment A – John Wayne Airport Director Responses

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Loan Leblow, Assistant Airport Director
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors

## SUMMARY TABLE – VALIDATION RESULTS

John Wayne Airport January 03-June 04 Stated		Internal Audit Validation		
Strategy	Results	(Highest Rating Possible) 5 Star ★★★★★	4 Star ★★★★	3 Star ★★★
1. Comply with the Airport Security Plan and FAA security directives (1.1).	The Airport successfully passed its annual Part 139 Certification Inspection. JWA insured the security requirements of TSA Regulation 1542 were integrated into its Security Plan and fully complied with the regulation specifics, which mandate airport responsibilities for security measures including building security, perimeter security, and badging security systems.	✓		
2. Update the Airport Security Plan to reflect significant regulatory changes required by TSA (1.3).	Accomplished an update to the Airport Security Plan and established procedures to address an evolving security posture based on the receipt of intelligence information.	✓		
3. Conduct a survey of air transportation users to identify client perception of and recommendations for improving Airport facilities and services (2.1).	A professional survey of passengers was completed in August 2003. Ninety-four percent of the respondents said that they found Airport services to be “Excellent” or “Very Good.”	✓		
4. Allocate operating capacity based on the process defined in the Access Plan (3.1).	On January 28, 2003, the Board approved capacity allocations for the 2003-2004 Plan Year.	✓		
5. Maintain a General Aviation Noise Ordinance “Denial Status Report” and issue notices of violation within two weeks of violations (3.3).	A “Denial Status Report” was created and updated with each aircraft denial occurrence. All notices of violation were issued within two weeks of the violation.		✓ Finding #1 (See page 5)	
6. Revise the Commercial Airline Access Plan and Regulation to incorporate requirements of EIR 582 and Settlement Agreement amendments (3.5).	Revisions were completed and approved by the Board on June 24, 2003.	✓		



## SUMMARY TABLE – VALIDATION RESULTS

John Wayne Airport January 03-June 04 Stated		Internal Audit Validation		
Strategy	Results	(Highest Rating Possible) 5 Star ★★★★★	4 Star ★★★★	3 Star ★★★
7. Update the Airport Storm Water Pollution Prevention and Emergency and Spill Response plans and monitoring programs (3.8).	Updates were accomplished through preparation of a detailed plan incorporating specific monitoring and response provisions for all Airport construction projects of one acre or larger. This update improves the earlier provisions which addressed projects with a threshold size of 5 acres or greater.	✓		
8. Finalize and implement the Memorandum of Understanding between the airlines, airports, and responsible agencies to reduce air quality emissions from ground support equipment (3.12).	In December 2002, the California Air Resources Board and most major domestic air carriers serving the South Coast Air Basin executed a Memorandum of Understanding (MOU) regarding ground support equipment. This MOU requires signatory airlines that operate ground support equipment (GSE) at commercial service airports in the South Coast Air Basin to reduce NOx emissions from this equipment.	✓		
9. Debt Service covenant of at least 175% (4.A).		✓		
10. Maintain a rating agencies and investors public relations program in accordance with CEO policy (4.3).	JWA successfully maintained an Aa3 rating from Moody's on all outstanding bonds. Standard and Poor's upgraded its rating of the Airport Series 1997 Bonds to A+ from A, and issued an A+ rating on the Airport Series 2003 Revenue Refunding Bonds. Fitch maintained the A+ rating on JWA bonds and upgraded the outlook to positive from stable. JWA is one of only six airports in the country to receive a credit rating upgrade since 9/11.		✓ Finding #2 (See page 5)	





## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

### Finding No. 1 (4 Star)

**John Wayne Airport Strategy:** Maintain a General Aviation Noise Ordinance “Denial Status Report” and issue notices of violation within two weeks of violations (3.3).

**John Wayne Airport Stated Results:** A “Denial Status Report” was created and updated with each aircraft denial occurrence. All notices of violation were issued within two weeks of the violation.

The Board of Supervisors Internal Audit Department validation found that not all notices of violation were issued within two weeks of the violation. We tested 16 out of a total of 312 noise violations that occurred between January 1, 2003 and June 30, 2004, and found that 1 of the 16 notices of violation was mailed (issued) 18 days from the date of the violation.

#### **Recommendation No. 1**

For future Business Plans ensure that reported results are supported and properly stated.

**Airport Director Response:** Concur. Future Business Plans will reflect a goal that 95% of all General Aviation Noise Ordinance violations will be issued within two weeks of the violation. In order to verify actual performance on this measure, John Wayne Airport has already begun recording violation dates, notice of violation dates and related aircraft information.

---

### Finding No. 2 (4 Star)

**John Wayne Airport Strategy:** Maintain a rating agencies and investors public relations program in accordance with CEO policy (4.3).

**John Wayne Airport Stated Results:** JWA successfully maintained an Aa3 rating from Moody’s on all outstanding bonds. Standard and Poor’s upgraded its rating of the Airport Series 1997 Bonds to A+ from A, and issued an A+ rating on the Airport Series 2003 Revenue Refunding Bonds. Fitch maintained the A+ rating on JWA bonds and upgraded the outlook to positive from stable. JWA is one of only six airports in the country to receive a credit rating upgrade since 9/11.

The Board of Supervisors Internal Audit Department validation found that the Results do not support the Strategy. The Strategy states that JWA will maintain a rating agencies and investors public relations program in accordance with CEO policy. However, the CEO does not have a written rating agencies and investors public relations program policy.

#### **Recommendation No. 2**

For future Business Plans revise the Strategy or the Results being reported to complement each other.

**Airport Director Response:** Concur. Future Business Plans will be changed to reflect that JWA’s rating agencies and investors public relations program will be conducted in accordance with CEO practice.





**County of Orange**

**MEMO**

RECEIVED  
INTERNAL AUDIT DEPARTMENT

2006 APR 13 PM 2: 24

DATE: April 11, 2006  
TO: Peter Hughes, Ph D., CPA, Director, Internal Audit  
FROM: Alan L. Murphy, Director, John Wayne Airport *ALM*  
SUBJECT: Response to Performance Measure Validation Audit

---

I am pleased to provide John Wayne Airport's response to the Performance Measure Validation audit recently completed by the Internal Audit Department. Our response has been reviewed and approved by the County Executive Office on April 6, 2006.

On behalf of the Airport, I would like to express our appreciation for the thoroughness and professionalism demonstrated by the Internal Audit Department in conducting this audit.

cc: Loan Leblow, Assistant Airport Director



**JOHN WAYNE AIRPORT**  
Response to Performance Measure Validation Audit (2003-04)  
March 2006

---

**FINDING NO. 1 (4 STAR)**

**John Wayne Airport Strategy:** Maintain a General Aviation Noise Ordinance “Denial Status Report” and issue notices of violation within two weeks of violation (3.3).

**John Wayne Airport Stated Results:** A “Denial Status Report” was created and updated with each aircraft denial occurrence. All notices of violation were issued within two weeks of the violation.

**Recommendation No. 1:** For future Business Plans, ensure that reported results are supported and properly stated.

**Airport Director Response:** Concur. Future Business Plans will reflect a goal that 95% of all General Aviation Noise Ordinance violations will be issued within two weeks of the violation. In order to verify actual performance on this measure, John Wayne Airport has already begun recording violation dates, notice of violation dates and related aircraft information.

**FINDING NO. 2 (4 STAR)**

**John Wayne Airport Strategy:** Maintain a rating agencies and investors public relations program in accordance with CEO policy (4.3).

**John Wayne Airport Stated Results:** JWA successfully maintained an Aa3 rating from Moody’s on all outstanding bonds. Standard and Poor’s upgraded its rating of the Airport Series 1997 Bonds to A+ from A, and issued an A+ rating on the Airport Series 2003 Revenue Refunding Bonds. Fitch maintained the A+ rating on JWA bonds and upgraded the outlook from positive to stable. JWA is one of only six airports in the country to receive a credit rating upgrade since 9/11.

**Recommendation No. 1:** For future Business Plans revise the Strategy or the Results reported to complement each other.

**Airport Director Response:** Concur. Future Business Plans will be changed to reflect that JWA’s rating agencies and investors public relations program will be conducted in accordance with CEO practice.

