

Internal Audit Department

O R A N G E C O U N T Y

REVIEW OF LEASE REVENUE CREATIVE CROISSANTS

For the Period
January 1, 2007 through December 31, 2007

Creative Croissants operates a coffee specialty concession located in the John Wayne Airport passenger terminal. Annual gross receipts generated are approximately \$1.4 million and rent paid to the County is approximately \$359,000.

The Internal Audit Department found that Creative Croissants' records adequately supported gross receipts and rent was properly paid to the County.

AUDIT NO: 2735
REPORT DATE: JUNE 24, 2008

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Internal Audit Department

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OC Internal Audit Department, visit our website: www.ocgov.com/audit**OC Fraud Hotline (714) 834-3608**

Letter from Director Peter Hughes



Transmittal Letter



AUDIT NO. 2735 JUNE 24, 2008

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Review of Lease Revenue for Creative
Croissants, Parcel No. PM 1121-360-39,
39.1

We have completed our review of lease revenue for Creative Croissants for the period January 1, 2007 through December 31, 2007. The final **Internal Auditor's Report** is attached along with your responses to our recommendation.

Please note we have a 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 at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

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 six months from the release of the first Follow-Up Audit 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**. Your department should complete this template as our audit recommendation is implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

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.

Letter from Director Peter Hughes



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 Internal Auditor's Report on page 2.

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January 1, 2007 through December 31, 2007

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INTERNAL AUDITOR'S REPORT

AUDIT No. 2735

JUNE 24, 2008

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Review of Lease Revenue for Creative Croissants
PM 1121-360-39, 39.1

OBJECTIVES

We have performed a review of certain records and documents for the period from January 1, 2007 through December 31, 2007, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Creative Host Services, Inc. dba Creative Croissants, effective March 1, 1996, as amended and assigned. The agreement is limited to the operation of a coffee specialty concession located on the south airside concourse of the departure level within the John Wayne Airport passenger terminal

The primary purpose of our review is to determine whether Creative Croissants' 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 records and payment procedures.

BACKGROUND

The County of Orange (County) entered into a lease agreement (Agreement) with Creative Croissants effective March 1, 1996, as amended and assigned, for the operation of a coffee specialty concession at John Wayne Airport. During the 12-months ended December 31, 2007, Creative Croissants generated approximately \$1.4 million in gross receipts and paid the County approximately \$359,000 in rent.

SCOPE

Our review was limited to certain records and documents that support Creative Croissants' gross receipts reported to the County for the 12-month period of January 1, 2007 to December 31, 2007. We also reviewed compliance with certain other provisions of the Agreement,

Audit Highlight

Creative Croissants operates a coffee specialty concession located in the John Wayne Airport passenger terminal. Annual gross receipts generated are approximately \$1.4 million and rent paid to the County is approximately \$359,000.

The Internal Audit Department found that Creative Croissants' records adequately supported gross receipts and rent was properly paid to the County.



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 review, we find that Creative Croissants' records adequately supported monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we identified one (1) control finding related to supporting documentation for customer refunds which is noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

ACKNOWLEDGEMENT

We appreciate the courtesy and cooperation extended to us by the personnel at Creative Croissants, JWA/Business Development, JWA/Accounting Services and JWA/Quality Assurance and Compliance. 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, Senior Audit Manager at (714) 834-6106.

Attachment A: Report Item Classifications

Attachment B: JWA Management 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
Roy Freeman, Deputy Airport Director, JWA/Business Development
David De Leon, Manager, JWA/Parking, Ground Transportation,
and Special Projects
Tammy Adams, Real Property Agent, JWA/Parking, Ground
Transportation, and Special Projects
Lisa Kawashima, Accounting Manager, JWA/Accounting
Scott Suzuki, Manager, JWA/Quality Assurance and Compliance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Supporting Documentation for Refunds

Creative Croissants processes customer refunds for sales transactions in the following instances: (1) when a customer returns an item due to spoilage or dissatisfaction; (2) when a customer's credit card is declined and the customer cannot pay; and (3) when keying errors are made by sales associates after the transaction is subtotaled. The refunds are not processed in the cash register when they take place. Instead, refunds are accumulated by the sales associates and recorded in one summary entry to the cash register at the end of the day by the manager. Refunds reduce the gross receipts reported to the County.

Finding No. 1

Creative Croissants does not maintain sales receipts or other documentation to support the customer refunds. Consequently, the validity of the refund transactions or amounts cannot be determined. During the 12-month period of January 1, 2007 to December 31, 2007, Creative Croissants' total customer refunds amounted to \$28,134, which represents 2% of gross receipts.

Supporting documentation should be retained for customer refunds. The documentation should include the original cash register receipt, along with the reason for the refund and the signature of the sales associate and approving supervisor.

Recommendation No. 1

We recommend that JWA require Creative Croissants to maintain adequate supporting documentation for customer refunds.

JWA Response

Concur. This recommendation has been implemented. JWA advised Creative Croissants, in a letter dated May 6, 2008, to immediately begin the retention of supporting documentation for customer refunds. Furthermore, JWA has demanded an additional rent payment of \$7,174 based upon the Lessee's failure to maintain adequate source documents. Creative Croissants responded in a letter dated June 6, 2008 that they will implement procedures to address the issues identified in the audit.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify 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 address "Material Weaknesses" brought to their attention immediately.

▶ **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

▶ **Control Findings and/or Efficiency/Effectiveness Issues:**

Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: JWA Management Response



County of Orange

MEMO

RECEIVED
INTERNAL AUDIT DEPARTMENT
2008 JUN 23 PM 2: 09

DATE: June 19, 2008

TO: Dr. Peter Hughes, Director
Internal Audit Department

FROM: Alan L. Murphy, Airport Director
John Wayne Airport 

SUBJECT: Response to the Internal Audit Department's Report on Review of Lease Revenue
for Creative Croissants, Parcel No. PM 1121-360-39, 39.1

This memo is in response to the Internal Audit Department's Review of Lease Revenue for Creative Croissants' operation of a food and beverage concession at John Wayne Airport. The review was comprised of an examination of certain records and documents for the period January 1, 2007 through December 31, 2007.

The review found that Creative Croissants records adequately supported gross receipts and rent was properly paid to the County. No material weaknesses or significant issues were identified.

Our response was reviewed and approved by the County Executive Office on June 17, 2008.

Attachment

cc: Loan Leblow, Assistant Airport Director
Roy Freeman, Deputy Airport Director, Business Development
Lisa Kawashima, Accounting Manager
Scott Suzuki, Quality Assurance & Compliance Manager
David De Leon, Business Development Manager
Barbara Swift, Real Property Agent



ATTACHMENT B: JWA Management Response (continued)

JOHN WAYNE AIRPORT
Response to the Internal Audit Department's Report on
Review of Lease Revenue for Creative Croissants
Audit No. 2735

Recommendation No. 1: We recommend that JWA require Creative Croissants to maintain adequate supporting documentation for customer refunds.

JWA Management Response: Concur. This recommendation has been implemented. JWA advised Creative Croissants, in a letter dated May 6, 2008, to immediately begin the retention of supporting documentation for customer refunds. Furthermore, JWA has demanded an additional rent payment of \$7,174 based upon the Lessee's failure to maintain adequate source documents. Creative Croissants responded in a letter dated June 6, 2008 that they will implement procedures to address the issues identified in the audit.