

Internal Audit Department

REVENUE GENERATING LEASE AUDIT: JWA/JCDECAUX AIRPORT, INC.

For the Period
March 1, 2008 through February 28, 2009

JCDecaux Airport, Inc. operates and manages an advertising program at the John Wayne Airport terminal. Gross receipts reported during the 12-month audit period were approximately **\$2.8 million** and rent paid to the County was approximately **\$1.7 million**. Over the 5 year term, this lease agreement is estimated to generate over **\$7 million** dollars in rent to the County.

The Internal Audit Department found that JCDecaux Airport, Inc.'s records adequately supported gross receipts. However, additional rent of **\$25,220** was identified as owed to the County.

AUDIT NO: 2834
REPORT DATE: AUGUST 25, 2009

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Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
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Senior Internal Auditor: Susan Nestor CPA, CIA



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ORANGE COUNTY BOARD OF SUPERVISORS'
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RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 2834 August 25, 2009

TO: Alan L. Murphy, Director
John Wayne Airport

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: Revenue Generating Lease Audit:
John Wayne Airport/JCDecaux Airport,
Inc., PM 1121-0370-005

We have completed our revenue generating lease audit of JCDecaux Airport, Inc. for the period March 1, 2008 through February 28, 2009. The final **County Internal Auditor's Report** is attached along with your responses to our recommendations. We performed this Revenue Generating Lease Audit in accordance with our FY 2008-09 Audit Plan approved by the Audit Oversight Committee.

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 recommendations are 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.

Letter from Dr. Peter Hughes, CPA



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 **County Internal Auditor's Report** on page 3.

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John Wayne Airport
JCDecaux Airport, Inc.
Audit No. 2834*

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March 1, 2008 through February 28, 2009

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County Internal Auditor's Report



Audit No. 2834

August 25, 2009

TO: Alan L. Murphy, Director
John Wayne Airport

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: Revenue Generating Lease Audit:
John Wayne Airport, JCDecaux Airport, Inc.
PM 1121-0370-005

Audit Highlight

JCDecaux Airport, Inc. operates and manages an advertising program at the JWA Airport terminal.

Gross receipts generated during the audit period were approximately **\$2.8 million** and rent paid to the County was approximately **\$1.7 million**. Over the 5 year lease term, this lease is estimated to generate over **\$7 million** dollars in rent to the County.

The Internal Audit Department found that JCDecaux Airport, Inc.'s records adequately supported gross receipts. However, additional rent of **\$25,220** was identified as owed to the County.

OBJECTIVE

We have performed an audit of certain records and documents for the period from March 1, 2008 through February 28, 2009, pertinent to the lease agreement (Agreement) between the County of Orange (County) and JCDecaux Airport, Inc., dated November 1, 2004. The Agreement is for the operation and management of an advertising program at the John Wayne Airport terminal. Our audit objectives were:

- (1) The primary purpose of our audit is to determine whether JCDecaux Airport, Inc.'s records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.
- (2) The secondary purpose of our audit is to determine whether JCDecaux Airport, Inc. 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.

BACKGROUND

The County entered into an Agreement with JCDecaux Airport, Inc., dated November 1, 2004, for the operation and management of an advertising program at the John Wayne Airport terminal. During the 12-month audit period, JCDecaux Airport, Inc. reported approximately \$2.8 million in gross receipts and paid the County approximately \$1.7 million in rent.

County Internal Auditor's Report



SCOPE

Our audit was limited to certain records and documents that support JCDecaux Airport, Inc.'s gross receipts reported to the County for the 12-month period of March 1, 2008 to February 28, 2009. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

RESULTS

Below are the results of our audit:

Objective #1 – Adequate Records: Determine whether JCDecaux Airport, Inc. records adequately support monthly gross receipts reported to the County and rent owed is properly paid.

Results: We found that JCDecaux Airport Inc.'s records adequately supported reported gross receipts. We noted **two (2) Control Findings** where additional rent of \$25,220 is owed. (See page 4 for details)

Objective #2 – Compliance: Determine whether JCDecaux Airport, Inc. complies with certain other financial provisions of the agreement.

Results: We found that JCDecaux Airport, Inc. overall complied with certain other financial provisions of the agreement such as accounting methods, monthly gross receipts statement format, and annual financial statements.

See the **two (2) Control Findings** in the Detailed Findings, Recommendations, and Management Responses section of this report. See **Attachment A** for a description of report item classifications.

ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel at JCDecaux Airport, Inc., JWA/Business Development, JWA/Accounting Services, and JWA/Quality Assurance & Compliance. If you have any questions regarding our revenue generating lease audit, please call me directly; or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Attachment A: Report Item Classifications
Attachment B: John Wayne Airport Responses

County Internal Auditor's Report



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, Administrative Manager, JWA/Business Development/Asset Management
Barbara Swift, Real Property Agent, JWA/Business Development
Steve Siemion, Deputy Airport Director, JWA/Finance & Administration
Lisa Kawashima, Accounting Manager, JWA/Accounting
Scott Suzuki, Manager, JWA/Quality Assurance & Compliance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

Detailed Findings, Recommendations and Management Responses



Audit Objective #1 – Adequate Records

1. Rent Owed for Technical Charges (2 Control Findings)

Clause 13.D of the Agreement defines gross receipts as “All rental, admission and other fees of any nature or kind charged by tenant.”

JCDecaux Airport, Inc. (JCDecaux) operates a phone board at the JWA Digital Welcome Center. The phone board provides travelers with information regarding local hotels, car rentals, and restaurants and allows the travelers to print out related information.

JCDecaux charges their clients (hotels, car rentals, and restaurants) an advertising fee. JCDecaux also charges their clients a technical fee associated with the costs of operating the phone boards.

Finding Nos. 1 & 2: JCDecaux does not report the phone board technical fees charged to its clients as gross receipts to the County. For the 12-month audit period of March 1, 2008 through February 28, 2009, the technical charges were \$3,797. Rent of \$2,202 ($3,797 \times 58\%$) is owed.

Recommendation No. 1: We recommend that JWA require JCDecaux to begin reporting the phone board technical charges as gross receipts to the County and pay the appropriate percentage rent.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated July 6, 2009, we have required JCDecaux to commence reporting technical fees charged and remit the appropriate amount of rent due to JWA.

Recommendation No. 2: We also recommend that JWA require JCDecaux to pay additional rent owed of \$2,202 for the audit period.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated July 6, 2009, we have required JCDecaux to remit payment to JWA for the amount noted in the recommendation. Furthermore, we are pursuing payment from JCDecaux for technical fees charged for the pre-audit period in the amount of approximately \$23,018. With respect to the post-audit period, JCDecaux’s revenues, inclusive of technical fees, fell below the contractual minimum annual guarantee (MAG), therefore, there is no additional amount due at this time. The total amount recovered as a result of this audit is \$25,220.

Detailed Findings, Recommendations and Management Responses



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings 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.

Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: John Wayne Airport Responses

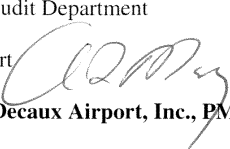
 **County of Orange**

MEMO

RECEIVED
INTERNAL AUDIT DEPARTMENT
2009 AUG 20 PM 3:09

DATE: August 19, 2009

TO: Dr. Peter Hughes, County Internal Auditor, Internal Audit Department

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

SUBJECT: **Report on Revenue Generating Lease Audit of JCDecaux Airport, Inc., PM 1121-0370-005**

This memo is in response to the Internal Audit Department's Report on Revenue Generating Lease Audit for JCDecaux Airport, Inc., Audit No. 2834.

Attached is our management response which was reviewed and approved by the County Executive Office on August 17, 2009. We have implemented each of the report's recommendations and will have supporting documentation available for your subsequent follow-up audit.

Attachment

cc: Loan Leblow, Assistant Airport Director
Roy Freeman, Deputy Airport Director, Business Development
Steve Siemion, Deputy Airport Director, Finance & Administration
Lisa Kawashima, Accounting Manager
Scott Suzuki, Airport Assurance & Compliance Manager
Barbara Swift, Real Property Agent



ATTACHMENT B: John Wayne Airport Responses (continued)

JOHN WAYNE AIRPORT
Response to the Internal Audit Department's Report on
Revenue Generating Lease Audit of JCDecaux Airport, Inc.
Audit No. 2834

Recommendation No. 1: We recommend that JWA require JCDecaux to begin reporting the phone board technical charges as gross receipts to the County and pay the appropriate percentage rent.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated July 6, 2009, we have required JCDecaux to commence reporting technical fees charged and remit the appropriate amount of rent due to JWA.

Recommendation No. 2: We also recommend that JWA require JCDecaux to pay additional rent owed of \$2,202 for the audit period.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated July 6, 2009, we have required JCDecaux to remit payment to JWA for the amount noted in the recommendation. Furthermore, we are pursuing payment from JCDecaux for technical fees charged for the pre-audit period in the amount of approximately \$23,018. With respect to the post-audit period, JCDecaux's revenues, inclusive of the technical fees, fell below the contractual minimum annual guarantee (MAG), therefore, there is no additional amount due at this time. The total amount recovered as a result of this audit is \$25,220.