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# FINAL CLOSE-OUT FIRST FOLLOW-UP AUDIT: JOHN WAYNE AIRPORT HOST INTERNATIONAL, INC.

As of March 23, 2010

\$23 MILLION IN RENT PAID TO JWA DURING APRIL 1990 TO MARCH 2009 ORIGINAL AUDIT No. 2833

JWA and Host International, Inc. fully implemented all three (3) recommendations from our original audit report.

During the original 12-month audit period, Host International, Inc. reported \$16 million in gross receipts and paid \$2.5 million in rent to the County.

AUDIT NO: 2937-D REPORT DATE: APRIL 27, 2010

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Deputy Director: Eli Littner, CPA, CIA
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### **RISK BASED AUDITING**

GAO & IIA Peer Review Compliant - 2001, 2004, 2007



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







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**Providing Facts and Perspectives Countywide** 

**RISK BASED AUDITING** 

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

## Letter from Dr. Peter Hughes, CPA



### **Transmittal Letter**



Audit No. 2937-D April 27, 2010

**TO:** Alan L. Murphy, Director John Wayne Airport

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

**SUBJECT:** First and Final Close-Out Follow-Up

Audit of Revenue Generating Lease Audit: JWA/Host International, Inc., Original Audit No. 2833, Issued August

27, 2009

We have completed a First Follow-Up Audit of Revenue Generating Lease Audit: JWA/Host International, Inc. Our audit was limited to reviewing, as of March 23, 2010, actions taken to implement all three (3) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the three audit recommendations, this **report represents the close-out of the original audit.** We commend John Wayne Airport for their timeliness and responsiveness in taking corrective actions on our audit recommendations.

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.

Other recipients of this report are listed on the OC Internal Auditor's Report on page 2.

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# **OC Internal Auditor's Report**



Audit No. 2937-D April 27, 2010

TO: Alan L. Murphy, Director

John Wavne Airport

Dr. Peter Hughes, CPA, Director Settle Hughes FROM:

Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Audit of Revenue Generating Lease Audit:

JWA/Host International, Inc., Original Audit No. 2833, Issued August 27, 2009

### Scope of Review

We have completed a First Follow-Up Audit of Revenue Generating Lease Audit: JWA/Host International, Inc. Our audit was limited to reviewing, as of March 23, 2010, actions taken to implement three (3) recommendations from our original audit.

### Background

The original audit reviewed whether Host International, Inc.'s records adequately supported monthly gross receipts reported to the County and rent was properly paid. During the original 12-month audit period, Host International, Inc. reported \$16 million in gross receipts and paid \$2.5 million in rent to the County.

The original audit found that Host International, Inc.'s records adequately supported gross receipts and rent owed was properly paid. The original audit did identify three (3) recommendations related to document retention, point of sale system grand total accumulator readings, and percentage rent category clarification for merchandise sales.

### Results

Our First Follow-Up Audit indicated that JWA and Host International, Inc. (Host) fully implemented all three (3) recommendations. As such, this report represents the final **close-out of the original audit.** The following is the implementation status of the three (3) recommendations:

### 1. Supporting Documentation Retention (Control Finding)

Recommendation No. 1: We recommend that JWA require Host to retain the daily balancing documentation for the current fiscal year and an additional five years.

Current Status: Implemented. Our review of documentation provided by JWA found that Host has agreed to implement procedures to ensure the documents are maintained for a minimum period required by the lease agreement.

# **OC Internal Auditor's Report**



### 2. Grand Total Accumulator (Control Finding)

Recommendation No. 2: We recommend that JWA require Host to investigate the cause of the grand total accumulator variances and take the necessary steps to resolve or explain the variances.

<u>Current Status</u>: **Implemented.** Based on our review of documentation provided by JWA, Host has taken the recommended steps to investigate and determine the cause of the variances between daily sales and the grand total accumulator total.

These small variances appear to be caused by a transaction processing issue in the Point of Sale (POS) system related to certain credit card transactions with a gratuity that are subsequently voided. Reported sales and rent paid to the County are not impacted by this transaction processing issue. Host indicated that it will work with the software provider to further investigate. JWA also indicated that Host is maintaining backup documentation to explain the reconciling items.

### 3. Merchandise Sales Rent Category Clarification (Control Finding)

Recommendation No. 3: We recommend that JWA ensure that the percentage rent category for merchandise sales are addressed in the lease agreement when it is renewed.

<u>Current Status</u>: **Implemented.** JWA indicated their internal practices for contract preparation includes a step to review related Internal Audit Department reports. Accordingly, JWA will ensure any future lease agreement for this concession will address all sales categories, including merchandise.

We appreciate the cooperation and assistance extended to us by John Wayne Airport during our Follow-Up Audit. If you have any questions, please contact me directly 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:

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Roy Freeman, Deputy Airport Director, JWA/Business Development
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