Revenue Generating Lease Audit:
JOHN WAYNE AIRPORT
PARADIES-OC, LLC

For the Period
March 1, 2011 through February 29, 2012

Paradies-OC, LLC operates five (5) news and gift concessions at John Wayne Airport Terminals B and C and subleases the operation of one (1) specialty retail store. Over its current ten (10) year term, this lease agreement is estimated to generate approximately $10.7 million in rent to the County. Rent is paid based on a percentage of gross receipts. We audit the underlying books and records to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. During the 12-month audit period of March 1, 2011 through February 29, 2012, Paradies-OC, LLC reported approximately $4.5 million in gross receipts from airport customers and paid the County approximately $1.3 million in rent.

The Internal Audit Department found that Paradies-OC, LLC’s records adequately supported gross receipts reported to the County and rent owed was properly paid.

AUDIT NO: 1133

REPORT DATE: JUNE 28, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Senior Internal Auditor: Susan Nestor, CPA, CIA

RISK BASED AUDITING

American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management

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

2008 Association of Local Government Auditors’ Bronze Website Award

2005 Institute of Internal Auditors’ Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach
Independence    Objectivity    Integrity

Internal Audit Department


Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes          Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CGMA
Director                  Certified Compliance & Ethics Professional (CCEP)
                          Certified Information Technology Professional (CITP)
                          Certified Internal Auditor (CIA)
                          Certified Fraud Examiner (CFE)
                          Certified in Financial Forensics (CFF)
                          Chartered Global Management Accountant (CGMA)
E-mail: peter.hughes@iad.ocgov.com

Eli Littner               CPA, CIA, CFE, CFS, CISA
Deputy Director           Certified Fraud Specialist (CFS)
                          Certified Information Systems Auditor (CISA)

Michael J. Goodwin        CPA, CIA
Senior Audit Manager

Alan Marcum               MBA, CPA, CIA, CFE
Senior Audit Manager

Autumn McKinney           CPA, CIA, CISA, CGFM
Senior Audit Manager
                          Certified Government Financial Manager (CGFM)

Hall of Finance & Records
12 Civic Center Plaza, Room 232
Santa Ana, CA  92701

Phone: (714) 834-5475      Fax: (714) 834-2880

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
Transmittal Letter

Audit No. 1133  June 28, 2012

TO:  Alan L. Murphy, Director
      John Wayne Airport

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

SUBJECT:  Revenue Generating Lease Audit:
           John Wayne Airport/Paradies-OC, LLC,
           PM 1121-0350-0006

We have completed our revenue generating lease audit of Paradies-OC, LLC, for the
period March 1, 2011 through February 29, 2012. The final Internal Auditor's Report
is attached. We performed this Revenue Generating Lease Audit in accordance with our
FY 2011-12 Audit Plan approved by the Audit Oversight Committee.

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 OC Internal Auditor's Report on page 4.
# Table of Contents

*Revenue Generating Lease Audit:*
*John Wayne Airport*  
*Paradies-OC, LLC*  
*Audit No. 1133*

For the Period  
March 1, 2011 through February 29, 2012

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>i</td>
</tr>
<tr>
<td>OC Internal Auditor's Report</td>
<td></td>
</tr>
<tr>
<td>OBJECTIVE</td>
<td>1</td>
</tr>
<tr>
<td>RESULTS</td>
<td>1</td>
</tr>
<tr>
<td>BACKGROUND</td>
<td>1</td>
</tr>
<tr>
<td>SCOPE</td>
<td>2</td>
</tr>
<tr>
<td>ACKNOWLEDGMENT</td>
<td>2</td>
</tr>
</tbody>
</table>
OBJECTIVE
We have performed an audit of certain records and documents for the period of March 1, 2011 through February 29, 2012, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Paradies-OC, LLC (Paradies), dated January 11, 2011. The Agreement is for the operation of news, gift, and specialty retail concessions at the John Wayne Airport Terminals B and C. Our audit objectives were:

(1) The primary objective of our audit is to determine whether Paradies’ records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.

(2) The secondary objective of our audit is to determine whether Paradies 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.

RESULTS
Objective #1: We found that Paradies’ records adequately supported reported gross receipts and rent owed was properly paid.

Objective #2: We found that Paradies complied with certain other financial provisions of the Agreement such as accounting methods and monthly gross receipts statement format.

BACKGROUND
The County originally entered into a lease (Agreement) with Paradies-OC, LLC (Paradies), dated June 1, 2008, for the operation of three (3) news and gift concessions in Terminal B.
In conjunction with the addition of JWA’s new Terminal C, the County entered into a new Agreement with Paradies, dated January 11, 2011, for the operation of five (5) news, gift, and specialty retail concessions in Terminals B and C. The beginning date of the new Agreement term was Paradies’ date of beneficial occupancy (DBO) of the new locations in Terminals B and C, which was November 14, 2011. Until then, gross receipts were reported to the County in accordance with the Agreement dated June 1, 2008.

Therefore, our 12-month audit period covered two lease agreements as follows:


In December 2011, Paradies entered into a Terminal C sublease with Project Horizon, Inc., dba InMotion, for the operation of a specialty retail store. InMotion gross receipts are included in Paradies’ gross receipts reported to the County.

During the 12-month audit period, Paradies reported approximately $4.5 million in gross receipts derived from airport customers and paid the County approximately $1.3 million in rent. Over its current ten (10) year term, this lease agreement is estimated to generate approximately $10.7 million in rent to the County.

**SCOPE**

Our audit was limited to certain records and documents that support Paradies gross receipts reported to the County for the 12-month audit period of March 1, 2011 to February 29, 2012. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

**ACKNOWLEDGMENT**

We appreciate the courtesy and cooperation extended to us by the personnel at Paradies, InMotion, and John Wayne Airport. If you have any questions regarding our revenue generating lease audit, please call me directly at (714) 834-5475; 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:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Loan Leblow, Assistant Airport Director, JWA
Roy Freeman, Deputy Airport Director, JWA/Business Development
Barbara Swift, Administrative Manager, JWA/Business Development
Kellie Billante, Asset Manager, 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
Susan Novak, Clerk of the Board of Supervisors