Revenue Generating Lease Audit:

JWA/AIRPORT MANAGEMENT SERVICES, LLC, dba HUDSON GROUP

For the Period
November 1, 2008 through October 31, 2009

Hudson Group operates news/gift shops and specialty retail stores at the John Wayne Airport terminal. Over the five (5) year terms, the two lease agreements are estimated to generate about $5.3 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. Gross receipts reported during the 12-month audit period for news and gift sales were about $4.6 million and rent paid to the County was about $900,000. Gross receipts reported during the 12-month audit period for specialty retail sales were about $1.2 million and rent paid to the County was about $175,000.

The Internal Audit Department found that Hudson Group’s records adequately supported gross receipts and rent owed was properly paid.

AUDIT NO: 2932
REPORT DATE: JUNE 28, 2010

Director: Dr. Peter Hughes, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Audit Manager: Lily Chin, CPA
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RISK BASED AUDITING

2009 Association of Certified Fraud Examiners’ Hubbard Award to Dr. Peter Hughes 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

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
Transmittal Letter

Audit No. 2932   June 28, 2010

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/Airport Management
         Services, LLC, dba Hudson Group, PM 1121-350-3, 3.1,3.2,3.3, PM 1121-360-102,102.1

We have completed our revenue generating lease audit of Airport Management Services, LLC, dba Hudson Group, for the period November 1, 2008 through October 31, 2009. We are pleased to report that we found American Management Services, LLC, dba Hudson Group’s records adequately supported gross receipts reported to the County. The final OC Internal Auditor’s Report is attached.

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.

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 2.
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Audit Highlight

Hudson Group operates and manages news/gift and specialty retail concessions at the JWA terminal.

Over the five (5) year terms, the two lease agreements are estimated to generate about $5.3 million in rent to the County. Gross receipts generated during the 12-month audit period for news and gift sales were about $4.6 million and rent paid to the County was about $900,000. Gross receipts generated during the 12-month audit period from specialty retail sales were about $1.2 million and rent paid to the County was about $175,000.

The Internal Audit Department found that Hudson Group’s records adequately supported gross receipts and rent owed was properly paid.

OBJECTIVE

We have performed an audit of certain records and documents for the period from November 1, 2008 through October 31, 2009, pertinent to the two lease agreements (Agreements) between the County of Orange (County) and Airport Management Services, LLC, dba Hudson Group, dated March 8, 2006 (News/Gifts) and August 25, 2006 (Specialty Retail). The Agreements are for the operation of News/Gifts and Specialty Retail concessions at the John Wayne Airport terminal. Our audit objectives were:

1. The primary purpose of our audit is to determine whether Airport Management Services, LLC, dba Hudson Group’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 Airport Management Services, LLC, dba Hudson Group complies with certain other financial provisions of the Agreements, 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 Agreements with Airport Management Services, LLC, dba Hudson Group, dated March 8, 2006 and August 25, 2006 for the operation of news/gifts and specialty retail concessions at the John Wayne Airport. During the 12-month audit period, Hudson Group reported approximately $5.8 million in gross receipts and paid the County approximately $1.1 million in rent. Over the five (5) year terms, the two lease agreements are estimated to generate approximately $5.3 million in rent to the County.
SCOPE
Our audit was limited to certain records and documents that support Airport Management Services, LLC, dba Hudson Group’s gross receipts reported to the County for the 12-month audit period of November 1, 2008 to October 31, 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 Airport Management Services, LLC, dba Hudson Group’s records adequately support monthly gross receipts reported to the County and rent owed is properly paid.

Results: We found that Airport Management Services, LLC, dba Hudson Group’s records adequately supported reported gross receipts and rent owed was properly paid.

Objective #2 – Compliance: Determine whether Airport Management Services, LLC, dba Hudson Group complies with certain other financial provisions of the agreement.

Results: We found that Airport Management Services, LLC, dba Hudson Group complied overall with certain other financial provisions of the agreement such as accounting methods, monthly gross receipts statement format, and annual financial statements.

ACKNOWLEDGMENT
We appreciate the courtesy and cooperation extended to us by the personnel at Airport Management Services, LLC, dba Hudson Group and John Wayne Airport. 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.

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