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AUDITOR-CONTROLLER

I N T E R N A L A U D I T

**FIRST AND FINAL CLOSE-OUT  
FOLLOW-UP REVENUE  
GENERATING LEASE AUDIT:  
JOHN WAYNE AIRPORT -  
ASFOUR FAMILY  
CORPORATION dba SUBWAY**

**As of November 10, 2016**



**Audit Number 1580-F1 (Reference 1642-H)**

**Report Date: January 4, 2017**



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**Eric H. Woolery, CPA**  
**Orange County Auditor-Controller**

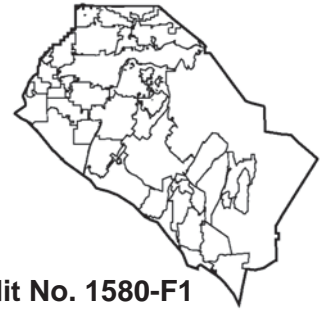
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**ERIC H. WOOLERY, CPA**  
AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1580-F1**  
**(Reference 1642-H)**

**January 4, 2017**

**TO:** Barry A. Rondinella, Airport Director  
John Wayne Airport

**SUBJECT:** First and **Final Close-Out** Follow-Up Revenue Generating Lease Audit:  
John Wayne Airport – Asfour Family Corporation dba Subway,  
Original Audit No. 1580, Issued April 29, 2016

We have completed our First and Final Close-Out Follow-Up Revenue Generating Lease Audit of John Wayne Airport (JWA), Asfour Family Corporation dba Subway as of November 10, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical 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 Follow-Up Audit will be included in future status reports to the AOC and BOS.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

**Attachments**

Other recipients of this report:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Eric Woolery, Auditor-Controller  
Frank Kim, County Executive Officer  
Jessica Witt, Deputy Chief Operating Officer  
Lilly Simmering, Deputy Chief Operating Officer  
Courtney Wiercioch, Assistant Airport Director, JWA  
David Pfeiffer, Deputy Airport Director of Business Development, JWA  
Mariane Teschner, Deputy Airport Director of Finance & Administration, JWA  
Barbara Swift, Business Development Manager, JWA  
Christopher David, Real Property Agent, JWA  
Kenneth Wong, Administrative Manager II, JWA Assurance & Compliance  
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller  
Vivienne Thornton, Accounting Manager II, Auditor-Controller/JWA Accounting  
Jessie Zhu, Accounting Manager I, Auditor-Controller/JWA Accounting  
Foreperson, Grand Jury  
Robin Stieler, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor



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John Wayne Airport, Asfour Family Corporation dba Subway  
Audit No. 1580-F1 (Reference 1642-H)***

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# Internal Auditor's Report

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**Audit No. 1580-F1  
(Reference 1642-H)**

**January 4, 2017**

**TO:** Barry A. Rondinella, Airport Director  
John Wayne Airport

**FROM:** Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

**SUBJECT:** First and **Final Close-Out** Follow-Up Revenue Generating Lease Audit:  
John Wayne Airport – Asfour Family Corporation dba Subway,  
Original Audit No. 1580, Issued April 29, 2016

## **SCOPE**

We have completed a First and Final Close-Out Follow-Up of the Revenue Generating Lease Audit for John Wayne Airport (JWA) – Asfour Family Corporation dba Subway (Subway). Our audit was limited to reviewing actions taken as of November 10, 2016, to implement the **two (2) recommendations** from our original audit.

## **BACKGROUND**

The original audit reviewed whether Subway's records adequately supported its monthly gross receipts reported to the County. During the original audit, Subway reported approximately **\$1.2 million** in gross receipts and rent paid to the County was **\$194,054**. The original audit identified **two (2) Control Findings** related to untimely review and reconciliation of the Statement of Gross Receipts and unauthorized audit report type, and untimely submission of audited Statements of Gross Receipts.

## **RESULTS**

Our First Follow-Up Audit found that JWA **implemented the two (2) recommendations** from the original audit. Because the two (2) recommendations were implemented, **this report represents the final close-out of the original audit.**

Based on our First Follow-Up Audit, the following is the implementation status of the two (2) original recommendations:

### **Finding No. 1 – Untimely Review and Reconciliation of the Statement of Gross Receipts and Unauthorized Audit Report Type (Control Finding)**

#### **Recommendation No. 1**

We recommend JWA reconcile the annual audited Statement of Gross Receipts to the gross receipts submitted to the County in a timely manner and ensure the type of auditor's report complies with the lease agreement. We further recommend JWA monitor financial statement submission due dates to ensure the lessee complies with the terms of the lease agreement.



# Internal Auditor's Report

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**Current Status: Implemented.** JWA distributed a memorandum to the unit staff in JWA Accounting and JWA Business Development Asset Management on October 26, 2016. This memorandum included instructions and guidance on the notification, collection, and evaluation of Statements of Gross Receipts submitted to JWA by their tenants. This memorandum also included the requirement for the Statement of Gross Receipts to be audited, and it gave instructions on tracking the status of tenant information which includes the due date for the Audited Statement of Gross Receipts and review status/notes from JWA Accounting to JWA Business Development.

Since JWA has taken steps to ensure the annual audited Statement of Gross Receipts are reconciled in a timely manner, the type of report is correct, and they are tracking the status of tenant information, we consider this recommendation implemented.

## **Finding No. 2 – Untimely Submission of Audited Statements of Gross Receipts (Control Finding)**

### **Recommendation No. 2**

We recommend that JWA require Subway to submit the audited Statement of Gross Receipts in a timely manner (within 90 days after year end). Furthermore, we recommend JWA assess whether a fine should be imposed as stipulated in the lease agreement for the failure to submit timely. JWA may take into consideration the fact that Subway later submitted audited Statement of Gross Receipts covering the last four years on January 28, 2016.

**Current Status: Implemented.** JWA sent a letter to Subway on April 28, 2016 to remind them of the requirement to submit annual audited Statement of Gross Receipts in a timely manner. The letter included the requirement, as noted in the Lease Agreement, of financial statement submission, as well as the penalties for failure to submit financial statements, and the due date of the audited Statement of Gross Receipts. JWA has determined a fine will not be imposed at this time.

Since JWA has determined a fine will not be imposed, and they have received the requested audited Statements of Gross Receipts, we consider this recommendation implemented.

We appreciate the assistance extended to us by the personnel of JWA during our Follow-Up Audit. If you have any questions, please contact me directly at (714) 834-5442 or Nancy Ishida, Senior Audit Manager at (714) 796-8067.