

# Internal Audit Department

O R A N G E C O U N T Y  
5<sup>th</sup> Largest County in the USA

## Revenue Generating Lease Audit: JWA/AIRPORT MANAGEMENT SERVICES, LLC, DBA HUDSON GROUP

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

**\$5.8M GROSS RECEIPTS  
ANNUALLY  
\$1.1M RENT PAID TO THE  
COUNTY ANNUALLY**

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

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Deputy Director: [Eli Littner, CPA, CIA](#)  
Senior Audit Manager: [Autumn McKinney, 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  
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



ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

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

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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**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.

# Table of Contents



***Revenue Generating Lease Audit:  
John Wayne Airport  
Airport Management Services, LLC, dba Hudson Group  
Audit No. 2932***

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

<b>Transmittal Letter</b>	<b>i</b>
<b>OC Internal Auditor's Report</b>	<b>1</b>
<b>OBJECTIVE</b>	<b>1</b>
<b>BACKGROUND</b>	<b>1</b>
<b>SCOPE</b>	<b>2</b>
<b>RESULTS</b>	<b>2</b>
<b>ACKNOWLEDGMENT</b>	<b>2</b>

# OC Internal Auditor's Report



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

## 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.

# OC Internal Auditor's Report



## 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:

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