

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

Revenue Generating Lease Audit: JOHN WAYNE AIRPORT SIGNATURE COMBS, INC. (FIXED BASE OPERATION, HANGAR RENTAL)

For the Period
January 1 through December 31, 2013

**\$1.4M GROSS RECEIPTS FOR
TWELVE-MONTH AUDIT
PERIOD
\$559K RENT TO THE COUNTY**

Signature Combs, Inc. (Signature) conducts a fixed base operation at John Wayne Airport which includes the sale of aircraft fuel, corporate hangar rentals and car rental services.

We audited the underlying books and records to ensure reported gross receipts are supported and rent is properly paid as defined by the lease agreements. During the twelve-month audit period of January 1 through December 31, 2013, Signature reported approximately \$1.4M in gross receipts and paid rent to the County of approximately \$559K.

The Internal Audit Department found that Signature adequately supported reported gross receipts and rent owed to the County was properly paid.

AUDIT NO: 1342

REPORT DATE: MAY 6, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Alan Marcum, CPA, CIA
Senior Internal Auditor: Susan Nestor, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



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 to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD 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, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1342 May 6, 2014

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Revenue Generating Lease Audit of Signature
Combs, Inc. (Fixed Base Operation and Hangar
Rental) PM 1121-223-11, 11.1; PM 1121-191

We have completed our Revenue Generating Lease Audit of Signature Combs, Inc. for the period January 1 through December 31, 2013. We performed this audit in accordance with our *FY 2013-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisor (BOS). Our final report is attached for your review.

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 are listed on the **OC Internal Auditor's Report** on page 2.

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John Wayne Airport/Signature Combs, Inc.
Audit No. 1342*

For the Period January 1 through December 31, 2013

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Detailed Results, Findings, Recommendations and Management Responses



Audit No. 1342

May 6, 2014

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Revenue Generating Lease Audit of Signature Combs, Inc.,
(Fixed Base Operation and Hangar Rental)
PM 1121-223-11, 11.1; PM 1121-191

Audit Highlight

Signature Combs, Inc. (Signature) conducts a fixed base operation at John Wayne Airport which includes the sale of aircraft fuel, hangar rental and car rental services.

During the 12-month audit period ending December 31, 2013, Signature generated approximately \$1.4M million in gross receipts and paid percentage rent of approximately \$559K.

We found that Signature Combs, Inc.'s records adequately supported reported gross receipts and rent paid.

OBJECTIVES

We have performed an audit of certain records and documents of Signature Combs, Inc. (Signature) operations (Fixed Base Operation and Hangar Rental) for the period from January 1 through December 31, 2013. Signature is a lessee under a fixed base operator agreement, which includes rental car lease services, as well as a hangar rental lease agreement with the County of Orange (County). This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code Section 1236. Our audit objectives were:

1. The primary objective of our audit is to determine whether Signature's records adequately supported gross receipts reported to the County and paid rent owed.
2. The secondary objective of our audit is to determine whether Signature complies with certain other financial provisions of the Lease Agreement.

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 Signature's records adequately supported gross receipts reported to the County and rent paid.

Objective #2: We found that Signature complied with certain other financial provisions of the Lease Agreements such as the monthly gross receipts statement format.

Detailed Results, Findings, Recommendations and Management Responses



BACKGROUND

The County of Orange entered into certain lease agreements with Signature Combs, Inc. (Signature) for the following services at John Wayne Airport:

- A fixed base operation, including the sale of aircraft fuel and rental car services, dated October 26, 1994.
- A Hangar Operation Lease, for the sublease of certain real property, dated May 1, 1998.

During the 12-month audit period ending December 31, 2013, Signature reported the sale of approximately 3.3 million gallons of fuel purchased and \$45,528 in gross receipts from rental car services and paid the County \$202,146 in rent (\$197,593 for fuel purchases and \$4,553 from rental car commissions). In addition, Signature reported Hangar rental gross receipts of approximately \$1.4M and paid the County \$357,125 in rent.

SCOPE

Our audit was limited to certain records and documents that support Signature's gross receipts reported to the County for the twelve-month audit period from January 1 through December 31, 2013. 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 extended to us by Signature and John Wayne Airport Accounting Services during our audit. If you have any questions regarding our revenue generating lease audit, please contact me directly at (714) 834-5475, or Alan Marcum, Senior Audit Manager at 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Jessica O'Hare, Assistant to the Chief Operating Officer
Ralph Sanchez, Deputy Airport Director, JWA/Business Development
Barbara Swift, Administrative Manager, JWA/Business Development
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Megan Vu, Accounting Services Manager, JWA/Accounting
Scott Suzuki, Internal Audit Manager, JWA/Quality Assurance & Compliance
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor