



INTERNAL AUDIT DEPARTMENT

ORANGE COUNTY

2005 Recipient of the Institute of Internal Auditors'
Award for Recognition of Commitment to
Professional Excellence, Quality and Outreach

Integrity ♦ Objectivity ♦ Independence

REVIEW OF LEASE REVENUE NEWPORT FBO TWO, LLC DBA ATLANTIC AVIATION FBO

**For the Period
April 1, 2006 through March 31, 2007**

AUDIT NUMBER: 2644

REPORT DATE: SEPTEMBER 21, 2007

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
Senior Audit Managers:	Autumn McKinney, CPA, CIA Alan Marcum, CPA, CIA
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**REVIEW OF LEASE REVENUE
NEWPORT FBO TWO, LLC dba ATLANTIC AVIATION FBO**

**For the Period
April 1, 2006 through March 31, 2007**

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Objectivity
Integrity*

ORANGE COUNTY
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT



Transmittal Letter

Audit No. 2644

September 21, 2007

TO: Alan L. Murphy, Director
John Wayne Airport

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Review of Lease Revenue for Newport FBO Two, LLC dba
Atlantic Aviation, Parcel No. PM 1121-223-12.02, 12.4, 12.5
(Fixed Base Operation)

We have completed our review of lease revenue for Newport FBO Two, LLC dba Atlantic Aviation for the period April 1, 2006 through March 31, 2007. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

Please note, we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will now begin at six months upon the official release of the report. A copy of all our **Follow-Up Audit** reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution listing.

The AOC and BOS expect the audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will now begin at 12 months from the release of the original report, by which time **all** audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we bring to their attention any audit recommendations we find still not implemented or mitigated after the **second Follow-Up Audit**. The AOC requests that such open issues appear on the public agenda at their next scheduled quarterly meeting for discussion.

We have attached a Follow-Up Audit Report Form. John Wayne Airport should complete this template as our audit recommendations are implemented. When we perform our **Follow-Up Audit** approximately six months from the date of this report, we will need to obtain the completed document from you to facilitate our review.

*Providing Facts and
Perspectives Countywide*

OFFICE OF THE DIRECTOR

DR. PETER HUGHES

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Professional (CCEP)
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*Alan Murphy, Director
John Wayne Airport
September 21, 2007
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Each month I submit an **Audit Status Report** to the Board of Supervisors (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 John Wayne Airport so you 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 recommendations.

Additionally, we will request John Wayne Airport complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final report.

Attachment

Other recipients of this report:

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, Manager, JWA/Parking, Ground Transportation and Special Projects

Barbara Swift, Real Property Agent, JWA/Business Development

Scott Suzuki, Interim Deputy Airport Director, Finance & Administration

Cindy Wong, Accounting Manager, JWA/Accounting

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors

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BOARD OF SUPERVISORS'
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INTERNAL AUDITOR'S REPORT

Audit No. 2644

September 21, 2007

TO: Alan L. Murphy, Director
John Wayne Airport

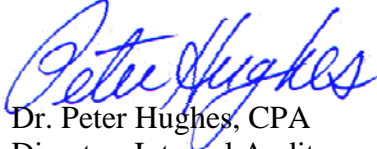
SUBJECT: Review of Lease Revenue for Newport FBO Two, LLC dba Atlantic Aviation, Parcel No. PM 1121-223-12.02, 12.4, 12.5 (Fixed Base Operation)

We have performed a review of certain records and documents for the period from April 1, 2006 through March 31, 2007, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Newport FBO Two, LLC dba Atlantic Aviation (Atlantic Aviation), original agreement dated October 24, 1994 and subsequent amendments. The Agreement is to conduct a fixed base operation at John Wayne Airport (JWA).

The primary purpose of our review is to determine whether Atlantic Aviation's records adequately supported their computation of monthly fee payments to the County. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures.

Based on our review, we find that Atlantic Aviation has retained sufficient documentation to adequately support monthly fees paid to the County. **No material weaknesses or significant issues were identified.** However, we did identify seven control findings which are noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

We appreciate the courtesy and cooperation extended to us by the personnel at Atlantic Aviation, JWA/Business Development, and JWA/Accounting Services. If you have any questions regarding our review of lease revenue, please call me, Eli Littner, Deputy Audit Director, at (714) 834-5899, or Autumn McKinney, Senior Audit Manager, at (714) 834-6106.


Dr. Peter Hughes, CPA
Director, Internal Audit

OFFICE OF THE DIRECTOR

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*Alan Murphy, Director
John Wayne Airport
September 21, 2007
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Attachment A – Report Item Classifications
Attachment B – JWA Management Responses

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, Manager, JWA/Parking, Ground Transportation and Special Projects
Barbara Swift, Real Property Agent, JWA/Business Development
Scott Suzuki, Interim Deputy Airport Director, Finance & Administration
Cindy Wong, Accounting Manager, JWA/Accounting
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted a review of lease revenue for Newport FBO Two, LLC dba Atlantic Aviation (Atlantic Aviation) for the primary purpose of determining whether Atlantic Aviation's records adequately supported their monthly computation of fee payments to the County.

BACKGROUND

The County of Orange entered into a lease agreement (Agreement) with Pan Western, LTD., dated October 24, 1994, for conducting a fixed base operation to serve general aviation. In March 2001, the Agreement was assigned to Newport Beach FBO, LLC, and in December 2002, the Agreement was assigned to Newport FBO Two, LLC. In January 2005, Newport FBO Two, LLC became a subsidiary of Macquarie Infrastructure Company and began operating the fixed base operation (FBO) under the brand name of Atlantic Aviation. For the year ended March 31, 2007, Atlantic Aviation reported approximately 4.3 million gallons of delivered fuel and lubricant and \$377,183 in gross receipts from rental cars, and it paid the County approximately \$298,500 in fees.

SCOPE

Our review was to certain records and documents that support Atlantic Aviation's computation of monthly fee payments for the fuel flowage and lubricant fees and the rent-a-car fees for the 12-month period of April 1, 2006 to March 31, 2007. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures. Our review included inquiry, auditor observation, and testing for assessing the adequacy of documentation and ensuring completeness of reported fuel and lubricant deliveries and rental car gross receipts.

CONCLUSION

Based on our review, we find that Atlantic Aviation has retained sufficient documentation to adequately support monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we identified seven control findings which are noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.



