



## Internal Audit Report

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Bell Street Pier & Fishermen's Terminal  
Mad Anthony's Restaurant Lease Compliance Audits

January 1, 2007 through December 30, 2008

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### Internal Auditor's Report

We have completed the audits of the Restaurant Lease Agreements between the Port of Seattle (Port) and Mad Anthony's, Inc. for the Bell Street Pier and Fishermen's Terminal locations.

We conducted our audits using due professional care and we planned and performed the audits to obtain reasonable assurance as to whether the lessee and the Port had complied with the provisions of the lease agreements.

The objectives of the audits were to verify gross sales were properly reported to the Port in accordance with the terms of the lease agreement and the Lessee properly calculated and paid the appropriate concession fees due to the Port on time. We also reviewed the effectiveness of Port management's monitoring system over the lease agreement.

Management monitoring of the agreement was effective, and the lessee reported and paid the concession timely. We, however, found instances of improper deductions from gross receipts which resulted in underreporting of concessionable gross receipts by \$45,053.83 and \$20,929.50 for Bell Street Pier & Fishermen's Terminal, respectively. As a result, the lessee underpaid the concession by \$4,106 for the period under audit. The specific issues are discussed in the subsequent sections of this report.

We extend our appreciation Seaport Property Management and staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA  
Internal Audit Manger

### Executive Summary

**Audit Scope and Objective** The purpose of the audits was to determine the level of compliance with the provisions of the Bell Street Pier & Fishermen's Terminal Restaurant Leases No. 294 and 43 respectively. We examined the books and records of Mad Anthony's, Inc. (Lessee) in order to verify gross sales were properly reported to the Port in accordance with the terms of the lease agreement and the Lessee properly calculated and paid the appropriate concession fees due to the Port on time. We also reviewed the effectiveness of Port management's monitoring system over the lease agreement.

**Agreement Terms** The Restaurant Lease Agreements No. 294 and 43 authorize Mad Anthony's, Inc. to operate restaurants at Bell Street Pier and Fishermen's Terminal. In accordance with the lease, the Lessee pays the Port six percent (6%) of gross sales of food and beverage, alcohol beer & wine, and as well as any other gross sales from the restaurant at Bell Street Pier and six and a quarter percent (6.25%) of gross sales at the Fishermen's Terminal restaurant.

**Audit Result Summary** Management monitoring of the agreement was effective, and the lessee reported and paid the concession timely. We, however, found instances of improper deductions from gross receipts which resulted in underreporting of concessionable gross receipts by \$45,053.83 and \$20,929.50 for Bell Street Pier & Fishermen's Terminal, respectively. As a result the lessee underpaid the concession by \$4,106 for the period under audit.

## Background

Mad Anthony's, Inc. is the owner and operator of the family of Anthony's Restaurants located in the Puget Sound region, including locations at Bell Street and Fishermen's Terminal.

The lease agreement requires the following two-tier concession fees:

- Bell Street Pier - six percent (6%) of gross sales up to \$7,967,844 and six and a quarter percent (6.25%) for gross sales in excess of \$7,967,844 for 2007.
- Fishermen's Terminal - six and a quarter percent (6.25%) of gross sales up to \$5,391,643 and eight percent (8%) for gross sales in excess of \$5,391,643 for 2007.

The agreement requires an annual adjustment of the percentage thresholds according to the consumer price index (CPI).

The gross sales information as reported to the Port for the respective lease years under review are as follows:

	2007	2008
Bell Street Pier	7,922,759	7,416,418
Fishermen's Terminal	6,898,000	6,847,849

Source: PeopleSoft and Mad Anthony's, Inc. reporting

## Audit Objectives

We reviewed the Lessee's records in order to verify that the Lessee had:

- Properly reported its gross sales to the Port in accordance with the terms of the lease agreement
- Properly calculated and paid the appropriate concession fee due to the Port
- Paid concession fees on time and in accordance with the terms of the agreement.

We also reviewed the effectiveness of Port management's monitoring system over the lease agreement.

## Audit Scope

The scope of the audit covered the period of January 1, 2007 through December 31, 2008.

### **Audit Approach**

To achieve our audit objectives, we performed the following procedures:

- Obtained an understanding of the lease agreement and the significant compliance requirements
- Reviewed Port internal controls and monitoring activities over the lease requirements
- Obtained relevant financial data from the Lessee
- Analyzed data (internal & external) to determine completeness and compliance

### **Conclusion**

Management monitoring of the agreement was effective, and the lessee reported and paid the concession timely. We, however, found instances of improper deductions from gross receipts which resulted in underreporting of concessionable gross receipts by \$45,053.83 and \$20,929.50 for Bell Street Pier & Fishermen's Terminal, respectively. The lessee underpaid the concession by \$4,106 for the period under audit.

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<b>Findings and Recommendations</b>
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**1. Disallowed Reductions of Concessionable Revenue**

Section 4.c. of the lease states:

"Gross sales shall not include income from provision of employee meals"

The lease does not specifically define provision for employee meals. However, the Internal Revenue Service defines provision for employee meals as meals provided by an employer to its employees while on shift (i.e., during working hours) on the employer's premises for the convenience of the employer. It is also a restaurant industry practice to provide employee meals while on-shift for the convenience of the employer at no cost or at a reduced cost to the employee.

The lessee took a deduction from gross sales for off-shift (i.e., during non-working hours) employee meals at 100%. For example if an employee came into the restaurant off-shift with family members or friends and had a total bill of \$400.00, the Lessee would deduct \$400 or 100% from gross sales. As a result of such deductions, the lessee, underreported concessionable gross sales and underpaid the concession fees for the period under audit as follows:

- \$45,053.83 in gross amount (or \$2,703 in concession fees) for Bell Street Pier.
- \$20,929.50 in gross amount (or \$1,403 in concession fees) for Fishermen's Terminal.

**Recommendations**

We recommend that management:

1. Invoice Mad Anthony's, Inc. for the additional concession related to the off-shift meals employee (i.e., during non-working hours) deductions for the period under audit.
2. Review and invoice, as necessary, for additional concession related to the off-shift meals employee (i.e., during non-working hours) deductions for the period prior and subsequent to the audit.

**Management Response**

*Management will diligently pursue recovery of underreported concession fees.*

