



INTERNAL AUDIT REPORT

LIMITED CONTRACT COMPLIANCE
MAD ANTHONY'S, INC.
FISHERMEN'S TERMINAL

JANUARY 1, 2017 – DECEMBER 31, 2018

ISSUE DATE: APRIL 23, 2019
REPORT NO. 2019-05



INTERNAL AUDIT

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EXECUTIVE SUMMARY

Internal Audit (IA) completed an audit of the Fishermen's Terminal Restaurant Lease Agreement (Agreement) between Mad Anthony's Inc. and the Port of Seattle (Port). The Agreement was signed in 1987 for Mad Anthony's to operate Chinook's Restaurant at Fishermen's Terminal.

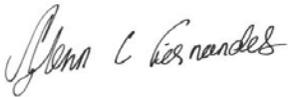
The period audited was January 1, 2017 through December 31, 2018. The audit was performed to determine whether Mad Anthony's complied with significant provisions of the Agreement including whether reported gross revenues and the percentage rent paid to the Port were complete and accurate.

We identified two items that, per the contract, Mad Anthony's should have included in gross revenue.

- 1) Mad Anthony's did not report \$194,461.17 in gross revenue to the Port, during the two-year period under audit. These amounts were from Surcharges and Family and Friends Meals, which resulted in approximately \$15,557 in additional percentage fees, due to the Port.

The issue is discussed in more detail on page six.

We extend our appreciation to management and staff of the Economic Development Department, Mad Anthony's, and the Accounting and Financial Reporting Department for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

RESPONSIBLE MANAGEMENT TEAM

Dave McFadden, Managing Director, Economic Development
Melinda Miller, Director, Real Estate Asset Management
Rebecca Schwan, Senior Real Estate Manager

BACKGROUND

Anthony's Restaurant is a family of unique restaurants located throughout the Pacific Northwest. Anthony's is locally owned and focuses on waterfront view locations throughout the Puget Sound. One of those locations is Chinook's on Salmon Bay at Seattle's Fishermen's Terminal.

In September 1987, the Port entered into a Lease Agreement with Mad Anthony's to operate Chinook's restaurant at Fishermen's Terminal. The Agreement sets a fixed Minimum Rent and also requires additional Percentage Rent from gross sales of food and beverage, as well as any other sales.

Effective in 1990, percentage rent was established at 6.25% of gross sales, up to the first \$3 million of annual gross sales. The \$3 million figure has been adjusted annually since 1990, for the annual percentage change in the "food and beverage component" of the US Consumer Price Index (CPI) for the Seattle-Everett Area. Percentage rent in excess of the CPI adjusted threshold is charged at 8%.

Monthly minimum rent is due on or before the first day of each calendar month. For quarterly percentage rent, the computation of gross sales for the preceding quarter must be certified by an officer of the Lessee and submitted to the Port within 30 days of each quarter ended.

The table below reflects total Gross Revenues, Minimum Rent, and Percentage Rent, as reported by Anthony's:

Year	Gross Revenue	Minimum Rent	Percentage Rent	Total Rent
2014	\$6,660,194	\$339,479	\$97,539	\$437,018
2015	6,081,214	338,929	127,399	466,328
2016	7,281,630	347,090	135,811	482,901
2017	7,391,794	356,316	134,753	491,069
2018	7,340,829	370,242	114,247	484,489
Total	\$34,755,661	\$1,752,056	\$609,749	\$2,361,805

Source: AFR YE files, PeopleSoft, Mad Anthony's certified revenue reports.

AUDIT SCOPE AND METHODOLOGY

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The period audited was January 2017 through December 2018. After identifying the significant provisions in the Agreement, we performed audit procedures that included:

Revenue Completeness and Accuracy

- Reconciled revenues reported to the Port, to the Lessee's general ledger and to the revenue reports certified by Mad Anthony's.
- Identified large variances or unusual revenue trends and inquired with Mad Anthony's to determine the nature and cause.
- Verified an accurate Consumer Price Index was used to calculate the percentage of revenue calculation.
- Agreed point of sales data to general ledger and revenue reports.
- Verified the timeliness of payments.

Insurance and Rent Security

- Determined whether commercial general liability insurance and rent security complied with Agreement terms.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1) RATING: MEDIUM

Mad Anthony's did not report \$194,461.17 in gross revenue to the Port, during the two-year period under audit. These amounts were from Surcharges and Family and Friends Meals, which resulted in approximately \$15,557 in additional percentage fees, due to the Port.

Surcharge

From January 2017 through March 2018, a four percent surcharge was added to customer's bills. This surcharge is different from server tips, which are generally excludable from gross revenue. Half (2%) of the surcharge or \$172,055.21 which was paid to kitchen staff, was not included in gross revenue. The Agreement does not list surcharges as an allowable deduction from gross revenue.

Employee Meals

During our two year scope period, \$22,405.96 was coded to employee meals and not included in revenue. These meals included family and friends of the employee and was offered at a 25% discount. While employee meals are listed as an approved deduction from gross revenue, the Agreement does not identify revenue earned for the family and friends portion of the meals, as an allowable exclusion.

Recommendations:

Management should pursue collection of the additional percentage fees detailed above.

Management Response/Action Plan:

Management accepts that Mad Anthony's has understated revenues during the audit period and will pursue collection of \$15,557.

DUE DATE: 12/31/2019

APPENDIX A: RISK RATINGS

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Port. Items deemed “Low Risk” will be considered “Exit Items” and will not be brought to the final report.

Rating	Financial	Internal Controls	Compliance	Public	Port Commission/ Management
HIGH	Large financial impact Remiss in responsibilities of being a custodian of public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, State, and Local Laws, or Port Policies	High probability for external audit issues and/or negative public perception	Important Requires immediate attention
MEDIUM	Moderate financial impact	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, State, and Local Laws, or Port Policies	Potential for external audit issues and/or negative public perception	Relatively important May or may not require immediate attention
LOW/ Exit Items	Low financial impact	Internal controls in place but not consistently efficient or effective Implementing/enhancing controls could prevent future problems	Generally complies with Federal, State and Local Laws or Port Policies, but some minor discrepancies exist	Low probability for external audit issues and/or negative public perception	Lower significance May not require immediate attention
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient				