PORT COMMISSION:

Concession Review of Sabella and LaTorre Sea Foods

FINANCIAL AUDITS DIVISION

February 23, 2006
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San Francisco Port Commission
Pier One, The Embarcadero
San Francisco, CA 94111

President and Members:

The Office of the Controller presents its report concerning the review of Sabella and LaTorre Sea Foods (Sabella). Sabella has a 66-year lease with the Port Commission (Port) of the City and County of San Francisco to operate a restaurant and to sell seafood on Port property.

Reporting Period: July 1, 2002, through June 30, 2005

Rent Paid: $853,669

Results:

Sabella correctly reported gross receipts of $13,133,079 and correctly paid its rent to the Port.

Respectfully submitted,

Noriaki Hirasuna
Director
INTRODUCTION

BACKGROUND

Sabella and LaTorre Sea Foods (Sabella) entered into a 66-year lease with the San Francisco Port Commission (Port) on May 1, 1970, to operate a restaurant and to sell seafood on Port property. For the three-year review period, the lease required Sabella to pay the Port the greater of a minimum monthly rent or a specified percentage of Sabella’s monthly gross receipts. The Port specified percentage rent of 6.5 percent of gross receipts from food, outdoor crab stand sales and all items sold through the bar. The percentage rent for all other sales is 8.5 percent. During the review period, the monthly minimum rent ranged from $1,888 to $2,141 as periodically adjusted for changes in the Consumer Price Index.

SCOPE AND METHODOLOGY

The purpose of this review was to determine if Sabella complied with the reporting and payment provisions of its lease with the Port. Our review covered the period from July 1, 2002, through June 30, 2005. To conduct the review, we examined the applicable terms of the lease and the adequacy of Sabella’s procedures for collecting, recording, summarizing, and reporting its gross receipts to the Port. To determine whether Sabella accurately reported its gross receipts to the Port, we compared its reported gross receipts to those recorded in its internal monthly summary records for all months of the review period. We tested, on a sample basis, Sabella’s monthly sales records, daily sales reports, cash register tapes, and bank deposit records. We also compared the gross receipts Sabella reported to the Port with the gross receipts Sabella reported to the California Board of Equalization for selected quarters.
RESULTS

SABELLA CORRECTLY REPORTED ITS GROSS RECEIPTS AND CORRECTLY PAID ITS RENT

From July 1, 2002, through June 30, 2005, Sabella correctly reported $13,133,079 in gross receipts and correctly paid rent of $853,669 to the Port. The table below shows the reported gross receipts and rent paid to the Port.

TABLE

Gross Receipts Reported and Rent Paid
July 1, 2002, Through June 30, 2005

<table>
<thead>
<tr>
<th></th>
<th>Gross Receipts</th>
<th>Rent Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2002, through June 30, 2003</td>
<td>$3,992,610</td>
<td>$259,539</td>
</tr>
<tr>
<td>July 1, 2003, through June 30, 2004</td>
<td>4,554,773</td>
<td>296,060</td>
</tr>
<tr>
<td>July 1, 2004, through June 30, 2005</td>
<td>4,585,696</td>
<td>298,070</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,133,079</strong></td>
<td><strong>$853,669</strong></td>
</tr>
</tbody>
</table>

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the scope and methodology section of this report.

Staff: Kevin Baloca, Audit Manager
       Demissie Mulatu

cc: Mayor
    Board of Supervisors
    Civil Grand Jury
    Public Library