



Date: June 6, 2018

To: Mayor Liz Alpert
Vice Mayor Jen Ahearn-Koch
Commissioner Hagen Brody
Commissioner Shelli Freeland Eddie
Commissioner Willie Charles Shaw

From: Pamela M. Nadalini, MBA, BBA, CMC, City Auditor and Clerk / Chief Audit Executive

Subject: Final Audit Report EX#17-01: Marina Jack Revenue Audit

Good afternoon, Mayor, Vice Mayor and Commissioners:

Attached for your information and review are copies of the audit report.

If you have any questions, please do not hesitate to call me at (941) 954-4169.

Attachment(s):

Audit Report EX#17-01

c: Thomas Barwin, City Manager
Robert Fournier, City Attorney
D. Edward Daugherty, CPA, Manager Internal Audit
Hayden Gaston, Senior Internal Auditor
File



Date: June 6, 2018
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Audit EX#17-01:

Marina Jack Revenue Audit

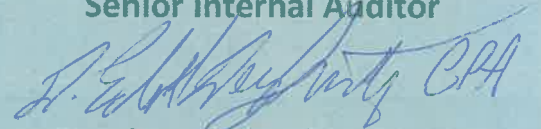
Audit Report

Office of the City Auditor and Clerk
Internal Audit

Prepared by:

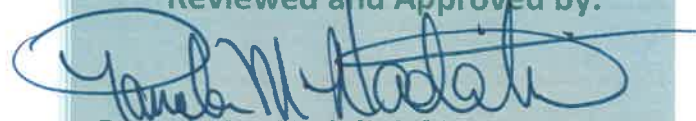


Hayden Gaston
Senior Internal Auditor



D. Edward Daugherty, CPA
Manager Internal Audit

Reviewed and Approved by:



Pamela M. Nadalini, MBA, BBA, CMC
City Auditor and Clerk /
Chief Audit Executive

You can obtain copies of this report by contacting us at:

Office of the City Auditor and Clerk

1565 1st Street
Sarasota, FL 34236
(941) 954-4135

Or download and view an electronic copy by visiting:

www.sarasotagov.com



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Executive Summary

Audit EX#17-01 Marina Jack Revenue Audit

Audit Scope and Methodology

The scope of this audit included a review of accounting records and related supporting documentation to support rental revenue received by the City of Sarasota from Jack Graham, Inc. (Tenant). The audit covered a three-year period for the years ending December 31, 2014, 2015 and 2016. Our audit was limited to certain records and documents that support the Tenant's gross receipts reported to the City for the three-year audit period. Audit procedures included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation for gross receipts and rental calculation, as well as ensuring completeness and recalculation of remitted gross receipts.

Report Content and Limitation of Use

This executive summary is limited in detail. To obtain the full background on a particular item, please review the details prior to drawing conclusions based upon the limited information contained in this summary.

Audit Conclusions

The results of our audit are based upon audit procedures performed over the Tenant's point of sale system and accounting records. Auditor recalculation of gross receipts identified a total variance in Tenant gross receipts resulting in a \$5 net overpayment to the City for the three years under audit; see observations and conclusions on pages 5 of this report.

Detailed Report

Audit EX#17-01 Marina Jack Revenue Audit

Background and Introduction

The City of Sarasota (City) leases property on Sarasota Bay to Jack Graham Inc. (Tenant). On this leased property the Tenant operates a marina, two waterside restaurants (Marina Jack and O'Leary's), a dinner boat (Marina Jack II Diner Boat) and ancillary facilities with lease terms expiring in July 2027 with two (2) ten (10) year extensions that, if exercised, will extend the lease to July 2047. Additionally, the Tenant operates the 114-acre City of Sarasota Bayfront Mooring Fields (Mooring Fields) with lease term expiring in January 2019 with two (2) five-year extensions that, if exercised, will extend the lease to January 2028.

In accordance with the terms of the Mooring Fields lease agreement, the City should receive fifty percent (50%) of surplus revenues in any given month. If there is an operating loss in any month for the Mooring Fields the City shall reimburse fifty percent (50%) of this loss.

In accordance with the terms of the Tenant's lease agreements, Tenant pays a base rent on a monthly basis adjusted annually to reflect any change in the Consumer Price Index, subject to an annual maximum adjustment of two and one-half percent (2.5%). As an alternative to the base rent, the City may receive, at the option of the City, an annual rent equal to three percent (3%) of Tenant's prior year's gross receipts, as defined by the lease agreement. In the event the 3% option is exercised by the City, the Tenant shall provide, within fifteen (15) days of Tenant filing its Federal Income Tax Return, an affidavit, executed by a Certified Public Accountant, stating the amount of the Tenant's gross receipts.

Audit Scope

The scope of this audit included an audit of accounting records and related supporting documentation to support rental revenue received by the City of Sarasota from the Tenant and the Mooring Fields. The audit covered a three-year period for the calendar years ending December 31, 2014, 2015 and 2016.

Audit Objective

The audit focused on the following objective:

Determine whether rental revenue received from Jack Graham, Inc. in relation to Bayfront Mooring Field Operations, and Marina Jack, Inc., which operates the Marina Jack restaurant, a dinner boat, ancillary facilities and the O'Leary Waterfront Restaurant and docking facilities, is calculated in accordance with the lease agreement between the City of Sarasota and Jack Graham, Inc. entered into on June 22, 2006 and the Bayfront Mooring Field Operations lease agreement entered into on January 14, 2009.

Audit Standards

The auditors conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 findings and conclusions based on the audit objective.

Testing Methodology

To fulfill the audit objective, Internal Audit performed the following procedures on a sample basis:

- Performed site visits of the Tenant's operations and interviewed appropriate personnel;
- Verified mathematical accuracy of rental calculation;
- Verified proper amounts recorded as base sales on rental calculation by vouching amounts to supporting documentation, including daily sales summaries, individual server cash register receipts and cash register receipts listing food, beverages, sundry sales and fuel sales.
- Data was obtained from various systems for analysis:
 - Recalculated monthly rental revenue and agreed amount to annual reported revenue;
 - Reviewed Tenant's general ledger entries;
 - Verified payments on rental calculation agreed to amounts received by the City.

Audit Criteria

Conditions observed during audit fieldwork were evaluated against the following sources:

- Lease agreement by and between the City of Sarasota and Jack Graham, Inc. entered into on June 22, 2006 (Marina Jack).
- Lease agreement by and between the City of Sarasota and Sarasota Moorings, LLC and Jack Graham, Inc. entered into on January 14, 2009.
- Lease agreement by and between the City of Sarasota and Jack Graham, Inc. entered into on September 14, 2004 (O'Leary's).

Audit Observations and Conclusions

Observations in this report are offered as independent guidance to management for their consideration regarding gross receipts and rental revenue received by the City of Sarasota from Jack Graham, Inc. and the Mooring Fields.

Summary of Audit Results - Marina Jack*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Gross Receipts per Tenant	\$ 12,278,957	\$ 13,067,657	\$ 13,610,802	\$ 38,957,416
Gross Receipts per Audit	<u>12,323,497</u>	<u>13,067,657</u>	<u>13,566,112</u>	<u>\$ 38,957,266</u>
(Under)/Over Recalculation of Gross Receipts	\$ (44,540)	\$ -	\$ 44,690	\$ 150
3% of Gross Receipts Rent Option	<u>3%</u>	<u>3%</u>	<u>3%</u>	<u>3%</u>
Total (Under)/Over paid to the City per Audit	<u>\$ (1,336)</u>	<u>\$ -</u>	<u>\$ 1,341</u>	<u>\$ 5</u>

*Includes Marina Jack Restaurant, Marina Jack II Dinner Boat and the Marina.

Summary of Audit Results - O'Leary's

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Gross Receipts per Tenant	\$ 2,770,686	\$ 3,168,713	\$ 3,374,431	\$ 9,313,830
Gross Receipts per Audit	<u>2,770,686</u>	<u>3,168,713</u>	<u>3,374,431</u>	<u>9,313,830</u>
(Under)/Over paid Recalculation of Gross Receipts per Audit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Summary of Audit Results - Mooring Fields

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Operational Excess Revenues per Tenant	\$ 32,495	\$ 24,853	\$ 54,471	\$ 111,819
Operational Excess Revenues per Audit	<u>32,495</u>	<u>24,853</u>	<u>54,471</u>	<u>111,819</u>
(Under)/Over paid Operational Excess Revenues paid to the City per Audit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Variances were discovered in the gross receipts calculation provided by the Tenant resulting in an overpayment of rent to the City of \$5 for the three years under audit. The variances related to minor calculation errors, as opposed to calculations not done in accordance with the lease, from the Tenant's Certified Public Accountant as compared to the Tenant's point of sale system.

We were able to obtain the original supporting documents needed to perform recalculations of gross receipts, revenue and rent due to the City for each month in the audit period. We appreciate the cooperation and courtesy extended to us by Marina Jack's management and accounting staff as well as the City's Finance Division while conducting the audit.