

AIRPORT COMMISSION:

Concession Review of Deli Up
Enterprises, LLC

FINANCIAL AUDITS



*August 31, 2006
05041*



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

August 31, 2006

Audit Number 05041

San Francisco Airport Commission
San Francisco International Airport
P. O. Box 8097
San Francisco, CA 94128-8097

President and Members:

The Office of the Controller (Controller) presents its report concerning the concession review of Deli Up Enterprises, LLC (Deli Up). Deli Up has a ten-year lease, through November 9, 2010, with the San Francisco Airport Commission of the City and County of San Francisco to operate a restaurant, the Deli Up Café, on Airport Department (Airport) property.

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

Rent Paid: \$189,331

Results:

Deli Up reported gross revenues of \$3,109,901 to the Airport for the review period. However, its accounting records showed revenues of only \$3,038,380, or approximately \$71,000 less than it reported to the Airport.

Deli Up over-reported approximately \$45,000 of the \$71,000 because of accounting and clerical errors. Although we could not determine the reason for the remaining \$26,000 difference, we found that Deli Up did not consistently record catering sales in its point-of-sale system and did not keep records of those sales, which may account for some or all of the difference.

Deli Up's response is attached to this report. The Controller's Financial Audits will be working with the Airport to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Original signed by:
Noriaki Hirasuna
Director of Financial Audits

FINANCIAL AUDITS

INTRODUCTION

BACKGROUND

Deli Up Enterprises, LLC (Deli Up) has a ten-year lease, which commenced on December 10, 2000, with the San Francisco Airport Commission (Commission) of the City and County of San Francisco to operate Deli Up Café, a small food and beverage facility at the San Francisco International Airport.

For the review period, the lease required Deli Up to pay the Airport Department (Airport) the greater of a minimum annual guarantee or a tiered percentage rent of six to ten percent of its gross revenues. The percentage rent tiers are contingent on the amount of Deli Up's total gross revenues per lease year. During the review period, the minimum annual guarantee was \$32,400.

SCOPE AND METHODOLOGY

The purpose of this review was to determine if Deli Up complied with the reporting and payment provisions of its lease with the Commission. 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 Deli Up's procedures for collecting, recording, summarizing, and reporting its gross revenues to the Airport. To determine whether Deli Up accurately reported its gross revenues to the Airport, we compared Deli Up's reported gross revenues to those recorded in its internal monthly summary records for all months of the review period. We tested, on a sample basis, its monthly sales records, daily sales reports, cash register tapes, and bank deposit records. We also determined whether Deli Up had any outstanding payments due to the Airport for the review period.

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AUDIT RESULTS

DELI UP DID NOT ACCURATELY REPORT REVENUES TO THE AIRPORT

From July 1, 2002, through June 30, 2005, Deli Up Enterprises, LLC (Deli Up) reported \$3,109,901 in gross revenues and paid \$189,331 in rent to the Airport Department (Airport). However, it only recorded gross revenues of \$3,038,380 in its point-of-sale (POS) system, or approximately \$71,000 less in sales than it reported to the Airport. Part of the over-reporting of gross revenues occurred because Deli Up made approximately \$45,000 in accounting and clerical errors. According to Deli Up's owner, management did not review accounting records or financial reports for accuracy before submitting the final monthly revenue reports to the Airport. The owner stated that he would begin reviewing the monthly revenue reports prior to submitting them to the Airport. We could not, however, determine the reason for the remaining \$26,000 difference.

The table below shows the gross revenues reported and rent paid to the Airport.

TABLE

Gross Revenues Reported and Rent Paid July 1, 2002, Through June 30, 2005		
Fiscal Year	Gross Revenues Reported	Rent Paid
July 1, 2002, through June 30, 2003	\$ 865,135	\$ 51,908
July 1, 2003, through June 30, 2004	1,024,656	61,479
July 1, 2004, through June 30, 2005	1,220,110	75,944
Total	\$3,109,901	\$ 189,331

Deli Up Did Not Properly Account For Its Catering Sales

Although we could not determine the reason for the remaining \$26,000 in over-reporting errors, we found that Deli Up did not consistently record catering sales in its POS system. Furthermore,

Deli Up did not retain any supporting records of its catering sales. Deli Up's owner estimated that catering revenues may have ranged from approximately \$18,000 to \$54,000 annually, over the three-year review period. However, without supporting documentation, we could not verify that catering sales were part of the \$26,000 difference and were accurately reflected in the monthly revenue reports to the Airport.

Section 4.6 of the lease requires that Deli Up record each sale or other revenue transaction at the time of sale. Deli Up's owner stated that Deli Up did not always record catering sales in the POS system. Since we could not determine the amount of Deli Up's catering sales, we were unable to determine whether the \$26,000 difference was the result of unrecorded or undocumented catering sales or for some other reason.

Deli Up Did Not Maintain or Retain Records According to Lease Requirements

In addition to the lack of catering sales records, we found that Deli Up did not keep certain other records required by the lease, such as bank deposit slips and credit memorandums. Section 4.7 of the lease requires Deli Up to maintain all records for three years after the lease expiration date. According to the owner, Deli Up deposits its cash receipts on a weekly basis; however, bank deposit slips were not reconciled to sales or accounting records and deposit slips were discarded shortly after the deposits were made. The owner felt it was not necessary to keep any documentation once the monthly rental reports were submitted to the Airport. Furthermore, he explained that there was not adequate space to store and maintain records. As a result, there was insufficient documentation to support all sales reported to the Airport.

RECOMMENDATIONS

To ensure that Deli Up Entreprises, LLC (Deli Up) record all revenues and pay its rent accurately, we recommend that the Airport Department take the following actions:

- Instruct Deli Up to record all catering sales transactions in its point-of-sale system at the time of sale.
- Advise Deli Up to prepare and retain original sales records and related documentation, including catering sales invoices, credit memorandums, bank deposit slips, and all other documentation as specified in the lease.
- Advise Deli Up to strengthen its control over financial reporting. The owner should review, certify, and sign the monthly summary reports prepared by the accountant to ensure accuracy and completeness of gross revenues reported to the Airport.

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 audit scope section of this report.

Staff: Kevin Baloca, Audit Manager
Demissie Mulatu

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DELI UP ENTERPRISES, LLC RESPONSE TO THE AUDIT

City of San Francisco
Office of the Controller – City Service Auditor
Financial Audits Division

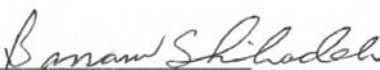
Recommendations Review and Action

The Management of Deli Up, LLC reviewed the recommendations of the Audit in their last meeting on July 31, 2006.

The following procedures are being implemented to rectify the accuracy of reporting revenues and payment of rent to the SFO Airport Commission.



- All Sales including Catering will be recorded at the time of sale using the POS (Point Of Sale) System.
- The Weekly Sales Report (which is provided to the Airport) will be retained for the period specified in the Lease. The Daily Sales Report will also be retained for the period specified in the Lease
- The Rent Credit records issued by the airport will be kept in a Separate folder for review.
Rent Credits will continue to be treated as revenues for calculating rent payment to the Airport.
- Financial Reporting has been revised. Reports of sales and rent payments are reviewed and approved by management before submitting to the Airport Commission.


Bassam Shihadeh
Managing Partner, CFO
Deli Up Enterprises, LLC

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