



**OFFICE OF THE CITY AUDITOR**

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**C-8**

**GARY L. BURROUGHS, CPA**  
City Auditor

June 20, 2006

Phil T. Hester, Director  
Department of Parks, Recreation and Marine

We have performed a review of Lease Number 26023, entered into on December 28, 1998, between the City of Long Beach (City) and Long Beach Anglers, Inc. (Lessee). The Lessee runs a sport fishing operation in Rainbow Harbor, which includes a fishing tackle mini-mart store on the premises. The purpose of our review was to determine whether all payments to the City received from the Lessee were in conformity with the terms and conditions of the Lease.

Our review procedures included:

- Obtaining an understanding of the lease and its key provisions, including payment of rent, reporting requirements, record keeping, etc.
- Discussions with Parks, Recreation and Marine Department and other City personnel.
- Discussions with the Long Beach Anglers, Inc. personnel.
- Obtaining records of payments and supporting documents submitted by Long Beach Anglers, Inc. from Parks, Recreation and Marine Department.
- Scheduling payments submitted to the City during the period January 2002 through December 2005.
- Recalculating the percentage rent paid and comparing the amount paid to the amount due, including monthly minimum rent.
- Tracing the gross receipts reported to the City to Long Beach Anglers' accounting records, including monthly gross receipt reports, bank statements, tax returns, financial statements and other supporting documentation to determine the accuracy of the gross receipts reported and rents paid to the City.

Based on the results of the audit procedures performed, we determined that Long Beach Anglers, Inc. owes the City of Long Beach approximately \$40,700 in additional revenue. Due to time limitations beyond our control, we were unable to complete our full scope audit of Long Beach Anglers, Inc. Had we been able to complete a full scope

Long Beach Anglers, Inc.

June 12, 2006


Page 2 of 3

audit of Long Beach Anglers, Inc. additional findings might have been uncovered. The attached report presents information on the lease along with the details of additional monies due the City of Long Beach. We would like to thank the Parks, Recreation and Marine Department and Long Beach Anglers, Inc. personnel for their cooperation during this audit review.

Sincerely,

GARY L. BURROUGHS, CPA  
City Auditor

By:



J.C. Squires, CPA  
Assistant City Auditor

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John C. Coon, CIA  
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cc: Janet Day-Anselmo, Business Operations Bureau Manager, Parks, Recreation  
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Gwendolyn Parker, Superintendent, Contract Management and Revenue  
Development, Parks, Recreation and Marine  
Mark Sandoval, Manager, Marine Bureau, Parks, Recreation and Marine

On December 28, 1998, the City of Long Beach (Lessor) and Long Beach Anglers, Inc. (Lessee) entered into a lease agreement for the use and occupancy of real property located in Rainbow Harbor in the City of Long Beach. The Lessee runs a sport fishing operation, which includes a fishing tackle mini-mart store on the premises. The purpose of our review was to determine whether all payments to the City, received from Long Beach Anglers, Inc., were in conformity with the terms and conditions of the Lease.

## **ISSUES AND RECOMMENDATIONS**

### **Number 1 – The Monthly Minimum Rent Was Underpaid to the City:**

The lease agreement requires a monthly minimum rent payment of \$5,000 to the City. Additionally, if the percentage rent is greater than \$5,000, then the lessee is required to pay the difference between the monthly minimum and the percentage rent. However, in reviewing all payments (both percentage and minimum payments) made to the City, we noted that 19 monthly payments, during a 48-month period (January 2002 through December 2005), were underpaid to the City. Additionally, the Lessee over paid the City several times during the same period. Our reconciliation of all payments made to the City is as follows:

Total amount of all payments due the City:	\$365,884.34 <sup>1</sup>
Lessee monthly payments made to the City:	<u>(325,115.56)<sup>2</sup></u>
Additional lease rent due the City:	<u>\$ 40,768.78</u>

### **Recommendation:**

The City should bill Long Beach Anglers, Inc. \$40,768.78 for the underpayment of the monthly minimum rents for the period of January 2002 through December 2005.

### **Long Beach Anglers, Inc. Comments:**

Long Beach Anglers, Inc. agreed with our issue of underpayments to the City and made a payment of \$40,768.78 to the City on June 5, 2006.

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<sup>1</sup> For the period of January 2002 through December 2005

<sup>2</sup> Includes \$6,294.14 in over payments to the City