

March 30, 2006

Internal Audit Report 2006-9
Anchorage Golf Course
Economic and Community Development

Introduction. The Municipality of Anchorage (Municipality) has contracted with Seibu Alaska, Inc. (Seibu) through a Lease and Operations Agreement to operate the Anchorage Golf Course with the initial term through August 17, 2019. Rent for the term of this lease is calculated at the rate of three percent (3%) of the total annual gross receipts generated on the leased premises. Gross receipts include the aggregate total amount of sales made and services performed by Seibu or the consignees, agents, sublessee or subtenants. Sales and services include, but are not limited to, greens fees (including tournament entry fees); driving range fees; golf cart rentals; club rentals; sales of golfing apparel or equipment; fees charged for any recreational or other activity on the premises; retail sales of other goods, services, food or beverages; sales from vending or coin-operated equipment; and rental for any facilities for temporary uses such as conventions, banquets or storage.

Objective and Scope. The objective of this audit was to determine if Seibu reported gross receipts during 2005 accurately for each revenue generating activity at the Anchorage Golf Course. Specifically, we reviewed the cash deposits and revenue recording process to determine if the transactions were properly updating the general ledger for the different activities. We focused on the revenue generated during the month of June and verified the source documents for transactions and adjustments that affected the revenue. In addition, from the revenue reported to the Municipality, we judgementally selected, for each activity during the year, the months with the highest revenue and compared the reported revenue with the revenue reported in the general ledger. Finally, after the verification of the monthly revenue, we verified the accuracy of the three percent (3%) rental fee paid quarterly to the Municipality.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of February 2006. The audit was requested by the Administration.

Overall Evaluation. Seibu reported, with reasonable accuracy, gross receipts for each revenue generating activity at the Anchorage Golf Course. However, various items, such as employee meals and promotional items, were deducted from the total revenue reported to the Municipality when calculating the three percent (3%) rental fee.

FINDING AND RECOMMENDATION

1. Gross Revenue Not Clearly Defined.

- a. Finding.** The lease agreement does not address whether promotional items or discounts should be deducted from revenue before the three percent (3%) rental fee is calculated. As a result, deductions were made from gross revenue that impact the rental fee the Municipality receives. We found that employee meals and discounts for merchandise, and discounts given for promotional items, such as banquets, were not included in the gross revenue reported to the Municipality. These discounts or promotional items were included in sales, but were deducted from revenue with a journal entry at the end of the month. Over \$5,000 in revenue for promotional items and discounts was reversed at the end of June 2005 by journal entries.
- b. Recommendation.** The Director, Office of Economic and Community Development, should evaluate the practice of allowing promotional and employee discounts as a reduction of gross revenue. If this practice is found to be acceptable, it should be included in the next lease revision.

- c. **Management Comments.** Management stated, “We concur with your finding that the lease agreement does not address whether promotional items or discounts should be deducted from revenue before the three percent (3%) rental fee is calculated.

“The issue will be addressed in a letter to Seibu Alaska, Inc. The Anchorage Golf Course will account for employee meals and discounts for merchandise or any other discounts given for promotional items on a gross basis in all future periods. This procedure will go into effect January 1, 2006.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on February 23, 2006.

Audit Staff:
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