

SAN MATEO COUNTY HARBOR DISTRICT
FISH BUYER LEASE REVENUE VERIFICATION
FOR THE PERIOD OF APRIL 2013
THROUGH MARCH 2014

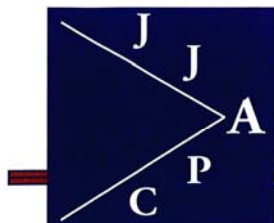
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**San Mateo County Harbor District
Fish Buyer Lease Revenue Verification
For the period April 2013 through March 2014**

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JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To Management of the
San Mateo County Harbor District
South San Francisco, California

We have performed the procedures enumerated below, which were agreed to by the management of San Mateo County Harbor District (District), solely to assist you in evaluating the monthly fish purchase and off-loading fees for the period April 2013 through March 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

- 1) Perform a desk audit of three fish buyer leases, which include off loading and buying fees in addition to their base rent. Verification procedures included tracing fish off-loaded and purchased by Tenant to supporting invoices and recalculating fees due to the District.
- 2) Provide the above desk audit in a report format.

Findings: See page 16 for Summary of Findings

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the monthly fish purchase and off-loading fees for the period identified. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the Harbor Commission and is not intended to be and should not be used by anyone other than these specified parties.

December 17, 2014

JJACPA, Inc.

JJACPA, Inc.

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EXHIBIT A

Pillar Point Seafood

San Mateo County Harbor District
Fish Buyer Lease Revenue Verification
For the period April 2013 through March 2014
Pillar Point Seafood

Amounts Reported on Monthly Fish Purchase and Off-Loading
Fees Worksheet

Month	Total Paid for Wetfish Off- Loaded	Total Paid for Finfish and Shellfish Off- Loaded	Total Paid to District
April 2013	\$ -	\$ 187.13	\$ 187.13
May 2013	-	1,529.30	1,529.30
June 2013	-	968.95	968.95
July 2013	6,797.67	294.14	7,091.81
August 2013	8,512.29	467.52	8,979.81
September 2013	8,251.23	478.74	8,729.97
October 2013	-	375.92	375.92
November 2013	-	7,962.70	7,962.70
December 2013	-	1,589.69	1,589.69
January 2014	-	185.00	185.00
February 2014	-	7.79	7.79
March 2014	-	213.56	213.56
Total	\$ 23,561.19	\$ 14,260.44	\$ 37,821.63

Notes:

N/A: Indicates we could not draw a conclusion on fees due to the lack of information provided by the Tenant.

1) Variance represents the overpayment of wetfish off-loaded due to potential error in calculation. See the Summary of Findings and Recommendations for further discussion.

Exhibit A

Audited Off-Loading Fees

Total Fee for Wetfish Off- Loaded	Total Fee for Finfish and Shellfish Off- Loaded	Total Fee Due	Additional Fees Due to (from) District
\$ -	N/A	\$ -	N/A
-	N/A	-	N/A
-	N/A	-	N/A
6,797.67	N/A	6,797.67	-
5,151.81	N/A	5,151.81	(3,360.48) ¹
4,506.70	N/A	4,506.70	(3,744.53) ¹
-	375.92	375.92	-
-	7,965.78	7,965.78	3.08
-	1,589.64	1,589.64	(0.05)
-	185.01	185.01	0.01
-	77.99	77.99	70.20
-	213.56	213.56	-
<u>\$ 16,456.18</u>	<u>\$ 10,407.90</u>	<u>\$ 26,864.08</u>	<u>\$ (7,031.77)</u>

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EXHIBIT B

Three Captains Sea Products

San Mateo County Harbor District
Fish Buyer Lease Revenue Verification
For the period April 2013 through March 2014
Three Captains Sea Products

Amounts Reported on Monthly Fish Purchase and Off-Loading Fees Worksheet

<u>Month</u>	<u>Total Paid for Wetfish Off- Loaded</u>	<u>Total Paid for Finfish and Shellfish Off-Loaded</u>	<u>Total Paid for Finfish Purchased by Lessee</u>	<u>Total Paid to District</u>
April 2013	\$ -	\$ -	\$ 39.96	\$ 39.96
May 2013	-	39.96	769.74	809.70
June 2013	-	-	394.07	394.07
July 2013	-	-	262.90	262.90
August 2013	19,630.00	-	195.03	19,825.03
September 2013	10,083.00	-	24.84	10,107.84
October 2013	-	-	41.62	41.62
November 2013	-	302.71	2,959.28	3,261.99
December 2013	-	-	1,641.50	1,641.50
January 2014	-	-	348.44	348.44
February 2014	-	-	236.35	236.35
March 2014	-	-	212.10	212.10
Total	\$ 29,713.00	\$ 342.67	\$ 7,125.83	\$ 37,181.50

Notes:

N/A: Indicates we could not draw a conclusion on fees due to the lack of information provided by the Tenant.

Exhibit B

Audited Off-Loading Fees

Total Fee for Wetfish Off- Loaded	Total Fee for Finfish and Shellfish Off- Loaded	Total Paid for Finfish/Shellfish Purchased by Lessee	Total Fees Due	Additional Fees Due to (from) District
\$ -	\$ -	\$ 39.96	\$ 39.96	\$ -
-	N/A	813.29	N/A	N/A
-	-	394.07	394.07	-
-	-	262.90	262.90	-
19,630.00	-	195.03	19,825.03	-
11,200.00	-	24.84	11,224.84	1,117.00
-	-	41.62	41.62	-
-	302.71	2,959.88	3,262.59	0.60
-	-	1,641.50	1,641.50	-
-	-	348.44	348.44	-
-	-	236.35	236.35	-
-	-	212.10	212.10	-
<u>\$ 30,830.00</u>	<u>\$ 302.71</u>	<u>\$ 7,169.98</u>	<u>\$ 37,489.40</u>	<u>\$ 1,117.60</u>

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EXHIBIT C

Morning Star Fisheries

San Mateo County Harbor District
Fish Buyer Lease Revenue Verification
For the period April 2013 through March 2014
Morning Star Fisheries

Amounts Reported on Monthly Fish Purchase and Off-Loading Fees
Worksheet

Month	Total Paid for Finfish and Shellfish Off- Loaded	Total Paid for Finfish and Shellfish Purchased by Lessee	Total Paid for Gross Receipts for Lessee's On-Site Retail Fish Sales	Total Paid to District
April 2013	\$ -	\$ 41.19	\$ 15.95	\$ 57.14
May 2013	165.37	467.36	87.20	719.93
June 2013	35.21	286.34	110.94	432.49
July 2013	-	42.63	269.65	312.28
August 2013	134.86	25.46	28.10	188.42
September 2013	60.87	9.60	5.00	75.47
October 2013	40.04	3.92	-	43.96
November 2013	-	2,198.47	291.30	2,489.77
December 2013	-	1,023.80	185.25	1,209.05
January 2014	-	317.38	88.00	405.38
February 2014	-	188.37	82.60	270.97
March 2014	40.62	157.25	62.20	260.07
Total	\$ 476.97	\$ 4,761.77	\$ 1,226.19	\$ 6,464.93

Exhibit C

Audited Off-Loading Fees

Total Fee for Finfish and Shellfish Off- Loaded	Total Fee for Finfish and Shellfish Purchased by Lessee	Total Fee for Gross Receipts for Lessee's On-Site Retail Fish Sales	Total Fees Due	Additional Fees Due to (from) District
\$ -	\$ 48.96	\$ 15.95	\$ 64.91	\$ 7.77
111.34	452.84	87.20	651.38	(68.55)
35.21	275.75	110.94	421.90	(10.60)
-	48.64	263.70	312.34	0.06
167.17	11.73	28.10	207.00	18.58
80.87	9.60	5.00	95.47	20.00
32.65	3.93	-	36.58	(7.38)
-	2,054.06	405.10	2,459.16	(30.61)
-	1,010.32	185.25	1,195.57	(13.48)
-	330.09	88.00	418.09	12.71
-	188.17	82.60	270.77	(0.20)
90.62	157.25	62.20	310.07	50.00
\$ 517.86	\$ 4,591.33	\$ 1,334.04	\$ 6,443.23	\$ (21.70)

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San Mateo County Harbor District
Notes to Statements of Monthly Fish Purchase and Off Loading Fees
For the period April 2013 through March 2014

NOTES TO STATEMENTS

1. Overview of the Fish Buyer Fees

In accordance with the provisions contained in the Lease Agreements between the San Mateo County Harbor District (District) and Pillar Point Seafood, Morning Star Fisheries and Three Captains Sea Products (Tenants), a fee is imposed on each tenant for the privilege to operate at Pillar Point Harbor. In addition to minimum base rent, each tenant agrees to pay to the District the following amounts:

1. Wholesale Fish Purchase: \$10.00 per ton actual scale gross weight for wet fish and \$.01 per pound gross weight for finfish and shellfish purchased by Tenant for fish at the premises on or before the first day of each and every successive calendar month during the term of the lease on or before the first day of each and every successive calendar month during the term of the lease.
2. Fish Off-Loading: \$10.00 per ton actual scale gross weight for wet fish and \$.01 per pound gross weight for finfish and shellfish off-loaded by Tenant at premises on or before the first day of each and every successive calendar month during the term of the lease on or before the first day of each and every successive calendar month during the term of the lease.
3. Retail Fish Sales: Tenant will pay Landlord five percent (5%) of its gross receipts for all fish sold to the general public on or before the first day of each and every successive calendar month during the term of the lease on or before the first day of each and every successive calendar month during the term of the lease.

Purchase and off-loading fees at the rates set forth above shall be paid monthly and shall be due and payable on the 15th day following the end of each month.

As provided in Section 6.3 of the lease agreement all documents, books and accounting records kept by Tenant relating to the lease shall be open to inspection by the District or its authorized representative at any reasonable time during the lease term and for three (3) years thereafter.

2. Summary of Significant Accounting Policies

Basis of Presentation

The statements of monthly fish purchase and off loading fees have been prepared on the cash basis of accounting, in which amounts reported reflect cash received or paid in the same period, and include all wet fish and finfish off-loaded by the tenants and payments made to the District.

**San Mateo County Harbor District
 Summary of Findings and Recommendations
 For the period April 2013 through March 2014**

FINDINGS

Pillar Point Seafood

- April 2013: No supporting documentation provided.
- May 2013: No supporting documentation provided.
- June 2013: No supporting documentation provided.
- July 2013: Invoices reconciling finfish and shellfish off-loaded not provided.
- August 2013: The Tenant improperly calculated the wet fish fees paid to the District. Based on the information that was provided to us, it appears that the Tenant reported wetfish unloaded in pounds and incorrectly used the \$.01 per pound finfish and shellfish rate, instead of the \$10 per ton wet fish rate. Also, the unloaded wetfish on the fee worksheet is different than the supporting documentation provided to us during our engagement. From the information provided it appears that the Tenant overpaid fees in the amount of \$3,360.48, calculated as follows:

<u>Per Fee Worksheet</u>	
Total Wetfish Off-Loaded	851,229 lbs
Incorrect Rate Used by Tenant	<u>\$0.01 per lbs</u>
Total Paid to District for Wetfish	<u>\$ 8,512.29</u>
 <u>Per Audit</u>	
Total Wetfish Off-Loaded	1,030,361 lbs
Converted to Tons	515.18 tons
Correct Rate for Wetfish	<u>\$10 per ton</u>
Total Fees Due for Wetfish	<u>\$ 5,151.81</u>
Difference (overpayment) by Tenant:	<u><u>\$ (3,360.48)</u></u>

See recommendation 2 on page 20 for further discussion on this finding. Additionally invoices reconciling finfish and shellfish off-loaded were not provided.

- September 2013: 1) The Tenant improperly calculated the wet fish fees paid to the District. Based on the information that was provided to us, it appears that the Tenant reported wetfish unloaded in pounds and incorrectly used the \$.01 per pound finfish and shellfish rate, instead of the \$10 per ton wet fish rate. Also, the unloaded wetfish on the fee worksheet is different than the supporting documentation provided to us during our engagement. From the information provided it appears that the Tenant overpaid fees in the amount of \$3,744.53, calculated as follows:

**San Mateo County Harbor District
 Summary of Findings and Recommendations, Continued
 For the period April 2013 through March 2014**

FINDINGS, Continued

Pillar Point Seafood, continued

<u>Per Fee Worksheet</u>	
Total Wetfish Off-Loaded	825,123 lbs
Incorrect Rate Used by Tenant	<u>\$0.01 per lbs</u>
Total Paid to District for Wetfish	<u>\$ 8,251.23</u>
<u>Per Audit</u>	
Total Wetfish Off-Loaded	901,340 lbs
Converted to Tons	450.67 tons
Correct Rate for Wetfish	<u>\$10 per ton</u>
Total Fees Due for Wetfish	<u>\$ 4,506.70</u>
Difference (overpayment) by Tenant:	<u><u>\$ (3,744.53)</u></u>

See recommendation 2 on page 20 for further discussion on this finding. Additionally invoices reconciling finfish and shellfish off-loaded were not provided.

October 2013: No findings.

November 2013: There is a difference in what was reported to the District on the fee worksheet, and what was provided to us during our engagement. The Tenant off-loaded 796,579 lbs of finfish and shellfish. A total of 796,270 was reported and \$7,962.70 was paid to the District. There is a variance of 308 lbs, resulting in an underpayment of \$3.08.

December 2013: There is a difference in what was reported to the District on the fee worksheet and what was provided to us during our engagement. There is 5 lbs variance between what was off-loaded and reported, resulting in an overpayment of \$.05.

January 2014: No findings

February 2014: There is a difference in what was reported to the District on the fee worksheet and what was provided to us during our engagement. The tenant off-loaded 7,799 lbs of finfish. A total of 779 lbs was reported to the District, resulting in an underpayment of fees of \$70.20.

March 2014: No findings.

**San Mateo County Harbor District
Summary of Findings and Recommendations, Continued
For the year ended March 31, 2014**

FINDINGS, Continued

Three Captains Sea Products

April 2013: No findings.

May 2013: The May fees worksheet provided to us by the District is different from the worksheet provided to us by the Tenant. Fees due on the District's version are \$809.70, while the fees due on the Tenant's worksheet are \$1,386.74. The Tenant worksheet has April crossed out and May inserted, therefore we could not tell if the two worksheets are for the same period and a variance actually exists. We suggest management review the May worksheet with the Tenant to determine if all fees have been received.

On the fees worksheet provided to us by the Tenant, fish purchased by Tenant ties out to supporting invoices. But invoices reconciling the fish off-loaded were not provided.

June 2013: No findings.

July 2013: No findings.

August 2013: No findings.

September 2013: We noticed a variance in the supporting invoice listing provided to us by the Tenant, which could not have been detected by the District. It appears that the Tenant deducted 10% of the weight off-loaded for water, resulting in an underpayment of \$1,117. There does not appear to be provisions in the lease agreement that allow this deduction. We suggest management discuss this deduction with the Tenant to determine if it should have been made.

October 2013: No findings.

November 2013: We noticed a variance in the supporting invoice listing provided to us by the Tenant, which could not have been detected by the District. It appears that there was an error in completing the fees worksheet which caused the Tenant to underpay the District by \$.60.

December 2013: No findings.

January 2014: No findings.

February 2014: No findings.

March 2014: No findings.

**San Mateo County Harbor District
Summary of Findings and Recommendations, Continued
For the year ended March 31, 2014**

FINDINGS, Continued

Morning Star Fisheries

For each month tested, there was a difference in what was reported to the District on the fee worksheet and what was provided to us during our engagement. The additional fees due to (from) the District for each month were as follows, as provided in Exhibit C:

April 2013:	\$7.77
May 2013:	\$(68.55)
June 2013	\$(10.60)
July 2013	\$0.06
August 2013	\$18.58
September 2013	\$20.00
October 2013	\$(7.38)
November 2013	\$(30.36)
December 2013	\$(13.36)
January 2014	\$12.71
February 2014	\$(0.20)
March 2014	\$50.00
Total:	\$(21.70)

**San Mateo County Harbor District
Summary of Findings and Recommendations, Continued
For the year ended March 31, 2014**

RECOMMENDATIONS

1) Additional Supporting Documentation

For several of the months tested the wetfish, finfish and shellfish off-loaded did not tie to the fee worksheets and for the months tested without exception, the possibility still exists that supporting documents could be manipulated. We suggest management implement procedures to have Tenants provide additional supporting documentation to verify the fee worksheets are complete and accurate. Given the complexity of the off-loading and documentation process, the District may have to consider several alternatives.

- The most reliable source of validation would be the Department of Fish and Wildlife landing receipts. Given that both Tenants and Department of Fish and Wildlife are reluctant to supply the receipts, management may have to work with both parties to set up a special arrangement to view the receipts. Management could work with the Department to set up confirmation procedures to verify off-loads, or work with Tenants to set up verification checks of landing receipts where the District would not need to take copies.
- Tenants could provide the supporting documentation they use to complete the fee worksheet. This documentation could be copies of invoices or receipts sent to fishing boats or vendors. The District could use these invoices to reconcile what was off-loaded to the fee worksheets. The issue with this method is with reliability of the information provided. The opportunity exists for Tenants to falsify documents, or not provide all of the complete information.
- The District could provide standardized forms to be used by all Tenants. Fee worksheets could include a sample calculation to avoid confusion. The District could issue its own sequential, triplicate receipt forms to be used by the Tenants to ensure the off-loads are complete.

2) Fee Worksheet Calculations

For the months of August and September, Pillar Point Seafood improperly calculated the amount due to the District for wetfish. There are two different conclusions that one could draw based on how the worksheets were completed:

1. the Tenant reported tons, rounded to three decimal places multiplied by the \$10 wetfish rate;
or
2. the Tenant incorrectly reported pounds, and incorrectly used the \$.01 finfish rate.

From the limited information provided to Management, they assumed the first conclusion. The supporting invoices provided to us by the Tenant are recorded in pounds. Given this information, we support the second conclusion. We suggest management discuss the August and September worksheets with the Tenant to determine how they completed the worksheets and determine if they were completed correctly.

**San Mateo County Harbor District
Summary of Findings and Recommendations, Continued
For the year ended March 31, 2014**

RECOMMENDATIONS, Continued

3) Outsourcing Property Management

We encountered significant difficulties in performing our engagement. Requests for information went ignored, leaving us with the only alternative of notifying District management of the lack of cooperation. Only after the District's involvement did we receive information from Morning Star Fisheries. Pillar Point Seafood made the decision to withhold three months of information from us. If business relations continue to deteriorate in this manner, litigation is a very likely outcome.

We recommend the District consider outsourcing the services of commercial and real estate management to a local property management company. As an intermediary between the District and its Tenants, a professional property management company can provide management skills and support that the District is unable to provide. An independent property manager would be responsible for collecting, reviewing and submitting the correct fees to the District. This suggestion is also provided in the Grand Jury report. We agree with the Grand Jury's conclusion that outsourcing of these non-core activities will result in greater focus on harbor management.