



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Compliance of the
Golf Center of Staten Island, Inc. With
Its License Agreement for the Silver
Lake Golf Course

FM15-069A

June 17, 2015

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, NY 10007

SCOTT M. STRINGER
COMPTROLLER

June 17, 2015

To the Residents of the City of New York:

My office has audited the Golf Center of Staten Island, Inc. (GCSI) to determine whether GCSI properly calculated and reported its gross receipts and license fees due to the City and paid the fees on time; maintained adequate internal controls over the recording and reporting of its gross receipts; and complied with certain other major requirements of its license agreement. We perform audits of City franchises as a means of increasing accountability and ensuring that City franchisees operate in compliance with their agreements.

This audit found that GCSI failed to report \$86,277 in bartered golf revenue and also underreported 3,200 rounds of golf to the Department of Parks and Recreation (Parks). Although these issues result in additional reportable revenue, GCSI did not surpass the minimum amount due to Parks and, therefore, there are no additional license fees due the City as a result of these past omissions. However, the practices that led to these reporting failures could affect future payments to Parks should golf sales increase. Further, our audit found control weaknesses with certain revenue recording procedures. Specifically, GCSI did not utilize pre-numbered contracts for parties and golf outings, used cash boxes for beverage carts and a food stand, and bypassed the existing financial controls for a GCSI sponsored event that took place in 2014. The audit also revealed significant issues related to GCSI's compliance with other major requirements of the license agreement related to tax filings and capital improvements.

The audit makes 13 recommendations, including that GCSI should ensure that all revenue derived from licensed premises is properly reported to Parks, all golf rounds are accurately reported to Parks, and all contracts are sequentially pre-numbered and that an event calendar continues to be maintained. GCSI should also immediately file all outstanding tax documents and remit all taxes due, and coordinate with Parks to develop a list of outstanding capital improvements that remain. The audit also recommends that Parks determine outstanding capital improvements and develop a specific timetable and cost estimate to complete each improvement based upon current dollars; update tracking reports to reflect any changes in capital improvements; and ensure GCSI files all tax returns past due and remit all taxes due to applicable taxing authorities.

The results of the audit have been discussed with GCSI and Parks officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report. If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the Compliance of The Golf Center of Staten Island, Inc. With its License Agreement for the Silver Lake Golf Course

FM15-069A

EXECUTIVE SUMMARY

This audit was conducted to determine whether The Golf Center of Staten Island, Inc. (GCSI or the Licensee) properly calculated and reported its gross receipts and license fees due to the City and paid the fees on time; maintained adequate internal controls over the recording and reporting of its gross receipts; and complied with certain other major requirements of its license agreement (i.e., capital improvements, insurance coverage, security deposit, and utility charges).

In 2007, the Department of Parks and Recreation (Parks) entered into a twenty-year license agreement (the License Agreement) with GCSI for the renovation, operation, and maintenance of an 18-hole golf course, clubhouse, and food service facility at Staten Island's Silver Lake Park. During year seven of the License Agreement (the period under review), the contract required GCSI to pay the City the minimum annual fee of \$425,000 or certain percentages of gross receipts, whichever is greater. The percentages of gross receipts payable to Parks are as follows: 26 percent of gross receipts from greens fees, reservations, and cart rentals (up to 59,999 rounds); 10 percent of merchandise and other revenue; and 8.5 percent of food and beverage revenue, up to \$1 million. In addition, GCSI is required to: (1) maintain adequate systems of internal controls that show in detail the total business transacted and the gross receipts; (2) complete certain capital improvements specified in the License Agreement by the end of 2010, valued at a minimum cost of \$2,599,822; (3) submit a security deposit to the City of \$156,250; (4) pay all federal, state and local taxes applicable to the operation of the licensed premises; (5) carry proper insurance coverage; and (6) pay all required utility charges. GCSI must also pay a surcharge of \$4.00 per round of golf played (excluding juniors aged 16 and younger) or an annual minimum surcharge fee of \$140,000, whichever is greater.

For our audit period, May 1, 2013, through April 30, 2014, GCSI reported gross receipts of \$1.8 million and paid license fees totaling \$565,000 and \$5,106 in late fees.

Audit Findings and Conclusions

GCSI failed to report \$86,277 in bartered golf revenue and also underreported 3,200 rounds of golf to Parks. Although these issues result in additional reportable revenue, GCSI did not surpass the minimum amount due to Parks and, therefore, there are no additional license fees due the City as a result of these past omissions. However, the practices that led to these reporting failures

could affect future payments to Parks should golf sales increase. Further, our audit found control weaknesses with certain revenue recording procedures. Specifically, GCSI did not utilize pre-numbered contracts for parties and golf outings, used cash boxes for beverage carts and a food stand, and bypassed the existing controls for a GCSI sponsored event that took place in 2014.

In addition, our audit revealed significant issues related to GCSI's compliance with other major requirements of the License Agreement. As of the end of our audit fieldwork, GCSI had not filed or paid New York State sales tax since 2009 and, according to its accounting records, owed an estimated \$234,000 in taxes to New York State. Furthermore, GCSI did not file the applicable Federal, State or City tax returns since 2009. At the audit exit conference, a GCSI official provided us with tax returns indicating that they recently filed Federal, State, and City tax returns for 2010 and paid the taxes due. GCSI official also provided us with quarterly sales tax returns for the periods between December 2014 and May 2015 and documentation to evidence payments for the taxes due. In addition, according to Parks' tracking report dated April 2015, GCSI has yet to expend \$538,343 of the \$2.6 million it is obligated to spend in capital improvements. Finally, Parks' report tracking capital improvements made to the premises lacks the level of detail necessary to track the status of specific improvements required by the agreement.

Audit Recommendations

We make 13 recommendations, eight to GCSI and five to Parks, including the following:

GCSI should:

- Ensure all revenue derived from licensed premises is properly reported to Parks;
- Ensure all golf rounds are accurately reported to Parks;
- Ensure all contracts are sequentially pre-numbered and that an event calendar continues to be maintained;
- Immediately file all outstanding tax filings and remit all taxes due;
- Coordinate with Parks to develop a list of those outstanding capital improvements that remain, the corresponding unexpended dollars for each improvement and a specific timetable for the completion of each improvement.

Parks should:

- Determine those outstanding improvements and corresponding dollar amounts and develop a specific timetable and cost estimate to complete each improvement based upon current dollars;
- Update tracking reports to reflect any changes in capital improvements;
- Ensure GCSI files all tax returns past due and remit all taxes due to applicable taxing authorities.

GCSI's Response

GCSI officials agreed with the audit's findings and recommendations.

Parks' Response

In its response, Parks agreed with the report's findings and recommendations, stating, "While Silver Lake paid the appropriate license fees and maintained their required insurance, the Report

raises important issues related to GCSI's internal controls, outstanding filings and payments of certain taxes, and GCSI's completion of their capital project commitment." Parks stated it will monitor GCSI's compliance with the audit's recommendations.

AUDIT REPORT

Background

In 2007, Parks entered into a twenty-year License Agreement with GCSI for the renovation, operation, and maintenance of an 18-hole golf course, clubhouse, and food service facility at Staten Island's Silver Lake Park. During year seven of the License Agreement (the period under review), the contract required GCSI to pay the City the greater of the minimum annual fee of \$425,000 or certain percentages of gross receipts. The License Agreement defines gross receipts as "all funds received by Licensee, without deduction or set-off of any kind, from the sale of food and beverages, wares, merchandise or services of any kind." The percentages of gross receipts payable to Parks are as follows: 26 percent of gross receipts from greens fees, reservations, and cart rentals (up to 59,999 rounds); 10 percent of merchandise and other revenue; and 8.5 percent of food and beverage revenue, up to \$1 million. GCSI is charged a 2 percent late fee on any payments to Parks that are overdue by more than ten days.

In addition, GCSI is required to:

- Maintain adequate systems of internal controls and complete and accurate records, books of account and data, including daily sales and receipts' records, which show in detail the total business transacted and the gross receipts;
- Complete a schedule of capital improvements by the end of 2010, valued at a minimum cost of \$2,599,822;
- Submit a security deposit to the City of \$156,250;
- Pay all federal, state and local taxes applicable to the operation of the licensed premises;
- Carry proper insurance coverage, including a \$5 million general liability policy, and
- Pay all required utility charges.

In addition, GCSI must pay a surcharge of \$4.00 per round of golf played (excluding juniors aged 16 and younger) or an annual minimum surcharge fee of \$140,000, whichever is higher. For our audit period, May 1, 2013, through April 30, 2014, GCSI reported gross receipts of \$1.8 million and paid license fees totaling \$565,000 and \$5,106 in late fees.

Objectives

The objectives of this audit were to determine whether GCSI:

- Properly calculated and reported its gross receipts and license fees due to the City and paid the fees on time;
- Maintained adequate internal controls over the recording and reporting of its gross receipts; and
- Complied with certain other major requirements of its license agreement (i.e., capital improvements, insurance coverage, security deposit, and utility charges).

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing

standards (GAGAS). Those standards require that 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 our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers operating year seven of the license agreement, May 1, 2013, to April 30, 2014. Please refer to the Detailed Scope and Methodology section at the end of the report, which provides a description of the specific procedures and tests that were conducted in connection with this audit.

Discussion of Audit Results

The matters covered in this report were discussed with GCSI and Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to GCSI and Parks officials and discussed at an exit conference held on May 22, 2015. At the exit conference, GCSI officials provided additional information and stated that they have taken action to address some of the issues cited in the report. On June 1, 2015 we submitted a draft report to GCSI and Parks officials with a request for comments. We received written responses from GCSI and Parks officials on June 15, 2015.

In its response, GCSI agreed with the audit's findings and recommendations. Further, GCSI stated that "Our Certified Public Accountant and Professional Tax Consultant have undertaken to bring us in compliance with all outstanding tax filings and payments as well as future filings and payments as they become due. All sales tax returns have been filed and 2011 Federal, State and City Corporate Tax Return will be filed this week."

In its response, Parks also agreed with the report's findings and recommendations, stating, "While Silver Lake paid the appropriate license fees and maintained their required insurance, the Report raises important issues related to GCSI's internal controls, outstanding filings and payments of certain taxes, and GCSI's completion of their capital project commitment." Further, Parks stated it will monitor GCSI's compliance with the audit's recommendations.

The full text of GCSI's and Parks' responses are included as addenda to this report.

FINDINGS

GCSI failed to report \$86,277 in bartered golf revenue and also underreported 3,200 rounds of golf to Parks. Although these issues resulted in additional reportable revenue, GCSI did not surpass the minimum amount due to Parks and, therefore, there are no additional license fees due the City as a result of these past omissions. However, the practices that led to these reporting failures could affect future payments to Parks should golf sales increase. Further, our audit found control weaknesses with certain revenue recording procedures. Specifically, GCSI did not utilize pre-numbered contracts for parties and golf outings, used cash boxes for beverage carts and a food stand, and bypassed the existing controls for a GCSI sponsored event that took place in 2014. While these are not GCSI's main sources of revenue, due to these control weaknesses we cannot be reasonably assured that GCSI reported all revenue generated from these operating activities.

In addition, our audit revealed significant issues related to GCSI's compliance with other major requirements of the City License Agreement. As of the end of our audit fieldwork, GCSI had not filed or paid New York State sales tax since 2009 and, according to its accounting records, owed an estimated \$234,000 in taxes to New York State. Furthermore, GCSI did not file the applicable Federal, State or City tax returns since 2009. At the audit exit conference, a GCSI official provided us with tax returns indicating that they recently filed Federal, State, and City tax returns for 2010 and paid the taxes due. GCSI official also provided us with quarterly sales tax returns for the periods between December 2014 and May 2015 and documentation to evidence payments for the taxes due. In addition, according to Parks' tracking report dated April 2015, GCSI has yet to expend \$538,343 of the \$2.6 million it is obligated to spend in capital improvements. However, GCSI did pay its utilities and maintained adequate levels of insurance.

Finally, Parks' report tracking capital improvements made to the premises lacks the level of detail necessary to track the status of specific improvements required by the agreement.

GCSI Underreported Golf Revenue by \$86,277

GCSI bartered the rights to multiple tee times in exchange for certain services as an alternative to directly paying two vendors, in violation of the terms of the License Agreement. The License Agreement does not permit any deductions or set-offs from gross receipts with the exception of sales tax. Absent entering into the barter arrangements, GCSI would otherwise sell the tee times, record the revenue and expense the costs associated with the services provided. Further, the License Agreement expressly states that "[a]ll sales made or services rendered by Licensee from the Licensed Premises shall be construed as made and completed therein even though payment therefore may be made at some other place." Although GCSI does not receive revenue, it provided greens access in exchange for the vendors' services, both of which have value. Since the vendors then resell their tee times, the revenue derived from the use of the golf course and that revenue generated from those tee times should be reported to Parks under the License Agreement.

GCSI entered into an agreement with EZLinks Golf, Inc. (EZLinks) for tee sheet reservation software and an interfacing point of sale (POS) system. GCSI also entered into an agreement with the Golf Channel for marketing, website design, maintenance, and hosting. Rather than directly paying for the services, GCSI assigned specific tee times to EZLinks and Golf Channel. Between May 1, 2013, and April 30, 2014, each generated \$33,409 and \$52,868 in revenue, respectively, through the sales of their allotted tee times. In total, by omitting these sales, GCSI underreported \$86,277 as result of these barter arrangements.

Although the underreporting practice did not result in additional fees due to the City, it has the potential to affect future payments to Parks should golf sales increase and GCSI surpasses the minimum amounts due to Parks. Further, this practice is not beneficial to GCSI and Parks since these barter arrangements result in tee times being sold for significantly less than their normal charge. This ultimately reduces the amount of reportable revenue and undercuts the value of other tee times sold directly by GCSI.

GCSI Did Not Report 3,200 Golf Rounds

GCSI did not accurately report total golf rounds to Parks. Section 4.1 (a) of the License Agreement requires GCSI to pay a \$4.00 surcharge for each round of golf played excluding rounds played by juniors aged 16 and under or the annual minimum surcharge fee of \$140,000. GCSI improperly deducted the rounds bartered with EZLinks and did not include the rounds bartered with the Golf Channel in its calculation. As a result, GCSI underreported its golf rounds to Parks by 3,200 (see Table I).

Table I

Recalculation of Golf Rounds

	GCSI Calculation	Auditors Calculations	Difference
Rounds Played	34,923	34,923	0
Golf Channel Rounds	0	1,916	1,916
Less Juniors	(4,004)	(2,720)	1,284
Less Rain Checks	(213)	(213)	0
Total Rounds Reported to Parks	30,706	33,906	3,200
\$4 Surcharge per Round	\$122,824	\$135,624	\$12,800

The EZLinks rounds were included in the total greens fee rounds played (34,923) but were also included in junior rounds (4,004), which get deducted. GCSI improperly included 1,284 EZLinks rounds in the junior rounds. As a result, GCSI overstated the deduction by 1,284. Further, as previously stated, GCSI did not include the bartered rounds sold by the Golf Channel in its calculation, which resulted in an additional underreporting of 1,916 rounds. Based on the auditor's calculations, the total rounds should have been 33,906.

However, since GCSI still did not surpass the threshold of rounds (35,000), there was no monetary effect. While the underreporting did not result in additional fees due to the City, this practice could affect future payments to Parks should golf sales increase.

Control Weaknesses Over Other Revenue

GCSI did not maintain an adequate system of internal controls as required in the License

Agreement. Our review identified control weaknesses over the reporting of sources of revenue generated at the golf course. Specifically:

- GCSI did not utilize pre-numbered contracts for parties and golf outings and there was no event calendar book for 2013. In 2010, GCSI was cited by a Parks audit for not having any contracts or a calendar for non-golf catered events, and having contracts for catered golf events that were not sequentially numbered. Since then, GCSI has continued to enter into contracts, but they have not been sequentially pre-numbered. The pre-numbering of contracts is an accounting control that facilitates the identification of missing contracts. In 2014, GCSI maintained an event calendar. Although our audit testing did not identify any unreported events, the use of pre-numbered contracts is a standard control that should be implemented. At the exit conference, a GCSI official stated that they have implemented the use of pre-numbered contracts and provided a sample.
- GCSI used cash boxes for beverage carts and a food stand rather than a cash register that records transactions. The use of cash boxes is not an acceptable practice because no official record exists of any transaction. In addition to maintaining adequate controls, the license agreement requires the use of a cash register to record all transactions. Furthermore, mobile POS solutions are widely used and available.
- GCSI bypassed controls for a GCSI sponsored event. While onsite, auditors observed wrist bands that were sold but not processed through the POS. Further, a GCSI official informed the auditors that while wrist bands are pre-numbered, they are not sold sequentially.

Also, as a result of these control weaknesses we cannot be reasonably assured that GCSI properly reported all revenue generated from these activities.

Failure to File Corporate and Sales Tax Returns Since 2009

GCSI has not filed corporate or New York State sales tax returns since 2009. Section 4.5(c) of the License Agreement states that GCSI “is solely responsible for the payment of all federal, state and local taxes applicable to the operation of the Licensed Premises.” Although this is a significant compliance issue, the potential consequences of failing to file or pay applicable taxes are beyond the scope of this audit. We did not audit compliance with federal, state, and local tax law requirements and as cited above, under the License Agreement, GCSI is solely responsible for payment of applicable taxes. According to its general ledger, GCSI accrued a sales tax liability of approximately \$234,000 that remains unpaid. This liability may potentially be subject to interest and penalties and part of it dates back to 2010. However, our audit did not assess the likelihood of any potential penalty.

As noted, in its 2009 federal income tax return, GCSI has elected to be treated as an S Corporation. S corporations are corporations that elect to pass income, losses, deductions, and credits through to their shareholders for federal tax purposes. Failure to file S corporation returns with the IRS results in significant penalties and will likely effect the personal returns of the shareholders. New York State only requires a flat fee for S corporations. However, the City does not recognize S corporation status and requires businesses to pay a General Corporation Tax (GCT). We were not able to determine whether GCSI actually owes any GCT. At the exit conference, a GCSI official provided tax returns indicating that they filed Federal, State, and City tax returns for 2010 and paid the taxes due. In addition, the GCSI official provided quarterly sales tax returns for the periods between December 2014 and May 2015 and showed that GCSI paid the taxes due. The GCSI official stated that they are currently working on filing the remaining tax returns.

GCSI May Not Have Completed All Capital Improvements as Required by Its License Agreement

Our review of Parks' capital improvement tracking report found that GCSI did not comply with the License Agreement's requirement to complete all required capital improvements by the end of 2010. Because Parks' tracking report lacks a certain level of detail, it is difficult to determine which items are outstanding and how much needs to be expended in order to complete all required capital improvements. According to the tracking report dated April 2015, GCSI has yet to expend \$538,343 of the \$2.6 million in required capital improvements. Section 10.1 of the License Agreement requires that GCSI complete capital improvements with a dollar value of at least \$2.6 million as described on the Schedule of Capital Improvements annexed to the License Agreement. This includes an itemized list of improvements to be completed, an estimated corresponding dollar amount and year in which the specific improvement should be completed. This issue is discussed in greater detail below.

OTHER ISSUE

Parks' Tracking of Capital Improvements Needs To Be Improved

We identified various problems with the level of detail contained in the tracking report used by Parks to monitor GCSI's progress in completing capital improvements. Specifically, we found that Parks does not follow through on the following requirements:

- While Parks reviewed and accounted for invoices and canceled checks related to the capital improvements, its tracking system did not include detail for progress of items and corresponding dollar amounts.
- Parks does not track the progress of individual capital improvements on its tracking report against start and completion dates in the agreement; and
- Parks does not maintain an outstanding list of improvements, corresponding dollar amounts, and completion dates for individual capital improvements.

Due to Parks' ineffective tracking of capital improvements, neither GCSI nor Parks currently know which items are outstanding and how much needs to be expended in order to complete all required capital improvements detailed in Exhibit D. Section 10.1 of the License Agreement further requires that GCSI shall spend or cause to be expended the entire amount required to complete the capital improvements, including any amount needed above the estimate cost shown. Parks needs to fully utilize its tracking report to adequately monitor GCSI's compliance with the capital improvement provisions of its License Agreement.

RECOMMENDATIONS

GCSI should:

1. Ensure all revenue derived from licensed premises is properly reported to Parks;
2. Ensure all golf rounds are accurately reported to Parks;
3. Ensure all contracts are sequentially pre-numbered and that an event calendar continues to be maintained;
4. Establish an adequate system of controls to properly track and account for all beverage carts, food stand, and special event revenues;

GCSI's Response: In its response to recommendations one through four, GCSI stated "We will ensure that all revenue derived from license premises is properly reported to Parks; that all contracts are sequentially pre-numbered; that an event calendar continues to be maintained; and that an adequate system of controls is established to properly track and account for all beverage carts, food stand and special event revenues."

5. Immediately file all outstanding tax filings and remit all taxes due;
6. Ensure that all applicable Federal, State, and City tax returns are filed timely going forward;

GCSI's Response: In its response to recommendations five and six, GCSI stated "Our Certified Public Accountant and Professional Tax Consultant have undertaken to bring us in compliance with all outstanding tax filings and payments as well as future filings and payments as they become due. All sales tax returns have been filed and 2011 Federal, State and City Corporate Tax Return will be filed this week."

7. Coordinate with Parks to develop a list of those outstanding capital improvements that remain, the corresponding unexpended dollars for each improvement and a specific timetable for the completion of each improvement;
8. Complete the capital improvements in accordance with the timetable agreed upon.

GCSI's Response: In its response to recommendations seven and eight, GCSI stated "We will continue to coordinate with Parks to develop a list of those outstanding capital improvements that remain, the corresponding unexpended dollars for each Improvement and a special timetable for the completion of each improvement. Furthermore, we will complete the capital improvements in accordance with an agreed upon timetable."

Parks should:

9. Determine those outstanding improvements and corresponding dollar amounts and develop a specific timetable and cost estimate to complete each improvement based upon current dollars;

Parks' Response: "Parks will work closely with GCSI in communicating the remaining work to be done and developing a detailed timetable for its completion."

10. Fully utilize its project management report to monitor GCSI's progress in completing the required capital improvements;

Parks' Response: "We will expand the current capital tracking system and reports, above and beyond what is required by our license agreements, to incorporate the tracking of work in progress."

11. Update tracking reports to reflect any changes in capital improvements;

Parks' Response: "We will expand the current capital tracking system and reports, above and beyond what is required by our license agreements, to incorporate the tracking of work in progress."

12. Ensure GCSI files all tax returns past due and remit all taxes due to applicable taxing authorities;

Parks' Response: "Parks' internal auditor will follow up with GCSI on a regular, ongoing basis to ensure that all taxes are immediately filed and that GCSI promptly enters into payment plans for past due taxes."

13. Ensure GCSI files its tax returns timely.

Parks' Response: "Parks' internal auditor will follow up with GCSI on a regular, ongoing basis to ensure that their tax returns are immediately filed."

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with GAGAS. Those standards require that 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 our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers GCSI's operating year seven of the license agreement (May 1, 2013 to April 30, 2014). To achieve our audit objectives, we reviewed and abstracted the license agreement and supporting exhibits between GCSI and Parks, and identified relevant terms and conditions. We also reviewed correspondence between GCSI and Parks, revenue reports, and other relevant documents. We analyzed the Parks concessionaire ledger for the amounts reported and paid to the City during our scope period, and determined whether payments were received on time. We also determined whether GCSI submitted monthly gross receipts' reports and annual income and expense statements to Parks in a timely manner. In addition, we reviewed the EZLinks and POSitouch POS system manuals.

To gain an understanding of GCSI's operations and internal controls over its gross receipts, we conducted walkthroughs and interviews with GCSI and Parks officials. On October 9, 2014, we conducted our initial visit of GCSI and observed the golf and restaurant operations. On October 16, 2014, we met with GCSI's President to obtain an understanding of the golf operation, GCSI's Vice President/bookkeeper to obtain an understanding of the accounting, bookkeeping, and revenue reporting processes and procedures, and GCSI's outside accountant to obtain an understanding of his responsibilities. On January 8, 2015, we met with the Events Coordinator and Director of Golf to gain an understanding of the non-golf and golf events processes. Furthermore, on January 13, 2015, we conducted a walkthrough of the EZLinks POS system. We also contacted the EZLinks POS system vendor and the Golf Channel for independent confirmation of the golf rounds sold. We documented our understanding of GCSI's operations and internal control processes through written narratives, memoranda, and flowcharts.

GCSI uses the EZLinks POS system to manage its golf operation and record the proceeds collected from golf, outings, and catered events. To determine the accuracy, completeness, and reliability of the reports generated from EZLinks, we judgmentally selected August 2013 (the month with the highest gross receipts) and reconciled the daily EZ Links POS-All Stores-All Registers report (Report 19) to the monthly Report 19. In addition, we selected the week of August 18-24, 2013 (the highest grossing week for the EZ Links POS system), and reconciled the total number of golf rounds and dollar amounts to the Transaction Detail Report. We also reviewed the transaction numbers in the Transaction Detail Report to ensure that there were no gaps.

To determine whether GCSI accurately reported the gross receipts generated from its events, we reviewed the event calendar book for 2014 (there was no calendar book for 2013), and compared the information to the event contracts that were provided to determine whether all events were recorded in the event calendar book. We also determined whether event contracts were sequentially numbered. We then traced the contracts for August 2013 to determine whether all event revenue was properly recorded in GCSI's POS system. We also conducted internet research to identify events that were held at GCSI, and reconciled those events with the contract folders and calendar.

GCSI uses the POSitouch POS system to manage its restaurant operation and record the proceeds collected from the restaurant, beverage cart, and food stand. To determine the

accuracy, completeness, and reliability of the reports generated from POSitouch, we judgmentally selected the highest grossing week (August 4-10) in the month of August 2013 (the month with the highest gross receipts) and reconciled the daily Check Listing by Check # Reports to the daily sales journal reports for the week. We then traced the weekly sales journal reports to the monthly sales journal report for August 2013. In addition, we reviewed the daily Check Listing by Check # Reports for the week of August 4-10, 2013 to determine whether guest checks were sequentially numbered, without gaps, and distributed in consecutive order.

Finally, we ascertained whether GCSI complied with certain other major requirements of its agreement (i.e., posted the required security deposit with the City, properly maintained insurance coverage, and capital improvements). We contacted Parks to ensure that the security deposit met the requirements of the agreement. We also reviewed water and sewer records to determine whether GCSI properly paid its bills. In addition, we obtained GCSI's certificates of insurance and insurance policies and contacted the insurance broker to determine whether GCSI maintained proper insurance coverage. To determine whether GCSI expended the required amount of capital improvements, we reviewed Parks' capital improvement tracking report as of April 2015. Furthermore, to determine if GCSI properly filed the required tax returns and paid any taxes due, we requested GCSI's Federal, State, local, and sales tax returns.



Silver Lake Golf Course, Inc.
915 Victory Boulevard
Staten Island, NY 10301

City of New York
Office of The Comptroller
Municipal Building – 1 Centre Street
Room 1100
New York, NY 10007
RE: FM15-069A
Attn: Ms. Marjorie Landa

June 15, 2015

Dear Ms. Landa:

Thank you for the opportunity to comment on the June 2015 Financial Audit report on Silver Lake Golf Course.

We will ensure that all revenue derived from license premises is properly reported to Parks; that all contracts are sequentially pre-numbered; that an event calendar continues to be maintained; and that an adequate system of controls is established to properly track and account for all beverage carts, food stand and special event revenues.

We will continue to coordinate with Parks to develop a list of those outstanding capital improvements that remain, the corresponding unexpended dollars for each improvement and a special timetable for the completion of each improvement. Furthermore, we will complete the capital improvements in accordance with an agreed upon timetable.

Our Certified Public Accountant and Professional Tax Consultant have undertaken to bring us in compliance with all outstanding tax filings and payments as well as future filings and payments as they become due. All sales tax returns have been filed and 2011 Federal, State and City Corporate Tax Return will be filed this week.

Very truly yours,

The Golf Center of Staten Island, Inc.

By 
Douglas N. Johnstone,
President

Tel: 718-447-5686 or 718-442-GOLF

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ADDENDUM II

PAGE 1 of 3

City of New York
Parks & Recreation

The Arsenal
Central Park
New York, NY 10065
www.nyc.gov/parks

June 15, 2015

Marjorie Landa
Deputy Comptroller for Audit
City of New York Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007

Re: New York City Comptroller's Draft Audit Report on the Compliance of the Golf Center of Staten Island, Inc. (GCSI) with its License Agreement for the Silver Lake Golf Course, FM15-069A

Dear Deputy Comptroller Landa:

This letter addresses the findings and recommendations contained in the New York City Comptroller's Draft Audit Report ("Report"), dated June 1, 2015, on the above subject matter. The Report contains 13 recommendations. Recommendations 1-8 were directed to GCSI. Recommendations 9-13 were directed to Parks. Silver Lake is a well maintained and operated golf course with a high level of service to the public. While Silver Lake paid the appropriate license fees and maintained their required insurance, the Report raises important issues related to GCSI's internal controls, outstanding filings and payments of certain taxes, and GCSI's completion of their capital project commitment.

The following four recommendation were related to GCSI's internal controls:

Recommendation 1 – Ensure all revenue derived from licensed premises is properly reported to Parks;

Recommendation 2 – Ensure all golf rounds are accurately reported to Parks;

Recommendation 3 – Ensure all contracts are sequentially pre-numbered and that an event calendar continues to be maintained;

Recommendation 4 – Establish an adequate system of controls to properly track and account for all beverage carts, food stand and special event revenues

With regard to recommendations 1-4, Parks will send a formal notice to GCSI directing it to comply with these recommendations. The \$86,277 in underreported revenue represents 4.4% of the \$1,934,873 in total gross revenue reported by GCSI between May 1, 2013 and April 30, 2014. The 3,200 unreported golf rounds represents 9.4% of the 33,906 rounds played during this period. These discrepancies are attributed to barter agreements between GCSI and EZ Links Golf Inc. and the Golf Channel where time on the course was exchanged for services provided including tee sheet reservation software, an interfacing point of sale system, and services related to marketing, website design, maintenance and hosting. While GCSI did not receive any revenue from these barter agreements, we recognize that their value should have been included in GCSI's reporting calculations. It is important to reiterate that no outstanding revenue is due to the City, as even with including these calculations, GCSI would not have exceeded their minimum threshold. Further, subsequent to receiving the Preliminary Draft Report, Parks met with GCSI to ensure that it immediately addressed the control weaknesses identified in the Report. GCSI



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has informed us that it has corrected the reporting of revenue and golf rounds from their barter agreements.

Parks has also confirmed that GCSI has already implemented the use of sequentially pre-numbered contracts and purchased a tablet-based mobile point of sale system. Parks has assigned an internal auditor to follow-up on the matters raised in these recommendations to ensure ongoing compliance.

The following recommendations were related to GCSI's tax filings and payments, and completion of their capital improvement obligation:

Recommendation 5 – Immediately file all outstanding tax filings and remit all taxes due;

Recommendation 6 – Ensure that all applicable Federal, State and City tax returns are filed timely going forward;

Recommendation 7 – Coordinate with Parks to develop a list of those outstanding capital improvements that remain, the corresponding unexpended dollars for each improvement and develop a specific timetable to complete each improvement;

Recommendation 8 – Complete the capital improvement in accordance with the timetable agreed upon

Parks is also in agreement with the recommendations that GCSI immediately resolve all matters related to their tax filings and payments, and to work with Parks to promptly coordinate a timetable for and complete the remaining capital improvements required in their License Agreement. Parks will communicate and meet with GCSI regularly to resolve these important matters.

Below is our response to those recommendations directed to Parks.

Recommendation 9 - Determine those outstanding improvements and corresponding dollar amounts and develop a specific timetable and cost estimate to complete each improvement based upon current dollars.

Parks agrees. GCSI's commitment to spend \$2.6 million on capital improvements by the end of 2010 is one that they proposed, which was entered into their License Agreement. While they still have to expend \$538,343, GCSI has successfully completed 80 percent of their commitment during the first 40 percent of their term, with plans to soon expend the remaining portion. Their completion of more than \$2 million in capital enhancements to the Silver Lake Golf Course, and the good condition of the course's maintenance, is reflected in the fact that it has passed each of its recent Park Inspection Program (PIP) inspections and enjoys wide popularity with the public. Parks will work closely with GCSI in communicating the remaining work to be done and developing a detailed timetable for its completion.

Recommendation 10- Fully utilize its project management report to monitor the GCSI's progress in completing the required capital improvements.

Parks agrees. Parks will continue to track outstanding concession capital projects and improvements to the extent required by section 10.19 and 10.25 of our license agreement with



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GCSI. We will expand the current capital tracking system and reports, above and beyond what is required by our license agreements, to incorporate the tracking of work in progress.

Recommendation 11- Update tracking reports to reflect any changes in capital improvements.

Parks agrees. We will expand the current capital tracking system and reports, above and beyond what is required by our license agreements, to incorporate the tracking of work in progress.

Recommendation 12- Ensure GCSI files all tax returns past due and remits all taxes due to applicable taxing authorities.

Parks agrees. GCSI advises us that they are expediting the submission of their tax returns and will work on a payment plan for any taxes that are due. Parks' internal auditor will follow up with GCSI on a regular, ongoing basis to ensure that all taxes are immediately filed and that GCSI promptly enters into payment plans for past due taxes.

Recommendation 13- Ensure GCSI files its tax returns timely.

Parks agrees. Parks' internal auditor will follow up with GCSI on a regular, ongoing basis to ensure that their tax returns are immediately filed.

Finally, Parks wishes to thank you and your audit staff for the time and effort devoted to completing this report.

Sincerely,



Robert Garafola

CC: Douglas Johnstone
President, The Golf Center of Staten Island Inc.

George Davis III
Director of Audit Services, Office of the Mayor

David Cerron
Chief Accountant, NYC Parks

Phil Abramson
Director of Revenue Communications, NYC Parks