

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of N.B.K.L. Corporation With its Permit Agreement, And its Payment of Fees Due the City

FL02-090A

April 7, 2003

To the Citizens of the City of New York

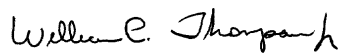
Ladies and Gentlemen:

Pursuant to Chapter 5, Section 93 of the New York City Charter, we have examined the compliance of N.B.K.L. Corporation's (N.B.K.L.) permit agreement with the New York City Department of Parks and Recreation (Parks). Under the terms of the agreement, N.B.K.L. is to pay the City permit fees to manage, maintain, and operate an amusement park on Shore Parkway, Brooklyn. The results of our audit, which are presented in this report, have been discussed with officials from N.B.K.L. and Parks, and their comments have been considered in preparing this report.

Audits such as this provide a means of ensuring that private concerns conducting business on City property are complying with the terms of their agreements, properly reporting revenues, and paying the City all fees due.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-8929 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,



William C. Thompson, Jr.

WCT/GR

Report: FL02-090A
Filed: April 7, 2003

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*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

**Audit Report on the Compliance of
N.B.K.L. Corporation with its Permit Agreement,
And its Payment of Fees Due the City**

FL02-090A

Audit Report In Brief

The Comptroller's Office performed an audit of the permit agreement between N.B.K.L. Corporation (N.B.K.L.) and the Department of Parks and Recreation (Parks). Under the terms of the agreement, N.B.K.L. is to manage, maintain, and operate an amusement park on Shore Parkway, Brooklyn, to provide the public with such activities as miniature golf, rides, food, beverages, and souvenirs. The permit requires that N.B.K.L. pay the City an annual minimum fee from \$150,000 in Year 1 to \$200,000 in Year 10, or 20 percent of its gross receipts, whichever is greater. In addition, the agreement requires that N.B.K.L. expend \$625,000 on capital improvements; carry proper insurance coverage naming the City as an additional insured; remit a \$50,000 security deposit to the City; and pay all required taxes and utility charges related to the facility.

Audit Findings and Conclusions

N.B.K.L. had adequate controls over revenue generated at the amusement park. Specifically, N.B.K.L.:

- Used cash registers to record sales at the ticket booth, snack bar, and novelty stand.
- Issued pre-numbered tickets to patrons in sequential order.
- Maintained lists of issued tickets.
- Properly segregated responsibilities for collecting and depositing cash and reconciling daily cash receipts.
- Performed appropriate reconciliations of daily cash receipts.
- Maintained adequate records supporting revenue generated from parties held at the amusement park.
- Deposited cash receipts in a timely manner.

However, the audit disclosed several mathematical errors on N.B.K.L.'s books and records that resulted in N.B.K.L. owing the City \$24,113 in additional fees and related interest and penalties.

N.B.K.L. complied with the non-revenue requirements of its permit agreement (e.g., carried the required liability insurance and paid its utility charges).

Audit Recommendations

To address these issues the report recommends that:

- N.B.K.L. pay the City \$24,113 in additional fees and related interest and penalties.
- Parks issue a Notice to Cure to N.B.K.L. requiring that it implement the above recommendation.

Introduction

Background

On August 10, 1993, the New York City Department of Parks and Recreation (Parks) granted N.B.K.L. Corporation (N.B.K.L.) d.b.a. Nellie Bly Amusement Park, a 10-year permit to operate an amusement park on Shore Parkway, Brooklyn. The agreement requires that N.B.K.L. provide the public with amusement activities, such as miniature golf, rides, food, beverages, and souvenirs. The permit requires that N.B.K.L. pay the City an annual minimum fee ranging from \$150,000 in Year 1 to \$200,000 in Year 10, or 20 percent of its gross receipts, whichever is greater.

The permit agreement also requires that N.B.K.L.: spend \$625,000 on capital improvements; carry certain insurance coverage, including \$1 million in personal injury liability insurance naming the City as an additional insured; remit a \$50,000 security deposit to the City; and pay all required taxes and utility charges related to the facility.

For the 2000, 2001 and 2002 operating years, N.B.K.L. reported a total of \$3,362,022 in revenue and paid the City \$654,510 in permit fees.

Objectives

Our audit objectives were to determine whether N.B.K.L.:

- Maintained adequate internal controls over the recording and reporting of gross receipts;
- Properly calculated its total gross receipts and fees owed to the City, and paid these fees when due; and
- Complied with the other requirements of its permit agreement (e.g., carried the required liability insurance and paid its utility charges).

Scope and Methodology

This audit covered the period April 1, 2000, through October 31, 2002. To achieve our audit objectives, we reviewed the N.B.K.L. permit agreement, analyzed the gross receipts reports and

reviewed the accuracy of N.B.K.L. fee payments based on the revenue amounts reported to the City. To obtain an understanding of the operations and flow of documents from cash receipts at the point of sale to bank deposits, we interviewed N.B.K.L.'s President and other key personnel and observed N.B.K.L. personnel processing ticket sales and food and beverage sales transactions.

We performed tests of N.B.K.L. financial records for the audit period to determine whether the internal controls over gross receipts were functioning properly as represented by management. Specifically, we compared the amounts reported on the gross receipts statements that N.B.K.L. submitted to Parks with the corresponding amounts recorded on N.B.K.L.'s general ledger, profit and loss statement, income tax return, and other supporting documentation.

We traced gross receipts reported by N.B.K.L. to its "Daily Worksheets." We compared the amounts reported on the Daily Worksheets to the amounts on the daily register tapes to ensure that all transactions were accurately recorded. We reviewed N.B.K.L. bank deposit slips and bank statements to ensure that all cash and checks collected were actually deposited and that the deposits were made in a timely manner. We traced the daily ticket numbers from the "Ticket Sales Form" for four months (June, July, August 2000, and August 2001) to determine whether tickets were issued in sequential order and whether revenue from ticket sales was accurately recorded. In addition, we made several unannounced visits to the amusement park, purchased ride tickets, and observed N.B.K.L. employees processing cash transactions. We traced the tickets we purchased to the Ticket Sales Forms to confirm that all ticket sales were recorded. In order to verify whether all ticket sales were reported, we reconciled the Ticket Sales Forms to the gross receipts reports that N.B.K.L. submitted to Parks.

We examined documents on file with the Comptroller's Office regarding N.B.K.L.'s payment of the required security deposit. We also examined documents on file with Parks regarding N.B.K.L.'s required insurance. We reviewed N.B.K.L.'s utility bills to determine whether bills were paid on time. Finally, we determined whether N.B.K.L. expended \$650,000 on capital improvements in accordance with the agreement.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93 of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with N.B.K.L. and Parks during and at the conclusion of this audit. A preliminary draft report was sent to N.B.K.L. and Parks on December 24, 2002. N.B.K.L. and Parks waived their right to an exit conference. On January 22, 2003, we submitted a draft report to N.B.K.L. and Parks with a request for comments.

We received written responses from Parks on February 4, 2003, and from N.B.K.L. on March 5, 2003 in which both entities agreed with the audit's findings and recommendations. The full texts of

the comments from N.B.K.L. and Parks are included as addenda to this report.

Findings

N.B.K.L. had adequate controls over revenue generated at the amusement park. Specifically, N.B.K.L.:

- Used cash registers to record sales at the ticket booth, snack bar, and novelty stand.
- Issued pre-numbered tickets to patrons in sequential order.
- Maintained lists of issued tickets.
- Properly segregated responsibilities for collecting and depositing cash and reconciling daily cash receipts.
- Performed appropriate reconciliations of daily cash receipts.
- Maintained adequate records supporting revenue generated from parties held at the amusement park.
- Deposited cash receipts in a timely manner.

However, the audit disclosed several mathematical errors on N.B.K.L.'s books and records that resulted in N.B.K.L. owing the City \$24,113 in additional fees and related interest and penalties.

N.B.K.L. complied with the non-revenue requirements of its permit agreement (e.g., carried the required liability insurance and paid its utility charges).

Underreported Revenue

During the audit period N.B.K.L. reported gross receipts to Parks totaling \$3,362,022. However, our review of N.B.K.L.'s books and records disclosed that N.B.K.L.'s actual gross receipts amounted to \$3,478,575. Consequently, N.B.K.L. owes the City \$24,113 in additional fees and related interest and penalties (See Appendix I).

Contract Compliance

We verified that N.B.K.L. had the required insurance coverage (e.g., liability, fire and worker's compensation) by reviewing insurance certificates. We confirmed that the proper coverage amounts were maintained and that the City was named as an additional insured, as required. In addition, we verified that N.B.K.L. remitted the required \$50,000 security deposit to the City. Moreover, N.B.K.L. made the required capital improvements and paid all gas, electric, telephone, and water and sewer bills on time.

Recommendations

1. N.B.K.L. should pay the City \$24,113 in unpaid permit fees and related interest and penalties.

N.B.K.L.'s Response: "We are in agreement with the draft report we received from your office dated January 22, 2003. We have paid the \$24,113 in fees to the New York City Department of Parks and Recreation."

2. Parks should issue a Notice to Cure to N.B.K.L. requiring that it comply with the above recommendation.

Parks' Response: "DPR has issued the required NTC."



Nellie Bly Park

1824 Shore Parkway
Brooklyn, New York 11214

Adult & Kiddie Rides
Game Arcade
Petting Farm
Miniature Golf
Bat-A-Way
Raceway
Picnic Area

(718) 996-4002
FAX (718) 373-6771

March 5, 2003

Mr. Anthony Scully
Office of the Controller
1 Center Street 13th Floor
New York, NY 10007


Re: Audit Report on the Compliance of N.B.K.L. Corporation
with its Permit Agreement and its Payment of Fees
Due to the City of New York
FL02-090

Dear Mr. Scully,

We are in agreement with the draft report we received from your office dated
January 22, 2003. We have paid the \$24,113.00 in fees to the New York City Department
of Parks and Recreation.

Thank you for the work your group and Mr. Montemurro did.

Sincerely,


Gina Romano
President, Nellie Bly Park

Member: International Association of Amusement Parks and Attractions • National Showmans League
International Independent Showmans Association • Brooklyn Chamber of Commerce
New York State Hospitality and Tourism Association



City of New York
Parks & Recreation

ADDENDUM II
Page 1 of 5

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imohosen
Assistant Commissioner
Revenue

(212) 360-3404
joanne.imohosen@parks.nyc.gov

February 4, 2003

BY FAX AND MAIL

Mr. Greg Brooks
Deputy Comptroller
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007

Re: Draft Audit Report On N.B.K.L. Corporation
April 1, 2000 to October 31, 2002, FL02-090A, Dated January 22, 2003

Dear Mr. Brooks:

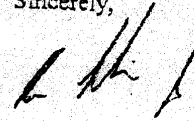
This letter represents the Parks Department's (DPR), response to the recommendations contained in the subject audit of N.B.K.L. Corporation (N.B.K.L.).

DPR has issued the attached "Notice To Cure" (NTC) to N.B.K.L. requesting payment under: **Recommendation 1** in the amount of \$759. As indicated in the audit's Appendix and as verified by DPR's accounting records, N.B.K.L. already had paid the audit assessment of \$24,413 during 2002 of the audit period. The balance owed at this time is \$759 based on remaining under reported gross receipts totaling \$3,435. **Recommendation 2** of the Comptroller's audit states, "Parks should issue a Notice to Cure to N.B.K.L. requiring that it comply with the above recommendation." DPR has issued the required NTC as noted above.

Greg Brooks
February 4, 2003
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We wish to thank the Comptroller's audit staff for their work and efforts in performing this review.

Sincerely,



Joanne Imohisen

cc: David Stark
Francisco Carlos
Susan Kupferman, Mayor's Office of Operations



City of New York
Parks & Recreation

ADDENDUM II
Page 3 of 5

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imohiosen
Assistant Commissioner
Revenue

(212) 360-3404
joanne.imohiosen@parks.nyc.gov

February 4, 2003

BY FAX AND MAIL

Ms. Gena Romano
President
N.B.K.L. Corporation
Nellie Bly Amusement Park
1824 Shore Parkway
Brooklyn, NY 11214

Re: **NOTICE TO CURE**

Draft Audit Report On N.B.K.L. Corporation
April 1, 2000 to October 31, 2002, FL02-090A, Dated January 22, 2003

Dear Ms. Romano:

This letter addresses the findings and recommendations contained in the subject draft audit report on N.B.K.L. Corporation (N.B.K.L.). Generally, the audit report stated that N.B.K.L. had adequate record keeping procedures and controls over revenue generated at the amusement park. Also, the report disclosed that N.B.K.L. expended \$625,000 on capital improvements in accordance with its permit agreement and complied with the other non-revenue requirements of the contract (e.g., carried the required liability insurance and paid its utility charges).

However, the auditors found that N.B.K.L. made several mathematical errors on its books and records that resulted in N.B.K.L. owing the City \$24,113 in additional fees and related interest and penalties. The audit report recommended that N.B.K.L. should pay the City \$24,113 in unpaid permit fees and related interest and penalties (Recommendation 1)

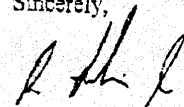
The report stated that N.B.K.L.'s actual gross receipts for the period April 1, 2000 through October 31, 2002 totaled \$3,478,575. The attached Parks Department (DPR) spreadsheet shows that during the audit period N.B.K.L. reported to DPR revenue totaling \$3,475,140, leaving an under reported gross revenue balance of \$3,435. Although N.B.K.L. has remitted payments to satisfy the audit assessment balance of \$24,113 it still owes \$759 in additional permit fees and late penalties against the under reported balance of \$3,435. N.B.K.L.

Gena Romano
February 4, 2003
Page 2

is afforded fifteen (15) days from the date of this letter to remit a check for \$759, made payable to CITY OF NEW YORK PARKS AND RECREATION, to this office, to clear the outstanding assessment balance.

Finally, we wish to thank N.B.K.L. for its cooperation during the audit review and anticipate your prompt remittance to clear the amount owed.

Sincerely,



Joanne Imchiosen

cc: D. Stark
F. Carlos

N.B.K.L.
ADDITIONAL PERMIT FEES AND LATE FEES DUE
APRIL 1, 2000 TO OCTOBER 31, 2002

GROSS RECEIPTS PER COMPTROLLER'S AUDIT REPORT (APRIL 1, 2000 - OCTOBER 31, 2002)		\$3,478,575
<u>GROSS RECEIPTS REPORTED TO PARKS</u>		
APRIL 2000	\$40,843	
MAY 1, 2000 - APRIL 30, 2001	\$1,032,383	
MAY 1, 2001 - APRIL 30, 2002	\$1,190,613	
MAY 1 2002 - OCTOBER 31, 2002	<u>\$1,211,291</u>	
TOTAL G.R.'S REPORTED TO PARKS (4/1/00 - 10/31/02)		\$3,475,140
UNDER REPORTED GROSS RECEIPTS 4/1/00 - 10/31/02)		\$3,435
	X	20%
		\$687
FIVE MOS. LATE FEES: JUNE 2002 - OCTOBER 2002		\$72
TOTAL ADDITIONAL PERMIT & LATE FEES		\$759

February 4, 2003