



H. Tina Kim
DEPUTY COMPTROLLER

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November 19, 2012

Ms. Claudia Hubbard, President
Teck Gourmet Five, LLC
63-20 Marathon Parkway
Douglaston, New York 11363

**Re: Letter Report on the Compliance of
Teck Gourmet Five, LLC with its Sublicense Agreement
to Operate Douglaston Manor
(Audit Number FM12-123AL)**

Dear Ms. Hubbard:

We are writing this Letter Report to report the results of the audit regarding Teck Gourmet Five, LLC's (Teck) compliance with its sublicense agreement to operate and maintain a restaurant and catering facility at Douglaston Golf Course. Our audit objective was to determine whether Teck properly calculated its gross receipts and license fees due to the City and paid license fees on time, and complied with certain other major requirements of its sub-license agreement (i.e., capital improvement, insurance coverage, security deposit, and utility charges). We found that while Teck is operating a catering facility, it is not operating a restaurant as required by the agreement. In addition, Teck's internal controls over the recording of special event revenue need to be enhanced. Despite these weaknesses, it is unlikely that additional fees would be due the City because Teck revenue is far below the threshold that would require it to pay percentage-based license fees to the City.

Background

On May 19, 2004, the Department of Parks and Recreation (Parks) entered into a 20-year license agreement with Douglaston Golf to renovate, operate, and maintain an 18-hole golf course, clubhouse, and catering/restaurant facility at Douglaston Golf Course in Queens, New York. On June 2, 2005, Douglaston Golf entered into a sub-license agreement with Teck to renovate, operate, and maintain the catering/restaurant facility, Douglaston Manor, at 63-20 Commonwealth Boulevard, Douglaston, Queens. Teck accepted the sub-license agreement for the same terms as set forth in the license agreement between Douglaston Golf and Parks.

The license agreement requires Teck to pay the City the higher of the minimum annual fee or 9.5 percent of annual gross receipts over \$6 million from the operations of the licensed premises. It also requires that Teck spend a minimum of \$2,008,963 on capital improvements, post a \$78,408 (sublicensee's portion) of a \$259,658 security deposit with the Comptroller's Office, maintain certain types and amounts of insurance coverage, submit monthly statements of gross receipts to Parks, and pay all required taxes and utility charges related to the leased premises. For our audit period, Teck reported a total of \$2,380,261 in gross receipts for Douglaston Manor (\$1,954,061 in 2011 and \$426,200 from January 1, 2011, to March 31, 2012). Because Teck did not reach the annual percentage threshold, Teck was only required to pay Parks the minimum fee of \$218,287 for the audit period.

Findings and Recommendations

Our testing found that Teck operated a catering facility, generally paid its license fees as required by Parks, maintained the required liability insurance that named the City as the additional insured party, maintained the required security deposit, paid utility charges, and completed its capital improvement requirements. However, Teck is not operating a restaurant as required by the agreement, and Teck's internal controls over the recording of special event revenue need to be enhanced. Specifically, for our audit period (January 1, 2011, to March 31, 2012), Teck reported that \$43,880 in revenue was collected from six special events. According to Teck's records, 411 guest checks were used for these special events during the audit period. However, from the records provided, we could only account for 284 (69 percent) guest checks, of which 218 were used, 10 were voided, and 56 were unused. The remaining 127 (31 percent) guest checks were missing. One Teck official stated that some of the missing guest checks may be due to the wait staff discarding them.

Teck does not issue its own sequentially pre-numbered guest checks, but instead purchases guest checks from stationery stores and uses a different batch of receipts on different special events for patrons who order food and beverages. Therefore, the receipt numbers do not continue from one event to another. Because Teck cannot account for missing guest check numbers, we cannot be assured that Teck reported all of its special events revenue to the City. Based on our estimate, it is unlikely that additional fees would be due because Teck revenue is far below the threshold that would require it to pay percentage-based license fees to the City.

We recommend that Parks and Douglaston Golf require Teck to:

1. Operate a restaurant as required by its contract, and
2. Strengthen its internal controls over financial operations by purchasing press-printed pre-numbered guest checks, issue these guest checks in sequential order, and ensure that all special event guest check revenue is accounted for and accurately reported in its books and records.

Audit Scope and Methodology

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

The audit covered the operating period January 1, 2011, through March 31, 2012. To achieve our audit objectives, we reviewed the license agreement and sub-license agreement and examined their requirements. We interviewed Parks officials and reviewed documents in Parks' files. We also reviewed Parks' audit on the *Compliance of Douglaston Golf, LLC With its License Agreement and its payment of License fees Due the City--DPR* Audit report No. GC-09-006, issued September 29, 2009. In that report, Parks' reviewed both the licensee's (operator of Douglaston Golf) and the sublicensee's (operator of Douglaston Manor restaurant and catering facility) compliance with the license agreement. We considered and assessed those issues that related to the restaurant and catering facility that are the subject of our current audit.

To obtain an understanding of control procedures used by Teck for recording gross receipts of special events and banquet operations, we interviewed management officials and conducted a walk-through of banquet and special events operations and documented our understanding of the controls in place through memorandum and flowcharts. We also made payments to attend two special events and made deposits to book two banquet events to ascertain whether the controls were actually being used by Teck.

To determine the accuracy of gross receipts Teck reported to Parks for the audit period, we compared total gross receipts recorded in Teck's City receipts analysis and general ledger to the monthly gross receipts statements submitted to Parks.

To determine whether Teck accurately reported gross receipts from banquet sales to Parks, we requested and reviewed all banquet contracts, close-out sheets, and invoices for 58 banquets held during May 2012, totaling \$276,222, including sales tax and gratuities. We then compared and traced all banquet contracts, close-out sheets, and invoices and their charges to the amounts recorded on Teck's monthly deposit summaries and the total monthly amounts to its general ledger for our sample month of May 2012. In addition, we obtained Teck's banquet event calendar from January 1, 2011, through March 31, 2012, and compared the information recorded on the banquet event calendar to determine whether all sales from banquets noted on the calendar were recorded on Teck's general ledger, deposit detail report, and the monthly gross receipt statements submitted to Parks.

To determine whether Teck accurately reported gross receipts from special events to Parks, we traced all guest checks from six special events held between January 2011 and March 2012 to the amounts recorded in Teck's special events Excel schedules, general ledger, and the monthly gross receipt statements submitted to Parks. We also traced the guest checks that we obtained from the unannounced observations to ensure Teck recorded accurately into its gross receipts reports.

To determine whether Teck remitted the required security deposit, we examined documents on file with the Comptroller's Office. We reviewed Teck's records to determine whether it maintained the correct amount and levels of insurance, paid its utility bills, and has the certificates of occupancy and incorporation on file as required in the agreement. We also examined canceled checks and invoices to determine whether Teck expended its required amount on capital improvements in accordance with the license agreement and reviewed the supporting documentation Teck submitted to Parks to verify the total dollar amount spent on capital improvements.

On October 22, 2012, an exit conference was held and the preliminary letter report dated October 5, 2012, was discussed. On October 24, 2011, we submitted a draft letter providing you an opportunity to respond to matters discussed herein. We received written responses from Parks on November 5, 2012, and from Teck and Douglaston Golf on November 14, 2012. All three responses indicating agreement with our findings and recommendations are attached as addenda to this final letter report.

Sincerely yours,



Tina Kim

- c: Norman Tafet, President, Douglaston Golf, LLC
- Honorable Veronica M. White, Commissioner, Department of Parks and Recreation, (DPR)
- Elizabeth W. Smith, Assistant Commissioner for Revenue and Marketing, DPR
- David Cerron, Chief Accountant, DPR
- Elizabeth Weinstein, Director, Mayor's Office of Operations
- George Davis III, Mayor's Office of Operations
- Michael Morgese, Deputy Director, Bureau of Audit, NYC Comptroller's Office



Elizabeth W. Smith
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Parks & Recreation

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NYC Parks

November 5, 2010

H. Tina Kim
Deputy Comptroller for Audit
City of New York Office of the Comptroller
One Centre Street
New York, NY 10007-2341

**Re: Comptroller's Draft Letter Report, FM12-123AL
Compliance of Teck Gourmet Five, LLC with its Sublicense Agreement to Operate Douglaston Manor**

Dear Deputy Comptroller Kim:

This response addresses the findings and recommendations ("Recommendations") contained in the New York City Comptroller's ("Comptroller") Draft Letter Report ("Report"), dated October 24, 2012, on the Compliance of Teck Gourmet Five, LLC ("Teck") with its Sublicense Agreement to Operate Douglaston Manor. The New York City Department of Parks & Recreation ("Parks") is pleased that the Report found that Teck generally paid its license fees as required by Parks, maintained the required liability insurance that named the City as additional insured, maintained the required security deposit, paid utility charges and completed their required capital improvements. However, the Report also included the following Recommendations to Teck:

Recommendation 1 – Operate a restaurant as required by its contract.

With regard to Recommendation 1, Parks is currently discussing this matter with the City's Law Department and will proceed as advised by the Law Department.

Recommendation 2 – Strengthen its internal controls over the financial operations by purchasing press-printer pre-numbered guest checks, issue these guest checks in sequential order and ensure that all special event guest check revenue are accounted for and accurately reported in its books and records.

The Report found that in between Teck's six annual special events (including Easter, Mother's Day and New Year's Eve) there were gaps in the sequence of guest check numbers that prevented the auditors from successfully reconciling the guest checks to reported gross receipts. The cause of the gaps, in part, appears to be that Teck periodically purchased its guest checks (with various sequential numbering sets) from a stationary store, rather than from a press printer. Parks has advised Teck to promptly comply with Recommendation 2, and purchase guest checks from a press printer.

Thank you and your audit staff for the time and effort devoted to completing this Report.

Sincerely,

David Cerron
Chief Accountant

Cc: George Davis (Mayors' Office of Operations), Robert L. Garafola (Deputy Commissioner, Parks), Elizabeth W. Smith (Assistant Commissioner, Parks)



November 13, 2012

City Of New York Officer Of The Comptroller

Bureau Of Audits

Municipal Building

One Centre Street Room 1100

New York, NY, 10007- 2341

ATT: Tina Kim

Re: Teck Gourmet Five, LLC- DBA- Douglaston Manor

Audit Number: FM12-123AL

I am in receipt of you're letter dated Oct. 24, 2012, in response to recommendation number 1, parks has advised me that they are looking into this matter, and will advise me as to how to proceed. In response to recommendation number 2, we have already purchased a large batch of checks to be used for special events, as I mentioned at the exit conference we usually purchase these checks from a stationery stores and the numbers might not be in sequential order, since we purchase as we run out. To eliminate this problem we bought one thousand professional checks, this way each special event we do, the check number will be in sequence when the batch runs out, we will then purchase an additional one thousand checks, the numbers will be recorded and kept in order, if you have any other concerns, please feel free to contact my office.

Very Truly Yours,

Teck Gourmet Five, LLC- DBA/ Douglaston Manor

Claudia Hubbard, LLC Manager

[REDACTED]

From: [REDACTED]
Sent: Wednesday, November 14, 2012 5:23 PM
To: [REDACTED]
Cc: [REDACTED]
Subject: Audit Number FM12 - 123AL

Dear Ms. Lam,

This e-mail is in reference to the recent audit on the compliance of Teck Gourmet Five, LLC with its sublicense agreement to operate Douglaston Manor.

My name is Norman Tafet and I am the licensee (Douglaston Golf LLC) that engaged Teck Gourmet Five as a sublicensee to operate Douglaston Manor.

With reference to the Preliminary Letter Report on the Compliance of Teck Gourmet Five, LLC with its Sublicense Agreement to Operate Douglaston Manor, I have read it, as well as Claudia Hubbard's response, and have nothing to add.

Sincerely,

Norman Tafet