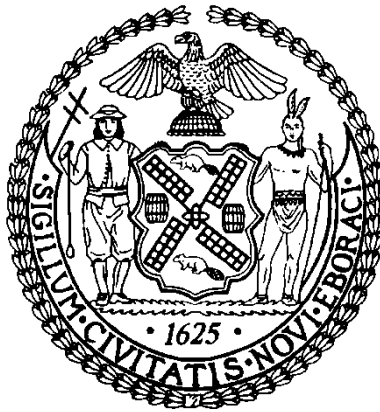


**CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER**

**John C. Liu  
COMPTROLLER**

**FINANCIAL AUDIT**

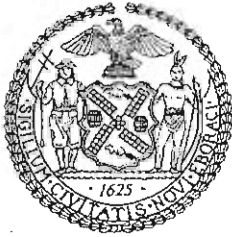
**H. Tina Kim  
Deputy Comptroller for Audit**



**Audit Report on the Compliance of  
American Golf Corporation d.b.a. South Shore  
Golf Course with Its License Agreement and Its  
License Fees Due the City**

*FL10-087A*

**February 16, 2011**



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
1 CENTRE STREET  
NEW YORK, N.Y. 10007-2341

John C. Liu  
COMPTROLLER

February 16, 2011

**To the Residents of the City of New York:**

My office has audited the compliance of American Golf Corporation (American Golf) d.b.a. South Shore Golf Course with its license agreement with the New York City Department of Parks and Recreation (Parks). We audit entities such as American Golf as a means of ensuring that they comply with the terms of their agreements.

Under the license agreement, American Golf has the exclusive right to use and operate the South Shore Golf Course in Staten Island. The lease agreement requires that the American Golf pay the City the greater of the minimum annual fee of \$425,000 or a percentage of its gross receipts as follows: 30 percent of revenue from greens fees and cart rentals, 10 percent of merchandise and other revenue, and 35 percent of resident identification (ID) card revenues. In addition, American Golf is required to pay the City a surcharge payment of \$4 per round of golf, excluding rounds played by juniors, or a \$180,000 annual minimum surcharge payment, whichever is greater.

The audit found that American Golf generally maintained adequate controls over the recording and reporting of its gross revenues, properly calculated fees due, and paid those fees in a timely manner to the City. In addition, American Golf maintained the required liability insurance that named the City as additional insured party, maintained the required security deposit, and paid utility charges. However, American Golf does not use pre-numbered golf event agreements, and did not submit its annual report on community and youth programs as required by its license agreement. Thus, the audit recommends that American Golf establish and implement adequate internal controls over its golf event agreement, establish and implement a system to record and report on its community and youth programs, and submit its annual report within 30 days of the end of the operating year.

The results of the audit have been discussed with American Golf 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](mailto:audit@Comptroller.nyc.gov).

Sincerely,

A handwritten signature in black ink that reads "John C. Liu".

John C. Liu

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

**Audit Report on the Compliance of American Golf Corporation d.b.a. South Shore Golf Course with Its License Agreement and Its License Fees Due the City**

**FL10-087A**

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**AUDIT REPORT IN BRIEF**

The Department of Parks and Recreation (Parks) has a license agreement with the American Golf Corporation (American Golf) d.b.a., South Shore Golf Course, to operate and maintain the South Shore Golf Course in Staten Island. The agreement also requires that American Golf expend \$1,179,593 on specific capital improvements at the facility, remit a security deposit of \$131,250 to the Comptroller's Office, maintain certain types and amounts of insurance coverage that names the City as an additional insured party, pay all required taxes and utilities charges related to the facility. According to the license agreement, gross receipts are defined as all funds received by licensee, without deduction or set-off of any kind, from the sale of wares, merchandise, or services of any kind, provided that gross receipts shall exclude the amount of any federal, state, or City taxes.

This audit determined whether the American Golf accurately reported its total gross receipts to Parks, properly calculated license fees due the City, paid fees on time, and complied with certain non-revenue-related requirements of the license agreement.

**Audit Findings and Conclusions**

American Golf generally maintained adequate controls over the recording and reporting of its gross revenues, properly calculated fees due, and paid those fees in a timely manner to the City. In addition, American Golf maintained the required liability insurance that named the City as additional insured party, maintained the required security deposit, and paid utility charges. However, American Golf does not use pre-numbered golf event agreements. Pre-numbered agreements help assure that all revenue from golf events are reported to Parks, and that appropriate rent was paid to the City. American Golf also did not submit its annual report on community and youth programs, as required by its license agreement. As a result, Parks cannot accurately evaluate the success of the community and youth programs that American Golf is required to provide under its license agreement.

### **Audit Recommendations**

The audit makes a total of five recommendations – three to American Golf and two to Parks. The major recommendations are that American Golf should:

- Establish and implement adequate internal controls over its golf event agreements. These controls should include issuing pre-numbered golf event agreements and accounting for all numbers issued, even if golf event agreements are cancelled or voided.
- Establish and implement a system to record and report on its community and youth programs and submit its annual report within 30 days of the end of the operating year, as required by its license agreement.

Parks should:

- Evaluate American Golf’s community and youth programs and determine whether it is providing sufficient, high quality services to the community. In that regard, Parks should work with American Golf to identify specific community and youth programs and define performance indicators to help Parks measure the success of these programs.

### **Agency Responses**

In their responses, American Golf and Parks officials generally agreed with the report’s recommendations and described the actions American Golf has taken or will take to address the report’s recommendations.

## **INTRODUCTION**

### **Background**

On June 3, 2004, American Golf entered into a 20-year license agreement with Parks and to renovate, operate, and maintain the South Shore Golf Course in Staten Island.

The agreement requires that American Golf pay the City the greater of the minimum annual fee of \$425,000 or a percentage of its gross receipts as follows: 30 percent of revenue from greens fees and cart rentals, 10 percent of merchandise and other revenue, and 35 percent of resident identification (ID) card revenues. In addition, American Golf is required to pay the City a surcharge payment of \$4 per round of golf, excluding rounds played by juniors, or a \$180,000 annual minimum surcharge payment, whichever is greater.

According to the license agreement, gross receipts are defined as all funds received by licensee, without deduction or set-off of any kind, from the sale of wares, merchandise, or services of any kind, provided that gross receipts shall exclude the amount of any federal, state, or City taxes.

American Golf is required to expend \$1,179,593 on specific capital improvements at the facility, remit a security deposit of \$131,250 to the Comptroller's Office, maintain certain types and amounts of insurance coverage that names the City as an additional insured party, and pay all required taxes and utilities charges related to the facility.

For the audit period January 1, 2009, through December, 31, 2009, American Golf reported gross receipts of \$1,521,015 and paid license fees totaling \$441,551 plus the \$180,000 surcharge payment.

### **Objective**

Our audit objectives were to determine whether American Golf:

- Accurately reported its total gross receipts to Parks, properly calculated license fees due the City, and paid the fees on time, and
- Complied with certain non-revenue-related requirements of the license agreement.

### **Scope and Methodology**

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 audit covered the period from January 1, 2009, to December 30, 2009. To achieve our audit objectives, we reviewed the license agreement between American Golf and Parks and examined its requirements. We interviewed Parks officials and reviewed documents in Parks files, including correspondence, monthly gross receipts statements, and other documents related to the license agreement. We reviewed the Summary Schedule of Gross Receipts Statements for American Golf prepared by the Parks Revenue Division to determine whether license fees were received within the timeframe stipulated in the license agreement and the settlement agreement.

To obtain an understanding of control procedures used by American Golf for recording gross receipts of greens fees, cart rentals, merchandise sales, and surcharge payments, we interviewed management officials. To determine whether the controls were functioning as prescribed by the officials, we conducted a walk-through of the collecting and recording of greens fees, cart rentals, merchandise sales, and surcharge payments, and documented our understanding of the controls in place through memoranda and flowcharts. We also conducted an unannounced observation of the golf course to ascertain whether the controls were actually being used by American Golf while the golf course was open and operating.

American Golf reported to Parks gross receipts of \$1,521,015 from greens fees, cart rentals, and merchandise sales, and \$180,000 in surcharge payments. To assess the controls over golf course greens fees, cart rentals, merchandise sales, and surcharge payments, we conducted an unannounced observation by playing golf at the South Shore Golf Course on September 26, 2009. It should be noted that during our unannounced observation, the auditors saw a list of 13 golf outings scheduled for September 2009, and recorded the names of the outings and the dates scheduled.

To determine whether American Golf accurately reported to Parks its gross receipts from golf course operations, we traced all sequentially numbered transactions for June and July 2009 from its Transaction Reports through its Point-of-Sales System, Preliminary Daily Closing Statement, Monthly Report of Gross Receipts and Golf Course Activities, Greens Fee Report for the Year, and South Shore's Income Statement.

To determine whether American Golf accurately reported to Parks its gross receipts from its golf outings, we traced all 13 golf outings noted on our unannounced September 26, 2009 observation to South Shore's Golf Event Agreements, Point-of-Sales System, Preliminary Daily Closing Statement, Monthly Report of Gross Receipts and Golf Course Activities, Greens Fee Report for the Year, and South Shore's Income Statement.

To determine whether American Golf remitted the required security deposit, we examined documents on file with the Comptroller's Office. We reviewed American Golf's records to determine whether it maintained insurance, paid its utility bills, and has the certificates of occupancy and incorporation on file as required in the agreement. To determine whether American Golf paid its water and sewer charges and did so in a timely manner, we reviewed the Accounts Receivable Transaction History Report for South Shore Golf Course maintained by the Department of Environmental Protection.

Finally, we would normally have had a member of our Engineering Audit Division inspect the facility and review invoices, cancelled checks, cash receipts, and other supporting documentation to determine whether American Golf made the capital improvements to the facility required by its license agreement. However, this testing was done as part of a separate audit report entitled *Audit Report on Department of Parks and Recreation Oversight of Capital Improvements by Concessionaires*, Audit # FR09-139, issued August 9, 2010.

### **Discussion of Audit Results**

The matters covered in this report were discussed with American Golf officials during and at the conclusion of this audit. A preliminary draft report was sent to American Golf officials on November 9, 2010, and was discussed at an exit conference held on December 15, 2010. On January 4, 2011, we submitted a draft report to American Golf officials with a request for comments. We received written responses from American Golf and Parks on January 12, 2011, and January 19, 2011, respectively.

In their responses, American Golf and Parks officials generally agreed with the report's recommendations and described the actions American Golf has taken or will take to address the report's recommendations.

The full texts of the responses received from American Golf and Parks are included as addenda to this report.



## FINDINGS

American Golf generally maintained adequate controls over the recording and reporting of its gross revenues, properly calculated fees due, and paid those fees in a timely manner to the City. In addition, American Golf maintained the required liability insurance that named the City as additional insured party, maintained the required security deposit, and paid utility charges.

However, American Golf does not use pre-numbered golf event agreements, and did not submit its annual report on community and youth programs, as required by its license agreement. Consequently, Parks cannot be assured that all fees were appropriately paid and cannot accurately evaluate the success of American Golf's community and youth programs.

These issues are discussed in detail in the following sections of this report.

### **American Golf Does Not Issue Pre-numbered Agreements for its Golf Events**

American Golf does not issue pre-numbered agreements to patrons who schedule golf events at its facility. Even though our audit tests did not reveal any unreported golf events, we cannot be assured that all revenue from golf events was recorded on American Golf's books and reported to Parks, and that appropriate fees were paid to the City.

The American Golf agreement requires:

Licensee, during the Term of this License, shall maintain adequate systems of internal control and shall keep complete and accurate records, books of account and data, including daily sales and receipts records, which shall show in detail the total business transacted by Licensee and the Gross Receipts therefrom.

During our unannounced observation on September 26, 2009, we noted a list of 13 golf events that were scheduled for September 2009, and recorded the dates of the events, names of the events, and the number of players. Our audit testing revealed that American Golf reported all 13 golf events to Parks, totaling \$54,958, properly calculated fees due, and paid those fees in a timely manner to the City.

Issuing pre-numbered agreements would provide a basic internal control mechanism to ensure that all golf event revenue is accurately reported in American Golf's books and records and consequently reported on the quarterly gross receipts statements it submits to Parks. Maintaining a complete log of all golf event agreements in sequential order (including voided and unused agreement numbers) would provide assurance of the proper accounting of all golf event agreements. Without pre-numbered agreements, we cannot be reasonably assured that all revenue from golf events was recorded on American Golf's books and reported to Parks, and that appropriate rent was paid to the City.

**American Golf Did Not Submit Its Annual Report of Community and Youth Programs**

American Golf did not submit its annual report on community and youth programs, as required by its license agreement. As a result, Parks cannot accurately evaluate the success of the community and youth programs that American Golf is required to provide under its license agreement.

American Golf agreement requires:

Licensee shall promote and conduct player development programs, which programs may include, but are not limited to, programs for juniors, inner-city youth, senior citizens and persons with disabilities. Such development programs shall be under the direction of a staff of qualified instructors and shall include group instruction in golf for children and adolescents. These programs shall include, but not be limited to the following components: teaching programs, special tournaments, exhibitions, clinics and league play. Licensee shall accommodate school athletic programs.

Licensee shall submit to Parks an annual report of such community and youth programs within thirty (30) days of the end of each Operating Year.

As of August 25, 2010, American Golf officials informed us that they were working on the report and would submit it to Parks.

Since American Golf did not submit its annual report to Parks, Parks cannot accurately evaluate the success of the community and youth programs that American Golf is required to provide under its license agreement.

## RECOMMENDATIONS

American Golf should:

1. Establish and implement adequate internal controls over its golf event agreements. These controls should include issuing pre-numbered golf event agreements and accounting for all numbers issued, even if golf event agreements are cancelled or voided.

***American Golf Response:*** “Based on the recommendations made in the *Audit Report*, American Golf added an automatic numbering generation feature to SAGE (the software system that creates all of the golf event contracts). As of December 8, 2010, the system auto generates a unique number in consecutive order companywide that cannot be changed. This unique number will auto-populate on all contracts generated.”

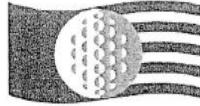
2. Immediately submit its annual report on community and youth programs for 2009, as required by its license agreement.
3. Establish and implement a system to record and report on its community and youth programs and submit its annual report within 30 days of the end of the operating year, as required by its license agreement.

***American Golf Response:*** “Based on the recommendations made in the *Audit Report*, American Golf prepared a *Report on Community and Youth Programs for the 2010 Operating Year*. This report was submitted to representatives of both the City of New York Office of the Comptroller and The City of New York Parks & Recreation at the exit conference held on December 15, 2010.”

Parks should:

4. Issue a Notice to Cure requiring American Golf to implement the recommendations included in this audit report.
5. Evaluate American Golf’s community and youth programs and determine whether it is providing sufficient, high quality services to the community. In that regard, Parks should work with American Golf to identify specific community and youth programs and define performance indicators to help Parks measure the success of these programs.

***Parks Response:*** “Parks has sent a follow-up letter to American Golf regarding the Report’s Recommendations. Additionally, Parks will coordinate with American Golf to assess program quality, and thoroughly review the community and youth programs reports with American Golf to identify certain performance measurements that should be added to future reports.”



American Golf

January 12, 2011

The City of New York  
Office of the Comptroller  
1 Centre Street  
New York, NY 10007  
Attention: Tina Kim

Dear Ms. Kim,

We are in receipt of the Draft *Audit Report on the Compliance of American Golf Corporation d.b.a. South Shore Golf Course with Its License Agreement and Its License Fees Due the City* dated January 4, 2011. With respect to the Audit Report findings, we have the following response:

**American Golf Does Not Issue Pre-numbered Agreements For Its Golf Events**

Based on the recommendations made in the *Audit Report*, American Golf added an automatic numbering generation feature to SAGE (the software system that creates all of the golf event contracts). As of December 8, 2010, the system auto generates a unique number in consecutive order company wide that can not be changed. This unique number will auto-populate on all contracts generated.

**American Golf Did Not Submit its Annual Report of Community and Youth Programs**

Based on the recommendations made in the *Audit Report*, American Golf prepared a *Report of Community and Youth Programs for the 2010 Operating Year*. This report was submitted to representatives of both the City of New York Office of the Comptroller and The City of New York Parks & Recreation at the exit conference held on December 15, 2010.

On behalf of American Golf Corporation, I would like to thank the City of New York Office of the Comptroller for there thorough and fair audit on our compliance at South Shore Golf Course.

Respectfully Submitted,

  
Lee Finkel  
Regional Director  
American Golf Corporation



City of New York  
Parks & Recreation

Adrian Benepe  
Commissioner

The Arsenal  
Central Park  
New York, New York 10065

Elizabeth W. Smith  
Assistant Commissioner  
Revenue and Marketing

(212) 360-1366 / betsy.smith@parks.nyc.gov

January 19, 2011

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

**Re: New York City Comptroller's Draft Audit Report on the Compliance of American Golf Corporation d.b.a. South Shore Golf Course with its License Agreement and its License Fees due the City / Audit Report FL10-087A**

Dear Deputy Comptroller Kim:

This letter addresses the findings and recommendations ("Recommendations") contained in the New York City Comptroller's ("Comptroller") Draft Audit Report ("Report"), dated January 4, 2011, on the compliance of the American Golf Corporation ("American Golf"), d.b.a. South Shore Golf Course, with its License Agreement ("Agreement") with the New York City Department of Parks & Recreation ("Parks"). Parks has issued a follow-up letter to American Golf regarding the Report's Recommendations.

The Report found that American Golf generally maintained adequate controls over its recording and reporting of gross receipts. Additionally, the Report found that American Golf correctly calculated fees due Parks, paid fees to Parks in a timely manner, maintained its required liability insurance and security deposit and paid all utility bills. However, the Report also found that American Golf did not use pre-numbered contracts for golf events and did not submit its annual report on community and youth programs. These findings resulted in the Comptroller's following Recommendations to American Golf:

**Recommendation 1 – Establish and implement adequate internal controls over its golf event agreements. These controls should include issuing pre-numbered golf event agreements and accounting for all numbers issued, even if golf event agreements are cancelled or voided.**

**Recommendation 2 – Immediately submit its annual report on community and youth programs for 2009, as required by its Agreement.**

With regard to Recommendations 1 and 2, American Golf has worked with its Point-of-Sale service provider to implement sequential pre-numbering of golf event agreements for all of its concession locations, including the South Shore Golf Course. Additionally, American Golf submitted its annual report on community and youth programs for 2009 at our Exit Conference for the Report.



**Recommendation 3 – Establish and implement a system to record and report on its community and youth programs and submit its annual report within 30 days of the end of the operating year, as required by the Agreement.**

In the follow-up letter mentioned earlier, Parks has asked American Golf to develop a system to record and report community and youth programs at all American Golf concessions with Parks, and ensure that this annual report is submitted in accordance with the Agreement.

The Report also included the following two Recommendations to Parks:

**Recommendation 4 – Issue a Notice to Cure requiring American Golf to implement the recommendation included in this Report.**

**Recommendation 5 – Evaluate American Golf's community and youth programs and determine whether it is providing sufficient, high quality services to the community. In that regard, Parks should work with American Golf to identify specific community and youth programs and define performance indicators to help Parks measure the success of these programs.**

As mentioned, Parks has sent a follow-up letter to American Golf regarding the Report's Recommendations. Additionally, Parks will coordinate with American Golf to assess program quality, and thoroughly review the community and youth programs report with American Golf to identify certain performance measurements that should be added to future reports.

Finally, we would like to thank you and your staff for the time and effort devoted to completing this Report.

Sincerely,



Elizabeth W. Smith

Cc: Robert L. Garafola, Jun Lee, Walter Roberts, Charles Kloth, Rimma Yukelis, George Davis  
(Mayor's Office)

