

AUDIT REPORT



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

Audit Report on License Fees Due from New York Restoration Project, Inc., (New Leaf Cafe) and on Its Compliance With Its License Agreement

FM02-169A

April 4, 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 New York Restoration Project's License Agreement with the New York City Department of Parks and Recreation. Under the terms of the agreement, New York Restoration Project is to pay the City license fees to operate a restaurant and catering facility in Fort Tryon Park. The results of our audit, which are presented in this report, have been discussed with officials from New York Restoration Project and the Parks Department, 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 comply with the terms of their agreements, properly report revenues, and pay 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.

Report: **FM02-169A**
Filed: **April 4, 2003**

Table of Contents

AUDIT REPORT IN BRIEF	1
INTRODUCTION	2
Background	2
Objectives	2
Scope and Methodology	3
Scope Limitation	4
Discussion of Audit Results	4
FINDINGS	5
Internal Control Weaknesses and Inadequate Recordkeeping	5
Unreported Revenue	6
RECOMMENDATIONS	7
APPENDIX I	
ADDENDUM I – New York Restoration Project Response	
ADDENDUM II – Parks Response	

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

**Audit Report on License Fees Due from
New York Restoration Project, Inc., (New Leaf Cafe)
And on Its Compliance with Its License Agreement**

FM02-169A

AUDIT REPORT IN BRIEF

We performed an audit of the compliance of New York Restoration Project, Inc. (NYRP), with its license agreement, awarded by the Department of Parks and Recreation (Parks) for the operation of the New Leaf Cafe. Under the agreement, NYRP pays the City license fees to operate a restaurant, catering facility, and concession stand in Fort Tryon Park, Manhattan. For the two-year audit period—October 1, 2000, through September 30, 2002—NYRP reported gross receipts totaling \$1,235,638 and paid the City \$155,552 in license fees.

Audit Findings and Conclusions

Although NYRP had adequate controls over the recording and reporting of restaurant revenue, it did not have adequate controls over catering and snack bar revenue. Specifically, NYRP maintained neither banquet calendars nor contracts nor records of snack bar receipts. Moreover, NYRP did not properly segregate duties over its catering operation. Such segregation would have provided the necessary checks and balances over the recording and reporting of catering revenue. Consequently, we were unable to determine whether NYRP accurately reported its gross receipts to Parks and paid all fees due. However, from the available records, we found that NYRP underreported its gross receipts by \$28,671 and owes the City \$2,959 in additional license fees and late charges for the period October 1, 2001, to September 30, 2002.

NYRP generally adhered to certain non-revenue requirements of its license agreement (i.e., maintained the required insurance coverage, remitted the required security deposit to the City, and completed the required capital improvements).

Audit Recommendations

To address these issues, we recommend that NYRP should:

- Pay the City \$2,959 in additional license fees and late charges;

- Issue pre-numbered contracts for all banquets held at the facility;
- Maintain banquet calendars and contracts; and
- Segregate responsibilities for arranging banquets, accepting payments from customers, recording revenues received, and making deposits.

Additionally, we recommend that Parks should ensure that NYRP:

- Pay the City \$2,959 in additional license fees and late charges; and
- Comply with the internal control recommendations made in this report

INTRODUCTION

Background

On September 13, 2000, the Department of Parks and Recreation (Parks) entered into a seven-year license agreement (October 1, 2000, through September 30, 2007) with New York Restoration Project, Inc. (NYRP), to renovate, operate and maintain the New Leaf Cafe in Fort Tryon Park, Manhattan. The cafe has a snack stand and seated dining for lunch, dinner, and banquets.

The agreement requires that NYRP pay the City the greater of a minimum annual fee that escalates each year from \$48,000 in year-one to \$64,325 for the final year of the agreement, or 10 percent of its gross receipts. NYRP is also required to spend a minimum of \$184,000 on capital improvements during the first two years of the agreement and \$10,000 each subsequent operating year; maintain certain types and amounts of insurance coverage that name the City as an additional insured party; remit a security deposit and a design review fee to the City; and pay all taxes, fees and utility costs, including charges for water and sewer use. For the period, October 1, 2000, through September 30, 2002, NYRP reported gross receipts totaling \$1,235,638 and paid \$155,552 in license fees to the City.

Objectives

The audit's objectives were to determine whether NYRP:

- Maintained adequate internal controls over the recording and reporting of gross receipts;
- Properly reported its gross receipts, accurately calculated and paid license fees to the City when they were due; and,
- Complied with certain other major requirements of its license agreement (i.e., completed capital improvements, carried the proper amounts and types of insurance, remitted the proper security deposit, paid its design review fee, and paid for its utilities.)

Scope and Methodology

The audit covered the period October 1, 2000, through September 30, 2002. To achieve our audit objectives, we reviewed certain documents at Parks, which included the license agreement, correspondence, and revenue reports. We also reviewed and analyzed the Parks Concessionaire Ledger for the amounts reported and paid to the City, and determined whether the payments were received on time.

We evaluated NYRP internal controls over its revenue functions. To gain an understanding of its daily operating procedures for recording and reporting revenue, we interviewed NYRP management personnel; conducted a walkthrough of the operations; and familiarized ourselves with NYRP accounting, sales, and recordkeeping procedures. We documented our understanding of NYRP operations in flowcharts and written narratives. In addition, we observed NYRP personnel processing restaurant transactions through the computerized point-of-sales system.

To determine whether NYRP accurately reported its gross revenue to the City, we analyzed the monthly gross receipt statements that NYRP remitted to Parks for the audit period. We traced the revenue reported on the monthly gross receipt statements to the NYRP general ledger. We also compared those amounts with the revenues reported on the NYRP federal income tax return for calendar year 2001 and on its New York State sales tax returns.¹ In addition, we conducted unannounced observations of NYRP operations on July 16, 2002, July 25, 2002, and from September 12, 2002, through September 18, 2002, to determine whether all receipts were processed through its point-of-sales system.

For our tests of restaurant revenue, we traced the revenue amounts reported on the NYRP daily system sales detail reports for the period January 1, 2001, through September 30, 2002, to the monthly sales journal and general ledger. For the period May 5, 2002, through May 11, 2002, we compared the computerized guest checks to the daily system sales detail reports. We traced the gross receipts recorded on the daily system sales detail reports for the restaurant from January 1, 2002, to September 30, 2002, to the bank statements to ensure that all revenue recorded was deposited.

For our test of catering revenue, we requested banquet calendars and contracts for the audit period. However, NYRP does not maintain such records (see Scope Limitation section, page 4). NYRP provided banquet forms containing names of customers, phone numbers, dates and times of the events, and the amounts charged. We contacted customers to confirm the recorded revenue amounts. We then compared the amounts on the banquet forms to the supporting payment documentation (i.e., credit card receipts) and the revenue recorded in the sales journal and general ledger for the period January 2002 through September 2002. We then traced the amounts recorded on the general ledger to the gross receipt statements to determine whether NYRP reported all banquet revenue to Parks. We also reviewed NYRP records for

¹ We reviewed the New York State sales tax returns for quarters ending February 2001, May 2001, February 2002, May 2002, and August 2002. According to NYRP, State sales tax returns were not available for quarters ending August 2001 and November 2001.

canceled banquets and contacted the patrons listed on those records to confirm that the events were actually canceled.

For our tests of snack bar revenue, we attempted to trace the gross receipts reported in the sales journal to the general ledger and to the monthly gross receipts statements for the period June 26, 2002, through August 31, 2002. However, NYRP does not maintain such records (see Scope Limitation section, page 4). We conducted unannounced observations of snack bar operations on July 16, 2002, and July 25, 2002, to observe the processing of sales transactions and the collection of cash. On July 30, 2002, we conducted a cash count at the snack bar and traced the day's receipts to the sales journal.

In addition, we examined invoices, canceled checks, and other documents to determine whether NYRP spent \$184,000 on capital improvements, in accordance with the agreement. Finally, we determined whether NYRP carried the proper types and amounts of insurance, remitted the proper security deposit, paid the design review fee to Parks, and paid all utilities related to the facility.

Scope Limitation

To conduct our audit tests we requested specific data and detailed documentation to determine whether NYRP reported all revenue and paid the required fees. NYRP failed to provide banquet calendars and contracts. Without banquet calendars and contracts, it is impossible to determine whether all banquet revenue was recorded on NYRP's books and records and reported to the City.

Moreover, NYRP did not provide guest checks and sales summary reports needed to determine the accuracy of the snack bar's reported revenue because, according to NYRP, the snack bar's point-of-sales system was not operational.

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 officials of NYRP and Parks during and at the conclusion of this audit. A preliminary draft report was sent to NYRP representatives and to Parks officials and discussed at an exit conference held on January 23, 2003. On February 18, 2003, we submitted a draft report to NYRP and Parks with a request for comments. Written responses were received from Parks on February 25, 2002, and from NYRP on March 4, 2002.

NYRP's response did not indicate whether it would pay the license fees and late charges identified by the audit. In this regard, NYRP took exception to our estimate of unreported gross

receipts from banquets, but stated that all revenues from snack bar sales would be reported through the NYRP point-of-sale system. The response also stated that NYRP would begin using pre-numbered contracts and that it will maintain a banquet calendar.

In its response, Parks stated that it issued a Notice to Cure to NYRP requesting payment of the \$2,959 in additional fees and requiring NYRP to implement the report's recommendations to enhance internal controls and maintain supporting documentation for reporting revenue.

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

FINDINGS

Although NYRP had adequate controls over the recording and reporting of restaurant revenue, it did not have adequate controls over catering and snack bar revenue. Specifically, NYRP maintained neither banquet calendars nor contracts nor records of snack bar receipts. Moreover, NYRP did not properly segregate duties over its catering operation. Such segregation would have provided the necessary checks and balances to ensure that all revenue is accounted for on NYRP books and records. Consequently, we were unable to determine whether NYRP accurately reported its gross receipts to Parks and paid all fees due. However, from the available records, we found that NYRP underreported its gross receipts by \$28,671 and owes the City \$2,959 in additional license fees and late charges for the period October 1, 2001, through September 30, 2002.

NYRP generally adhered to certain non-revenue requirements of its license agreement. Specifically, by reviewing the insurance certificates, we verified that NYRP maintained the required insurance coverage, and confirmed that the City was named as an additional insured. Furthermore, we verified that NYRP remitted the required security deposit to the City; installed a point-of-sales system to record cafe revenues; paid its design review fee; completed the required capital improvements; and paid its utility bills.

Internal Control Weaknesses and Inadequate Recordkeeping

NYRP did not have adequate controls over catering revenue and snack bar revenue. Specifically, NYRP did not provide critical documents to support banquet revenue and snack bar receipts that were reported to Parks. Consequently, we were unable to determine whether NYRP accurately reported its gross receipts to Parks and paid all fees due. Specifically, NYRP did not provide:

- Banquet Calendars and Contracts: According to the NYRP manager, a system for recording banquets was instituted in January 2002. The system uses a computerized database program (FileMaker Pro) to record banquet specifications, which are printed and placed in a binder, in banquet date order. The manager uses the printed forms as

his banquet calendar. However, the system is inadequate since NYRP does not formalize banquet specifications on pre-numbered signed contracts, and NYRP does not maintain a banquet calendar. Without banquet calendars and contracts, it is impossible to determine whether all banquet revenue was recorded on NYRP books and records and reported to the City.

- Snack Bar Documentation: NYRP did not provide guest checks and sales summary reports needed to determine the accuracy of the snack bar's reported revenue. NYRP's manager informed us that during June and July 2002, the snack bar point-of-sales system was not operational due to vandalism of the computer hardware. However, NYRP did not use such an alternative recording device, as a cash register or guest checks, to record this revenue.

This lack of records violates §4.7(a) of NYRP's license agreement, which states:

“Licensee, during the term of this License and any renewal thereof, 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.”

Further, NYRP did not properly segregate duties over its catering operation. Specifically, the NYRP manager is responsible for arranging banquets, accepting payments from customers, recording the revenues received in NYRP books and records, and making deposits. Segregating these responsibilities would provide the necessary checks and balances to ensure that all revenue is accounted for on NYRP books and records.

Unreported Revenue

From October 1, 2001, through September 30, 2002, NYRP reported gross receipts of \$1,075,523 and paid the City \$107,552 in fees. However, based on the available records, NYRP should have reported \$1,104,194 in gross receipts for the period. Specifically, NYRP did not report \$26,053 in banquet revenue and \$2,618 in snack bar sales. Consequently, NYRP owes the City \$2,959 (\$2,867 in additional fees and \$92 in late fees). See Appendix for our calculation of late charges.

According to §2.1(l) of the license agreement:

“‘Gross Receipts’ shall include without limitation 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, provided that Gross Receipts shall exclude the amount of any federal, state or City taxes which may now or hereafter be imposed upon or be required to be collected and paid by Licensee as against its sales.”

RECOMMENDATIONS

NYRP should:

1. Pay the City \$2,959 in additional license fees and late charges.

NYRP Response: NYRP did not indicate whether it would pay the license fees and late charges identified by the report. With regard to the license fees, NYRP's President stated that "we still do not agree with the amount of additional of license fees that are being generated in your audit as it relates to underreported gross receipts from banquets. The total banquet revenue reported in the general ledger from January 2002 through September 2002 amounts to \$125,155. This represents all banquet revenue for that period. The banquet forms that were audited by you would have had adjustments made to them upon settling up the event when it took place. This would not be reflected on those forms. Therefore, the additional \$19,993.34 that is being shown as underreported in your audit should not be included."

2. Issue pre-numbered contracts for all banquets held at the facility.
3. Maintain banquet calendars and contracts.

NYRP Response: "We will commence issuing pre-numbered signed contracts and maintain a banquet calendar."

4. Segregate responsibilities for arranging banquets, accepting payments from customers, recording revenues received, and making deposits.

NYRP Response: NYRP did not respond to this recommendation.

Parks should ensure that NYRP:

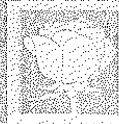
5. Pays the City \$2,959 in additional license fees and late charges.
6. Complies with the internal control recommendations made in this report.

Parks Response: Parks issued a Notice to Cure to NYRP requesting payment of the \$2,959 in additional fees and requiring NYRP to implement the report's recommendations to enhance internal controls and maintain supporting documentation for reporting revenue.

APPENDIX I

Schedule of Late Charges Assessed for Period
October 1, 2001, through September 30, 2002

Due Date	License Fee Due	Accumulated Balance Due	Period		Rate	Late Charge
			From	To		
11/15/02	\$ 2,867.00	\$2,867.00	11/16/02	12/16/02	2.00%	\$57.34
		\$2,924.34	12/17/02	01/03/03	2.00%	\$35.09
Total Late Charges Due						\$92.43



New York Restoration Project

NYRP

BETTE MIDLER, Chairman
JOSEPH PUPELLO, President

March 3, 2003

The City of New York
Office of The Comptroller
Executive Offices
1 Centre Street
New York, NY 10007-2341

Re: Audit Report on License Fees Due From
New York Restoration Project, Inc., (The New Leaf
Cafe) and on its compliance with its licensing
Agreement FM02-169A

Ladies and Gentlemen:

In response to your draft report dated February 18, 2003 and as it relates to your audit recommendations in connection with the banquets, we will commence issuing pre-numbered signed contracts and maintain a banquet calendar.

However, we still do not agree with the amount of additional license fees that are being generated in your audit as it relates to underreported gross receipts from banquets. The total banquet revenue reported in the general ledger from January 2002 through September 2002 amounts to \$125,155. This represents all banquet revenue for that period. The banquet forms that were audited by you would have had adjustments made to them upon settling up the event when it took place. This would not be reflected on those forms. Therefore, the additional \$19,993.34 that is being shown as underreported in your audit should not be included.

Additionally, all future revenues from the snack bar will be reported through the point-of-sale system.

If you have any questions, please do not hesitate to contact me at (212) 333-2552.

Sincerely,

Joseph Puppello



City of New York
Parks & Recreation

ADDENDUM II – Response from the
City of New York Parks & Recreation

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imohiosen
Assistant Commissioner
Revenue

February 25, 2003

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

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 New York Restoration Project, Inc., (The New Leaf Café)
October 1, 2000 to September 30, 2002, FM02-169A, Dated February 18, 2003

Dear Mr. Brooks:

This letter represents the Parks Department's (Parks), response to the recommendations contained in the subject audit report on New York Restoration Project, Inc. (NYRP).

DPR has issued the attached "Notice To Cure" (NTC) to NYRP requesting payment under **Recommendation 1** in the amount of \$2,959 and NYRP's compliance with **Recommendation's 2,3 and 4**. Also, the Comptroller's report states that, "Parks should ensure that NYRP: **Recommendation 5**. Pays the City \$2,959 in additional license fees and late charges; and **Recommendation 6**. Complies with the internal control recommendations made in this report." Parks has acted on these items by issuing the NTC mentioned above.

We wish to thank the Comptroller's audit staff for their work and efforts in performing this review.

Sincerely,

Joanne Imohiosen

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

www.nyc.gov/parks



City of New York
Parks & Recreation

ADDENDUM II - Response from the
City of New York Parks & Recreation

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imchiosen
Assistant Commissioner
Revenue

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

February 25, 2003

BY FAX AND MAIL

Ms. Catherine Hall
Vice President of Administration
New York Restoration Project, Inc.
31 West 56th Street 5th Floor
New York, NY 10019

Re: NOTICE TO CURE

Draft Audit Report On New York Restoration Project, Inc., (The New Leaf Cafe)
October 1, 2000 to September 30, 2002, FM02-169A, Dated February 18, 2003

Dear Ms. Hall:

This letter addresses the findings and recommendations contained in the subject draft audit report on New York Restoration Project, Inc. (NYRP). The audit report stated that NYRP had adequate controls over recording and reporting of restaurant revenue, and generally adhered to certain other non-revenue requirements of its license agreement. However, the auditors found that NYRP did not have adequate controls over catering and snack bar revenue.

Specifically, the report disclosed that NYRP did not maintain banquet calendars or contracts or records of snack bar receipts. Without banquet calendars and contracts it was impossible for the auditors to determine whether all banquet revenue was recorded on NYRP's books and records and reported to the City. Moreover, NYRP did not provide guest checks and sales summary reports needed to determine the accuracy of the snack bar's reported revenue because NYRP's point-of-sales system for the snack bar was not operational. Furthermore, NYRP did not properly segregate duties over its catering operation. Based on the available

ADDENDUM II - Response from the
City of New York Parks & Recreation

Catherine Hall
February 25, 2003
Page 2

records, the auditor's determined that NYRP underreported its gross receipts by \$28,671 and owes the City \$2,959 in additional license fees and late charges for the audit period.

The audit report recommended that NYRP should:

Recommendation 1. Pay the City \$2,959 in additional license fees and late charges.

The amount owed represents 10% of the above stated unreported gross receipts of \$28,671, totaling \$2,867 plus \$92 in late fees. To resolve the audit assessment NYRP is afforded thirty (30) days from the date of this letter to remit a check for \$2,959, made payable to the CITY OF NEW YORK PARKS AND RECREATION, to this office.

Recommendation 2. Issue pre-numbered contracts for all banquets held at the facility.

Recommendation 3. Maintain banquet calendars and contracts.

The audit disclosed that NYRP's system for recording banquets is inadequate since NYRP does not formalize banquet specifications on pre-numbered signed contracts, and NYRP does not maintain a banquet calendar. Without such record keeping it is impossible to determine whether all banquet revenue was properly accounted for by NYRP and reported to the City. NYRP should implement procedures to comply with these audit recommendations to ensure that NYRP's total banquet revenue is properly reported and that it can be clearly verified in subsequent audit examinations.

Recommendation 4. Segregate responsibilities for arranging banquets, accepting payments from customers, recording revenues received, and making deposits.


The audit report states that NYRP did not properly segregate duties over its catering operation. NYRP's manager is responsible for arranging banquets, accepting payments from customers, recording the revenues received in NYRP's books and records, and making deposits. NYRP should take the required action to implement this audit recommendation in order to provide the necessary accounting checks and balances that will ensure all revenue is accurately accounted for.

By copy of this letter to Francisco Carlos, Parks' Internal Auditor, I am requesting that he follow-up in three (3) months to verify that NYRP has complied with all of the internal control recommendations made in the subject audit report.

Catherine Hall
February 25, 2003
Page 3

Finally, we wish to thank NYRP for its cooperation during the audit review and anticipate your prompt remittance to clear the amount owed and full compliance in implementing the other audit recommendations.

Sincerely,



Joanne Imohiosen

cc: D. Stark
F. Carlos