

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 Flushing Golf Corporation, Inc., With Its License Agreement and Its Payment of License Fees Due the City May 1, 2000–April 30, 2002

FR03-107A

February 6, 2003

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

**Audit Report on the Compliance of
Flushing Golf Corporation, Inc.,
With Its License Agreement and Its
Payment of License Fees Due the City
May 1, 2000–April 30, 2002**

FR03-107A

AUDIT REPORT IN BRIEF

The Comptroller's Office conducted an audit on the Compliance of Flushing Golf Corporation, Inc. (Flushing Golf) with its license agreement, awarded by the Department of Parks and Recreation (Parks), for the renovation, operation, and maintenance of an outdoor pitch-and-putt golf facility, an 18-hole miniature golf course, a snack bar, and a food cart at Flushing Meadows-Corona Park, Queens. The agreement requires that Flushing Golf pay the City minimum annual fees ranging from \$140,000 in the first year, escalating to \$170,000 in the 12th year, or 20 percent of gross receipts generated at the facility, whichever is greater. For the two-year audit period—May 1, 2000–April 30, 2002—Flushing Golf reported gross receipts amounting to \$1,488,578, and paid the City \$308,099 in license fees.

Audit Findings and Conclusions

Flushing Golf generally adhered to the provisions of its license agreement. It recorded its revenue fairly in its books and records, and generally paid its corresponding license fees in compliance with the terms of the license agreement. Finally, in our opinion, Flushing Golf had an adequate system of internal controls over its revenue collection and recording functions, apart from the exception noted below.

Flushing Golf did not maintain adequate records to support the amounts reported to Parks for revenue from its mobile food-and-beverage cart. Flushing Golf maintained neither an inventory of the various items stocked in the cart nor a written record of the items sold. Instead, cash collected by employees was submitted to Flushing Golf officials at the end of the shift, and the revenue amount was recorded on an envelope. Maintaining a perpetual inventory of items purchased and sold and keeping written records of all sales would provide for adequate internal controls over the cash collected.

Flushing Golf generally adhered to certain non-revenue-related requirements of its license agreement (i.e., made the required capital improvements and paid the design review fee; carried the proper types and amounts of insurance that named the City as an additional insured; maintained the proper security deposit; and, paid its utility bills).

Audit Recommendations

We recommend that Flushing Golf maintain detailed inventory and sales records of all food-and-beverage cart items. In addition, we recommend that Parks ensure that Flushing Golf complies with this report's recommendation.

Flushing Golf responded that it agreed with the audit report, and that it will implement the report's recommendation by maintaining a detailed inventory and record of all sales from its mobile food-and-beverage cart. Parks stated that it issued a Notice To Cure to Flushing Golf requiring that it implement the report's recommendation.

INTRODUCTION

Background

On May 12, 1998, the Department of Parks and Recreation (Parks) entered into a 12-year license agreement with Flushing Golf Corporation, Inc. (Flushing Golf) that expires on April 30, 2010. The license agreement requires that Flushing Golf renovate, operate, maintain, and manage an outdoor pitch-and-putt golf facility, an 18-hole miniature golf course, a snack bar, and a food cart at Flushing Meadows-Corona Park, Queens. Flushing Golf is required to pay the City minimum annual fees ranging from \$140,000 in the first year, which escalates to \$170,000 in the 12th year, or 20 percent of Flushing Golf's gross receipts received from operating the facility, whichever is greater.

Minimum fees are payable to the City on or before the first day of May through April for each operating year. Any additional fees resulting from gross receipts are due on the 20th day of the succeeding month. A late charge of two percent per month is applied to license fees that are not paid on time. The agreement states that gross receipts include all funds received by the licensee without deduction or set-off of any kind from the sale of food, beverages, wares merchandise, and services of any kind resulting directly or indirectly from the operation of the license.

Flushing Golf is required to expend at least \$760,200 on capital improvements to the recreational facility, complete these improvements by November 2002, and pay Parks a Design Review Fee of \$6,062. Flushing Golf is also required to deposit \$42,500 with the City as security; carry workers' compensation insurance as required by statute; employer's liability insurance, comprehensive general liability insurance, and property insurance policies, each naming the City as an additional insured party; and pay all utility charges for the facility.

Objectives

Our audit objectives were to determine whether Flushing Golf:

- maintained adequate internal controls over the recording and reporting of gross receipts;
- properly reported its total gross receipts and calculated and paid its license fees due the City correctly, paying these fees on time; and

- complied with certain non-revenue-related requirements of its license agreement (i.e., made the required capital improvements and paid the design review fee; carried the proper types and amounts of insurance that named the City as an additional insured; maintained the proper security deposit; and paid its utility bills).

Scope and Methodology

This audit covered the period May 1, 2000–April 30, 2002. To achieve our audit objectives, we reviewed the license agreement between Parks and Flushing Golf and noted the requirements of the agreement. At Parks, we reviewed correspondence, revenue reports, and other relevant documents. We analyzed Parks’ Concessionaire Ledger for the amounts reported and paid to the City, and verified whether the payments were received on time. In addition, we reviewed all capital improvement documents to determine whether Flushing Golf completed the requirements as stipulated in the agreement. On May 30, 2002, we conducted an unannounced pre-audit observation of the facility and concession stand to observe the collecting and entering of cash and to determine whether all sales were recorded in the computerized cash register system.

We evaluated Flushing Golf’s internal controls over its revenue function. To gain an understanding of Flushing Golf’s daily operating procedures for recording and reporting revenue, we interviewed Flushing Golf’s president and other personnel, conducted a walk-through of the operations on September 23, 2002, and familiarized ourselves with its record-keeping procedures. We tested transactions on Flushing Golf’s computerized cash register from August 11 to 17, 2002, to verify the reliability of the daily register sheets, as well as the Z-tapes, and the detailed register tapes, determining whether the internal controls over gross receipts were adequate and operating as represented by management.

To determine whether Flushing Golf accurately reported its gross revenue to the City, we analyzed Flushing Golf’s monthly gross receipts statements and prepared an annual schedule of monthly gross receipts for the audit period May 1, 2000–April 30, 2002. Specifically, we obtained Flushing Golf’s supporting documents for gross receipts and compared them to the revenues reported to Parks. To determine whether the monthly transactions processed through Flushing Golf’s computerized system were accurate and complete, and to verify whether the internal controls over gross receipts were adequate and operating as represented by management, we traced the revenues reported by Flushing Golf to its books and records that included its general ledger, income statements, sales journals, and tax returns.

In addition, we traced Flushing Golf’s computerized daily register Z-tapes from August through October 2000, and from May through July 2001 to the Daily Sales Journals and to the Monthly Summary Reports for each revenue category. We then traced the recorded gross receipts to Flushing Golf’s bank deposit slips and bank statements to determine whether all the cash received during the scope period was deposited.

We reviewed all supporting invoices and canceled checks to determine whether Flushing Golf complied with the capital improvement requirements of the license agreement, and whether it paid the appropriate design review fee to Parks.

Finally, we verified whether Flushing Golf complied with certain non-revenue-related terms and conditions of its agreement (i.e., carried the proper types and amounts of insurance that named the city as an additional insured; remitted the proper security deposit; and paid for its utilities use).

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 City Comptroller's audit responsibilities, 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 Flushing Golf and Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to Flushing Golf and Parks officials and was discussed at an exit conference on January 7, 2003. On January 9, 2003, we submitted a draft report to Flushing Golf and to Parks with a request for comments. We received a written response from Flushing Golf on January 24, 2003, and from Parks on January 22, 2003.

Flushing Golf responded that it agreed with the audit report, and that it will implement the report's recommendation by maintaining a detailed inventory and record of all sales from its mobile food-and-beverage cart. Parks stated that it issued a Notice To Cure to Flushing Golf requiring that it implement the report's recommendation.

The full texts of comments from Flushing Golf and from Parks are included as addenda to this final report.

FINDINGS AND RECOMMENDATIONS

For the audit period, Flushing Golf reported gross receipts amounting to \$1,488,578, and paid the City \$308,099 in license fees. Flushing Golf generally adhered to the provisions of its license agreement. It recorded its revenue fairly in its books and records, and its corresponding license fees were generally paid in compliance with the terms of the license agreement. Finally, in our opinion, Flushing Golf had an adequate system of internal controls over its revenue collection and recording functions, apart from the exception noted below.

Flushing Golf Did Not Maintain Adequate Documentation to Support Revenue from Its Mobile Cart

During the audit, Flushing Golf did not maintain adequate records to support the amounts reported to Parks for revenue from its mobile food-and-beverage cart.

Two Flushing Golf employees are responsible for stocking the cart with small food and beverage items, including various chips, nuts, and sodas, and selling those items to the patrons of the golf complex. However, Flushing Golf maintains neither an inventory of the various items stocked in the cart nor a written record of the items sold. Instead, employees submit the cash collected to Flushing Golf officials at the end of the shift, and the revenue amount is recorded on an envelope. Maintaining a perpetual inventory of items purchased and sold and keeping written records of all sales would provide for adequate internal controls over the cash collected.

Contract Compliance Issues

Flushing Golf generally adhered to certain non-revenue-related requirements of its license agreement. Specifically, Flushing Golf completed the required capital improvements of \$760,200 and paid the design review fee of \$6,062 to Parks. In addition, by reviewing its insurance certificates, we verified that Flushing Golf maintained the required workers' compensation insurance, as required by statute; carried its required employer's liability, general liability, property insurance policies, each naming the City as an additional insured; maintained a \$42,500 security deposit with the City; and paid for its utility use.

Recommendations

1. Flushing Golf should maintain detailed inventory and sales records of all food and beverage cart items.

Flushing Golf's Response: "Flushing Golf will, starting immediately, maintain detailed inventory and sales records of all food and beverage sales from our beverage cart."

2. Parks should ensure that Flushing Golf complies with the above recommendation.

Parks Response: Parks stated that it issued a Notice To Cure to Flushing Golf requiring that it implement the report's recommendation.

ADDENDUM I

**FOREST GOLF CORPORATION
FOREST PARK GOLF COURSE**

101 FOREST PARK DRIVE WOODHAVEN, NY 11421 ~ (718) 296-0999 ~ FAX: (718) 296-1001

January 24, 2003

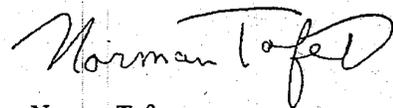
Att: Mr. Frank Seggio

Dear Mr. Seggio:

Re: Draft of Audit Report on the Compliance of
Flushing Golf Corporation, Inc.,
With Its License Agreement and Its
Payment of License Fees Due the City
May 1, 2000, to April 30, 2002
FRO3-107A

Please be advised that I am in complete agreement with the above indicated Audit Report. Also, please be advised that with regard to Recommendation #1, Flushing Golf will, starting immediately, maintain detailed inventory and sales records of all food and beverage sales from our beverage cart.

Yours Truly,



Norman Tafet



City of New York
Parks & Recreation

ADDENDUM II
Page 1 of 4

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne C. Imohiosen
Assistant Commissioner
Revenue

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

January 22, 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 Flushing Golf Corporation, Inc.
May 1, 2000 to April 30, 2002, FN03-107A, Dated January 9, 2003

Dear Mr. Brooks:

This letter represents the Parks Department's (DPR's), response to the recommendations contained in the subject audit of Flushing Golf Corporation, Inc. (FGC).

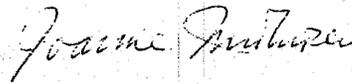
DPR has issued the attached "Notice To Cure" (NTC) to FGC requesting that FGC implement internal control **Recommendation 1**. Also, we have requested that DPR's Internal Auditor follow-up with FGC in three (3) months to verify that FGC has implemented the internal control requirements recommended in the audit report.

Recommendation 2 states that, "Parks should ensure that Flushing Golf complies with the above recommendation." This recommendation has been addressed by issuance of the attached NTC and the planned internal audit follow-up.

Greg Brooks
January 22, 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 Imohiosen

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



City of New York
Parks & Recreation

ADDENDUM II
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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

January 22, 2003

BY FAX AND MAIL

Mr. Norman Tafet
President
Flushing Golf Corporation, Inc.
101 Forest Park Drive
Woodhaven, NY 11421

Re: NOTICE TO CURE

Draft Audit Report On Flushing Golf Corporation, Inc.
May 1, 2000 to April 30, 2002, FN03-107A, Dated January 9, 2003

Dear Mr. Tafet:

This letter addresses the findings and recommendations contained in the subject draft audit report on Flushing Golf Corporation, Inc. (FGC). Generally, the report stated that FGC adhered to the provisions of its license agreement. Also, that FGC had recorded its revenue fairly in its books and records, and that its corresponding license fees were generally paid in compliance with the terms of the license agreement. Furthermore, the audit disclosed that FGC had an adequate system of internal controls over its revenue collection and recording functions, apart from the exception noted below.

The audit disclosed that FGC failed to maintain adequate records to support the amounts reported to the Parks Department (Parks) for revenue from its mobile food-and-beverage cart. Specifically, FGC did not keep an inventory of stocked items for the cart or a written record of the items sold. The audit report recommends (**Recommendation 1**) that, "Flushing Golf should maintain detailed inventory and sales records of all food and beverage cart items."

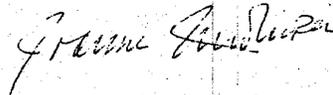
Parks agrees with this recommendation which will provide for adequate internal controls over the cash collected at FGC's cart. At the Exit Conference Robert Smith, Manager for FGC indicated that FGC would implement the suggested record keeping procedures. By copy of this

Norman Tafet
January 22, 2003
Page 2

letter to Francisco Carlos, Parks' Internal Auditor, I am requesting that he follow-up in three (3) months to verify that FGC has complied with the above requirement.

Finally, we wish to thank FGC for its cooperation during the audit review and anticipate your prompt action regarding the above recommendation.

Sincerely,



Joanne Imohiosen

cc: D. Stark
F. Carlos