

AUDIT REPORT

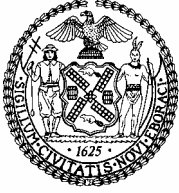


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on Pier 70 Café's Internal Controls over Cash Receipts And Its Compliance with Its Department of Parks and Recreation Permit Agreement

MH05-115A

June 30, 2005



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

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has examined the internal controls of cash receipts by the Pier 70 Café and its compliance with its permit agreement with the Department of Parks and Recreation.

The results of our audit, which are presented in this report, have been discussed with Pier 70 Café and Department of Parks and Recreation officials, and their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that City properties used by concessionaires under agreements with the City are operated effectively, efficiently, and in full compliance with the agreements.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

WCT/fh

Report: MH05-115A
Filed: June 30, 2005

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ADDENDUM – Riverside Beach Restaurant Corporation Response

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

**Audit Report on Pier 70 Café's Internal Controls
Over Cash Receipts and Its Compliance with Its
Department of Parks and Recreation
Permit Agreement**

MH05-115A

AUDIT REPORT IN BRIEF

The audit determined whether the Riverside Beach Restaurant Corporation, doing business as Pier 70 Café (the Café), had adequate internal controls over cash receipts, properly reported gross receipts, properly calculated the fees due the City, and complied with certain provisions of its Permit Agreement (the Agreement) with the Department of Parks and Recreation (Parks).

Audit Findings and Conclusions

Based on our interviews with the concessionaire and bookkeeper as well as an examination of the available books, records, and documents, we determined that the Café had inadequate internal controls over its cash receipts. As a result, the concessionaire may not have properly calculated the total gross receipts and may not have reported the correct amount of gross receipts to the City.

Although the concessionaire complied with the provisions of the Agreement regarding required insurance and the sale of alcoholic beverages, he failed to comply with many other provisions. Specifically, the concessionaire failed to keep complete and accurate records; he did not maintain records of daily cash receipts and keep these receipts segregated from other business matters. Moreover, the concessionaire failed to deposit daily cash receipts in the bank—in fact, making no deposits for four months of the five-month period of the Agreement. He also failed to maintain adequate inventory controls. The documents that should have been maintained by the concessionaire include, at a minimum, sales slips, daily dated cash register receipts, and records of daily bank deposits of all receipts. In addition, cash receipts from the Café were deposited in the same bank account as cash receipts from the second concession, making it impossible to determine the total cash receipts generated by the Café.

Overall, the concessionaire's method of maintaining his books and records required an overhaul and the establishment of a set of internal controls suitable for an independent audit to

ensure that the correct amount of gross receipts were reported to the City and that the appropriate fees were paid to the City.

After we issued the preliminary draft report to Parks and to the concessionaire, we were informed by Parks in a May 13, 2005 letter (see Attachment) that the Riverside Beach Restaurant will no longer manage this site; instead, another vendor has been selected. Since the recommendations included in the preliminary draft report no longer apply, we have eliminated them in this report.

In addition, Parks stated that as a result of this audit and our prior audit of the Hudson Beach Café, which was also managed by the Riverside Beach Restaurant (Audit # MH05-075A issued on May 2, 2005), it has implemented tighter accounting controls for Hudson Beach Café and will initiate close monitoring of the Pier I/Hudson River snack bar concession previously run by the Café and now operated by another vendor under a newly awarded contract.

INTRODUCTION

Background:

The Department of Parks and Recreation (Parks) has approximately 600 concessions throughout the City and reports that total revenue from all concessions reached \$63 million in Fiscal Year 2004. These concessions fall into two categories: food service and recreational activities. Food service concessions include every size of business, from hot dog and pretzel vendors to large restaurants. Recreational concessions include miniature golf courses, bubbled tennis courts, golf courses, marinas, stables, and row boat and bicycle rental firms.

In May 2004, Parks entered into a Permit Agreement (Agreement) with Riverside Beach Restaurant Corporation, doing business as Pier 70 Café (the Café), to operate a food service-outdoor café consisting of up to 24 tables, chairs, umbrellas, and food preparation equipment. The Café is located in Riverside Park South between Pier 1 on the Hudson River and the elevated portion of the Henry Hudson Parkway, at West 70 Street, in Manhattan. Design and placement of all equipment is subject to the approval of Parks. The Café was open for business from June through October 2004. It is an outdoor café, open seven days a week. The Riverside Beach Restaurant Corporation also operates a Parks concession at Hudson Beach and Riverside Park. We became aware of the Pier 70 concession while conducting an audit of Hudson Beach Café (MH05-075A), which was released on May 2, 2005.

The Agreement, which was effective May 21, 2004, expired September 30, 2004, and continued with a one-month extension through October 31, 2004. It called for a minimum payment to the City of \$14,000 or 11 percent of gross receipts, whichever was higher. The Agreement was for only one season. The café site is up for an open bid again in 2005. The Agreement requires that the Café submit to Parks: the applicable percentage fees; a statement of gross receipts in a form acceptable to Parks within thirty days of the end of the operating period, and a reporting of gross receipts generated under the Agreement during the operating period. The Café is responsible for keeping the area surrounding the concession clean and free of litter, to maintain proper levels of insurance coverage, and to obtain the appropriate license for serving alcoholic beverages. Required insurance includes Personal Injury Liability (\$1,000,000), Property Damage Liability \$1,000,000, and Workers' Compensation.

As of January 4, 2005, the Café paid the City \$23,402 in fees plus late charges of \$209 for a total of \$23,611.

Audit Objectives:

The audit's objectives were to determine whether the Café:

- Has adequate internal controls over cash receipts,
- Properly calculates the total gross receipts and fees due the City, and

- Complies with certain provisions of the Agreement with the Department of Parks and Recreation.

Scope and Methodology

The scope of the audit was June 2004 through October 2004. Audit fieldwork was conducted from November 2004 to April 2005, with the exception of a visit to the Café on October 6, 2004 (before the Café ceased operating at the end of the season). The purpose of our visit was to obtain an overall view of the facility.

To achieve our audit objectives, we reviewed the Café's records kept on file at Parks, which included the Agreement, gross receipts statements, license fee payments, and other related documents for the Café. We also reviewed and analyzed the Parks Concessionaire Ledger for the monthly amounts paid to Parks by the Concessionaire and to determine whether those amounts were paid monthly, as required.

To evaluate the Café's internal control over revenue, we interviewed the concessionaire and the bookkeeper to obtain an understanding of the procedures used for recording and reporting gross receipts. We obtained the concessionaire's sales journal, the bookkeeper's ledger, monthly credit card statements, and monthly bank statements. To determine whether the Café properly reported its gross receipts, we compared the amounts in the gross receipts reports submitted to Parks and the amounts in the Café sales journal.

In addition, to determine whether the Café complied with the provisions of the Agreement regarding insurance and the sale of alcoholic beverages, we reviewed copies of insurance certificates and the license from the State Liquor Authority.

Scope Limitation

We attempted to determine the accuracy of the gross receipts reported to Parks but were unable to do so because virtually all source documents, such as cashier's closeout sheets, guest checks, credit card batch reports, daily cash register tapes, and deposit slips, were not available or had been discarded by the concessionaire. In addition, the cash receipts deposited in the bank were commingled with those of another concession in the same bank account.

We requested that the concessionaire provide specific records and detailed information regarding the reporting and verification of the Café's gross receipts to Parks. The only documents the concessionaire provided were his sales journal, the bookkeeper's ledger, bank statements, and the credit card statements (the only source documents that were provided). We could not verify the daily cash receipts included in the sales journal without supporting documents. The Café did not use a cash register. According to the concessionaire, he did not have a cash register because there was no electricity on the premises. He also did not require that the staff keep any handwritten records of the cash receipts, such as guest checks of each transaction. Therefore, we were unable to determine the amount of daily cash receipts collected.

We could not use the bank statements for determining the cash receipts collected because the cash receipts were commingled with cash receipts from another concession awarded to Riverside Beach Restaurant Corporation in 2003 for the Café at Hudson Beach and Riverside Drive.

Moreover, we could not use an alternate methodology to determine sales based on gross profits for the Café since the concessionaire commingled the purchases of food and beverage supplies of the Café with those for the concession at Hudson Beach and Riverside Drive.

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. The 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 Riverside Beach Restaurant Corporation officials during and at the conclusion of this audit. A preliminary draft report was sent to Riverside Beach Restaurant Corporation and Parks officials on May 4, 2005, and was discussed at an exit conference on May 23, 2005 with the concessionaire. Instead of attending the exit conference, Parks submitted a written response to the preliminary draft, which is included as an attachment to the report and serves as their official response to the audit report. On May 24, 2005, we submitted a draft report to Riverside Beach Restaurant Corporation and to Parks officials, with a request for comments. On June 8, 2005, we received a written response from the concessionaire. In his response, the concessionaire acknowledges that mistakes probably took place but faults a lack of time, utilities and facilities as the reason for the problems found.

Since the concessionaire is no longer managing the site there are no recommendations to be implemented. The full text of the Riverside Beach Restaurant Corporation's response is included as an addendum to this report.

FINDINGS

Based on our interviews with the concessionaire and bookkeeper, as well as an examination of the available books, records, and documents, we determined that the Café had inadequate internal controls over its cash receipts. As a result, the concessionaire may not have properly calculated the total gross receipts and may not have reported the correct amount of gross receipts to the City.

Although the concessionaire complied with the provisions of the Agreement regarding required insurance and the sale of alcoholic beverages, he failed to comply with many other provisions. Specifically, the concessionaire failed to keep complete and accurate records; he did not maintain records of daily cash receipts and keep these receipts segregated from other business matters. Moreover, the concessionaire failed to deposit daily cash receipts in the bank—in fact, making no deposits for four of the five-month period of the Agreement. He also failed to maintain adequate inventory controls. The documents that should have been maintained by the concessionaire included, at a minimum, sales slips, daily dated cash register receipts, and records of daily bank deposits of all receipts. In addition, cash receipts from the Café were deposited in the same bank account as cash receipts from the second concession, making it impossible to determine the total cash receipts generated by the Café.

Overall the concessionaire's method of maintaining his books and records required an overhaul and the establishment of a set of internal controls suitable for an independent audit to ensure that the correct amount of gross receipts were reported to the City and that the City was paid the appropriate fees due.

Our findings are discussed in greater detail in the following sections of the report.

Inadequate Internal Controls over Cash Receipts

The concessionaire did not maintain adequate internal controls over the cash and credit card receipts collected through the operation of the Café. He did not maintain required supporting documentation, and the records that he did maintain may not accurately reflect the daily business transactions of the Café. As a result, he may not have reported all his gross receipts to Parks and therefore may not have paid all the required fees under the Agreement.

For the 2004 season, the concessionaire paid Parks the minimum fee of \$14,000, plus \$121 in late fees, for the period of operation—June 2004 till October 2004. In addition, the concessionaire paid \$9,590 on January 4, 2005—\$9,402 for the applicable 11 percent fee on the reported gross receipts of \$212,743 and \$188 for late fees. However, we could not verify the accuracy of the amounts paid, because the concessionaire did not maintain the supporting documentation required by the Agreement.

According to the Agreement, Provision 30 §(a), “Permittee . . . 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 Permittee and the Gross Receipts there from. Such books and records maintained pursuant to this Permit shall be conveniently segregated from other business matters of Permittee and shall include, . . . records of daily bank deposits of the entire receipts from transactions in, at, on or from the Permitted Premises; sales slips, daily dated cash register receipts, sales books; duplicate bank deposit slips and bank statements.”

We obtained the sales journal maintained by the concessionaire, which is the source he used to calculate the amount and report gross cash receipts to Parks. For every business day, the proprietor recorded in the sales journal only one entry, which combined both cash and credit card sales. By combining the two, we could not determine how much of the sales was cash and how much was credit card sales. In addition, the proprietor maintained no documentation to support the entries in the sales journal, such as daily dated cash register receipt tapes, guest checks, credit card batch reports, or other types of documents. As a result, we could not determine whether the amounts in the sales journal represented the total business transacted by the Café and whether the amount reported to Parks was accurate.

Nevertheless, we attempted to determine whether the amounts reported to Parks were reasonable. We obtained the monthly credit card statements for the Café and compared the total monthly credit card sales listed on the statements with the monthly total gross sales recorded in the sales journal, as shown in Table I.

Table I

Gross Receipts from Journal Compared to Credit Card Statements

2004	Gross Sales from Journal	Credit Card Sales (Tips included)	Difference between Journal Amount and Credit Card Amount	Percent of Credit Card Sales to Total Gross Sales
June	\$50,303	\$34,434	\$15,869	68 %
July	\$61,310	\$59,684	\$1,626	97 %
Aug.	\$44,197	\$69,516	(\$25,319)	157 %
Sept.	\$60,509	\$54,954	\$5,555	91 %
Oct.	\$14,986	\$7,247	\$7,739	48 %

As shown in Table I, the percentage of credit card sales compared to the total gross receipts in the sales journal shows large variances. In fact, during August 2004 the total amount of gross sales recorded in the journal is \$25,319 less than the total credit card sales for the month. As a consequence, we question the reliability of the amount of total gross receipts recorded in the sales journal, and therefore the accuracy of the amount of gross receipts reported to Parks.

Noncompliance with Certain Provisions of the Agreement

The concessionaire failed to comply with many of the provisions of the Agreement. Not only did the concessionaire discard the daily sales receipts, as discussed previously, he also commingled the cash receipts generated at the Café with cash receipts from the second

concession. Moreover, the concessionaire did not deposit cash receipts promptly in the bank and did not maintain inventory records for food and beverages, as required.

Cash Receipts from Cafe Were Commingled with Cash Receipts from Second Concession

The cash receipts and credit card receipts for the Café were commingled with cash receipts from another concession within the same bank account. Such commingling violates provisions in the Agreement, which states that sales receipts, books and records, and bank statements should be segregated from other business matters of the entity. As a result, we could not verify and confirm if the gross receipts generated at the Café were properly recorded and reported to Parks.

When we brought this to the attention of the proprietor, he said that the reason the cash receipts were commingled in one bank account was that he did not have enough time to open a second bank account for the operation of the Café. However, we noted that each concession has its own credit-card account. A separate bank account for the operation of the Café could have been opened at the same time the credit-card account was established.

Cash Receipts from Operation Not Deposited Daily

Based on our review of the bank statements and the recorded deposits in the ledger, cash receipts generated at the Café from June 2004 through October 2004 were not deposited daily, as required. According to the Agreement, Provision 30, §(a), records must be maintained that show daily bank deposits of all receipts from all transactions.

Since we could not identify the source of the cash deposits from the bank statements, we obtained copies of the ledgers maintained by the bookkeeper, who records the credit card and cash receipts separately for the Café and the other concession. According to these ledgers, there were no deposits made during four of the five months of operation—June, July, August, and September 2004. The ledgers show cash deposits for the Café only on October 15, and October 19, 2004, for a combined total of \$7,436.

Inventory Records for Food and Beverages Not Maintained

The Agreement also requires that the “Permittee shall maintain adequate inventory control.” However, records of inventories of food and alcoholic and other beverages were not kept by the proprietor of the Café. In addition, we noted from our review of all invoices for purchases and the bookkeeper’s ledger that the only purchases made exclusively for the Café were for alcoholic beverages. All other food, beverages, and supplies purchased for the operation of the Café were purchased by the Riverside Beach Restaurant Corporation. These purchases were kept in one storage facility at the other concession at 105th Street. No records were maintained of the food, beverages, and supplies issued from the storage facility to the Café.

Conclusion

After we issued the preliminary draft report to Parks and to the concessionaire, we were informed by Parks in a May 13, 2005 letter (see Attachment I) that the Riverside Beach Restaurant will no longer manage this site; instead, another vendor has been selected. Since the recommendations included in the preliminary draft report no longer apply, we have eliminated them in this report.

In addition, Parks stated that as a result of this audit and our prior audit of the Hudson Beach Café, which was also managed by the Riverside Beach Restaurant (Audit # MH05-075A issued on May 2, 2005), it has implemented tighter accounting controls for Hudson Beach Café and will initiate close monitoring of the Pier I/Hudson River snack bar concession previously run by the Café and now operated by another vendor under a newly awarded contract.

*Hudson Beach Cafe
105th Street & Riverside Park
New York, N.Y. 10025
Ph: 917 370 3448/212 873 1900*

7th June, 2005

Mr. Greg Brooks
Office of the Comptroller
Executive Offices
1 Centre Street
New York, N.Y. 10007

RE: Audit report for Pier 70 Cafe

Dear Mr. Brooks

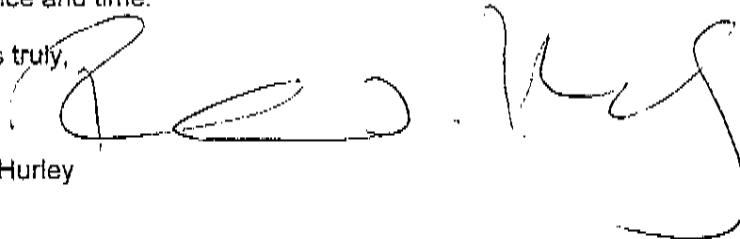
In response to your report dated May 24, 2005, Pier 70 Cafe was opened in June 2004 as a result of a request from the Parks Dept. A contract was signed with the understanding from the New York City Parks Dept. that the location would be in operation A.S.A.P.

As there were no facilities or utilities available at the location we were forced to use our own means of setting up this business. We made use of our nearby facilities at Hudson Beach Cafe located at 105th Street in Riverside Park. Unavoidably mistakes probably did take place but time was of the essence. We did mingle food and beverages at both locations due to lack of storage, electricity, etc. at the Pier 70 Cafe location.

With no utilities it was impossible to have register tapes, guest checks, etc. Credit card statements were forwarded to the Audit Dept. In hindsight, a second bank account could have been opened for this location but as previously stated our intention and that of the Parks Dept. was to open this location quickly. It was thought at the time that our best option was to use the same corporation (Riverside Beach Rest. Corp.) to obtain the liquor license, credit cards and bank facilities.

We do regret any inconveniences we may have caused to your department and thank you for your patience and time.

Yours truly,



Paul Hurley



City of New York
Parks & Recreation

Adrian Benepe
Commissioner

The Arsenal
Central Park
New York, New York 10021

Joanne G. Imohiosen
Assistant Commissioner
Revenue

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

May 13, 2005

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: Comptroller's Preliminary Draft Audit Report on Riverside Beach Restaurant Corporation D.B.A. Pier 70 Café June 1, 2004 to October 31, 2004
Audit No. MH05-115A, Dated May 4, 2005**

Dear Mr. Brooks:

This letter represents the Parks Department's ("DPR's") response to the subject audit of Riverside Beach Restaurant Corporation doing business as Pier 70 Cafe ("the Café").

The audit report cited six record keeping and internal control recommendations that the Café would be required to implement in order to continue as a concessionaire of DPR. However, the term of the Café's permits only covered one season pending the issuance and review of the "Request for Proposals" to operate the outdoor eatery under a long term license agreement. The award process was completed at the Franchise and Concession Review Committee ("FCRC") Public Hearing held on May 9, 2005, at which time the "Intent to Award" for the new operator, Pier 63 Maritime, was presented. Therefore, since the Café no longer manages this location it will not be necessary to enforce their implementation of the recommendations contained in the published audit report.

Similar internal control and record keeping deficiencies to those presented in the Café audit report also were noted in the report covering Riverside Beach Corporation's other concession with DPR, The Hudson Beach Café ("HBC"). However, since HBC is

Greg Brooks
May 13, 2005
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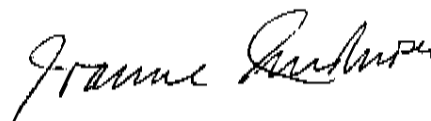
still operating under that permit, DPR issued a "Notice To Cure" requiring that HBC implement all noted recommendations. DPR will have its Internal Auditor perform a follow-up review to ensure HBC has implemented the proper internal controls and record keeping procedures suggested in that audit.

Furthermore, the Café audit report listed three other recommendations to Parks that were negated because the Café is no longer in operation. Again, the prior audit of HBC contained similar suggestions that were favorably addressed in DPR's response to the Comptroller. In conclusion, the two audits of Riverside Beach Corporation's business operations at the Café and HBC, have resulted in:

1. the implementation of tighter accounting controls for the HBC; and
2. will result in a better, more closely monitored operation under the newly awarded contract for the Pier I/Hudson River snack bar concession previously run by the Café.

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

Sincerely,



Joanne Imohiosen

cc: Comm. Adrian Benepe
David Stark
Francisco Carlos
Susan Kupferman, Mayor's Office of Operations