

AUDIT REPORT

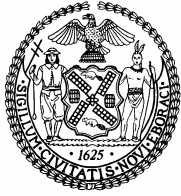


CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of First Tee of Metropolitan New York, Inc., With Its License Agreement and Payment of Fees Due

FR07-091A

June 29, 2007



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 responsibilities of the Comptroller contained in Chapter 5, § 93, of the New York City Charter, my office has audited the compliance of First Tee of Metropolitan New York, Inc., with provisions of its license agreement with the Department of Parks and Recreation.

Under the terms of the license agreement to operate and maintain the Mosholu Golf Course in the Bronx, First Tee is required to pay the City the greater of a minimum annual fee or an annual percentage of gross receipts. We audit concessions such as this to ensure that private concerns under contract with the City comply with the terms of their agreements, properly report revenue, and pay all fees due the City.

The results of our audit, which are presented in this report, have been discussed with officials of First Tee and the Department of Parks and Recreation and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

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: FR07-091A
Filed: June 29, 2007

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

**Audit Report on the Compliance of
First Tee of Metropolitan New York, Inc., with Its
License Agreement and Payment of Fees Due**

FR07-091A

AUDIT REPORT IN BRIEF

We performed an audit of the license agreement between the Department of Parks and Recreation (Department) and First Tee of Metropolitan New York, Inc., (First Tee) to operate and maintain the Mosholu Golf Course and associated facilities (i.e., driving range, snack bar, pro-shop) in Van Cortlandt Park, the Bronx. First Tee operates as the local chapter of a non-profit organization dedicated to providing young people with free golf instruction, developmental and educational programs.

According to the license agreement, First Tee is required to pay the City the greater of a minimum annual fee or an annual percentage of gross receipts. In addition, the agreement required First Tee to reconfigure and make temporary improvements to the golf course after portions of the concession premises were selected by the City's Department of Environmental Protection and the Department as the site of a new water treatment plant. Moreover, the agreement stipulates that the City will reimburse First Tee quarterly for the revenue that would be lost as a result of disruptions caused by the treatment plant's construction.

The audit determined whether First Tee properly calculated gross receipts and license fees due the City, and paid these license fees on time; complied with requirements for obtaining reimbursements for undertaking temporary improvements and for recovering lost revenue; and complied with other major requirements of its license agreement (i.e., security deposit, insurance, submission of required reports).

For calendar year 2006, First Tee reported receiving \$537,482 in gross receipts and surcharges and paid the minimum required \$140,000 in fees.

Audit Findings and Conclusions

We concluded that the amount of gross receipts that First Tee reported to the Department for calendar year 2006—\$537,482—was not accurately reported. First Tee should have reported an additional \$18,704 in gross receipts from program fees. Furthermore, an additional \$21,245

in receipts is questionable because they lacked adequate supporting documentation to qualify as sponsorships, which would have permitted their exclusion from gross receipts.

Nevertheless, the additional receipts would not have resulted in the \$140,000 minimum annual fee threshold being exceeded and would not have affected the \$52,111 in surcharges paid by First Tee to the Department. However, the additional receipts do affect the reimbursements that First Tee received for lost revenue.

First Tee improperly calculated the amount of revenue that was lost as a result of disruptions caused by construction of the water treatment plant. First Tee understated its excess gross revenue and was overpaid \$157,556 in reimbursements for lost revenue in calendar year 2006. Moreover, given that First Tee did not provide documentation to substantiate an additional \$21,245 in revenue, First Tee may actually have been overpaid \$178,801 in reimbursements. Lastly, First Tee did not deposit in a required interest bearing account additional reimbursements it received for making temporary improvements to the golf course. Consequently, the City was not credited with up to \$53,115 in interest revenue.

First Tee generally complied with license agreement requirements pertaining to paying utility bills on time, submitting the required security deposit, maintaining proper insurance coverage, submitting on time a report of rounds of golf played and a statement of gross receipts.

However, we identified internal control weaknesses in the manner in which First Tee recorded the \$537,482 in revenue that was reported to the Department. Moreover, First Tee did not have the required insurance endorsements, did not submit on time the required income and expense statement or financial statements with a summary comparing actual gross receipts with the receipts that it anticipated as a result of disruptions from the treatment plant's construction.

Audit Recommendations

We make a total of 13 recommendations as follows:

First Tee should:

- Obtain prior Department approval for all sponsorship agreements that are being used for charitable purposes.
- Include all revenue from programs fees when reporting gross receipts.
- Credit the City up to an additional \$178,801 for excess gross receipts earned during operating year 2006.
- Calculate excess gross receipts by using modified projected gross receipts, as required by the license agreement.
- Submit quarterly and annual reports to the Department as required.

- Immediately transfer all remaining funds and future advances to the designated interest bearing account.
- Maintain sufficient internal controls so that revenue figures from the cash register Z-tapes are accurately recorded in the daily spreadsheets and reported to the Department.
- Include in monthly revenue reports to the Department all locker rental receipts in the months earned.
- Maintain sufficient internal controls so that all green-fee-tag receipts are properly collected and revenue is adequately reconciled with cash register Z-tapes.
- Ensure that the City of New York and the Department are included in the policies as sole or additional insured parties and ensure that all policies contain the proper endorsements.
- Submit to the Department income and expense reports within the required 60 days.

The Department should:

- Ensure that First Tee complies with the terms of the license agreement.
- Deduct up to \$53,115 from future advances or reimbursements to First Tee, and ensure that First Tee deposits all funds in an interest bearing account.

INTRODUCTION

Background

On June 9, 2004, the Department of Parks and Recreation (Department) signed a sole-source license agreement with First Tee of Metropolitan New York, Inc. (First Tee) to operate and maintain the Mosholu Golf Course and associated facilities (i.e., driving range, snack bar, pro-shop) in Van Cortlandt Park, the Bronx. First Tee operates as the local chapter of a non-profit organization dedicated to providing young people with free golf instruction, developmental and educational programs. According to the agreement, First Tee is required to pay the City the greater of a minimum annual fee or an annual percentage of gross receipts consisting of 19 percent of green fees, reservations, driving range and cart rentals, plus 5 percent of revenue from merchandise, snack bar and other items, plus 35 percent of ID card revenue. In addition, First Tee is required to pay the City 75 percent of its revenue from surcharges imposed on green fees. For operating year 2006, the minimum annual fee was \$140,000.

The license agreement also required First Tee to reconfigure and make temporary improvements to the golf course after portions of the concession premises were selected by the City's Department of Environmental Protection (DEP) and the Department as the site of a new water treatment plant. For undertaking the temporary improvements, the agreement as amended stipulates that First Tee will be reimbursed up to \$13,541,460. Moreover, the agreement stipulates that the City will reimburse First Tee quarterly for the revenue that would be lost as a result of disruptions caused by the treatment plant's construction.¹ The agreement obligates First Tee to deposit the cash advances and reimbursements for improvements to the golf course in an interest-bearing account and credit the interest annually to the City.

Additionally, the agreement requires First Tee to complete \$250,000 in capital improvements; promote and conduct a junior development or youth program with scholarships and fee-based membership; and purchase products from designated distributors.² The term of the agreement, commencing on July 1, 2004, is for a maximum period of 20 years. The license agreement also requires First Tee to maintain the proper amounts of insurance, deposit \$56,250 with the New York City Comptroller's Office as security, and pay all utility charges, including electricity, gas, heat, coolant, telephone, water, and sewer charges.

Gross receipts include all funds received by First Tee, including income from the operation of the premises, special events, sales made for cash or credit, all sales made by other operators using the premises, and all funds and deposits received for services rendered by First Tee. In addition, gross receipts include funds from all sponsorships, except sponsorships for charitable purposes that have been approved by the Department. For calendar year 2006, First Tee reported receiving \$537,482 in gross receipts and surcharges and paid the minimum required \$140,000 in fees.

¹However, if the actual loss of revenue is less than the anticipated loss, (known as "excess gross receipts"), the agreement requires First Tee to credit the City the excess gross receipts.

² In contrast to the temporary improvements for which it is reimbursed, First Tee must expend \$250,000 of its own funds to undertake capital improvements after the treatment plant has been completed.

Finally, First Tee is required to submit the following reports to the Department: on or before the 30th day following each month of each operating year, a report of rounds of golf played during the preceding month and a statement of gross receipts; on or before the 60th day following each operating year, an income and expense statement; within 30 days of the end of each operating year, a signed and verified financial statement with a summary comparing actual gross receipts with the receipts it anticipated as a result of disruptions from the treatment plant's construction. All reports submitted to the Department must be signed and verified by an officer of the licensee.

Objectives

The objectives of this audit were to determine whether First Tee:

- properly calculated gross receipts and license fees due the City, and paid these license fees on time;
- complied with requirements for obtaining reimbursements for undertaking temporary improvements and for recovering lost revenue; and
- complied with other major requirements of its license agreement (i.e., security deposit, insurance, submission of required reports).

Scope and Methodology

This audit covered the period: January 1, 2006, through December 31, 2006, for all revenue collected and for all City reimbursements to compensate First Tee for loss of revenue; and, July 1, 2004, through December 31, 2006, for all City reimbursements and cash advances to compensate First Tee for making temporary course improvements.

To achieve our audit objectives, we reviewed the license agreement between the Department and First Tee. On October 24, 2006, we conducted a walkthrough at Mosholu Golf Course to understand First Tee's operations and the way that cash receipts were processed from cash received to bank deposits. We interviewed First Tee's executive director and manager of accounts payable and observed the operations of the golf registration desk, the pro-shop, and the snack bar. In addition, we inspected the golf course facilities and observed existing conditions. We determined the responsibilities of key personnel as they related to cash receipts, deposits, and recordkeeping.

On September 25 and October 3, 2006, we conducted unannounced observations of the golf course. We purchased tickets and paid fees for the golf course, driving range, and a pro-golf lesson. We also made purchases at the snack bar and pro-shop. We observed the manner in which parking and green fees were collected and noted whether the reservation attendant provided us with separate receipts for the golf cart and green fees, and whether the "starter" at the first tee verified that each golfer had a receipt and coordinating tee-off time. In addition, we

subsequently determined whether our purchases were included in First Tee's accounting records. Our observations were documented in memoranda.

We examined 100 percent of the \$433,729 in green fees and associated revenue reported to the Department in the monthly revenue reports for the use of Mosholu Golf Course for calendar year 2006. These included: green fees \$300,721; cart rentals \$61,794; driving range fees \$42,170; parking lot fees \$14,054; locker rentals \$1,890; identification card fees \$3,100; and rent for food and beverages \$10,000. In addition, we tested First Tee's transactions for operating year 2006 to verify the soundness of internal controls over gross receipts and to determine whether the controls were operating as represented by management. To ensure that the gross receipts and license fees were properly calculated and reported to the Department, we reconciled the daily summary-by-item cash register tape transactions (Z-tapes) and driving range control worksheets to the gross receipt reports submitted to the Department. We then compared and reconciled the revenue shown on First Tee's daily spreadsheets (i.e., the daily/monthly sales journals) to the revenue reported to the Department and to revenue computed from the Z-tapes.

To determine whether First Tee maintained proper records and accounted for all sales (specifically, the green fees), we compared the amounts on First Tee's daily detailed Z-tapes to the receipts attached to each individual bag tag stub. To accomplish this objective, we performed a manual count of all bag tag stubs issued to each golfer for the week of July 1-7, 2006, (within the highest grossing month of the year) to determine whether all sequentially numbered bag tag stubs were accounted for and whether the amounts on the attached receipts were reconciled with the Z-tapes.

In addition, we performed a manual count of parking stubs for the entire month of July 2006 and reconciled the resulting parking revenue to the amounts on the daily Z-tapes. We then compared the month's revenue to the amount reported to the Department.

In order to test reported cart rental revenue, we determined whether cart rental sales tax was properly calculated and reported. We analyzed and reconciled First Tee's cart rental sales tax recorded on the Z-tapes and compared it with the amount reported on the quarterly sales tax returns (tax form ST-102) for the first three quarters of operating year 2006.

To ascertain whether \$103,753 in additional reported gross receipts from the snack bar and pro-shop was properly reported (\$65,462, and \$38,291 respectively), we analyzed the respective sub-lessees monthly sales journal for the highest grossing month of the year (July 2006). We traced the cash register Z-tapes for each operation to the respective monthly sales journal to ensure that all sales, rentals, repairs, and lessons reported were accurate and reasonable. We then traced these amounts to the monthly revenue reports submitted by the sub-lessees to First Tee to ensure that revenue was properly reported to First Tee. Lastly, we reconciled these amounts to First Tee's monthly gross receipts reported to the Department to determine whether all revenue was properly reported to the Department.

To ascertain whether credit card revenue was included in gross receipts, we reconciled the revenue amounts recorded on credit card slips and settlement reports to the credit card revenue recorded on First Tee's daily spreadsheets. We determined whether any differences existed

between the two revenue documents. In addition, to determine whether all revenue reported was deposited, we reconciled the revenue recorded on First Tee's daily spreadsheets with the deposit slips and bank statements.

We reviewed First Tee's general ledger to verify the accuracy of all sources of gross receipts for operating year 2006 included in the "Monthly Report of Gross Receipts and Golf Course Activities" submitted to the Department. We scheduled the gross receipts reported to the Department, by category, and compared these amounts to the revenue recorded, by category, in the general ledger.

Concerning funds received as charitable contributions, we met with Department officials to understand the method by which these were monitored. We ascertained whether funds received from sponsorships: were actually for charitable purposes by reviewing general ledger accounts and supporting documentation; had prior Departmental approval; and were not reportable as revenue received from the operation of the golf course.

We met with Department officials to understand the process of making reimbursement payments. We reviewed all 19 reimbursement payments and cash advances totaling \$11,032,208 paid by the Department to First Tee for lost revenue and temporary improvements to determine whether the payments complied with the terms of the agreement. Specifically, we reviewed each "reimbursement payment requisition" for appropriate approvals from the Department and from DEP. We reconciled the amount on the requisition to the amount on the invoice summary sheet and reviewed the detail files for each requisition to determine whether only eligible expenses were submitted for reimbursements.

To ascertain whether all advances and reimbursements for temporary improvements were deposited into an interest-bearing account entitled "City Funds for Payment of Temporary Course Work for the Mosholu Golf Course in Van Cortlandt Park, Bronx, New York," we reviewed all the bank statements for the account from the account-inception date of December 14, 2004, to December 31, 2006.

We reviewed each quarterly reimbursement for lost revenue to ascertain whether the amount processed was in accordance with the terms of the license agreement. In addition, we reviewed First Tee's 2006 year-end reconciliation summary of gross receipts submitted to the Department for loss of revenue. We tabulated the actual gross receipts compared to the anticipated gross receipts to determine the excess or loss of revenue over the anticipated amount. We then compared and reconciled this amount to First Tee's amount reported to the Department.

To determine whether First Tee complied with other major requirements of its license agreement, we reviewed the most recent utility bills for timely payment. We examined documents to check whether the correct security deposit had been filed with the New York City Comptroller's office and whether First Tee maintained the proper insurance coverage as required by the license agreement.

The results of the above tests while not statistically projected to their respective populations provided a reasonable basis for us to satisfy our audit objectives.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included all tests 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 First Tee and Department officials during and at the conclusion of this audit. A preliminary draft report was sent to First Tee and Department officials on April 30, 2007, and was discussed at an exit conference on May 22, 2007. On June 1, 2007, we submitted a draft report to First Tee and Department officials with a request for comments. First Tee provided a written response and additional documentation for our review on June 14, 2007. Based on our review of that documentation, we have adjusted the figures pertaining to questionable sponsorships and excess gross receipts. These changes are reflected in this final audit report. On June 19, 2007, First Tee submitted an additional written response.

In its June 14 response, First Tee officials stated that they “still disagree with almost all of the report’s findings and recommendations. We continue to believe that there is a fundamental misinterpretation of the License Agreement for the operation of the licensed premises at the Mosholu Golf Course and Driving Range as it relates to the overall operation of the First Tee as a charitable organization.” In its June 19 response, First Tee generally agreed with seven, partially agreed with two, and disagreed with two of our recommendations.

We received written responses from the Department on June 12, 2007, and on June 19, 2007. Together, the responses indicated that the Department had addressed and implemented our two recommendations to the Department, sending Notices To Cure to First Tee, as appropriate.

The full texts of the First Tee and Department responses are included as addenda to this report.

FINDINGS AND RECOMMENDATIONS

Our review concluded that \$18,704 of \$869,397 in questionable gross receipts from various First Tee sponsors was revenue obtained for Mosholu Golf Course program fees that should have been reported as gross receipts; \$21,245 of the \$869,397 did not have adequate supporting documentation to qualify as sponsorships, and is therefore still questionable. An additional \$146,023 was for revenue obtained by First Tee at locations other than Mosholu Golf Course, or was for vendor rebates, neither of which should be reported as gross receipts under the license agreement. The remaining \$683,425 balance consisted of receipts for sponsorships, and should not be reported as gross receipts if the Department grants approval, as required under the license agreement.

Therefore, we conclude that the amount of gross receipts that First Tee reported to the Department for calendar year 2006—\$537,482—was not accurately reported. Although the additional \$18,704 in gross receipts would not have resulted in the \$140,000 minimum annual fee threshold being exceeded and would not have affected the \$52,111 in surcharges paid by First Tee to the Department, the additional receipts do affect the reimbursements First Tee received for lost revenue.

First Tee improperly calculated the amount of revenue that was lost as a result of disruptions caused by construction of the water treatment plant. As a result of the improper calculations, First Tee was overpaid \$157,556 in reimbursements for lost revenue in calendar year 2006. Moreover, given that First Tee did not provide documentation to substantiate an additional \$21,245 in revenue as discussed above, First Tee may actually have been overpaid \$178,801 in reimbursements. Lastly, First Tee did not deposit in a required interest bearing account additional reimbursements it received for making temporary improvements to the golf course. Consequently, the City was not credited with up to \$53,115 in interest revenue.

We also identified internal control weaknesses in the manner in which First Tee recorded the \$537,482 in revenue that was reported to the Department.

First Tee generally complied with license agreement requirements pertaining to paying utility bills on time, submitting the required security deposit, and maintaining proper insurance coverage. However, First Tee did not have the required insurance endorsements indicating the City and the Department as additional insured entities.

Finally, First Tee submitted on time a report of rounds of golf played during the preceding month and a statement of gross receipts. However, First Tee did not submit on time the required income and expense statement, or financial statements with a summary comparing actual gross receipts with the receipts that it anticipated as a result of disruptions from the treatment plant's construction.

These matters are discussed in greater detail in the following sections.

Questionable Sponsorship Receipts and Fees Improperly Excluded From Gross Receipts

Section 2.1(l)(ii) of the license agreement states, “Gross Receipts shall include receipts from all sponsorships. Sponsorships for charitable purposes shall, subject to Parks’ reasonable approval, be excluded from Gross Receipts.” Our preliminary review indicated that \$869,397 of \$1,189,645 in gross receipts obtained from various First Tee sponsors did not have supporting documentation to substantiate whether the funds qualified as charitable contributions and could be excluded from reportable gross receipts. Moreover, none of the sponsorships were approved for charitable purposes by the Department, as required.

After we issued the preliminary audit report, First Tee submitted additional documentation to substantiate the \$869,397 in questionable gross receipts. From our review of this information we conclude that:

- \$18,704 was program fee revenue obtained by First Tee for the Mosholu Golf Course. Accordingly, this revenue should be included as gross receipts under the license agreement as income from the operation of the premises.
- \$21,245 did not have adequate supporting documentation to qualify as sponsorships for charitable purposes, and is therefore still questionable.
- \$146,023 was for revenue obtained by First Tee at locations other than Mosholu Golf Course, or was for vendor rebates. In either case, based on our review, these items should not be reported as gross receipts under the license agreement.

The remaining balance of \$683,425 contains adequate supporting documentation to qualify as funds for charitable purposes. However, the Department has still not approved the use of these funds for charitable purposes, thereby permitting their exclusion from reportable gross receipts.

The \$18,704 in revenue that should have been reported as gross receipts did not affect the minimum threshold amount of \$140,000 which was paid on time by First Tee to the Department.

Recommendations

First Tee should:

1. Obtain prior Department approval for all sponsorship agreements that are being used for charitable purposes.

First Tee Response: “As stated in the introduction above the FT [First Tee] receives donations, grants and funds for its charitable junior programs. Parks and the OC [Office of the Comptroller] have been informed that none of these funds are for ‘sponsorships’ as outlined in the license agreement. If we have sponsorships in the future, as outlined in the license agreement, we have no problem obtaining Parks approval if the sponsorships

are for charitable purposes. If the recommendation is directed at donations, grants and funds we receive for charitable purposes this is, in our opinion, an incorrect reading of the license agreement since there is nothing in the license agreement requiring that any of these funds have to be approved as charitable purposes by Parks.”

Auditor Comment: The license agreement permits exclusions from gross receipts for “Sponsorships for charitable purposes.” However, if First Tee believes that donations, grants and funds are not sponsorships for charitable purposes, it should seek an opinion from the Department on this matter. In any case, our review of documentation submitted by First Tee clearly indicated that some of the donations were from contributors that were identified as sponsors by First Tee in its Web site listing of “Partners & Sponsors.” For example, First Tee received funds from sponsors such as the Royal Bank of Scotland, MasterCard, Canon, Ernst & Young, Barclays, and the New York Yankees. All of these companies sponsored programs or events for First Tee.

2. Include all revenue from programs fees when reporting gross receipts.

First Tee Response: “It is the FT’s position that the revenue from program fees for the charitable junior golf programs run at Mosholu should not be included in Gross Receipts. OC and Parks have been informed that these programs are run at a deficit and FT derives no economic benefit from the programs. FT will discuss with Parks how they read the license agreement, especially as it relates to 9.31 (a) and the junior programs that are required. The language in the license agreement as it relates to Gross Receipts is extremely broad and we do not feel that Parks would want the revenue from such programs included in Gross Receipts and potentially impact the rental fee calculation and thereby share in charitable proceeds.”

Auditor Comment: Notwithstanding First Tee’s position about program fee revenue, the license agreement does not permit any exclusions from gross receipts for these fees. We should note that program fees comprise revenue that First Tee earns at the Mosholu Golf Course.

The Department should:

3. Ensure that First Tee complies with the terms of the license agreement.

Department Response: “Recommendation 3 has been addressed by Parks’ issuance of the NTC [Notice To Cure] . . . to First Tee that will resolve the contract deficiencies disclosed in the audit report.”

Calculations for Excess Gross Receipts
Understated by at Least \$157,556

According to the license agreement, First Tee is to be reimbursed for revenue that would be lost as a result of disruptions caused by construction of a water treatment plant on a portion of the concession premises. Accordingly, First Tee is required to perform annual calculations to ascertain the difference between projections of anticipated revenue that could have been attained under normal conditions (i.e., “full projected gross receipts”) and anticipated revenue that would be attained under disruptive conditions (“modified projected gross receipts”). The difference between these two types of receipts (less operational savings), represents “lost” revenue.³ However, if First Tee’s actual gross receipts exceed those that were anticipated under the disruptive conditions, agreement §6.1(f) requires that “the City shall be credited with such Excess and the said Excess shall be deducted from the next succeeding quarterly payment.”

First Tee reported to the Department \$65,328 in excess gross receipts for 2006. Our review, however, indicated that First Tee actually attained an excess of at least \$222,884. Consequently, First Tee understated its excess gross revenue by \$157,556.⁴ (See Appendix I for our analysis.) As a result, First Tee was overpaid at least \$157,556 in reimbursements for lost revenue. Since First Tee did not provide documentation to substantiate an additional \$21,245 in revenue as previously discussed, First Tee may actually have attained an excess of \$244,129, thereby understating its excess gross revenue by \$178,801. (See Appendix II for our analysis.) This could result in First Tee being overpaid up to \$178,801 in reimbursements for lost revenue.

Excess gross receipts were understated because they were not calculated by First Tee on the basis of the difference between actual and modified projected gross receipts, as required by §6.1(f). Instead, First Tee improperly calculated excess gross receipts from the difference between actual and full projected gross receipts.

Furthermore, in its calculation of excess gross receipts, First Tee improperly deducted its expenses for waste removal, notwithstanding agreement §2.1 (l)(i), which states, “Gross Receipts shall include without limitation all funds received by Licensee, without deduction or set-off of any kind.” In addition, First Tee excluded from its calculation gross receipts from pro-shop operations, program fees and other revenue receipts that were not substantiated by supporting documentation.⁵

Moreover, First Tee did not submit to the Department reports, as required by §6.1(e), which states, “As a condition for payment, Licensee shall within fifteen (15) days of the

³ First Tee anticipated \$83,200 in operational savings for operating year 2006.

⁴ First Tee’s actual gross receipts from concession operations in 2006 were \$441,284; it had anticipated only \$218,400 in revenue from modified projected gross receipts. The difference is the cited excess of \$222,884.

⁵ However, gross receipts from the snack bar and pro-shop were included in the monthly revenue reports submitted to the Department, as required.

beginning of each quarter certify in writing to Parks (with copy to DEP) that actual Gross Receipts for the preceding quarter is not equal to or greater than the Full Projected Gross Receipts for that same period.” In addition, it did not submit the required year-end financial statement summary comparing actual gross receipts with the receipts it anticipated within 30 days of the end of the calendar year.

Recommendations

First Tee should:

4. Credit the City up to an additional \$178,801 for excess gross receipts earned during operating year 2006. This credit should be applied towards any lost revenue calculated as due First Tee in 2007.

First Tee Response: “It is the FT’s position that while the revenue from ‘rent’ \$10,000 and ‘pro shop sales’ \$38,290.45 should be reported to Parks as part of Gross Receipts, none of these items should be included in the calculation of excess gross receipts since these items were not included in the projected gross receipts that Parks and DEP agreed to in determining how lost revenue was to be calculated and reconciled (see Attachment B). The pro shop sales are ‘pass through’ revenue to the FT as all of that revenue goes directly to and is retained 100% by the sublicensee golf professional. OC is also indicating that donations that have not yet been confirmed by them as contributions totaling approximately \$21,500 should be included in the excess gross receipts. It is FT’s position that since there were no donations included in the projected gross receipts that this amount should not be included in the calculation of excess gross receipts. FT will continue to provide documentation for the ~ \$21,500 and it is our position that all of these funds are donations unrelated to the operation of the licensed premises and that they should not be included in Gross Receipts nor do they need to be approved as contributions by Parks.”

Department Response: The Department’s June 12, 2007 response stated that it had “withheld First Tee’s ‘Gross Receipts Shortfall’ payments for each of the first two quarters of 2007.” In its June 19, 2007 amendment to its response, the Department agreed to adjust the \$244,129 overpayment for excess gross receipts—comprised of \$65,328 originally reported by First Tee plus the additional understated amount of \$178,801.

Auditor Comment: First Tee contends that the Department “agreed” that revenue from rent and pro shop sales was to be excluded from the formula for calculating lost revenue, and submitted an Attachment B that purportedly supports its position. However, Attachment B—a First Tee document—is not part of the license agreement and lacks evidence indicating Departmental approval. In fact, the formula for calculating excess gross receipts contained in the license agreement is based on actual gross receipts, which, as First Tee acknowledges, includes revenue from rent and pro shop sales.

Moreover, First Tee did not provide appropriate documentation to justify the exclusion of \$21,245 for sponsorships for charitable purposes. Therefore, as previously discussed, this revenue is deemed a part of gross receipts.

5. Calculate excess gross receipts by using modified projected gross receipts, as required by the license agreement. In addition, First Tee should ensure that all gross receipts are included in its calculations without any deductions.

First Tee Response: “FT has acknowledged that the lost revenue reconciliation submitted to Parks early in 2006 was not done properly and that using the modified gross receipts would have made a difference of \$82,300 and that the \$16,215 owed to FT as a result of waste removal expense at the temporary facilities should be taken out of the lost revenue reconciliation. A revised reconciliation for 2006 will be submitted to Parks reflecting the above.”

Auditor Comment: We are pleased that First Tee has agreed to adhere to the license agreement by using modified projected gross receipts to calculate the annual amount of excess gross receipts. However, as noted in our report, we determined that First Tee understated the amount of excess gross receipts by \$178,801—not \$82,300, as claimed by First Tee. Moreover, First Tee did not provide documentation to substantiate the \$82,300. Also, the license agreement does not allow expenses (i.e., waste removal) to be deducted from gross receipts. Therefore, these expenses should not be part of the lost revenue reconciliation or part of excess gross receipts.

6. Submit quarterly reports to the Department within 15 days of the beginning of each quarter, as required. In addition, submit the annual report to the Department within 30 days after the end of each calendar year.

First Tee Response: “FT will insure that quarterly and annual reports are submitted as required.”

\$53,115 in Lost Interest

First Tee did not deposit in a designated interest bearing account funds it received from the Department for undertaking the required temporary improvements to the golf course.⁶ As a result, the City was not credited with up to \$53,115 in interest revenue for the period from December 14, 2004, to December 31, 2006. Section 6.2(d)(ii)(B) of the license agreement states that “all funds shall be deposited in an interest-bearing account . . . and all interest shall be credited annually to the City.” Moreover, the agreement requires that “any interest earned be deducted from the amount invoiced for the next quarter or any succeeding quarter.”

In addition, First Tee commingled \$573,341 of \$9,844,055 in reimbursements it received for making temporary improvements in various accounts. According to license agreement §6.2

⁶ The designated account was labeled “City Funds for Payment of Temporary Course Work for the Mosholu Golf Course in Van Cortlandt Park, Bronx, New York.”

(d) (ii) (A), funds for temporary improvements “shall not be co-mingled with funds from any other source or with funds received under any other agreement. Funds shall be deposited only in such bank accounts as are approved by Parks. No exceptions to the requirements set forth . . . shall be permitted.”

First Tee officials told us that they were unaware of the provisions in the license agreement pertaining to the interest bearing account. Nevertheless, First Tee must immediately credit the City for the lost interest and establish an account in accordance with the license agreement. (See Appendix III for our analysis.)

Recommendations

7. The Department should deduct up to \$53,115 from future advances or reimbursements to First Tee. In addition, the Department should ensure that First Tee deposits all funds in an interest bearing account, as required.

Department Response: “To resolve Recommendation 7 Parks is referring the matter to the City’s Law Department for an opinion on whether the imposition of the assessed interest at the specified rates is supported in the license agreement.”

In the interim, the Department stated in its June 19 amendment to its response that it will apply \$42,495, from the overpayment for excess gross receipts, to the \$53,115 interest assessment.

8. First Tee should immediately transfer all remaining funds and future advances to the designated interest bearing account.

First Tee Response: “FT has transferred and deposited funds in an interest bearing checking account. An account was originally set up for this purpose with Citibank and they were instructed to set up an interest bearing account and were given the section of the license agreement pertaining to the account. The fact that the original checking account was not earning interest was not detected by FT or by Parks or DEP during the quarterly reconciliation of this account. It is FT’s position that the interest rate calculations set forth in Appendix III seem unjustified and there is nothing in the license agreement about what rates are to be earned or what type of interest bearing account was to be set up. This account was used to pay contractors and for the materials and services and no minimum balances could be guaranteed for any period of time. Accounts paying the rates outlined in Appendix III do not seem appropriate. The current interest bearing checking account pays a rate of less than 1% and we would ask that the payment of any lost interest by FT be limited to funds that FT would be able to recover from Citibank given their failure to follow instructions in setting up the account and that the amount of interest be calculated using market rates for the appropriate type of account.”

Department Response: The Department stated, “To comply with Recommendation 8 First Tee has opened an interest bearing account however, the interest rate is a questionably low 0.4%. Parks will investigate whether this rate is customary for the

dollar volume and type of business activity the account is used for before approving First Tee's selection."

Auditor Comment: As noted in our Appendix III, we based our interest rate calculations on Central Treasury Account figures. Although First Tee contends that our calculations do not seem appropriate, First Tee did not submit any documentation to substantiate the lower interest rate it believes is warranted. Furthermore, as noted in its response, the Department has questioned First Tee's low interest rate and will investigate whether that interest rate "is customary for the dollar volume and type of business activity."

Weaknesses in Recording And Reporting Revenue

There were internal control weaknesses in the manner in which First Tee records and reports revenue from concession operations. Thus, for operating year 2006, the amount of revenue recorded in the cash register Z-tapes was \$540,153; however, the amount of revenue that First Tee reported to the Department was \$537,482—a net difference of \$2,671 that was underreported. In addition, First Tee did not accurately record the revenue figures from the Z-tapes to its daily spreadsheets.

Our review found errors in transcribing Z-tape figures to the daily spreadsheets for each of the revenue-producing months of March through December 2006. For example, the Z-tape for September 23, 2006, showed that revenue for category 21 (Weekend Non-Resident Golf Cart for 18 holes) was \$147; however, the daily spreadsheet indicated \$1,473 in revenue for that category—an overrecording error of \$1,326. In another example, the Z-tape for April 24, 2006, showed no revenue for category 25 (Weekend Resident 18 Holes After 1 PM); however, the daily spreadsheet indicated \$435 in revenue for that category—an overrecording error of \$435. In a final example, revenue from a \$150 gift certificate purchased from First Tee on December 21, 2006, was not recorded in the daily spreadsheet or in the monthly revenue report submitted to the Department.

In addition, \$910 of locker rental revenue from credit card and cash sales was not recorded in the Z-tapes or daily spreadsheets. Consequently, this revenue was not reported to the Department in the months in which it was received, as required by license agreement §2.1(l)(iv), which states, "Gross Receipts shall include sales made for cash or credit (credit sales shall be included in gross receipts as of the date of the sale) regardless of whether the sales are paid or uncollected."

Furthermore, green-fee-tag receipts were not properly reconciled daily with the Z-tape, an important internal control to corroborate that the proper amount of green fees are being properly recorded. Players are given a pre-numbered green-fee tag with an attached receipt, after the cash register attendant completes a transaction. First Tee's "starter" collects the tags and receipts from each player prior to commencing play. However, our review of green fee tags and

receipts showed that for the first week of July 2006, 16 of 761 pre-numbered tags were missing from the sequence.⁷

First Tee contends that it is properly recording all green fee revenue in the daily spreadsheets because the revenue figures are derived from the Z-tapes rather than the tag receipts. But as noted above, there were inconsistencies between the Z-tapes and the revenue reported to the Department.

Recommendations

First Tee should:

9. Maintain sufficient internal controls so that revenue figures from the cash register Z-tapes are accurately recorded in the daily spreadsheets and reported to the Department.
10. Include in monthly revenue reports to the Department all locker rental receipts in the months earned as required by the license agreement.
11. Maintain sufficient internal controls so that all green-fee-tag receipts are properly collected and revenue is adequately reconciled with cash register Z-tapes.

First Tee Responses to Recommendations 9, 10, 11: “FT agrees to maintain sufficient internal controls so that revenue figures from the cash register Z-tapes are accurately recorded in the daily spreadsheets and reported to Parks, and to all monthly locker rental receipts as required and to maintain sufficient internal controls so that all green-fee-tag receipts are properly collected and revenue adequately reconciled with cash register Z-tapes.”

Other Compliance Issues

Lack of Insurance Endorsement

Our review of First Tee’s liability insurance policies indicated that the City was not endorsed as an additional insured entity under the comprehensive general liability, employer’s liability, and auto insurance, as required by license agreement §25.7. In addition, the City was not named as the sole insured entity under the property and fire insurance policies. Moreover, the Department was not endorsed as an additional insured entity under the employer’s liability and auto insurance policies, as required. Additional insured status is important in order to provide coverage for the City in the event of any insurance claim.

⁷ For the entire month of July 2006, 113 of 3,071 tags were missing.

Furthermore, the insurance certificates (except for general liability) did not bear a required endorsement for making changes or cancelling the policies, as required by agreement §25.2.

Recommendation

12. First Tee should ensure that the City of New York and the Department are included in the policies as sole or additional insured parties to comply with the insurance portion of the license agreement. In addition First Tee should ensure that all policies contain the proper endorsements.

First Tee Response: “FT has supplied Parks with additional documentation and endorsements with regard to our insurance policies and we are awaiting confirmation that we are in full compliance with the license agreement and if not we will take such steps as needed to be in compliance.”

Reports Not Submitted on Time

According to the license agreement, First Tee is required to submit various reports to the Department within specific timeframes. First Tee submitted on time, reports of rounds of golf played during the preceding month and a statement of gross receipts. However, it did not submit income and expense statements within the required 60 days after the end of the calendar year. Submitting timely reports is an important control for ensuring that gross receipts are being accurately reported to the Department.

Recommendation

13. First Tee should submit to the Department income and expense reports within the required 60 days.

First Tee Response: “FT will submit the reports to Parks as required.”

APPENDIX I

**First Tee of Metropolitan New York, Inc. - Mosholu Golf Course
Calculation of Excess Gross Receipts Pertaining to Lost Revenue
January 1, 2006 to December 31, 2006**

Gross Receipt Category	Yearly Totals		
	Amount Reported to Parks by First Tee for 2006	Audited Amount	Difference
Carts Rental	\$ 61,793.72	\$ 61,205.88	\$ 587.84
Locker Rental	\$ 3,400.00	\$ 5,790.00	\$ (2,390.00)
Parking Lot Fees	\$ 14,054.00	\$ 14,050.00	\$ 4.00
Driving Range	\$ 42,169.50	\$ 42,344.50	\$ (175.00)
Identification Cards Fees	\$ 3,100.00	\$ 3,074.00	\$ 26.00
Rent (Food & Beverage)	\$ 10,000.00	\$ 10,000.00	\$ -
Green Fees	\$ 300,737.75	\$ 299,933.50	\$ 804.25
Food & Beverage Sales	\$ -	\$ -	\$ -
Pro Shop Sales	\$ -	\$ 38,290.45	\$ (38,290.45)
Reservation Fees	\$ -	\$ 3.00	\$ (3.00)
Gross Receipt Totals	\$ 435,254.97	\$ 474,691.33	\$ (39,436.36)
Plus: Program Fees--revenue generated At Mosholu	\$ -	\$ 18,704.00	
Less: 75% Surcharges	\$ 52,111.32	\$ 52,111.32	
Plus: reimbursement from lost revenue	\$ 551,200.00		See Note 1
Actual Gross Receipts	\$ 934,343.65	\$ 441,284.01	
Less: Waste Removal	\$ 16,215.65	\$ -	See Note 2
Sub-Total	\$ 918,128.00	\$ 441,284.01	
Less: Full Projected Gross Receipts	\$ 852,800.00		See Note 1
Less: Modified Projected Gross Receipts		\$ 218,400.00	
Excess Amount per Section 6.1 (f) of License Agreement	\$ 65,328.00	\$ 222,884.01	\$ 157,556.01
Amount Understated in Gross Receipts			\$ 157,556.01

Note 1: We calculated the Gross Receipts by calculating the difference between the Modified Projected Gross Receipts (anticipated gross receipts) and the actual Gross Receipts in accordance with the license agreement. In contrast First Tee improperly used Full Projected Gross Receipts. According to the license agreement, reimbursements from Parks are not considered Gross Receipts. Therefore, we excluded the reimbursements in our calculation for Excess Gross Receipts.

Note 2: According to the license agreement, expenses cannot be deducted from Gross Receipts.

APPENDIX II

**First Tee of Metropolitan New York, Inc. - Mosholu Golf Course
Calculation of Excess Gross Receipts Pertaining to Lost Revenue with Addition of Undocumented Revenue
January 1, 2006 to December 31, 2006**

Gross Receipt Category	Yearly Totals		
	Amount Reported to Parks by First Tee for 2006	Audited Amount	Difference
Carts Rental	\$ 61,793.72	\$ 61,205.88	\$ 587.84
Locker Rental	\$ 3,400.00	\$ 5,790.00	\$ (2,390.00)
Parking Lot Fees	\$ 14,054.00	\$ 14,050.00	\$ 4.00
Driving Range	\$ 42,169.50	\$ 42,344.50	\$ (175.00)
Identification Cards Fees	\$ 3,100.00	\$ 3,074.00	\$ 26.00
Rent (Food & Beverage)	\$ 10,000.00	\$ 10,000.00	\$ -
Green Fees	\$ 300,737.75	\$ 299,933.50	\$ 804.25
Food & Beverage Sales *	\$ -	\$ -	\$ -
Pro Shop Sales	\$ -	\$ 38,290.45	\$ (38,290.45)
Reservation Fees	\$ -	\$ 3.00	\$ (3.00)
Gross Receipt Totals	\$ 435,254.97	\$ 474,691.33	\$ (39,436.36)
Plus: Program Fees--revenue generated At Mosholu	\$ -	\$ 18,704.00	
Plus: additional undocumented revenue		\$ 21,245.00	
Less: 75% Surcharges	\$ 52,111.32	\$ 52,111.32	
Plus: reimbursement from lost revenue	\$ 551,200.00	\$ -	See Note 1
Actual Gross Receipts	\$ 934,343.65	\$ 462,529.01	
Less: Waste Removal	\$ 16,215.65	\$ -	See Note 2
Sub-Total	\$ 918,128.00	\$ 462,529.01	
Less: Full Projected Gross Receipts	\$ 852,800.00		See Note 1
Less: Modified Projected Gross Receipts	\$ -	\$ 218,400.00	
Excess Amount per Section 6.1 (f) of License Agreement	\$ 65,328.00	\$ 244,129.01	\$ 178,801.01
Amount Understated in Gross Receipts			\$ 178,801.01

* Snack Bar sales were eliminated based on discussions at the exit conference.

It was agreed that since First Tee reports the rent from vendor, sales from food and beverages would not be part of the gross receipts pertaining to calculations for "excess gross receipts."

Note 1: We calculated the Gross Receipts by calculating the difference between the Modified Projected Gross Receipts (anticipated gross receipts) and the actual Gross Receipts in accordance with the license agreement. In contrast First Tee improperly used Full Projected Gross Receipts.

According to the license agreement, reimbursements from Parks are not considered Gross Receipts. Therefore, we excluded the reimbursements in our calculation for Excess Gross Receipts.

Note 2: According to the license agreement, expenses cannot be deducted from Gross Receipts.

First Tee of Metropolitan New York, Inc.-Mosholu Golf Course
Calculation for Interest Lost on "NYC Parks Funds For Payment of Temporary Course Work"
December 14, 2004 through December 31, 2006

A	B	C	D	E	F	
# of Periods	Statement Period	# of Days	Average Daily Collected Balance	Rates of Return(1)	Interest Lost	
1	Dec. 14-Jan. 13, 2005	31	\$1,691.03	0.1858%	\$3.25	(2)
2	Jan. 14-Feb. 11, 2005	29	\$1,091.02	0.1949%	\$2.05	(2)
3	Feb. 12-Mar. 11, 2005	28	\$128,183.85	0.1895%	\$226.74	(2)
4	Mar. 12-Apr. 13, 2005	33	\$1,049,350.32	0.2262%	\$2,611.34	(2)
5	Apr. 14-May 12, 2005	29	\$948,700.48	0.2334%	\$2,140.64	(2)
6	May 13-June 13, 2005	32	\$556,833.88	0.2555%	\$1,517.50	(2)
7	June 14-July 14, 2005	31	\$1,350,940.53	0.2519%	\$3,516.87	(2)
8	July 15-Aug. 11, 2005	28	\$1,684,934.86	0.2800%	\$4,403.30	(2)
9	Aug.12-Sept.14, 2005	34	\$1,236,097.04	0.2936%	\$4,112.79	(2)
10	Sept. 15-Oct.14, 2005	30	\$469,478.08	0.2934%	\$1,377.35	(2)
11	Oct. 15-Oct. 31, 2005	17	\$313,044.81	0.3134%	\$555.91	(2)
12	Nov. 1-Nov. 30, 2005	30	\$74,206.48	0.3159%	\$234.40	(3)
13	Dec. 1-Dec 31, 2005	31	\$27,579.00	0.3454%	\$95.25	(3)
14	Jan. 1-Jan. 31, 2006	31	\$390,083.63	0.3722%	\$1,452.01	(3)
15	Feb. 1-Feb. 28, 2006	28	\$867,402.71	0.3429%	\$2,974.24	(3)
16	Mar. 1-Mar. 31, 2006	31	\$1,397,677.72	0.3944%	\$5,512.30	(3)
17	Apr. 1-Apr. 30, 2006	30	\$1,222,178.03	0.3966%	\$4,846.55	(3)
18	May 1-May 31, 2006	31	\$1,126,297.19	0.4221%	\$4,754.55	(3)
19	June 1-June 30, 2006	30	\$868,426.62	0.4180%	\$3,629.76	(3)
20	July 1-July 31, 2006	31	\$739,505.52	0.4549%	\$3,363.86	(3)
21	Aug. 1-Aug. 31, 2006	31	\$334,304.65	0.4553%	\$1,522.09	(3)
22	Sept. 1-Sept. 30, 2006	30	\$291,275.90	0.4395%	\$1,280.10	(3)
23	Oct. 1-Oct. 31, 2006	31	\$284,622.84	0.4525%	\$1,287.95	(3)
24	Nov. 1-Nov. 30, 2006	30	\$247,271.17	0.4378%	\$1,082.45	(3)
25	Dec. 1-Dec 31, 2006	31	\$135,028.95	0.4531%	\$611.76	(2)
Total Interest Lost =					\$53,115.01	

(1) interest rate derived from Central Treasury Account

(2) Calculation is based on the "average daily collected balance" x (rate/30 x # of days in the period)

(3) Calculation is based on the "average daily collected balance" x the monthly rate.



June 14, 2007

Mr. John Graham
Deputy Comptroller
Executive Offices
1 Centre Street
New York, NY 10007-2341

Dear Mr. Graham:

This is in response to your letter of June 1, 2007 to Barry McLaughlin regarding the draft report on the **"Audit Report on the Compliance of The First Tee of Metropolitan New York, Inc., with Its License Agreement and Payment of Fees Due FR07-091A."**

The First Tee responded to the preliminary draft report in a memo dated May 22, 2007 and we attended an exit conference with representatives from Parks and the Office of the Comptroller on that same day. We have reviewed the updated draft report dated June 1, 2007 and unfortunately we still disagree with almost all of the report's findings and recommendations. We continue to believe that there is a fundamental misinterpretation of the License Agreement for the operation of the licensed premises at the Mosholu Golf Course and Driving Range as it relates to the overall operation of the First Tee as a charitable organization, which runs programs for underprivileged youth throughout the greater tri-state area and is engaged in fundraising activities to support these programs. We also believe that the findings of the draft report concerning the reconciliation of the "calculation of lost revenue" as a result of disruptions caused by the construction of a water treatment plant on the licensed premises are both unfair and contrary to the parties' intent of how the calculation was to be made.

We request an opportunity to meet with you at your earliest convenience so that these matters can be properly addressed and resolved.

I look forward to hearing from you.

Sincerely,

A handwritten signature in black ink, appearing to be "Jay Mottola".

Jay Mottola
The First Tee of Metropolitan NY

CC: Howard Druckman, Davidoff & Malito
Jeremiah Thomas, Simpson Thacher & Bartlett
Joanne G. Imohiosen
Barry McLaughlin
Jonathan Rubin



MEMO

To: Mr. Jonathan Rubin

From: Jay Mottola, First Tee of Metropolitan New York Board of Directors

Date: Tuesday, June 19, 2007

Subject: Draft Report of NYC Office of the Comptroller's audit
of The First Tee at Mosholu

On behalf of The First Tee of Metropolitan New York (FT), I am responding to the Draft Report by the Office of the Comptroller (OC) regarding the FT's operation at the Mosholu Golf Course for the calendar year 2006. The audit was to review compliance with the terms of our License Agreement with NYC Parks and Recreation Department (Parks) with regard to the operation of the golf course and driving range at Mosholu and the special work FT agreed to do for Parks and the Department of Environmental Protection (DEP) as a result of the construction of a Water Filtration Plant on the site of the Mosholu driving range.

Before responding to the specific issues and recommendations raised by the OC in the draft report we feel it is again important to understand what the FT is and what its overall programs and services encompass. Therefore, we are repeating the introduction from our May 22, 2007 memo since we think this is an important part of our response. We also request that the full May 22, 2007 and the June 15, 2007 memos be made part of the draft report as they contain important supporting material.

INTRODUCTION

The FT is a charitable 501 C-3 New York Not-for-Profit Corporation. The organization's mission is to use junior golf instruction as a way to provide underprivileged, minority and physically and mentally challenged young people with educational, life skills and core value training. This mission is accomplished through a special teaching curriculum developed by the national First Tee and a variety of other educational programs. While FT is headquartered at the Mosholu Golf Course, it conducts programming and fundraising at sites and schools throughout the Metropolitan Area and has other First Tee facilities at Eisenhower Park on Long Island, Fairchild Wheeler GC in Bridgeport, Conn., Weequahic Park in Newark, N.J. and at Chelsea Piers in Manhattan. (Note-the operation of these other sites and programs is totally independent of the operation of the Licensed Premises at Mosholu). To fulfill its mission, the FT is totally

dependent on grants, contributions and monies provided for the junior programs. In almost all cases no fees are charged and all programs are subsidized by monies raised from fundraising. In cases where modest amounts are charged for participation to those who can afford it, the cost of the materials and program services provided each student far exceeds the modest fees.

Donations to FT are tax deductible, we are registered with the State of N.Y. Department of Law - Charities Bureau and are governed by a volunteer Board of Directors. *FT has a fiduciary responsibility as well as a strict legal obligation that requires us to use all of the donations and junior program funds we receive only for the charitable purposes outlined in our charter.*

FT took over the concession for the Licensed Premises at Mosholu late in 2001. The nine-hole golf course and large driving range in the north Bronx provided us with outstanding facilities to carry out our mission and the location immediately put FT in close proximity to the kids we were trying to reach. At the same time, we would be able to operate a golf course and driving range for the golfing public. It is important to note here that Parks and all City officials were fully aware of our mission and that some of our junior programs would be carried out at the site, in fact they encouraged us to do so knowing the benefits our programs would provide to young people from the surrounding areas.

Subsequent to our taking over the concession, the City was mandated to construct a major Water Filtration Plant. After investigating various sites, the Mosholu driving range was identified as the best and by far the most economical site for the project. Parks and DEP asked FT to support the selection of the Mosholu site even though as the concessionaire for the Licensed Premises we would be the party most impacted by the project. In addition, as part of the agreement that was put in place between Parks and DEP, the golf course was to remain open to the public during construction and temporary facilities and improvements to the golf course were to be made. *FT was asked by Parks and DEP to assume the responsibility (not required) for keeping the golf course open and for completing the construction of the temporary facilities.* These were significant tasks that FT, even with its modest staff, agreed to take on. The golf course has remained open and virtually all of the first phase of the temporary work that we were asked to do has been completed. The work done under FT's direction has been extremely well received and the work, which was originally scheduled to be completed over four or five years, was completed in less than two. As a direct result of FT's acceptance and completion of these tasks, the impact on the golfing public by the construction project has been minimized. We fully expect that, as the public experiences the work FT has done, that play on the golf course and use of the range will increase as evidenced by play during the later part of 2006 and early 2007. As a result the Lost Revenues that Parks and DEP were projected to pay to FT over the term of the construction project (through 2012) will be significantly lower than original estimates. It is hard to understate the demands that doing this work, *on the City's behalf*, put on the staff and volunteer board members of the FT and it is equally hard to understate the goodwill and financial benefits that have and will accrue to the City from this work.

FT RESPONSE TO THE REPORT RECOMMENDATIONS

Rec. 1 page 11. As stated in the introduction above the FT receives donations, grants and funds for its charitable junior programs. Parks and the OC have been informed that none of these funds are for "sponsorships" as outlined in the license agreement. If we have sponsorships in the

future, as outlined in the license agreement, we have no problem obtaining Parks approval if the sponsorships are for charitable purposes. If the recommendation is directed at donations, grants and funds we receive for charitable purposes this is, in our opinion, an incorrect reading of the license agreement since there is nothing in the license agreement requiring that any of these funds have to be approved as charitable purposes by Parks.

Rec. 2 page 11. It is the FT's position that the revenue from program fees for the charitable junior golf programs run at Mosholu should not be included in Gross Receipts. OC and Parks have been informed that these programs are run at a deficit and FT derives no economic benefit from the programs. FT will discuss with Parks how they read the license agreement, especially as it relates to 9.31 (a) and the junior programs that are required. The language in the license agreement as it relates to Gross Receipts is extremely broad and we do not feel that Parks would want the revenue from such programs included in Gross Receipts and potentially impact the rental fee calculation and thereby share in charitable proceeds.

Rec. 3 page 11. FT feels that it is complying with the terms of the license agreement.

Rec. 4 page 13. It is the FT's position that while the revenue from "rent" \$10,000 and "pro shop sales" \$38,290.45 should be reported to Parks as part of Gross Receipts, none of these items should be included in the calculation of excess gross receipts since these items were not included in the projected gross receipts that Parks and DEP agreed to in determining how lost revenue was to be calculated and reconciled (see Attachment B). The pro shop sales are "pass through" revenue to the FT as all of that revenue goes directly to and is retained 100% by the sublicensee golf professional. OC is also indicating that donations that have not yet been confirmed by them as contributions totaling approximately \$21,500 should be included in the excess gross receipts. It is FT's position that since there were no donations included in the projected gross receipts that this amount should not be included in the calculation of excess gross receipts. FT will continue to provide documentation for the ~ \$21,500 and it is our position that all of these funds are donations unrelated to the operation of the licensed premises and that they should not be included in Gross Receipts nor do they need to be approved as contributions by Parks.

Rec. 5 page 13. FT has acknowledged that the lost revenue reconciliation submitted to Parks early in 2006 was not done properly and that using the modified gross receipts would have made a difference of \$82,300 and that the \$16,215 owed to FT as a result of waste removal expense at the temporary facilities should be taken out of the lost revenue reconciliation. A revised reconciliation for 2006 will be submitted to Parks reflecting the above.

Rec. 6 page 13. FT will insure that quarterly and annual reports are submitted as required.

Rec. 7 & 8 page 14. FT has transferred and deposited funds in an interest bearing checking account. An account was originally set up for this purpose with Citibank and they were instructed to set up an interest bearing account and were given the section of the license agreement pertaining to the account. The fact that the original checking account was not earning interest was not detected by FT or by Parks or DEP during the quarterly reconciliation of this account. It is FT's position that the interest rate calculations set forth in Appendix III seem unjustified and there is nothing in the license agreement about what rates are to be earned or

what type of interest bearing account was to be set up. This account was used to pay contractors and for the materials and services and no minimum balances could be guaranteed for any period of time. Accounts paying the rates outlined in Appendix III do not seem appropriate. The current interest bearing checking account pays a rate of less than 1% and we would ask that the payment of any lost interest by FT be limited to funds that FT would be able to recover from Citibank given their failure to follow instructions in setting up the account and that the amount of interest be calculated using market rates for the appropriate type of account.

Rec. 9, 10 & 11 page 15 FT agrees to maintain sufficient internal controls so that revenue figures from the cash register Z-tapes are accurately recorded in the daily spreadsheets and reported to Parks, and to all monthly locker rental receipts as required and to maintain sufficient internal controls so that all green-fee-tag receipts are properly collected and revenue adequately reconciled with cash register Z-tapes.

Rec. 12 page 15 FT has supplied Parks with additional documentation and endorsements with regard to our insurance policies and we are awaiting confirmation that we are in full compliance with the license agreement and if not we will take such steps as needed to be in compliance.

Rec. 13 page 16 FT will submit the reports to Parks as required.



ATTACHMENT B

Lost Revenue Projections Golf Course and Range Operations:

* We have not included revenue for the snack bar and golf professional sub-licensees. These will be impacted and need to be addressed.

	2005	2006	2007	2008	2009	2010	2011	2012
A - Green Fees	\$548,000.00	\$561,000.00	\$584,064.00	\$607,426.56	\$631,723.62	\$656,992.57	\$682,272.27	\$710,693.16
B - Driving Range	\$130,000.00	\$156,000.00	\$162,240.00	\$168,729.60	\$175,478.78	\$182,497.94	\$189,797.85	\$197,389.77
C - Cart Revenue	\$80,000.00	\$83,200.00	\$86,528.00	\$89,989.12	\$93,588.68	\$97,332.23	\$101,225.52	\$105,274.54
D - Parking, Permit, & Locker Fees	\$30,000.00	\$32,000.00	\$34,080.00	\$36,243.20	\$38,492.93	\$40,832.65	\$43,265.95	\$45,796.59
Total Revenue**	\$828,000.00	\$852,200.00	\$886,912.00	\$922,388.48	\$959,384.02	\$997,655.38	\$1,037,561.60	\$1,079,064.06
** No filtration plant								
A Modified Facilities	\$135,000.00	\$140,400.00	\$146,016.00	\$151,856.64	\$157,930.91	\$164,248.14	\$170,818.07	\$177,650.79
B Modified Facilities	\$10,000.00	\$10,400.00	\$10,816.00	\$11,243.04	\$11,698.59	\$12,166.53	\$12,653.19	\$13,159.32
C Modified Facilities	\$40,000.00	\$41,600.00	\$43,264.00	\$44,991.36	\$46,794.34	\$48,666.12	\$50,612.76	\$52,637.27
D Modified	\$25,000.00	\$26,000.00	\$27,040.00	\$28,121.60	\$29,246.46	\$30,416.32	\$31,632.98	\$32,898.29
E Operational Savings	\$80,000.00	\$83,200.00	\$86,528.00	\$89,989.12	\$93,588.68	\$97,332.23	\$101,225.52	\$105,274.54
Total Estimate	\$290,000.00	\$301,600.00	\$313,664.00	\$326,210.56	\$339,258.99	\$352,829.34	\$366,942.52	\$381,620.27
Estimated Lost Revenue	\$538,000.00	\$551,200.00	\$573,248.00	\$596,177.92	\$620,125.03	\$644,826.04	\$670,619.08	\$697,443.84

A = Green Fees Revenue - no filtration plant - increased at 4% per year (using 30,000 rounds @ \$18.00 average green fee).

B = Driving Range Revenue - no filtration plant - increased at 4% per year (using an estimate of \$150,000 for 2005).

C = Cart Revenue - no filtration plant - increased at 4% per year

D = Parking, Permit, & Locker Fees - increased at 4% per year (using an estimate of \$50,000 for 2005).

A Modified = 15,000 rounds @ \$9 (Average Green Fee) - assumes 50% reduction in rounds and average greens fees increased at 4% per year.

B Modified = Range \$10,000 per year based on some weekend use of the Junior Learning Center Range by the public - increased at 4% per year.

C Modified = Cart Revenue \$40,000 - 50% reduction - increased at 4% per year.

D Modified = Parking, Permit & Locker Fees - \$25,000 - assumes 50% reduction - increased at 4% per year.

E Operational Savings Estimate - \$80,000 increased at 4% per year

MEMO

To: Mr. Jonathan Rubin

From: Jay Mottola, First Tee of Metropolitan New York Board of Directors

Date: Tuesday, May 22, 2007

Subject: Preliminary Draft Report of NYC Office of the Comptroller's audit of The First Tee at Mosholu

On behalf of The First Tee of Metropolitan New York (FT), I am responding to the Preliminary Draft Report by the Office of the Comptroller (OC) regarding the FT's operation at the Mosholu Golf Course for the calendar year 2006. The audit was to review compliance with the terms of our License Agreement with NYC Parks and Recreation Department (Parks) with regard to the operation of the golf course and driving range at Mosholu and the special work FT agreed to do for Parks and the Department of Environmental Protection (DEP) as a result of the construction of a Water Filtration Plant on the site of the Mosholu driving range.

INTRODUCTION

Before responding to the specific issues raised by the OC in the report it is important to understand what the FT is and what its overall programs and services encompass. The FT is a charitable 501 C-3 New York Not for Profit Corporation. The organization's mission is to use junior golf instruction as a way to provide underprivileged, minority and physically and mentally challenged young people with educational, life skills and core value training. This mission is accomplished through a special teaching curriculum developed by the national First Tee and a variety of other educational programs. While FT is headquartered at the Mosholu Golf Course, it conducts programming and fundraising at sites and schools throughout the Metropolitan Area and has other First Tee facilities at Eisenhower Park on Long Island, Fairchild Wheeler GC in Bridgeport, CT, Weequahic Park in Newark, NJ and at Chelsea Piers in Manhattan. (Note-the operation of these other sites and programs is totally independent of the operation of the Licensed Premises at Mosholu). To fulfill its mission, the FT is totally dependent on grants, contributions and monies provided for the junior programs. In almost all cases no fees are charged and all programs are subsidized by monies raised from fundraising. In cases where modest amounts are charged for participation to those who can afford it, the cost of the materials and program services provided each student far exceeds the modest fees. Donations to FT are tax deductible, we are registered with the State of NY Department of Law - Charities Bureau and are governed by a volunteer Board of Directors. *FT has a fiduciary responsibility as well as a strict legal obligation that requires us to use all of the donations and junior program funds we receive only for the charitable purposes outlined in our charter.*

FT took over the concession for the Licensed Premises at Mosholu late in 2001. The 9-hole golf course and large driving range in the north Bronx provided us with outstanding facilities to carry out our mission and the location immediately put FT in close proximity to the kids we were trying to reach. At the same time, we would be able to operate a golf course and driving range for the golfing public. It is important to note here that Parks and all City officials were fully aware of our mission and that some of our junior programs would be carried out at the site, in fact they encouraged us to do so knowing the benefits our programs would provide to young people from the surrounding areas.

Subsequent to our taking over the concession, the City was mandated to construct a major Water Filtration Plant. After investigating various sites, the Mosholu driving range was identified as the best and by far the most economical site for the project. Parks and DEP asked FT to support the selection of the Mosholu site even though as the concessionaire for the Licensed Premises we would be the party most impacted by the project. In addition, as part of the agreement that was put in place between Parks and DEP the golf course was to remain open to the public during construction and temporary facilities and improvements to the golf course were to be made. *FT was asked by Parks and DEP to assume the responsibility (not required) for keeping the golf course open and for completing the construction of the temporary facilities.* These were significant tasks that FT, even with its modest staff, agreed to take on. The golf course has remained open and virtually all of the first phase of the temporary work that we were asked to do has been completed. The work done under FT's direction has been extremely well received and the work, which was originally scheduled to be completed over four or five years, was completed in less than two. As a direct result of FT's acceptance and completion of these tasks the impact on the golfing public by the construction project has been minimized and we fully expect that as the public experiences the work FT has done that play on the golf course and use of the range will increase as evidenced by play during the later part of 2006 and early 2007. As a result the Lost Revenues that Parks and DEP were projected to pay to FT over the term of the construction project (through 2012) will be significantly lower than original estimates. It is hard to understate the demands that doing this work, *on the City's behalf*, put on the staff and volunteer board members of the FT and it is equally hard to understate the goodwill and financial benefits that have and will accrue to the City from this work.

FT RESPONSE

FT would now like to address the significant items in the Preliminary Report. On page (7) the Report states "\$800,397 in Questionable Receipts Improperly Excluded from Gross Receipts". As stated in the introduction above the FT receives donations, grants and funds for its charitable junior programs. None of these funds are for "sponsorships" as outlined in the license agreement and there is nothing in the license agreement requiring that any of these funds have to be approved as charitable purposes by Parks. As stated earlier it would be totally inappropriate and illegal for FT to use these funds for any other purpose or for Parks or the City to share in these funds. FT files an audited tax return and a report with the NY State Bureau of Charities and follows normal practices in accounting for these funds. The OC has asked us to provide backup for the funds. While there is nothing in the license agreement that requires FT to do this for donations and activities that are unrelated to the operation of the License Premises, we have provided supporting documentation to the best of our ability. As of May 21 some of \$800,397

still has not been accepted as contributions by OC. There are no funds that were received by FT for the operation of the Licensed Premises for 2006 outside of those reported to Parks on February 27, 2007. However, we will work with OC to demonstrate that all of these funds were for our charitable purposes. In some cases donations or junior programs fees were collected at various sites and the funds did not warrant or require backup and the fact that these funds were deposited in FT's main bank account should not put an unreasonable requirements on FT with regard to demonstrating that these funds were for our charitable purposes. Again it is FT's position that none of the funds identified by the OC should be included in revenue from the Licensed Premises and we will continue to work with OC until this matter is 100% resolved.

Calculation of Lost Revenue Understated by at Least \$204,314.

Due to the construction of the Water Filtration Plant on the Licensed Premises FT, Parks and DEP had to find a reasonable way to deal with this situation as it related to the impact the construction would have on the concessionaire's (FT) normal ability to generate revenue from the operation of the golf course and driving range. This obviously was a unique situation that would not typically be covered as part of a license agreement. Parks and DEP were required to keep the golf course open to the public and FT was asked to and agreed to continue as concessionaire. We were also asked to suggest a reasonable way to handle the financial impact on the operation and the specific impact it would have *on FT's revenue from the operation of the Licensed Premises*. FT worked closely with multiple representatives from Parks and DEP and with input from all parties and using historical data on revenue for greens fees, driving range and carts supplied by Parks, FT proposed a way to handle the revenue they would likely lose due to the impact of the construction project. This was outlined in a detailed document, a first draft of which was sent to Parks and DEP in November of 2003. After several meetings and extensive discussions the assumptions and projections outlined in the document titled Attachment B (copy enclosed and provided to OC in early May) that was prepared by FT and accepted by Parks and DEP was used to create the table found in Exhibit A2 in the License Agreement.

Attachment B clearly states that the revenue projections used to determine the Full Projected Gross Revenues in Exhibit A2 included only Green Fees, and revenue from the driving range, carts and parking, permit and locker fees and it specifically stated that revenue from the snack bar and golf professional (pro shop) and rent from the snack bar sublicense were not included. (Note: FT does not get revenue from the Snack Bar or Pro Shop except the Snack Bar rent).

In doing the reconciliation when comparing the actual revenue received to the projected revenue it would be inaccurate, inappropriate and totally unfair to FT to include the revenue from the snack bar and pro shop. As stated earlier none of the FT funds from contributions, grants and junior golf programs can be considered part of gross receipts so they too would not be included actual gross receipts in the reconciliation.

In the reconciliation for 2006 Parks and DEP instructed FT to include the extra expense we incurred for "waste removal" as a result of the temporary clubhouse and maintenanc area not being hooked up to the city sewer line and that is why that amount was included as part of the reconciliation.

The reconciliation of lost revenue done by FT for 2006 and submitted for payment was not done properly. While all of the amounts were correct, the calculation of lost revenue was done incorrectly. A corrected calculation (Exhibit C to be provided to OC) dated May 18, 2007 - this still includes \$16,215.65 since this amount is owed and Parks or DEP will have to instruct FT how to be reimbursed if not through the lost revenue reconciliation. This should officially replace the document submitted on February 27, 2007 and it shows that amount owed FT for lost revenue for the first quarter of 2007 is \$7,984 and not \$77,984.

Lost Interest

The funds that FT received were to be deposited into "an interest bearing account". The account was used to pay for the temporary course work that was done at Mosholu. A checking account was set up for this purpose with Citibank and they were instructed to set up an interest bearing account and were given the section of the license agreement pertaining to the account. The fact that the checking account was not earning interest was not detected by FT or by Parks, DEP or the OC during the quarterly reconciliation of this account. The funds are now in an interest bearing checking account.

The interest calculations set forth in Appendix III seem totally unjustified and there is nothing in the license agreement about what rates are to be earned or what type of interest bearing account was to be set up. This account was used to pay contractors and for the materials and services for the temporary course work and minimum balances could not be set or guaranteed. Given the type of account that was needed and nature of the account activity rates ranging up to 5.4636% on an annualized basis or rates anywhere near this amount are simply not available in the marketplace. The rate that Citibank was paying for the type of interest bearing checking account when the account should have been set up will be determined and provided to the OC. The account that is now set up is paying an annual rate of .4%. We would ask that the payment of any lost interest by FT be limited to funds that FT would be able to recover from Citibank given their failure to follow instructions in setting up the account and that the amount of interest be calculated using market rates for the appropriate type of account.

OTHER POINTS

We believe that all of our insurance coverage and endorsements are in order and we will review them in detail with Parks prior to our May 22nd meeting and be sure that any issues are addressed. We will be happy to review your internal control recommendations and will be sure that all reporting requirements are met.

Thank you and I look forward to meeting with you.



ATTACHMENT B

Lost Revenue Projections Golf Course and Range Operations:

* We have not included revenue for the snack bar and golf professional sub-licensees. These will be impacted and need to be addressed.

	2005	2006	2007	2008	2009	2010	2011
A - Green Fees	\$540,000.00	\$561,600.00	\$584,064.00	\$607,436.56	\$631,723.62	\$656,992.57	\$683,272.27
B - Driving Range	\$150,000.00	\$156,000.00	\$162,240.00	\$168,729.60	\$175,478.78	\$182,497.94	\$189,797.85
C - Cart Revenue	\$80,000.00	\$83,200.00	\$86,528.00	\$89,969.12	\$93,588.68	\$97,332.23	\$101,225.52
D - Parking, Permit, & Locker Fees	\$50,000.00	\$52,000.00	\$54,080.00	\$56,243.20	\$58,492.93	\$60,832.65	\$63,265.95
Total Estimate	\$820,000.00	\$852,800.00	\$886,912.00	\$917,378.48	\$953,894.17	\$995,655.49	\$1,043,561.69
** No filtration plant							
A Modified Facilities	\$135,000.00	\$140,400.00	\$146,016.00	\$151,856.64	\$157,930.91	\$164,248.14	\$170,818.07
B Modified Facilities	\$10,000.00	\$10,400.00	\$10,816.00	\$11,248.64	\$11,698.59	\$12,166.53	\$12,653.19
C Modified Facilities	\$40,000.00	\$41,600.00	\$43,264.00	\$44,994.56	\$46,794.34	\$48,666.12	\$50,612.76
D Modified	\$25,000.00	\$26,000.00	\$27,040.00	\$28,121.60	\$29,246.46	\$30,416.32	\$31,632.98
E Operational Savings	\$80,000.00	\$83,200.00	\$86,528.00	\$89,969.12	\$93,588.68	\$97,332.23	\$101,225.52
Total Estimate	\$290,000.00	\$301,600.00	\$313,664.00	\$326,210.56	\$339,258.99	\$352,839.34	\$366,942.52
Total Estimate	\$1,110,000.00	\$1,154,400.00	\$1,200,576.00	\$1,243,589.04	\$1,293,153.16	\$1,348,494.83	\$1,410,504.21

A = Green Fees Revenue - no filtration plant - increased at 4% per year (using 30,000 rounds @ \$18.00 average green fee).

B = Driving Range Revenue - no filtration plant - increased at 4% per year (using an estimate of \$150,000 for 2005).

C = Cart Revenue - no filtration plant - increased at 4% per year

D = Parking, Permit, & Locker Fees - increased at 4% per year (using an estimate of \$50,000 for 2005).

A Modified = 15,000 rounds @ \$9 (Average Green Fee) - assumes 50% reduction in rounds and average green fees increased at 4% per year.

B Modified = Range \$10,000 per year based on some weekend use of the Junior Learning Center Range by the public - increased at 4% per year.

C Modified = Cart Revenue \$40,000 - 50% reduction - increased at 4% per year.

D Modified = Parking, Permit & Locker Fees - \$25,000 - assumes 50% reduction - increased at 4% per year.

E Operational Savings Estimate - \$80,000 increased at 4% per year



City of New York
Parks & Recreation

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The Arsenal
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New York, New York 10021

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Revenue

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June 12, 2007

BY FAX AND MAIL

Mr. John Graham
Deputy Comptroller
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007

**Re: Comptroller's Draft Audit Report on First Tee of Metropolitan New York, Inc.
January 1, 2006 through December 31, 2006 No. FR07-091A, Dated June 1, 2007**

Dear Mr. Graham:

This letter represents the Parks Department's ("Parks"), response to the recommendations contained in the subject audit of First Tee of Metropolitan New York, Inc. ("First Tee").

Parks has issued the attached "Notice To Cure" ("NTC") to First Tee covering the following recommendations:

- First Tee is required to comply with **Recommendation 1**, obtaining prior approval for sponsorship agreements, and **Recommendation 2**, reporting gross receipts for program fees.
- **Recommendation 4** - In anticipation of the overpayment of \$281,764 to First Tee representing 2006 excess gross receipts (Audit Report Appendix II), Parks has withheld First Tee's "Gross Receipts Shortfall" payments for each of the first two quarters of 2007 in the total amount of \$286,624. Therefore, Parks has recovered the full assessment under recommendation 4. After subtracting the 2006 overpayment, \$281,764, the remaining balance totals \$4,860. This amount has been applied to the interest assessment deduction covered under Recommendation 7. First Tee must comply with **Recommendation 5** by ensuring that it applies modified projected gross receipts to calculate excess payments for lost revenue, and **Recommendation 6** by submitting the required reports on time.

John Graham
June 12, 2007
Page 2

- To resolve **Recommendation 7** Parks is referring the matter to the City's Law Department for an opinion on whether the imposition of the assessed interest at the specified rates is supported in the license agreement. In the interim as mentioned above, Parks has applied \$4,860, representing part of the 2006 overpayment to First Tee for its "Gross Receipts Shortfall," as a partial interest payment until this issue can be fully resolved. To comply with **Recommendation 8** First Tee has opened an interest bearing account however, the interest rate is a questionably low 0.4%. Parks will investigate whether this rate is customary for the dollar volume and type of business activity the account is used for before approving First Tee's selection.
- First Tee must take corrective action to implement internal control, record keeping and reporting **Recommendations 9, 10 and 11**. Parks' Director, Concessions Audit will schedule a follow up review of First Tee's operation in three months to ensure that First Tee has complied with these recommendations.
- First Tee has been in contact with Parks' Revenue Division insurance administrator to resolve the insurance deficiencies identified under **Recommendation 12**. First Tee is required to take immediate action to implement all Recommendation 12 insurance requirements.
- First Tee must implement procedures to ensure that it complies with audit **Recommendation 13** requiring that First Tee submit income and expense statements within 60 days after the end of the calendar year.

Recommendation 3 states, "The Department should ensure that First Tee complies with the terms of the license agreement. Recommendation 3 has been addressed by Parks' issuance of the NTC mentioned above to First Tee that will resolve the contract deficiencies disclosed in the audit report.

Finally, 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
Laura Goebel
Alessandro Olivieri
Walter Roberts
David Stark
Jeffrey Kay, Mayor's Office of Operations



City of New York
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June 12, 2007

BY FAX AND MAIL

Mr. Barry K. McLaughlin
Executive Directive
First Tee of Metropolitan New York, Inc.
3545 Jerome Avenue
Bronx, NY 10467

Re: NOTICE TO CURE

**Comptroller's Draft Audit Report on First Tee of Metropolitan New York, Inc.
January 1, 2006 through December 31, 2006 No. FR07-091A, Dated June 1, 2007**

Dear Mr. McLaughlin:

This letter addresses the findings and recommendations contained in the subject draft audit report on First Tee of Metropolitan New York, Inc. ("First Tee"). First Tee generally complied with the provisions of its license agreement pertaining to the payment of utility bills, by submitting the required security deposit, maintaining proper insurance coverage, submitting on time reports of golf rounds played and statements of gross receipts.

However, the report identified internal control weaknesses in the manner in which First Tee recorded revenue reported to the City of New York Parks and Recreation ("Parks"). Also, First Tee did not have the required insurance endorsements, did not submit on time the required income and expense statement or financial statements with a summary comparing the actual and anticipated gross receipts resulting from the disruptions created by the DEP filtration plant construction project.

Specifically the audit report requires that First Tee should:

Recommendation 1. Obtain prior Department approval for all sponsorship agreements that are being used for charitable purposes.

Recommendation 2. Include all revenue from program fees when reporting gross receipts.

The auditor's preliminary review of First Tee had disclosed that \$869,397 in gross receipts obtained from various First Tee sponsors did not have supporting documentation

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to substantiate whether the funds qualified as charitable contributions and could be excluded from reportable gross receipts. Furthermore, the audit report stated that Parks approved none of the sponsorships for charitable purposes.

After receiving the preliminary report First Tee submitted additional documentation to substantiate the \$869,397 in questionable gross receipts. The auditor's concluded from their review of the additional documentation submitted by First Tee that:

- \$18,644 represented program fee revenue and should have been included as gross receipts as income from the operation of the premises.
- \$58,940 did not have adequate supporting documentation to qualify as contributions.

The remaining balance, \$791,813, represents \$123,853 of revenue from locations other than Mosholu or from vendor rebates, and \$667,960 of substantiated charitable funds that qualify for exclusion from gross receipts. However, the report goes on to state that Parks has still not approved the use of these funds for charitable purposes, thereby permitting their exclusion from reportable gross receipts. In Jay Mottola's response to the audit findings dated May 22, 2007 he stated that, "None of these funds are for 'sponsorships' as outlined in the license agreement and there is nothing in the license agreement requiring that any of these funds have to be approved as charitable purposes by Parks."

In any event, Parks agrees with the auditors conclusions concerning the amount of excludable charitable funds, and the disallowed balances that were determined to be program fee revenue, or which lacked sufficient supporting documentation. First Tee should implement procedures to ensure its compliance with the above recommendations. A monthly summary report of all excluded revenue that represents sponsorships for charitable purposes should be submitted to Parks Revenue Division for approval.

Recommendation 4. Credit the City up to an additional \$216,436 for excess gross receipts earned during operating year 2006. This credit should be applied towards any lost revenue calculated as due First Tee in 2007.

Recommendation 5. Calculate excess gross receipts by using modified projected gross receipts, as required by the license agreement. In addition, First Tee should ensure that all gross receipts are included in its calculations without any deductions.

Recommendation 6. Submit quarterly reports to the Department within 15 days of the beginning of each quarter, as required. In addition, submit the annual report to the Department within 30 days after the end of each calendar year.

The audit report disclosed that First Tee did not properly calculate the amount of excess gross receipts it received for 2006. First Tee improperly calculated excess gross

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receipts from the difference between actual and full projected gross receipts. The calculation should have been made on the basis of the difference between actual and modified projected gross receipts, as required by the license agreement. As a result, First Tee was overpaid \$281,764 as shown in Appendix II of the audit report and includes \$58,940 in questionable charitable receipts for which First Tee did not furnish adequate supporting documentation to the Comptroller's Office to qualify as contributions. Also included in the audit calculation is \$38,290 covering Pro Shop Sales and \$18,644 representing "Program Fees" revenue generated at Mosholu. Furthermore, the expense item covering waste removal, \$16,216, has been deleted in the audit computation because according to the license agreement, expense deductions from gross receipts are not allowable.

To resolve the overpayment of \$281,764 mentioned above, Parks has withheld First Tee's "Gross Receipts Shortfall" payments of \$143,312 for each of the first two quarters of 2007. The unpaid amount totals \$286,624. After subtracting the 2006 overpayment, \$281,764, the remaining balance totals \$4,860. This amount will be applied to the interest assessment deduction covered under Recommendation 7.

First Tee should comply with Recommendation 5 by ensuring that it applies modified projected gross receipts to calculate excess payments for lost revenue, as required by the license agreement. In addition, First Tee should ensure that all gross receipts are included in its calculations without any deductions. First Tee should comply with Recommendation 6 by submitting the required reports on time.

Recommendation 7. The Department should deduct up to \$53,115 from future advances or reimbursements to First Tee. In addition, the Department should ensure that First Tee deposit all funds in an interest bearing account, as required.

Recommendation 8. First Tee should immediately transfer all remaining funds and future advances to the designated interest bearing account.

First Tee did not deposit in a designated interest bearing account funds it received from the Department for undertaking the required temporary improvements to the golf course. The audit report states that as a result, the City was not credited with up to \$53,115 in interest revenue for the period from December 14, 2004 to December 31, 2006.

In addition, First Tee commingled \$573,341 of the reimbursements it received for making temporary improvements, in various accounts. First Tee's license prohibits these

Barry K. McLaughlin
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funds from being co-mingled with funds from any other source or with funds received under any other agreement. Furthermore funds shall be deposited only in such bank accounts as are approved by Parks.

In First Tee's response to the preliminary draft audit report Mr. Mottola disputed the calculated interest charge of \$53,115 based on rates ranging up to 5.5%. First Tee argues that, "... there is nothing in the license agreement about what rates are to be earned or what type of interest bearing account was to be set up." However, the license agreement does require that First Tee must obtain Parks approval for the accounts it selects to deposit funds to.

To resolve this issue Parks is referring the matter to the City's Law Department for an opinion on whether the imposition of the assessed interest at the specified rates is supported in the license agreement. In the interim as mentioned above, Parks has applied \$4,860, representing part of the 2006 overpayment to First Tee for its "Gross Receipts Shortfall," as a partial interest payment until this issue can be fully resolved. First Tee has opened an interest bearing account with Citibank however, the interest rate on the account is a questionably low 0.4%. Parks needs to investigate whether this rate is customary for the dollar volume and type of business activity the account is used for before approving First Tee's selection.

Recommendation 9. Maintain sufficient internal controls so that revenue figures from the cash register Z-tapes are accurately recorded in the daily spreadsheets and reported to the Department.

Recommendation 10. Include in monthly revenue reports to the Department all locker rental receipts in the months earned as required by the license agreement.

Recommendation 11. Maintain sufficient internal controls so that all green-fee-tag receipts are properly collected and revenue is adequately reconciled with cash register Z-tapes.

The audit report noted several internal control weaknesses in the manner in which First Tee records and reports revenue for its concession operations. The auditor's examination found errors in transcribing Z-tape figures to daily spreadsheets, unrecorded locker rental revenue from credit card and cash sales in the Z-tapes or daily spreadsheets, and no daily reconciliation between green-fee-tag receipts and the Z-tape.

First Tee should take corrective action immediately to implement the above internal control, record keeping and reporting recommendations 9, 10 and 11. By copy of this letter to Walter Roberts, Director, Concessions Audit for Parks, I am requesting that in three months he schedule a follow up review of First Tee's operation to ensure it has complied with these recommendations.

Barry K. McLaughlin
June 12, 2007
Page 5

Recommendation 12. First Tee should ensure that the City of New York and the Department are included in the policies as sole or additional insured parties to comply with the insurance portion of the license agreement. In addition First Tee should ensure that all policies contain the proper endorsements.

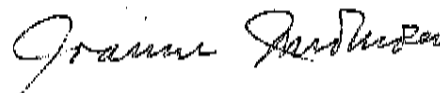
The audit review of First Tee's liability insurance policies indicated that the City was not endorsed as an additional insured entity under the comprehensive general liability, employer's liability, and auto insurance, as required by the license agreement. In addition, the City was not named as the sole insured entity under the property and fire insurance policies. First Tee has been in contact with Parks' Revenue Division insurance administrator to resolve this deficiency. First Tee should promptly employ whatever action is necessary to ensure that the insurance requirements noted under recommendation 12 are implemented.

Recommendation 13. First Tee should submit to the Department income and expense reports within the required 60 days.

The audit report found that First Tee did not submit income and expense statements within the required 60 days after the end of the calendar year. First Tee should implement procedures to ensure that it complies with this audit recommendation.

Finally, we wish to thank First Tee for its cooperation during the audit review and anticipate full compliance regarding its implementation of the above recommendations.

Sincerely,



Joanne Imohiosen

cc: R. Lieberman
A. Olivieri
L. Goebel
D. Stark
W. Roberts



City of New York
Parks & Recreation

Adrian Benepe
Commissioner

The Arsenal
Central Park
New York, New York 10021

Joanne G. Imohiosen
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Revenue

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June 19, 2007

BY FAX AND MAIL

Mr. Barry K. McLaughlin
Executive Directive
First Tee of Metropolitan New York, Inc.
3545 Jerome Avenue
Bronx, NY 10467

Re: **AMENDMENT TO NOTICE TO CURE DATED 6/12/07**
Comptroller's Draft Audit Report on First Tee of Metropolitan New York, Inc.
January 1, 2006 through December 31, 2006 No. FR07-091A, Dated June 1, 2007

Dear Mr. McLaughlin:

This letter amends the City of New York Parks and Recreation's ("Parks") "Notice To Cure" ("NTC") to First Tee of Metropolitan New York, Inc. ("First Tee") dated June 12, 2007. The NTC addressed the findings and recommendations contained in the subject "Draft" audit report issued by The City of New York Office of the Comptroller ("Comptroller") to First Tee. Parks has been notified by the Comptroller that based on additional documentation presented by First Tee, Appendices I and II of the "Draft" report had been further amended (see attached copies).

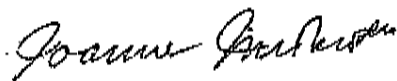
The result reduces the amount of undocumented contributions on Appendix II from \$58,940 to \$21,245, a decrease of \$37,695, and increases the amount of Program Fee revenue on both Appendix I and II by \$60, from \$18,644 to \$18,704. The net effect of the change to Appendix I is an increase of \$60, and to Appendix II, a decrease of \$37,635. Therefore, the amount calculated for excess gross receipts (**Recommendation 4**) received by First Tee in 2006 has been reduced from \$281,764 down to \$244,129.

Similarly, Parks hereby adjusts the overpayment amount in the June 12, 2007 NTC to \$244,129 and has applied this amount to the withheld "Gross Receipts Shortfall" payments due First Tee for quarters one and two of 2007 in the total sum of \$286,624. After subtracting the 2006 overpayment, \$244,129, the remaining balance now totals \$42,495. This amount has been applied to the interest assessment deduction covered under **Recommendation 7** pending resolution of the matter with the City's Law Department.

Barry K. McLaughlin
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Other than the items mentioned above, all issues and requirements contained in the June 12, 2007 NTC remain in effect. Again, we thank First Tee for its cooperation during the audit review and anticipate full compliance regarding its implementation of all the noted audit recommendations as covered in this amendment and the NTC dated June 12, 2007.

Sincerely,



Joanne Imohiosen

cc: Comm. Adrian Benepe
Ron Lieberman
Alessandro Olivieri
Laura Goebel
David Stark
Walter Roberts
John Graham (NYC Office of the Comptroller)
Jeffrey Kay (Mayor's Office of Operations)

**First Tee of Metropolitan New York, Inc. - Mosholu Golf Course
Calculation of Excess Gross Receipts Pertaining to Lost Revenue
January 1, 2006 to December 31, 2006**

Gross Receipt Category	Yearly Totals		
	Amount Reported to Parks by First Tee for 2006	Audited Amount	Difference
Carts Rental	\$ 61,793.72	\$ 61,205.88	\$ 587.84
Locker Rental	\$ 3,400.00	\$ 5,790.00	\$ (2,390.00)
Parking Lot Fees	\$ 14,054.00	\$ 14,050.00	\$ 4.00
Driving Range	\$ 42,169.50	\$ 42,344.50	\$ (175.00)
Identification Cards Fees	\$ 3,100.00	\$ 3,074.00	\$ 26.00
Rent (Food & Beverage)	\$ 10,000.00	\$ 10,000.00	\$ -
Green Fees	\$ 300,737.76	\$ 299,933.50	\$ 804.25
Food & Beverage Sales	\$ -	\$ 38,290.45	\$ (38,290.45)
Pro Shop Sales	\$ -	\$ 3.00	\$ (3.00)
Reservation Fees	\$ -	\$ -	\$ -
Gross Receipt Totals	\$ 425,254.97	\$ 474,531.33	\$ (39,436.36)
Plus: Program Fees--revenue generated At Mosholu	\$ -	\$ 18,704.00	
Less: 75% Surcharges	\$ 52,111.32	\$ 52,111.32	
Plus: reimbursement from lost revenue	\$ 551,200.00		See Note 1
Actual Gross Receipts	\$ 934,343.65	\$ 441,284.01	
Less: Waste Removal	\$ 18,215.65	\$ -	See Note 2
Sub-Total	\$ 918,128.00	\$ 441,284.01	
Less: Full Projected Gross Receipts	\$ 852,800.00		See Note 1
Less: Modified Projected Gross Receipts		\$ 218,400.00	
Excess Amount per Section 6.1 (f) of License Agreement	\$ 65,328.00	\$ 222,884.01	\$ 157,556.01
		Amount Understated in Gross Receipts	\$ 157,556.01

Note 1: We calculated the Gross Receipts by calculating the difference between the Modified Projected Gross Receipts (anticipated gross receipts) and the actual Gross Receipts in accordance with the license agreement. In contrast First Tee improperly used Full Projected Gross Receipts. According to the license agreement, reimbursements from Parks are not considered Gross Receipts. Therefore, we excluded the reimbursements in our calculation for Excess Gross Receipts.

Note 2: According to the license agreement, expenses cannot be deducted from Gross Receipts.

APPENDIX II

First Tee of Metropolitan New York, Inc. - Mosholu Golf Course
Calculation of Excess Gross Receipts Pertaining to Lost Revenue with Addition of Undocumented Revenue
January 1, 2006 to December 31, 2006

Goods/Receipt Category	Yearly Totals		
	Amount Reported by First Tee for 2006	Audited Amount	Difference
Carts Rental	\$ 61,793.72	\$ 61,205.88	\$ 587.84
Locker Rental	\$ 3,400.00	\$ 5,790.00	\$ (2,390.00)
Parking Lot Fees	\$ 14,054.00	\$ 14,050.00	\$ 4.00
Driving Range	\$ 42,169.50	\$ 42,344.50	\$ (175.00)
Identification Cards Fees	\$ 3,100.00	\$ 3,074.00	\$ 26.00
Rent (Food & Beverage)	\$ 10,000.00	\$ 10,000.00	\$ -
Green Fees	\$ 300,737.75	\$ 299,933.50	\$ 804.25
Food & Beverage Sales *	\$ -	\$ 38,290.45	\$ (38,290.45)
Pro Shop Sales	\$ -	\$ 3.00	\$ (3.00)
Reservation Fees	\$ -	\$ -	\$ -
Gross Receipt Totals	\$ 435,254.97	\$ 474,691.33	\$ (39,436.36)
Plus: Program Fees—revenue generated At Mosholu	\$ -	\$ 18,704.00	
Plus: additional undocumented revenue		\$ 21,245.00	
Less: 75% Surcharges	\$ 52,111.32	\$ 52,111.32	
Plus: reimbursement from lost revenue	\$ 551,200.00	\$ -	See Note 1
Actual Gross Receipts	\$ 934,343.65	\$ 462,529.01	
Less: Waste Removal	\$ 16,215.65	\$ -	See Note 2
Sub-Total	\$ 918,128.00	\$ 462,529.01	
Less: Full Projected Gross Receipts	\$ 852,800.00		See Note 1
Less: Modified Projected Gross Receipts	\$ -	\$ 218,400.00	
Excess Amount per Section 6.1 (f) of License Agreement	\$ 65,328.00	\$ 244,129.01	\$ 178,801.01
		Amount Undeclared in Gross Receipts	\$ 178,801.01

* Snack Bar sales were eliminated based on discussions at the exit conference. It was agreed that since First Tee reports the rent from vendor, sales from food and beverages would not be part of the gross receipts pertaining to calculations for "excess gross receipts."

Note 1: We calculated the Gross Receipts by calculating the difference between the Modified Projected Gross Receipts (anticipated gross receipts) and the actual Gross Receipts in accordance with the license agreement. In contrast First Tee improperly used Full Projected Gross Receipts. According to the license agreement, reimbursements from Parks are not considered Gross Receipts. Therefore, we excluded the reimbursements in our calculation for Excess Gross Receipts.

Note 2: According to the license agreement, expenses cannot be deducted from Gross Receipts.