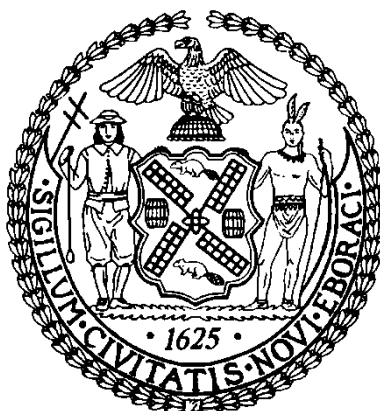


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
COMPTROLLER**

FINANCIAL AUDIT

**Tina Kim
Deputy Comptroller for Audit**



**Follow-up Audit Report on the License Fees
Due from Central Park Boathouse, LLC, and
Its Compliance with Certain Provisions
of Its License Agreement**

FM11-137F

February 1, 2012

<http://comptroller.nyc.gov>



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

John C. Liu
COMPTROLLER

February 1, 2012

To the Residents of the City of New York:

My office has audited Central Park Boathouse, LLC (Boathouse) to determine whether the concessionaire implemented the recommendations made in a previous audit, *Audit Report on the License Fees Due from Central Park Boathouse, LLC, And Compliance with Certain Provisions of Its License Agreement* (Audit No. FP05-128A, issued March 28, 2007). We perform follow-up audits of City concessionaires as a means of ensuring that concessionaires comply with their license agreements and pay license fees due the City.

The current follow-up audit disclosed that of the 36 recommendations originally made, 17 were implemented, 10 were not implemented, eight were no longer applicable, and one was partially implemented. As a result, the Boathouse has complied and paid for underreported catering, film-shoot, and bicycle-rental sales, for unreported gift-card sales, and for the value of employee meals and complimentary meals. In addition, the Boathouse has improved on its internal controls over catering, film-shoot, and gondola-ride sales. However, the Boathouse still does not include the payments when received for catering events and gift cards within its gross receipt reports. Therefore, the Boathouse continues not to report gross receipts to the Department of Parks and Recreation (Parks) in accordance with the license agreement. Moreover, the Boathouse has not corrected the internal control weaknesses over bicycle-rental sales, does not operate a Park Activity and Resource Center, and does not have sufficient safeguards over password access to its computerized point-of-sale system.

The audit recommends that the Boathouse should include all payments when they are received in the monthly gross-receipts reports, install a register that is linked to the point-of-sale system to ensure that bicycle-rental sales are accurately recorded and reported, operate a Park Activity and Resource Center as required by the license agreement, and implement policies and procedures to ensure that all employee passwords are periodically changed and inactive user accounts are timely deleted to prevent unauthorized access to the point-of-sale system.

The results of the audit have been discussed with officials of the Boathouse and Parks, and their comments have been considered in preparing this report. Their complete written responses are attached to this report. If you have any questions concerning this report, please email my audit bureau at audit@comptroller.nyc.gov.

Sincerely,


John C. Liu

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Office of the Comptroller
Financial Audit

**Follow-up Audit Report on the License Fees
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AUDIT REPORT IN BRIEF

This follow-up audit determined whether the 36 recommendations made in the prior audit entitled *Audit Report on the License Fees Due from Central Park Boathouse, LLC, And Compliance with Certain Provisions of Its License Agreement* (Audit No. FP05-128A, issued March 28, 2007) were implemented. Twenty-two of these recommendations were made to the Central Park Boathouse, LLC (the Boathouse), and 14 were made to the New York City Department of Parks and Recreation (Parks).

The prior audit determined whether the Boathouse accurately reported its total gross receipts, properly calculated the license fees due Parks, paid the license fees on a timely basis, and complied with certain other non-revenue-related requirements of the license agreement.

The prior audit found that the Boathouse did not accurately report a total of \$2,392,669 in gross receipts for the period from January 1, 2004, through December 31, 2005. Specifically, the Boathouse underreported catering, film-shoot, and bicycle-rental sales; improperly deducted gratuities to pay for salaries, commission, and wages relating to catered affairs; and did not report gift-card sales and value of employee meals and complimentary meals. As a result, the Boathouse owed Parks \$381,070 in license fees, plus late charges. Moreover, the prior audit found that the Boathouse lacked adequate controls over gondola-ride sales and did not operate a Park Activity and Resource Center as required by the license agreement. Furthermore, the Boathouse did not have sufficient safeguards over password access to its computerized point-of-sale (POS) system.

On November 24, 2009, Boathouse and City officials negotiated a fifth amendment to the license agreement. Under this amendment, both parties agreed to extend the terms of the license agreement and exclude additional items from gross receipts. They also agreed that the Boathouse will spend an additional \$2 million on capital improvements.

Audit Findings and Conclusions

This follow-up audit determined that of the 36 recommendations originally made, 17 were implemented, 10 were not implemented, eight were no longer applicable, and one was partially implemented. As a result, the Boathouse has complied and paid for underreported catering, film-shoot, and bicycle-rental sales, for unreported gift-card sales, and for the value of employee meals and complimentary meals. In addition, the Boathouse has improved on its internal controls over catering, film-shoot, and gondola-ride sales, which were cited in the previous report. However, the Boathouse still does not include the payments when received for catering events and gift cards within its gross receipt reports. Therefore, the Boathouse continues not to report gross receipts to Parks in accordance with the license agreement. Moreover, the Boathouse has not corrected the internal control weaknesses over bicycle-rental sales, does not operate a Park Activity and Resource Center, and does not have sufficient safeguards over password access to its computerized point-of-sale system.

Audit Recommendations

To address the outstanding issues from the previous audit that still exist and the new issue, we recommend that the Boathouse should:

- Include all payments when they are received in the monthly gross-receipts reports.
- Install a register that is linked to the point-of-sale system to ensure that bicycle-rental sales are accurately recorded and reported.
- Operate a Park Activity and Resource Center as required by the license agreement.
- Implement policies and procedures to ensure that all employee passwords are periodically changed and inactive user accounts are timely deleted to prevent unauthorized access to the point-of-sale system.

Also, Parks should:

- Require the Boathouse to report gift certificate receipts and banquet deposits at the time of sale and until it does, require the Boathouse to submit a monthly list of outstanding gift cards and deposits to ensure that the Boathouse accurately reports receipts.
- Ensure that the Boathouse implements the recommendations outlined above and complies with all the provisions in the license agreement.

Agency Response

Boathouse officials disagreed with certain aspects of the report's findings and did not address the recommendations. Conversely, Parks' officials agreed with the report's findings and recommendations and stated that it will work with Boathouse officials to comply with the follow-up report's recommendations.

INTRODUCTION

Background

The Department of Parks and Recreation (Parks) has a license agreement with the Central Park Boathouse, LLC, (the Boathouse) to renovate, operate, and maintain a restaurant, café, catering facility, outdoor bar, snack bar, boat and bicycle rentals, and a Park Activity and Resource Center. The Boathouse is also required to provide a shuttle service at the license premises in Central Park.

The agreement requires that the Boathouse submit monthly statements of gross receipts and pay monthly the greater of a minimum annual fee or a percentage of its annual gross receipts to Parks. The agreement also requires that the Boathouse spend at least \$1,750,000 on capital improvements, post a \$370,000 security deposit with Parks, maintain certain types and amounts of insurance coverage, and pay all required taxes and utility charges related to the facility. A fifth amendment to the agreement (dated November 24, 2009) extended the term of the agreement, allowed the Boathouse to exclude additional items from gross receipts (e.g., gratuities paid by restaurant customers and 60 percent of the administrative fees charged to catered-event customers), required the Boathouse to pay license fees under a new schedule, and spend an additional \$2 million on capital improvements.

The prior audit determined whether the Boathouse accurately reported its total gross receipts, properly calculated the license fees due Parks, paid license fees when they were due, and complied with certain non-revenue-related requirements of the license agreement.

Objective

The objective of this follow-up audit was to determine whether the 36 recommendations made in a previous audit entitled *Audit Report on the License Fees Due from Central Park Boathouse, LLC, And Compliance with Certain Provisions of Its License Agreement* (Audit No. FP05-128A, issued March 28, 2007) were implemented. Twenty-two of these recommendations were made to the Boathouse and 14 were made to the Parks.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this follow-up audit was May 2011. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with Boathouse and Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to these officials and was discussed at an exit conference held on December 22, 2011. On December 30, 2011, we submitted a draft report to Boathouse and Parks officials with a request for comments. We received written responses from Boathouse officials on January 6, 2012, and Parks officials on January 17, 2012.

In their response, Boathouse officials disagreed with certain aspects of the report's findings and did not address the recommendations. Specifically, Boathouse officials disagreed that they are required to report catering deposits and gift certificates/cards sales when the funds are received, and that the installation of a point-of-sale system in the bike rental booth would enhance internal controls. Boathouse officials also stated that they had enhanced the availability of providing the public with information pertaining to Central Park, but believe that sufficient space is available for informal group meetings. Lastly, Boathouse officials stated that they will change the staff point-of-sale system passwords on a structured basis.

In the Parks' response, its officials agreed with all of our recommendations and stated that it will work with Boathouse officials to comply with the follow-up report's recommendations.

The full text of the responses received from the Boathouse and Parks are included as addenda to this report.

RESULTS OF FOLLOW-UP AUDIT

This follow-up audit determined that of the 36 recommendations originally made, 17 were implemented, 10 were not implemented, eight were no longer applicable, and one was partially implemented. As a result, the Boathouse has complied and paid for underreported catering, film-shoot, and bicycle-rental sales, for unreported gift-card sales, and for the value of employee meals and complimentary meals. In addition, the Boathouse has improved on its internal controls over catering, film-shoot, and gondola-ride sales, which were cited in the previous report. However, the Boathouse still does not include the payments when received for catering events and gift cards within its gross receipt reports. Therefore, the Boathouse continues not to report gross receipts to Parks in accordance with the license agreement. Moreover, the Boathouse has not corrected the internal control weaknesses over bicycle-rental sales, does not operate a Park Activity and Resource Center, and does not have sufficient safeguards over password access to its computerized point-of-sale system.

Previous Finding: \$412,012 in gross receipts from catering, film shoots, and bicycle-rental sales was underreported by the Boathouse.

Previous Recommendation #1: “Pay Parks license fees totaling \$64,055, plus interest and penalties, for underreporting catering event revenue.”

Previous Boathouse Response #1: “The Boathouse will agree to pay Parks license fees totaling \$52,756, which corresponds to the missed/underreported revenues the Boathouse has confirmed are owed based upon its internal review of the audited documents.”

Current Status: IMPLEMENTED

The Boathouse has complied and paid \$65,336 in additional license fees and interest charges. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #2: “Implement a system of internal controls to ensure that all events are accurately reported, including reconciling its catered event spreadsheets to the catering receipts and deposits.”

Previous Boathouse Response #2: “The Boathouse has established internal controls via Excel spreadsheets that cross-reference party contracts with posted revenues and deposits, and which can then be reconciled to financial records of deposits and receivables on a monthly basis.”

Current Status: IMPLEMENTED

Our review of the Boathouse’s catering and film-shoot transactions for May 2011 revealed that the Boathouse has posted sales and deposits on Excel spreadsheets, which are cross-referenced to each client’s contract and payments and reconciled to the general ledger monthly. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #3: “Use prenumbered contracts when booking catered events. This will improve controls over each contract and will improve accountability over the catered events.”

Previous Boathouse Response #3: “Contracts are being numbered via a new software program, *Catermate*.”

Current Status: IMPLEMENTED

We observed that the Boathouse’s banquet staff has issued both pre-numbered contracts and invoices with “*Catermate*” for catering events and film shoots. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #4: “Include all payments when they are received from patrons in its monthly report of gross receipts submitted to Parks. The Boathouse should not wait until the date of the event to record revenue received.”

Previous Boathouse Response #4: “The Boathouse cannot in good faith include patron payments (deposits) as part of its Gross Receipts submitted to Parks. Such practice would be contrary to GAAP [Generally Accepted Accounting Principles] standards, which provides under the accrual method of accounting, that revenues should not be reported until goods and/or services are actually provided. The Boathouse proposes to continue as it has such that all deposits are to be recorded as liabilities and reconciled monthly. Then, in the month the event occurs, the deposit will be re-classified as revenue in accordance with GAAP.”

Current Status: NOT IMPLEMENTED

During this follow-up audit, the Boathouse officials said that the Boathouse has reported gross receipts to Parks in accordance with Generally Accepted Accounting Principles (GAAP). Moreover, our review of catering, film-shoot, and gift-card transactions revealed that the Boathouse has not included in gross receipts the payments for catering events, film shoots, and gift cards when they are received. However, Article II, §2.1 (l) (iv) of “Definitions” in the original license agreement clearly 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. It being the distinct intention and agreement of the parties that all sums due to be received by Licensee from all sources from the operation of this License shall be included in Gross Receipts.”

The Boathouse’s continued refusal to include within its gross receipt reports the cash received from customer deposits, prepayments, or gift receipts when received is a violation of the license agreement. Consequently, the Boathouse must make the necessary accounting adjustments. Therefore, we maintain that the Boathouse has to include within its gross receipt

reports all payments when received to be in compliance with the license agreement. Therefore, we consider this recommendation to be not implemented.

Boathouse Response: “It is still the contention of the Central Park Boathouse that our reporting of Gross Receipts is in accordance with GAAP as well as the License Agreement between the Central Park Boathouse LLC and the NYC Parks Department. We feel that Audit reference to the Gross Receipts definition is a clarification of credit sales being recognized as sales when processed – not when the receivable is received from the merchant services bank processor. Hence, their reference of Article II 2.1 (1)(iv): ‘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. It being the distinct intention and agreement of the parties that all sums due to be received by Licensee from all sources from the operation of this License shall be included in Gross Receipts.’

“We believe our handling catering deposits and gift card sales meet the definition of Gross Receipts as stipulated in Article II 2.1 (i), wherein it states: ‘Gross Receipts shall include, except as specified in Subsection (c) of section 4.5, without limitation all funds received by Licensee, without deduction or set-off of any kind, ***from the sale of food and beverages, ware, merchandise or services of any kind.***’ [Emphasis in Original] This is the accounting principle of accrual accounting and revenue recognition.”

Parks Response: “The Follow-up Report found that CPB does not include in its gross receipts deposits received for catering events, payments for unredeemed gift cards and film shoots, until the service is provided. Indeed, Section 2.1(1)(i) of the Agreement requires CPB to report these revenues streams at the time of sale. Parks has directed CPB to report this revenue at the time of sale not at the time service is provided, and we will work with CPB to resolve this matter.”

Auditor Comment: This report does not question the Boathouse’s recording of revenue on the accrual basis within its books and records. However, for the purpose of reporting gross receipts to the City, the license agreement requires the Boathouse to include all payments at the time of sale. Therefore, to comply with the agreement, the Boathouse must make the necessary accounting adjustments and report revenue at the time of sale. Nevertheless, we are pleased to note that Parks is in agreement with our interpretation of the license agreement and has directed the Boathouse to report revenue at the time of sale, not at the time service is provided.

Recommendations #5 and #6 pertain to Parks

Previous Recommendation #5: “Ensure that the Boathouse pays the City \$64,055, plus interest and penalties, for underreporting catering event revenue.”

Previous Recommendation #6: “Ensure that the above business process recommendations are implemented.”

Previous Parks Response #5 and #6: “In its response, Parks agreed with our assessment and stated that it issued a Notice to Cure requiring the Boathouse to comply with the above recommendations.”

Current Status: **Recommendation #5, IMPLEMENTED**
 Recommendation #6, PARTIALLY IMPLEMENTED

In regards to recommendation #5, the Boathouse has complied and paid the additional \$65,336 license fees and interest charges. Therefore, we consider Recommendation #5 to be implemented.

In regards to Recommendation #6, our review of the Boathouse’s operations revealed that the Boathouse has improved its internal controls over catering, film-shoot, and gondola-ride sales. However, as noted above, the Boathouse still does not include the payments for catering events and gift cards when received within its gross receipt reports.

We maintain our position that Parks should ensure that the Boathouse accurately report gross receipts in accordance with the license agreement. Therefore, we consider Recommendation #6 to be partially implemented.

Previous Recommendation #7: “Pay Parks license fees totaling \$1,696, plus interest and penalties, for underreporting film-shoot revenue.”

Previous Boathouse Response #7: “The Boathouse will agree to pay Parks license fees totaling \$1,696, which corresponds to the missed/underreported revenues Boathouse has confirmed are owed based upon its internal review of the audited documents.”

Current Status: **IMPLEMENTED**

Boathouse has complied and paid \$1,730 in additional license fees and interest charges. Therefore, we consider this recommendation to be implemented.

Previous Recommendations #8: “Issue sequentially numbered receipts for film shoots.”

Previous Recommendation #9: “Reconcile its film-shoot invoices to the film-shoot receipts, deposits, profit-and-loss statements, and the monthly report of gross receipts submitted to Parks.”

Previous Boathouse Response #8 and #9: “On a going forward basis, film shoots will be handled in the same manner as a catered event, thus being subject to the same cross-referencing, reconciling and balancing with each month’s close as indicated above for catered events.”

Current Status: **Recommendations #8 and #9, IMPLEMENTED**

The Boathouse's banquet staff now issues both pre-numbered contracts and invoices with "Catermate" for catering events and film shoots. Moreover, our review of the Boathouse's catering and film-shoot transactions for May 2011 revealed that the Boathouse has posted sales and deposits on Excel spreadsheets, which are cross-referenced to each client's contract and payments and reconciled monthly to the general ledger. Therefore, we consider these recommendations to be implemented.

Recommendation #10 pertains to Parks

Previous Recommendation #10: "Ensure that the Boathouse pays the City \$1,696, plus interest and penalties, for underreporting film-shoot revenue."

Previous Parks Response #10: "In its response, Parks agreed with our assessment and stated that it issued a Notice to Cure requiring the Boathouse to comply with the above recommendations."

Current Status: IMPLEMENTED

The Boathouse has complied and paid the additional \$1,730 license fees and interest charges. Therefore, we consider this recommendation to be implemented.

Previous Recommendation #11: "Pay Parks license fees totaling \$171, plus interest and penalties, for underreported bicycle-rental sales."

Previous Recommendation #12: "Install a register that is linked to the point-of-sale system used for restaurant sales and row boat rentals."

Previous Boathouse Response #11 and #12: "Notwithstanding the nominal amount purported to be due, the method of calculating such revenue and license fees is both unreasonable and unreliable. First, the Auditor's review of the Boathouse's bicycle-rental operations is solely based upon observations, without documentary support, conducted on 2 isolated days during one month of an Audit Period covering 2 years. The potential and likelihood for errors relating to speculation, conjecture and lack of documentary support are immeasurable.

"Based upon the Boathouse's position on this issue, it is submitted that no additional fees are due and owing to Parks for bicycle-rental sales. Notwithstanding the recommendation in the Draft Report based on a two day observation, the Boathouse does not believe the installation of a point-of-sale terminal is likely to result in greater control of bike-rental sales."

**Current Status: Recommendation #11, IMPLEMENTED
Recommendation #12, NOT IMPLEMENTED**

The Boathouse has complied and paid the additional \$174 license fees and interest charges. Therefore, we consider Recommendation #11 to be implemented.

However, in regards to recommendation #12, the Boathouse still records bicycle-rental sales on a non-computerized cash register, which is not connected to the point-of-sale system. Furthermore, our review for May 2011 revealed that there were gaps in the pre-numbered rental agreements issued for bicycle-rental sales. We also found that the rental agreements were not issued in sequential order. As a result, we could not be assured all revenue received was reported. Therefore, we maintain our position that the Boathouse should install a register that is linked (wireless or electrical) to the point-of-sale system for bicycle-rental sales. Currently, the Boathouse's POS vendor offers a wireless POS terminal that would allow for a simple integration into its current POS system. Therefore, we consider this recommendation to be not implemented.

Boathouse Response: "It remains our contention that installation of a POS terminal would not add support to the control of revenues and assets of the company. Non-entry, or erroneous data entry would still translate to missed revenues on any POS system. Our utilization of numerically controlled contracts which notate the type of bicycle, number rented and total cost – signed by the customer – is every bit as effective as having a terminal. This contract also protects the City and the Boathouse from unwarranted lawsuits with its extensive waiver and release from liability certification signed by every bike customer. End of day procedures have the bike attendant record the day's activity and total expected cash from the rentals for that day. In addition, the implementation of a wireless system, as recommended by the audit staff, would actually weaken the overall security of our POS system whereby we could become more vulnerable to hacking of customer/client credit information, and thus, susceptible to suit and/or penalties.

"The reference to gaps in pre-numbered contracts for the month of May is not totally accurate. One day during the month, a member of management mistakenly provided a new box of contracts in lieu of the next sequence number from an unfinished box. It was discovered the following day and reconciled. The auditor was shown the reconciliation process, and presumably, it met her satisfaction that all contracts were accounted for."

Parks Response: "The Follow-up Report found that CPB does not have sufficient controls over its bicycle-rental sales, and recommends that the Central Park Boathouse install a register that is linked to the point-of-sale system to ensure that bicycle rental sales are accurately recorded and reported. Parks has directed CPB to install a wireless POS system, linked to its existing POS, which will provide greater assurance that all bicycle-rental sales are accurately recorded and reported in gross receipts. We have requested an implementation plan from CPB within thirty (30) days."

Auditor Comment: We disagree with the Boathouse's statement that having a point-of-sale system at the bicycle rental booth would not add support to the control of revenues. The fact that Boathouse officials distributed blank bike rental agreements out of sequential order in May 2011 only justifies our recommendation for a POS system. Nonetheless, Parks has agreed with our position and has taken action directing the

Boathouse to install a wireless point-of-sale terminal at the bicycle rental booth that would be connected to the Boathouse's existing point-of-sale system.

Recommendations #13, #14, and #15 pertain to Parks

Previous Recommendation #13: “Ensure that the Boathouse pays the City \$171, plus interest and penalties, for underreporting bicycle-rental sales.”

Previous Recommendation #14: “Ensure that the Boathouse bike-rental sales register is linked to the point-of-sale system so that subsequent bike revenues may be accurately recorded and reported.”

Previous Recommendation #15: “Follow up on the estimated \$190,611 that may have been underreported and consider whether additional revenues of \$30,498 may be due.”

Previous Parks Response #13, #14, and #15: “In its response, Parks agreed with our assessment and stated that it issued a Notice to Cure requiring the Boathouse pay an additional \$174, inclusive of interest charges to Parks. However, it further stated:

‘Subject to the Boathouse’s full implementation of the required actions noted...for recommendation 12, Parks will not pursue the collection of this additional sum considering that this additional assessment is based on a limited observation period.’

‘The audit observations...illustrate a serious deficiency in controlling the collection and reporting of revenue for bicycle rentals. The Boathouse must implement this recommendation (recommendation 12) to alleviate the problem of underreporting. Boathouse officials believed that an internal audit program to randomly test the rental operation would provide a better monitor to ensure that all revenue is recorded. This additional action together with the point-of-sale link required under recommendation 12 should provide the necessary level of control over these ancillary sources of income.’”

**Current Status: Recommendation #13, IMPLEMENTED
Recommendations #14 and #15, NOT IMPLEMENTED**

In regards to recommendation #13, the Boathouse has complied and paid the additional \$174 in license fees and interest charges. Therefore, we consider Recommendation #13 to be implemented.

In regards to Recommendation #14, a Parks official stated that Parks did not require the Boathouse to install a register that is linked to the point-of-sale system because the dollar amount of bicycle-rental sales was minor. However, based on the internal control weaknesses that we found to exist (as discussed above), we maintain that Parks should require the Boathouse to install a register that is linked (wireless or electrical) to the point-of-sale system so that bicycle-rental sales would be accurately recorded and reported on the gross-receipt reports. Therefore, we consider Recommendation #14 to be not implemented.

In regards to Recommendation #15, a Parks official stated that the previous audit's two-day observation is insufficient to estimate two years of underreported bicycle-rental sales. However, Parks should be aware that the previous audit applied the same audit methodology used by the New York State Taxation and Finance Department to estimate "underreported sales based on sample observations." In addition, in cases before the New York State Division of Tax Appeals, Administrative Judges have upheld the use of that audit methodology. If Parks does not want to accept our methodology, then Parks, at a minimum, should have developed its own methodology or conducted its own independent observations, which it did not. Therefore, we consider Recommendations #15 to be not implemented.

Previous Finding: Improper deductions from gross receipts relating to catered affairs

Previous Recommendation #16: "Pay Parks license fees totaling \$241,911, plus interest and penalties, for improper deductions from gross receipts."

Previous Recommendation #17: "Include all revenue received from its operations in its gross receipts without deducting for gratuities used to fund salaries. Gratuities should only be deducted to the extent that they are distributed to employees for services rendered for a specific event and when the distribution is in addition to their regular salaries. Commissions paid to sales managers should never be deducted from gross receipts."

Previous Boathouse Response #16 and #17: "It is customary practice in the restaurant and food service industry to charge the customer a service charge/auto gratuity and then redistribute the payments as wages to the catering and related service staff. Such practice is consistent with the gratuity deduction permitted by in the Amendment to the Lease Agreement. The Boathouse submits that no fees are due relative to the gratuity issue detailed above. It is the Boathouse's position that it is in full compliance with all Labor Law and License Agreement obligations as they relate to the receipt, handling and recording of gratuities and their deductions from the Gross Receipts."

Current Status: Recommendations #16 and #17, NO LONGER APPLICABLE

As a result of the negotiated Fifth Amendment, Parks did not assess the Boathouse any additional license fees for deducting gratuities used to pay catering employees salaries, commission, and wages. Instead, the amendment now allows the Boathouse to deduct 60 percent of the administrative fee charged to all catered events. Therefore, we consider Recommendations #16 and #17 to be no longer applicable.

Recommendations #18 and #19 pertain to Parks

Previous Recommendation #18: "Ensure that the Boathouse pays the City \$241,911, plus interest and penalties, for incorrectly deducting from gross receipts gratuities used to pay salaries and commissions."

Previous Recommendation #19: “Determine whether \$1,503,620 in deductions from Boathouse gross receipts from October 2001 to December 2003 and from January to June 2006 were used to pay salaries of its catering wait-staff. If so, Parks should collect from the Boathouse \$228,853 in additional license fees, plus interest and penalties.”

Previous Parks Response #18 and #19: “In its response, Parks stated ‘**Recommendations 16, 17, 18, and 19** cover alleged improper deductions from gross receipts by the Boathouse that were used to pay employees’ regular salaries rather than as gratuities in addition to their regular salaries. Parks will refer this issue to the City’s Law Department to obtain a legal opinion on whether the Boathouse’s methodology to account for the gratuities it collects and then deducts from gross receipts complies with the license agreement language that allows for their exclusion from reportable sales. Parks will render a determination covering this issue after the Law Department has replied. The total assessments concerning this finding, \$480,179 (\$470,764 plus \$9,415) is pending a final ruling.’”

Current Status: Recommendations #18 and 19, NO LONGER APPLICABLE

As a result of the negotiated Fifth Amendment to the license agreement, Parks did not assess the Boathouse any additional license fees for deducting gratuities used to pay catering employees salaries, commission, and wages. Instead, the amendment now allows the Boathouse to deduct 60 percent of the administrative fee charged to all catered events. Therefore, we consider these recommendations to be no longer applicable.

Previous Finding: Value of employee meals and complimentary meals not included in gross receipts.

Previous Recommendation #20: “Pay Parks license fees totaling \$40,798, plus interest and penalties, for not reporting the value of employee meals and complimentary meals.”

Previous Recommendation #21: “Include the value of meals employees are charged for and complimentary meals in its gross receipt reports to Parks.”

Previous Boathouse Response #20 and #21: “The Boathouse attorney disagreed with the auditor’s findings that the value of meals provided to its employees and the value of complimentary meals to customers are required to be included in the total Gross Receipts.”

“The Boathouse attorney stated in regards to employee meals, ‘Providing employees with meals is a standard practice throughout the restaurant and food service industry. Indeed, applicable Labor Law provisions permit restaurants to charge employees a nominal amount (up to \$2.00 per meal in 2006), which can be offset against labor costs.... Accordingly, the value of such meal is not deemed a sale in the normal course of business, but rather, a reduction of labor costs, and thus, should not be included in Gross

Receipts. Meals provided as a courtesy to employees does not meet the defined criteria of ‘Gross Receipt’ under the terms of the License Agreement.”

“In regards to complimentary meals, the attorney stated that ‘the Boathouse contends that such complimentary meals are not only common in the restaurant industry, but are integral to the restaurant’s business development and financial growth, which, of course, only serves to benefit Parks as well. Likewise, it is common that such meals are typically treated as a discounting of sales price.’”

Current Status: Recommendations #20 and #21, NO LONGER APPLICABLE

The Boathouse has complied and paid the additional \$13,527 license fees and interest charges Parks assessed the Boathouse for not reporting the value of employee meals. As a result of the negotiated Fifth Amendment, Parks did not require the Boathouse to pay additional license fees for the value of complimentary meals. Therefore, we consider Recommendations #20 and #21 to be no longer applicable.

Previous Recommendation #22: “Pay \$4,523 in additional compensating use tax owed to New York State as well as determine the compensating-use tax due for employee meals.”

Previous Boathouse Response #22: The Boathouse’s attorney responded:

“The Boathouse disagrees with the Auditor’s assessment of fees for employee meals and complimentary meals for the reasons discussed herein.

“The Boathouse similarly disagrees with the Auditor’s position that employee and complimentary meals should be included in the calculation of Gross Receipts.

“Notwithstanding the inappropriate raising of the use tax issue in the Draft Report, and with reservation of rights and objections thereto, the Boathouse will confer with the J.H. Cohn Accounting and Consulting Firm for an opinion regarding the propriety of any use tax that may be applicable to the instant circumstance.”

Current Status: IMPLEMENTED

During this follow-up audit, the Controller of the Boathouse said that the Boathouse paid \$4,523 to the State of New York. In addition, after the prior audit report was issued, Parks confirmed that the Boathouse paid that amount. Therefore, we consider this recommendation to be implemented.

Recommendations #23 and #24 pertain to Parks

Previous Recommendation #23: “Ensure that the Boathouse pays the City \$40,798, plus interest and penalties, for not reporting the value of employee meals and complimentary customer meals.”

Previous Recommendation #24: “Determine whether \$273,532, the value of complimentary and employee meals, should have been included in gross receipts reported to Parks. If so, Parks should collect from the Boathouse \$42,428 in additional license fees, plus interest and penalties. Parks should ensure that the Boathouse pay compensating use tax on the cost of the provisions used to provide the complimentary meals and employee meals.”

Previous Parks Response #23 and #24: “In its response, Parks stated: ‘Parks agreed with the portion of recommendation 20 that requires the Boathouse to report the value of meals provided to its employees and which the employees were charged for in the form of a payroll deduction. The Boathouse must pay \$9,628 (inclusive of interest) under recommendation 20, and another \$3,899 (inclusive of interest) for recommendation 24, representing the unreported amount of employee meals. Parks does not agree with the portion of recommendations 20 through 24 that represents an assessment for unreported complimentary meals that we consider to represent a cost to the Boathouse to conduct and promote its business.’”

Current Status: Recommendations #23 and #24, NO LONGER APPLICABLE

The Boathouse has complied and paid the additional \$13,527 license fees and interest charges Parks assessed the Boathouse for not reporting the value of employee meals. However, Parks did not require the Boathouse to pay additional license fees for the value of complimentary meals. Instead, Parks entered into the Fifth Amendment with the Boathouse, allowing the value of business-related complimentary meals and employee meal allowances of up to \$2 each pursuant to a New York State labor law to be excluded from gross receipts. Therefore, we consider Recommendations #23 and #24 to be no longer applicable.

Previous Finding: Revenue not reported accurately to Parks.

Previous Recommendation #25: “Pay Parks license fees totaling \$28,372 plus interest and penalties for incorrectly reporting revenue.”

Previous Recommendation #26: “Ensure that the profit-and-loss statements and the monthly report of gross receipts accurately report gross receipts.”

Previous Recommendation #27: “Pay Parks license fees totaling \$4,067 plus interest and penalties on the \$25,417 in gift certificate sales not previously reported.”

Previous Recommendation #28: “Ensure that all revenue the Boathouse realized from its operation of the leased premises such as gift certificate sales be included in gross receipts when the payment is received.”

Previous Boathouse Response #25, #26, #27, and #28: “In his response, the Boathouse’s attorney stated that the Boathouse agrees that it misreported catering sales

totaling \$45,714. However, he did not agree that gift certificate sales should be included in gross receipts and that a prior period year-end adjustment totaling \$138,774 by the outside accounting firm should be included in gross receipts. Accordingly, the attorney's response to the recommendations stated:

"The Boathouse will agree to pay Parks \$7,428 in licensing fees, in accordance with the terms of the License Agreement.

"The Boathouse has implemented procedures to ensure correct and accurate profit-and-loss statements and monthly reports of Gross Receipts. Proper steps will be taken to finalize the catering sales reconciliations prior to any submission to Parks.

"Based on the foregoing, the Boathouse submits that revenue is not generated by gift certificate sales, and thus, no licensing fees are due as a result thereof.

"It should be noted that gift certificate sales are not the *operation of a leased premise* as presented in the Draft Report, rather, in accordance with GAAP, they are a liability maintained on the balance sheet and not a revenue-generating item."

**Current Status: Recommendations #25 and #27, IMPLEMENTED
 Recommendations #26 and #28, NOT IMPLEMENTED**

In regards to recommendations #25 and #27, the Boathouse has complied and paid the additional \$33,087 license fees and interest charges. Therefore, we consider Recommendations #25 and #27 to be implemented.

In regards to recommendations #26 and #28, the Boathouse continues to violate its license agreement because it still does not report the payments for catering events, film shoots, and gift cards when they are received in its profit-and-loss statements and the monthly report of gross receipts submitted to Parks. Therefore, we consider Recommendations #26 and #28 to be not implemented.

Recommendations #29 and #30 pertain to Parks

Previous Recommendation #29: "Ensure that the Boathouse pays the City \$28,372, plus interest and penalties, for incorrectly reporting revenue and the \$4,067 plus interest and penalties on the \$25,417 in gift certificate sales not previously reported."

Previous Recommendation #30: "Require the Boathouse to provide a list of outstanding gift certificates and ensure that the Boathouse pays the City the license fees due on the unreported gift certificates sales."

Previous Parks Response #29 and #30: "In its response, Parks agreed with our assessment and stated that it issued a Notice to Cure requiring the Boathouse comply with the above recommendations."

Current Status: Recommendation #29, IMPLEMENTED
Recommendation #30, NOT IMPLEMENTED

The Boathouse has complied and paid the additional \$33,087 license fees and interest charges. Therefore, we consider Recommendation #29 to be implemented.

During this follow-up audit, a Parks official said that Parks does not require the Boathouse to provide lists of outstanding gift cards. According to a Boathouse official, as of December 23, 2011, the Boathouse still does not report nor include in gross receipts the outstanding gift certificates that were issued. Therefore, we consider Recommendation #30 to be not implemented.

Previous Finding: Poor controls over gondola-ride sales.

Previous Recommendation #31: “Ensure that there are adequate controls to ensure that all gondola-ride sales are recorded and reconciled to the reservations made. This would include ensuring that the reservation book remains at the Boathouse at all times.”

Previous Recommendation #32: “Reconcile the reservation book to the daily gondola receipts detailed in the daily-close reports to ensure that all gondola rides are accounted for.”

Previous Boathouse Response #31 and #32: In his response, the Boathouse’s attorney stated: “The Boathouse will take appropriate measures to properly secure the reservation book, and will establish a written protocol governing the reservations, the recording and sales of the gondola rides, and providing for the proper reconciliation of the reservation book to sales posted. It is anticipated that such protocol will be in force prior to the start of the 2007 season.”

Current Status: Recommendations #31 and #32, IMPLEMENTED

The Boathouse maintains the gondola-ride reservation book on its premises. Our review for May 2011 revealed that the Boathouse has reconciled the gondola-ride tickets to the reservation book and accounting records. Therefore, we consider these recommendations to be implemented.

Recommendation #33 pertains to Parks

Previous Recommendation #33: “Ensure that the Boathouse has adequate controls over its gondola-ride sales.”

Previous Parks Response #33: “In its response, Parks agreed with our assessment and stated that it issued a Notice to Cure requiring the Boathouse comply with the above recommendations.”

Current Status: IMPLEMENTED

The Boathouse maintains the gondola-ride reservation book on its premises. Our review for May 2011 revealed that the Boathouse has reconciled the gondola-ride tickets to the reservation book and accounting records. Therefore, we consider this recommendation to be implemented.

Previous Finding: Noncompliance with Miscellaneous Contract provision to operate a Park Activity and Resource Center and did not display a sign posting operating days and hours.

Previous Recommendation #34: “The Boathouse should comply with the contract provisions that require it to operate a Park Activity and Resource Center and display the operating days and hours.”

Previous Boathouse Response #34: “In his response, the Boathouse’s attorney stated: ‘The Boathouse will continue, as it has in the past, to take all steps necessary to comply with the License Agreement.’”

Current Status: NOT IMPLEMENTED

We found that the Boathouse continues to violate its license agreement by not operating a Park Activity and Resource Center as required under Article IX, §9.1(g) of the original license agreement. The Boathouse is required to “house information and materials pertaining to Loeb Boathouse and Central Park as well as serve as an informal meeting place for groups and organizations that frequently hold events in Central Park.” Therefore, we consider this recommendation to be not implemented.

Boathouse Response: “Since the audit’s conclusion, we have installed a four-slot brochure holder near the reception desk at the front door entrance. Brochures include a seasonal guide to Conservancy programs, Conservancy membership forms, Central Park audio guide, and a Central Park visitors maps and guide. Conservancy personnel are notified when brochure supplies run low to keep adequately replenished.

“As to the question regarding Central Park Boathouse being an informal meeting place for groups, we feel this is appropriately addressed by virtue of the seating space afforded in the Fast Food area – both indoors and outdoors, as well as the seated deck area located in the rear bar area.”

Parks Response: “The Follow-up Report found that CPB did not maintain a Park Activity and Resource Center, as required by Section 9.1(g) of its Agreement. Specifically, the intended purpose of the Park Activity and Resource Center is to house information and materials pertaining to the Loeb Boathouse and Central Park and serve as an informal meeting space for groups and organizations that frequently hold events in Central Park. CPB has made demonstrated efforts to meet this requirement, including

providing the public with information on upcoming events in Central Park. While public's use of CPB has evolved since the current operator began, Parks will work with CPB to ensure that the demand for informal meeting space for groups that have close ties with Central Park is met."

Auditor Comment: Boathouse officials fall short of fully complying with the license agreement by not setting aside an area for groups and organizations that have an interest in meeting in Central Park. We believe the intent of the agreement, as supported by Exhibit A- Site Plan of License Premises, set aside a specific area that was to be available to groups and organizations as an informal meeting place. Providing space in the fast food area does not meet the intent of the agreement. Therefore, we maintain our position and request that Parks ensure that a separate area be designated as the Park Activity and Resource Center.

Recommendation #35 pertains to Parks

Previous Recommendation #35: "Parks should ensure that the Boathouse complies with all contract provisions."

Previous Parks Responses #35: "In its response, Parks stated that 'the Boathouse already provides an informal meeting area for groups and organizations and is in the process of implementing a computerized information center about the Loeb Boathouse and Central Park.'"

Current Status: NOT IMPLEMENTED

As mentioned within this report, Parks did not ensure that the Boathouse complies with all the contract provisions. Specifically, Parks did not ensure that the Boathouse: includes all the payments when they are received in gross receipts; corrects the internal control weaknesses over bicycle-rental sales; and operates a Park Activity and Resource Center. Therefore, we consider this recommendation to be not implemented.

Previous Finding: Password access to the point-of-sale system not adequately safeguarded.

Previous Recommendation #36: "The Boathouse should implement a procedure to periodically change employee passwords and delete inactive user accounts from the system as well as maintain a written policy for its employees to protect the integrity of their passwords."

Previous Boathouse Response #36: "In his response, the Boathouse's attorney stated: 'The Boathouse will investigate and research the current software and R-Power system with its technology consultant to ensure that adequate account controls and safeguards are established.'"

Current Status: NOT IMPLEMENTED

The Boathouse does not have a written policy that establishes a procedure to periodically change and protect the integrity of all employee passwords and delete inactive user accounts from the system. The Controller and General Manager of the Boathouse stated that only the managerial employees could change their own passwords, while non-managerial employees were provided passwords that they could not change. Although the Boathouse officials stated that managerial employees would delete an inactive user account from the system after an employee stopped working, the Boathouse was unable to provide any reports on the inactive user accounts deleted from the system. Therefore, we consider this recommendation to be not implemented.

Boathouse Response: “It is our belief that the current practice of randomly changing manager/supervisor passwords had been sufficiently protective. However, to better standardize and self-audit this facet of our business, as well as accept the recommendation of the audit staff, we have written to policy the means by which changing of passwords will be conducted on a structured basis. This will provide documentation for review of this activity.”

Parks Response: “The Follow-up Report found that CPB does not have a sufficient safeguard over password access to its computerized point-of-sale system; and recommends that the Central Park Boathouse implement policies and procedures to ensure that all employee passwords are periodically changed, and inactive user accounts are deleted in timely manner, to prevent unauthorized access to the point-of-sale system. It is our understanding that CPB has subsequently addressed this Recommendation and implemented an employee password security process.”

RECOMMENDATIONS

To address the outstanding issues from the previous audit that still exist and the new issue, we recommend that the Boathouse should:

1. Include all payments when they are received in the monthly gross-receipts reports.
2. Install a register linked to the point-of-sale system for bicycle-rental sales to ensure that they are accurately recorded and reported.
3. Operate a Park Activity and Resource Center as required by the license agreement.
4. Implement policies and procedures to ensure that all employee passwords are periodically changed and inactive user accounts are timely deleted to prevent unauthorized access to the point-of-sale system.

Also, Parks should:

5. Require the Boathouse to report gift certificate receipts and banquet deposits at the time of sale and until it does, require the Boathouse to submit a monthly list of outstanding gift cards and deposits to ensure that the Boathouse accurately reports receipts.

Parks Response: “Parks has directed CPB to report gift certificates and event deposits at the time of sale. Until such time Parks will work with CPB to gain assurance that all outstanding gift certificates and event deposits are accurately tracked.”

6. Ensure that the Boathouse implements the recommendations outlined above and complies with all the provisions in the license agreement.

Parks Response: “We have sent CPB an audit follow-up letter requiring them to implement the Follow-up Report’s Recommendations as explained above.”

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this follow-up audit was May 2011. To obtain a preliminary understanding of this follow-up audit engagement, we reviewed the prior audit report, the original license agreement (dated June 12, 2000) between Parks and the Boathouse, and the subsequent amendments. In addition, we reviewed the license fees and interest charges that the Boathouse paid to Parks at the amount recommended in the prior audit report or settled with Parks. Also, we reviewed the license fees that the Boathouse paid to Parks for operating year 2010 (July 1, 2010, to June 30, 2011).

To obtain an understanding of the Boathouse's operations, we conducted unannounced observations in June and July 2011. Moreover, we reviewed the Boathouse's manuals of "CaterMate" banquet software and "RPower" point-of-sale system. We observed the Boathouse banquet staff's use of "CaterMate" Software to process catering events and film shoots. Furthermore, we met with the Controller and other Boathouse employees to obtain an understanding of the Boathouse's internal controls over catering, bicycle-rental, and gondola-ride sales. We created flowcharts to document our understanding of the Boathouse's catering, bicycle-rental, and gondola-ride operation.

To determine whether the Boathouse's controls over the accounting records were adequate, we compared the Boathouse's daily point-of-sale reports to the sales journal, general ledger, profit-and-loss statement, and monthly gross-receipts report for May 2011.

To obtain an understanding of the Boathouse's and Parks' implementation statuses of the recommendations in the prior audit report, we interviewed Boathouse and Parks officials, respectively.

To determine whether the Boathouse accurately recorded sales, we vouched the catering, bicycle-rental, and gondola-ride sales from the Boathouse's accounting records to each sale's supporting documents. In addition, we compared the sales from our unannounced observations and banquet information that we obtained from the Internet to the Boathouse's supporting documents and accounting records.



THE LOEB
BOATHOUSE
CENTRAL PARK

January 6, 2012

City of New York
Office of the Comptroller
One Centre Street, Room 1100
New York, NY 10007-2341

Re: **Response to Follow-up Audit Report on License Fees
Due from Central Park Boathouse. LLC**

Dear Ms.Kim:

As requested by your letter of December 30, 2011, please find our response to the specific recommendations made in the follow-up audit.

Recommendation/Response #4:

It is still the contention of the Central Park Boathouse that our reporting of Gross Receipts is in accordance with GAAP as well as the License Agreement between the Central Park Boathouse LLC and the NYC Parks Department. We feel the Audit reference to the Gross Receipts definition is a clarification of credit sales being recognized as sales when processed – not when the receivable is received from the merchant services bank processor. Hence, their reference of Article II 2.1 (l) (iv):

“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. It being the distinct intention and agreement of the parties that all sums due to be received by Licensee from all sources from the operation of this License shall be included in Gross Receipts.”

We believe our handling of catering deposits and gift card sales meet the definition of Gross Receipts as stipulated in Article II 2.1 (i), wherein it states:

“Gross Receipts shall include, except as specified in Subsection (c) of section 4.5, without limitation all funds received by Licensee, without deduction or set-off of any kind, *from the sale*

of food and beverages, wares, merchandise or services of any kind.” This is the accounting principle of accrual accounting and revenue recognition.

The accounting audit firm J. H. Cohn confirms and supports our position on this point. In a response to the Comptroller’s office, they stated they do not agree with the original Audit report, and wrote:

“The Boathouse keeps its books under the Accrual Method of Accounting. This method which requires that all “income be recorded when it is earned and expenses accrued when they are incurred.” Accordingly, the party deposits are reported as a deferred liability up until a service is provided.” This same argument would hold true for gift card sales, being recorded as a liability, and reported as revenue when the gift card is redeemed for goods and services.

Our handling of film shoot income is in accordance with our methodology employed to control this sales venue by including with banquet hall contracts. Thus, with this strengthening of our controls, the film shoot revenue is being reported at each month’s conclusion – thereby ensuring correct reporting of revenue in the month incurred.

Recommendation/Response #12:

It remains our contention that installation of a POS terminal would not add support to the control of revenues and assets of the company. Non-entry, or erroneous data entry would still translate to missed revenues on any POS system. Our utilization of numerically controlled contracts which notate the type of bicycle, number rented and total cost – signed by the customer - is every bit as effective as having a terminal. This contract also protects the City and the Boathouse from unwarranted lawsuits with its extensive waiver and release from liability certification signed by every bike customer. End of day procedures have the bike attendant record the day’s activity and total expected cash from the rentals for that day. In addition, the implementation of a wireless system, as recommended by the audit staff, would actually weaken the overall security of our POS system whereby we could become more vulnerable to hacking of customer/client credit information, and thus, susceptible to suit and/or penalties.

The reference to gaps in pre-numbered contracts for the month of May is not totally accurate. One day during the month, a member of management mistakenly provided a new box of contracts in lieu of the next sequence number from an unfinished box. It was discovered the following day and reconciled. The auditor was shown the reconciliation process, and presumably, it met her satisfaction that all contracts were accounted for.

Recommendation/Response #34:

Since the audit’s conclusion, we have installed a four-slot brochure holder near the reception desk at the front door entrance. Brochures include a seasonal guide to Conservancy programs, Conservancy membership forms, Central Park audio guide, and a Central Park visitors

map and guide. Conservancy personnel are notified when brochure supplies run low to keep adequately replenished.

As to the question regarding Central Park Boathouse being an informal meeting place for groups, we feel this is appropriately addressed by virtue of the seating space afforded in the Fast Food area – both indoors and outdoors, as well as the seated deck area located in the rear bar area.

Recommendation/Response #36:

It is our belief that the current practice of randomly changing manager/supervisor passwords had been sufficiently protective. However, to better standardize and self-audit this facet of our business, as well as accept the recommendation of the audit staff, we have written to policy the means by which changing of passwords will be conducted on a structured basis. This will provide documentation for review of this activity. There is no internal audit report available from the R-Power system.

If you or your staff have any questions or comments related to this response, please feel free to contact me directly at (646) 619-9336.

Sincerely,



Patrick J. Farnan
Controller

cc: Dean J. Poll



City of New York
Parks & Recreation

The Arsenal
Central Park
New York, New York 10065

Adrian Benepe
Commissioner

January 17, 2012

Ms. H. Tina Kim
Deputy Comptroller
The City of New York / Office of the Comptroller
1 Centre Street
New York, NY 10007

Re: Audit Follow-up Letter

**Comptroller's Draft Follow-up Audit Report on the License Fees Due from Central Park Boathouse, LLC, and Its Compliance with Certain Provisions of Its License Agreement
Audit No. FM11-137F, Dated December 30, 2011**

Deputy Comptroller Kim:

This letter addresses the findings and recommendations ("Recommendations") contained in the New York City Comptroller's ("Comptroller") Follow-Up Draft Audit Report ("Follow-up Report") on the License Fees Due from the Central Park Boathouse ("CPB") and Its Compliance with Certain Provisions of Its License Agreement ("Agreement"). The Follow-up Report assessed CPB's implementation of the Recommendations from a prior Comptroller audit report ("Prior Report") of CPB, issued on March 28, 2007. Parks is pleased that the Follow-up Report found that CPB has improved its internal controls over catering, film shoot and gondola-ride sales and implemented the majority of the Prior Report's Recommendations. However, the Follow-up Report also determined that several Recommendations from the Prior Report have not been implemented by CPB. As a result, Parks has issued a notification to CPB requiring it to take the following actions:

Recommendation 1 – Include all payment when they are received in the monthly gross receipts reports.

The Follow-up Report found that CPB does not include in its gross receipts deposits received for catering events, payments for unredeemed gift cards and film shoots, until the service is provided. Indeed, Section 2.1(1)(i) of the Agreement requires CPB to report these revenues streams at the time of sale. Parks has directed CPB to report this revenue at the time of sale not at the time service is provided, and we will work with CPB to resolve this matter.

Recommendation 2 – Install a register linked to the point-of-sale system for bicycle-rental sales to ensure that they are accurately recorded and reported.

The Follow-up Report found that CPB does not have sufficient controls over its bicycle-rental sales, and recommends that the Central Park Boathouse install a register that is linked to the point-of-sale system to ensure that bicycle rental sales are accurately recorded and reported. Parks has directed CPB to install a wireless POS system, linked to its existing POS, which will provide greater assurance that all bicycle-rental sales are accurately recorded and reported in gross receipts. We have requested an implementation plan from CPB within thirty (30) days.



Recommendation 3 – Operate a Park Activity and Resource Center as required by the license agreement.

The Follow-up Report found that CPB did not maintain a Park Activity and Resource Center, as required by Section 9.1(g) of its Agreement. Specifically, the intended purpose of the Park Activity and Resource Center is to house information and materials pertaining to the Loeb Boathouse and Central Park and serve as an informal meeting space for groups and organizations that frequently hold events in Central Park. CPB has made demonstrated efforts to meet this requirement, including providing the public with information on upcoming events in Central Park. While the public's use of CPB has evolved since the current operator began, Parks will work with CPB to ensure that the demand for informal meeting space for groups that have close ties with Central Park is met.

Recommendation 4 – Implement policies and procedures to ensure that all employee passwords are periodically changed and inactive user accounts are timely deleted to prevent unauthorized access to the point-of-sale system.

The Follow-up Report found that CPB does not have a sufficient safeguard over password access to its computerized point-of-sale system; and recommends that the Central Park Boathouse implement policies and procedures to ensure that all employee passwords are periodically changed, and inactive user accounts are deleted in timely manner, to prevent unauthorized access to the point-of-sale system. It is our understanding that CPB has subsequently addressed this Recommendation and implemented an employee password security process.

Recommendation 5 - Require the Boathouse to report gift certificates and banquet deposits at the time of sale and until it does, require the Boathouse to submit a monthly list of outstanding gift cards and deposits to ensure that the Boathouse accurately reports receipts.

As mentioned in our response to Recommendation 1, Parks has directed CPB to report gift certificates and event deposits at the time of sale. Until such time Parks will work with CPB to gain assurance that all outstanding gift certificates and event deposits are accurately tracked.

Recommendation 6 – Ensure that the Boathouse implements the recommendations outlined above and complies with all the provisions in the license agreement.

We have sent CPB an audit follow-up letter requiring them to implement the Follow-up Report's Recommendations as explained above.

Finally, we wish to thank the Comptroller's Office and its audit staff for its work in preparing this Follow-up Report.

Sincerely,



Elizabeth W. Smith

cc: Michael Morgese, George Davis, Robert L. Garafola

