



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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DEPUTY COMPTROLLER FOR
AUDIT

BUREAU OF AUDIT

October 30, 2018

BY ELECTRONIC MAIL

Mr. Spencer An
President
Alley Pond Driving Range, Inc.
650 Fountain Avenue
Brooklyn, NY 11208

Re: Letter Audit Report on the Compliance of Alley Pond Driving Range, Inc. with Its License Agreement with the New York City Department of Parks and Recreation for the Alley Pond Golf Center (Audit Number FM18-109AL)

Dear Mr. An:

This Letter Report summarizes the findings of our audit on the compliance of Alley Pond Driving Range, Inc. (Alley Pond) with its license agreement with the New York City Department of Parks and Recreation (Parks) for the Alley Pond Golf Center. The objective of this audit was to determine whether Alley Pond properly calculated its gross receipts and license fees due to the City, paid the license fees on time, and complied with other major requirements of its license agreement such as insurance coverage, security deposit, utility charges, and capital improvements. The scope of this audit was Operating Year 2017 (November 1, 2016 through October 31, 2017).

We found that, overall, Alley Pond properly recorded and reported to Parks its gross revenues, properly calculated license fees due, paid those fees in a timely manner to the City, and completed capital improvements as required. However, we also found that Alley Pond did not use pre-numbered contracts for group events, a control measure specifically recommended by a prior Parks internal audit, and did not maintain an event calendar book for Operating Year 2017, another important element of an effective internal control system. The absence of such controls can increase the risk that income could be received that is not properly accounted for.

In addition, we found that Alley Pond's Sports Bar and Grill point-of-sale (POS) system payment reports do not reflect zero-dollar transactions to ensure the proper accounting of transactions. This issue was unknown to Alley Pond prior to its being uncovered by our audit. Accordingly, it appears that a closer management review of entries in that system is warranted.

Background

On October 13, 2010, Parks granted Alley Pond a 15-year license agreement to renovate, operate, and maintain the golf driving range and develop or renovate, operate, and maintain the clubhouse and ancillary facilities at the Licensed Premises at 232-01 Northern Boulevard in Alley Pond Park.

The Alley Pond Golf Center, located in the Douglaston section of Queens, offers a full driving range, a miniature golf course, a pro shop, a snack bar and a restaurant known as the Sports Bar and Grill. Parks is responsible for monitoring the terms of the license agreement. During our scope period, the license agreement required that Alley Pond pay the higher of the minimum annual fee of \$1,200,000 or \$1,000,000 plus 25 percent of gross receipts in excess of \$2,500,000 per annum. According to the license agreement, gross receipts include all fees received from the driving range, club rentals, club repairs, miniature golf, merchandise sales, foods and beverages, or services and orders of any kind, placed or made directly or indirectly at the premises.

Alley Pond reported total gross receipts of \$2,190,453 for Operating Year 2017 and made payments to the City of \$1,200,000 for the minimum annual license fees.

In addition, under the license agreement, Alley Pond is required to maintain appropriate insurance, including a general liability insurance policy with \$1,000,000 coverage, naming the City as an additional insured; maintain a \$325,000 security deposit with the City; expend or cause to be expended during the term of the license a minimum of \$2,208,533 for capital improvements; and pay all required taxes and utilities, including water and sewer, and gas and electric charges.

Audit Findings

Our audit found that, overall, Alley Pond properly operated the golf driving range, calculated license fees due, and paid those fees in a timely manner to Parks. Alley Pond also maintained the required liability insurance that named the City as the additional insured party, maintained the required security deposit, paid its utility charges timely, and completed its capital improvement requirements.

However, the audit also found that Alley Pond's internal controls over the recording of revenue derived from special events and from orders filled by the Sports Bar and Grill have a number of weaknesses that need to be improved. Specifically, Alley Pond did not use pre-numbered contracts for special events and did not maintain an event calendar book for Operating Year 2017. In 2013, Alley Pond was cited in an audit conducted by Parks for using contracts for catered events that were not sequentially pre-numbered. Notwithstanding the relevant finding and recommendation of that audit, from that time through March 2018, Alley Pond continued to enter into special events-contracts that were not sequentially pre-numbered. The pre-numbering of contracts is an accounting control that facilitates the identification of missing contracts. Similarly, a properly maintained event calendar book that could be compared with the recording of special event revenue would serve as an additional accounting control.

Although we did not identify any unreported events during our audit scope, given the existence of the two abovementioned control weaknesses, we cannot be reasonably assured that Alley

Pond properly reported all revenue generated from the activities in question for Operating Year 2017. Nonetheless, based on the significant difference between Alley Pond's reported revenue and the license agreement's threshold for percentage-based license fees—approximately \$291,000—we believe it is unlikely that additional fees would be due to the City for Operating Year 2017. However, the increased possibility of unreported income in any amount is a concern.

In addition, we identified gaps in order numbers from the Sports Bar and Grill Detail Payment reports. Specifically, 46 (4.5 percent) of 1,017 order numbers were missing from the Order Payment reports for June 2017. Alley Pond officials attributed the missing order numbers to the Sports Bar and Grill's POS system's failure to reflect any zero-dollar transactions in the payment reports.¹ A zero-dollar transaction occurs when a user manually enters ordered items into the system as opposed to selecting them from the system's menu. Items ordered through the POS system's pre-programmed menu are already priced and reflected on the order number. Because both types of order receipts—those generated through selections from the system's pre-programmed menu and those generated through manual entries—have the same appearance, the kitchen staff filling the orders may not be able to readily differentiate between them and report or question any apparent zero-dollar transactions.

Our review determined that all of the 46 missing order numbers were associated with one particular employee. According to Alley Pond officials, that employee took advantage of the manual-order feature to bypass the automatic-pricing feature of the POS system and fraudulently ordered menu items. We were informed that the employee was terminated in January 2018.

However, Alley Pond's management and supervisors were not aware of the zero-dollar transactions or the gaps in the payment reports until we brought them to their attention. Consequently, it is possible that Alley Pond may not have reported to the City all the Sports Bar and Grill's revenue for Operating Year 2017—specifically fees Alley Pond should have collected and reported for the zero-dollar orders that may have been generated by employees or others throughout the year.

Nevertheless, based on our estimate of the potential value of those orders, we believe it is unlikely that additional fees would be due to the City for Operating Year 2017 for them, given that Alley Pond's reported revenue was far below the threshold that would require it to pay percentage-based license fees. However, now that Alley Pond has been put on notice that the Sports Bar and Grill's ordering system is vulnerable, Alley Pond is advised to implement heightened control measures to deter unauthorized transactions.

Recommendations

Alley Pond should:

1. Ensure that all contracts are sequentially pre-numbered and that an event calendar is maintained.

¹ A restaurant's POS software is generally able to create and print guest checks, print orders to kitchens and bars for preparation, process payments made with credit cards and other payment cards, and run reports.

Alley Pond Response: “[W]e put the pre-printed sequential number on each page of the forms. Even cancelled events, we will deface the order sheets and keep it for the purpose of record retention. Also, we keep actual receipts with original order sheets. By doing so, we will assure there will be no unreported revenue from special events in the future.”

Auditor Comment: Alley Pond’s written response to Recommendation 1 describes the actions the company has taken to ensure that all contracts are sequentially pre-numbered but does not expressly state whether Alley Pond is also maintaining an event calendar—the second part of this recommendation. We note, however, that at the exit conference Alley Pond’s representatives orally agreed with both parts of the recommendation. Therefore, based on Alley Pond’s written response and its representatives’ statements at the exit conference, it is our understanding that Alley Pond has agreed to implement the full recommendation.

2. Strengthen its internal controls over the Sports Bar and Grill’s operations by ensuring that its management staff properly reviews and approves all transactions periodically to verify that all order numbers are accounted for and are accurately reported in its books and records and in its filings with the City.

Alley Pond Response: “[S]ite manager confirms if there is any missing order numbers, the reason for void order, the reason for combined order, etc. Cashiers will need to put for reason for any void orders. Finally, site manager will verify if any missed orders have valid reasons.”

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 audit covered the period November 1, 2016 through October 31, 2017. To achieve our audit objectives, we reviewed the original license agreement between Parks and Alley Pond, including amendments and sublicense agreements. We also reviewed correspondence, revenue payments, revenue reports, and other relevant documents. We abstracted the pertinent terms and conditions of the license agreement, which were used as audit criteria. We also reviewed and analyzed the Parks concessionaire ledger of minimum fee payments to ascertain the fees paid to the City and the timeliness of those payments.

We obtained an understanding of Alley Pond’s operations and internal controls over its gross receipts by conducting walkthroughs and interviews with Alley Pond and Parks officials. We also interviewed Alley Pond’s site manager to understand operating procedures, deposit process, and reports generated from Alley Pond’s POS systems.

To assess Alley Pond's controls over revenue and obtain an understanding of the services it offers, we performed a walkthrough of the facility on March 12, 2018, and observed the operation of Alley Pond's Driving Range POS system (i.e., Club Prophet) at the front desk/pro-shop area. We also toured the driving range and the miniature golf course and observed how driving range sales were recorded. On March 23, 2018, we returned to Alley Pond to obtain an understanding of the Sports Bar and Grill's POS system.² We documented our understanding of Alley Pond's operations through written narratives and memoranda.

To obtain an understanding of Alley Pond's POS systems and to obtain financial data to assess their reliability, we reviewed various types of reports generated from Alley Pond's POS systems. To ascertain the accuracy, completeness, and reliability of the reports generated from the POS systems, we judgmentally selected June 2017 as our sample month, representing the month with the highest revenue of \$263,130 (12 percent) of the \$2.19 million in total receipts reported for Operating Year 2017. We traced the daily revenue summary reports amounts to those in the monthly gross receipts statements and then compared the total of those amounts to the total revenue reported to Parks for June 2017. We also traced the deposits for June 2017 from the POS-system-generated deposit summary reports, daily sales reports, and cash reports, to the bank statements.

To determine whether Alley Pond deposited the total amount of gross receipts collected for Operating Year 2017 into the bank, we reconciled the monthly gross receipts statements submitted to Parks to Alley Pond's general ledger for Operating Year 2017. We also compared Alley Pond's monthly gross receipts statements to its year-end Combined Financial Statements for December 31, 2016 and 2015. Further, we compared the sales revenue indicated on the monthly gross receipts statements reported to Parks to Alley Pond's sale tax forms (Quarterly ST-100) for Calendar Year 2017.

To determine whether Alley Pond accurately reported the gross receipts generated from its special events for Operating Year 2017, we reviewed the information in the special event contracts and compared it with the original receipts of the down payments and traced the transactions in the sales reports to determine whether all event revenues were properly recorded in the POS system and Alley Pond's monthly gross receipts statements. We also determined whether the special event contracts were sequentially numbered.

To identify unreported transactions, using the sampled month of June 2017 (discussed above), we traced each transaction from the daily revenue summary report amounts to those in the monthly gross receipts statements and compared the total of those amounts to the total revenue reported to Parks for June 2017.

To ascertain the total number of independent golf instructors or contractors and the license fee amounts that Alley Pond charged the contractors, we obtained and reviewed the sublicense agreements for all golf-pros who provide golf lessons at the concession. We reviewed Alley Pond's gross receipts statements to determine whether each golf pro submitted the appropriate license fee amount as indicated in their sublicense agreements.

² Alley Pond uses two different POS systems—one (Club Prophet) for the driving range and pro shop and one (Aldelo) for the Sports Bar and Grill.

To determine whether Alley Pond expended the required amount of capital improvements, we reviewed invoices that Alley Pond submitted to Parks and Parks' capital improvement tracking reports for Operating Years 2012 to 2017. We also conducted an inspection of the facility accompanied by a representative from the Comptroller's Office Engineering Audit unit on June 12, 2018, to ascertain whether claimed capital improvement expenditures were for legitimate improvements and whether required work was completed.

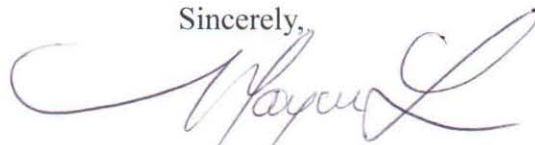
Finally, we determined whether Alley Pond complied with other major requirements of its agreement (i.e., posted the required security deposit with the City, properly maintained insurance coverage, and paid utility charges).

The results of our audit tests, while not projectable to their respective populations, provide a reasonable basis for us to assess Alley Pond's compliance with the major terms of its license agreement.

The matters covered in this report were discussed with Alley Pond officials during and at the conclusion of this audit. A preliminary letter report was sent to Alley Pond and Parks on September 26, 2018 and was discussed at an exit conference held on October 4, 2018. On October 10, 2018, we submitted a draft letter report to Alley Pond and Parks with the opportunity to formally respond in writing. We received written responses from Alley Pond and Parks on October 17, 2018 and October 19, 2018, respectively. In its response, Alley Pond generally agreed with our recommendations and described the steps it has taken and will take to implement them. Parks stated in its response that the agency understood that Alley Pond had agreed to implement that audit recommendations and that Parks also had followed up with Alley Pond in writing on these matters.

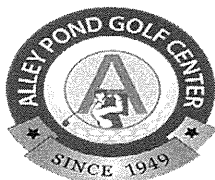
The full text of Alley Pond's and Parks' comments are included as addenda to this letter report.

Sincerely,



Marjorie Landa

- c: Kevin Bai, Vice President of Operations, Alley Pond Driving Range, Inc.
- Mitchell J. Silver, Commissioner, Department of Parks and Recreation
- David Cerron, Assistant Commissioner, Concessions & Internal Audit,
Department of Parks and Recreation
- Jeff Thamkittikasem, Director, Mayor's Office of Operations
- George M. Davis, III, Deputy Director, Mayor's Office of Operations

**ALLEY POND**
GOLF CENTER**Alley Pond Driving Range, Inc.****232-01 Northern Blvd****Douglaston, NY 11362****Tel: 718-225-9187**

Marjorie Landa
Deputy Comptroller for Audit
City of New York Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007

Dear Deputy Comptroller Landa:

We received your letter audit report on the Compliance of Alley Pond Driving Range, Inc. on October 10, 2018. We agree with your recommendations and are working to implement them.

Please find how we are implementing your recommendations as below.

1. Recommendation #1: Ensure that all contracts are sequentially pre-numbered and that an event calendar is maintained

- Auditor found out that we used order sheets not having sequential pre-number for the special events. Since the auditor found, we put the pre-printed sequential number on each page of the forms. Even cancelled events, we will deface the order sheets and keep it for the purpose of record retention. Also, we keep actual receipts with original order sheets. By doing so, we will assure there will be no unreported revenue from special events in the future.

2. Recommendation #2: Strengthen internal controls over the Sports Bar and Grill operations.

- During the audit, auditors identified gaps in order numbers and it was identified as an employee's fraud. Since the auditor found, site manager confirms if there is any missing order numbers, the reason for void order, the reason for combined order, etc. Cashiers will need to put for reason for any void orders. Finally, site manager will verify if any missed orders have valid reasons.

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ADDENDUM II

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City of New York
Parks & Recreation

The Arsenal
Central Park
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www.nyc.gov/parks

October 19, 2018

Marjorie Landa
Deputy Comptroller for Audit
City of New York Office of the Comptroller
1 Centre Street, Room 1100
New York, NY 10007

Re: Draft Letter Audit Report on the Compliance of Alley Pond Driving Range, Inc. with its License Agreement with the New York City Department of Parks & Recreation for the Alley Pond Golf Center (Audit Number FM18-109AL)

Dear Deputy Comptroller Landa:

This letter addresses the findings and recommendation contained in the New York City Comptroller's Draft Letter Audit Report ("Report"), dated October 10, 2018, on the above subject matter.

We are pleased that your Report found that the Alley Pond Driving Range, Inc. ("Alley Pond"), overall, properly operated the golf driving range, properly recorded and reported to Parks its gross revenues, properly calculated license fees due, and paid those fees in a timely manner to the City. We are also pleased that your Report found that Alley Pond completed its capital improvement requirements, maintained the required insurance policies, maintained the required security deposit, and paid its utility charges in a timely manner.

In reference to the Report's recommendations to Alley Pond, we understand that they have agreed to implement each of the recommendations pertaining to sequentially pre-numbering contracts, maintaining an event calendar, and strengthening its internal controls over the Sports Bar and Grill. Parks has followed up with them in writing on these matters as well.

Finally, Parks wishes to thank you and your audit staff for the time and effort devoted to completing this Report.

Sincerely,

David Cerron
Assistant Commissioner, Concessions & Internal Audit