



H. Tina Kim
DEPUTY COMPTROLLER

CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
JOHN C. LIU

BUREAU OF AUDIT

MUNICIPAL BUILDING
ONE CENTRE STREET, ROOM 1100
NEW YORK, N.Y. 10007-2341
TEL: (212) 669-8459
FAX: (212) 815-8559
TKIM@COMPTROLLER.NYC.GOV

November 30, 2012

Mr. Erik Ekstein, President
World Ice Arena, LLC
c/o R.D. Management
810 Seventh Avenue, 10th floor
New York, NY 10019

**Re: Final Letter Report on the Audit Report on
World Ice Arena LLC's Compliance with Its License Agreement
(Audit Number FM12-111AL)**

Dear Mr. Ekstein:

We are sending this Letter Report to provide the results of the audit regarding World Ice Arena, LLC's (World Ice) compliance with its New York City license agreement to operate and maintain an ice-skating facility in Queens, New York. The objectives of this audit were to determine whether World Ice accurately reported its gross receipts to the Department of Parks and Recreation (Parks), properly calculated license fees due to the City, paid license fees when they were due, and complied with certain non-revenue-related requirements of the license agreement (i.e., capital improvement, insurance coverage, security deposit, and utility charges). We found that World Ice generally maintained adequate controls over the recording and reporting of its gross revenues, properly calculated license fees due, and paid those fees in a timely manner to the City. However, World Ice does not use pre-numbered contracts for group events (a recommendation made in a prior audit conducted by Parks) and has not purchased two new ice resurfacing machines valued at \$250,000, as required by its agreement.

Background

On August 6, 2008, World Ice entered into a 20-year license agreement with the City of New York, through Parks, to operate the ice-skating facility located in Flushing Meadows Corona Park in Queens, New York. The agreement requires World Ice to operate and manage an indoor ice skating rink, skate rental, pro shop, and snack bar facility.

World Ice is required to pay the City an annual flat fee plus 5 percent of gross receipts derived from the operation of the licensed premises. In addition, World Ice is required to complete capital improvements at a minimum cost of \$1,015,000, carry proper insurance coverage, maintain a \$126,347 security deposit with the City, and pay all required utility charges for World Ice. For the period of February 1, 2011, through February 29, 2012, World Ice reported a total of \$2,750,244 in gross receipts and paid Parks \$377,306 in license fees.

Findings and Recommendations

We found that World Ice generally maintained adequate controls over the recording and reporting of its gross revenues, properly calculated license fees due, and paid those fees in a timely manner to the City. World Ice also maintained the required liability insurance that named the City as an additional insured party, maintained the required security deposit, and paid utility charges. Furthermore, World Ice has implemented seven of eight recommendations made in a prior audit conducted by Parks. However, World Ice does not use pre-numbered contracts for group events—a recommendation by Parks. Group Reservation Forms are issued for group events consisting of 15 or more individuals and include the option of renting a locker, ordering food, and obtaining group lessons. During our sample period from December 1, 2011, through February 29, 2012, World Ice issued sequentially numbered birthday party contracts, but still used the unnumbered Group Reservation Forms. Although audit testing did not reveal any unrecorded events, without press-printed pre-numbered forms, we cannot be assured all revenue from group events was recorded on World Ice's books and reported to Parks and that appropriate fees were paid to the City.

In addition, World Ice, despite receiving from Parks a Certificate of Completion for its required capital improvements, did not purchase two new ice resurfacing machines (combined value in excess of \$250,000) as required by its license agreement. In 2009, World Ice informed Parks that refurbished ice resurfacing machines needed to be purchased in order to open the ice rink in a timely manner. However, World Ice's agreement with Parks specifically required two new machines. In a letter dated July 29, 2009, Parks approved the use of the refurbished machines, but stipulated World Ice was still required to purchase two new machines during the term of the agreement. Although Parks did not make a recommendation regarding the refurbished ice resurfacing machines, the issue was again addressed in the findings section of its audit report. During the fieldwork stage of this audit, World Ice provided a quote and a canceled check supporting a deposit for one new ice resurfacer. According to World Ice's project manager, the new machine should be delivered by the end of 2012.

Although World Ice is being cited for not purchasing two new machines, World Ice appears committed to complying with the terms of its contract and Parks has taken adequate steps to ensure World Ice officials are aware of their continued contractual obligation.

We recommend that World Ice:

1. use press-printed pre-numbered forms for group events, and
2. follow through with the purchase of two new ice resurfacing machines.

Audit 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 objective. 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 our audit covered the period February 1, 2011, through February 29, 2012. To achieve our audit objectives, we reviewed the license agreement and sublicense agreements and examined its requirements. We reviewed documents in Parks' files, which included correspondence, monthly gross receipts statements, and other relevant documents related to the license agreement. We also reviewed

Parks' audit on the *Compliance Review on World Ice LLC With its License Agreement and its Payment of License Fees Due the City--DPR* Audit report No. IS-10-008, issued January 13, 2011. We reviewed the Summary Schedule of Gross Receipts Statements for World Ice prepared by the Parks Revenue Division to determine whether license fees were received within the timeframe stipulated in the license agreement.

To obtain an understanding of World Ice's controls over recording and reporting of gross receipts, we conducted seven unannounced observations on December 20, 2011, January 6, 2012, through January 8, 2012, January 16, 2012, February 11, 2012, and February 25, 2012, and made several purchases throughout World Ice's operations. We then interviewed World Ice officials and conducted walk-throughs of World Ice operations. We documented our understanding of the controls in place through flowcharts and memoranda.

To determine whether World Ice reported all revenue recorded in its general ledger to Parks, we reconciled the revenue reported in the general ledger to the statements of gross receipts submitted to Parks from February 1, 2011, through February 29, 2012.

To test the completeness of admission and snack bar revenue recorded in World Ice's general ledger, we reviewed sales reports from the point of sale (POS) system for the seven days we conducted our unannounced observations and determined whether the purchases made on those days were properly recorded. We also determined whether all transactions had appropriate control numbers and were issued sequentially. We reviewed the POS's action logs to determine whether deleted transactions were reasonable. Finally, we traced the daily sales reports to World Ice's general ledger.

To determine whether World Ice properly reported group reservations and party revenue, we judgmentally selected the period of December 1, 2011, through February 29, 2012 (the period when the unannounced observations were conducted). We reviewed all the information provided in the contracts and verified the calculations. We reconciled the revenue generated from the group reservations and party revenue with the sales report and the general ledger. We determined whether party contracts were issued in sequential order. We reconciled the dates and times with the party calendar.

To determine whether skating school revenue was accurately recorded, we judgmentally selected the month of February 2012 (the month with the highest gross receipts) totaling \$107,260. We reviewed and reconciled the revenue generated from the skating school to the POS sales report and general ledger. To determine whether World Ice was recording the commission payments for its independent contractors, we reviewed the contracts and payments made against the POS sales report. World Ice, as per its agreement, is not required to include private lesson revenue generated by independent contractors in its gross receipts reported to Parks. Independent contractors providing lessons at the arena are paid directly by clients with no revenue information on private lessons collected by the arena. However, as part of a sound system of internal controls and to ensure that activities conducted on City-owned property are transparent, private lesson revenue should be processed through World Ice's POS.

For ice-rental and hockey revenue, we reviewed contracts for Fiscal Year 2011, calculated the payment amounts based on the terms of the contracts, and reconciled the total in the POS sales report with the revenue amount recorded in the general ledger. We reconciled the dates and times scheduled for the hockey leagues with the Master Calendar. We also conducted internet research and obtained league information and compared team information to individual contracts.

To determine whether World Ice complied with the capital improvement requirements of the agreement, we reviewed the provisions of the agreement and the capital expense records on file with Parks and World

Mr. Erik Ekstein
November 30, 2012
Page 4 of 4

Ice. In addition, we conducted observations of the facility to assess the physical condition and interviewed World Ice's project manager regarding the completion status of capital improvements. We also obtained from Parks a Certificate of Completion of Capital Improvements indicating that Parks determined that the Licensee has completed the required capital improvements.

Finally, we reviewed applicable documentation to determine World Ice's compliance with certain non-revenue-related terms and conditions of its agreement (i.e., maintained the proper security deposit, carried the proper property and liability insurance, operated a pro shop, and paid all utility charges).

On October 25, 2012, an exit conference was held and the preliminary letter report dated October 16, 2012, was discussed. On November 7, 2012, we submitted a draft letter report providing an opportunity to respond to matters discussed herein. We received written responses from Parks on November 23, 2012, and from World Ice Arena on November 26, 2012. In their responses, both agreed with the report's findings and recommendations and described the steps they have taken or will take to implement the report's recommendations. Parks' and World Ice Arena's responses are attached as addenda to this final letter report.

Sincerely yours,



Tina Kim

c: Ron Kraut, Project Manager, World Ice Arena, LLC
Honorable Veronica M. White, Commissioner, Parks
Elizabeth W. Smith, Assistant Commissioner for Revenue and Marketing, Parks
David Cerron, Chief Account, Parks
Elizabeth Weinstein, Director, Mayor's Office of Operations
George Davis III, Deputy Director, Mayor's Office of Operations
Michael Morgese, Deputy Director for the Bureau of Financial Audit, NYC Comptroller's Office

Ms. H. Tina Kim
Deputy Comptroller
City of New York
Office of the Comptroller
One Centre Street, Room 1100
New York, NY 10007

**Re: Draft Letter Report on the Audit on
World Ice Arena LLC's Compliance with it's License Agreement
(Audit Number FM12-111AL)**

Dear Ms. Kim:

We are in receipt of the Draft Letter Report on the Audit of World Ice Arena and find that the report accurately represents our current compliance with the 20-year license agreement.

The Draft Letter Report did make reference to two potential issues in the Findings and Recommendations section which I briefly want to comment on.

Firstly, the audit identified that we do not use press-printed pre-numbered forms for group events. World Ice Arena LLC has ordered and received these press printed forms and they are now in use.

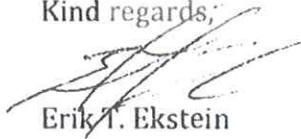
Secondly, the audit identified that we have not yet fully meet our capital obligation to the Parks Department by purchasing two new ice resurfacing machines. The audit recognizes that Parks Department allowed World Ice LLC to purchase two refurbished ice maintenance machines in order to expedite the opening of the facility, but stipulated that World Ice was still required to purchase two new machines during the term of the agreement. The audit also recognizes that World Ice Arena has provided evidence of a deposit for the delivery of a new machine which should be delivered by the end of 2012.

It should be noted that our capital obligation to purchase two new ice resurfacing machines must be completed during the term of the agreement. The license was drafted this way because World Ice Arena will need to provide the necessary maintenance for a period of twenty years. By agreeing to allow World Ice Arena LLC the ability to stagger the purchases of the new ice resurfacing machines over the term of the license, Parks Department recognized that we would better equipped to maintain the equipment and the facility throughout the entire term of the license as opposed to purchasing both new machines at the beginning of the license.

World Ice Arena has every intention of purchasing both new ice resurfacing machines, one now and one in the later stages of the license to insure that the rink is always adequately serviced. With the additional purchase of the two refurbished machines prior to the opening of the rink, World Ice Arena LLC will have exceeded its capital obligations to Parks Department during the term of the license.

Thank you for the opportunity to answer the Draft Letter Report. We look forward to many years of continued compliance and cooperation among all interested parties.

Kind regards,

A handwritten signature in black ink, appearing to read 'Erik T. Ekstein', is written over the typed name below it.

Erik T. Ekstein



Elizabeth W. Smith
Assistant Commissioner
Revenue & Marketing

212.360.1366
212.360.3434

betsy.smith@parks.nyc.gov

ADDENDUM II

City of New York
Parks & Recreation

The Arsenal
Central Park
New York, NY 10065
www.nyc.gov/parks

November 23, 2012

NYC Parks
H. Tina Kim
Deputy Comptroller
Office of the Comptroller
One Centre Street, Room 1100
New York, NY 10007-2341

Re: Draft Letter Report on the Audit of World Ice Arena LLC's Compliance with Its License Agreement / Audit Number FM12-111AL

Dear Deputy Comptroller Kim:

This letter addresses the findings and recommendations ("Recommendations") contained in the New York City Comptroller's ("Comptroller") Draft Letter Report ("Report"), dated November 7, 2012 on the compliance of World Ice Arena LLC ("World Ice") with its License Agreement ("Agreement") with the New York City Department of Parks & Recreation ("Parks"). Parks has issued a follow-up letter to World Ice Arena regarding the Report's Recommendations.

The Report found that World Ice generally maintained adequate controls over its recording and reporting of gross receipts. Additionally, the Report found that World Ice correctly calculated fees due Parks, paid fees to Parks in a timely manner, maintained its required liability insurance and security deposit and paid all utility bills. The Report also found that World Ice Arena did not use pre-numbered forms for group events and is in the process of following through with the (first) purchase of a new ice resurfacing machine. These findings resulted in the Comptroller's following Recommendations to World Ice:

Recommendation 1 – Establish and implement press-printed, pre-numbered forms for group events

With regard to Recommendation 1, it is our understanding that World Ice has now implemented the use of sequentially pre-printed, pre-numbered forms for group events in order to assure all revenue for group events is recorded on World Ice's books, and all appropriate fees are paid to the City of New York.

Recommendation 2 – Follow through with the purchase of two new ice resurfacing machines, as recommended.

With regard to recommendation 2, as the Report notes, World Ice has met its capital improvement obligation and appears committed to compliance with the terms of its Agreement. World Ice provided the Comptroller with a price quote and a cancelled deposit check to demonstrate its intention to purchase a new ice resurfacing machine. Parks anticipates the first resurfacing machine to be delivered by end of 2012, and we will continue to coordinate with World Ice to ensure the second ice resurfacing machine is purchased within an appropriate time frame.

Finally, we would like to thank you and your staff for the time and effort devoted to completing this Report.

Sincerely,

David Cerron
Chief Accountant

Cc: George Davis (Mayor's Office), Robert L. Garafola (Parks), Tony Macari (Parks)