

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

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the Compliance of
Toto's South Shore Country Club, Ltd.,
With Its License Agreement and Its
Payment of License Fees Due the City**

FN02-098A

June 27, 2002

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EXECUTIVE SUMMARY

In 1989, the Department of Parks and Recreation (Parks) entered into a 10-year license agreement with Toto's South Shore Country Club, Limited (Toto's), for the maintenance and operation of a restaurant, catering facility, and snack bar on the South Shore Golf Course, Staten Island. The license was renewed for a five-year period ending September 30, 2004. The agreement requires that Toto's pay the City a minimum annual fee ranging from \$48,000 in the first year to \$138,064 in the 15th and final year, and an annual percentage fee of 6 percent of its annual gross receipts over \$800,000, 7 percent of its annual gross receipts over \$1,500,000, 8 percent of its annual gross receipts over \$2,000,000, and 8.5 percent of its annual gross receipts over \$3,000,000. In addition, the agreement requires that Toto's post a \$25,000 security deposit with the City; maintain certain types and amounts of insurance coverage that names the City as an additional insured; and pay for its utilities use.

This audit determined whether Toto's maintained adequate internal controls over the recording and reporting of its gross receipts; properly reported its total gross receipts, and correctly calculated and paid its license fees due the City; and complied with certain non-revenue-related requirements of its license agreement.

To achieve our audit objectives, we reviewed the license agreement between Parks and Toto's and analyzed the Parks Concessionaire Ledger. We evaluated Toto's internal controls over its revenue functions and familiarized ourselves with Toto's operations, accounting, sales, and record keeping procedures. We conducted sampled testing for restaurant, catering, and snack bar revenue—the sources of revenue that are included in the license agreement. In addition, we conducted unannounced observations of Toto's operations during the summer of 2001. Finally, we determined whether Toto's complied with certain non-revenue-related terms and conditions of its agreement (i.e., remitted the proper security deposit; carried the proper amounts and types of insurance policies; and paid for its water and sewer use).

Scope Limitations

To conduct our audit of the license agreement between Toto's and the City, we requested specific data and detailed documentation to verify whether Toto's reported all revenue and paid the City the appropriate fees. Toto's failed to provide: banquet calendars for the period October 1, 1999, through August 18, 2000; 42 of 72 of specifically requested banquet contracts; and daily cashier report envelopes, computerized guest checks, and sales summary reports needed to determine the accuracy of the snack bar's reported revenue.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

Results in Brief

For the year ending September 30, 2000, Toto's reported \$3,225,343 in gross receipts and paid the City \$270,454 in fees. Based on our observations of the facility and the available records, we determined that Toto's did not include, at the very minimum, an estimated \$1,829,320 in revenues on its gross receipts statements to Parks, and therefore owes the City at least \$256,872 in additional fees and late charges. Because Toto's failed to provide critical documents to support its reported revenues, and because of serious internal control weaknesses, we could not determine the full amount of revenue that Toto's should have reported to Parks and upon which it should have paid the required corresponding fees to the City.

There were also serious internal control weaknesses that prevented us from verifying to what extent Toto's reported all of its gross receipts to Parks, and paid the appropriate fees to the City. Toto's did not provide banquet calendars from October 1, 1999, through August 18, 2000; 42 banquet contracts covering the six-month period reviewed; or any of its original source documentation to support reported snack bar revenue. Moreover, Toto's did not properly segregate duties over its accounting functions. Toto's bookkeeper counts the cash, reconciles the cash to the cashier's report envelopes, prepares the deposit slips, makes the bank deposits, prepares the bank reconciliations, keeps the original books of entry (including the General Ledger), and prepares the monthly Gross Receipts Statements. Finally, there were 20 instances in which different contracts had the same contract number, and there were gaps in the numbering of contracts that were revealed when we compared the contract numbers on the banquet contracts to the General Ledger and to the banquet calendars that were provided.

By reviewing the respective insurance certificates, we verified that Toto's had the required general liability insurance from May 28, 1999, to May 28, 2002, and workers' compensation insurance coverage from April 1, 1999, to April 1, 2003. In addition, we verified that Toto's remitted an additional \$10,000 in security to Parks, as required by its agreement.

Recommendations

1. Toto's should pay the City \$256,872 in additional license fees and late charges owed.
2. Given the audit findings noted in this report, it is obvious that Parks must consider terminating all agreements with Toto's if Parks believes that Toto's is either unwilling or unable to keep books and records, and account for all revenue, as required by the agreement. At a minimum, Toto's must address its failure to report all its revenues on its Gross Receipts Statements, its failure to maintain the necessary supporting documentation and its lack of the internal control issues mentioned in this report. Accordingly, if Parks decides not to terminate its agreement with Toto's, Parks should require that Toto's:
 - Ensure that all revenues generated at the facility are reported on its monthly Gross Receipts Statements to Parks, including revenue from the Thursday Night Deck Parties, catering, restaurant, snack bar, and special events, and pay all required fees due the City.
 - No longer use stand-alone registers and ensure that all receipts from the Thursday Night Deck Parties are processed into its point-of-sales system and are properly recorded in its books and records.
 - Maintain all source documents to support and adequately evidence the gross revenues reported to Parks.
 - Report all banquet revenue on its books and records in the month that the event was held.
 - Maintain all banquet calendars and contracts, in accordance with its agreement.
 - Maintain all original source documents pertaining to the snack bar, including the daily cashier's report envelopes, the computerized daily customer receipts, and the computerized daily summary tapes.
 - Properly segregate all duties over its revenue functions.

As stated above, if Parks decides not to terminate Toto's agreement, then we recommend that Parks ensure that Toto's:

3. Pays the City \$256,872 in additional license fees and late charges due.
4. Complies with the remaining recommendations made in this report.

5. Is periodically audited and inspected by Parks to ensure that it is adhering to the terms of the agreement.

Discussion of Audit Results

The matters covered in this report were discussed with officials from Toto's and Parks during and at the conclusion of this audit. A preliminary draft report was sent to Toto's and Parks officials and discussed at an exit conference on June 3, 2002. On June 5, 2002, we submitted a draft report to Toto's and Parks officials with a request for comments. We received written responses from Parks on June 17, 2002, and from Toto's on June 19, 2002.

Toto's responded that it will pay the City \$256,872, and stated that it has taken steps to ensure that all revenue, including receipts from the Thursday Night Deck Parties, is reported to the City. In addition, Toto's stated that the cash registers used during the Thursday Night Deck Parties will be linked to its point-of-sales system, that banquet calendars and all related source documents for banquets will be properly maintained, and that the revenue and accounting functions will be properly segregated.

Parks responded that it agreed with the recommendations and stated that it has issued a Notice to Cure requiring that Toto's "remedy all deficiencies noted in the Comptroller's audit report. Toto's is required to pay the total audit assessment of \$256,872 (Recommendation 1) under a three (3) month payment plan. To comply with Recommendation 2, Toto's must take immediate action to implement the noted internal control recommendations." Parks also stated that it will "conduct a follow-up review in two months to verify that Toto's has fully complied with all audit recommendations."

The full texts of Toto's and Parks' comments are included as addenda to this final report.

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INTRODUCTION

Background

In 1989, the Department of Parks and Recreation (Parks) entered into a 10-year license agreement with Toto's South Shore Country Club, Limited (Toto's), for the maintenance and operation of a restaurant, catering facility, and snack bar on the South Shore Golf Course, Staten Island. The license was renewed for a five-year period ending September 30, 2004. The agreement requires that Toto's pay the City a minimum annual fee ranging from \$48,000 in the first year to \$138,064 in the 15th and final year. Toto's is also required to pay an annual percentage fee of 6 percent of its annual gross receipts over \$800,000, 7 percent of its annual gross receipts over \$1,500,000, 8 percent of its annual gross receipts over \$2,000,000, and 8.5 percent of its annual gross receipts over \$3,000,000. In addition, the agreement requires that Toto's post a \$25,000 security deposit with the City; maintain certain types and amounts of insurance coverage that names the City as an additional insured; and pay for its utilities use.

Objectives

Our audit objectives were to verify whether Toto's:

- Maintained adequate internal controls over the recording and reporting of its gross receipts;
- Properly reported its total gross receipts, and correctly calculated and paid its license fees due the City; and
- Complied with certain non-revenue-related requirements of its license agreement.

Scope and Methodology

To achieve our audit objectives, we reviewed the license agreement between Parks and Toto's and noted the requirements of the agreement. At Parks, we reviewed correspondence, revenue reports, and other relevant documents. We analyzed the Parks Concessionaire Ledger for the amounts reported and paid to the City, and verified whether payments were received on time.

We evaluated Toto's internal controls over its revenue functions. To gain an understanding of the organization's daily operating procedures for recording and reporting revenue, we interviewed management personnel, conducted a walkthrough of the operations on October 16, 2001, and familiarized ourselves with Toto's accounting, sales, and record keeping procedures. We documented our understanding of Toto's operations through the use of memoranda and written narratives. We also observed Toto's processing of a simulated restaurant transaction through its computerized point-of-sales system.

To determine whether Toto's reported its gross revenue to the City accurately, we analyzed Toto's monthly gross receipts statements and prepared an annual schedule of monthly gross receipts for the period October 1, 1999, to September 30, 2000. We traced the revenue that Toto's reported to Parks to its General Ledger. We compared those amounts to the revenues reported by Toto's on its Federal Income Tax Return for calendar year 2000, and on its New York State Sales Tax Returns from October 1, 1999, to September 30, 2000. We then conducted sampled testing for restaurant, catering, and snack bar revenue—the sources of revenue that are included in the license agreement. In addition, we conducted unannounced observations of Toto's operations during the summer of 2001.

For our test of restaurant revenue, we sampled revenue for June 2000—the highest grossing month in the audit period. For each day, we compared the computerized guest checks to the computerized Daily Sales Summary Report, to the Weekly Sales Summary Reports, to the Monthly Sales Summary Reports, and to the General Ledger. We then traced the gross receipts recorded for the restaurant to Toto's June 2000 bank statement.

For our test of catering revenue, we requested Toto's banquet calendars for our original audit scope—October 1, 1999, to September 30, 2000; however, Toto's did not provide banquet calendars for October 1, 1999, to August 18, 2000 (see Scope Limitation). Therefore, we obtained Toto's banquet calendars for September 1, 2000, to November 30, 2000, and compared the entries on the calendars to the corresponding banquet contracts to determine whether all contracts were accounted for. We also obtained banquet contracts from May 1, 2000, through July 31, 2000. We compared the amounts listed on each of the contracts to the revenue entries in the General Ledger's Catering Income Account for all six months. In addition, as part of our test of catering revenue, we compared each customer deposit that was not returned to customers listed in Toto's canceled contract file from October 1999 to October 2001, to the Customer Deposits Account in Toto's General Ledger. We contacted customers to determine whether these banquets were, indeed, canceled and to ascertain whether the customer received a full or partial refund of the deposit. We then examined the Toto's General Ledger and its gross receipt reports to determine whether Toto's reported the amount retained to Parks.

For our test of snack bar revenue, we traced the gross receipts reported on Toto's Monthly Gross Receipts Statements to Toto's General Ledger from October 1, 1999, to September 30, 2000, and to the daily Complex Sales Reports for the month of June 2000. However, we could not determine whether these amounts were accurate because Toto's discarded all of the snack bar's daily cashier's report envelopes, computerized guest checks, and sales summary reports (see Scope Limitation).

During our unannounced observations, we found that Toto's was holding "Thursday Night Deck Parties." To determine whether Toto's reported the revenue earned from these events to Parks, we observed the facility's operations, estimated the number of patrons in attendance,

observed the number of cash registers in use and their locations, and whether sales were being entered in the cash registers on those nights. We then determined whether the revenue from the Thursday Night Deck Parties was included on Toto's Daily Sales Summary Reports, Weekly Sales Summary reports, Monthly Sales Summary Report, General Ledger, and on the monthly Gross Receipts Statements submitted to Parks.

Finally, we determined whether Toto's complied with certain non-revenue-related terms and conditions of its agreement (i.e., remitted the proper security deposit; carried the proper amounts and types of insurance policies; and paid for its water and sewer use).

Scope Limitations

To conduct our audit of the license agreement between Toto's and the City, we requested specific data and detailed documentation to verify whether Toto's reported all revenue and paid the City the appropriate fees. Toto's failed to provide the following critical documents:

- **Banquet Calendars**: Toto's did not provide banquet calendars for the period October 1, 1999, through August 18, 2000. Toto's officials stated that their computer system had been malfunctioning and in August 2000, they purged the system without backing it up and printing the data. Consequently, we cannot confirm whether all banquet revenue was reported to the City. Based on the Gross Receipts Statements submitted by Toto's, banquet revenue represented 78 percent of total revenue generated at the facility for the contract year October 1, 1999, to September 30, 2000.
- **Banquets Contracts**: Toto's failed to provide 42 of 72 specific banquet contracts requested. Therefore, we could not determine whether Toto's properly reported banquet revenue.
- **Snack Bar Documentation**: Toto's failed to provide daily cashier report envelopes, computerized guest checks, and sales summary reports needed to determine the accuracy of the snack bar's reported revenue. Toto's informed us that it continually discards these documents after recording the revenue on the General Ledger.

It should be noted that this lack of records violates Article IV (a)(c) of Toto's license agreement, which states:

“Licensee, during the term of this license and any renewal thereof, shall maintain adequate systems of internal control and shall keep complete and accurate records, books of account and data, including daily sales and receipts records (emphasis added), which shall show in detail the total business transacted by Licensee and the Gross Receipts therefrom. Licensee shall maintain each year's records, books of account and data for a minimum of six (6) years.”

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with officials from Toto's and Parks during and at the conclusion of this audit. A preliminary draft report was sent to Toto's and Parks officials and discussed at an exit conference on June 3, 2002. On June 5, 2002, we submitted a draft report to Toto's and Parks officials with a request for comments. We received written responses from Parks on June 17, 2002, and from Toto's on June 19, 2002.

Toto's responded that it will pay the City \$256,872, and stated that it has taken steps to ensure that all revenue, including receipts from the Thursday Night Deck Parties, is reported to the City. In addition, Toto's stated that the cash registers used during the Thursday Night Deck Parties will be linked to its point-of-sales system, that banquet calendars and all related source documents for banquets will be properly maintained, and that the revenue and accounting functions will be properly segregated.

Parks responded that it agreed with the recommendations and stated that it has issued a Notice to Cure requiring that Toto's "remedy all deficiencies noted in the Comptroller's audit report. Toto's is required to pay the total audit assessment of \$256,872 (Recommendation 1) under a three (3) month payment plan. To comply with Recommendation 2, Toto's must take immediate action to implement the noted internal control recommendations." Parks also stated that it will "conduct a follow-up review in two months to verify that Toto's has fully complied with all audit recommendations."

The full texts of Toto's and Parks's comments are included as addenda to this final report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: June 27, 2002

FINDINGS AND RECOMMENDATIONS

For the year ending September 30, 2000, Toto’s reported \$3,225,343 in gross receipts, paying the City \$270,454 in fees. Based on our observations of the facility and the available records, we determined that Toto’s did not include, at the very minimum, an estimated \$1,829,320 in revenues on its gross receipts statements to Parks, and therefore owes the City at least \$256,872 in additional fees and late charges. Because Toto’s failed to provide critical documents to support its reported revenues (i.e., all requested banquet calendars, all banquet contracts, and original snack bar records) and because of serious internal control weaknesses (see subsequent section on internal control weaknesses), we cannot determine the full amount of revenue that Toto’s should have reported to Parks and upon which it should have paid the required corresponding fees to the City.

Toto’s Did Not Report \$1,829,320 in Revenue Resulting in \$256,872 in Additional License Fees And Late Charges

We determined that Toto’s did not report \$1,727,000 attributable to Thursday Night Deck Parties and underreported \$102,320 in other revenue that resulted in Toto’s owing the City \$256,872, as shown in Table I, below.

TABLE I

Schedule of Underreported Revenue Resulting in Additional Fees and Late Charges Owed the City

Unreported Revenue Category	Unreported Revenue	Amount Owed the City @ 8.5%
Thursday Night Deck Parties	\$1,727,000	\$146,795
Other Unreported Income:		
Deposits Not Returned for Cancellations	\$49,200	
Revenue Errors	23,724	
Banquet Revenue	22,772	
Customer Deposits Not included	6,071	
Complimentary and Promotional Services	553	
Total Other Unreported Income	102,320	8,697
Applicable Late Charges (see Appendices I and II)		101,380
Total Fees and Interest Due	\$1,829,320	\$256,872

These issues are described in detail in the following sections of this report.

Underreported Revenue from Thursday Night Deck Parties

Beginning in the summer of 1997, Toto’s has hosted Thursday Night Deck Parties at the South Shore Country Club facility. However, Toto’s has not reported all of the revenue derived from these events on its gross receipts statements to Parks and therefore has not paid the City the appropriate fees due. Specifically, Toto’s books and records and gross receipts statements to Parks did not include receipts from parking, admissions, and beverage sales from 12 to 13 stand-alone registers used to record sales during the Thursday night events.

For the five summers between 1997 and 2001, we conservatively estimate that Toto’s generated \$1,727,000 in revenue that was not reported to Parks, resulting in unpaid fees totaling \$146,795, as shown in Table II, following.

Table II

Unreported Income From Thursday Night Deck Parties

	Amount	People	Total	Total Unreported
1997-2000 Cover Charge Lower Deck	\$10	1,200	\$12,000	
2 beverages per person @ \$5 each	\$10	1,200	\$12,000	
Parking	\$ 5	300	\$ 1,500	
Total Revenue for Each Thursday			\$ 25,500	
13 events per year			x13	
Amount per Year			\$331,500	
4-Year Total, 1997 – 2000				\$1,326,000
2001 Cover Charge Lower Deck	\$10	1,200	\$12,000	
2001 Cover Charge for Upper and Lower Deck*	\$15	300	\$ 4,500	
2 drinks per person @ \$5 each	\$10	1,500	\$15,000	
Parking	\$ 5	300	\$ 1,500	
Total Revenue for Each Thursday			\$ 33,000	
12 Events for 2001			x12	
Subtotal 2001			\$396,000	
August 23, 2001, Upper Deck Party only (Rain)			\$ 5,000	
Total for 2001				\$ 401,000
5-Year Total				\$1,727,000
Additional Fees Owed to the City @ 8.5%				\$ 146,795
Applicable Late Charge (see Appendix I)				\$ 98,724
Total Fees and Late Charges Due to the City				\$ 245,519

* For the summer of 2001, Toto’s expanded the Thursday Night Deck Parties to include the “upper deck” of the facility, where auditors observed approximately 300 people for each event.

Toto's has a computerized point-of-sales system in place—Restaurant Management System (RMS)—to record sales of food and beverages. Further, our review and assessment of this system established that it had the appropriate and necessary controls in place to accurately monitor the flow of revenue. However, we found that Toto's circumvented these controls for the Thursday Night Deck Parties by not reporting the cash collected from parking, admissions, and beverages, and by using additional stand-alone cash registers (12 to 13 each Thursday evening) that were not integrated into the RMS system.

We conducted unannounced observations of the Thursday Night Deck Parties during the summer of 2001. On these evenings, we were charged a parking fee of \$5; were told that we would have to pay \$10 in cash for admission to the lower deck party; \$15 in cash for an "all-access pass" to the upper and lower deck parties; and, \$40 for a full-service dinner and access to both deck parties. We estimated that approximately 1,200 people attended each event—except for August 23, 2001, when it rained and only the inside portion of the facility was used; and August 30, 2001, when the event was canceled. For those other evenings, we noted 12 to 13 cash registers being used to record beverage sales that were not linked to the point-of-sales system. We also noticed that drinks ranged from \$3 for sodas to \$7 and up for alcoholic beverages.

Based on our observations of the Thursday Night Deck Parties, we conservatively estimated that each event resulted in a minimum of \$25,500 in revenue, excluding revenue from full-service dinners that was recorded on the point-of-sales system and reported to Parks. Based on the amounts reported on Toto's gross receipts statements, it is evident that Toto's did not report revenue generated from these events to Parks. For example, for June 2001, Toto's reported \$57,472 for dinners and \$31,052 for bar and beverage sales. The reported amounts, which purportedly included all revenues from dinners and bar and beverage sales for the month, were far below the \$102,000 (\$25,500 x 4 weeks) that we estimated for the Thursday Night Deck Parties.

In addition, we completed a detailed tracing analysis of the revenue reported to Parks for two months—June 2000 and August 2001—to determine whether the revenue from the Thursday Night Deck Parties was reported to Parks under a different revenue category (i.e., catering income or snack bar receipts). Toto's books and records for June 2000 did not disclose any revenue from parking, admissions, and beverage sales (from the stand-alone cash registers) for any of the Thursday Night Deck Parties. For June 2000, Toto's reported \$417,913 in revenues to Parks. By tracing the restaurant, catering income, and snack bar receipts, we were able to fully account for the entire \$417,913 that was reported to Parks. Using the same methodology, when we examined and traced the Thursday night receipts for all of August 2001, we were able to fully account for all dinner revenue reported to Parks. Therefore, we could not account for any of the cash from parking and admissions, or the receipts for the stand-alone cash registers for June 2000 or August 2001 on Toto's Gross Receipts Statements to Parks.

Moreover, Toto's has been advertising the Thursday Night Deck Parties between Memorial Day and Labor Day in *The Staten Island Advance* since 1997. Advertisements indicated a \$10 cover charge or with dinner at the restaurant, free admission to the party. Furthermore, *The Staten Island Advance* printed an article in its August 26, 2001, issue that featured the Thursday Night Deck Parties. The article stated that patrons are charged a \$10 cover charge, and "parking on the club grounds can cost from \$5 to \$20, depending on where the vehicle is kept." The article also stated that "Toto admitted the weekly party can draw up to

2,000 people.” Accordingly, we believe that our estimate of 1,200 people in attendance at Toto’s Thursday Night Deck Parties is extremely conservative.

Toto’s Underreported Other Revenue Totaling \$102,320

Omissions and errors in Toto’s books and records resulted in Toto’s underreporting its revenue to the City by \$102,320. Specifically:

- **Unreported Deposits for Canceled Events Totaling \$49,200.** Our review of 108 canceled banquets contracts from October 1, 1999, to October 31, 2001, disclosed that deposits from 63 events totaling \$49,200 were not included as revenue on Toto’s gross receipts statements to Parks. Toto’s enters a customer’s deposit as a liability in its Customer Deposit Account. After the event takes place, the deposit amount is transferred from the Customer Deposit Account to the Catering Income Account, which is reported to Parks. For the 63 canceled events, the deposits remained in the liability account. Since it is evident that Toto’s had no intention of returning the deposits to the customers, it should have transferred the deposits to the Catering Income Account and reported the \$49,200 to Parks as revenue.
- **Underreported Banquet Revenue Totaling \$22,772.** Toto’s did not report the full amount for three banquet events and did not include any revenue from a fourth event on its Gross Receipts Statements to Parks. For each event, the amount listed on the banquet contract was higher than the amount recorded in Toto’s General Ledger. As a result, revenue for these four events was underreported by \$22,772, as shown in Table III below.

TABLE III
Underreported Banquet Revenue

Date	Contract Number	Reported Amount	Audited Amount	Difference
May 20, 2000	4123	\$11,617	\$16,167	\$4,550
June 6, 2000	5553	0	4,469	4,469
July 14, 2001	8062	4,479	8,941	4,462
August 5, 2001	7035	11,085	20,376	9,291
Total		\$27,181	\$49,953	\$22,772

Contract #4123 was for a wedding that took place on May 20, 2000, that was not recorded in the General Ledger until November 2000. The General Ledger Catering Income Account entry for this event was \$11,617; however, the amount shown on the final contract was \$16,167 (net of sales tax), a difference of \$4,550.

Contract #5553 was for a golf outing held on June 6, 2000. We could not find an entry for this contract in Toto’s Catering Income Account, but we called the customer and verified that the event did take place. The contract amount of \$4,469 (net of sales tax) was not included on Toto’s Gross Receipts Statements.

Contract #8062 was for a sweet sixteen party that was held on July 14, 2001. Toto's entered \$4,479 as catering receipts for this event; however, the amount on the final bill was \$8,941 (net of sales tax), a difference of \$4,462.

Contract #7035 was for a wedding that took place on August 5, 2001. The Catering Income Account indicated \$11,085, but the amount on the final contract was \$20,376, a difference of \$9,291.

- **General Ledger Posting Errors Totaling \$23,724.** There were discrepancies between the amounts recorded on Toto's General Ledger, final bills issued to customers, and the Gross Receipts Statements submitted to Parks. Consequently, gross revenue was underreported by \$23,724. Toto's did not include two year-end journal entries totaling \$17,552; was unable to explain the nature of an October 1, 2000 \$1,000 debit entry; underreported four events totaling \$3,578 in its General Ledger Catering Income Account; understated by \$994 three events in its Account Receivable Account; and did not include a \$600 service charge for one banquet event in its Catering Income Account.
- **Customer Deposits Totaling \$6,071 Were Not Reported.** Customer deposits for 10 of 316 banquet contracts reviewed, totaling \$6,071, were not included on Toto's Gross Receipts Statements to Parks.
- **Complementary Meals Totaling \$553.** There were 20 instances in which Toto's offered complementary or promotional dinners. The value of these meals should have been reported as revenue on Toto's Gross Receipts Statements.

Internal Control Weaknesses and Inadequate Record Keeping

We found serious internal control weaknesses that prevented us from verifying to what extent Toto's reported all of its gross receipts to Parks, and paid the appropriate fees to the City. Specifically:

- **Toto's Did Not Maintain Adequate Catering Records.** Toto's did not provide banquet calendars from October 1, 1999, through August 18, 2000. Toto's officials stated that their computer system malfunctioned and in August 2000, they purged the system without backing up and printing any of the related data. Moreover, Toto's did not provide 42 banquet contracts covering the six-month period reviewed. Consequently, we have no way of determining whether all banquet revenue was reported and the appropriate fees were paid to the City.
- **Toto's Did Not Maintain Documentation to Support Snack Bar Receipts.** Toto's did not provide any of its original source documentation (i.e., daily cashier's report envelopes, computerized daily customer receipts, and computerized daily summary tapes) for calendar year 2000 to support reported snack bar revenue. Consequently, we could not determine the accuracy of Toto's reported snack bar revenue to Parks.

- **Toto's Did Not Enter Its Banquet Revenue in Its General Ledger Promptly.**
As we previously mentioned, Toto's records a customer's deposit for a banquet in its General Ledger Customer Deposit Account, where it remains as a liability until the balance is paid. Once the event takes place and the remaining balance is paid, the deposits are transferred as revenue to the Catering Income Account, along with the final payment. However, Toto's did not enter the revenue for 11 events held in May 2000 in its General Ledger until November 2000. Proper accounting and reporting procedures require that the revenue be recorded and reported in the month that the events took place.
- **Toto's Did Not Properly Segregate Duties Over Its Accounting Functions.**
Toto's bookkeeper counts the cash, reconciles the cash to the cashier's report envelopes, prepares the deposit slips, makes the bank deposits, prepares the bank reconciliation, keeps the original books of entry (including the General Ledger), and prepares the monthly Gross Receipts Statements. One person performing all these tasks increases the risk of errors. Properly segregating these functions would ensure independent verification of the revenue received and would reduce the risk of errors or irregularities.
- **Toto's Banquet Software Does Not Ensure That Duplicate Contract Numbers Are Not Issued and That All Contracts Are Accounted For.** There were 20 instances in which different contracts had the same contract number. In addition, there were gaps in the numbering of contracts when we compared the contract numbers on the banquet contracts to the General Ledger and to the banquet calendars that were provided. When a customer books an event, Toto's banquet software will automatically issue a contract number to that customer. If the customer decides not to book the event, or does not leave a deposit, that number is discarded and no contract is generated. Without being able to account for all contract numbers, we could not determine which banquet contracts were not accounted for, and therefore could not determine whether all banquet revenue was properly recorded and reported to Parks. Maintaining a complete log of all banquet contracts (including voided and unused contract numbers) in a sequential order would provide assurance of the proper accounting of all banquet contracts.

Contract Compliance Issues

By reviewing the respective insurance certificates, we verified that Toto's had the required general liability insurance from May 28, 1999, to May 28, 2002, and worker's compensation insurance coverage from April 1, 1999, to April 1, 2003. In addition, we verified that Toto's remitted an additional \$10,000 in security to Parks, as required by its agreement.

Recommendations

1. Toto's should pay the City \$256,872 in additional license fees and late charges owed.
2. Given the audit findings noted in this report, it is obvious that Parks must consider terminating all agreements with Toto's if Parks believes that Toto's is either unwilling or unable to keep books and records, and account for all revenue, as

required by the agreement. At a minimum, Toto's failure to report all its revenues on its Gross Receipts Statements, its failure to maintain the necessary supporting documentation and the internal control issues mentioned in this report must be addressed. Accordingly, if Parks decides not to terminate its agreement with Toto's, Parks should require that Toto's:

- Ensure that all revenues generated at the facility are reported on its monthly Gross Receipts Statements to Parks, including revenue from the Thursday Night Deck Parties, catering, restaurant, snack bar, and special events, and pay all required fees due the City.
- No longer use stand-alone registers and ensure that all receipts from the Thursday Night Deck Parties are processed into its point-of-sales system and are properly recorded in its books and records.
- Maintain all source documents to support and adequately evidence the gross revenues reported to Parks.
- Report all banquet revenue on its books and records in the month that the event was held.
- Maintain all banquet calendars and contracts, in accordance with its agreement.
- Maintain all original source documents pertaining to the snack bar, including the daily cashier's report envelopes, the computerized daily customer receipts, and the computerized daily summary tapes.
- Properly segregate all duties over its revenue functions.

Toto's Response: Toto's responded that it will pay the City \$256,872, and stated that it has taken steps to ensure that all revenue, including receipts from the Thursday Night Deck Parties, is reported to the City. In addition, Toto's stated that the cash registers used during the Thursday Night Deck Parties will be linked to its point-of-sales system, that banquet calendars and all related source documents for banquets will be properly maintained, and that the revenue and accounting functions will be properly segregated.

As stated above, if Parks decides not to terminate Toto's agreement, then we recommend that Parks ensure that Toto's:

3. Pays the City \$256,872 in additional license fees and late charges due.
4. Complies with the remaining recommendations made in this report.
5. Is periodically audited and inspected by Parks to ensure that it is adhering to the terms of the agreement.

Parks Response: Parks responded that it agreed with the recommendations and stated that it has issued a Notice to Cure requiring that Toto's "remedy all deficiencies noted

in the Comptroller's audit report. Toto's is required to pay the total audit assessment of \$256,872 (Recommendation 1) under a three (3) month payment plan. To comply with Recommendation 2, Toto's must take immediate action to implement the noted internal control recommendations." Parks also stated that it will "conduct a follow-up review in two months to verify that Toto's has fully complied with all audit recommendations."

Schedule of Late Charges for Unreported Revenue
From Thursday Night Deck Parties

Due Date	License Fee Due	Accumulated Balance Due	Period		Rate	Late Charges
			From	To		
10/31/97	\$ 28,177.50	\$ 28,177.50	9/1/97	9/30/97	2.00%	\$ 563.55
11/30/97		28,741.05	10/1/97	10/31/97	2.00%	574.82
12/31/97		29,315.87	11/1/97	11/30/97	2.00%	586.32
1/31/98		29,902.19	12/1/97	12/31/97	2.00%	598.04
2/28/98		30,500.23	1/1/98	1/31/98	2.00%	610.00
3/31/98		31,110.24	2/1/98	2/28/98	2.00%	622.20
4/30/98		31,732.44	3/1/98	3/31/98	2.00%	634.65
5/31/98		32,367.09	4/1/98	4/30/98	2.00%	647.34
6/30/98		33,014.43	5/1/98	5/31/98	2.00%	660.29
7/31/98		33,674.72	6/1/98	6/30/98	2.00%	673.49
8/31/98		34,348.22	7/1/98	7/31/98	2.00%	686.96
9/30/98		35,035.18	8/1/98	8/31/98	2.00%	700.70
10/31/98	28,177.50	63,913.38	9/1/98	9/30/98	2.00%	1,278.27
11/30/98		65,191.65	10/1/98	10/31/98	2.00%	1,303.83
12/31/98		66,495.48	11/1/98	11/30/98	2.00%	1,329.91
1/31/99		67,825.39	12/1/98	12/31/98	2.00%	1,356.51
2/28/99		69,181.90	1/1/99	1/31/99	2.00%	1,383.64
3/31/99		70,565.54	2/1/99	2/28/99	2.00%	1,411.31
4/30/99		71,976.85	3/1/99	3/31/99	2.00%	1,439.54
5/31/99		73,416.39	4/1/99	4/30/99	2.00%	1,468.33
6/30/99		74,884.71	5/1/99	5/31/99	2.00%	1,497.69
7/31/99		76,382.41	6/1/99	6/30/99	2.00%	1,527.65
8/31/99		77,910.06	7/1/99	7/31/99	2.00%	1,558.20
9/30/99		79,468.26	8/1/99	8/31/99	2.00%	1,589.37
10/31/99	28,177.50	109,235.12	9/1/99	9/30/99	2.00%	2,184.70
11/30/99		111,419.83	10/1/99	10/31/99	2.00%	2,228.40
12/31/99		113,648.22	11/1/99	11/30/99	2.00%	2,272.96
1/31/00		115,921.19	12/1/99	12/31/99	2.00%	2,318.42
2/29/00		118,239.61	1/1/00	1/31/00	2.00%	2,364.79
3/31/00		120,604.40	2/1/00	2/29/00	2.00%	2,412.09
4/30/00		123,016.49	3/1/00	3/31/00	2.00%	2,460.33
5/31/00		125,476.82	4/1/00	4/30/00	2.00%	2,509.54
6/30/00		127,986.36	5/1/00	5/31/00	2.00%	2,559.73
7/31/00		130,546.08	6/1/00	6/30/00	2.00%	2,610.92
8/31/00		133,157.01	7/1/00	7/31/00	2.00%	2,663.14

APPENDIX I

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Due Date	License Fee Due	Accumulated Balance Due	Period		Rate	Late Charges
			From	To		
9/30/00		135,820.15	8/1/00	8/31/00	2.00%	2,716.40
10/31/00	28,177.50	166,714.05	9/1/00	9/30/00	2.00%	3,334.28
11/30/00		170,048.33	10/1/00	10/31/00	2.00%	3,400.97
12/31/00		173,449.30	11/1/00	11/30/00	2.00%	3,468.99
1/31/01		176,918.28	12/1/00	12/31/00	2.00%	3,538.37
2/28/01		180,456.65	1/1/01	1/31/01	2.00%	3,609.13
3/31/01		184,065.78	2/1/01	2/28/01	2.00%	3,681.32
4/30/01		187,747.10	3/1/01	3/31/01	2.00%	3,754.94
5/31/01		191,502.04	4/1/01	4/30/01	2.00%	3,830.04
6/30/01		195,332.08	5/1/01	5/31/01	2.00%	3,906.64
7/31/01		199,238.72	6/1/01	6/30/01	2.00%	3,984.77
8/31/01		203,223.50	7/1/01	7/31/01	2.00%	4,064.47
9/30/01		207,287.97	8/1/01	8/31/01	2.00%	4,145.76
10/31/01	34,085.00	245,518.73	9/1/01	9/30/01	2.00%	
TOTAL LATE CHARGES DUE:						\$98,723.73

Schedule of Late Charges Other Unreported Revenue

Due Date	License Fee Due	Accumulated Balance Due	Period		Rate	Late Charges
			From	To		
5/31/99	\$ 178.50	178.50	4/1/99	4/30/99	2.00%	\$ 3.57
6/30/99		182.07	5/1/99	5/31/99	2.00%	3.64
7/31/99		185.71	6/1/99	6/30/99	2.00%	3.71
8/31/99		189.43	7/1/99	7/31/99	2.00%	3.79
9/30/99		193.21	8/1/99	8/31/99	2.00%	3.86
10/31/99	603.50	800.58	9/1/99	9/30/99	2.00%	16.01
11/30/99	51.00	867.59	10/1/99	10/31/99	2.00%	17.35
12/31/99	85.00	969.94	11/1/99	11/30/99	2.00%	19.40
1/31/00	1,704.50	2,693.84	12/1/99	12/31/99	2.00%	53.88
2/29/00	127.50	2,875.22	1/1/00	1/31/00	2.00%	57.50
3/31/00	102.00	3,034.72	2/1/00	2/29/00	2.00%	60.69
4/30/00	25.50	3,120.92	3/1/00	3/31/00	2.00%	62.42
5/31/00	8.50	3,191.83	4/1/00	4/30/00	2.00%	63.84
6/30/00	1,045.59	4,301.26	5/1/00	5/31/00	2.00%	86.03
7/31/00	588.25	4,975.54	6/1/00	6/30/00	2.00%	99.51
8/31/00	513.45	5,588.50	7/1/00	7/31/00	2.00%	111.77
9/30/00	505.75	6,206.02	8/1/00	8/31/00	2.00%	124.12
10/31/00	17.00	6,347.14	9/1/00	9/30/00	2.00%	126.94
11/30/00	85.00	6,559.08	10/1/00	10/31/00	2.00%	131.18
12/31/00	59.50	6,749.76	11/1/00	11/30/00	2.00%	135.00
1/31/01	85.00	6,969.76	12/1/00	12/31/00	2.00%	139.40
2/28/01	136.00	7,245.15	1/1/01	1/31/01	2.00%	144.90
3/31/01	93.50	7,483.56	2/1/01	2/28/01	2.00%	149.67
4/30/01	89.25	7,722.48	3/1/01	3/31/01	2.00%	154.45
5/31/01	93.50	7,970.43	4/1/01	4/30/01	2.00%	159.41
6/30/01	8.50	8,138.33	5/1/01	5/31/01	2.00%	162.77
7/31/01	85.00	8,386.10	6/1/01	6/30/01	2.00%	167.72
8/31/01	421.50	8,975.32	7/1/01	7/31/01	2.00%	179.51
9/30/01	1,555.00	10,709.83	8/1/01	8/31/01	2.00%	214.20
10/31/01	327.25	11,251.28	9/1/01	9/30/01	2.00%	
No Late Fee Assessed ^A	102.00	11,353.28				
TOTAL LATE CHARGES DUE:						\$2,656.24

^A Fees from deposits canceled after 9/30/01, therefore, we didn't apply interest to this amount.



DeSantis
Kiefer
Shall &
Sarcone
LLP

*Navigating the Road
to
Financial Security*

June 19, 2002

Mr. Roger D. Liwer
The City of New York
Office of the Comptroller
Bureau of Audits
1 Centre Street, Room 1100
New York, NY 10007-2341

**Audit Report on the Compliance of
Toto's South Shore Country Club, Ltd.**

Dar Mr. Liwer:

We are attaching our response to the recommendations you made in the audit of the above referred to client. We are requesting that these responses be included in your final report. Should you have any questions, please feel free to contact myself or Mr. Larry Toto of Toto's South Shore Country Club, Ltd.

Very truly yours,

DeSantis, Kiefer,
Shall and Sarcone, LLP

John M. Shall, CPA

MSjd
cc: William C. Thompson, Jr.
Comptroller

1675 Richmond Road, Staten Island, N.Y. 10304

Tel: 718-351-2233 Fax: 718-979-2435 Email: info@dkscpa.com www.dkscpa.com

TOTO'S SOUTH SHORE COUNTRY CLUB, LTD.
200 HUGUENOT AVENUE
STATEN ISLAND, NY 10312

AGENCY IMPLEMENTATION PLAN
FN02-098A

We are limiting our response to the recommendations made in the Audit Report of Compliance as conducted by the City of New York, Office of the Comptroller, Bureau of Financial Audit. We are doing so for the sake of brevity and are not addressing the full report. The date of this report is June 5, 2002.

The Comptroller's office, under its section listed "Results In Brief" refers to estimated unreported receipts for the year ending September 30, 2000. The estimated calculations are actually for the five year period ended September 30, 2000.

1. Toto's is agreeing to pay the City \$256,872 in the additional license fees and late charges in an effort to move forward in its relationship with the Department of Parks, although it has not determined the accuracy of the calculations. It is Toto's desire to make equal monthly installments over the remaining life of its contract with the City of New York, Department of Parks, in order to resolve this obligation.
2. Toto's has implemented specific steps to ensure that all revenues are reported to the City of New York, Department of Parks on its monthly gross receipts statement. The plan ensures that all supporting documentation and internal control issues are addressed. Specifically,
 - Gross receipts from the Thursday night summer deck parties are now under the supervision of one designated manager or principal of the Agency. It is the responsibility of said manager to verify cash and register tapes as reported by each cashier. A summary report will be prepared and a separate accounting of the cash will be done. The gross receipts from the Thursday night deck party will be entered through the normal accounting process and all receipts of the party immediately deposited. With regard to the monthly gross receipts statements issued to the Parks Department, a separate listing of the activity of the Thursday night deck party will be made. The Agency is currently working towards adding the cash registers used at the Thursday night deck party to the point of sales system already in use as an additional means of ensuring the proper reporting of receipts.
 - With regard to banquet sales, the Agency has taken steps to ensure that all source documents to support gross receipts reports to the Parks are properly maintained on premise. To that end, an additional step has been instituted which requires that prior to the closeout of any banquet party, a sign-off will be made indicating that all required documentation exists in the file.

Toto's South Shore Country Club

-2-

Agency Implementation Plan

Any exceptions will immediately be brought to the attention of Mr. Toto by the in-house bookkeeper of the Agency. It should be noted that while 42 contracts requested by the Comptroller's office for banquet sales occurring between October 1, 1999 through August 18, 2000 were not provided, approximately 900 events were held during this period for which complete documentation existed.

- The Agency is currently insuring that all banquet revenues are reported in the month the event is held. Time reporting requirements have been instituted to ensure that the manager responsible for the banquet affair has collected all the necessary documentation. The records of the corporation are not closed on a monthly basis until all banquet revenue earned during the month is accounted for in the records. Many not-for-profit affairs are held at Toto's and in some instances, payment for the banquet can occur 30 to 60 days later. While the issue still exists, the party will be reported in the month it occurs and payment of all fees will be made in that month.
- The Agency has instituted a process whereby at year end, hard copies of the previous year's banquet calendars are printed to allow for cross-referencing with the party contract files. Copies to disc are likewise being made and stored off-premise as an additional precaution.
- Beginning in August of 2001, the Agency returned to a system of maintaining daily cashiers report envelopes, including computerized daily customer receipts and computerized daily summary tapes in the Grill Room. This process has been followed with the 2002 season opening.
- Currently, an additional staff member has been added to segregate duties and responsibilities over the revenue and accounting functions. That individual will have separate functions relating to the responsibility for assets as opposed to the accounting of the assets. The long-term solution now in the planning stages is to create separate departments for the accounting and asset handling functions. This is being done under the supervision of DeSantis, Kiefer, Shall & Sarcone, LLP.

Please accept this response and add it to the final report to be issued by the City of New York, Office of the Comptroller.



City of New York
Parks & Recreation

ADDENDUM II

(Page 1 of 7)

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imohiosen
Assistant Commissioner
Revenue

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

June 17, 2002

BY FAX AND MAIL

Roger D. Liwer
Assistant Comptroller for Audits
The City of New York
Office of The Comptroller
1 Centre Street - Room 1100
New York, NY 10007-2341

**Re: Comptroller's Draft Audit Report on Toto's South Shore Country Club, Ltd.
October 1, 1999 to September 30, 2000 FN02-098A, Dated June 5, 2002**

Dear Mr. Liwer:

This letter represents the Parks Department (DPR's), response to the recommendations contained in the subject audit of Toto's South Shore Country Club, Ltd. (Toto's).

DPR has issued the attached Notice To Cure (NTC) requiring that Toto's remedy all deficiencies noted in the Comptroller's audit report. Toto's is required to pay the total audit assessment of \$256,872 (**Recommendation 1**), under a three (3) month payment plan.

To comply with **Recommendation 2**, Toto's must take immediate action to implement the noted internal control recommendations.

The audit report states that, "if DPR decides not to terminate Toto's agreement, then we recommend that DPR ensure that Toto's":

Recommendation 3. Pays the City \$256,872 in additional license fees and late charges due.

Recommendation 4. Complies with the remaining recommendations made in this report.

Roger D. Liwer
June 17, 2002
Page 2

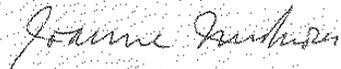
These recommendations have been addressed by DPR's issuance of the above mentioned NTC.

Recommendation 5. Is periodically audited and inspected by DPR to ensure that it is adhering to the terms of the agreement.

As indicated in DPR's NTC, I have requested that Francisco Carlos, DPR Internal Auditor, conduct a follow-up review in two months to verify that Toto's has fully complied with all audit recommendations. Furthermore, by copy of this letter to Mr. Carlos, I am requesting that he include Toto's on his annual audit plan for F/Y 04.

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

Sincerely,



Joanne Imohiosen

cc: Ron Lieberman
David Stark
Francisco Carlos
Susan Kupferman, Mayor's Office of Operations



City of New York
Parks & Recreation

APPENDIX II

(Page 3 of 7)

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imohiosen
Assistant Commissioner
Revenue

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

June 17, 2002

BY FAX AND MAIL

Mr. Larry Toto
Toto's South Shore Country Club, Ltd.
200 Huguenot Avenue
Staten Island, NY 10312

NOTICE TO CURE

Re: **Comptroller's Draft Audit Report on Toto's South Shore Country Club, Ltd.**
October 1, 1999 to September 30, 2000 FN02-098A, Dated June 5, 2002

Dear Mr. Toto:

This letter addresses the findings and recommendations contained in the subject draft audit report on Toto's South Shore Country Club, Ltd. (Toto's). Generally, the Comptroller's audit disclosed that Toto's did not include an estimated \$1,829,320 in revenues on its gross receipts statements to the Parks Department (DPR), and therefore owes the City at least \$256,872 in additional fees and late charges. Also, Toto's failed to provide critical documents to support its reported revenues, and the auditors noted serious internal control weaknesses, which precluded them from verifying to what extent Toto's reported all of its gross receipts to DPR, and paid the appropriate fees to the City.

Toto's did not provide banquet calendars from October 1, 1999 through August 18, 2000; forty-two (42) banquet contracts covering the six-month period reviewed; or any of its original source documentation to support reported snack bar revenue. Furthermore, Toto's did not properly segregate duties over its accounting functions. Finally, the auditors found that there were twenty (20) instances in which different contracts had the same contract number.

Due to the serious nature of the audit findings, the Comptroller's Office has suggested that DPR consider terminating its contract with Toto's if DPR believes that Toto's is either unwilling or unable to keep books and records, and account for all revenue, as required by the license agreement. To resolve all the deficiencies noted in the audit report Toto's is required to address and implement the audit recommendations that follow.

www.nyc.gov/parks

Larry Toto
June 17, 2002
Page 2

Recommendation 1. Toto's should pay the City \$256,872.

The audit report determined that Toto's did not report \$1,829,320 in revenue comprised of \$1,727,000 attributable to Thursday Night Deck Parties and other underreported revenue totaling \$102,320 that resulted in Toto's owing the City \$256,872.

Toto's books and records and gross receipts statements to DPR did not include receipts from parking, admissions, and beverage sales from twelve (12) to thirteen (13) stand-alone registers used to record sales during the Thursday night events for the five summers between 1997 and 2001. The auditors calculation conservatively estimates that Toto's did not pay the City fees totaling \$146,795 based on the five (5) years of unreported Deck Party revenue. The applicable late charges on this balance amounted to \$98,724, bringing the total owed to the City for the Thursday night events to \$245,519.

Omissions and errors in Toto's books and records resulted in Toto's underreporting its revenue to the City as follows:

• <u>Unreported Deposits for Canceled Events</u>	\$ 49,200
Deposits from 63 canceled banquet events were not included as revenue Toto's gross receipts statements to DPR.	
• <u>Underreported Banquet Revenue</u>	22,772
Toto's did not report the full amount for three banquet events and did not include any revenue from a fourth event on its Gross Receipts statements to DPR.	
• <u>General Ledger Posting Errors</u>	23,724
There were discrepancies between the amounts recorded on Toto's General Ledger, final bills issued to customers, and the Gross Receipts Statements submitted to DPR.	
• <u>Unreported Customer Deposits</u>	6,071
Customer deposits for 10 of 316 banquet contracts reviewed were not included on Toto's Gross Receipts Statements to DPR.	
• <u>Unreported Complimentary Meals</u>	553
There were 20 instances in which Toto's offered complimentary or promotional dinners. The value of these meals should have been reported as revenue on Toto's Gross Receipts Statements.	
TOTAL OTHER UNDERREPORTED REVENUE	<u>\$102,320</u>

Larry Toto
June 17, 2002
Page 3

The additional fees owed on the "Other" underreported revenue is \$8,697 (\$102,320 X 8.5%). The late charges applicable to this balance is \$2,656, bringing the total assessment owed for this component to \$11,353.

The total amount of additional fees and late charges owed to the City is summarized as follows:

- From Underreported Thursday Night Deck Parties \$245,519
- From Other Unreported Income 11,353

TOTAL FEES AND INTEREST DUE \$256,872

At the audit exit conference you agreed to pay the assessment but requested that DPR allow Toto's to repay the outstanding balance under an approved installment plan. DPR is agreeable to a three (3) month payment schedule as follows:

<u>DUE DATE</u>	<u>AMOUNT</u>
July 1, 2002	\$100,000
August 1, 2002	100,000
September 1, 2002	<u>56,872</u>
TOTAL AMOUNT	<u>\$256,872</u>

You should indicate your approval with this arrangement by signing and returning the enclosed copy of this letter. A check for the first installment of \$100,000 should be mailed to reach this office by July 1, 2002.

Recommendation 2. Given the audit findings noted in this report, it is obvious that DPR must consider terminating all agreements with Toto's if DPR believes that Toto's is either unwilling or unable to keep books and records and account for all revenue, as required by the agreement. At a minimum, Toto's failure to report all its revenues on its Gross Receipts Statements, its failure to maintain the necessary supporting documentation and the internal control issues mentioned in this report must be addressed. Accordingly, if DPR decides not to terminate its agreement with Toto's, DPR should require that Toto's:

- Ensure that all revenues generated at the facility are reported on its monthly Gross Receipts Statements to DPR, including revenue from the Thursday

Larry Toto
June 17, 2002
Page 4

Night Deck Parties, catering, restaurant, snack bar, and special events, and pay all required fees due the City.

- No longer use stand-alone registers and ensure that all receipts from the Thursday Night Deck Parties are processed into its point-of-sales system and are properly recorded in its books and records.
- Maintain all source documents to support and adequately evidence the gross revenues reported to Parks.
- Report all banquet revenue on its books and records in the month that the event was held.
- Maintain all banquet calendars and contracts, in accordance with its agreement.
- Maintain all original source documents pertaining to the snack bar, including the daily cashier's report envelopes, the computerized daily customer receipts, and the computerized daily summary tapes.
- Properly segregate all duties over its revenue functions.

To correct the serious record keeping and reporting deficiencies cited in the audit report and this Notice, Toto's must take immediate action to implement the above accounting internal control recommendations.

By copy of this letter to Francisco Carlos, DPR Internal Auditor, I am requesting that he schedule a follow-up review in two months to verify that Toto's has fully complied with all audit recommendations. Particular attention should be focused on the controls implemented by Toto's to account for its deck party events.

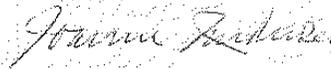
In summary, Toto's should take the following action to resolve the above cited deficiencies and positively address the audit report recommendations:

- Sign and return the copy of this Notice to indicate Toto's agreement with the payment schedule along with a check for \$100,000 by July 1, 2002.
- Take immediate action to implement the internal control recommendations under Recommendation 2.

Larry Toto
June 17, 2002
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The deficiencies noted in the audit report and which are summarized in this letter represent very serious violations that must be corrected quickly and totally. Therefore, we anticipate Toto's prompt reply and full compliance with this notice.

Sincerely,



Joanne Imohtosen

PAYMENT SCHEDULE AGREED TO BY: _____

Larry Toto

DATE: _____

cc: R. Lieberman
D. Stark
F. Carlos