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

WILLIAM C. THOMPSON, JR.
Comptroller

Audit Report on the Compliance of Staten Island Hockey, Inc., With its License Agreement

FM02-147A

June 24, 2002

The City of New York
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EXECUTIVE SUMMARY

On April 26, 1999, the Department of Parks and Recreation (Parks) entered into an eight-year license agreement with Staten Island Hockey, Inc. (Staten Island Hockey), to renovate, operate, and maintain an outdoor recreation facility consisting of a regulation-size hockey rink, a miniature golf course, a food concession, a go-cart track, and batting cages at Schmidts Lane and Manor Road, in Staten Island.

Staten Island Hockey is required to pay the City the greater of either: a minimum annual fee of $85,000 for the first and second years of the license, or 15 percent of gross receipts; a minimum annual fee of $100,000 for the third and fourth years, or 16 percent of gross receipts; a minimum annual fee of $110,000 for the fifth and sixth years, or 17 percent of gross receipts; and a minimum annual fee of $120,000 for the seventh and eighth year, or 15 percent of gross receipts. For its second operating year, May 1, 2001, to April 30, 2002, Staten Island Hockey reported gross receipts of $191,000 and paid the City the minimum annual fee of $85,000.

In addition, Staten Island Hockey was required by the license agreement to expend a minimum of $438,119 on capital improvements. The agreement required that Staten Island Hockey construct a regulation-size hockey rink, upgrade and repair the miniature golf course, purchase and install new equipment for the batting cages, pave the hockey parking area, expand and renovate the food concession stand, make general repairs to the facility, and construct a state-of-the-art two-lane go-cart track.

The license agreement also requires that Staten Island Hockey maintain the required amount of insurance coverage; submit monthly gross receipt reports and an annual income and expense report to Parks; remit a $30,000 security deposit to the City; and pay all utility costs, including charges for water and sewer use.

The audit's objectives were to determine whether Staten Island Hockey properly reported its total gross receipts, accurately calculated license fees due the City, and paid these fees on a timely basis; and complied with certain other provisions and requirements of its license agreement.

To conduct our audit, we requested specific data and detailed documentation to verify whether Staten Island Hockey reported all revenue and paid the City the appropriate fees. These requests included, but were not limited to, the underlying documentation to support the amounts recorded on the Gross Receipts Statements submitted to Parks for 2001. Staten Island Hockey failed to provide all the following critical documents for the entire operating year, from May 2001 to April 2002: Hockey league contracts, schedules, rosters, invoices, daily sales and receipts records, daily dated cash register receipts, sales books, and bank deposit receipts to support the revenue recorded on its monthly bank statements.

Our audit found that Staten Island Hockey paid its minimum license fees and its design review fee, remitted the required security deposit to the City, and paid its utility bills in accordance with its license agreement. As part of the improvements completed, Staten Island Hockey built a regulation-size hockey rink, constructed a rain shelter over the rink, upgraded the batting cages and miniature golf course area, and renovated the concession stand.

However, Staten Island Hockey breached the license agreement because it does not keep complete and accurate books of account and other records. Without such records, we were unable to track the actual amount of revenues collected or to verify whether Staten Island Hockey reported all of its gross revenues to Parks. Because of the lack of records, we observed the operation of the facility for a seven-day period in April and May 2002. During the seven-day observation period, Staten Island Hockey collected $8,379 from the batting cages, miniature golf course, the concession stand, and Snapple vending sales. Even though it rained steadily on three of our observation days, this amount far exceeded the $4,672 in gross receipts reported by Staten Island Hockey for the entire month of April 2001.

Based on our review of available records, our observations, and records obtained from vendors, we conservatively calculated that Staten Island Hockey should have reported gross receipts of at least $424,754—55 percent more than was actually reported. However, Staten Island Hockey generates revenue from other sources—hockey rink rentals, private parties, special events, the soda fountain, as well as additional revenues from sublicensees (T&C Sports World and The Sports Section)—which were not included in our estimate because no documentation of these amounts was available.

We could not determine whether Staten Island Hockey would have exceeded the minimum that required it to pay percentage-based fees to the City, since it failed to maintain the required documentation and had no records indicating the amounts collected from other sources. However, since our estimate of underreported gross receipts did not exceed the threshold at which percentage fees would be due the City, we do not include a percentage fee assessment in this report.

In addition, Staten Island Hockey did not use a point of sale cash register system, did not deposit cash receipts in a timely manner, and co-mingled funds with the Staten Island Hockey President's other business.

Moreover, Staten Island Hockey, despite receiving a "Certificate of Completion" for its required capital improvements from Parks, did not construct a two-lane go-cart track or pave the hockey parking lot, as specified in the license agreement. Also, Staten Island Hockey did not maintain the proper amounts of insurance required by the license agreement.

Consequently, we recommend that Parks terminate its agreement with Staten Island Hockey because Staten Island Hockey seriously breached its license agreement. Should Parks decide not to terminate its agreement with Staten Island Hockey, it should require that Staten Island Hockey:

- Install a point-of-sale system and ensure that all sales and hockey fees are processed through this system and are properly recorded on its books and records;

- Report all revenues generated at the facility on its monthly Gross Receipts Statements to Parks, including all revenue from the hockey leagues, miniature golf, batting cages, and the snack bar; and pay all required fees due the City.

- Maintain for six years all documents supporting the reported gross receipts. This documentation should include, but not be limited to: pre-numbered batting cage and hockey rink rental receipts; daily dated cash register receipts; and bank deposit slips;

- Comply with the capital improvements specified in the license agreement, which include constructing a two-lane go-cart track and paving the parking lot adjacent to the hockey rink.

- Maintain the proper amounts and types of insurance coverage.

Also, Parks should:

- In the future, before issuing a Certificate of Completion of Capital Commitment, more carefully verify that all the required work was, in fact, completed. If capital improvement modifications are necessary, then the agreement should be modified to reflect such changes.

Discussion of Audit Results

The matters covered in this report were discussed with officials of Staten Island Hockey and Parks during and at the conclusion of this audit. A preliminary draft report was sent to representatives of Staten Island Hockey and Parks officials and discussed at an exit conference held on June 5, 2002. On June 6, 2002, we submitted a draft report to Staten Island Hockey and Parks with a request for comments. Written responses were received from Staten Island Hockey on June 18, 2002, and from Parks on June 19, 2002.

Staten Island Hockey's accountant, who responded on behalf of Staten Island Hockey Inc., disagreed with the audit's estimate of underreported gross receipts, but generally agreed with the audit's findings and recommendations. To address the deficiencies noted in the report, Staten Island Hockey stated that it would count and record golf and batting tokens on a daily basis, will maintain documents relating to gross receipts throughout the license period, will adhere to the capital improvement requirements in the license, and has updated its insurance policies in compliance with the requirements of the license.

In its response, Parks stated that it has issued a Notice To Cure on June 18, 2002, to Staten Island Hockey's President requiring that Staten Island Hockey correct the deficiencies cited in the audit report and comply with the audit's recommendations. Parks also agreed with the audit's position that Staten Island Hockey did not complete all the capital improvements required by the license agreement.

The full texts of the responses received from Staten Island Hockey and Parks officials are included as addenda to this report.

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INTRODUCTION

Background

On April 26, 1999, the Department of Parks and Recreation (Parks) entered into an eight-year license agreement (April 23, 2000, to April 22, 2008) with Staten Island Hockey, Inc. (Staten Island Hockey), to renovate, operate, and maintain an outdoor recreation facility consisting of a regulation-size hockey rink, a miniature golf course, a food concession, a go-cart track, and batting cages at Schmidts Lane and Manor Road, in Staten Island. Staten Island Hockey is required to pay the City the greater of either: a minimum annual fee of $85,000 for the first and second years of the license, or 15 percent of gross receipts; a minimum annual fee of $100,000 for the third and fourth years, or 16 percent of gross receipts; a minimum annual fee of $110,000 for the fifth and sixth years, or 17 percent of gross receipts; and a minimum annual fee of $120,000 for the seventh and eighth year, or 15 percent of gross receipts. The minimum fees for each year's operations are payable to the City on or before the first day of each month from May through April. Any additional amounts resulting from the applicable percentage of gross receipts become due and payable 30 days after the end of each operating year.

The license agreement defines gross receipts as all funds received by the licensee, without deduction or offset of any kind, from the sale of food and beverages, wares, merchandise, or related services. For its second operating year, May 1, 2001, to April 30, 2002, Staten Island Hockey reported gross receipts of $191,000 and paid the City the minimum annual fee of $85,000.

In addition, Staten Island Hockey was required by the license agreement to expend a minimum of $438,119 on capital improvements, which were to be completed in two phases. The first phase, which was to be completed by September 23, 1999, required that Staten Island Hockey construct a regulation-size hockey rink, upgrade and repair the miniature golf course, purchase and install new equipment for the batting cages, pave the hockey parking area, expand and renovate the food concession stand, and make general repairs to the facility. The second phase, which was to be completed by November 23, 1999, required that Staten Island Hockey construct a state-of-the-art two-lane go-cart track.

The license agreement also requires that Staten Island Hockey maintain the proper levels of fire, property, and comprehensive insurance coverage, naming the City as an insured party; submit monthly gross receipt reports and annual income and expense reports to Parks; remit a $30,000 security deposit to the City; and pay all utility costs, including charges for water and sewer use.

Objectives

Our audit objectives were to determine whether Staten Island Hockey:

- properly reported its total gross receipts, accurately calculated license fees due the City, and paid these fees on a timely basis; and

- complied with certain other provisions and requirements of its license agreement (i.e., completed the required capital improvements, carried the proper amounts and types of insurance, submitted the required reports to Parks, remitted the proper security deposit, and paid for its utilities).

Scope and Methodology

The scope of the audit was May 1, 2001, through April 30, 2002. To achieve our audit objectives, we reviewed the license agreement between Parks and Staten Island Hockey and noted the requirements of the agreement. At Parks, we reviewed correspondence, revenue reports, Gross Receipt Statements, license fee payments, and other relevant documents. We analyzed Parks's Concessionaire Ledger for the amounts reported and paid the City, and verified whether those amounts were paid on time. We also compared revenues reported on Staten Island Hockey's monthly Gross Receipts Statements to its General Ledger for the period May 1, 2001, to December 31, 2001. We then traced revenues recorded in the General Ledger to deposits shown on the bank statements.

We evaluated Staten Island Hockey's internal controls over its revenue functions. To gain an understanding of the organization's daily operating procedures for the reporting and recording of revenue, we interviewed personnel, conducted walk-throughs of the operation on February 21, 2002, and March 14, 2002, and familiarized ourselves with Staten Island Hockey's record-keeping procedures. Based on our interviews with Staten Island Hockey officials and its accountant, and on an examination of the available records, we determined that Staten Island Hockey did not have sufficient controls in place to ensure that all receipts were recorded and reported to Parks. Consequently, we performed unannounced observations of Staten Island Hockey's hockey, miniature golf, batting cages, and snack bar operations on seven separate days during the period April 13, 2002, to May 5, 2002.[1]

To determine whether Staten Island Hockey properly recorded its gross receipts, we examined revenues generated by youth and adult hockey leagues for the spring 2002 season, which included payment receipts, team rosters, and game schedules. We requested that Staten Island Hockey provide original source documentation, such as hockey team rosters and payment receipts, for its entire operating year. However, Staten Island Hockey provided us with this documentation

[1] Observations of Staten Island Hockey's operations were conducted on April 13, 17, 19, 23, and 29, 2002, and on May 2 and 5, 2002.

for the spring season only, and not for the prior two seasons of the operating year. (See Scope Limitation.)

For our test of miniature golf, batting cage, and snack bar revenue operations, we requested that Staten Island Hockey provide original source documentation for the period May 1, 2001, through April 30, 2002, such as contracts, invoices, cash register tapes, and bank deposit slips. Staten Island Hockey provided us with its sales book for the period March 9, 2002, through April 30, 2002 only. It did not provide any of the other documentation requested. (See Scope Limitation.)

We requested that Staten Island Hockey officials provide records supporting its compliance with the capital improvement requirement of the license agreement. However, Staten Island Hockey was unable to provide such documentation. Staten Island Hockey did provide a list of contractors and vendors that performed the capital improvements. We contacted the contractors and vendors from this list and obtained copies of invoices indicating the work performed and the related costs.

To determine the amount of soft drink sales from vending machines, we asked Staten Island Hockey's soft drink distributors to furnish us copies of invoices for the purchases made during the operating year ending April 30, 2002. From these records, we calculated the number of beverages sold and the amount of receipts that should have been reported. We then verified whether these sales were reported as revenue on Staten Island Hockey's gross receipt statements to Parks.

Finally, we determined whether Staten Island Hockey complied with other major provisions of its license agreement (i.e., carried the proper types and amounts of insurance, remitted the proper security deposit, and paid utilities, etc.).

Scope Limitation

To conduct our audit of the license agreement between Staten Island Hockey and the City, we requested specific data and detailed documentation to verify whether Staten Island Hockey reported all revenue and paid the City the appropriate fees. These requests included, but were not limited to, the underlying documentation to support the amounts recorded on the Gross Receipts Statements submitted to Parks for 2001. Staten Island Hockey failed to provide all the following critical documents for the <u>entire</u> operating year, from May 2001 to April 2002: <u>Hockey league contracts, schedules, rosters, invoices, daily sales and receipts records, daily dated cash register receipts, sales books, and bank deposit receipts to support the revenue recorded on its monthly bank statements.</u>

Such a lack of records violates § 4.7 of the license agreement, which states, in part:

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

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 and § 5.1-5.2 of the license agreement.

Discussion of Audit Results

The matters covered in this report were discussed with officials of Staten Island Hockey and Parks during and at the conclusion of this audit. A preliminary draft report was sent to representatives of Staten Island Hockey and Parks officials and discussed at an exit conference held on June 5, 2002. On June 6, 2002, we submitted a draft report to Staten Island Hockey and Parks with a request for comments. Written responses were received from Staten Island Hockey on June 18, 2002, and from Parks on June 19, 2002.

Staten Island Hockey's accountant, who responded on behalf of Staten Island Hockey Inc., disagreed with the audit's estimate of underreported gross receipts, but generally agreed with the audit's findings and recommendations. To address the deficiencies noted in the report, Staten Island Hockey stated that it would count and record golf and batting tokens on a daily basis, will maintain documents relating to gross receipts throughout the license period, will adhere to the capital improvement requirements in the license, and has updated its insurance policies in compliance with the requirements of the license.

In its response, Parks stated that it has issued a Notice To Cure on June 18, 2002, to Staten Island Hockey's President requiring that Staten Island Hockey correct the deficiencies cited in the audit report and comply with the audit's recommendations. Parks also agreed with the audit's position that Staten Island Hockey did not complete all the capital improvements required by the license agreement.

The full texts of the responses received from Staten Island Hockey and Parks officials are included as addenda to this report.

OFFICE OF THE COMPTROLLER
NEW YORK CITY

DATE FILED: June 24, 2002

FINDINGS AND RECOMMENDATIONS

Staten Island Hockey paid its minimum license fees and its design review fee, remitted the required security deposit to the City, obtained a Food Service Establishment Permit, and paid its utility bills in accordance with its license agreement. As part of the improvements completed, Staten Island Hockey built a regulation-size hockey rink, constructed a rain shelter over the rink, upgraded the batting cages and miniature golf course area, and renovated the concession stand.

However, Staten Island Hockey breached the license agreement because it does not keep complete and accurate books of account and other records. In addition, Staten Island Hockey, despite receiving a "Certificate of Completion" for its required capital improvements from Parks, did not construct a two-lane go-cart track or pave the hockey parking lot, as specified in the license agreement. Moreover, Staten Island Hockey did not maintain the proper amounts of insurance as required by the license agreement. These issues are discussed in greater detail in the following sections of this report.

Staten Island Hockey Breached The License Agreement

Staten Island Hockey did not maintain an adequate system of internal controls or keep complete and accurate books of account and other records. §4.7(a) of the license agreement states that Staten Island Hockey 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, which shall show in detail the total business transacted by Licensee and the Gross Receipts therefrom. Such books and records . . . shall be conveniently segregated from other business matters of the Licensee and shall include, but not be limited to . . . records of daily bank deposits . . . sales slips, daily dated cash register receipts, sales books; duplicate bank deposit slips and bank statements."

> §4.7(b) states that "Licensee shall maintain each year's records, books of account and data for a minimum of six years."

Specifically, Staten Island Hockey:

- **Did Not Maintain Documentation To Support Its Receipts.** Staten Island Hockey did not provide most of the underlying documentation for the operating year ending April 30, 2002—hockey league contracts, schedules, rosters, invoices, daily sales and receipts records, daily dated cash register receipts, sales books, or receipts from its bank deposits to support the revenue reported on its monthly Gross Receipts Statements for the year ending April 30, 2002.

According to Staten Island Hockey officials, daily and weekly revenue reports were discarded after the monthly Gross Receipt Statement was submitted to Parks.

Without such records, we were unable to track the actual amount of revenues collected and verify whether Staten Island Hockey reported all of its gross revenues to Parks. Because of the lack of records, we observed the operation of the facility for a seven-day period in April and May 2002. (Appendix I shows the results of our observations.) During the seven-day observation period, Staten Island Hockey collected $8,379 from the batting cages, miniature golf course, the concession stand, and Snapple vending sales. Even though it rained steadily on three of our observation days, this amount far exceeds the $4,672 in gross receipts reported by Staten Island Hockey for the entire month of April 2001.

Based on our review of available records, our observations, and records obtained from vendors, we conservatively calculated that Staten Island Hockey should have reported gross receipts of at least $424,754—55 percent more than was actually reported. However, Staten Island Hockey generates revenue from other sources—hockey rink rentals, private parties, special events, fountain soda, as well as additional revenues from sublicensees (T&C Sports World and The Sports Section)—which were not included in our estimate because no documentation of these amounts was available. (Appendix II summarizes amounts of underreported receipts.)

Since our estimate of underreported gross receipts did not exceed the threshold at which percentage fees would be due the City, we do not include a percentage fee assessment in this report. However, since Staten Island Hockey failed to maintain the required documentation and has no records indicating the amounts collected from other sources, we could not determine whether Staten Island Hockey would have exceeded the minimum that required it to pay percentage-based fees to the City.

- **Did Not Have Adequate Controls Over Cash Receipts.** Staten Island Hockey did not use a point of sale cash register system. Instead, when sales were transacted, the cash register did not produce receipt tapes. Instead the register is used as a cash drawer.

- **Did Not Deposit Its Cash Receipts In a Timely Manner.** According to the bank statements that Staten Island Hockey provided, only 36 deposits were made from May 2001 through December 2001, an average of once a week. Daily bank deposits and the prompt recording of receipts for a cash business operating a seven-day work period would provide protection for cash and facilitate a clear audit trail for the tracings of reported revenue.

- **Commingled Its Funds.** All credit card sales for Staten Island Hockey are processed at and billed by Fun Station USA, the Staten Island Hockey President's other business. Consequently, there is no way to determine the amount of credit card sales that pertain to Staten Island Hockey's operation. In fact, two checks in the amount of $9,260 were issued to Staten Island Hockey's President from Staten Island Hockey's bank account. Staten Island Hockey's President claimed that this amount belonged to Fun Station USA, and was incorrectly deposited in Staten Island Hockey's bank account. As a result, this amount was not reported as part of Staten Island Hockey's gross receipts. We could not confirm whether these funds should have been reported to Parks.

Because Staten Island Hockey does not maintain an adequate system of internal controls or keep complete and accurate books of account and other records, it is in breach of the license agreement. §4.7(d) of the license agreement states:

> "The failure or refusal of the Licensee to maintain adequate internal controls or to keep any of the records as required by this Article or the existence of any unexplained discrepancy in the amount of fees required to be due and paid . . . shall be presumed to be a failure to substantially comply with the terms and conditions of this License and a default hereunder."

Contract Compliance Issues

Staten Island Hockey, despite receiving from Parks a Certificate of Completion of Capital Commitment for its required capital improvements, did not construct a two-lane go-cart track or pave the hockey parking lot, as required by the license agreement. Staten Island Hockey built a regulation-size hockey rink, constructed a rain shelter over the rink, upgraded the batting cages and miniature golf course area, and renovated the concession stand. However, as of May 9, 2002, Staten Island Hockey had not begun construction of the two-lane go-cart track or begun paving the parking lot adjacent to the hockey rink, which was required in § 7.1 of the license agreement. We obtained invoices from contractors indicating that $600,406 in capital improvements were made. However, we are perplexed as to why Parks issued Staten Island Hockey a Certificate of Completion that stated "the required minimum capital expenditure of $438,119.00, as stipulated in the contract agreement, has been met and the specified work has been completed satisfactorily" even though this major undertaking had not even been started.

In fact, had Staten Island Hockey constructed and operated the go-cart track, it could have generated an additional $110,000 in revenue—similar to the revenue of another Parks concession with a go-cart track on Staten Island.[2] If a go-cart track were in operation, Staten Island Hockey might have exceeded the threshold at which percentage fees would be due to the City.

In addition, Staten Island Hockey does not maintain the insurance required by the license agreement. We found that Staten Island Hockey is under-insured by $2-million on its comprehensive general liability insurance coverage. §25.6 of the license agreement requires that Staten Island Hockey carry, for any one occurrence, not less than a $3-million comprehensive general liability insurance policy, a $1-million employer's liability insurance, and a $1-million property insurance.

[2] Pars and Strikes, a similar Parks concession, reported approximately $110,000 in go-cart revenues for calendar year 1998.

Recommendations

Staten Island Hockey is in serious breach of its license agreement and Parks therefore must consider terminating this agreement. At a minimum, Parks must address Staten Island Hockey'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. Should Parks decide not to terminate its agreement with Staten Island Hockey, it should require that Staten Island Hockey:

- Install a point-of-sale system and ensure that all sales and hockey fees are processed through this system and are properly recorded on its books and records;

- Report all revenues generated at the facility on its monthly Gross Receipts Statements to Parks, including all revenue from the hockey leagues, miniature golf, batting cages, and the snack bar; and pay all required fees due the City.

- Maintain for six years all documents supporting the reported gross receipts. This documentation should include, but not be limited to: pre-numbered batting cage and hockey rink rental receipts; daily dated cash register receipts; and bank deposit slips;

- Comply with the capital improvements specified in the license agreement, which include constructing a two-lane go-cart track and paving the parking lot adjacent to the hockey rink.

- Maintain the proper amounts and types of insurance coverage.

Parks should:

- In the future, before issuing a Certificate of Completion of Capital Commitment, more carefully verify that all the required work was, in fact, completed. If capital improvement modifications are necessary, then the agreement should be modified to reflect such changes.

Parks Response: "DPR [Parks] has issued a Notice To Cure (NTC) requiring that SI Hockey remedy all deficiencies noted in the Comptroller's audit report. SI Hockey is required to:

- Comply with all internal control and record keeping recommendations, including the installation of a point-of-sale system;
- Construct a go-cart track and pave the hockey parking lot, or propose another revenue generating recreation activity to DPR for consideration and approval;
- Take immediate action to obtain the required level of insurance coverage required by its license agreement."

With regard to the issuance of a Certificate of Completion of Capital Commitment, Parks stated, "The referenced Certificate of Completion was issued only after SI Hockey exceeded its required capital investment dollar amount of

$438,119. The concessionaire, as an industry expert for that business was afforded some latitude in planning the best complement of activities for the facility. . . DPR always has final review and approval authority over any proposed use of its licensed operations and signs-off on a project after it considers that a licensee has fully complied with all phases of its required capital investment. In the case of SI Hockey DPR agreed with the auditor's position and therefore has required that it add another revenue stream to the operation."

APPENDIX I

Schedule of Receipts Generated During Auditors' Observations

Performed Observation		**Type of Revenue Generated**				
Day of Week	Date Performed	Batting Cages	Miniature Golf	Food	Snapple Vending Machines	**Total for Day**
Sunday	05/05/02	$1,405.50	$ 610.00	$224.50	$ 96.00	$ 2,336.00
Monday	04/29/02	$ 348.00	$ 20.00	$ 36.00	$12.00	$ 416.00
Tuesday	04/23/02	$ 610.50	$ 60.00	$ 63.50	$15.00	$ 749.00
Wednesday	04/17/02	$ 910.50	$ 175.00	$ 64.50	$87.00	$ 1,237.00
Thursday	05/02/02	$ 241.50	$ 40.00	$ 23.50	$27.00	$ 332.00
Friday	04/19/02	$ 441.00	$ 65.00	$ 73.00	$63.00	$ 642.00
Saturday	04/13/02	$1,981.50	$ 510.00	$ 78.00	$97.50	$ 2,667.00
Total for the seven days		$5,938.50	$1,480.00	$563.00	$ 397.50	**$ 8,379.00** **Grand Total**

APPENDIX II

Schedule of Revenue Underreported by Staten Island Hockey During Operating Year 2001-2002

Sources of Income	Gross Receipts Reported by Staten Island Hockey to Parks	Gross Receipts Determined by the Auditors	Gross Receipts Not Reported
Hockey Rink	$63,942	$169,775	$105,833
Batting Cages	57,256	166,278	109,022
Miniature Golf Course	55,600	41,440	-14,160
Concession Stand	14,202	47,261	33,059
Total	**$191,000**	**$424,754**	**$233,754**

S. Marchetti & Associates Inc.
Accountant & Tax Consultant
7403 Third Avenue
Brooklyn, New York 11209
TEL: (718) 680-0100 FAX: (718) 680-3285

June 18, 2002

Mr. Michael Morgese
Assistant Director
The City of New York
Office of the Comptroller
Bureau of Audits
1 Center Street, Room 1100
New York, NY 10007-2341

Re: Audit Report on the Compliance of
Staten Island Hockey, Inc.,
With it's License Agreement
FM02-147A

Dear Mr. Morgese:

As a follow up to the audit report pertaining to my client we would like to comment on certain issues relating to the report. The audit report cited certain areas of concern, which needed to be changed or revised per the comptroller's office.

1. POINT OF SALES SYSTEM - Staten Island Hockey will on a daily basis count and record all golf and batting tokens. The amounts will then be noted in a daily logbook. This system will be used to also include any special events to include any other miscellaneous income. It should be noted that Mr. Francisco Carlos of the Parks Department is presently researching the correct way to record and maintain the revenue's generated from the concessions and hockey operations. By installing this new sales system this will enable them to better track all revenues and expenses relating to the operations on a daily basis.

2. GROSS RECIEPTS REPORT - Staten Island Hockey will maintain all documents relating to gross receipts through out their present concession lease period. All documents will be kept on hand including but not limited to bank deposit slips, daily log reports as well as a token count for these operations.

S. Marchetti & Associates Inc.
Accountant & Tax Consultant
7403 Third Avenue
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3. RECEIPT MAINTIENCE - Staten Island Hockey will keep on file all income documents relating to their activity, this documentation includes: bank deposit slips all rental and birthday party receipts and a daily logbook.

4. CAPITAL IMPROVEMENT AGREEMENT – At this time Staten Island Hockey is looking to ascertain bids from different companies. Enclosed please find a copy of an old bid dated March 2000. They are also trying to obtain the proper financing in order to comply with this agreement.

5. INSURANCE - At this time all our insurance policies have been reviewed and updated. In complying with the parks request our coverage's are adequate and inline with there specifications.

In closing, Staten Island Hockey would like to thank the New York City Comptrollers Office for helping them in implementing the proper controls relating to their operations. Moving forward Staten Island Hockey will make the necessary changes as per the recommendations that were noted in the initial report.

Although the observations test which was done using April and May 2001 as a sample resulted in an adjustment to their gross receipts, this was no way an indication of the business which was actually done for tax year 2001. There were many obstacles, which took place in 2001 such as, having the hokey rink resurfaced and reconditioned for safety purposes. The weather caused Staten Island Hockey to lengthen the hockey season, which extended the season an additional two months. A normal season should run for three months but in that year it took five months to complete. The tragedy of September 11th substantially curtailed their business. We would like to again thank the city comptroller's office for their assistance and input pertaining to this operation.

Very truly yours,

Steven J. Marchetti
Accountant
SJM/bg
Encl.

Addendum I - Response from Staten Island Hockey, Inc.

MGC Developers
2 Wilson Court
Enfield, CT 06082
Phone 860-290-8552
Fax 860-749-4434
email, www.MGCdev1@aol.com

March 5, 2000

PROPOSAL

MGC Developers, a Connecticut Company whose address is 2 Wilson Court, Enfield, CT 06082, proposes to provide the following Construction and related Layout fabrication for Fun Station USA, whose address is ____________________

1. Contractor shall provide all labor, materials and equipment for a Go-Kart track of approximately 870 linear feet within the areas designated for these attractions as indicated by the site layout.

2. Contractor shall coordinate its work with the Owner's schedule, other project consultants and other contractors on site.

3. Contractor shall provide attractions which are complete and suitable operations, in accordance with the facility standards of the IRGA, and the manufacturers standard practices.

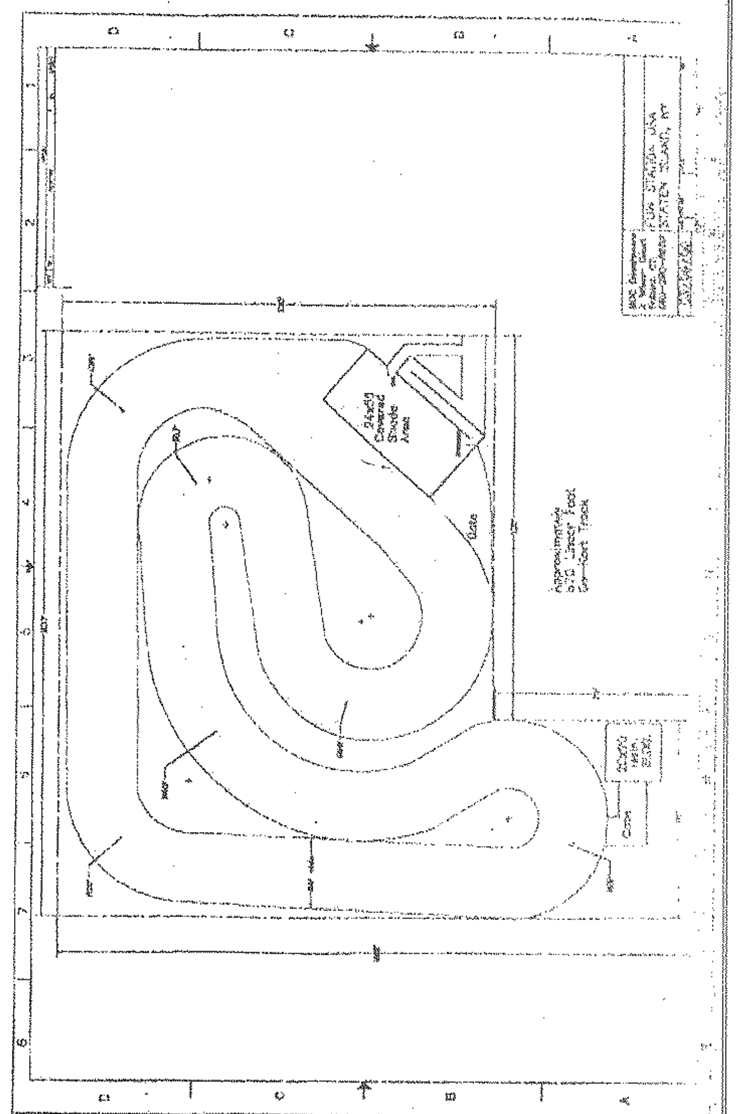
4. Scope of work provided under this proposal includes:

A. Approximately 870 linear feet by 24 feet wide concrete go-kart track with pin, tire, and metal rail system, 24 by 90 pit area, 24 by 50 shade structure, 20 by 20 maintenance building, and Que-line walkways. Concrete shall be poured 6' around the perimeter and 4' in the center.

Proposed costs by attraction component:

- 870 linear foot track @ $137.50 linear foot..............	$119,625.00
- Lighting..	14,000.00
- Pit area & gates..	10,800.00
- Covered shade structure......................................	24,000.00
- Roll up gates...	t/b/d
- Sidewalks and Que-line waiting area..........................	5,000.00
- Maintenance Building...	10,000.00
- Lodging allowance 3 rooms @ $85 per night @ 4 weeks.........	7,140.00
Total estimated cost..............................	$190,565.00

Addendum I - Response from Staten Island Hockey, Inc.



City of New York
Parks & Recreation

Addendum II - Response from the City of New York Parks & Recreation

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 19, 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 Staten Island Hockey, Inc.
May 1, 2001 to April 30, 2002 FM02-147A, Dated June 6, 2002**

Dear Mr. Liwer:

This letter represents the Parks Department (DPR's), response to the recommendations contained in the subject audit of Staten Island Hockey, Inc. (SIHockey).

DPR has issued the attached Notice To Cure (NTC) requiring that SIHockey remedy all deficiencies noted in the Comptroller's audit report. SI Hockey is required to:

- Comply with all internal control and record keeping recommendations, including the installation of a point-of-sale system;
- Construct a go-cart track and pave the hockey parking lot, or propose another revenue generating recreation activity to DPR for consideration and approval;
- Take immediate action to obtain the required level of insurance coverage required by its license agreement.

The audit report also states that DPR should:

- In the future, before issuing a Certificate of Completion of Capital Commitment, more carefully verify that all the required work was, in fact, completed. If capital improvement modifications are necessary, then the agreement should be modified to reflect such changes.

The referenced Certificate of Completion was issued only after SIHockey exceeded its required capital investment dollar amount of $438,119. The concessionaire, as an industry expert for that business was afforded some latitude in planning the best complement of activities for the facility. In some cases it makes good sense for an operator to adjust its business plan to better maximize its profit position. DPR always has final review and approval authority over any proposed use of its licensed operations and only signs-off on a project after it considers that a licensee has fully complied with all phases of its required capital investment. In the case of SIHockey DPR agreed with the auditor's position and therefore has required that it add another revenue stream to the operation.

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

Sincerely,

Joanne Imohiosen

Joanne Imohiosen

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

City of New York
Parks & Recreation

Addendum II - Response from the City of New York Parks & Recreation

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
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Revenue

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joanne.imohiosen@parks.nyc.gov

June 18, 2002

BY FAX AND MAIL
Mr. Michael Mancusi, President
Staten Island Hockey, Inc.
215 Schmidts Lane
Staten Island, NY 10314

NOTICE TO CURE
**Re: Comptroller's Draft Audit Report on Staten Island Hockey, Inc.
May 1, 2001 to April 30, 2002 FM02-147A, Dated June 6, 2002**

Dear Mr. Mancusi:

This letter addresses the findings and recommendations contained in the subject draft audit report on Staten Island Hockey, Inc. (SIHockey). Generally, the Comptroller's audit disclosed that SIHockey breached its license agreement because it does not keep complete and accurate books of account and other records. Without such records, the auditors were unable to track the actual amount of revenues collected or to verify whether SIHockey reported all of its gross revenues to the Parks Department (DPR).

Specifically, SIHockey failed to provide all the following critical documents for the entire operating year, from May 2001 to April 2002: Hockey league contracts, schedules, rosters, invoices, daily sales and receipts records, daily dated cash register receipts, sales books, and bank deposit receipts to support the revenue recorded on its monthly bank statements. Furthermore, from their review of available documentation, observations, and records obtained from vendors, the auditors conservatively calculated that SIHockey underreported its gross receipts by $233,754. However, they could not determine whether SIHockey would have exceeded the minimum that required it to pay percentage-based fees to the City, since SIHockey failed to maintain the required documentation and had no records indicating the amounts collected from other sources.

Also, the audit report stated that SIHockey did not use a point of sale cash register system, did not deposit cash receipts in a timely manner, and co-mingled funds with the SIHockey President's other business, Fun Station USA.

Due to the serious nature of the audit findings, the Comptroller's Office has suggested that DPR terminate its contract with SIHockey. Consequently, DPR requires SIHockey to resolve all the deficiencies noted in the report by taking immediate action to implement the audit recommendations that follow.

SIHockey is required to:

- **Install a point-of-sale system and ensure that all sales and hockey fees are processed through this system and are properly recorded on its books and records;**
- **Report all revenues generated at the facility on its monthly Gross Receipts Statements to DPR, including all revenue from the hockey leagues, miniature golf, batting cages, and the snack bar, and pay all required fees due the City;**
- **Maintain for six years all documents supporting the reported gross receipts. This documentation should include, but not be limited to : pre-numbered batting cage and hockey rink rental receipts; daily dated cash register receipts; and bank deposit slips;**

SIHockey did not have adequate controls over cash receipts because it did not use a point of sale cash register system. Its sales transactions were processed utilizing cash register equipment that did not produce receipt tapes. Therefore, SIHockey must take immediate action to install a point-of-sale system to properly record its cash.

Also, SIHockey's bank statements showed that bank deposits were transacted only once a week. Daily bank deposits and the prompt recording of transactions on pre-numbered receipts will provide protection for cash and facilitate a clear audit trail for tracing reported revenue. Furthermore, SIHockey's credit card sales were processed and billed by the SIHockey President's other business, Fun Station USA. Therefore, there is no way to determine the amount of credit card sales that pertain to SIHockey's operation. SIHockey should take prompt action to implement procedures to strengthen its internal controls that include the above cited recommendations, and by recording only the credit card sales transactions of SIHockey in its accounting books and records.

- **Comply with the capital improvements specified in the license agreement, which include constructing a two-lane go-cart track and paving the parking lot adjacent to the hockey rink.**

The audit report found that SIHockey did not construct the recommended go-cart track or pave the hockey parking lot as required by Section 7.1 of the license agreement. The auditors determined that although SIHockey has expended $600,406 for capital improvements, it has not appropriated any of this money to the go-cart track or paving projects. The auditors estimated that SIHockey could have generated an additional $110,000 in revenue if it had constructed the go-cart track.

DPR requires that SIHockey fully comply with the capital improvement provision of the license agreement by constructing the go-cart track and paving the hockey parking lot or by presenting a proposal for the installation of another revenue generating recreation activity to DPR for consideration and approval. SIHockey is afforded thirty (30) days from the date of this letter to submit its proposed plan for the additional attraction.

- **Maintain the proper amounts and types of insurance coverage.**

The audit report disclosed that SIHockey is under-insured by $2-million on its comprehensive general liability insurance coverage. Section 25.6 of the license agreement requires that SIHockey carry, for any one occurrence, not less than a $3-million comprehensive general liability insurance policy, $1-million for employer's liability insurance, and $1-million in property coverage. SIHockey must take immediate action to obtain the required level of coverage and submit a copy of the insurance certificate to Faustina Osei-Owusu of my Revenue staff to verify that SIHockey is in full compliance with the insurance provision of its contract.

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 SIHockey has complied with the above internal control recommendations, and has taken appropriate action to commence installation of another revenue generating activity at the facility.

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 SIHockey's prompt reply and full compliance with this notice.

Sincerely,

Joanne Imohiosen

Joanne Imohiosen

cc: R. Lieberman
D. Stark
F. Carlos
F. Osei-Owusu