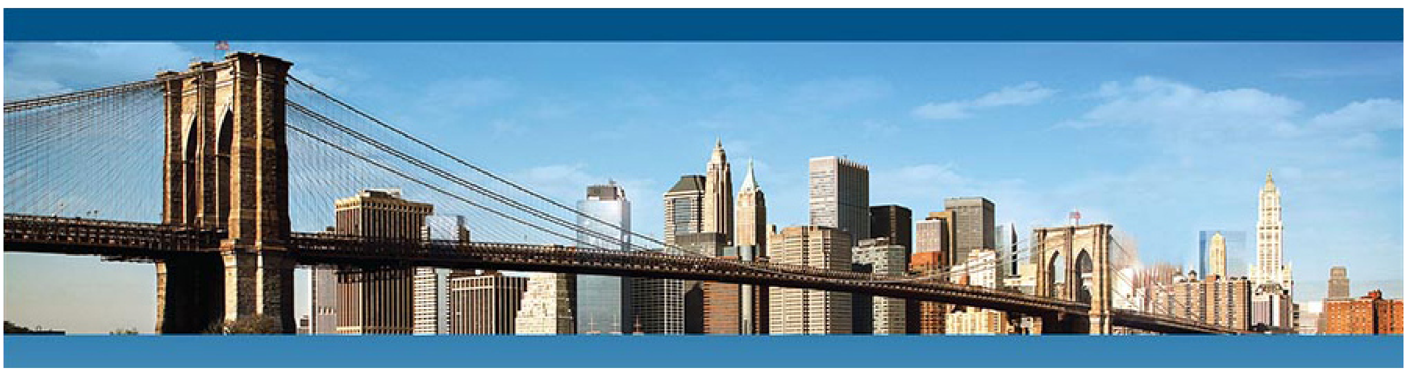
City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa
Deputy Comptroller for Audit

Audit Report on the Compliance of Kissena Golf LLC with Its License Agreement for the Kissena Park Golf Course

FP17-083A

May 30, 2017

http://comptroller.nyc.gov

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

May 30, 2017

To the Residents of the City of New York:

My office has audited Kissena Golf LLC (Kissena Golf) to determine whether it maintained adequate internal controls, properly calculated and reported its gross receipts, and complied with major requirements of its license agreement (License) to operate an 18-hole golf course and clubhouse located at Kissena Park in Queens. This audit also examined whether the Department of Parks and Recreation (Parks) properly monitored Kissena Golf's activities to ensure its compliance with the License. We perform audits of City licenses, such as this one, to increase accountability and ensure that City licensees operate in compliance with their agreements.

The audit found that while Kissena Golf properly applied and paid the correct minimum annual License fees, it did not comply with the gross receipts reporting requirements of its License and understated the gross receipts it reported to Parks by $56,402. While the unreported revenue did not affect the amounts of Kissena Golf's License fees payable to Parks, the continued omission of revenue from future reports could improperly reduce Kissena Golf's future payments to Parks for its use of the City's golf course. In addition, the audit found that Kissena Golf violated its License by entering into two sublicense agreements without prior authorization from Parks and that Kissena Golf did not maintain adequate controls to ensure proper segregation of duties.

In addition, the audit also found that Parks did not adequately review Kissena Golf's reporting of capital improvements expenditures. Further, neither Kissena Golf nor Parks was able to provide sufficient documentation, such as invoices, to substantiate $196,353 of Kissena Golf's claimed capital improvements expenses. Finally, the audit found that Parks did not ensure that Kissena Golf completed all capital improvements required by the License.

The audit makes 14 recommendations, including that Kissena Golf ensure that all revenue derived from the licensed premises is properly reported to Parks; that it establish an adequate system of controls to ensure a proper level of segregation of duties; that it obtain approval from Parks before entering into any sublicense agreement; and that it complete all required capital improvements for the parking lot and storage building as required by the License. The audit also recommends that Parks ensure that Kissena Golf is in compliance with its License and that it take appropriate measures to ensure that Kissena Golf submits for review and approval by Parks all proposed sublicenses and subcontracts in advance of their being entered into.

The results of the audit have been discussed with Kissena Golf and Parks, and their comments have been considered in preparing this report. Their complete written responses are attached to this report. If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

Scott M. Stringer

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OFFICE OF THE COMPTROLLER
FINANCIAL AUDIT

Audit Report on the Compliance of Kissena Golf LLC with Its License Agreement for the Kissena Park Golf Course

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EXECUTIVE SUMMARY

Kissena Golf LLC (Kissena Golf) is responsible for operating an 18-hole golf course, club house, and food service facility located at Kissena Park in Queens. In 2008, Kissena Golf entered into a 20-year License Agreement (the License) with the New York City Department of Parks and Recreation (Parks) for the renovation, operation, and maintenance of the golf course, clubhouse, and food service facility. In the audit, we examined whether Kissena Golf maintained adequate internal controls, properly calculated and reported its gross receipts, and complied with major requirements of its License. This audit also examined whether Parks properly monitored Kissena Golf's activities to ensure its compliance with the License.

Audit Findings and Conclusions

The audit found that while Kissena Golf properly applied the correct minimum annual License fees, it did not comply with the gross receipts reporting requirements of its License and understated the gross receipts it reported to Parks by $56,402. Specifically, we found that Kissena Golf failed to report revenue collected and retained by two of its sublicensees, companies that sold golf reservations for the licensed premises. Under their agreements with Kissena Golf, the sublicensees retained, in lieu of fees for their services, a portion of the sales revenue they collected from the use of the City's golf course and Kissena Golf, in turn, omitted that revenue in its reporting of gross receipts to Parks. As a result, Kissena Golf did not meet its obligation under the License to fully disclose all gross receipts that were generated from its use of the golf course. While the unreported revenue retained by the two sublicensees during the audit period did not affect the amounts of Kissena Golf's License fees payable to Parks because only the minimum payment was due during the audit period, the continued omission of revenue from future reports could improperly reduce Kissena Golf's future payments to Parks for its use of the City's golf course. In addition, we found that Kissena Golf violated its License by entering into the two sublicense agreements in question without prior authorization from Parks.

Our audit also found that Kissena Golf did not maintain adequate controls to ensure proper segregation of duties. For example, the one individual it employed as a manager was responsible for a host of key administrative duties, including closing out the point of sale (POS) system, depositing cash, and entering transactions into the general ledger.[1] Specifically, Kissena Golf relied on a single employee to authorize and record financial transactions and at the same time maintain custody of the related cash and other assets. This concentration of activities with a single person increases the risk that accounting errors and misappropriation of funds could occur and go undetected.

We also found that Parks did not adequately review Kissena Golf's reporting of capital improvements expenditures and as a result allowed Kissena Golf to include $4,403 of regular maintenance and other expenses, and $7,442 for purchases delivered to another golf course in its claimed capital spending under the License. Further, neither Kissena Golf nor Parks was able to provide sufficient documentation, such as invoices, to substantiate $196,353 of Kissena Golf's claimed capital improvements expenses—approved by Parks—for the licensed facility. In addition, Parks did not ensure that Kissena Golf completed all capital improvements required by the License. Finally, Parks did not enforce Kissena Golf's obligation under the License to submit supporting documents for capital improvements when requested.

Audit Recommendations

To address these issues, we made 14 recommendations, seven to Kissena Golf and seven to Parks, including the following:

Kissena Golf should:

- Ensure that all revenue derived from the licensed premises is properly reported to Parks.
- Establish an adequate system of controls to ensure a proper level of segregation of duties.
- Complete all required capital improvements for the parking lot and storage building as required by the License.
- Obtain approval from Parks before entering into any sublicense or subcontract agreement affecting the management and operation of any element of the licensed premises.

Parks should:

- Ensure that Kissena Golf is in compliance with its License by:
  - Requiring Kissena Golf to properly report all gross receipts;
  - Requiring that Kissena Golf submit documents relating to its capital spending and other activities related to the License promptly upon request;
  - Requiring Kissena Golf to maintain adequate internal controls, including proper segregation of duties.
- Take appropriate measures to ensure that Kissena Golf submits for review and approval by Parks all proposed sublicenses and subcontracts in advance of their being entered into.

[1] Kissena Golf used a computerized POS system whereby payment terminals were linked to a central system that recorded and tabulated sales at and for the licensed premises.

- Properly review all invoices and related documentation submitted by Kissena Golf supporting its capital improvements to date and verify that claimed expenditures are only for capital improvement work as defined in the License.

Kissena Golf's Response

Kissena Golf agreed with each of the report's seven recommendations addressed to it.

Parks' Response

Parks agreed with six of the seven recommendations addressed to Parks and partially agreed with one recommendation. Specifically, Parks agreed that the $4,403 Kissena Golf spent for annual winterization expenses should be categorized as maintenance expenses and deducted from Kissena Golf's capital expenditures, but disagreed with the audit recommendation that Parks should also deduct $7,442 for purchases delivered to another golf course. Parks officials stated that, "[t]he operators of Kissena Golf also manage NYC Parks golf courses at Van Cortlandt, Douglaston and Forest Park. Kissena has informed us that while some shipments may have been delivered to other courses that they operate, each of those purchases were designated for Kissena." Parks added that all but one of the relevant invoices bore the printed name of Kissena Golf.

Notwithstanding Parks' acceptance of Kissena Golf's assertion that goods purchased for the Kissena Park Golf Course were delivered to other golf courses, Kissena Golf did not provide documentation showing that those items were ultimately delivered to the Kissena Park Golf Course. Therefore, we find no basis for changing our recommendation that Parks should deduct $7,442 from Kissena Golf's capital improvement expenditures.

AUDIT REPORT

Background

In 2008, Parks entered into a 20-year License with Kissena Golf for the renovation, operation, and maintenance of an 18-hole golf course, clubhouse, and food service facility at Queens' Kissena Park. The License requires Kissena Golf to annually pay the City the higher of:

1. the minimum annual fee; or
2. a specified percentage of the year's gross receipts from the operation of the licensed premises.

In both cases, Kissena Golf must also pay a surcharge of $4.00 for each round played, other than rounds played by juniors (golfers who are 16 years old and younger). The table below illustrates the breakdown of these fees:

Table I

License Fees Guideline

Operating Years	Minimum Annual Fee	Percent of Gross Receipts
1-5	$190,000	13 percent of greens fees and cart rentals PLUS 9 percent of merchandise, snack/bar/grill and other revenue
6-10	$240,000	14 percent of greens fees and cart rentals PLUS 9 percent of merchandise, snack/bar/grill and other revenue
11-15	$290,000	15 percent of greens fees and cart rentals PLUS 9 percent of merchandise, snack/bar/grill and other revenue
16-20	$340,000	16 percent of greens fees and cart rentals PLUS 9 percent of merchandise, snack/bar/grill and other revenue

During our scope period, the License required that Kissena Golf pay the higher of the minimum annual fee of $240,000 or 14 percent of gross receipts for green fees and cart rentals, plus 9 percent of gross receipts for merchandise, snack bar/grill and other revenue.

According to the License, "[g]ross Receipts shall also include all sales made by any other operator or operators using the Licensed Premises under a properly authorized sublicense or subcontract agreement." The License also required Kissena Golf to submit to Parks a monthly report of the number of rounds of golf played at the course during the preceding month, along with any applicable surcharge payment. Further, the License stipulates that Kissena Golf will be charged a 2 percent late fee for any payment overdue for more than ten days. If the payment and late fee are not paid in full within 10 days after the late fee is charged, an additional charge of 2 percent will be added.

The License also requires Kissena Golf to:

- Maintain adequate systems of internal control, complete and accurate records, books of account and data, including daily sales and receipts records, which show in detail the total business transacted and the gross receipts;
- Submit a monthly statement of gross receipts to Parks;
- Complete specified capital improvements valued at a minimum cost of $1,595,000 during the term of the License;
- Submit a security deposit to Parks of $85,000;
- Pay all federal, state, and local taxes applicable to the operation of the licensed premises; and
- Carry proper insurance coverage, including a $5 million general liability policy.

For Calendar Years 2015 and 2016, Kissena Golf reported gross receipts of $1,481,796 and $1,462,892, respectively. Because the License fee calculation based on a percentage of the gross receipts payable under the License terms would have resulted in lower payments to the City than the minimum annual payments specified therein, Kissena Golf paid the minimum annual License fee of $240,000 in both years, plus surcharges of, respectively, $155,604 and $156,392. Thus, Kissena Golf's License payments to Parks totaled $395,604 for 2015 and $396,392 for 2016.

Objectives

The objectives of this audit were to:

- Determine whether Kissena Golf:
  - Maintained adequate internal controls over the recording and reporting of its gross receipts;
  - Properly calculated and reported its gross receipts and license fees due and paid those fees in a timely manner to the City; and
  - Complied with major requirements of its License related to operations, capital improvements, maintenance, sanitation and repairs; and

- Determine whether Parks properly monitored Kissena Golf's activities in relation to these requirements to ensure its compliance with the License.

Scope and Methodology Statement

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

The scope of this audit covered Calendar Year 2015 and part of Calendar Year 2016 (January 1, 2016 through August 31, 2016). Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with Kissena Golf and Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to Kissena Golf and to Parks and discussed at an exit conference held on April 24, 2017. At the exit conference, Kissena Golf and Parks officials provided additional information regarding certain issues discussed in the report, all of which was considered in connection with the preparation of this final report. On May 3, 2017, we submitted a draft report to Kissena Golf and Parks with a request for comments. We received a written response from Kissena Golf on May 16, 2017, and from Parks on May 17, 2017. In its response, Kissena Golf agreed with each of the report's seven recommendations.

In its response, Parks agreed with six of the seven recommendations and partially agreed with one recommendation. Specifically, Parks agreed that the $4,403 Kissena Golf spent for annual winterization expenses should be categorized as maintenance expenses and deducted from Kissena Golf's capital expenditures, but disagreed with the audit recommendation that Parks should also deduct $7,442 for goods delivered to another golf course. Parks officials stated that, "[t]he operators of Kissena Golf also manage NYC Parks golf courses at Van Cortlandt, Douglaston and Forest Park. Kissena has informed us that while some shipments may have been delivered to other courses that they operate, each of those purchases were designated for Kissena." Parks added that all but one of the relevant invoices bore the printed name of Kissena Golf.

Notwithstanding Parks' acceptance of Kissena Golf's assertion that goods purchased for the Kissena Park Golf Course were delivered to other golf courses, Kissena Golf did not provide documentation showing that those purchases were ultimately delivered to the Kissena Park Golf Course. Therefore, we find no basis for changing our recommendation that Parks should deduct $7,442 from Kissena Golf's capital improvement expenditures.

The full text of Kissena Golf's and Parks' responses are included as addenda to this report.

FINDINGS

Kissena Golf properly paid the License fees due to Parks in a timely manner. In addition, Kissena Golf maintained the required liability insurance that named the City as an additional insured party and it paid the required security deposit to Parks.

However, our audit found that Kissena Golf understated the gross receipts it reported to Parks by $56,402 in violation of its gross receipts reporting requirements. The underreporting was the result of Kissena Golf's failure to report revenue collected and retained as payment for services rendered by two of its sublicenses. In addition, we found that Kissena Golf violated the terms of its License by entering into the two sublicense agreements in question without prior authorization from Parks.

Kissena Golf's failure to report the sublicenses' revenue did not ultimately affect the amounts of Kissena Golf's license fees payable to Parks because only the minimum payments were due during the audit period, even when the unreported revenue was considered. However, were Kissena Golf to continue to omit such revenue from future reports, it could improperly reduce Kissena Golf's payments to Parks.

Our audit also found that Kissena Golf did not maintain adequate controls to ensure proper segregation of duties. In addition, with respect to capital improvements, we found that Parks did not always adequately review Kissena Golf's reporting of capital improvements expenditures. Further, we found that neither Kissena Golf nor Parks was able to provide sufficient documentation to substantiate $196,353 of Kissena Golf's claimed capital improvements expenses. In addition, Parks did not ensure that Kissena Golf completed certain capital improvements required by the License. Specifically, Parks failed to ensure that Kissena Golf improved the parking lot and storage building in accordance with requirements of the License.

We also found that Parks did not adequately review Kissena Golf's reporting of capital improvements expenditures and as a result allowed Kissena Golf to include $4,403 of regular maintenance and other expenses, and $7,442 for purchases delivered to another golf course in its claimed capital spending under the License. Finally, Parks did not enforce Kissena Golf's obligation under the License to submit supporting documents for capital improvements when requested.

Kissena Golf Underreported Gross Receipts by $56,402

Kissena Golf violated the terms of the License by failing to fully report to Parks all of the revenue generated from arrangements with third party vendors. According to the License:

- "All sales made or services rendered by Licensee from the Licensed Premises shall be construed as made and completed therein even though payment therefore may be made at some other place."
- "Gross Receipts shall . . . include all sales made *by any other operator or operators using the Licensed Premises* under a properly authorized sublicense or subcontract agreement." (Emphasis added.)

However, our review found that Kissena Golf did not fully report its gross receipts as defined by the License because it failed to report revenue collected and retained as payment for services rendered by two sublicenses.

Specifically, Kissena Golf entered into an agreement with EZLinks Golf, Inc. (EZLinks) for online tee time reservation software and an interfacing POS system. It also entered into an oral agreement with GolfNow, a subsidiary of the Golf Channel, for a separate online tee time reservation portal. Rather than paying these vendors directly for their services, Kissena Golf instead assigned them the right to collect and retain fees for specific tee times in exchange for the services the vendors provided. As a result, Kissena Golf diverted revenues derived from its operation of the City's golf course to its vendors as a form of payment for their services and omitted those revenue from the reports it submitted to Parks.

During our scope period, January 1, 2015 through August 31, 2016, EZLinks and GolfNow generated sales of tee time revenue of $47,145 and $33,791, respectively. However, in reporting gross receipts to Parks, Kissena Golf only disclosed the $4 surcharge for each round played, plus the portion of revenue it received from EZLinks and GolfNow, totaling $11,592 and $12,942 respectively. By omitting the portion of the sales of golf reservations by the two sublicensees that they retained as payment, Kissena Golf failed to report $56,402 in gross receipts to Parks—consisting of $35,553 from EZLinks' sales and $20,849 from GolfNow's sales.

As demonstrated in the table below, Kissena Golf's failure to report the sublicenses' revenue did not ultimately affect the amounts of Kissena Golf's license fees payable to Parks during the audit scope period because only the minimum payments of $240,000 were due, even when the unreported revenue was considered. However, if Kissena Golf continues to omit the sublicensee's revenue from future reports, it could improperly reduce Kissena Golf's payments to Parks.

Table II

License Fees Calculation for Audit Scope Period (January 1, 2015 to August 31, 2016)

Year	Formula	14% of Total Green & Cart Fees	9% of Total Merchandise, Snack Bar & Other Rev.	Calculated License Fees
2015	Total Green Fee & Cart Fees	$1,310,480	$203,514	
	Calculated License Fees :	$183,467	$18,316	$ 201,783
2016	Total Green Fee & Cart Fees	$927,007	$146,830	
	Calculated License Fees :	$129,781	$13,215	$ 142,996

Kissena Golf Did Not Obtain Required Authorization for Its Sublicense Agreements

Kissena Golf did not obtain required authorization from Parks before entering into the above-described sublicense agreements with EZLinks and GolfNow. According to the License,

> Should Licensee choose to assign or sublicense the management and operation of any element of the Licensed Premises to another party, Licensee shall seek the approval of the Commissioner by submitting a written request including proposed assignment documents as provided above.

However, Kissena Golf failed to submit either of its agreements with EZLinks or GolfNow to Parks for approval in accordance with the License. There was not even a written agreement with GolfNow for Kissena Golf to have submitted. The absence of properly authorized agreements may have hindered Parks' ability to monitor Kissena Golf's compliance with various License terms, including Kissena Golf's failure to accurately report gross receipts collected by sublicensees. Pursuant to the License, Kissena Golf should submit for approval by Parks any proposed sublicense or other agreement that involves another party's management and operation of any element of the licensed premises, including but not limited to making golf reservations in advance of such agreement being entered into.

Strengthen Controls over Segregation of Duties

Kissena Golf did not maintain an adequate system of internal controls as required by the License. Specifically, it did not ensure proper segregation of duties in key areas of administrative operation. Our review found that one individual—Kissena Golf's manager—is responsible for closing out the POS system, depositing cash, and entering transactions into the general ledger. The same manager is also authorized to void transactions in the POS system.

The concentration of these multiple discrete functions in one individual is of concern because that single individual is in a position to control the authorization, recording, and reporting of financial transactions while also maintaining custody of the cash and other assets thus collected. Segregation of such duties among different staff members of an organization serves as a check against the risks of undiscovered errors and theft, misappropriation, and other fraudulent activities. The concentration of control over key aspects of financial and related transactions in one person is a control weakness that allows the potential for errors and irregularities to occur and go undetected.

Parks' Monitoring of Kissena Golf's Capital Improvements Needs Strengthening

Parks Improperly Credited $11,845 in Unrelated Expenses

According to the tracking report used by Parks, Kissena Golf spent $1.3 million on capital improvements from 2008 through 2013. That spending accounted for over 80 percent of the $1.595 million on such improvements that Kissena Golf was required to spend during the 20-year term of the License. However, we found that Kissena Golf overstated these capital improvements expenditures by $11,845. We further found that Parks failed to identify this overstatement because it did not properly verify that those reported expenses were in fact related solely to capital improvements.[2]

A review of Kissena Golf's expenditures revealed that it improperly added $4,403 of regular maintenance expenses to its reported capital improvements expenditures, such as annual

[2] According to the capital improvements Spending Schedule in Exhibit D of the License Agreement, Kissena Golf is supposed to spend $897,000 by 2016.

winterization work. However, the License specifically identifies winterization expenses as part of the golf course regular maintenance expenses and therefore they should not be included as a capital improvement in reports to Parks.

In addition, we found $7,442 in invoices indicating that goods that had been delivered to another golf course managed by the same licensee had been counted as capital improvements under the License. Kissena Golf should not have submitted these to Parks as Kissena Golf expenses and Parks should not have allowed those expenses to be counted as Kissena Golf capital improvements expenses.

Parks Approved Certain Capital Improvement Expenditures without Sufficient Documentation

Parks did not require Kissena Golf to provide sufficient documentation to substantiate $196,353 in capital improvements expenses. In some instances only cancelled checks were provided to support the expenses. When we requested detailed invoices corresponding to those cancelled checks, neither Parks nor Kissena Golf was able to provide them. Without such documentation, Parks cannot properly determine the actual cost of capital improvements. At a minimum, Parks should request and review detailed invoices that specifically identify the work that has been completed.

Finally, Parks did not enforce the requirement that Kissena Golf submit supporting documents for capital improvements when requested to do so. The License states that,

> [i]n making the determination of the total cost of capital improvements, [the Parks] Commissioner may request any information [the] Commissioner reasonably believes would be helpful to make such a determination. Licensee shall forward such information to the Commissioner upon Commissioner's request.

Although Parks had sent two letters requesting such documentation in 2014 and 2016, Kissena Golf failed to provide it until March 2017. In order for Parks to properly track the progress of capital improvements at Kissena Golf, the agency must follow up and enforce its requests for supporting documents that the Licensee fails to provide promptly upon request.

Parks Did Not Ensure Kissena Golf Completed All Required Capital Improvements

Although Kissena Golf has reportedly met the spending requirements for capital improvements, Parks did not ensure that Kissena Golf actually completed the work required by the License. According to the schedule of capital improvements in Exhibit D of the License, from 2008 to 2016 Kissena Golf was required to spend at least $16,000 to improve its parking lot and $25,000 to renovate the storage building. However, our review found that Kissena Golf had spent only $6,000 on the parking lot and that conditions requiring improvement have not been addressed, as illustrated in the following Photograph #1.

Photograph #1: Parking Lot

We also found no evidence that work was done to renovate the storage building. A prior Comptroller's audit report issued in 2010 (Audit #FR09-139A) on Parks' oversight of capital improvements found that the storage building at Kissena Golf had not been renovated as required by the License. Our 2017 inspection of the premises showed that the storage building remains in the same condition as in 2010, as shown in Photographs #2 and #3, which follow.

Photograph #2: Storage Building in 2010

Photograph #3: Storage Building in 2017

RECOMMENDATIONS

Kissena Golf should:

1. Ensure that all revenue derived from the licensed premises is properly reported to Parks.

   ***Kissena Golf Response*:** "Kissena Golf will comply with this recommendation."

2. Obtain approval from Parks before entering into any sublicense or subcontract agreement affecting the management and operation of any element of the licensed premises.

   ***Kissena Golf Response*:** "Kissena Golf will comply with this recommendation."

3. Submit a proposed written agreement with GolfNow to Parks for approval if Kissena Golf intends to continue using GolfNow's services in connection with the licensed premises.

   Kissena Golf Response: "Kissena Golf will comply with this recommendation. We are in the process of submitting this written agreement to Parks."

4. Submit the written agreement with EZLinks to Parks for approval if Kissena Golf intends to continue using EZLinks services in connection with the licensed premises.

   Kissena Golf Response: "Kissena Golf will comply with this recommendation. We have already submitted this agreement to Parks for approval."

5. Establish an adequate system of controls to ensure a proper level of segregation of duties.

   Kissena Golf Response: "Kissena Golf just hired an assistant general manager to satisfy this recommendation."

6. Complete all required capital improvements for the parking lot and storage building as required by the License.

   Kissena Golf Response: "Kissena Golf just completed repairs to the maintenance building and parking lot. Pictures and documentation have been submitted to Parks."

7. Report only valid capital spending as capital improvements-related expenses.

   ***Kissena Golf Response*:** "Kissena Golf will comply with this recommendation."

Parks should:

8. Ensure that Kissena Golf is in compliance with its License by:

   - Requiring Kissena Golf to properly report all gross receipts;
   - Requiring that Kissena Golf submit documents relating to its capital spending and other activities related to the License promptly upon request;
   - Requiring Kissena Golf to maintain adequate internal controls, including proper segregation of duties.

   Parks Response: Parks agreed and stated, "[w]e agree that all gross receipts should be properly reported, including the revenue collected and retained as payment for services rendered by sublicensees." Parks also stated that Kissena Golf "has agreed [to account for third party vendor revenue in their gross receipts] moving forward." In addition, Parks stated, "[w]e also agree that Kissena should promptly submit all documentation related to their capital spending and other activities upon request, and that they should maintain adequate internal controls, including the proper segregation of duties."

9. Take appropriate measures to ensure that Kissena Golf submits for review and approval by Parks all proposed sublicenses and subcontracts in advance of their being entered into.

   Parks Response: "In accordance with the License Agreement, all proposed sublicenses and subcontracts should be submitted to Parks in advance of their being entered into. Kissena has agreed to do so moving forward."

10. Review Kissena Golf's sublicense agreements with EZLinks and GolfNow and determine whether they should be allowed to continue.

    Parks Response: "Parks is in the process of receiving and reviewing Kissena's sublicense agreements with EZLinks and GolfNow."

11. Request detailed invoices for all of Kissena Golf's reported capital improvements expenses.

    Parks Response: "Detailed invoices should be made available for all of Kissena's reported capital improvement expenses and we have requested that they be provided. Kissena has advised us that in most cases where detailed invoices were unavailable, it was due to their having worked with a construction management company who coordinated the work without having specific invoices created for each improvement. Kissena has agreed to maintain more detailed construction contract agreements moving forward."

12. Properly review all invoices and related documentation submitted by Kissena Golf supporting its capital improvements to date and verify that claimed expenditures are only for capital improvement work as defined in the License.

    Parks Response: "We have reviewed all of the invoices and documentation submitted to support Kissena's capital improvements to date and to verify that the claimed expenditures are for capital improvement work as defined in the License. While we acknowledge that detailed invoices were not available for each specific transaction, it is clear that the capital improvements were indeed completed and cancelled checks were available to support each of the expenses."

13. Deduct $4,403 of maintenance expenses and $7,442 for purchases delivered to another golf course from Kissena Golf's reported capital improvement expenditures.

    Parks Response*:* "$4,403 will be deducted as annual winterization work that should have been categorized as maintenance rather than capital. However, we do not believe that $7,442 should be deducted because the purchases were delivered to another golf course. The operators of Kissena Golf also manage NYC Parks golf courses at Van Cortlandt, Douglaston and Forest Park. Kissena has informed us that while some shipments may have been delivered to other courses that they operate, each of those purchases were designated for Kissena."

Auditor Comment: We disagree with Parks as the invoices clearly indicate that the items in question were delivered to other golf courses. Further, Kissena Golf did not provide documentation showing that those purchases were ultimately delivered to the Kissena Park Golf Course. We therefore find no basis for changing our recommendation that the $7,442 for those items should be deducted from Kissena Golf's capital improvement expenditures.

14. Ensure that Kissena Golf completes all required capital improvement work in accordance with the License.

Parks Response*:* "We agree that all required capital improvement work should be completed in accordance with the License. Having already expended more than $1.3 million, Kissena is ahead of schedule in meeting their total $1,595,000 capital obligation. However, we acknowledge that, in accordance with the schedule of capital improvements, additional funds must be spent to improve the parking lot and to renovate the storage building. Since the release of the Report, Kissena has informed us that they completed capital work on the Parking lot and storage. We are in the process of receiving and reviewing the documentation for this work."

DETAILED SCOPE AND METHODOLOGY

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

The scope of this audit covers Kissena Golf's operation from January 1, 2015 through August 31, 2016. To achieve our audit objectives, we reviewed and abstracted the License and supporting documents between Kissena Golf and Parks, identifying all relevant terms and conditions. We also reviewed correspondence between Kissena Golf and Parks, inspection reports and other relevant documents. We analyzed the Parks lease ledger for the amounts reported and paid to the City during our scope period, and determined whether Kissena Golf's payments were received on time. We also determined whether Kissena Golf remitted proper payments to the City by examining the general ledger, cash collection records, credit card summaries, sublicense fee remittance structures, and Parks revenue journals indicating payments were received, all according to our scope period. To determine that revenue from Kissena Golf's sublicensees were reported to Parks, we reviewed the calculation of sublicensee revenue and traced it to the monthly gross receipts statements. In addition, we reviewed the POS system for accuracy and reliability.

To gain an understanding of Kissena Golf's operations and internal controls over its gross receipts, we conducted walkthroughs of the facility and interviewed Kissena Golf and Parks officials. We visited Kissena Golf to observe the snack bar and pro shop operations. We also conducted a walkthrough of the POS system and obtained information from the sublicensees (EZLinks and GolfNow) to independently confirm the number of golf rounds that had been sold. We then met with Kissena Golf's manager to obtain an understanding of its event-planning, accounting, bookkeeping, and revenue-reporting processes and procedures. In addition, we met with Kissena Golf's accountants to gain a better understanding of their responsibilities, as well as their revenue-reporting processes and procedures. Finally, we met with the golf course's manager to gain a better understanding of the capital improvements processes and procedures required by the License. We also toured the golf course, accompanied by an engineer from our audit bureau, to review the status of all completed capital improvements. We documented our understanding of Kissena Golf's operations and internal control processes through the production of written memoranda and flowcharts.

Kissena Golf collects all of its financial data through a central POS system, which is responsible for taking reservations, filling time slots, creating a daily golf schedule, tracking cash and credit payments, generating invoices and daily sales reports, recording pro-shop and snack-bar sales, and creating monthly reports. To determine the accuracy and completeness of Kissena Golf's General Ledger, we reviewed records for August 2015 and June 2016—the highest grossing month in each respective year—and traced the sales transactions to the POS sales reports. We also reviewed records for March 2015, since there were large discrepancies in sales that month between the POS report and the gross receipts statement reported to Parks. Finally, we traced the sales report to the General Ledger to determine if information had been recorded and reported accurately on an internal basis. This enabled us to trace all the transactions from the General Ledger and sales report for the periods selected.

To determine whether Kissena Golf accurately reported the gross receipts from its events, we reviewed event revenue for 2015 and 2016, and compared that data to the event contracts for the same period. This enabled us to determine whether revenue for events had been accurately reported. We also checked to see that event contracts had been sequentially numbered.

Finally we took steps to determine whether Kissena Golf complied with other major requirements of its License—including its obligation to post a required security deposit with the City, properly maintain insurance coverage and complete required capital improvements. We contacted Parks to ensure that the security deposit met the requirements of the License, and obtained Kissena Golf's certificates of insurance and insurance policies to determine whether it maintained proper insurance coverage. To determine whether Kissena Golf expended the required amount on capital improvements, we reviewed Parks' capital improvement tracking reports and all supporting documents that Kissena Golf submitted to Parks from 2009 through 2013. We found that no supporting documents for capital improvements had been submitted since 2014 until the conclusion of our field work on March 27, 2017.

NYC Parks

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May 17, 2017

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

Re: Audit Report on the Compliance of Kissena Golf LLC with its License Agreement for the Kissena Golf Course; FP17-083A

Dear Deputy Comptroller Landa:

This letter addresses the findings and recommendations contained in the New York City Comptroller's Draft Audit Report ("Report"), dated May 3, 2017, on the above subject matter.

Kissena Golf LLC provides the public with a high quality golf course at Kissena Park in Queens. Since their license agreement commenced in 2008, Kissena Golf has paid more than $3 million in license fees to the City and has been on time with each of their payments. Further, their agreement requires them to spend $1,595,000 in capital improvements over the course of their 20-year term. To date, we have verified that they have spent more than $1.3 million through their first nine years, putting them ahead of schedule in meeting their total capital obligation. They also submit their gross receipts in a timely manner and carry the proper insurance coverage. Further, we are pleased that the audit found that Kissena Golf properly paid the License fees due to Parks in a timely manner, maintained the required liability insurance that named the City as an additional insured party, and paid the required security deposit to Parks.

Parks has followed up with Kissena Golf LLC in writing to cover the recommendations directed to them. In reference to the Report's recommendations directed to Parks:

Recommendation 8 – Ensure that Kissena Golf is in compliance with its License by:

- **Requiring Kissena Golf to properly report all gross receipts;**
- **Requiring that Kissena Golf submit documents relating to its capital spending and other activities related to the License promptly upon request;**
- **Requiring Kissena Golf to maintain adequate internal controls, including proper segregation of duties.**

We agree that all gross receipts should be properly reported, including the revenue collected and retained as payment for services rendered by sublicensees. It is important to note that the total amount of underreported revenue cited in this report represents about 2% of all reported gross receipts during this audit period. Further, this underreported revenue did not affect the amount of Kissena's license fees payable to the City because it did not cause their total revenue to exceed their minimum payment. Prior to this audit, we communicated with all of our golf courses the need to account for third party vendor revenue in their gross receipts, and Kissena has agreed to do so moving forward.

We also agree that Kissena should promptly submit all documentation related to their capital spending and other activities upon request, and that they should maintain adequate internal controls, including the proper segregation of duties. To that end, we were pleased to receive verification from Kissena that they have already hired an additional employee to assist with financial transactions and to better segregate duties among their staff.

Recommendation 9 – Take appropriate measures to ensure that Kissena Golf submits for review and approval by Parks all proposed sublicenses and subcontracts in advance of their being entered into.
In accordance with the License Agreement, all proposed sublicenses and subcontracts should be submitted to Parks in advance of their being entered into. Kissena has agreed to do so moving forward.

Recommendation 10 – Review Kissena Golf's sublicense agreements with EZLinks and GolfNow and determine whether they should be allowed to continue.
Parks is in the process of receiving and reviewing Kissena's sublicense agreements with EZLinks and GolfNow.

Recommendation 11 – Request detailed invoices for all of Kissena Golf's reported capital improvement expenses.
Detailed invoices should be made available for all of Kissena's reported capital improvement expenses and we have requested that they be provided. Kissena has advised us that in most cases where detailed invoices were unavailable, it was due to their having worked with a construction management company who coordinated the work without having specific invoices created for each improvement. Kissena has agreed to maintain more detailed construction contract agreements moving forward.

Recommendation 12 – Properly review all invoices and related documentation submitted by Kissena Golf supporting its capital improvements to date and verify that claimed expenditures are only for capital improvement work as defined in the License.
We have reviewed all of the invoices and documentation submitted to support Kissena's capital improvements to date and to verify that the claimed expenditures are for capital improvement work as defined in the License. While we acknowledge that detailed invoices were not available for each specific transaction, it is clear that the capital improvements were indeed completed and cancelled checks were available to support each of the expenses.

Recommendation 13 – Deduct $4,403 of maintenance expenses and $7,442 for purchases delivered to another golf course from Kissena Golf's reported capital improvement expenditures.
$4,403 will be deducted as annual winterization work that should have been categorized as maintenance rather than capital. However, we do not believe that $7,442 should be deducted because the purchases were delivered to another golf course. The operators of Kissena Golf also manage NYC Parks golf courses at Van Cortlandt, Douglaston and Forest Park. Kissena has informed us that while some shipments may have been delivered to other courses that they operate, each of those purchases were designated for Kissena. Further, a review of these invoices indicates the name of Kissena was printed on each of the invoices except for one in the amount of $1,225 which, while we were informed went to Kissena, did not have Kissena specifically printed on the invoice.

Recommendation 14 – Ensure that Kissena Golf completes all required capital improvement work in accordance with the License.
We agree that all required capital improvement work should be completed in accordance with the License. Having already expended more than $1.3 million, Kissena is ahead of schedule in meeting their total $1,595,000 capital obligation. However, we acknowledge that, in accordance with the schedule of capital improvements, additional funds must be spent to improve the parking lot and to renovate the storage building. Since the release of the Report, Kissena has informed us that they completed capital work on the

parking lot and storage building. We are in the process of receiving and reviewing the documentation for this work.

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

Sincerely,

David Cerron
Chief of Revenue, Concessions & Controls Oversight

May 16, 2017

Dear Ms. Landa,
Following is Kissena Golf's response to the recommendations of the recent audit:

1. Ensure that all revenue derived from the license premises is properly reported to Parks;
   Response: Kissena Golf will comply with this recommendation.

2. Obtain approval from Parks before entering into any sublicense or subcontract agreement affecting the management and operation of any element of the licensed premises;
   Response: Kissena Golf will comply with this recommendation.

3. Submit a proposed written agreement with GolfNow to Parks for approval if Kissena Golf intends to continue using GolfNow's services in connection with the licensed premises;
   Response: Kissena Golf will comply with this recommendation. We are in the process of submitting this written agreement to Parks.

4. Submit the written agreement with EZLinks to Parks for approval if Kissena Golf intends to continue using EZLinks services in connection with the licensed premises;
   Response: Kissena Golf will comply with this recommendation. We have already submitted this agreement to Parks for approval.

5. Establish an adequate system of controls to ensure a proper level of segregation of duties;
   Response: Kissena Golf just hired an assistant general manager to satisfy this recommendation.

6. Complete all required capital improvements for the parking lot and storage building as required by the License;
   Response: Kissena Golf just completed repairs to the maintenance building and parking lot. Pictures and documentation have been submitted to Parks.

7. Report only valid capital spending as capital improvements-related expenses;
   Response: Kissena Golf will comply with this recommendation
   .