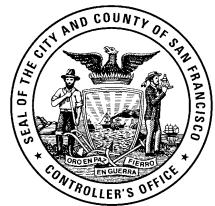


City and County of San Francisco

Office of the Controller – City Services Auditor

RECREATION AND PARK DEPARTMENT:

Concession Audit of Stow Lake Corporation



March 3, 2009

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Mark Tipton, Audit Manager
Edvida Moore, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

March 3, 2009

Recreation and Park Commission
McLaren Lodge
501 Stanyan Street
San Francisco, CA 94117

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the audit of Stow Lake Corporation (Stow Lake). Under a lease with the Recreation and Park Commission of the City and County of San Francisco, Stow Lake rents boats to the public and operates a snack bar in the boathouse at Stow Lake in Golden Gate Park. Stow Lake also subleases part of the boathouse to a business that rents bicycles.

Reporting Period: January 1, 2006, through June 30, 2008

Rent Paid: \$256,277

Results:

- Stow Lake accurately reported gross revenues of \$1,387,763 to the Recreation and Park Department (department) and correctly paid \$256,277 in percentage rent based on those revenues.
- The department lost \$151,611 in rent from Stow Lake because its lease expired in November 2006 and was not renewed until May 2008. In the intervening 17 months, as allowed by the lease, Stow Lake paid just 10 percent of its revenues as rent. The lease extension expired on September 30, 2008. Since then, Stow Lake has continued operating on a month-to-month basis.
- Stow Lake has not complied with the requirement in its lease that it have an annual audit of its books conducted by a certified public accountant (CPA). Its last CPA audit was for calendar year 2005.
- Stow Lake has not implemented some of the recommendations concerning cash handling made in a previous audit conducted by the San Francisco Budget Analyst.

Responses from the department and Stow Lake are attached to this report. The Controller's Office, City Services Auditor disagrees with one of Stow Lake's responses, and we have attached a rebuttal explaining our position on this issue. We will be working with the department to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library
Budget Analyst

INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of City-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor, with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Recreation and Park Department (department).

Background

Under a lease with the Recreation and Park Commission (commission) of the City and County of San Francisco, Stow Lake Corporation (Stow Lake) operates a boat rental and snack bar facility in the boathouse at Golden Gate Park's Stow Lake, and subleases part of the boathouse to a bicycle rental operation. The lease, which commenced in 1991, requires Stow Lake to pay the greater of the annual minimum rent of \$120,000 or percentage rent. The percentage rent is 31 percent of the gross receipts from boat rentals, 21 percent from the snack bar, and 31 percent from bicycle rentals. In the event that Stow Lake subleases to a bicycle rental operation, rent payable by Stow Lake for bicycle rentals is calculated at 50 percent of the monthly rent Stow Lake gets from its subtenant. Effective August 5, 1994, Stow Lake subleased the bicycle rental operation to Surrey Cycle Rentals, Inc., doing business as Wheel Fun Rentals. Each month Stow Lake must report its gross revenues and pay its rent to the department for the preceding month.

Scope and Methodology

The purpose of this audit was to determine if Stow Lake complied with the reporting and payment provisions of its lease with the commission. Our audit period was January 1, 2006, through June 30, 2008. To conduct the audit, we reviewed the applicable terms of the lease and the adequacy of Stow Lake's procedures for collecting, recording, summarizing, and reporting its gross receipts to the department. On a test basis, to verify Stow Lake's rent computations and payments to the department, we compared amounts recorded in Stow Lake's monthly summary records to its daily summary records. For a sample of days, we also compared the data recorded in daily summary records to cash register tapes and boat

rental receipts. Finally, where applicable, we compared revenues that Stow Lake reported to the department to revenues in its quarterly sales tax returns.

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.

AUDIT RESULTS

Stow Lake correctly reported its revenues and paid rent

From January 1, 2006, through June 30, 2008, Stow Lake Corporation (Stow Lake) accurately reported its gross revenues of \$1,387,763 and correctly paid \$256,277 in rent to the department. The exhibit below summarizes Stow Lake’s reported gross revenues and rent paid.

EXHIBIT			
Stow Lake Corporation Revenues Reported and Rent Paid			
January 1, 2006, through June 30, 2008			
Reporting Period	Revenues Reported	Rent Paid	
January 1, 2006, through December 31, 2006	\$ 512,981	\$145,534	
January 1, 2007, through December 31, 2007	576,822	57,682*	
January 1, 2008, through June 30, 2008	297,960	53,061	
Totals	\$ 1,387,763	\$256,277	

*Note: In 2007, Stow Lake paid rent at the “holding over” rate of 10 percent of gross receipts (see discussion below).

Source: Recreation and Park Department

The department lost \$151,611 in revenues while Stow Lake was renting month to month

For the 17 months after its lease expired, from December 2006 through April 2008, Stow Lake operated as a month-to-month tenant of the department and paid rent at the rate of 10 percent, as authorized in the lease for the holding over period.¹ Had the original percentage rent terms of the lease been in effect during this period, Stow Lake would have paid rent totaling \$407,888 instead of the \$256,277 it did pay. Thus, the department received in rent from Stow Lake \$151,611 (37 percent) less than it would have because the lease expired and was not renewed during this 17-month period.

Stow Lake has not complied with the annual audit requirement in its lease since 2005

Paragraph 12 of Stow Lake’s lease requires that a certified public accountant (CPA) annually audit Stow Lake’s books of accounts and records. It also requires that a certified copy of the report of such audit be furnished to the Recreation and Park Commission within 90 days of the end of the audit period. During our audit, we learned that the most recent period for which a CPA audited Stow Lake’s books of account was calendar year 2005. Stow Lake’s president said that he thought

¹ The holding over period is defined in the lease as the period – after the expiration of the lease – during which, through mutual agreement with the department, Stow Lake continues to operate.

this requirement no longer applied because Stow Lake's lease with the department expired in 2006.

Although Stow Lake's lease expired at the end of November 2006, Paragraph 60 of the lease, entitled *Holding Over*, provides that in the event of mutually-agreed-upon continued operations after the lease expires, tenancy will be on a month-to-month basis under the same terms and conditions specified in the lease. The only exception is that the rent during this period will be reduced to 10 percent of all gross sales, with no minimum rent due.

The department needs to expedite the renewal of its lease agreement with Stow Lake

Effective May 1, 2008, the department issued an extension of Stow Lake's lease through September 30, 2008. During that time, Stow Lake paid rent to the department according to the terms in the lease extension; that is, at the rate of 31 percent of boat rental receipts, 21 percent of snack bar sales, and 50 percent of rent paid to Stow Lake by its bicycle rental subtenant. Since the expiration of this extension, Stow Lake has been operating on a month-to-month basis. In addition, the subtenant has been operating on a month-to-month basis since the sublease expired in November 2006.

Stow Lake has not implemented cash handling improvements recommended by the Budget Analyst

In a May 2008 audit report, the San Francisco Budget Analyst noted that Stow Lake did not make regular bank deposits, and did not prepare monthly bank reconciliations. The Budget Analyst also noted that Stow Lake's subtenant did not provide Stow Lake with monthly summary records that could be used to validate monthly bicycle rental revenues. Our audit found that Stow Lake does not plan to change its cash handling procedures, or to prepare monthly bank reconciliations. We did note, however, that Stow Lake now receives supporting documentation from its subtenant, in the form of monthly summaries.

Recommendations

The department should:

1. Require Stow Lake Corporation to have a certified public accountant audit its records for the three calendar years of 2006, 2007, and 2008.

2. Ensure that, upon completion of all audits by a certified public accountant, Stow Lake Corporation provides the department with a certified copy of the audit report.
3. Expedite the renewal of its lease agreement with Stow Lake Corporation.
4. Require that Stow Lake and its subtenant execute a new sublease agreement, subject to department approval.
5. Advise Stow Lake Corporation to improve its internal controls by making more frequent bank deposits and preparing monthly bank reconciliations.

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ATTACHMENT A: DEPARTMENT'S RESPONSE



City and County of San Francisco
Recreation and Park Department

McLaren Lodge in Golden Gate Park

501 Stanyan Street, San Francisco, CA 94117

TEL: 415.831.2700 FAX: 415.831.2096 WEB: www.parks.sfgov.org

February 12, 2009

Robert Tarsia, Deputy Audit Director
City Hall, room 476
1 Dr. Carlton B Goodlett Place
San Francisco, CA. 94102

Dear Robert: *Bob -*

We agree with your findings, and have noted in the response form what actions the department has, and is taking, to remedy its oversight shortcomings.

Please see attached report with our responses noted on A2,

If you have questions, please call Chris Mack, in the Property Management Unit, at (415) 831-2775.

Thank you for your attention to this matter.

Sincerely,

Jared Blumenfeld
Jared Blumenfeld
Interim General Manager

JB/cm

cc: Rich Hillis
Katharine Petrucione
File



Mayor Gavin Newsom
Interim General Manager Jared Blumenfeld

Recommendation	Responsible Agency	Response
1. Require Stow Lake Corporation to have a certified public accountant audit its records for the three calendar years of 2006, 2007 and 2008.	Recreation & Park	<p>As a result, the Department has issued a letter to Stow Lake Corporation requiring that they adhere to this portion of their lease and have a CPA audit their books for 2006, 2007 and 2008.</p> <p>The letter also reminds them that 90 days after each audit, a certified copy of the audit be furnished to the Department.</p>
2. Ensure that, upon completion of the audit, Stow Lake provides the department with a certified copy of the audit report.	Recreation & Park	See above
3. Expedite the renewal of its lease agreement with Stow Lake Corporation.	Recreation & Park	<p>An extension letter was executed effective October 1, 2009 allowing for a month-to-month lease under the same terms as the original lease. The rate for boat rental is 31%, snack bar sales are 21%, and bicycle rental is 50%.</p> <p>The Recreation and Park Commission rejected the award from the previous RFP. The department is prepared to go out in the next 60 days with a new RFP.</p>
4. Require that Stow Lake and its subtenant execute a new sublease agreement, subject to department approval.	Recreation & Park	Staff has requested that Stow Lake Corp. execute a new sublease agreement for the operation of the bicycle rental. That should be received by the Department in the next 30 days.
5. Advise Stow Lake Corporation to improve its internal controls by making more frequent bank deposits and preparing monthly bank reconciliations.	Recreation & Park	Department is working with our Finance Director on recommendations to give them on how they can improve their internal controls for cash handling.

ATTACHMENT B: STOW LAKE'S RESPONSE

STOW LAKE CORPORATION

Post Office Box 29565
San Francisco, CA 94129-0565
(415) 393-9920

February 26, 2009

To be emailed

Ms. Edvida Moore
Financial Auditor
City and County of San Francisco
Office Of The Controller
City Hall, Room 481
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694
Fax (415) 554-7664

Ms. Edvida Moore

I am in receipt of your draft audit dated January 28, 2009. I am pleased (but not surprised) to see that you have confirmed that Stow Lake Corporation has accurately reported our gross revenues and correctly paid the percentage rent to the Recreation and Park Department. This has been the case with each audit that the city has performed.

In your email, you asked for comments and/or suggestions regarding your report. We do have a couple of requests and they are as follows.

The second paragraph in the "Results" portion of your report you state that the department lost \$151,611 in rent from the Stow Lake Concession. That makes it sound like we did something to make the department lose money. You somewhat cover it later in the paragraph by saying our actions were allowed in the lease but this does little to dampen the implication in our option. In all fairness, let the record show that on several occasions, Stow Lake Corporation in writing and in person at the Recreation and Park Commission meetings offered to pay the higher rent in exchange of a one year lease extension. Our requests were repeatedly denied.

The third paragraph regarding the annual audit in the "Results" portion of your report is more troubling. As I explained to both you and Mark Tipton at the time of our initial meeting for this audit, we were audited by the Budget Analyst's Office in early 2008 as part of a city investigation of the cash handling procedures/controls used by The Recreation and Park Department. As part of this "random" audit, the Budget Analyst's Office needed the help of our accountant. We asked who we could forward the bill for our accountant's time. We were told by Stanton W. Jones who is with the Budget Analyst's Office that we had to pay for our accountant because our lease called for an

annual audit and this was to be considered our annual audit. Therefore, since we were told by a City agency that this was the equivalent of our audit and we paid for it, it is our position that this satisfied our annual audit requirement. Accordingly, there are no plans to proceed with an audit covering the period in question.

The fourth paragraph states that we have not implemented the cash handling procedures mentioned in the aforementioned Budget Analyst's Report. We asked for a copy of the report at the time it was written and we were told (by Mr. Stanton W. Jones) that it would be forwarded to us after it was presented to and approved by the Recreation and Park Department. To the best of our recollection, we never received the report. As far as our cash handling procedures are concerned, we have specific internal procedures that we follow and have followed over the past sixty-five years. From time to time we modify these procedures. We have never had a major problem in our long history of doing business in San Francisco (which is longer than most companies now doing business in the city). The Recreation and Park Department is paid a percentage of the gross revenues generated at the lake. Based on the results of this latest audit and every audit that has ever been undertaken at the Stow Lake Concession we have always reported the correct numbers and paid the corresponding rent. Our cash handling never has and never will have any impact on the payment of rent to the department.

We are available if you have any questions.

Respectfully submitted,

Bruce McLellan

Bruce McLellan
President, Stow Lake Corporation

ATTACHMENT C: REBUTTAL TO STOW LAKE'S RESPONSE

To provide clarity and perspective, the Controller's Office, City Services Auditor Division, is commenting on Stow Lake Corporation's letter responding to our audit report (Attachment B). This rebuttal corresponds to the section in Stow Lake's letter that discusses the "Results" portion of the audit report and Stow Lake Corporation's audit requirement.

As stated in the report, the lease requires a certified public accountant (CPA) to audit the books and records of Stow Lake Corporation (Stow Lake) annually and provide the reports of these audits to the Recreation and Park Commission. The lease clearly states that Stow Lake Corporation is to have an annual audit of its gross receipts, at its expense, conducted by a CPA firm. The section of the Budget Analyst's prior report that concerns its audit of Stow Lake does not state Stow Lake's gross receipts for the reporting period and is not presented in the form of a CPA audit report. The lease states that the annual CPA audits are the responsibility of Stow Lake Corporation and audits by the City are in addition to those by Stow Lake's CPA.