

#1 (Rev.1/93) SINGLE PAGE COMMUNICATION TO THE COMMON COUNCIL

TO: THE COMMON COUNCIL: DATE: September 29, 2005

FROM: DEPARTMENT: Audit and Control
DIVISION: Audit
SUBJECT: [: Audit: Erie Basin Marina
[: 2005 audit

PRIOR COUNCIL REFERENCE: (IF ANY)

TEXT: (TYPE SINGLE SPACE BELOW)

AUDIT OBJECTIVE

To verify the accuracy and completeness of lease payments made to the City by Brand on Services, Inc.

AUDIT METHODOLOGY

To accomplish our objective we have performed the following:

- Traced and verified slip rentals to Docking Permit Agreements
- Compared license numbers/owner names of boats in slips to the slip rental listing
- Traced and verified utility receivables with City invoices
- Reviewed cash register tapes and matched tapes to daily summaries of cash
- Matched daily summaries of cash to bank statements
- Performed a statistical analysis of sales and costs
- Observed Marina operations and operations at the Hatch & Ships Store
- Matched certain General Ledger items to the Brand-on trial balance
- Footed and Cross-Footed certain schedules to confirm mathematical accuracy
- Familiarized Audit Staff with common restaurant procedures & terminology
- Confirmed licenses / permits for the Hatch / Store with the City's Licenses and Permits offices

AUDIT FINDINGS

The registers check totals are not reconciled. Each register generates a "check total" when started each morning and closed each evening. The total reflects each transaction for the day, less voids and certain other transactions. Typically, the register "check total" for the morning is matched to the previous night's check total. This confirms that each day's receipts have been accounted for. Without checking such totals, it is possible for a register to be "opened" in the morning, run, then closed out at night and the daily receipts never to be deposited. The daily balancing of register check totals would prevent such an occurrence as the ending tape total would not match the beginning tape total the next time the register is set up for the day. A provision should be made to track such totals on the

"daily sheets" used by Hatch staff to aid in cash reconciliation and reporting. This audit comment is a sound control suggestion: the City has no authority to mandate any action on this audit comment.

The lack of controls around the register totals allows for the possibility of understated revenues. Furthermore, the City cannot be sure that it is getting the correct share of revenue.

The Monthly Summary of gross revenues derived from Marina Operations, a report mandated by the lease agreement, is not being provided to the City. Page eleven of the lease clearly states that:

"A monthly summary (as described) report of gross revenues derived from the marina operations should be submitted by the Operator to the Commissioner of Public Works, Comptroller and the Common Council, furnishing the following information: Transient Slip Rentals, Fuel Sales, Marina Store Sales (except boat sales and boat repairs), Food and Beverage Sales, Other Marina Income (itemized totals).

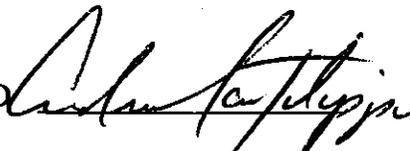
RECOMMENDATIONS

- 1) The City requests that the "Daily Sheets" Brand On Services uses for its cash reporting include a reconciliation of check register totals in addition to the deposit tickets we reviewed. The lack of controls around the register totals allows for the possibility of understated revenues. Furthermore, the City cannot be sure that it is getting the correct share of revenue.
- 2) The City will review Marina gasoline and diesel sales at the completion of the 2005 season. If fuel sales for 2005 are not comparable to previous years, accounting for fuel price increases some adjustment in the City's share of lease charges for fuel should be considered.
- 3) There may be more effective measures for any new contract for the facility. As an example, consideration of the fee on gasoline sales may be eliminated for efficiency and competitiveness. The Monthly Summary of gross revenues derived from Marina Operations, a report mandated by the lease agreement should be obtained and additional reporting may make the audit more productive.

TYPE DEPARTMENT HEAD NAME: ANDREW SANFILIPPO

TYPE TITLE: COMPTROLLER

SIGNATURE OF DEPARTMENT HEAD



City of Buffalo

DEPARTMENT OF
AUDIT AND CONTROL
COMPTROLLER'S OFFICE
1230 City Hall
Buffalo, NY 14202

ANDREW A. SANFILIPPO
COMPTROLLER

FRANK BELLIOTTI
CITY AUDITOR

June 27, 2005

The Honorable Common Council of the City of Buffalo

We have performed an examination of the accounts and records of the Erie Basin Marina and associated records for the Department of Public Works, Parks and Streets for the period January 1, 2004 through December 31, 2004. We present herewith our Summary of Revenues and other supporting schedules for the Erie Basin Marina contract for the period then ended.

Our examination was made in accordance with standards established by the Institute of Internal Auditors, The American Institute of Certified Public Accountants and the United States Government Accounting Office and, accordingly, included such procedures as we considered necessary under the circumstances.

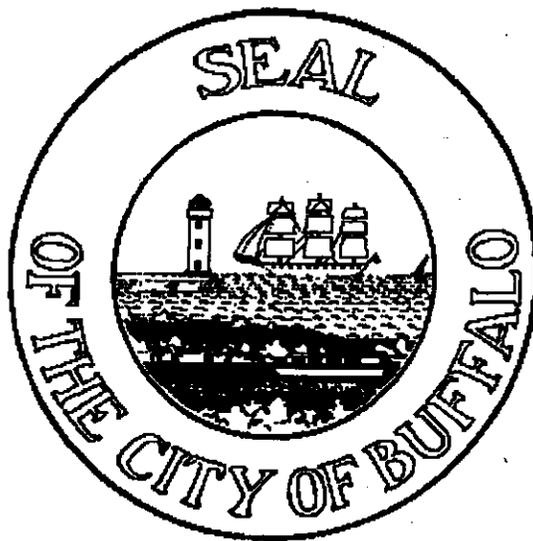
In our opinion the accompanying financial statements and related comments present fairly the results of the Erie Basin Marina lease agreement for the period then ended in conformity with generally accepted accounting practices applied on a consistent basis with that of the proceeding period.



ANDREW A. SANFILIPPO
COMPTROLLER

**CITY OF BUFFALO
DEPARTMENT OF PUBLIC WORKS, PARKS AND
STREETS**

ERIE BASIN MARINA AUDIT



**FOR THE PERIOD
JANUARY 1, 2004 THROUGH DECEMBER 31, 2004**

DESCRIPTION

The City of Buffalo is the owner of the Erie Basin Marina, a boat harbor, marina and multi-purpose recreational and food service facility located in the City of Buffalo. Administration and management oversight of the Marina was contracted out to the firm of Brand-on Services, Inc. on August 1, 2002 and renewed on July 11, 2004. The Brand-On business agreement leases the Marina facility by the mutual agreement of both parties until 2016, if all lease extensions are exercised. The above agreement was approved by the Common Council on 3-30-04, item number 70.

The main items of this lease agreement are as follows:

- Normal period of operation is May 1 to October 15.
- Guaranteed minimum payments to the City:

- Base sales and fuel sales	\$ 80,000
- Gross Marina Rental	<u>115,000</u>
Total	<u>\$195,000</u>

- Tenant has built a new maintenance facility for City personnel. The cost of the facility will be deducted from the rent due to the City over the next four years.
- Tenant will be responsible for security during period of operation.
- City will pay for all utility power for the period November 1 to April 30 of each year, Brand-On Services pays for the remainder.

AUDIT OBJECTIVE

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AUDIT METHODOLOGY

To accomplish our objective we have performed the following:

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- Confirmed licenses / permits for the Hatch / Store with the City's Licenses and Permits offices

Audit Findings

The operator has installed additional boat slips and made these available to the public. The City shall not see income from these additional slips this year, nor next year. Only in 2006 and beyond will the operator provide a portion of the gross rentals of these slips to the City. This is as the agreement intended.

The register check totals are not reconciled. (See Exhibits A1 and A2) Each register generates a "check total" when started each morning and closed each evening. The total reflects each transaction for the day, less voids and certain other transactions. Typically, the register "check total" for the morning is matched to the previous night's check total. This confirms that each day's receipts have been accounted for. Without checking such totals, it is possible for a register to be "opened" in the morning, run, then closed out at night and the daily receipts never to be deposited. The daily balancing of register check totals would prevent such an occurrence as the ending tape total would not match the beginning tape total the next time the register is set up for the day. A provision should be made to track such totals on the "daily sheets" (Exhibit B) used by Hatch staff to aid in cash reconciliation and reporting. This audit comment is a suggestion: the City has no authority to mandate any action on this audit comment.

The lack of controls around the register check totals allows for the possibility of understating revenues. Furthermore, the City cannot be sure that it is getting the correct share of revenue.

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The calculation to determine the sales from the Ships Store did not include gasoline and diesel sales. Originally, the Ships Store sales were listed as \$18,528.83. The calculation with fuel sales included is as follows:

General Ledger - Sales from Ship's Store	\$61,570.99
General Ledger - Gasoline Sales	85,763.31
Less sales per calculation - Regular Gasoline	-77,248.05
Less sales per calculation - Diesel Fuel	-22,950.37
Sales - Ships Store	\$47,135.88

No additional revenue is due to the City because of this change. After this change is made to the revenue calculation, the City's portion of sales generated by Brand-On Services, Inc. remains below the minimum payment due the City.

Statistical Analysis and Ratio Analysis of Costs

An analysis was performed on costs as a percentage of sales for food items sold at the Hatch and the Ships Store. The restaurant industry uses the "Percentage of Sales" method to determine appropriate food costs. The beginning inventory, plus food purchases, plus or minus adjustments, less ending inventory yields cost of goods sold. Brand-On Services provided these figures as part of the audit.

According to the "National Restaurant Association" in their "Restaurant Industry Report - 2000", the most current report available at no cost to the City, a restaurant of the size and type similar to the Hatch should have a Percentage of Sales of 28.6%. Using the figures provided, Brand-On has a Percentage of Sales of about 33%.

Brand-On Services Food and Beverage Costs		
Beginning Inventory - 2004		\$13,350.00
Purchases		\$194,318.85
Ending Inventory - 2004		\$12,505.00
Cost of Goods Sold		\$195,163.85
Food Sales		
Ice Cream	\$175,854.38	
Beverages	\$116,906.74	
Food	\$300,903.15	
Subtotal		\$593,664.27
Food and Beverage Costs as a Percentage of Sales		33%

There may be more recent reports, but the more detailed ones from the associations are cost prohibitive for us to obtain. We do however want to list the information derived during our audit, which may prove helpful in future audits. The information is as follows:

For a burger, invoices indicate the food cost to Brand On is 1.99 per pound. At four burgers to a pound, the individual cost per burger is .50 cents. Additional items such as rolls and condiments drive the cost to .60 cents per burger. At the selling price of \$2.25 per burger, the food cost is therefor 26.6 percent. This is about seven percent less than the total food cost reported.

For a hot dog, invoices indicate the average food cost to Brand On is 28.5 cents per 2.28 ounce hot dog. Additional items such as a roll and condiments sum to 38 cents. Sold at \$1.75 per hot dog, the food cost for this item is 21.7 percent.

For French Fries, invoices show an average food cost per order of 12 cents. Additional costs such as oil, container and condiments raise the cost to 22 cents per order. The food cost percentage is 12.5 percent.

2005 Season Issues

As part of the review of internal controls for the 2004 audit, some revenues and expenditures for 2005 have also been reviewed. A problem exists with the way the fee structure in the lease agreement treats gasoline and diesel sales. The boat slips at the Marina, the food sales and sales at the Ships Store all perform well. The fees charged for these items and services are competitive. The prices charged for fuel are not.

Fuel prices are higher at the Marina than at comparable locations along the river. Considering that the typical boat owner can simply go to another location for fuel, and that the City gets a percentage of fuel sales, fuel prices should be more competitive. The reason fuel prices are not competitive is the nature of the lease with the City. The lease states that the City gets 10% of fuel sales. To maintain a profit margin, the prices charged for gasoline at the Marina must reflect this 10% charge.

Consideration should be given to changing the City's lease fee for fuel sales. A lower fee benefits both boat owners and ultimately the City itself. It may even be fiscally sound to eliminate the fee on gasoline and diesel sales completely. Of the \$197,791.60 in rental payments paid to the City in for the 2004 season by Brand-on Services; only \$10,019.84 is attributable to gasoline and diesel sales.

RECOMMENDATIONS

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THE MATCH

RESTAURANT

DAY Friday

DATE 6, 3, 05

[Empty box with an arrow pointing to it from the 'RESTAURANT' label]

	<u>REGISTER #1</u>	<u>REGISTER #2</u>	<u>TOTALS</u>
BREAKFAST	<u>96.20</u>	<u>—</u>	<u>96.20</u>
LUNCH/DINNER	<u>717.35</u>	<u>140.00</u>	<u>857.35</u>
PIZZA	<u>40.25</u>	<u>5.75</u>	<u>46.00</u>
SALADS	<u>34.85</u>	<u>—</u>	<u>34.85</u>
BEVERAGE	<u>366.16</u>	<u>112.30</u>	<u>478.46</u>
EMPLOYEE (A+B)	<u>3.00</u>	<u>11.00</u>	<u>14.00</u>
LUNCH/DIN KITCHEN	<u>206.15</u>	<u>23.45</u>	<u>229.60</u>
MISCELLANEOUS	<u>8.88</u>	<u>10.00</u>	<u>13.88</u>
NET SALES	<u>1467.84</u>	<u>302.50</u>	<u>1770.34</u>
TAX 1	<u>115.61</u>	<u>23.40</u>	<u>139.01</u>
GROSS TOTAL	<u>1583.45</u>	<u>325.90</u>	<u>1909.35 (A)</u>
OVERRING	<u>—</u>	<u>10.70</u>	<u>(10.70) (B)</u>
CREDIT CARDS	<u>132.11</u>	<u>12.53</u>	<u>(144.64) (C)</u>
CASH TO ACCT FOR	<u>1451.34</u>	<u>302.67</u>	<u>1754.01 (D)</u>
			<u>(D-A-B-C)</u>
ACTUAL CASH COUNT	<u>1456.31</u>	<u>301.29</u>	<u>1757.60 (E)</u>
CASH (OVER)/SHORT	<u>+4.97</u>	<u>-1.38</u>	<u>\$ 3.59 (D-E)</u>
BANK DEPOSIT (RESTAURANT ONLY)		<u>\$ 1757.60 (E - REG 1&2)</u>	
TOTAL BANK DEPOSIT ALL DEPARTMENTS		<u>\$ 2526.25</u>	
(ATTACH BANK DEPOSIT RECEIPT!)			

Ideally, at this point would be a line recording yesterday's ending figures and another line recording today's beginning figures. The difference should be gross sales per register.

Exhibit B