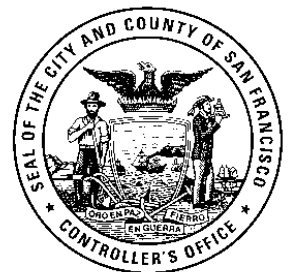


Stow Lake Boathouse Company, LLC, Underpaid \$1,771 in Rent to the Recreation and Park Department for 2015 Through 2017 and Needs to Improve Its Revenue Reporting, Rent Payment, and Records Maintenance Practices

Recreation and Park Commission



October 11, 2018

City & County of San Francisco
Office of the Controller
City Services Auditor

About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the San Francisco City Charter that voters approved in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

Audit Team:

Winnie Woo, Senior Auditor

Audit Consultant:

Sjoberg Evashenk Consulting, Inc.

For more information please contact:

Tonia Lediju, PhD
Chief Audit Executive
Office of the Controller
City and County of San Francisco
(415) 554-5393



<http://www.sfcontroller.org>



[@sfcontroller](https://twitter.com/sfcontroller)



<https://www.linkedin.com/company/sfaudits/>

Audit Authority

CSA conducted this audit under the authority of the Charter of the City and County of San Francisco, Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services and activities.



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

October 11, 2018

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

Philip A. Ginsburg
General Manager
Recreation and Park Department
501 Stanyan Street
San Francisco, CA 94117

Dear Commission President, Commissioners, and Mr. Ginsburg:

The City and County of San Francisco's Recreation and Park Department (department) coordinates with the Office of the Controller's City Services Auditor Division (CSA) to conduct periodic compliance audits of Recreation and Park Commission (commission) tenants. CSA engaged Sjoberg Evashenk Consulting, Inc., (SEC) to audit selected tenants to determine whether they complied with the reporting, payment, and other selected provisions of their leases or other agreements.

CSA presents the attached report for the compliance audit of Stow Lake Boathouse Company, LLC, (SLBC) prepared by SEC. SLBC has a lease agreement (lease) with the commission to operate the Stow Lake Boathouse in Golden Gate Park, where SLBC rents boats and events space, operates a café, and sells merchandise.

Reporting Period: January 1, 2015, through December 31, 2017

Rent Paid: \$1,001,638

Results:

SLBC reported gross revenues of \$3,962,848 and paid \$1,001,638 in rent due to Rec & Park. Due to various reporting and calculation discrepancies, SLBC underpaid \$1,771 in rent. Because SLBC sometimes paid its rent late, it owes Rec and Park late fees and interest charges of \$5,039. Further, SLBC needs to improve its internal controls over its cash-handling practices. Last, the department needs to better oversee the lease to ensure SLBC pays rent accurately and on time, to ensure required amounts are deposited to the maintenance and personal property funds, and to collect and review required annual revenue reports. The department's response is attached to this report. SLBC elected not to respond.

CSA appreciates the assistance and cooperation of department and SLBC staff during the audit. For questions about the report, please contact me at tonia.lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,

A handwritten signature in black ink, appearing to read "Tonia Lediju".

Tonia Lediju, PhD
Chief Audit Executive

cc: Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

City and County of San Francisco

Office of the Controller – City Services Auditor

Recreation and Park Department:

**Stow Lake Boathouse Company, LLC, Revenue Reporting,
Rent Payment and Records Maintenance Practices Need
Improvements**

September 2018



Table of Contents

Table of Contents	i
Report Highlights	1
Audit Authority	2
Background	2
Scope and Methodology	3
Findings and Recommendations	4
Finding 1. Practices to Prepare and Remit Monthly Rent Payments to the City Need Improvement ...	5
Finding 2. Cash-Handling Practices Do Not Sufficiently Secure Revenues	8
Finding 3. Evidence Demonstrating Required Deposits Made to the Maintenance Funds Not Provided	8
Finding 4. Certain Reporting Requirements Were Not Met	10
Finding 5. Rec & Park Oversight of the Lease Agreement Is Insufficient	10
Appendix A: Department Response	12

PURPOSE

As authorized by the San Francisco Administrative Code, the Office of the Controller's City Services Auditor engaged Sjoberg Evashenk Consulting, Inc., to audit Stow Lake Boathouse Company, LLC, (SLBC). SLBC operates a boat rental and cafe concession at Golden Gate Park's Stow Lake Boathouse. The objective of this audit was to determine whether SLBC complied with the lease agreement with the City and County of San Francisco (City) by correctly reporting and remitting revenue. The audit also assessed whether the Recreation and Park Department (Rec & Park) conducted appropriate contract management and oversight activities of the lease.

RESULTS

The audit found that SLBC complied with multiple lease agreement provisions, including by having consistently submitted required monthly revenue reports and maintaining boat rental prices within maximum pricing rates required.

However, the audit identified several areas where Rec & Park could improve its oversight of SLBC operations and better monitor compliance with lease agreement provisions, including ensuring SLBC remits rent payments accurately and on time, implements stronger boathouse cash-handling practices to secure revenues, and remits required annual financial reports. Rec & Park needs to incorporate greater oversight over the SLBC lease agreement, including tracking payment remittance for accuracy and timely submission, verifying submission of required revenue and financial reports, and determining whether additional rent or fees are due.

KEY RECOMMENDATIONS

The audit report includes 11 recommendations, including the following:

- Collect the \$1,770.61 in unpaid rent and \$5,038.80 in late charges and interest charges. The department should also calculate and collect the late charge and interest due for the period from July 1, 2018, until SLBC remits payment.
- Verify the accuracy of SLBC's unaudited monthly reported revenues to the submitted point-of-sale reports and determine whether the subsequent percentage rent calculation is correct.
- Work with SLBC to reinforce standard cash-handling protocols to ensure the safeguarding of assets.
- Immediately implement informal protocols to manage and oversee activities while the policies and procedures are being developed.

Audit Authority

The lease agreement between the City and County of San Francisco (City) and Stow Lake Boathouse Company, LLC, (SLBC) authorizes the City and its representatives to audit all accounts and records established under the lease. The San Francisco Administrative Code, Chapter 10.6-2, grants the Office of the Controller (Controller) the authority to audit departments to ensure that they are adequately managing their leases for leased property. Also, the City Charter provides the Controller's City Services Auditor (CSA) with broad authority to conduct audits. This audit was conducted under these authorities and pursuant to an audit plan agreed to by the Controller and Recreation and Park Department (Rec & Park). CSA engaged Sjoberg Evashenk Consulting, Inc., to audit the lease agreement between the City and SLBC under which SLBC operates the Stow Lake Boathouse (boathouse) and to assess Rec & Park's management of the agreement.

Background

Rec & Park administers and maintains more than 200 parks, playgrounds, and open spaces throughout the City. Rec & Park's Property Management Division is responsible for overseeing and managing the development and expansion of Rec & Park concessions, leases, and earned revenue. The Property Management Division develops and implements new strategies for increasing Rec & Park revenue, oversees the administration of existing and new concessions, and is responsible for ensuring vendors and service providers adhere to lease agreement terms and provisions.

The City established a lease agreement with SLBC to operate the boathouse, a boat and facility rental, and a cafe located at 50 Stow Lake Drive in Golden Gate Park. The boathouse is open for business every day during May through October and at least six days per week during November through April. The lease commenced on June 1, 2011, and terminates on May 26, 2026. For more than 60 years before 2011, Stow Lake Boathouse was operated and managed by another private operator, whose most recent lease began in 1991, ended in 2006, and who continued to operate the facility on a month-to-month basis until SLBC's lease commenced.

SLBC is responsible for the day-to-day operations and management of the boathouse activities and ensuring revenues generated through the boathouse are appropriately remitted to the City. SLBC remits rent based on boathouse revenues to the City monthly. The lease agreement states that rent shall equal the greater of:

- Base Rent (Minimum Annual Guarantee (MAG)) of \$160,000 per year with the following monthly payment:

January	\$4,000	July	\$24,000
February	8,500	August	24,000
March	15,000	September	14,000
April	15,000	October	8,500
May	15,000	November	8,500
June	19,000	December	4,500

Or

- Percentage of gross revenues (percentage rent) based on the following revenue categories:
 - Boat rental 33.0%
 - Food and beverage 10.0%
 - Merchandise sales 7.5%
 - Rental space 10.0%

Scope and Methodology

The purpose of the audit was to determine whether SLBC:

- Reported all revenues collected from the operation of the boathouse;
- Correctly calculated and timely submitted lease agreement rent payments to the City; and,
- Complied with other provisions of its lease agreement with the City.

Additionally, the audit included evaluating whether Rec & Park contract management practices and procedures adequately ensured that SLBC complied with certain lease agreement provisions.

The audit covered the period January 1, 2015, through December 31, 2017.

To meet the audit's objectives, SEC performed the following audit steps:

- Reviewed the applicable terms of the lease agreement between the City and SLBC.
- Assessed SLBC's internal controls and procedures over collecting, recording, summarizing, and reporting gross revenues, including cashiers processing payments and balancing cash drawers; day-end close-out practices associated with verification of amounts collected and preparing the daily deposit.
- Evaluated controls associated with the boathouse cash register and revenue management system, TEND.
- Determined whether SLBC submitted complete and accurate monthly statements to report accurate gross revenues, remitted rent payments according to the terms of the lease agreement, and correctly submitted annual revenue and fund reports.
- Reviewed whether SLBC complied with various other lease and operating agreement provisions.

Audit field work was conducted during March through June 2018.

SEC conducted this audit in accordance with generally accepted government auditing standards. Those standards require SEC to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. SEC believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Findings and Recommendations

Summary

From January 1, 2015, through December 31, 2017, SLBC reported total revenues of \$3,962,847.59 to the City. Exhibit 1 summarizes boathouse revenues and SLBC rent payments for the audit period:

Exhibit 1. Stow Lake Boathouse Company, LLC, Revenues and Rent Payments

Reporting Period	Revenues	Rent Payments
January 1, 2015 – December 31, 2015	\$1,341,219.74	\$312,803.92
January 1, 2016 – December 31, 2016	1,290,136.69	300,530.71
January 1, 2017 – December 31, 2017	1,331,491.16	388,303.37
Totals	\$3,962,847.59	\$1,001,638.00

Source: Auditor generated using sales reports from SLBC point-of-sale system.

The audit found that SLBC complied with several lease agreement provisions. For example, SLBC consistently submitted required monthly revenue reports detailing gross revenues, installed point-of-sale system with required segregated sales categories and separate function keys for cashiering, maintained boat rental prices within maximum pricing rates required, and provided the required boat rental, facility rental, food and beverage and retail goods sales options. However, the audit identified the following areas where SLBC and Rec & Park could improve:

- Practices to Prepare and Remit Monthly Rent Payments
- Cash-Handling Practices
- Required Deposits Made to the Maintenance Funds
- Certain Reporting Requirements
- Rec & Park Oversight of the Lease Agreement

Finding 1. SLBC Needs to Improve Its Practices to Prepare and Remit Monthly Rent Payments to the City

The audit identified the following three issues with monthly revenue reporting and rent payments:

- Inaccurate Monthly Gross Revenue Reporting
- Inaccurate Monthly Rent Remittance
- Late Monthly Rent Payments

These issues are a result of discrepancies between reported revenues and underlying support, inaccuracies in calculating rent payment, and remitting rent payments after the lease required due date. The finding details are discussed in further detail below.

Did Not Always Report Accurate Monthly Revenues

Section 5.6 of the lease agreement between SLBC and the City requires the operator to submit monthly reports to the City detailing gross revenues earned. To determine the accuracy of SLBC's gross revenue reporting to the City, the audit performed a detailed review of SLBC's gross revenues during the following months: July 2015, January 2016, August 2016, and April 2017. Specifically, the audit compared the gross revenue amounts (food and beverage, rental space, boat rentals, and retail merchandise sales) reported to the City to the gross revenue amounts recorded in SLBC's point-of-sale system.

The audit found SLBC underreported food and beverage gross revenues by \$881.84 for July 2015. SLBC reported \$47,508.37 to the City, but its system records reflected \$48,390.21. The understatement caused SLBC to underpay \$88.20 in rent. According to SLBC, the reporting error was an oversight. Because of the misreported gross revenue figures, the amount of rent remitted by SLBC was inaccurate, as described in the following section.

Did Not Always Remit Correct Monthly Rent Amount Due

Section 5.6 of the lease agreement also requires SLBC to provide monthly calculations of rent amounts due to the City. To determine the accuracy of SLBC's calculation of rent amounts due to the City, the audit calculated rent amounts due for July 2015, January 2016, August 2016, and April 2017 based on gross revenues, compared to the amounts due based on the monthly MAG and determined which method resulted in the greater amount of rent due to the City.

For each of the four months tested, the audit found that SLBC's gross revenues resulted in the percentage rent calculation methodology providing greater revenue to the City compared to the monthly MAG. As shown in Exhibit 2, the audit determined that SLBC underpaid rent in three of the four months tested, totaling \$1,770.61.

Exhibit 2. Underpaid Monthly Rent

Date	Monthly MAG*	Percentage Rent Calculation	Rent Paid to the City	Rent Owed to the City
July 2015	\$24,549.51	\$47,483.37	\$47,395.17	\$88.20
January 2016	\$4,091.58	\$9,752.86	\$9,705.92	\$46.94
August 2016	\$25,205.51	\$34,672.01	\$34,672.01	\$0.00
April 2017	\$15,753.44	\$30,879.55	\$29,244.08	\$1,635.47
Total	\$69,600.04	\$122,787.79	\$121,017.18	\$1,770.61

Source: Auditor generated using sales reports from SLBC point-of-sale system

* CPI Adjusted Monthly MAG amount varies by the month, refer to Base Rent schedule on Background section of this report.

According to SLBC, the underpaid rent was an oversight related to the underreported gross revenues. The underpaid rent is less than 2 percent of the rent payable, but the lease requires the operator to accurately report all gross revenue and remit rent due to the City.

Sometimes Remitted Rent Late

Finally, Section 5.1 of the lease agreement requires SLBC to remit rent to the City by the 10th day of each month for the previous month's business operations. To determine whether rent payments were made on time, the audit compared monthly rent payment due dates to the actual payment dates for the months of July 2015, January 2016, August 2016, and April 2017.

The audit found that SLBC remitted rent payments after the due date in three of the four months reviewed, as shown in Exhibit 3.

Exhibit 3. Late Rent Payments

Month	Rent Due Date	Rent Paid Date	Days Late
July 2015	8/10/15	8/19/2015	9
January 2016	2/10/16	2/11/2016	1
August 2016	9/10/16	9/12/2016	2
April 2017	5/10/17	5/9/2017	0

Source: Auditor generated using payment records provided by Rec & Park.

Consequently, SLBC is subject to the following late fees and interest charges for rent not paid by the due date:

- Section 5.7 of the lease agreement requires a 5 percent late fee on past due rent, and
- Section 5.8 requires interest charges in the amount of 10 percent per year on past due rent.

For the four months reviewed, the audit found that SLBC owes the City \$4,727.18 in late fees and interest charges on the rent amounts that were paid after the due date, as reflected in Exhibit 4.

Exhibit 4. Late Fees and Interest on Rent Amount Paid After the Due Date

Date	Rent Amount Remitted	Number of Days Late	Late Charge Calculation (5% of Rent Due)	Daily Interest Rate (10% / 365)	Interest Charge Calculation
July 2015	\$47,395.17	9	\$2,369.76	.000273973	\$116.86
January 2016	9,705.92	1	485.30	.000273973	2.66
August 2016	34,672.01	2	1,733.60	.000273973	19.00
April 2017	29,244.08	0	0.00	.000273973	0.00
Total			\$4,588.66		\$138.52

Source: Auditor generated using payment records provided by Rec & Park.

SLBC also owes the City an additional \$88.53 in late fees and \$223.09 in interest charges on the portion of rent that was due, but remained outstanding as of 6/30/2018, as reflected in Exhibit 5.

Exhibit 5. Late Fees and Interest on Outstanding Rent Due as of June 30, 2018

Date	Unpaid Rent Outstanding	Number of Days Late ¹	Late Charge Calculation (5% of Rent Due)	Daily Interest Rate (10% / 365)	Interest Charge Calculation
July 2015	\$88.20	1,055	\$4.41	.000273973	\$25.49
January 2016	46.94	871	\$2.35	.000273973	\$11.20
August 2016	0.00	0	\$0.00	.000273973	\$0.00
April 2017	1,635.47	416	\$81.77	.000273973	\$186.40
Total	\$1,770.61		\$88.53		\$223.09

Source: Auditor generated using payment records provided by Rec & Park.

In total, SLBC owes the City \$1,770.61 in unpaid rent and \$5,038.80 in late charges and interest charges on rent amounts associated with the four months reviewed.

Recommendations

The San Francisco Recreation and Park Department should:

1. Collect the \$1,770.61 in unpaid rent and \$5,038.80 in late charges and interest charges. The department should also calculate and collect the late charge and interest for the period of July 1, 2018, until SLBC remits payment.
2. Audit each month not tested as part of this audit to determine additional amounts owed, if any.
3. Require SLBC to implement procedures to ensure compliance with lease provisions on the accuracy of reporting gross revenue and calculating rent.

¹ Number of days late calculated from first day late (11th of the following month) through the end of audit field work on June 30, 2018.

4. Ensure SLBC remits rent payments by the due date and assess appropriate late charges and interest on any late rent payments received.
5. Verify the accuracy of SLBC's monthly reported revenues to the submitted point-of-sale reports and determine whether the subsequent percentage rent calculation is correct.

Finding 2. Cash-Handling Practices Do Not Sufficiently Secure Revenues

SLBC remits rent payments to the City based on the amount of gross revenues² earned. As such, SLBC must demonstrate that it has implemented adequate controls over its cash-handling activities to ensure all revenues are accounted for and safeguarded. The audit found that SLBC has some good controls, such as its point-of-sale system, which has an audit trail functionality that tracks cashiering activities. Also, the system does not permit manual price adjustments. However, the audit found weaknesses in cash-handling practices for the safeguarding of cash and reconciliation of receipts. Due to the sensitive nature of the finding, its details are omitted from this report and instead have been issued to Rec & Park in a confidential memorandum.

By not following cash-handling best practices, SLBC does not adequately safeguard revenues and risks cash losses that could negatively impact the rent amounts due to the City. Insufficient or missing reconciliation creates an undue risk that lost or misappropriated collections may go undetected and that collections may not be accurately reconciled against receipts. Adequate controls over cash-handling practices reduce the risk that employees will apply procedures inconsistently, make errors, or commit fraud, including misappropriating cash.

Recommendation

6. The San Francisco Recreation and Park Department should work with SLBC to reinforce standard cash-handling protocols to ensure the safeguarding of assets.

Finding 3. Evidence Demonstrating Required Deposits Made to the Maintenance Funds Not Provided

Sections 5.10 and 5.11 of the lease agreement require SLBC to establish a:

- Maintenance Fund where 2 percent of all gross revenues are deposited and restricted to pay for maintenance and improvement expenses for the boathouse. These deposits were required to begin in Year 5 of the lease agreement.
- Personal Property Fund where 1.5 percent of all gross revenues are deposited and restricted to pay for the purchase, maintenance and improvement of personal equipment used at the boathouse. These deposits were required to begin in Year 4 of the lease agreement.

² Gross Revenues means all amounts received from all sales and business transactions at the Stow Lake Boathouse, excluding returns and refunds, sales tax, parking tax or similar tax.

The lease further requires SLBC to submit to the City, along with the annual gross revenue report, any deposits, expenses, and balance of the Maintenance and Personal Property Funds.

SLBC submitted financial records and receipts detailing 2015, 2016 and 2017 fund expenditures. However, SLBC was unable to provide financial records demonstrating that all required deposits had been made and only provided evidence of the required deposits beginning in calendar year 2018. SLBC also could not provide financial records reflecting the total amount currently on deposit for each fund. SLBC was unable to explain why it could not provide the requested documents.

Based on the annual gross revenues recorded SLBC’s financial system, the Maintenance Fund and Personal Property Fund deposits should equal approximately \$59,442.71 and \$52,432.56, respectively, over the three-year period of January 1, 2015, through December 31, 2017. See Exhibit 6 for further details.

Exhibit 6. Maintenance and Personal Property Fund Three-Year Deposit Totals

Year	Annual Gross Revenues	Personal Property Fund (1.5% of gross revenues)	Maintenance Fund (2.0% of gross revenues)
January 1 – December 31, 2015	\$1,341,219.74	\$20,118.30	n/a *
January 1 – December 31, 2016	\$1,290,136.69	\$19,952.05	\$25,802.73
January 1 – December 31, 2017	\$1,331,491.16	\$19,972.37	\$26,629.82
Total	\$3,962,847.59	\$59,442.71	\$52,432.56

Source: Auditor generated using sales reports from SLBC point-of-sale system.

* Deposits into the Maintenance Funds did not apply in calendar year 2015, which was the fourth year of the lease term. Deposits into this fund were not required until the fifth year of the lease term.

Because SLBC could not provide sufficient financial reports demonstrating amounts deposited and the current balance in each fund, the audit cannot validate whether SLBC appropriately created and maintained each maintenance fund. Thus, sufficient monies may not be available to adequately address ongoing boathouse maintenance and improvement needs.

Recommendations

The San Francisco Recreation and Park Department should:

7. Require and determine whether SLBC deposited the appropriate percentage of gross revenues in each fund, including any outstanding deposits from the timeframes required by the lease.
8. Ensure SLBC submits lease-required annual reports detailing gross revenues, deposits made into each fund, approved expenses and fund balances.

Finding 4. Certain Reporting Requirements Were Not Met

Section 5.6 of the lease agreement requires SLBC to submit specific monthly and annual reports, including:

- Concessionaires' Payment Statement—detailed monthly accounting of all gross revenues, taxes paid, and rent calculations.
- Gross Receipts Statement—detailed annual accounting of all gross receipts broken down by category, such as facility rentals, boat rentals, and food and beverage and retail sales.
- Itemized Income Statement—annual accounting of all revenues and expenses, including itemized expenditures on capital improvements and personal property.
- Maintenance and Personal Property Funds annual reports to the City detailing all deposits and expenses and the current balances.

Although SLBC consistently submitted monthly Concessionaires' Payment Statements, it has never submitted either the annual statements of Gross Receipts, Itemized Income Statements or Maintenance and Personal Property Funds annual reports. By not submitting the required reports, SLBC will continue to remain out of compliance with its lease and the City will not have sufficient assurances that the operator accurately reported all revenues, remitted all applicable percentage rent and maintains sufficient monies in the maintenance funds. Rec & Park also did not enforce the lease provisions for SLBC to provide these reports for the audit period.

Recommendation

9. The San Francisco Recreation and Park Department should require SLBC to submit all required monthly and annual reports, including ensuring reports submitted contain the report components described in the lease agreement.

Finding 5. Rec & Park Needs to Improve Its Oversight of the Lease Agreement

Among its many responsibilities, Rec & Park oversees and manages concession leases. However, the audit found that there are several provisions of the SLBC lease agreement that are not being enforced to ensure SLBC complies with requirements. Specifically, Rec & Park does not assess the accuracy of rent payment amounts remitted, monitor the timeliness of rent payments, ensure required amounts are deposited into the maintenance and personal property funds, or collect and review required annual revenue reports. Without actively monitoring and enforcing these lease agreement requirements, Rec and Park cannot be assured that the operator is complying with lease provisions or that the City is receiving all the rent it is due.

According to Rec & Park management, the department does not have formal policies and procedures to guide the management and oversight of any of its lease agreements and is aware that there are several lease agreement provisions that are not being enforced for compliance. Additionally, Rec & Park stated that it is in the process of developing formal, written policies and procedures to ensure proper lease oversight

and recently received approval for a 0.5 full-time equivalent position that can be filled to allow the department to create a repository of provisions found in each Rec & Park lease agreement, verify SLBC compliance with each provision, and notify applicable Rec & Park staff for follow-up when necessary.

Rec & Park should continue its efforts to incorporate lease oversight practices. Furthermore, written policies and procedures for the oversight and management of its concession and lease agreements should include detailed procedural steps for collecting, tracking, and validating concession operator lease agreement provisions.

Recommendations

The San Francisco Recreation and Park Department should:

10. Continue its efforts to develop formal, written policies and procedures for the management and oversight of its lease agreements with various vendors, concession operators, and service providers. The policies and procedures should include detailed procedural steps for collecting, tracking, and validating concession operator lease agreement provisions.
11. Immediately implement informal protocols to manage and oversee activities while the policies and procedures are being developed.

APPENDIX A: DEPARTMENT RESPONSE



London N. Breed, Mayor
Philip A. Ginsburg, General Manager

September 4, 2018

Tonia Lediju
Chief Audit Executive
Office of the Controller
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Response to Stow Lake Boathouse Audit

Dear Ms. Lediju:

Attached please find our response to your draft report, "Stow Lake Boathouse Revenue Reporting, Rent Payment and Records Maintenance Practices Needs Improvement." We appreciate the time your team spent reviewing the lease, analyzing rent and revenue data, and meeting with members of the Department and the Operator's staff.

We note that the five audit findings with 11 recommendations will be helpful in improving our Department's lease oversight process and further support changes that were already in progress when the audit commenced. We note that none of these five audit findings were identified as significant.

If you have any questions or need more information, please contact Dana Ketcham, Director of Property Management, Permits and Reservations, at dana.ketcham@sfgov.org.

Sincerely,



Phil Ginsburg
General Manager

RECOMMENDATIONS AND RESPONSES

For each recommendation, the responsible agency should indicate whether it concurs, does not concur, or partially concurs. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Agency Response	CSA Use Only Status Determination*
The Recreation and Park Department should:		
1. Collect the \$1,770.61 in unpaid rent and \$5,038.80 in late charges and interest charges. The department should also calculate and collect the late charge and interest for the period of July 1, 2018, until SLBC remits payment.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur The Recreation and Park Department (RPD) will endeavor to collect the unpaid rent, late and interest charges.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
2. Audit each month not tested as part of this audit to determine additional amounts owed, if any.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur The Draft Audit Report covered 4 of 36 months of the period audited. RPD will review the Point of Sale Reports for the remaining months to determine if any amounts were owed.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
3. Require SLBC to implement procedures to ensure compliance with lease provisions on the accuracy of reporting gross revenue and calculating rent.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur RPD has requested SLBC to provide the additional steps that they will take to ensure that the calculation of gross revenue and rent are accurate.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
4. Ensure SLBC remits rent payments by the due date and assess appropriate late charges and interest on any late rent payments received.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur RPD has created a new lease compliance position which will establish a process and system that monitors the timeliness of payments and automatically calculates the applicable late and interest charges.	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
5. Verify the accuracy of SLBC's monthly reported revenues to the submitted point-of-sale reports and determine whether the subsequent percentage rent calculation is correct.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur The lease does not require SLBC to submit point-of-sale reports, although SLBC has submitted them in the past. RPD will verify the accuracy of the calculations in the report if they are submitted by SLBC.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
6. Work with SLBC to reinforce standard cash-handling protocols to ensure the safeguarding of assets.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur RPD has requested for SLBC to address the cash-handling issues identified in the audit and will monitor adherence to the standard cash-handling protocols to ensure that assets are properly safeguarded.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
7. Require and determine whether SLBC deposited the appropriate percentage of gross revenues in each fund, including any outstanding deposits from the timeframes required by the lease.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur RPD would like to elucidate that the lease requires making an accounting entry for the deposit in the fund and does not require the deposit of money in the fund. RPD has requested for SLBC to provide a statement that shows the amount currently in the fund and submit the same information per the requirements of the lease.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
8. Ensure SLBC submits lease-required annual reports detailing gross revenues, deposits made into each fund, approved expenses and fund balances.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur RPD has created a new lease compliance position which will be tracking all required reports.	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested
9. Require SLBC to submit all required monthly and annual reports, including ensuring reports submitted contain the report components described in the lease agreement.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur RPD has created a new lease compliance position which will be tracking all required reports.	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
<p>10. Continue its efforts to develop formal, written policies and procedures for the management and oversight of its lease agreements with various vendors, concession operators, and service providers. The policies and procedures should include detailed procedural steps for collecting, tracking, and validating concession operator lease agreement provisions.</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>RPD has created a new lease compliance position which will partner with our Finance Division to create detailed written policies and procedures for the management and oversight of lease agreements.</p>	<p><input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>11. Immediately implement informal protocols to manage and oversee activities while the policies and procedures are being developed.</p>	<p><input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur</p> <p>RPD has created a new lease compliance position which will build the system that tracks lease compliance. Another Property Management staff member is monitoring all lease payments for the time being.</p>	<p><input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

APPENDIX B: STOW LAKE BOATHOUSE COMPANY RESPONSE

On September 6, 2018, SEC requested a response from the tenant regarding the audit report. The tenant elected not to provide a response.