

**Nassau County
Office of the Comptroller
Field Audit Bureau**



**Limited Financial Review
of Spectacor Management Group**

HOWARD S. WEITZMAN

Comptroller

**FA-06
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**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**

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Executive Summary

Background

Nassau County entered into a lease agreement in 1979 with Spectacor Management Group (SMG), formerly the Hyatt Management Corp. of New York, for the Nassau Veterans Memorial Coliseum (Coliseum). The original thirty-year lease was extended in 1986 to July 31, 2015. In accordance with the lease terms, SMG will operate and maintain the Coliseum and make quarterly payments in arrears for:

- rent, adjusted yearly by the Consumer Price Index (CPI);
- hot and chilled water, adjusted yearly by the CPI;
- electricity; and
- 12.75% of gross parking revenues.

The amounts paid in 2004 were \$297,270 in rent; \$516,991 for hot and chilled water; \$919,074 for electricity; and \$250,149 from parking revenues.

In addition, SMG is required to annually remit to the county 25% of its concession commissions above a base amount. In 2003 SMG paid \$429,369 above a base amount of \$1,753,150. In 2004 SMG concession commission revenues to the county decreased to \$171,197, mainly due to a hockey strike from October 2004 to April 2005.

SMG is also required to pay the county an entertainment surcharge tax of \$1.50 per seat sold as required by a law enacted in 2000. Facilities subject to the tax are required to file a return to the county along with supporting details in the month after an event took place.¹ SMG remitted \$877,581 for 45 events and \$811,533 for 46 events in 2003 and 2004 respectively.

Audit Scope, Objective and Methodology

We performed an audit of SMG for the period July 1, 2002 through September 30, 2005. The objective of our audit was to verify the accuracy of the Entertainment Surcharge Tax Returns and to verify SMG's compliance with the terms of its lease with the county. We reviewed the accuracy of SMG's reporting of the gross parking revenues and concession commissions. We examined expenses claimed for repairs in order to validate that proper procedures were followed and that deductions from payments to the county were proper; and we reviewed the timeliness of lease payments. This audit was conducted in accordance with generally accepted government auditing standards. These standards require that the audit is planned and performed to obtain reasonable assurance that the audited information is free of material misstatements. The audit includes examining documents and other evidence to substantiate the accuracy of information tested, including all relevant records and contracts. It includes testing for compliance with applicable laws and regulations and any other auditing procedures necessary to complete the examination. We believe that the audit provides a reasonable basis for the audit findings and conclusions.

¹ Local Law 28-2000 as amended by Local Law 31-2000 and 3-2001

Executive Summary

Summary of Significant Audit Findings

Underpayment of Concession Commission Revenues

SMG underpaid the county its share of concession commission revenues from the sale of souvenirs by \$823,677 during the period July 2002 through December 2004. The underpayment resulted primarily from SMG treating its direct sale of souvenirs as if a third party concessionaire were selling the souvenirs. Under the lease agreement the sums payable for concession commissions are paid in arrears within ninety days following the end of the calendar year. Fieldwork was performed in the Fall of 2005, therefore, we were unable to determine the amount of the underpayment for the remainder of the audit period, January 2005 through September 2005, The amount of concession commission due the county for January 2005 to the present must still be determined. We have referred this matter to the County Attorney for collection.

In addition, SMG underreported total sales from vending machines; underreported its concession commission from Aramark; excluded concession revenues from 18 of 269 events; and incorrectly deducted certain costs from gross souvenir sales in its calculation of concession revenue due to the county.

Underpayment of Parking Fee Revenues

SMG underpaid the county \$39,328 in parking fee revenue. SMG failed to recognize parking revenue earned through the sale and use of prepaid parking vouchers in its calculation of monies owed to the county. In addition, we found that parking revenue, as reported in SMG's monthly Event Income Statements (showing monthly revenue from all events held during the month), was higher than the revenue amount used to calculate the county's share.

Entertainment Tax on Complimentary Tickets

We found that SMG did not pay the entertainment surcharge tax of \$1.50 per ticket on complimentary tickets. Complimentary tickets do not appear to be excluded from the definition of a ticket as found in Local Law 31-2000, § 5-91.8 which states that..."...to be considered a ticket, the right to admission to or attendance at an Event must be obtained by a person in exchange for consideration, which includes monetary consideration, exchange, barter, the rendering of any service or any agreement therefore." A test of 13 of the 116 events reported on tax returns held during the audit period found that SMG did not pay the \$1.50 entertainment tax on 13,924 complimentary tickets issued, totaling an underpayment of \$20,886 entertainment surcharge tax. SMG should review and correct entertainment surcharge tax filings, and remit additional payments due to the county.

Executive Summary

Delays in SMG Lease Payments

There were inordinate delays in payments to the county under the lease agreement. We found that:

- rental payments and expense reimbursements were paid an average of three to four months late;
- parking revenues were paid two months late; and
- concession revenues were paid nine to eleven months late.

Parking Revenue Internal Control

SMG collects approximately \$2 million per year in parking revenues; however, the process is manual and internal controls over the revenue collections were inadequate. We examined 51 events and found that, on average, 43% of the gates reported cash shortages when compared to the number of vehicles parking.

Reduced or No Fee Parking

The lease permits SMG to hold 15 events where less than 1,000 vehicles park, at a reduced or no parking fee each year and 6 events where more than 1,000 cars are parked at a reduced parking fee.

We could not determine whether SMG was in compliance with these contractual limits because it does not keep track of the number of events or the number of vehicles parked at those events where it permits free or reduced fee parking.

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Audit Findings and Recommendations

Understatement of Concession Commission Revenues

Audit Finding (1):

The concession fees payable to Nassau County by SMG are governed by Article IV of the lease agreement entered into in 1979. Concession revenue is earned from sales of refreshments at booths, by vendors away from booths, sales from vending machines, coat checks and the sale of souvenirs. SMG concession revenue for all sales except souvenirs is calculated as a percentage of outside vendor's gross receipts. SMG uses its own employees to sell souvenirs instead of outside vendors.

The lease requires SMG to pay the county 25% of the concession revenue it receives above a base amount (adjusted annually by the CPI). For example, in 2004 SMG reported approximately \$2.5 million in concession revenues, deducted the base amount of \$1.8 million, and then paid the county 25% of the \$700,000 above the base amount, or \$175,000. We found a number of errors that understated concession revenues.

Our primary finding is with regard to souvenir sales. The lease requires SMG, for calculation purposes, to impute commission income on souvenir sales at no less than 33% of gross sales.² The lease states that regardless of the arrangement SMG makes with a concessionaire, including any entity or subsidiary owned and/or controlled by SMG, the basis for the commissions paid to the county must be "no less than the percentages presently paid. Annexed hereto as Exhibit B."

In 1984 Harry M. Stevens, Inc. (the concessionaire at the time) and Hyatt Management Corporation of New York, Inc., (the company managing the Coliseum at the time), amended the 1972 concessionaire agreement that, among other things, changed the basis for the commissions to be paid to the county. Specifically, the amendment increased the basis for food and beverage commissions, and decreased the basis for concession fees on "independent (consignment) souvenirs/novelties" to a percentage between 8.5% and 17.5%, depending on the agreement with the lessees.³ The County Executive signed the amendment.

This amendment did not affect the minimum percentages established in the lease agreement, which required payment to the county of 25% of souvenir concessions paid by the concessionaire to SMG, net of "the concessionaires' rent for space in the Coliseum, labor, energy, reimbursables and other income." In order to change the minimum percentages due to the county as established in the lease, either the lease, or the referenced Exhibit B incorporated into the lease, would have had to have been amended. In the absence of an amendment of the lease itself, the minimum percentages payable to the county remain the same.

² §4.2 Exhibit B of the lease agreement.

³ See 1984 Amendment to the Concession Agreement between Harry M. Stevens, Inc. and the County of Nassau, dated January 6, 1972, at paragraph 4 (hereinafter the "amendment").

Audit Findings and Recommendations

In addition, since Stevens is no longer the concessionaire at the Coliseum, and there is no souvenir concessionaire to whom Stevens' right could have passed, the underlying concessionaire agreement with Stevens, and the corresponding amendment, can no longer apply to souvenirs, because no concession vendor sells souvenirs. As a result, we have concluded that the minimum percentages provided in the original lease as laid out in Exhibit B to the lease remain applicable to determine the percentage of revenue payable to the county.

We reviewed what SMG should have paid the county for souvenir commissions during October 2003. The correct calculation is as follows:

Correct Calculation of County Commission on Souvenir Sales	October 2003
Gross Sales	\$ 286,000
Less: Permitted Deduction for Labor, Payroll Taxes & Credit Card Fees	<u>28,000</u>
Base for Calculation of Commission	<u>258,000</u>
County Payment at 25% (if over base amount)	<u>\$ 64,500</u>

Under this analysis, the total amount owed to the county for the period July 2002 through December 2004 is \$823,677. Under the lease agreement the sums payable for concession commissions were due in arrears within ninety days following the end of the calendar year. The fieldwork was performed in the Fall of 2005, therefore, we were unable to verify the total amounts due to the county during the remainder of the audit period, from January 2005 through September 2005.

We refer the matter to the County Attorney for collection.

Moreover, our analysis suggests that SMG may have underpaid the county for souvenir concession income during the time prior to the audit period when it had an outside vendor selling souvenirs. If the lease terms govern the calculation of souvenir concession payments to the county instead of the terms established in the agreement between SMG and Stevens, then SMG owes the county an additional amount, which must be determined by further review

We refer the matter to the County Attorney for resolution.

In addition, other errors were noted:

- We reviewed the period July 2002 through May 2005 and found SMG's Concession Revenue Reports, used for the calculation of concession revenue payments to Nassau County, did not include 18 of 269 events. These omissions caused SMG to underpay Nassau County \$3,353.
- Aramark Corporation runs the concessions under contract to SMG and provides SMG with sales totals. We found that for eight events, the concession commission totals used by SMG in the calculation of the county's commission were less than the concession commission totals reported to SMG by Aramark. We noted that when there was an increase in the percentage of gross revenue paid by Aramark to SMG, SMG continued to calculate the

Audit Findings and Recommendations

county's commission based on the old percentage. The failure to calculate concession revenue payments to the county based on commissions received from Aramark resulted in an understatement of the county's commission from concession revenue of \$12,330.

- SMG did not include \$1,726 in concession revenue from vending machines in its calculation of concession revenues owed the county. As a result, Nassau County was underpaid by \$431 for the period July 2002 to September 2005.

In total SMG underpaid at least \$839,791 in concession commission revenue.

Audit Recommendations:

SMG should:

- a) pay the county \$839,791 for the commissions due on concession revenues that were not included in SMG's payment calculations for the period July 2002 through December 2004.
- b) from January 2005 on, calculate commission revenues owed on the sale of souvenirs consistent with the minimum requirements established by the lease;
- c) reconcile the total number of events held to the number of events used for calculating concession revenues and ensure that all events are included in the calculation. These reports should include all events held, with gross sales by type from each event, such as sales at stands, sales away from stands, vending machines, candy, and souvenirs, etc, to ensure accuracy;
- d) ensure that it calculates the county's share of Aramark commissions based on the amount reported and received from Aramark; and
- e) include commission revenue from vending machines in its calculation of concession revenue payments due to the county; and
- f) provide the county's Office of Real Estate Planning and Development (OREPD) all requested reports which support the concession commission amount paid to the county.

Underpayment of Parking Fee Revenue

Audit Finding (2):

We found that SMG did not properly calculate and remit parking fee revenues to the county. Article 6.4(a) of the lease agreement requires SMG to pay the county 12.75% of all parking revenues. We found that SMG was paying the county for only a portion of the revenue earned through prepaid parking. In addition to a parking fee paid on the day of the event, SMG allows

Audit Findings and Recommendations

hockey patrons to purchase prepaid season parking vouchers at a discount to be turned in at the parking booths. It records the prepayment as deferred revenue and then recognizes revenue when the vouchers are used or when they expire.

SMG erroneously recognized a portion of deferred parking revenues earned by crediting it to a general ledger account other than parking revenue. As a result of this incorrect accounting classification, \$266,274 was excluded from SMG's calculation of the 12.75% parking fee revenue owed to Nassau County and the county was underpaid \$33,950.

In addition, SMG did not include all revenue recognized as parking revenue on its books in its calculation of commissions owed to the county. The Event Income Statements showed higher gross parking revenues than were reported to the county by SMG on the supporting schedules it used as the basis for its calculations of parking payments owed to the county. SMG failed to include \$45,889 in revenue which resulted in an underpayment of \$5,378.

Audit Recommendations:

SMG should:

- a) remit \$39,328 to the county to correct underpayments; and
- b) recognize all deferred parking revenue when calculating payments due to the county.

Audit Findings and Recommendations

Entertainment Tax on Complimentary Tickets

Audit Finding (3):

We found that SMG did not pay the entertainment tax of \$1.50 per ticket on complimentary tickets. The law defines a ticket as "the right of admission or attendance to an Event for an individual. . . to be considered a ticket, the right to admission to or attendance at an Event must be obtained by a person in exchange for consideration, which includes monetary consideration, exchange, barter, the rendering of any service or any agreement therefore." We assume that most complimentary tickets are provided as part of the negotiating process with entities that have a commercial importance to SMG, and not simply out of charity. Complimentary tickets are issued, for example, to promoters, the band, performers, radio, and other media. Local Law 31-2000, §5-92.0 d. states that, "It shall be presumed that all Tickets are subject to tax until the contrary is established, and the burden of proof that a Ticket is not taxable hereunder shall be upon the Operator." The complimentary tickets issued should have been included in the number of tickets and subject to the entertainment tax surcharge based on the law and the presumption that there was an exchange for benefit.

We performed a test of 13 events out of 116 events reported on tax returns and held between January 2003 and July 2005. We reviewed SMG's Box Office Statements, which include reconciliations of arena capacity to tickets sold, and found that SMG did not pay the \$1.50 entertainment tax on 13,924 complimentary tickets issued, totaling \$20,886.

Audit Recommendations:

SMG should review its box office statements for events scheduled to occur after October 1, 2000 (when the law became effective) and determine the number of complimentary tickets that were distributed. SMG should amend its entertainment surcharge tax returns, and pay the county the required tax on those tickets, along with applicable penalties and interest.

Audit Findings and Recommendations

Delays in SMG Lease Payments

Audit Finding (4):

There were inordinate delays in the payments owed to the county under the lease agreement. A review of lease payments for rent, chilled and hot water, electric charges, concessions and parking was performed for the period January 2003 through November 2005.

The lease requires payments for rent, chilled and hot water, and electricity to be paid quarterly in arrears; however, it does not provide specific due dates. A reasonable expectation is that lease payments due at the end of each quarter will be paid within several days of each quarter end, or upon billing.

We reviewed payments that were not offset by repair reimbursements and found that:

- rental payments due, averaging \$75,000, were paid an average of 100 days after the end of each quarter;
- chilled and hot water costs, averaging \$128,000, were paid an average of 80 days after being invoiced by the county; and
- electric charges, averaging \$268,000, were paid 120 days after being invoiced by the county.

Article VI §6.4 (b) of the lease requires SMG to pay Nassau county its share of parking fee revenues within thirty days of the end of each quarter. We found that 11 of the 12 payments made during the period July 2002 to September 2005 were late. The quarterly parking revenues, averaging \$66,177 were paid an average of 72 days after the end of each quarter.

The lease also requires that SMG pay the county its share of concession revenues within 90 days of the year end. Concession revenues for 2003 of \$429,369 were paid 11 months after year-end, and revenues of \$171,197 for 2004 were paid 9 months after year-end.

In a previous audit of SMG by the Comptroller's Office, for the years 1998 through 2001 we found similar issues regarding delays in the payment of rent and this problem continues.⁴ SMG's delay in payment of lease obligations deprives the county of the use of funds.

Audit Recommendations:

SMG should pay amounts owed under the lease agreement in compliance with the contract or upon receipt of an invoice from the county.

⁴ Limited Review of Spectacor Management Group (SMG) Nassau Memorial Coliseum-Delinquent Rent to Nassau County 1998-2001.

Audit Findings and Recommendations

Parking Revenue Internal Controls

Audit Finding (5):

SMG collects approximately \$2 million per year in parking revenues; however the process is manual and internal controls over the revenue collections were inadequate. We examined 51 events and found that, on average 43% of the gates reported cash shortages when compared to the number of vehicles parking. Given this error rate, SMG did not properly address the following control weaknesses.

SMG uses three counting methods concurrently at each entrance gate to determine the number of vehicles that park.

- (1) Prenumbered ticket receipts given to the driver of each vehicle.
- (2) An electronic vehicle counter embedded in the pavement.
- (3) A whip counter.

The cashiers use the whip count as a basis for reporting parking proceeds to SMG. We found that the three counts often did not agree to each other. For example, the September 11, 2004 cash reconciliation for one lane showed a ticket count of 108, an electronic count of 171 and a whip count of 110, with a note on the reconciliation form that the whip had malfunctioned. In this example, the collector's cash submission agreed to the lowest vehicle count. The lack of consistency between the results of each count method negates the control created through the use of the different counting methods.

Individual cashier's reconciliation sheets are prepared manually. Manual preparation increases the risk of clerical errors.

We noted the following apparent errors that were not detected and/or corrected:

- A January 21, 2004 event included a reconciliation sheet from a collector that showed that 143 parking receipts were issued and that the electronic counter registered 143 vehicles. (The whip counter space was blank). Each of these vehicles paid \$6.50 to park;
 - The cashier's reconciliation showed that two additional vehicles passed the parking booth at no charge. There was no indication why these additional vehicles did not register in the electronic counter;
 - The cashier multiplied 143 vehicles times the \$6.50 fee and arrived at a revenue amount of \$721.50, or \$208 less than the correct result of \$929.50. The cashier turned in \$952.50 and reported that his count was over by \$205.50. In fact, the cashier's count was short by \$16.00 because the actual receipts should have been \$929.50 for cars plus \$39 for the three buses at \$13 per bus; and

Audit Findings and Recommendations

- On the same, day a cashier reported 62 buses parking, showing parking fees of \$806, but only turned in \$673. Although the cashier was short by \$133, he reported being over by \$133.

Other internal control weaknesses found were:

- The Parking Manager informed us that parking receipts are not always proved out after each event. SMG sometimes waits until after several events. This delay makes it more difficult to assign responsibility for errors;
- SMG does not have any written procedures to instruct employees on the parking revenue collection and submission process; and
- SMG does not properly assign responsibility for currency used by parking managers to ensure that parking booth attendants have the correct denomination of cash to give change to customers. Two to four managers each carry \$1,500 to provide change. However, they are not required to sign out for the money. The absence of this employee certification of money received weakens SMG's position if it needs to make a claim against the employee for the return of the cash.

Audit Recommendations:

SMG should:

- a) consider automating the parking fee collection process. It should look into entering an agreement with EZPASS (Electronic toll collection system) to enable patrons to pay for parking through their EZPASS accounts. This would allow for faster, more accurate collection of fees and eliminate the need for much of the receipt reconciliation and deposit process. It should also consider computerizing the cash reconciliations to eliminate calculation errors that occur when performed manually;
- b) investigate the cause of the unreliable electronic and whip counts to determine if the mechanisms can be repaired or if they should be replaced;
- c) issue policies and procedures to control the parking fee collection and submission process;
- d) require managers to sign a receipt for the \$1,500 in currency issued to them to make change; and
- e) require management to review and approve the individual cashier's reconciliations. Those cashiers with an unacceptable frequency of cash shortages should be retrained, replaced, or more closely supervised.

Audit Findings and Recommendations

Reduced or No Fee Parking

Audit Finding (6):

The lease agreement with SMG provides for the following limited number of events to be held with reduced or with no parking fee:

- Fifteen events where less than 1,000 cars are parked at a lesser fee, or with no parking fee whatsoever;
- Six events where more than 1,000 cars are parked at a reduced parking fee; and
- With the approval of the County Executive, reduced or waived fees in all other appropriate cases.

We could not determine whether SMG was in compliance with the contract because it does not keep track of the number of events where it permits free parking or of the number of vehicles parked at those events.

The Comptroller's Office previous audit found similar issues regarding improperly charged parking fee rates and violation of lease terms when accounting for those events which qualify for reduced or free parking.⁵

Audit Recommendations:

SMG should maintain records that prove contract compliance. It should:

- a) maintain a list of all events that it is applying toward the permitted exemptions from parking fees each year; and
- b) record the number of vehicles parked at each event to determine whether it is under or over 1,000.

⁵ Limited Review of Spectacor Management Group (SMG) Nassau Memorial Coliseum-Delinquent Rent to Nassau County 1998-2001.

Appendix

Spectacor Management Group's Response and Auditor's Follow-up

Audit Finding (1): Understatement of Concession Commissions Revenues

SMG is not in agreement with the primary finding regarding the calculation of the county's share of souvenir sales. Section 4.2 of the Lease between the County of Nassau and Hyatt Management Corporation (predecessor to SMG) dated November, 1979, provides for SMG to pay additional rent based on commissions received from a concessionaire. Any such commissions can be no less than the percentages paid by Harry M. Stevens, Inc. to the county as provided in paragraph 4 of the Concession Agreement between the county and Harry M. Stevens dated January 6, 1972.

On July 12, 1984, Hyatt Management Corporation and Harry M. Stevens, Inc. amended paragraph 4 of the Concession Agreement to reflect a substantive change in the percentages to be paid on food, beverages and souvenirs based on changes in the rates paid by concessionaires to arenas throughout the arena industry since the inception of the Concession Agreement in 1972. This amendment provided for increases in the percentage on food and beverage sales and an adjustment in the method of calculating commissions on souvenir sales. For example, the percentage paid on food and beverage receipts at concession stands was raised from 30% in the 1972 agreement to 42 % in the 1984 amendment.

The percentage of sales of souvenirs was 33% in the 1972 agreement. The 1984 amendment provided for a rate of 41% for house souvenirs and a sliding scale of rates on independent or consigned souvenirs/novelties depending on the method of participation with the party (such as a rock group) providing the souvenirs/novelties. For example, if the participation with the Rock Group was 35% to the Coliseum, then Harry M. Stevens, Inc. paid 17.5% to the Hyatt Management Corp.

This amendment was agreed to and recognized in writing by the County Executive. Based on the written agreement and recognition of the County Executive, SMG has relied on this amendment and the corresponding effect on the percentages due under the Lease which incorporates the Harry M. Stevens agreement, as the basis for paying the county its share of concession commissions since 1984. It should also be noted that SMG has been audited on several occasions by the county since 1984 and this type of finding was never presented to SMG which further solidifies our position that the county acknowledges and accepts the 1984 amendment as the proper basis for payment of additional rent pursuant to section 4.2 of the lease. We have attached a schedule reflecting the amounts paid to the county on independent or consigned souvenirs/novelties during the audit period. The schedule shows SMG's payments to the county exceeded the minimum amount by \$38,081.

It further should be noted that under the express terms of the Lease, no amount is due for souvenir sales because no commissions were paid SMG for these items and any payment to the county is based on a percentage of "gross sales commission paid to SMG by a

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concessionaire...". Nonetheless, SMG has, in good faith, made payment to the county as set forth above.

SMG is in agreement with the other findings reported by the county totaling \$16,114

Auditor's Follow-up Response:

We adhere to our audit finding that SMG has underpaid concession revenue and will refer the matter to the County Attorney for collection. We reject SMG's statement that its position is solidified because SMG has been audited on several occasions by the county since 1984 and this type of finding was never presented. Payments due to the county under the lease depend on the lease terms, not on the scope of this Office's limited financial reviews.

We concur with SMG's corrective action to be taken to pay the county \$16,114.

Audit Finding (2): Underpayment of Parking Fee Revenue

SMG is in agreement with the audit finding reported by the county totaling \$39,328.

Auditor's Follow-up Response:

We reiterate our recommendation that SMG recognize all deferred parking revenue when earned.

Audit Finding (3): Entertainment Tax on Complimentary Tickets

Pursuant to Article XVI of the Lease Agreement between the county and SMG, the county agrees that it shall reimburse the Coliseum for any taxes, including a tax on the sale of a tickets, charges or assessments, which any taxing authority including the county may impose on the Coliseum where the county would receive benefit from such tax, charges or assessment in the form of cash or a credit by the taxing authority imposing the same. Accordingly, any amounts required to be paid by SMG to the county as a result of this finding must be reimbursed to SMG, thereby eliminating any economic benefit to the county from this finding. Furthermore, SMG has collected the entertainment tax on tickets sold at the Coliseum since the inception of the tax and remitted such amount to the county under protest.

Appendix

Spectacor Management Group's Response and Auditor's Follow-up

Auditor's Follow-up Response:

We adhere to our audit finding that SMG owes the county an entertainment tax on complimentary tickets, and note that even if the entertainment tax is being paid under protest, those payments must reflect the full amount owed to the county. This matter will be referred to the County Attorney's Office for resolution.

We reiterate our recommendation that SMG review its box office statements for events scheduled to occur after October 1, 2000 (when the law became effective) and determine the number of complimentary tickets that were distributed. It should pay the county the required tax on those tickets along with applicable penalties and interest.

Audit Finding (4): Delays in SMG Lease Payments

SMG will make every effort to make all payments in a timely manner. It should be noted that all 2006 payments have been made in a timely manner.

Auditor's Follow-up Response:

We concur with the corrective action taken by SMG.

Audit Finding (5): Parking Revenue Internal Controls

During the National Hockey League work stoppage which cancelled the entire 2004-05 NHL season, SMG was forced to reduce certain staffing levels that caused some delays in reconciling events. Now that hockey has resumed, SMG is fully staffed and has resumed reconciling parking after each event.

Auditor's Follow-up Response:

We stand by our finding that receipts were not reconciled timely and reiterate our recommendation that receipts be reconciled after each event.

SMG has a detailed Accounting Policies and Procedures Manual that contains a section on cash handling for all departments, including parking. In addition, SMG system of internal controls regarding parking and all other financial operations have been reviewed by a major independent CPA firm to ensure an appropriate control environment does exist.

Appendix Spectacor Management Group's Response and Auditor's Follow-up

Auditor's Follow-up Response:

During our field work, we interviewed the parking manager who told us that he was unaware of any written policies and procedures. We recommend that these be disseminated to the parking staff.

SMG's system of internal controls is based on our ticket counts with the whip and electronic register recordings used as secondary controls. This same control environment exists in many of the major arenas across the country.

Management does investigate and note discrepancies between the three (3) methods for each cashier for every event, noting that conditions such as inclement weather may affect the use of electronic and mechanical counting devices.

Auditor's Follow-up Response:

We saw no evidence that the discrepancies were investigated by management.

A "Parking Manifest Control Sheet" is utilized to ensure the validity of starting numbers for tickets issued to cashiers from event to event.

Whips and registers will continue to be monitored and scheduled for preventative maintenance on a regular basis.

Seller reconciliations will continue to include detailed backup of any coupons, vouchers or refunds, and explain variances due to large vehicles such as buses and campers.

While SMG does not believe it is necessary to have the change fund signed for by its managers, it will implement this control as requested by the county.

Management does review and approve the cashier's reconciliations. In addition to the current review, a more formal computerized cashier reconciliation spreadsheet will be instituted, with the Accounting Manager designated as caretaker of the "Final Spreadsheet", and with responsibility for final approval of the reconciliation.

In addition, SMG does investigate any material shortages by cashiers and takes the necessary disciplinary action that can ultimately lead up to employee terminations.

SMG will take into consideration any initiative to automate this process based upon approved capital funding from the county.

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Spectacor Management Group's Response
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Auditor's Follow-up Response:

We concur with the corrective actions to strengthen controls and steps taken to computerize the reconciliation process.

Audit Finding (6): Reduced or No Fee Parking

SMG will make every effort to track the number of cars per event where parking is reduced or waived, and receive and file the proper waiver approvals received from the County Executive's office.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by SMG to record the number of vehicles parked at each event. We reiterate our recommendation that SMG maintain a list of all events that it is applying towards the exemption.

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Spectacor Management Group's Response
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Appendix 1 - SMG Response to Nassau County Review

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Total</u>	<u>25% Payment To County</u>
Commissions per SMG G/L & County Audit	172,477.03	191,355.00	181,885.00	545,717.03	136,429.26
Commissions per 1984 Addendum	<u>102,800.45</u>	<u>151,835.32</u>	<u>138,757.60</u>	<u>393,393.37</u>	<u>98,348.34</u>
	69,676.58	39,519.68	43,127.40	152,323.66	38,080.92 SMG Overpaid