

Agenda Item: Present East Beach Concessionaire Audit

Background:

The Park Board operates two types of concession payment plans, one based on a flat fee and one based on a flat fee and a percentage of sales. Historically, the Park Board has not reviewed concessionaires books to better understand the value of the concession, despite the contractual ability to do so.

Periodic reviews of concessionaire profit and loss reports will help the Park Board to establish more realistic pricing guidelines for concessions and establishes a culture of periodic review by the institution of those operating under contract.

This year the Park Board requested City Auditor Glenn Bulgherini to conduct a review of East Beach Concessionaire, Beach Buddies. The same vendor operates at the City managed Pocket Park and a 2018-2019 review conducted by the City revealed the value of the concession and a shortfall in recorded revenues.

Since re-opening in 2013, the Park Board had not conducted a review of East Beach concession opportunities. The review revealed the following information:

Three concession opportunities (umbrellas, mobile vending and the concession stand) are all on a flat fee and generated a total of \$208,152.68 in 2018-2019 at a concession cost of \$22,000 (or approximately 10%). The original contract with the vendor was based on a percentage rate that in the final year of the contract (2018-2019) should have been paying \$28,000 plus 20% of retail and %5 of alcohol. The information was not requested nor provided in a manner that an estimate could be made on the value of the percentages.

Net profit for the operation was \$60,000 or 29% of gross revenues.

As a result of the review, the City Auditor has recommended a series of best practices and a copy of the City's newly adopted SOP for Collection and Reporting of Pocket Park Beach User Fees for incorporation into the Park Board's procedures.



City of Galveston

City Auditor's Office

Review of Beach Buddies, LLC for the Park Board Concession Agreement and Financial Records

This audit is included in the City Auditor's 2020 Audit Plan approved by Council. (CONSULT-PARK2020-3).

The Audit Department performed a test on Beach Buddies, LLC financial records for 2018. The test included comparing the Profit and Loss (general ledger & 1099K) against the bank statements provided. The total gross sales for 2018 is \$208,152.68, \$89,112.71 cash and \$119,039.97 credit cards. A difference of \$7,000 more was noted in credit card revenue. The difference appears to be a timing issue with credit card processing.

The Auditor also reviewed 3 contracts with amendments and an email submitted from staff. The Auditor is limited to a 4 (four) year audit period of 2016 to 2019. All four contracts changed to a flat rate in March of 2016 in the amount of \$22,000. The auditor was not able to locate the umbrella contract.

Included is:

- Beach Buddies 2018 spreadsheet of gross sales calculated by the Auditor. (pg. 1)
- Shop Beach Buddies Profit and Loss January-December 2018 provided by Jim Somerville. (pg. 2-3)
- 1099K Total credit card received created by the credit card company. (pg. 4)
- Email dated December 13, 2019 from Reuben Trevino, Director of Operations. (pg. 5-6)
- Retail sales amendment at Appfel Park. Board approved on 2-26-2019. (pg. 7)
- Alcohol sales amendment at Appfel Park. Board approved on 2-26-2019. (pg. 8)
- Food sales amendment at Appfel Park. Board approved on 2-26-2019. (pg. 9)
- Example of Standard Operating Procedures for Pocket Parks. (pg. 10-14)
- Profitable Concession Stand Food. (pg. 15-16)
- Payment usage by purchase amount graph. (pg. 17)

