



**OFFICE OF THE CITY AUDITOR**

City of Long Beach  
333 W. Ocean Blvd.  
Long Beach, CA 90802  
Telephone: 562-570-6751  
Facsimile: 562-570-6167

**C-4**

**GARY L. BURROUGHS, CPA**  
City Auditor

June 7, 2005

Phil T. Hester, Director  
Department of Parks, Recreation and Marine

We have performed a review of Permit Number 27350 issued to Bill Barker, d.b.a. Grand Romance Riverboat (Grand Romance). This permit grants Grand Romance the right to use and occupy portions of the docks, slips and end ties in the Rainbow Harbor. The purpose of our review was to determine whether all payments to the City received from Grand Romance were in conformity with the terms of the Permit and whether other contractual obligations were fulfilled in compliance with the Permit.

Our review procedures included:


- Obtaining an understanding of the permit and its provisions.
- Discussions with Parks, Recreation and Marine Department and other City personnel, Mr. Bill Barker, and the producer of Killer Entertainment, which is Grand Romance's largest customer.
- Review of Grand Romance vessel activity reports and monthly concessionaire reports.
- Review of Killer Entertainment's cash remittance advices to Grand Romance for the period of December 2001 through February 2005.
- Review of Grand Romance payments to the City as recorded in the City's accounting system, FAMIS.
- Review of Grand Romance bank statements for the period of December 2001 through December 2004.

Based on the results of the audit procedures performed, we have determined that Grand Romance owes the City approximately \$40,200 in unreported revenue, late payment fees and cost of the audit. We have also found that Grand Romance was not in compliance with several other provisions of its permit.

The attached report presents background information on the permit, in addition to our detailed audit issues. We would like to thank Parks, Recreation and Marine Department and Grand Romance for their assistance during this review.

Sincerely,

GARY L. BURROUGHS, CPA  
City Auditor

By:   
Sam A. Joumbat, CIA  
Deputy City Auditor

cc: Janet Day-Anselmo, Business Operations Bureau Manager, Parks,  
Recreation and Marine  
Michael A. Killebrew, Director of Financial Management  
Gwendolyn Parker, Superintendent, Contract Management and Revenue  
Development, Parks, Recreation and Marine  
Mark Sandoval, Marine Bureau Manager, Parks, Recreation and Marine

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Background

The City Council approved a permit to Grand Romance to use and occupy portions of the docks, slips and end ties in the Rainbow Harbor as determined by the Marine Bureau of the City's Department of Parks, Recreation and Marine. The term of the permit was for three (3) years commencing on May 1, 2001. Currently, the permit has expired; however, it has been extended on a month-to-month basis while the Marine Bureau is reviewing previously solicited request for proposals for the use of Rainbow Harbor.

Grand Romance operates a Mississippi-style riverboat that offers "Murder Mystery" harbor dinner cruises, wedding/reception cruises, corporate party/dinner cruises, etc. Killer Entertainment, located in the City of Orange, charters the riverboat from Grand Romance and produces the Murder Mystery theater plays. Grand Romance provides the dinners and bar service for these cruises. It was estimated, by the proprietor, that Killer Entertainment represents approximately 70% to 80% of Grand Romance's total revenue.

The Permit requires a monthly fee payment to the City of 5% of the Permittee's gross receipts, payable on the twentieth (20<sup>th</sup>) day of each month following the month in which gross receipts are received. If the Permit fee payment is not received on time, a late fee will be assessed. The late fee is 5% or \$50, whichever is greater.

Grand Romance commenced operations during November 2001, and did not make their first Permit fee payment to the City until May 2002. For calendar years 2002, 2003 and 2004, Grand Romance made payments to the City as follows:

2002	\$ 6,525
2003	\$16,617
2004	<u>\$18,569</u>
	<u>\$41,711<sup>1</sup></u>

**ISSUES AND RECOMMENDATIONS**

**No. 1 – Gross Receipts were Underreported by Approximately 32.1%**

Grand Romance did not keep adequate accounting records. As such, it was difficult to substantiate the revenue reports submitted to the City. In order to recreate revenue realized during the audit period, we started with bank statements and made adjustments for non-revenue items. We agreed with Mr. Barker that a fair reportable revenue figure for the period of January 9, 2002, through January 7, 2005, would have been approximately \$1,470,000. During the same period, Grand Romance reported gross receipts to the City of about

<sup>1</sup> Includes late fees totaling \$1,480.

\$990,000 and paid the City \$41,711 in permit fees. As a result, Grand Romance underreported its gross receipts by \$480,000 to the City. This resulted in an underpayment of permit fees of \$24,000, when added to late fees of \$1,200 (5%), the resulting combined underpayment is \$25,200.

Section 6 of the permit states: "The costs of the audit shall be paid by the City unless the audit shows that Permittee understated gross receipts more than three percent (3%), in which case Permittee shall pay all City's costs of the audit." The audit of Grand Romance exceeded 200 hours, and the City Auditor's blended average cost per hour is \$75. Therefore, Grand Romance owes the City an additional \$15,000 for the cost of this audit.

### **Recommendation**

The City should bill Grand Romance for \$25,200 for underpayment of the permit and late fees and \$15,000 for the cost of the audit, for a total of \$40,200.

### **No. 2 – Accounting Records are not Stored in Long Beach as Required by the Permit**

Section 7 (Books of Account and Records) of the Permit states "The Permittee shall keep, within the City of Long Beach, complete and accurate books of account, records, cash receipts, and other pertinent data showing all gross receipts, all in accordance with generally accepted accounting principles." However, none of the above listed books or records were available for review. The owner of Grand Romance stated that his house, located in Northern California, burned to the ground and all books and records for Grand Romance prior to June 26, 2004, were lost in the fire. As a result, our ability to audit Grand Romance was greatly limited in scope due to lack of records. In addition, the audit took longer than originally budgeted because we had to resort to alternate auditing techniques and had to recreate the records.

### **Recommendation**

Grand Romance should maintain all books and records within the City of Long Beach, as required by the Permit, preferably in a fire-protected environment. In addition, records should clearly support the revenue that is earned and reported to the City.

### **No. 3 – Commingling of Funds in Bank Account**

Section 7.D.2. (Books of Account and Records) of the Permit states "The Permittee, will prepare or cause to be prepared, preserve, and maintained a single, separate bank account into which all receipts of business or other operations on or from the Permit Area are deposited." Based upon discussion with the owner of Grand Romance, the business does have a bank account;

however, he informed us that the account contains funds from sources other than Grand Romance business operations.

**Recommendation**

The City should instruct Grand Romance not to commingle funds from other sources in the Grand Romance bank account. This account should only be used for Grand Romance business transactions.

**No. 4 – Recording of Sales Transactions are Not in Compliance with the Permit**

Section 7.B. (Books of Account and Records) of the Permit states: “The Permittee shall install and maintain accurate receipt printing cash registers or computer systems and shall record on the cash registers or computer systems every sale of merchandise and services or other transactions at the time of the transaction. If the Permittee chooses to use serially numbered sales slips, the sales slips (including those canceled, voided, or not used) will be retained in numerical sequence for three (3) years.”

During our tour of the Grand Romance Riverboat, we noted a computer in the dockside ticket booth. Based on our discussion with the owner of Grand Romance, the computer is not used for ticket sales. Instead, manual tally sheets are used to record ticket sales. These manual tally sheets are not pre-numbered to ensure all sheets are accounted for.

**Recommendation**

Grand Romance should use a computer, cash register, or pre-numbered sales slips for all ticket sales. Also, in accordance with the agreement, if pre-numbered sales slips are used, Grand Romance should retain all slips (including those canceled, voided, or not used) in numerical sequence for three (3) years.