



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-5

GARY L. BURROUGHS, CPA
City Auditor

June 20, 2006

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

We have performed a review of Permit Number 24797, entered into on July 1, 1996, between the City of Long Beach (City) and Beach Ventures, Inc. (Permittee). The Permittee provides, operates and maintains food and beverage and beach equipment rental concessions at several designated beach areas within the City of Long Beach. The permit has been amended several times to extend the term and currently expires on June 30, 2008. The purpose of our review was to determine whether all payments to the City received from the Permittee were in conformity with the terms and conditions of the Permit.

Our review procedures included:

- Obtaining an understanding of the permit and its key provisions, including payment of permit fees, reporting requirements, record keeping, etc.
- Discussions with Parks, Recreation and Marine Department and other City personnel.
- Discussions with Beach Ventures, Inc. personnel.
- Obtaining records of payments and supporting documents submitted by Beach Ventures, Inc. from Parks, Recreation and Marine Department.
- Scheduling payments submitted to the City during the period January 2002 through December 2004.
- Recalculating the percentage permit fees paid and comparing the amount paid to the amount due, including monthly minimum rent.
- Tracing the gross receipts reported to the City to Beach Ventures, Inc. accounting records, including monthly gross receipt reports, bank statements, tax returns, financial statements and other supporting documentation to determine the accuracy of the gross receipts reported and permit fees paid to the City.

Based on the results of the audit procedures performed, we determined that Beach Ventures, Inc. owes the City of Long Beach approximately \$11,100 in additional

Beach Ventures, Inc.

June 20, 2006

Page 2 of 4

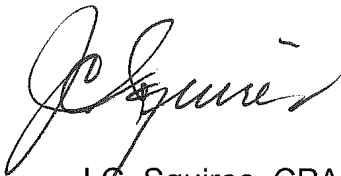
revenue and \$15,000 in audit fees. Due to time limitations beyond our control, we were unable to complete our full scope audit of Beach Ventures, Inc. Had we been able to complete a full scope audit of Beach Ventures, Inc. additional findings might have been uncovered.

The attached report presents information on the permit agreement along with the details of additional monies due the City of Long Beach. We would like to thank the Parks, Recreation and Marine Department, Beach Ventures, Inc. and Beach Ventures' CPA personnel for their assistance and cooperation during this audit review.

Sincerely,

GARY L. BURROUGHS, CPA
City Auditor

By:



J.C. Squires, CPA
Assistant City Auditor

Audit Staff:

John C. Coon, CIA
Audit Manager

cc: Janet Day-Anselmo, Business Operations Bureau Manager, Parks, Recreation and Marine
Gwendolyn Parker, Superintendent, Contract Management and Revenue Development, Parks, Recreation and Marine
Mark Sandoval, Manager, Marine Bureau, Parks, Recreation and Marine

On July 1, 1996, the City of Long Beach (City) and Beach Ventures, Inc. (Permittee) entered into a permit agreement to provide, operate and maintain food and beverage and beach equipment rental concessions at several designated beach areas within the City of Long Beach. The permit has been amended several times to extend the term and currently expires on June 30, 2008. The purpose of our review was to determine whether all payments to the City received from the Permittee were in conformity with the terms and conditions of the Permit.

ISSUE AND RECOMMENDATION

Number 1 – Monthly Revenue Reported on California State Sales Tax Returns Was Greater Than Revenue Reported to the City of Long Beach:

During the audit period of January 2002 through December 2004, the Permittee reported more revenue on their California State Sales Tax returns than they reported to the City of Long Beach for the same period.

Comparison of Reported California Sales Tax Revenue To Reported Revenue to City of Long Beach For the Years of 2002, 2003 and 2004

Year	Net Revenue Rpt. To State	Revenue Rpt. To City	Difference	Additional Permit Fees Due to City
2002	\$187,350.00	\$170,985.13	\$16,364.87	\$ 2,454.74
2003	315,786.00	259,792.77	55,993.23	8,398.98
2004	228,050.00	226,563.33	1,486.67	223.00
	<u>\$731,186.00</u>	<u>\$657,341.23</u>	<u>\$73,844.77</u>	<u>\$11,076.72</u>

Beach Ventures, Inc. was given ample opportunity to provide explanations and supporting documentation for this difference, however, as of this date they have failed to do so. If supporting documentation is subsequently provided to this office, it will be forwarded to Parks, Recreation and Marine Department for a proper disposition.

Additionally, Section 9, entitled, "FINANCIAL STATEMENT", states the following, "If the amount of any deficiency for any permit year or partial permit year exceeds three percent (3%) of the payment, Permittee shall pay the cost of this audit..."

Recommendation:

The City should bill Beach Ventures, Inc. \$11,076.72 for the underpayment of monthly permit fees for the period of January 2002 through December 2004. Additionally, since the amount of the deficiency for this period is 11.2% (\$731,186 divided by \$657,341), the City should bill Beach Ventures, Inc. an additional \$15,000 for the cost of the audit.