

**Audit of J&S Investment Properties, LLC
Concessionaire at Sebastian Inlet State Park**

Division of Recreation and Parks

Report: A-1415DEP-059

Office of Inspector General

Internal Audit Section

Florida Department of Environmental Protection

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3900 Commonwealth Boulevard, MS 40
Tallahassee, Florida 32399-3000
www.dep.state.fl.us





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The Office of Inspector General (OIG) conducted an audit of J&S Investment Properties, LLC (Concessionaire) at Sebastian Inlet State Park (Park). This audit was initiated as a result of the Fiscal Year (FY) 2014-2015 Annual Audit Plan.

Scope and Objectives

The scope of this audit included activities of the Concessionaire during the period of January 1, 2014 through May 30, 2015. The objectives were to:

1. Determine whether the Concessionaire is operating in compliance with the Minimum Accounting Requirements contained in the Agreement and selected Agreement provisions
2. Evaluate the accuracy of the Concessionaire's reported gross sales

Methodology

This audit was conducted under the authority of Section 20.055, Florida Statutes (F.S.), and in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. The procedures of this audit included interviews of Concessionaire and Park management, as well as review of Concessionaire and Park records.

Background

In December 2012, the Division of Recreation and Parks (Division) entered into Agreement MY-0812 (Agreement) with the Concessionaire to provide visitor services at the Park through October 2022. Under the Agreement, the Concessionaire operates a full-service restaurant, merchandise retail operations, equipment and watercraft rentals, event planning and catering services, Wi-Fi services, and primitive overnight camping accommodations. The Concessionaire also uses a subcontractor to operate a bait shop located at the Park. The

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Concessionaire's agreement with the subcontractor requires the subcontractor to pay the Concessionaire 12% commission on all gross sales and a \$200.00 monthly use fee.

As required by the Agreement, the Concessionaire pays the Park commission on all gross sales generated at the Park using the sliding scale shown below.

PERFORMANCE PERIOD	COMMISSION RATE
Execution of Agreement through October 31, 2014	10%
November 1, 2014 through October 31, 2015	11%
November 1, 2015 through October 31, 2022	12%

According to Monthly Reports of Gross Sales submitted to the Division in 2014, the Concessionaire reported \$654,374.90 in gross sales, and paid \$66,692.85 in commission.

Results and Conclusions

Compliance with Selected Agreement Provisions

During our site visit, the Concessionaire's operations appeared to have a sufficient level of merchandise inventory. We observed Concessionaire employees wearing visitor service uniforms and nametags, as required by Section 22 of the Agreement.

Sections 44 and 45 of the Agreement require the Concessionaire to conduct E-Verify employment eligibility authorizations and sexual predator/offender searches for all Concessionaire staff. We reviewed personnel records for nine Concessionaire staff. The Concessionaire provided E-Verify authorizations for five of the nine Concessionaire staff. The E-Verify authorizations provided for the five staff were dated for just prior to our site visit. Documentation of sexual predator/offender searches was provided for all nine staff. For seven of the nine staff, the sexual predator/offender search documentation was dated for just prior to our site visit. The Concessionaire explained that E-Verify authorizations and sexual

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predator/offender searches were conducted at the time of hire, but documentation of the authorizations or searches was not retained.

Based on review of documentation, the Concessionaire submitted Monthly Reports of Gross Sales, financial statements, vending machine utility fees, and commission payments to the Park by required deadlines. As required in Sections 21, 25, 33, and 34 of the Agreement, the Concessionaire completed the Payment Card Industry Self-Assessment Questionnaire, maintained insurance coverage meeting minimum liability requirements, and secured an active performance security bond with the Department listed as the obligee.

Compliance with Agreement Minimum Accounting Requirements

During our site visit, we observed the use of electronic registers, signs reminding customers to obtain receipts, and register visual displays facing customers. Receipts provided to customers were sequentially numbered, time and date stamped, and captured all relevant sales and sales tax detail. We also confirmed that the Concessionaire's cash registers track and produce summary reports of sales and sales tax detail.

According to Concessionaire management, receipts are stored in a locked safe until deposited. Staff operating registers verify collections made during the previous shift, and Concessionaire management review and reconcile daily receipts and register reports. Concessionaire management provides on-site supervision of employees at the Concessionaire's restaurant operations. Concessionaire management is typically not on-site at the marina, but periodically monitors staff working at the marina.

According to the Park Manager, the Concessionaire notifies the Park of special events for Park attendance tracking purposes and submits payment to the Park for each visitor entering the

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Park for the event. The Concessionaire submits copies of all event contracts with the Monthly Report of Gross Sales.

The Minimum Accounting Requirements state that cash receipts must be deposited intact within a period not exceeding five working days. According to the Concessionaire's bank account statements, the Concessionaire made 89 cash deposits in 2014. Of these, five (5.7%) were made more than five working days after the previous deposit. According to Concessionaire management, deposit periods exceeded five working days because of the travel distance to the Concessionaire's bank.

According to the Minimum Accounting Requirements, the Concessionaire is required to maintain a ledger or journal containing daily entries accounting for gross sales and taxes, as well as separate entries for any adjustments. Entries made to the ledger or journal must agree with amounts deposited by period. The Concessionaire provided the ledger used in 2014. The provided ledger contained expenditures, but no sales or sales tax detail. According to Concessionaire management, a ledger capturing daily sales entries and adjustments is not maintained.

According to the Minimum Accounting Requirements, the Concessionaire must retain bank statements to support amounts deposited, and source documents to support recorded gross sales and tax collections. The Concessionaire provided bank statements that supported amounts deposited, and indicated that bank accounts were used solely for operations included in the Agreement. The Concessionaire also provided Vending Machine Accountability forms supporting gross sales from vending machine operations, as well as event contracts supporting gross sales from special events. Reviewed special event contracts contained sufficient detail

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regarding the event customer's information and event fees, as required by the Minimum Accounting Requirements.

For the Concessionaire's restaurant operations, the Concessionaire provided daily register reports showing a breakdown of sales by payment type. These register reports included no sales tax collection details. For the Concessionaire's marina operations, register reports capturing complete sales and tax collections could not be provided for all requested dates. According to the Concessionaire, these reports were either missing or could not be retrieved from cash registers. To support sales generated through the bait shop, the Concessionaire's subcontractor provided register reports capturing complete sales and tax collection detail.

The Minimum Accounting Requirements state that all refunds must be supported by customer-signed receipts. In addition, the Concessionaire is required to document each time daily receipts are used for refunds or purchases. We reviewed refunds issued by the Concessionaire during the audit sample months of March and April 2014. Refunds were supported by receipts stating the refunded purchase, as well as customer and Concessionaire employee signatures. According to the Concessionaire, daily receipts are rarely used for purchases or refunds. When daily receipts are used, the occurrence and reason for the usage is not documented. Because the Concessionaire does not maintain a ledger or journal detailing daily collections, no adjusting entries are made to account for the use of daily receipts.

Accuracy of Reported Gross Sales

Section 23 of the Agreement states the Concessionaire is required to pay the Department a monthly commission fee based on gross sales for all operations within the Park including all sales generated by subcontractors. According to the Concessionaire and Division management,

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during the audit period, Park management directed the Concessionaire to report commission paid by the subcontractor to the Concessionaire, instead of the subcontractor's total gross sales.

Neither the Concessionaire nor the Division could provide written documentation confirming this direction.

According to the Concessionaire and Park Manager, beginning in January 2015, the Concessionaire began reporting the subcontractor's total gross sales to the Park. Using Monthly Reports of Gross Sales, we confirmed that the Concessionaire is reporting the subcontractor's total gross sales to the Park.

For the audit sample months of March and April 2014, we compared the Concessionaire's source documents with gross sales reported to the Park. We reviewed register reports, credit card settlement reports, Vending Machine Accountability forms, and special event contracts provided by the Concessionaire and subcontractor.

	MARCH 2014	APRIL 2014
Restaurant Gross Sales According to Register Reports	\$ 52,342.16	\$ 46,214.89
Marina Gross Sales According to Register Reports and Credit Card Settlement Reports	\$ 25,120.65	\$ 29,337.18
Vending Machine Gross Sales According to Vending Machine Accountability Forms	\$ 428.00	\$ 506.00
Special Event Gross Sales According to Contracts	\$ 0.00	\$ 4,299.95
Subcontractor Commission Payment Calculated from Register Reports	\$ 780.01	\$ 676.68
Subcontractor Monthly Use Fee Payment	\$ 200.00	\$ 200.00
Total Gross Sales Based on Concessionaire and Subcontractor Source Documents	\$ 78,870.82	\$ 81,234.70
Total Gross Sales Reported to the Park	\$ 77,603.00	\$ 83,927.00
Difference	\$ 1,267.82	\$ (2,692.30)

In March 2014, gross sales according to source documents were \$1,267.82 (1.63%) greater than reported gross sales. In April 2014, gross sales according to source documents were \$2,692.30 (3.21%) lower than reported gross sales. Concessionaire management could not

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provide a specific explanation for these differences, but suggested that part of the discrepancy was due to different documentation being used to calculate and report gross sales than the source documents provided for this audit. The source documents used by the Concessionaire to report gross sales were not all retained, and the Concessionaire generated system revenue reports for this audit.

The Concessionaire and subcontractor submit DR-15 sales tax returns to the Florida Department of Revenue detailing gross sales and tax collections. For 2014, we compared the Concessionaire's gross sales reported to the Park with DR-15 sales tax returns.

Bait Shop Subcontractor DR-15 Gross Sales	\$ 65,680.63
Subcontractor Commission Paid to Concessionaire (DR-15 Gross Sales x 12%)	\$ 7,881.68
Subcontractor Use-Fee Payments Paid to Concessionaire	\$ 2,400.00
Restaurant DR-15 Gross Sales	\$ 425,239.66
Marina DR-15 Gross Sales	\$ 215,281.86
Total DR-15 Gross Sales and Subcontractor Commission and Use-Fees	\$ 650,803.20
Total Gross Sales Reported to the Park	\$ 658,374.90
Difference	\$ (7,571.70)

As shown in the table above, gross sales according to DR-15 returns were \$7,571.70 (1.2%) lower than reported gross sales.

Using the Concessionaire's bank statements, we compared the Concessionaire's deposits with gross sales reported to the Park in 2014. Based on review and input from Concessionaire management, we adjusted for deposits not included in gross sales as defined in the Agreement. These included refunds, bank credits, and transfers from other accounts to pay business expenses. Because deposits included sales tax collections, we adjusted for sales tax collections according to DR-15 returns.

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Total Deposits Posted to the Concessionaire's Bank Account	\$ 717,331.88
Less: Deposits Not Related to Concessionaire Gross Sales	\$ 28,627.22
Net Deposits	\$ 688,704.66
Less: Sales Tax Collections	\$ 37,948.65
Net Deposits Excluding Sales Tax Collections	\$ 650,756.01
Total Gross Sales Reported to the Park	\$ 658,374.90
Difference	\$ (7,618.89)

As shown above, net deposits excluding sales tax collections were \$7,618.89 (1.2%) lower than reported gross sales. Regarding the differences between reported gross sales, DR-15 returns, and net deposits excluding sales tax collections, Concessionaire management explained that gross sales reported to the Park for November 2014 mistakenly included marina sales for October 2014 rather than November 2014. As a result, reported marina sales for November 2014 were over-reported by \$6,430.25. Concessionaire management also explained that part of the differences was likely due to timing differences associated with credit card sales deposits.

Agreement Language and Content

During our review, we noted that the Agreement does not include all Park buildings currently in use, a diagram of facilities, nor the Park's equipment items intended for the Concessionaire's use.

Findings and Recommendations

Finding 1: Incomplete or Missing Agreement Content

The following were identified as inconsistencies in the Agreement between the Concessionaire and Division:

- Section 5 lists the Park facilities the Concessionaire is authorized to use, as well as the Concessionaire's facility maintenance responsibilities. This listing of Park facilities does not

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include the newly constructed concession building used by the Concessionaire to operate the full-service restaurant.

- Section 5 refers to Exhibit J for a detailed diagram of the Park's marina area. The referenced diagram of the Park's marina area is not included in the Agreement.
- Section 29 addresses the equipment included in the Agreement and refers to a listing of equipment contained in Exhibit I. The referenced listing of equipment is not included in the Agreement.

Recommendation

We recommend the Division amend the Agreement to include all referenced exhibit documents, and the current Park facilities and equipment intended for use by the Concessionaire.

Finding 2: Gross Sales Documentation

Section A(6) of the Minimum Accounting Requirements states, *daily entries, to account for gross sales and sales tax collections by point of sale and/or collection station, shall be made to a ledger, an automated ledger, a journal or by an automated entry. Entries shall equal amounts deposited by period. All adjustments to gross sales, such as customer refunds, shall be recorded in the ledger or journal using a separate entry.* Section A (6) also states, *source documents, such as daily cash register tapes, Concessionaire's copy of prenumbered receipts and use schedules for pre-numbered tickets, shall be retained to support recorded gross sales and sales tax collections. Adjustments to gross sales shall be supported by source documents such as customer signed receipts and cancelled checks.*

The Concessionaire provided a copy of the ledger used in 2014. The provided ledger contained expenditures, but no detail of sales or sales tax collections. According to

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Concessionaire management, a ledger or journal is not maintained capturing daily sales entries and separate adjusting entries.

Gross sales source documents provided by the Concessionaire for March and April 2014 did not support reported gross sales. Concessionaire management explained that reported gross sales in March and April 2014 were based on source documents that were not all retained. As a result, the source documents provided for this audit differed from those used to report gross sales.

Recommendation

We recommend the Concessionaire maintain a ledger or journal capturing daily sales and sales tax collections. The ledger or journal should contain any adjustments to sales or sales tax collections. We also recommend the Concessionaire ensure that original source documents are retained to support reported gross sales, as mandated by the Minimum Accounting Requirements.

Finding 3: E-Verify Authorizations and Sexual Predator/Offender Searches

Section 44 of the Agreement states, *the Concessionaire shall use the U.S. Department of Homeland Security's E-Verify Employment Eligibility Verification system to verify the employment eligibility of all persons employed by the Concessionaire, during the term of this Agreement to perform employment duties within Florida.*

Section 45 of the Agreement states, *the Concessionaire shall perform sexual predator and sexual offender checks on all employees and subcontractors and shall keep a copy of such records in their personnel files.*

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We requested E-Verify authorizations and documentation of sexual predator/offender searches for the Concessionaire's nine employees. For four of the nine employees, the Concessionaire could not provide E-Verify authorizations. E-Verify authorizations for the remaining five employees were dated during the time of our audit rather than the employees' date of hire. In addition, sexual predator/offender search documentation provided for seven of the nine employees was dated during the time of our audit.

According to Concessionaire management, E-Verify authorizations and sexual predator/offender searches were conducted at the time of hire for all employees; however, documentation of the authorizations or searches was not retained.

Recommendation

We recommend the Division ensure the Concessionaire retains documentation of E-Verify authorizations and sexual predator/offender searches of all Concessionaire employees. In addition, as part of the quarterly concessionaire evaluation, Park management should confirm that sexual predator/offender searches have been conducted for Concessionaire employees.

Finding 4: Frequency of Cash Deposits

According to Section A (5) of the Minimum Accounting Requirements, receipts *shall be deposited intact periodically, which shall be no more than a five day working period*. Based on our review of the Concessionaire's bank statements, five (5.7%) of the Concessionaire's 89 deposits were made in a period exceeding five working days. According to Concessionaire management, cash receipts are stored in a locked safe until they are collected and taken to the Concessionaire owner's residence to be deposited at a later date. By not depositing cash receipts in a timely manner, receipts are at risk of loss or theft.

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Recommendation

We recommend the Concessionaire ensure that all cash receipts are deposited within a five-day working period in compliance with the Minimum Accounting Requirements.

To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our audit was conducted under the authority of section 20.055, F.S., and in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General. The audit was conducted by Gabriel Earnest and supervised by Valerie J. Peacock.

Please address inquiries regarding this report to the OIG's Audit Director by telephone at (850) 245-3151. Copies of final reports may be viewed and downloaded via the internet at <http://www.dep.state.fl.us/ig/reports.htm>. Copies may also be obtained by telephone (850) 245-3151, by fax (850)245-2994, in person or by mail at Department of Environmental Protection, Office of Inspector General, 3900 Commonwealth Boulevard, Mail Station #41, Tallahassee, FL 32399.

*Valerie J. Peacock,
Director of Auditing*

*Candie M. Fuller,
Inspector General*



Florida Department of Environmental Protection

Marjory Stoneman Douglas Building
3900 Commonwealth Boulevard
Tallahassee, Florida 32399-3000


Rick Scott
Governor

Carlos Lopez-Cantera
Lt. Governor

Jonathan P. Steverson
Secretary

Memorandum

TO: Valerie Peacock, Audit Director
Office of the Inspector General

FROM: Donald V. Forgione, Director 
Division of Recreation and Parks

SUBJECT: Audit of J&S Investment Properties, LLC Concessionaire at Sebastian Inlet State Park, Division of Recreation and Parks Report: A-1415DEP-059

DATE: March 4, 2016

This memorandum will serve as the Division's response to the subject audit findings and recommendations.

Finding 1: Incomplete or Missing Agreement Content

The following were identified as inconsistencies in the Agreement between the Concessionaire and Division:

- Section 5 lists the Park facilities the Concessionaire is authorized to use, as well as the Concessionaire's facility maintenance responsibilities. This listing of Park facilities does not include the newly constructed concession building used by the Concessionaire to operate the full-service restaurant.
- Section 5 refers to Exhibit J for a detailed diagram of the Park's marina area. The referenced diagram of the Park's marina area is not included in the Agreement.
- Section 29 addresses the equipment included in the Agreement and refers to a listing of equipment contained in Exhibit I. The referenced listing of equipment is not included in the Agreement.

Recommendation: We recommend the Division amend the Agreement to include all referenced exhibit documents, and the current Park facilities and equipment intended for use by the Concessionaire.

Division Response: The Division agrees with the recommendation and the Division is working with the Bureau of Operational Services to identify and provide the missing information. An amendment that adds the new concession building and other contractual updates has been prepared and is in the approval process.

Finding 2: Gross Sales Documentation

Section A(6) of the Minimum Accounting Requirements states, daily entries, to account for gross sales and sales tax collections by point of sale and/or collection station, shall be made to a ledger, an automated ledger, a journal or by an automated entry. Entries shall equal amounts deposited by period. All adjustments to gross sales, such as customer refunds, shall be recorded in the ledger or journal using a separate entry. Section A (6) also states, source documents, such as daily cash register tapes, Concessionaire's copy of prenumbered receipts and use schedules for pre-numbered tickets, shall be retained to support recorded gross sales and sales tax collections. Adjustments to gross sales shall be supported by source documents such as customer signed receipts and cancelled checks.

The Concessionaire provided a copy of the ledger used in 2014. The provided ledger contained expenditures, but no detail of sales or sales tax collections. According to Concessionaire management, a ledger or journal is not maintained capturing daily sales entries and separate adjusting entries.

Gross sales source documents provided by the Concessionaire for March and April 2014 did not support reported gross sales. Concessionaire management explained that reported gross sales in March and April 2014 were based on source documents that were not all retained. As a result, the source documents provided for this audit differed from those used to report gross sales.

Recommendation: We recommend the Concessionaire maintain a ledger or journal capturing daily sales and sales tax collections. The ledger or journal should contain any adjustments to sales or sales tax collections. We also recommend the Concessionaire ensure that original source documents are retained to support reported gross sales, as mandated by the Minimum Accounting Requirements.

Division Response: The Division agrees with the recommendation and has directed the Concessionaire to maintain a ledger capturing daily sales and sales tax collection. The ledger will contain any adjustments to sales or sales tax collections. The Division has directed the Concessionaire to ensure that original source documents are retained to support reported gross sales, as mandated by the Minimum Accounting Requirements. The park manager will follow up with the Concessionaire to verify they comply with this requirement.

Finding 3: E-Verify Authorizations and Sexual Predator/Offender Searches

Section 44 of the Agreement states, the Concessionaire shall use the U.S. Department of Homeland Security's E-Verify Employment Eligibility Verification system to verify the employment eligibility of all persons employed by the Concessionaire, during the term of this Agreement to perform employment duties within Florida.

Section 45 of the Agreement states, the Concessionaire shall perform sexual predator and sexual offender checks on all employees and subcontractors and shall keep a copy of such records in their personnel files.

We requested E-Verify authorizations and documentation of sexual predator/offender searches for the Concessionaire's nine employees. For four of the nine employees, the Concessionaire could not provide E-Verify authorizations. E-Verify authorizations for the remaining five employees were dated during the time of our audit rather than the employees' date of hire. In addition, sexual predator/offender search documentation provided for seven of the nine employees was dated during the time of our audit.

According to Concessionaire management, E-Verify authorizations and sexual predator/offender searches were conducted at the time of hire for all employees; however, documentation of the authorizations or searches was not retained.

Recommendation: We recommend the Division ensure the Concessionaire retains documentation of E-Verify authorizations and sexual predator/offender searches of all Concessionaire employees. In addition, as part of the quarterly concessionaire evaluation, Park management should confirm that sexual predator/offender searches have been conducted for Concessionaire employees.

Division Response: The Division agrees with the recommendation and has directed the Concessionaire to retain documentation of E-Verify authorizations and sexual predator/offender searches of all Concessionaire employees. During the quarterly concessionaire evaluation park management will confirm that the sexual/offender searches have been conducted for Concessionaire employees and that the documentation is retained.

Finding 4: Frequency of Cash Deposits

According to Section A (5) of the Minimum Accounting Requirements, receipts shall be deposited intact periodically, which shall be no more than a five day working period. Based on our review of the Concessionaire's bank statements, five (5.7%) of the Concessionaire's 89 deposits were made in a period exceeding five working days. According to Concessionaire management, cash receipts are stored in a locked safe until they are collected and taken to the Concessionaire owner's residence to be deposited at a later date. By not depositing cash receipts in a timely manner, receipts are at risk of loss or theft.

Recommendation: We recommend the Concessionaire ensure that all cash receipts are deposited within a five-day working period in compliance with the Minimum Accounting Requirements.

Division Response: The Division agrees with the recommendation and has directed the Concessionaire to ensure that all cash receipts are deposited within a five-day working period in compliance with the Minimum Accounting Requirements.