

**Audit of Lighthouse Café, Inc., Concessionaire at  
Bill Baggs Cape Florida State Park**

**Division of Recreation and Parks**

**Report: A-1415DEP-055**

**Office of Inspector General**

**Internal Audit Section**

**Florida Department of Environmental Protection**

**March 14, 2016**

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The Office of Inspector General (OIG) conducted an audit of Lighthouse Café, Inc. (Concessionaire) at Bill Baggs Cape Florida 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 selected activities of the Concessionaire during the period of January 1 through December 31, 2014. The scope also included selected operations and records outside of this timeframe. The objectives of this audit were to determine:

- Whether the Concessionaire complied with the terms of the Agreement
- The accuracy of the Concessionaire's reported revenue

## **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. Our procedures included interviews with the Concessionaire and Park management, a site visit to the Concessionaire, and review of Concessionaire and Park records.

## **Background**

In June 2012, the Division of Recreation and Parks (Division) entered into Agreement MY-0811 (Agreement) with the Concessionaire to provide visitor services at the Park. Under the Agreement, the Concessionaire operates two full-service restaurants: Lighthouse Café and Boater's Grill. In addition, the Concessionaire provides catering and special event management services. The Concessionaire utilizes several subcontractors to provide services including ice cream sales and rental of beach equipment and bicycles.

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According to the Agreement, the Concessionaire is required to pay the Park 12% commission on all gross sales generated at the Park. According to Monthly Reports of Gross Sales, the Concessionaire reported \$3,754,931.88 in gross sales during 2014, and submitted \$450,471.58 in commission payments to the Division.

## **Results and Conclusions**

### Compliance with Agreement Provisions

At the time of our site visit, we observed Concessionaire employees wearing visitor service uniforms, nametags, and sufficient levels of merchandise inventory in the Concessionaire's gift shop, as required by the Agreement. We also observed pricing structures posted at the Concessionaire's operations.

The Agreement requires the Concessionaire to conduct E-Verify work authorizations and sexual predator/offender searches for all Concessionaire employees. During our site visit, we reviewed personnel records for 41 Concessionaire employees. Of these 41 employees, five were missing complete E-Verify work authorizations and five employees were missing complete documentation of sexual predator/offender searches.

The Concessionaire provided documentation of insurance policies meeting coverage requirements, copies of valid permits and licenses, and a letter of credit conforming with the performance security requirements stated in the Agreement.

As required by the Agreement, the Concessionaire completed the annual Payment Card Industry Self-Assessment Questionnaire. In addition, the Concessionaire provided a certificate of compliance with respect to vulnerability scans of the Concessionaire's internal credit card

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processing network. Two credit card processing terminals used by the Concessionaire were models no longer approved by the Payment Card Industry Security Standards Council.

Compliance with Minimum Accounting Requirements

To record and accumulate sales, the Concessionaire uses electronic cash registers with sales displays that face customers. At the time of our site visit, we observed customers being provided sales receipts by Concessionaire staff.

The Concessionaire utilizes three bank accounts for the operations included in the Agreement. Bank account activity appeared to be solely related to the Concessionaire’s activities under the Agreement. Deposits including daily sales, tax collections, and adjustments are documented in the Concessionaire’s general ledger. According to the Minimum Accounting Requirements, entries made to the Concessionaire’s general ledger or journal must agree with deposits into the Concessionaire’s bank accounts. Based on our review of the Concessionaire’s general ledger and bank statements in 2014, general ledger entries generally agreed with bank deposits with minor discrepancies.

General Ledger Entries	\$ 4,579,774.22
Bank Account Deposits	\$ 4,579,777.22
<b>Difference</b>	<b>\$ (3.00)</b>

According to the Minimum Accounting Requirements, the Concessionaire is required to deposit daily collections within a five working day period regardless of amount collected. When daily collections exceed \$2,000.00, the Concessionaire must deposit collections daily. We reviewed the Concessionaire’s cash deposits for the sample months of July and August 2014. Of the 62 days included in this sample, the Concessionaire deposited collections within required timeframes on 61 (98%) days.

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Accuracy of Reported Gross Sales

The Concessionaire submits DR-15 sales tax returns to the Florida Department of Revenue reporting gross sales and sales tax collections. For 2014, we compared gross sales detailed on the Concessionaire's DR-15 sales tax returns with gross sales reported on Monthly Reports of Gross Sales.

DR-15 Sales Tax Returns	\$ 3,754,932.30
Monthly Reports of Gross Sales	\$ 3,754,931.88
<b>Difference</b>	<b>\$ 0.42</b>

Using the Concessionaire's bank statements, we compared deposits made during 2014 to reported gross sales. We adjusted for deposits not included in gross sales, which included returned check credits and bank adjustments. We also adjusted for sales tax collections according to DR-15 returns and tips paid to staff according to the Concessionaire's payroll tax returns.

Total Deposits Posted to Concessionaire's Bank Account	\$ 4,579,777.22
Less: Deposits Not Related to Concessionaire Gross Sales	\$ 51,581.36
<b>Net Deposits</b>	<b>\$ 4,528,195.86</b>
Less: Sales Tax Collections According to DR-15 Sales Tax Returns	\$ 262,586.27
Less: Employee Tips According to 941 Payroll Tax Returns	\$ 521,082.75
<b>Net Deposits Excluding Sales Tax Collections and Paid Employee Tips</b>	<b>\$ 3,744,526.84</b>
Reported Gross Sales	\$ 3,754,931.88
<b>Difference</b>	<b>\$ (10,405.04)</b>

As shown above, the Concessionaire's net deposits excluding sales tax collections and paid employee tips were \$10,405.04 (0.28%) lower than reported gross sales. This difference could be attributed to timing variations and was not considered material.

For the audit sample months of July and August 2014, we compared the Concessionaire's reported gross sales with gross sales source documents consisting of register reports, credit card

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settlement reports, as well as sales documentation provided by the Concessionaire's subcontractors.

	<b>JULY 2014</b>	<b>AUGUST 2014</b>
Grill Collections According to Register Reports and Settlement Reports	\$ 199,795.58	\$ 257,185.00
Café Collections According to Register Reports and Settlement Reports	\$ 77,531.19	\$ 95,171.66
Subcontractor Collections according to Monthly Reports	\$ 32,499.00	\$ 37,621.00
<b>Total Collections According to Source Documents (Including Sales Tax)</b>	<b>\$ 309,825.77</b>	<b>\$ 389,977.66</b>
Less: State of Florida Sales Tax Collections According to DR-15 Returns	\$ 19,859.76	\$ 25,331.97
Less: Tourist Tax Collections Per Miami-Dade Convention and Tourist Tax Returns	\$ 2,527.70	\$ 3,263.56
<b>Total Gross Sales According to Source Documents (Excluding Sales Tax)</b>	<b>\$ 287,438.31</b>	<b>\$ 361,382.13</b>
Reported Gross Sales	\$ 283,711.02	\$ 361,885.10
<b>Difference</b>	<b>\$ 3,727.29</b>	<b>\$ (502.97)</b>

According to source documents, gross sales were \$3,727.29 (1.31%) greater than reported gross sales in July 2014 and were \$502.97 (0.14%) lower than reported gross sales in August 2014. According to the Concessionaire's accountant, these discrepancies were due to clerical errors made by Concessionaire staff completing monthly reports used by the accountant to report gross sales to the Park. This included an error on one day in July 2014 in which daily gross sales for the Grill were omitted from the monthly report. This resulted in \$3,874.71 in gross sales not being reported to the Park in July 2014.

Our findings and recommendations are contained in the remainder of this report.

## **Findings and Recommendations**

### **Finding 1: Accuracy of Reported Gross Sales**

As stated in Section A(6) of the Minimum Accounting Requirements, *source documents, such as daily cash register tapes, Concessionaire's copy of pre-numbered receipts and use schedules for pre-numbered tickets, shall be retained to support recorded gross sales and sales*

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*tax collections. Section 16 of the Agreement states, by execution of a subcontract between the Concessionaire and subcontractor, each agrees to be bound by the terms of this Agreement, including but not limited to: the requirements of Chapter 119, Public Records; Audit and Minimum Accounting Requirements; and the commission on gross sales.*

The Concessionaire's accountant is responsible for preparing financial statements and tabulating gross sales figures to report to the Division using bank statements and monthly reports prepared by Concessionaire staff. The monthly reports contain daily cash and credit card collections, as well as gratuities and sales tax collections.

The concessionaire uses credit card settlement statements to report credit card collections. Cash collections are reported based on deposit slips. Register reports (tapes) are not used to record cash collections. Accordingly, amounts reported in the Monthly Report of Gross Sales do not reflect register recorded cash collections. In addition, reported subcontractor sales were not based on cash register reports or pre-numbered receipts, but were based on spreadsheets generated by Concessionaire staff.

Based on source documents provided by the Concessionaire, reported gross sales were understated by \$3,727.29 in July 2014, and overstated by \$502.97 in August 2014. Overall, this resulted in reported gross sales being understated by a total of \$3,224.32 in July and August 2014. This resulted in an underpayment of \$386.92 in commission to the Division.

**Recommendation:**

We recommend the Division work with the Concessionaire to ensure reported gross sales are derived from source documents specified in the Minimum Accounting Requirements. Specifically, cash sales should be based on cash register reports. Reported gross sales generated



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by subcontractors should be based on source documents including cash register reports, or receipt or ticket copies. We also recommend the Division request payment of \$386.92 from the Concessionaire for commission due on understated gross sales in July and August 2014.

**Finding 2: Payment Card Industry (PCI) Data Security Standards**

According to Section 25(g) of the Agreement, *the Concessionaire shall be responsible for complying with the PCI Data Security Standards*. In addition, Paragraph 25(g) states *during the term of this Agreement, it shall be the Concessionaire's responsibility to be apprised of any subsequent version, modification, amendment or update of the PCI Data Security Standards*.

The PCI Data Security Standards require merchants to use PIN Transaction Security devices that have been approved by the PCI Security Standards Council. During our site visit, we identified two of the Concessionaire's PIN Transaction Security devices that were not included as approved devices on the PCI Security Standards Council website. By not using approved devices, the Concessionaire is exposed to increased risk of breaches to payment systems and theft of payment cardholder data.

**Recommendation:**

We recommend the Division work with the Concessionaire to ensure compliance with the PCI Data Security Standards by ensuring that PIN Transaction Security devices used in the Concessionaire's operations are up to date and approved for use.

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**Finding 3: E-Verify Work 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*
- *persons (including subcontractors) assigned by the Concessionaire to perform work pursuant to this Agreement.*

Section 45 of the Agreement also 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 reviewed personnel records for 41 Concessionaire employees. Of the 41 employees, records for five (12%) employees had either missing or incomplete E-Verify work authorizations. In addition, records for five (12%) of the 41 employees were missing complete documentation of sexual predator/offender searches.

**Recommendation:**

We recommend the Division require the Concessionaire to ensure E-Verify work authorizations and sexual predator/offender searches are conducted for all Concessionaire and subcontractor employees. Documentation of these work authorizations and searches should be retained in employee personnel records. In addition, as part of the quarterly concessionaire evaluation, Park management should confirm that sexual predator/offender searches have been conducted for Concessionaire and subcontractor employees.

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*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 Linda Huck and 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

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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 Lighthouse Café, Inc., Concessionaire at Bill Baggs Cape Florida State Park, Division of Recreation and Parks Report: A-1415DEP-055

**DATE:** March 10, 2016

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

### **Finding 1: Accuracy of Reported Gross Sales**

As stated in Section A(6) of the Minimum Accounting Requirements, *source documents, such as daily cash register tapes, Concessionaire's copy of pre-numbered receipts and use schedules for pre-numbered tickets, shall be retained to support recorded gross sales and sales tax collections.* Section 16 of the Agreement states, *by execution of a subcontract between the Concessionaire and subcontractor, each agrees to be bound by the terms of this Agreement, including but not limited to: the requirements of Chapter 119, Public Records; Audit and Minimum Accounting Requirements; and the commission on gross sales.*

The Concessionaire's accountant is responsible for preparing financial statements and tabulating gross sales figures to report to the Division using bank statements and monthly reports prepared by Concessionaire staff. The monthly reports contain daily cash and credit card collections, as well as gratuities and sales tax collections.

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Based on source documents provided by the Concessionaire, reported gross sales were understated by \$3,727.29 in July 2014, and overstated by \$502.97 in August 2014. Overall, this

resulted in reported gross sales being understated by a total of \$3,224.32 in July and August 2014. This resulted in an underpayment of \$386.92 in commission to the Division.

**Recommendation:** We recommend the Division work with the Concessionaire to ensure reported gross sales are derived from source documents specified in the Minimum Accounting Requirements. Specifically, cash sales should be based on cash register reports. Reported gross sales generated by subcontractors should be based on source documents including cash register reports, or receipt or ticket copies. We also recommend the Division request payment of \$386.92 from the Concessionaire for commission due on understated gross sales in July and August 2014.

**Division Response:** The Division agrees with the recommendations. The Division has directed the Concessionaire to report gross sales generated by subcontractors to be based on source documents including cash register reports, or receipt or ticket copies. The Division and Concessionaire agree on the underpayment based on underreported gross sales and on January 29, 2016 the Concessionaire paid the Division \$386.92 to satisfy this deficiency.

### **Finding 2: Payment Card Industry (PCI) Data Security Standards**

According to Section 25(g) of the Agreement, *the Concessionaire shall be responsible for complying with the PCI Data Security Standards*. In addition, Paragraph 25(g) states *during the term of this Agreement, it shall be the Concessionaire's responsibility to be apprised of any subsequent version, modification, amendment or update of the PCI Data Security Standards*.

The PCI Data Security Standards require merchants to use PIN Transaction Security devices that have been approved by the PCI Security Standards Council. During our site visit, we identified two of the Concessionaire's PIN Transaction Security devices that were not included as approved devices on the PCI Security Standards Council website. By not using approved devices, the Concessionaire is exposed to increased risk of breaches to payment systems and theft of payment cardholder data.

**Recommendation:** We recommend the Division work with the Concessionaire to ensure compliance with the PCI Data Security Standards by ensuring that PIN Transaction Security devices used in the Concessionaire's operations are up to date and approved for use.

**Division Response:** The Division agrees with the recommendation. The Concessionaire purchased and is now using two new credit card readers that meet current PCI Data Security Standards.

### **Finding 3: E-Verify Work 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

- persons (including subcontractors) assigned by the Concessionaire to perform work pursuant to this Agreement.

Section 45 of the Agreement also 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 reviewed personnel records for 41 Concessionaire employees. Of the 41 employees, records for five (12%) employees had either missing or incomplete E-Verify work authorizations. In addition, records for five (12%) of the 41 employees were missing complete documentation of sexual predator/offender searches.

**Recommendation:** We recommend the Division require the Concessionaire to ensure E-Verify work authorizations and sexual predator/offender searches are conducted for all Concessionaire and subcontractor employees. Documentation of these work authorizations and searches should be retained in employee personnel records. In addition, as part of the quarterly concessionaire evaluation, Park management should confirm that sexual predator/offender searches have been conducted for Concessionaire and subcontractor employees.

**Division Response:** The Division agrees with the recommendation. The Division has directed the concessionaire to ensure E-Verify work authorizations and sexual predator/offender searches are conducted for all Concessionaire and subcontractor employees prior to employment. Park management will review the Concessionaire's personnel files for E-Verify and sexual predator/offender searches compliance during quarterly concession inspections.