

March 26, 2018

Park Restaurant Leases

Background

The Park Board currently manages 10 leases to restaurant operators and two café licenses. Restaurant leases are a subset of a larger number of commercial leases managed by the Park Board Commercial Operations team.

The Park Board Commercial Operations team is involved with initiating and negotiating leases, as well as the ongoing management of the leases and any subsequent amendments and renewals. The City's centralized Accounts Receivable team processes the lease billings and reconciles the payments received to the annual revenue reports submitted by the restaurants.

The lease agreements set out that the restaurants pay rent based on a share of the restaurant's revenue. This is typically a percentage of gross revenue or a minimum rent payment plus a percentage of gross revenue over a certain threshold. The restaurants submit revenue reports and the associated payments on a monthly basis. Annual revenue reports are also provided and are, for most restaurants, required to be independently audited as set out in their respective lease agreements. The Park Board's share of revenue from restaurant leases amounted to \$3.9 million in 2017.

Scope

The audit objectives were to provide reasonable independent assurance that the existing internal controls and business processes related to the Park Board's restaurant leases were adequate and effective and to determine whether:

- payments made to the Park Board are accurate as per the revenue share arrangement outlined in the lease; and
- processes are in place to ensure restaurants are in compliance with lease terms.

Our work included:

- interviews with key staff and management in Park Board Commercial Operations and Financial Services;
- documentary review of related policies, process documents, and other departmental records and correspondence; and
- review of monthly and annual revenue statements for a sample of restaurant leases.

The financial processes and detailed financial records of the restaurants were not in scope.

The audit is not designed to detect fraud. Accordingly, there should be no such reliance.

Conclusion

In our opinion, internal controls over Parks restaurant leases require improvement. A lease tracking system must be established to ensure accuracy and completeness of lease-related information, and to assist management with ensuring compliance to lease terms. Clarifying responsibilities between the Park Board Commercial Operations team and the central Accounts Receivable team will also be key in establishing effective business processes.

The more significant findings and recommendations are:

E.1 Maintain lease information to ensure accurate billings and compliance with lease terms

Management has agreed to establish a lease management database that is maintained going forward. Additionally, future lease information and amendments will be updated in SAP, to ensure accuracy of billings.

E.2 Clarify roles and responsibilities between Park Board Commercial Operations and Central Accounts Receivable

Management in Park Board Commercial Operations and central Accounts Receivable will define their departments' roles and responsibilities including establishing an escalation process for overdue reports, updating SAP with lease information, and requesting audit information from restaurants.

Findings and recommendations have been discussed with appropriate management and work is underway to address them.