

August 26, 2014

Park Board Restaurants Revenue Sharing Review

Background

There are currently ten restaurant leases and two café licence agreements managed by Park Board. Rental revenues for these establishments are typically a percentage cut based on the lessee's monthly sales. This accounted for approximately \$2.5M of revenues for the City in 2013.

Previously, Park Board Finance group handled, received and managed all commercial lease revenues. In an effort to improve efficiency, the City transitioned to a shared financial services business model in 2013. The Accounting Clerk in charge of all restaurant revenue receivables also moved from the Park Board Finance group to the City's Financial Services.

Under most contract terms, lessees are required to submit annual revenue reports audited by an external accountant. The final reported revenue amount from the report is used to determine the final owing amount.

Scope

The audit objective was to provide reasonable and independent assurance that the existing internal controls and business process relating to restaurant lease management are adequate, effective and efficient. Work included:

- Reviewing the process and internal controls surrounding revenue receipt, calculations and reconciliations; and,
- Reviewing the process and approach used in drafting leases

Conclusion

Overall, there have been proactive initiatives to revise the process to ensure there are strong internal controls over management of commercial leases at Park Board. However, the formalization of business process, standardization of contracts and improvement in the management of contract terms will help to further strengthen the restaurant revenue management.

Internal Audit staff provided a number of suggestions for improvements to the Park Board including recommendations to create standardized lease templates, revenue reports to be externally audited, formalized documentation of any lease amendments and the creation of a deadline for year-end reconciliation payment amounts.

The Park Board has accepted and responded to all recommendations in the review. The Internal Audit team will carry out another review in six months to monitor progress.