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**MICHAEL POST, C.P.A., M.B.A.**  
**HARRIS COUNTY AUDITOR**

December 3, 2021

Dear Commissioner Cagle:

The Harris County Auditor's Office Audit Division has completed an audit of the Klein Sports Authority Concession Agreement (Agreement). The results of our audit are included in the attached report.

We appreciate the time and attention provided by you and your staff during this engagement. Please anticipate an email request to complete the Audit Division's Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post".

Michael Post  
County Auditor

Report Copies:

District Judges  
County Judge Lina Hidalgo  
Commissioners:  
R. Jack Cagle  
Rodney Ellis  
Adrian Garcia  
Tom Ramsey  
Christian Menefee

AUDIT REPORT  
**KLEIN SPORTS AUTHORITY CONCESSION AGREEMENT**  
DECEMBER 3, 2021

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## Executive Summary

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### OVERALL CONCLUSION

Klein Sports Authority (KSA) timely paid invoices that were received from Harris County (the County); however, KSA was generally not in compliance with the financial terms of the Agreement. The audit identified opportunities for improvement regarding payment accuracy, insurance requirements and the timeliness of utility invoices submitted to KSA. These issues were discussed with Management, and an action plan has been developed that should address the issues identified by February 15, 2022.

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### SCOPE AND OBJECTIVE

The objective of this engagement was to evaluate KSA's compliance with the financial terms of the Agreement. The audit engagement's scope period was August 27, 2019, to July 31, 2021.

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### SUMMARY OF AUDIT ISSUES

- Inaccurate payments are submitted to the County.
- Utility invoices are not submitted to KSA in a timely manner.
- KSA did not comply with the insurance requirements of the Agreement.

The audit issues, management's action plan to address the issues, and background information regarding this audit are discussed in more detail on the following pages. Each audit issue is ranked based on the likelihood and impact of the risk to the County.

## AUDIT ISSUES

### **ISSUE #1: Inaccurate payments are submitted to the County. [HIGH]**

**What is the Issue:** Five of 8 quarterly concession payments submitted by the concessionaire were not for the correct amount. Quarterly concessionaire fee payments for \$27,877 were not paid for the period of August 27, 2019 through July 31, 2021.

**Why it Happened:** The County Auditor's Office Accounts Receivable Department (AR) was processing and submitting quarterly invoices to KSA for \$4,500. KSA was submitting payment for \$4,500 without including a statement of activities as support for the amount paid. Additionally, AR was not requesting a statement of activities from KSA for review prior to the processing of the payment received. Furthermore, KSA's understanding was that they would pay \$4,500 quarterly and a true-up would occur at the end of each year. The County Auditor's Office would then invoice for any discrepancies from the payments submitted during each year.

**Why it Matters:** Not submitting the correct payment amount results in non-compliance with the Agreement and financial loss to the County Commissioner Precinct 4 (Precinct 4) Park Fund.

**What is Expected:** Section 5 of the Agreement specifically states that the "Concessionaire will pay to the County the Greater of Four Thousand Five Hundred and No/Dollars (\$4,500) per quarter or Ten Percent (10%) of all gross amounts received by Concessionaire in operation of the Park." In addition, a "Statement of Activities" for the reporting period must be included with all payments. An additional annual "Statement of Activities" must also be provided to the County no later than January 30th each year.

#### **What Action(s) are Suggested:**

During the engagement, KSA submitted payment for the \$27,877 owed to the County.

Commissioner Precinct 4 should discuss the requirements contained in Section 5 of the Agreement with KSA management. This communication should include the following expectations:

- The quarterly balance due is the "Greater of" \$4,500 or 10% of "all gross" amounts received.
- A "Statement of Financial Activities" covering the reporting period must be included with all payments.
- An additional annual "Statement of Financial Activities" must also be provided to the County no later than January 30<sup>th</sup> each year.

AR should notify KSA and Commissioner Precinct 4 if the supporting statement of financial activities is not included with a quarterly payment prior to processing. A review of the statement of financial activities should be performed by AR to confirm the accuracy of the payment.

## **MANAGEMENT'S ACTION PLAN**

### **Commissioner Precinct 4**

**Responsible Party:** Angel Hoot, Director of Financial Services

We agree with this issue and we have discussed the requirements contained in Section 5 of the Agreement with the Concessionaire pertaining to the quarterly amount due, the "Statement of Financial Activities" being included with all payments, and the annual "Statement of Financial Activities" due no later than January 30<sup>th</sup> each year. In addition, we will follow up with AR each quarter to ensure payment was received and at the appropriate amount.

**Due Date:** January 31, 2022

### **County Auditor's AR**

**Responsible Party:** Julia Phlegm, Director of Grants and Accounts Receivable

Management agrees with the recommendation and will notify both Precinct 4 and KSA in the event that proper supporting documents are not submitted per terms of the agreement. This corrective action has been communicated by the Director of Grants and Accounts Receivable to the AR accountant who works with this and similarly structured agreements.

**Due Date:** January 31, 2022

**ISSUE #2: Utility invoices are not submitted to KSA timely. [MODERATE]**

**What is the Issue:** Utility invoices are not being submitted to KSA timely. As a result, utility payments are not received quarterly by the Treasurer's Office as specified within the Agreement. Five of 8 utility invoices were not submitted to KSA timely (ranging from 26 to 154 days after the expected due date).

**Why it Happened:** Utility invoices are calculated based on the actual annual utility costs incurred in the preceding year. Precinct 4 is responsible for providing this information to AR to generate the quarterly invoices for the current year. However, Precinct 4 is not providing this information as requested by AR in a timely manner for invoices to be processed and submitted timely to KSA.

**Why it Matters:** Not receiving utility payments quarterly results in non-compliance of the Agreement and/or financial loss to the County.

**What is Expected:** Section 8 of the Agreement indicates that the agreed upon costs for public utilities is to be paid by the Concessionaire on a quarterly basis.

**What Action(s) are Suggested:** Precinct 4 should provide AR with the utility billing amount prior to the end of the first quarter of the year.

**MANAGEMENT'S ACTION PLAN**

**Commissioner Precinct 4**

**Responsible Party:** Angel Hoot, Director of Financial Services

We agree with this issue and we will provide both KSA and AR with the utility billing amount prior to the end of the first quarter of the year.

**Due Date:** February 15, 2022

### **ISSUE #3: KSA did not comply with the insurance requirements of the Agreement. [LOW]**

**What is the Issue:** KSA did not comply with the insurance requirements listed in the Agreement. Specifically, the following was noted:

1. The Certificate of Liability Insurance did not list Harris County as an additional insured entity under the policy.
2. KSA did not provide the County with copies of all insurance policies at the inception of the agreement and/or all subsequent renewal certificates.

**Why it Happened:** The Certificates were not reviewed by County personnel, including the Insurance Specialist from the County's Risk Management department.

**Why it Matters:** Not complying with the insurance section of the Agreement could expose the County to unnecessary risks resulting in financial loss.

**What is Expected:**

1. Section 8 of the Agreement requires the Concessionaire to maintain an insurance policy that includes the County as an additional insured entity.
2. The Agreement requires that copies of all insurance policies and renewal certificates be submitted to the County.

**What Action(s) are Suggested:** Precinct 4 should require KSA to provide the Certificate of Liability Insurance when a renewal occurs. The Precinct should continue to work with the County's Risk Management Department to determine that the insurance complies with Agreement requirements.

### **MANAGEMENT'S ACTION PLAN**

#### **Commissioner Precinct 4**

**Responsible Party:** David Loe, Parks Supervisor

We agree with this issue and we have informed the Concessionaire that they are required to provide the Certificate of Liability Insurance when a renewal occurs. In addition, we will continue to work with the County's Risk Management department to develop a process whereby each time a Certificate of Liability Insurance is provided, it is reviewed by the County's Risk Management department to ensure compliance.

**Due Date:** February 15, 2022

## BACKGROUND

On August 27, 2019, the County entered into a concession agreement with The Klein Sports Authority, Inc. to maintain and operate the park sports fields located at Meyer Park at 7700 Cypresswood Drive, Spring, Texas 77379.

## ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (“Standards”). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.