

# **AUDITOR'S REPORT**

## **BEAR CREEK GOLF COURSE REVENUE CONTRACT COMMISSIONER PRECINCT 3 FOR THE 26 MONTH PERIOD ENDED FEBRUARY 28, 2015**



**November 13, 2015**

**Barbara J. Schott, C.P.A.  
Harris County Auditor**

**Mike Post, C.P.A.**  
*Chief Assistant County Auditor*  
*Accounting Division*

**Mark Ledman, C.P.A., M.P.A.**  
*Chief Assistant County Auditor*  
*Audit Division*



1001 Preston, Suite 800  
Houston, Texas 77002-1817  
(713) 755-6505

FAX (713) 755-8932  
Help Line (713) 755-HELP

**BARBARA J. SCHOTT, C.P.A.**  
**HARRIS COUNTY AUDITOR**

November 13, 2015

Commissioner Steve Radack  
County Commissioner, Precinct 3  
1001 Preston, 9<sup>th</sup> Floor  
Houston, Texas 77002

Mr. Mike Post  
Chief Assistant County Auditor – Accounting Division  
1001 Preston, 8<sup>th</sup> Floor  
Houston, Texas 77002

RE: Bear Creek Golf Course Revenue Contract Commissioner Precinct 3 for the 26 month period ended February 28, 2015.

The Audit Services Department performed procedures relative to the Bear Creek Golf Course Revenue Contract Commissioner Precinct 3 engagement. The objective of the engagement was to evaluate controls for collecting and recording annual payments from the Bear Creek Enterprise, Inc., which was formerly Bear Creek Golf Corporation (Concessionaire), and to evaluate the compliance with the requirements of the Agreement. Our procedures included the following:

- Selectively tested the Concessionaire's compliance with the terms of the Agreement, including the maintenance of specified types and amounts of insurance coverage, maintenance of all necessary licenses and permits, and the payment of all ad valorem taxes for real and personal property located at the premises.
- Examined the County's financial records to identify whether any expenditures utilizing the County's Bear Creek Golf Club revenues were used for improvement and operation of the Bear Creek Golf Club as required by Local Government Code §331.006(b) *Concessions*.
- Evaluated the annual payments made to the County for the 26 months ended February 28, 2015, to identify whether payments were made in accordance with the requirements of the Agreement and whether they were received, recorded, and deposited timely.
- Observed Bear Creek Golf Club's sales transactions to obtain reasonable assurance that pro shop and food and beverage transactions are recorded in the cash registers (point of sale system).
- Selectively tested whether the Concessionaire is correctly transferring sales revenue data from the point of sale system to their accounting records.

Commissioner Steve Radack  
County Commissioner, Precinct 3

Mr. Mike Post  
Chief Assistant County Auditor

- Selectively tested to determine whether the Concessionaire is reporting the correct amounts for all gross revenue and whether they are applying the correct percentage when calculating the annual payment amount sent to the County as outlined in the Agreement.

The engagement process included providing you with a combined engagement and scope letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise judgment in completing the scope objectives. As the procedures were not a detailed inspection of all transactions, there is a risk that error or fraud was not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and ensuring sufficient controls are in place to detect and prevent fraud.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott  
County Auditor

cc: District Judges  
County Judge Ed Emmett  
Commissioners:  
    R. Jack Cagle  
    El Franco Lee  
    Jack Morman  
Devon Anderson  
Vince Ryan  
William J. Jackson

**TABLE OF CONTENTS**

**OVERVIEW .....4**

**RESULTS .....5**

**ISSUES AND RECOMMENDATIONS .....6**

**Financial Statements .....6**

**Calculation of Annual Payment .....7**

**Insurance Coverage.....7**

**Permits and Licenses.....9**

**County Approved Accounting Forms Issue.....10**

**RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS.....11**

## OVERVIEW

Harris County entered into an Agreement on May 23, 1966, granting Bear Creek Enterprises, Inc. the right and responsibility to construct and operate three 18 hole golf courses and appurtenances. The termination date of this Agreement coincides with the termination date in the County's Agreement with the Department of the Army as supplemented for Public Park and Recreational Purposes. Should such Agreement as supplemented be extended or renewed beyond its present termination date of June 30, 2022, the County agrees that the Concessionaire may extend the term of this Agreement through negotiation with the County so that the termination date shall be extended to coincide with any and all renewals and extensions of the County's Agreement with the Department of the Army. On February 25, 2005, 21 Golf Partners, LP purchased a portfolio of golf course properties, including a leasehold interest in Bear Creek Golf Course. Later the same day, 21 Golf Partners changed their name to WSG Lone Star Holdings IV, LP. Also, on the same date, WSG Lone Star Holdings IV, LP hired Century Golf Partners Management as property manager for the Bear Creek Golf Course.

Pursuant to the Agreement, as consideration for the use of the premises, in addition to the surrender to the County of all fixed improvements at the termination of the Agreement, the Concessionaire is required to pay the County 15% of the gross green fees and 5% of the net profits from the sale of food and beverages. All payments are due to the County's Treasurer's Office annually on or before February 15<sup>th</sup> for the previous operating year. The County Auditor's Grants and Accounts Receivable Department (Accounts Receivable) is responsible for monitoring the billing, collection, and recording of all annual payments received from the Concessionaire.

The golf course is located in Bear Creek Park, which is located near the intersection of I-10 West and Highway 6, next to the "Energy Corridor" and convenient to downtown Houston, the Medical Center, and the Galleria.



Photo courtesy of the Bear Creek Golf World web site

## RESULTS

Based on the procedures performed for the Bear Creek Golf Course Revenue Contract engagement over the 26 month period ended February 28, 2015, it appears that food and beverage transactions are being recorded in the cash registers (point of sale system), the Concessionaire is correctly transferring sales revenue data from the point of sale system to their accounting records, and expenditures utilizing the County's Bear Creek Golf Club revenues were used for improvement and operation of the Bear Creek Golf Club as required by Local Government Code §331.006(b) *Concessions*.

However, our procedures did identify some opportunities for improvement as noted below:

- The Agreement does not require the Concessionaire's financial statements used to determine the amount of the annual payment sent to the County to be audited by an independent auditor.
- The Concessionaire does not have sufficient controls in place to ensure the accuracy of payments submitted to the County in accordance with the Agreement.
- Duplicate originals or certificates of all insurance policies were not delivered to the County and, therefore, the County Attorney's Office did not review and/or approve the required insurance coverage as required by the Agreement.
- The Concessionaire does not have sufficient controls in place to ensure the latest version of all permits is prominently displayed in the golf course clubhouse.
- Accounts Receivable has not prescribed or agreed upon accounting forms to be used by the Concessionaire to ensure standardization and consistency of recordkeeping and accounting of operations and income at the golf club.

These matters are discussed in more detail in the following Issues and Recommendations section of the report.

## ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Financial Statements	<p>The Concessionaire's financial statements are prepared at their corporate office. The Concessionaire's annual payment to the County is based on the annual revenue presented in their financial statements.</p>	<p>The Agreement does not require the Concessionaire's financial statements used to determine the amount of the annual payment sent to the County to be audited by an independent auditor.</p> <p>Not requiring financial statements to be audited by an independent auditor could lead to financial misstatements, which could result in an erroneous payment amount sent to the County.</p>	<p>Office Management should work with the County Attorney's Office to consider amending the Agreement to include a requirement that the Concessionaire submit independently audited financial statements with their annual payments. Doing so would give the County reasonable assurance over the accuracy of the annual payments submitted by the Concessionaire.</p> <p>In addition, Accounts Receivable should consider performing a review of all Concessionaire Agreements and amend all applicable Agreements to require independently audited financial statements to be submitted with the respective Concessionaire's annual payments.</p>	<p><b><u>Commissioners Office</u></b> Precinct 3 Parks Office Management agrees with the issue and the recommendations. We will work to resolve the issue in a timely manner and will work with the applicable parties to ensure the concessionaire submits independently audited financial statements with their annual payments.</p> <p><b><u>Accounts Receivable</u></b> The Accounts Receivable Department concurs with the recommendation and is currently reviewing all concessionaire agreements to determine compliance with this recommendation.</p> <p><b><u>County Attorney's Office</u></b> The language in the report is acceptable to us. Any renegotiation of the Agreement and consultation as to meaning may be handled by our office.</p>

## ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Calculation of Annual Payment	Article VI, subparagraph e) of the Agreement specifies that as consideration for the use of the premises, the Concessionaire shall pay the County fifteen percent (15%) of the gross green fees and five percent (5%) of the net profits from the sale of food and beverages.	<p>The Concessionaire does not have sufficient controls in place to ensure the accuracy of payments submitted to the County in accordance with the Agreement. The Concessionaire remitted five percent (5%) of the gross receipts for food and beverage during the audit period rather than (5%) of the net profits from food and beverage.</p> <p>As a result, the Concessionaire overpaid the County for operating years 2014 and 2015 by \$11,006 and \$9,619 respectively, for a total overpayment of \$20,625 for the 26 month period ended February 28, 2015.</p>	<p>Concessionaire Management should implement controls to ensure compliance with the payment structure outlined in the Agreement. This should include a review of the payment structure outlined in Article VI, subparagraph e) of the Agreement when annual payments are due to ensure the payments are based on the current Agreement. Accounts Receivable should work with the Concessionaire to determine whether to issue a refund or a credit to be taken against future payments.</p>	<p><b><u>Commissioners Office</u></b> Precinct 3 Parks Office Management agrees with the issue and the recommendations. We will work to resolve the issue in a timely manner and will work with the applicable parties to ensure compliance with the payment structure outlined in the Agreement.</p> <p><b><u>Accounts Receivable</u></b> Accounts Receivable will work with the concessionaire to issue a refund for the overpayment.</p>
Insurance Coverage	Article IX of the Agreement requires the Concessionaire to procure and keep in force the following insurance: A)	Duplicate originals or certificates of all insurance policies were not delivered to the County and, therefore, the County	Concessionaire Management should forward the required duplicate originals or certificates of all current	<p><b><u>Commissioners Office</u></b> Precinct 3 Parks Office Management agrees with the issue and the recommendation. We will</p>

## ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) Insurance Coverage</p>	<p>Workers' Compensation covering its employees used in operation of the golf course; B) Liability and Property Damage with limits as to personal injury and death of \$100,000 as to each person, \$300,000 as to each incident, and \$10,000 as to property damage; and C) Fire and Extended Coverage covering all buildings constructed by the Concessionaire in any amount equal to at least eighty percent (80%) of the full insurable value of such buildings above its foundation.</p> <p>Additionally, Article IX requires the Concessionaire to deliver duplicate originals or certificates of all insurance policies to the County Attorney's Office for review and approval.</p>	<p>Attorney's Office did not review and/or approve the required insurance coverage as required by the Agreement.</p>	<p>insurance policies to the County Attorney's Office for review and approval as required by the Agreement.</p>	<p>work to resolve the issue in a timely manner and will work with the applicable parties to ensure that required duplicate originals or certificates of all current insurance policies be forwarded to the County Attorney's office for review and approval as required by the Agreement.</p> <p><b><u>County Attorney's Office</u></b> The language in the report is acceptable to us.</p>

## ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Permits and Licenses	Pursuant to a written statement on the Texas Cigarette and Tobacco Products Taxes Permit and the Texas Sales and Use Tax Permit, the permits are required to be prominently displayed in the place of business.	<p>The Concessionaire did not display the latest version of all permits in the golf course clubhouse. The procedures performed identified 2 permits in which the latest version was not prominently displayed in the golf course clubhouse. Specifically, the Texas Cigarette and Tobacco Products Taxes Permit had expired and not been replaced by the current permit, and the Texas Sales and Use Tax Permit was not displayed. However, the Concessionaire did have both of the current permits on file.</p> <p>Not having current permits prominently displayed in the place of business has resulted in noncompliance with the permit requirements, which could result in the loss of both</p>	Concessionaire Management should properly display current permits in the golf course clubhouse upon receipt as required by the permits.	<p><b><u>Commissioners Office</u></b>            Precinct 3 Parks Office Management agrees with the issue and the recommendation. We will work to resolve the issue in a timely manner and will work with the applicable parties to ensure that Bear Creek Golf World management properly displays current permits in the golf course club house upon receipt as required by the permits.</p>

## ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Permits and Licenses		permits and the resulting financial loss.		
County Approved Accounting Forms Issue	Pursuant to Article VI of the Agreement, the Concessionaire shall keep accurate and complete records and accounts of all operations and all income and expenses in accordance with forms either prescribed by the County or agreed upon by the parties hereto.	<p>Accounts Receivable has not prescribed or agreed upon accounting forms to be used by the Concessionaire to ensure standardization and consistency of recordkeeping and accounting of operations and income at the golf club.</p> <p>Not prescribing or agreeing upon accounting forms for use has resulted in noncompliance with the Agreement.</p>	<p>Accounts Receivable Management should prescribe or agree upon the accounting forms that should be used by the Concessionaire to ensure standardization and consistency of recordkeeping and accounting of operations and income at the Bear Creek Golf Course.</p> <p>In addition, Accounts Receivable should consider reviewing all of their Concessionaire Agreements to determine whether any other accounting forms need to be agreed upon.</p>	<p><b><u>Commissioners Office</u></b> Precinct 3 Parks Office Management agrees with the issue and the recommendation. We will work to resolve the issue in a timely manner and will work with the applicable parties to ensure that prescribed or agreed upon accounting forms are used by the concessionaire as required by the Agreement.</p> <p><b><u>Accounts Receivable</u></b> Accounts Receivable will work with the concessionaire to approve the agreed upon accounting forms for better reporting and is currently reviewing concessionaire agreements to determine whether other accounting forms need approval.</p>

## RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed, and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

<b>Inherent Risk:</b>	<b>Control Risk:</b>		<b>Overall Risk:</b>
<input type="checkbox"/> High <input checked="" type="checkbox"/> Moderate <input type="checkbox"/> Low	<b>Prior to Procedures</b>	<b>After Procedures</b>	<input type="checkbox"/> High <input checked="" type="checkbox"/> Moderate <input type="checkbox"/> Low
	<b>Adequate</b>	<b>Needs Improvement</b>	
<b>Type of Procedures:</b> Audit			
<b>Purpose:</b> The objective of the engagement was to evaluate controls for collecting and recording annual payments from the Bear Creek Enterprise, Inc., which was formerly Bear Creek Golf Corporation (Concessionaire), and to evaluate the compliance with the requirements of the Agreement.			
<b>Priority Rating:</b>	<b>Audit Recommendations:</b> Commissioner Precinct 3, Concessionaire and Accounts Receivable		
2	Office Management should work with the County Attorney's Office to consider amending the Agreement to include a requirement that the Concessionaire submit independently audited financial statements with their annual payments. Doing so would give the County reasonable assurance over the accuracy of the annual payments submitted by the Concessionaire.  In addition, Accounts Receivable should consider performing a review of all Concessionaire Agreements and amend all applicable Agreements to require independently audited financial statements to be submitted with the respective Concessionaire's annual payments.		
1	Concessionaire Management should implement controls to ensure compliance with the payment structure outlined in the Agreement. This should include a review of the payment structure outlined in Article VI, subparagraph e) of the Agreement when annual payments are due to ensure the payments are based on the current Agreement. Accounts		

	Receivable should work with the Concessionaire to determine whether to issue a refund or a credit to be taken against future payments.
1	Concessionaire Management should forward the required duplicate originals or certificates of all current insurance policies to the County Attorney's Office for review and approval as required by the Agreement.
1	Concessionaire Management should properly display current permits in the golf course clubhouse upon receipt as required by the permits.
1	<p>Accounts Receivable Management should prescribe or agree upon the accounting forms that should be used by the Concessionaire to ensure standardization and consistency of recordkeeping and accounting of operations and income at the Bear Creek Golf Course.</p> <p>In addition, Accounts Receivable should consider reviewing all of their Concessionaire Agreements to determine whether any other accounting forms need to be agreed upon.</p>

<b>Priority Rating</b>	<ol style="list-style-type: none"> <li><b>1. Implement immediately (30 – 90 days)</b> – Serious internal control deficiencies or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented.</li> <li><b>2. Work towards implementing (6 – 18 months)</b> – Less serious internal control deficiencies or recommendations that can not be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.).</li> <li><b>3. Implement in the future (two – three years)</b> – Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.).</li> </ol>
------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------