



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

**REPORT ON THE AUDIT OF THE
ALAMO ACCOUNTING PROCESSES**

MAY 2018

OVERALL CONCLUSION

GLO should reconsider the structure and funding model it uses for operating the Alamo. A contractor performs the daily operations, but it uses state resources to do this, as it does not have its own funds or other assets. This is an unusual situation that has created complexity and a lack of clarity regarding the nature and the use of the funds used for Alamo operations. It is also the root cause of several of the observations in this report.

We determined that the financial formation and accounting of the Alamo Complex fund did not comply with state requirements. Also, not all contract requirements of the agreement to operate the Alamo are being met. In addition, controls over budgeting, expenditures, contracting, and reconciliations should be strengthened.

The following recommendations were made to address these issues.

- Reconsider the Structure and Funding Model for Alamo Operations
- Comply with Rules for Cash Held Outside the Treasury
- Account for and Report Cash Outside the Treasury in Accordance with Comptroller Requirements
- Improve Oversight and Compliance with the Contract for Operating the Alamo
- Ensure That Expenses are Supported, Reasonable, and Comply with State Requirements
- Monitor and Assist the Alamo operator to Improve its Procurement Processes
- Ensure That the Alamo's Operating Budget is Complete
- Ensure that Conflict of Interest Reviews are Performed Before Contract Execution
- Require Improved Audit Trails for Payroll Expenses in Replenishment Requests
- Ensure the Timely Resolution of Outstanding items on Reconciliations

MANAGEMENT'S SUMMARY RESPONSE

Management concurs with the recommendations.

The "Detailed Results" section of this report contains management's response to each observation.

ACKNOWLEDGEMENTS

We appreciate the assistance and cooperation provided to us by the management and staff of the Financial Management Division and the Alamo Complex Management during this audit. For questions about this report, please contact Henrietta Cameron-Mann at (512)463-5103 or Tracey Hall at (512)463-6078.



May 30, 2018

Tracey Hall, CPA, CISA
Chief Auditor
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OBJECTIVES

The objectives of the audit were as follows:

1. Determine if procedures are in place to provide reasonable oversight of the contractor's use of state funds to operate the Alamo.
2. Determine if procedures are in place to ensure adequate oversight and monitoring of the contract to operate the Alamo.
3. Provide recommendations about the presentation of the Alamo operator's financial activities in the GLO's Annual Financial Report.

SCOPE & METHODOLOGY

The scope of the audit consisted of reviewing and evaluating information and documents involved in the oversight of the operations of the Alamo. The audit addressed activity performed from July 2015 through December 31, 2016.

The methodology included observing processes, interviewing employees, collecting information, performing tests, and analyzing and evaluating the information.

The audit was conducted in accordance with *Government Auditing Standards* and *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND INFORMATION

GLO is responsible for the preservation, maintenance, and restoration of the Alamo complex and its contents. When it assumed this responsibility, GLO contracted with the Daughters of the Republic of Texas to conduct daily operations. In July 2015, these operations were transferred to Alamo Complex Management, which is the subcontractor of the Alamo Endowment.

Alamo Endowment (AE):

The Alamo Endowment, a non-profit Texas Corporation, was organized to promote and support the preservation, management, education, maintenance, and restoration of the Alamo Complex. The organization provides for the education of the historical significance of the Alamo Complex and its contents. The Land Commissioner is the Chairman of AE's Board of Directors and the AE bylaws indicate that the remaining board members were to be nominated by GLO.

Alamo Complex Management (ACM):

Alamo Complex Management, a non-profit Texas corporation, was organized to carry out and support the AE. ACM, which has approximately 95 employees, carries out the daily operations of the Alamo as AE's subcontractor. A private company operates the gift shop, which is the Alamo's main source of income, but ACM performs all other operations. ACM does not have assets of its own. It uses state funds, buildings, and equipment to carry out its duties. The Land Commissioner serves as a board member and nominates the remaining board members.

ACM uses local bank accounts to manage Alamo revenues and expenses. Revenue is deposited into bank accounts and electronically transferred into the state treasury. ACM pays bills from the operating bank account and GLO replenishes it based on requests submitted by ACM. In this sense, the operating account operates as a revolving fund.

Alamo operations are funded by state funds. Texas Natural Resource Code Section 31.451 (c) exempts these funds from state purchasing laws, but not from other laws governing the use of state funds.

Alamo Trust, Incorporated (ATI)

ACM was renamed as Alamo Trust, Incorporated (ATI) in 2017.

TABLE OF CONTENTS

Overall Conclusion	1
Management’s Summary Response	1
Acknowledgments.....	2
Objectives.....	3
Scope & Methodology	3
Background Information	3
Detailed Results	6
Appendix A	19
Distribution List	23

DETAILED RESULTS

RECONSIDER THE STRUCTURE AND FUNDING MODEL FOR ALAMO OPERATIONS

ACM's bylaws indicate that it is a non-profit entity separate and distinct from GLO. It uses state funds and equipment to perform its duties under the contract to operate the Alamo. GLO accounts for ACM's disbursements and receipts in its accounting system and reports them on the annual financial report. A summary is below:

- GLO recognizes Alamo revenue as it is swept into the Treasury by ACM.
- GLO recognizes Alamo expenses as it replenishes the ACM operating bank account for disbursements made for Alamo operations.
- Fixed assets, such as buildings and equipment used by ACM to operate the Alamo, are accounted for as GLO's assets in its accounting system as well as the State Property Accounting system.

ACM meets the governmental accounting criteria to be presented in GLO's annual financial report as a component unit (CU) of GLO. Governmental Accounting Standards Board (GASB) Statement 14 states that an organization is a component unit if the primary government is financially accountable for the CU, or the nature and significance of the relationship is such that it would be misleading or incomplete to exclude the activity. Implicit in the accounting standards is the assumption that the CU has its own funds.

The current situation obscures the control of the funds. It also has created a situation where GLO is responsible for state laws over the use of funds, but with limited control since the expenditures are incurred prior to approval by the GLO.

RECOMMENDATION:

Reconsider the current structure and funding model for operating the Alamo. Consider the state laws, accounting standards, and the Comptroller's annual financial reporting requirements as part of this process.

MANAGEMENT'S RESPONSE

GLO proactively initiated this audit in 2017 to examine operations and procedures in place since before the Alamo was transferred to GLO in 2011, and reorganized in 2015. This audit's diagnostic purpose was to examine Alamo operations and procedures, determine where improvements are needed, and determine how best to implement them to ensure all Alamo operations meet industry standards.

GLO created and partnered with Alamo Complex Management (now Alamo Trust Inc.) in accordance with Subchapter 1(d) of HB 3726 (2011), which transferred control of the Alamo to the GLO. The Alamo was a new and unique mission to GLO when the GLO was given oversight of the Alamo from the Daughters of the Republic of Texas (DRT) in 2011. In 2015, the new GLO administration removed

the DRT from Alamo operations to move it toward an industry-standard nonprofit museum management model. The Alamo has never had an industry-standard museum management structure in its history. This process will take some years, and is taking place in the context of a historic renovation at the Alamo and its surroundings in San Antonio.

Management is taking the following specific steps to address the concerns raised about the “current structure and funding model” for Alamo operations. The GLO Chief Financial Officer was named Acting Chief Financial Officer for the Alamo on January 5, 2018. GLO Financial Management now controls and approves all expenditures from Alamo Trust, Inc. (ATI), formerly known as Alamo Complex Management (ACM), at the point of purchase. Additionally, the GLO recently hired an Alamo Finance Director to replace the ATI Accounting Director position. This position will manage all expenditures from the point of purchase and payment. Additionally, all accountants at ATI will be converted to GLO employees. New purchasing policies are being created by GLO, with an expected implementation date of September 1, 2018. In addition to these controls, the new management agreement between GLO and ATI will change the overall structure to resemble more of a traditional vendor/customer relationship, with ATI required to comply with state purchasing guidelines.

Implementation Date: September 1, 2018

Contact: David Repp, Chief Financial Officer

COMPLY WITH RULES FOR CASH HELD OUTSIDE THE TREASURY

ACM pays bills out of a local bank account designated as the operating account. It uses additional bank accounts to collect and electronically transfer revenues earned at the Alamo into the state treasury.

As of May 2017, ACM’s unaudited balance sheet showed a total of \$793,295.60 in cash, which included several bank accounts, a change fund, and petty cash.

Section 404.094 of the Government Code requires funds received by a state agency to be deposited into the State Treasury. Also, Section 31.454 of the Texas Natural Resource Code established the Alamo Complex Account as a separate account in the general revenue fund to receive revenue from Alamo operations. The Comptroller’s Office Financial Policy and Procedure F.008 indicates that Section 17.09 of the General Appropriations Act for FY18-19 will require a report of funds held outside the Treasury, including the legal/statutory reason for holding it outside the Treasury.

Section 403.246 of the Government Code limits petty cash accounts and cash accounts for changing currency to \$500 each unless directed otherwise by the Comptroller. No evidence was found during the audit that Comptroller’s Office approval was obtained for holding money outside the Treasury. Nor was there evidence observed of approval for maintaining petty cash and change account balances exceeding \$500. GLO is not in compliance with state requirements for cash held outside the Treasury. The amount of the change fund is in excess of the Comptroller’s Office limitation. Any of the petty cash funds over \$500 are not in compliance with state law.

RECOMMENDATIONS

- Obtain the proper authority to hold the ACM operating account outside the treasury.
- Review the petty cash funds and the change fund to determine if changes in the amounts are needed.
- Obtain the Comptroller's Office authorization for any fund that exceeds \$500.

MANAGEMENT'S RESPONSE

Since the State of Texas took over the Alamo operations, there has been an operating fund outside the Treasury. The State essentially took over a business with its own capital necessary to keep the Alamo running its daily operations. The GLO is implementing a new management agreement with ATI for Alamo operations. This agreement will remove any state held funds outside of the treasury. ATI will sweep all Change Fund and Petty Cash into the State Treasury as part of the working capital repayment. It will establish any new Change Fund and Petty Cash accounts as needed with the monthly fee to be received from the GLO. Even though the funds from these fees are not statutorily required to follow Comptroller and state purchasing rules, it is the intent of GLO Financial Management, as the fiscal agent for ATI, to go above and beyond these requirements by requiring these funds to be spent in accordance with state rules unless special approval is given by the GLO CFO due to extraordinary needs or guaranteed reimbursement from a non-state entity. No state funds will be used for petty cash after the new contract is implemented. GLO Financial Management will implement extra controls on the petty cash that is held using the fee paid to only allow for proper business practices and to limit the amount held by ATI. These policies are expected to be implemented by September 1, 2018.

For the current time, the GLO has implemented policies that effectively removed almost all funds held outside of the treasury by March 2, 2018. Only a small amount was left in ATI's bank account in order to cover any unexpected expenses or outstanding checks.

Implementation Date: July 1, 2018

Contacts: David Repp, Chief Financial Officer and Jeff Gordon, General Counsel

ENSURE PROPER ACCOUNTING FOR REVOLVING FUNDS AND PASS-THROUGH EXPENDITURES

When the GLO was given the responsibility of the operation of the Alamo, the custody of the balances of the Alamo bank accounts transferred to the GLO. However, those funds (termed as "Working capital") were left in a local bank to provide the Alamo Complex the cash flow necessary to pay operating expenses. The balance of \$1 million was accounted for by the GLO as a prepaid expense and functions as a revolving fund where ACM uses it to pay expenses and GLO replenishes it based on requests from ACM.

The Comptroller's Office's Annual Financial Reporting Requirements indicate that a prepaid item is associated with a specific service that is paid for in advance of it being consumed or amortized.

Agencies are required to use the consumption method to report changes in prepaid items as they are consumed or amortized.

The Alamo working capital amount of \$1 million does not meet the definition of a prepaid item since it was not an up-front payment for something to be consumed or amortized. Therefore, GLO is not using the correct accounting treatment for this item. The portion of working capital that is in the local bank account would be more appropriately accounted for and reported as cash in bank.

RECOMMENDATIONS

Begin accounting for and reporting cash in local bank accounts in accordance with the Comptroller's Annual Financial Report Requirements. Work with the Comptroller's Office to determine and make the necessary adjustments and restatements.

MANAGEMENT'S RESPONSE

This capital amount was outside the Treasury in 2011 when the GLO assumed oversight of the Alamo from the DRT and was the practice when the current administration took over in 2015. At that time, the GLO began professionalizing Alamo operations and working to align the finances at the Alamo in accordance with Comptroller rules. The current GLO administration requested this audit to identify potential issues and determine best practices.

Management is taking steps to address this issue. As of March 12, 2018, nearly all funds were transferred out of the ATI Working Capital, leaving an unobligated balance of around \$1,000 to cover unexpected expenses or outstanding checks. The GLO implemented a temporary policy for ATI to request funds from the GLO on a weekly basis to cover all expected payments for that week and checks being cut for that week. In addition to approving all of these expenditures at the point of purchase, GLO staff in Austin reviews the request for funding to insure compliance with state law.

Upon implementation of the new management agreement, expected by July 1, 2018, no state funds are anticipated to be held outside the state treasury (see above response).

Implementation Date: July 1, 2018

Contacts: David Repp, Chief Financial Officer and Jeff Gordon, General Counsel

IMPROVE OVERSIGHT AND COMPLIANCE WITH THE CONTRACT FOR OPERATING THE ALAMO

ACM and GLO did not fully comply or have systems in place to address seven of the eleven (64%) key requirements of the contract for operating the Alamo. The contract includes many detailed requirements for operations and collaboration between ACM and GLO. We identified eleven key contract requirements to review.

ACM and GLO did not fully comply, or have systems in place to address contractual requirements in the following areas:

- Written Management Plan
- Budget
- Prior GLO approval for "major decisions" as defined in the contract
- Timely Submission of Monthly Financial Documents
- Procurement
- Daily deposits into the State Treasury
- Timeliness of replenishment requests and payment of requests

ACM did comply with or had a process for:

- Audited financial statements
- Employee background checks, licensing, training, and emergency staffing
- Insurance
- Museum Policy

Appendix A to this report contains more detailed information about these requirements.

RECOMMENDATIONS

Develop and implement a plan of action to ensure full compliance with contractual requirements. Update these requirements, as applicable, to correspond to current circumstances.

MANAGEMENT'S RESPONSE

Management believes that certain contractual requirements in the original management agreement were substantially complied with by the GLO and ACM (now ATI). First, the GLO did not require that ACM develop an annual written Management Plan because GLO has been directly involved in management-related issues at the Alamo since ACM became the Alamo manager in 2015. Second, given this direct involvement in management issues, GLO has been advised of and approved all "major decisions" at the Alamo Complex since 2015. Third, GLO Financial Management has received monthly financial statements from ACM (and now ATI) since 2015. Finally, ACM did complete budgets for FY2017 and FY2018 that were approved by its board of directors.

Nevertheless, Management agrees that steps need to be taken to improve oversight and compliance with the Alamo management agreement. Beginning in contractual year 2019 (beginning July 1, 2018), GLO, acting as the CFO for the Alamo, will oversee the development, tracking, and compliance with the Alamo budget through the internal Zero-Based Budgeting process. The budget presented to the ATI board will correspond with the budget used by the GLO. Monthly updates will be provided to the GLO Chief Financial Officer and the ATI Chief of Staff in order to keep executives informed of the budget.

The updated GLO/ATI management agreement outlines GLO as the fiscal agent and purchasing approver for the Alamo. Timeliness of documents will be internally controlled through GLO Financial Management operations. This agreement being currently negotiated pays ATI a monthly fee. This fee will be used for most expenses. Extraordinary expenses will be funded through a more timely process with the GLO as outlined in the agreement. Funding requests and payments will be more streamlined as GLO will approve all purchases prior to the purchase in accordance with state regulations and statutes.

GLO and ATI are also developing ATI procurement policies to match and correspond to the GLO policies in compliance with state rules, regulations, and statutes. While funds from the anticipated fee to be paid to ATI are not statutorily required to follow state procurement laws, it is the intent of the GLO and ATI to go above and beyond to require this in policy. Further, ATI began installing new accounting software in 2017, which has an electronic purchase order and encumbrance system that will match purchases against available budget before obligations are created.

GLO automated credit card deposits directly into the Treasury in October 2017. Currently, cash and check deposits are funded through a Comptroller owned sweep account at Frost Bank. The new contract will require deposits to be made to the sweep account within three business days in correlation with Comptroller policies for deposits into the Treasury.

Implementation Date: September 1, 2018

Contacts: David Repp, Chief Financial Officer and Jeff Gordon, General Counsel

ENSURE THAT EXPENSES ARE SUPPORTED, REASONABLE, AND COMPLY WITH STATE REQUIREMENTS

The operating account, which consists of state funds, was used for purchases that were not required for the operation of the Alamo. GLO replenished the bank account for some and others were either withheld or rejected from replenishment requests.

Refreshments for meetings and for ACM employee and volunteer appreciation totaling \$1,400.28 were paid from the operating bank account and replenished. GLO legal counsel advised that these types of expenses are legal under state law, since prohibitions on using state funds for food purchases are directed at state employees. However, since these types of purchases would not be allowable for state employees, it can give the appearance that state funds are being used improperly.

Additional purchases were rejected or were withheld from replenishment requests.

- GLO rejected \$898.12 from November and December 2016 replenishment requests for the following purchases:
 - Silent auction item for a fundraiser - a donation which is not an authorized use of state funds
 - Painting commissioned as a gift for a distinguished visitor – not an authorized use of state funds
 - Food and decorations for a Thanksgiving appreciation meal for ACM employees – not illegal, but may be perceived as poor stewardship of state funds.
- ACM withheld \$1,764.56 from replenishment requests for the expenses listed below. Although GLO did not replenish the operating bank account for these expenses, they were still paid for with state funds. These expenses consisted of the following:
 - Credit card charges to local restaurants and stores for which the cardholder did not submit receipts
 - Late charge and finance fee for an ACM credit card.
 - Shipping fee that was a personal expense for a now former ACM employee.

RECOMMENDATIONS

Establish and enforce guidelines on the use of Alamo funds in the local bank account to ensure that purchases are prudent and limited to the types of goods and services that are allowed to be purchased with state funds.

Reimburse the state for the unallowed expenditures.

MANAGEMENT'S RESPONSE

Management is taking steps to address these issues. GLO Financial Management staff are currently managing the day to day activities of the accounting office and will be the fiscal agent for ATI going forward under the new management agreement. This allows for GLO staff with expertise in state allowable expenses to approve or deny purchases at the point of sale. Any expense paid by the ATI fee that is not allowable under state purchasing rules will require immediate reimbursement from a non-state entity. Additionally, GLO financial staff has found instances that appeared to be unallowable food purchases that fall under allowable entertainment expenses (Opinion of Texas Attorney General No. MW-206 (1980)). The GLOs purchasing policies are requiring correct documentation for such expenses in accordance with Comptroller guidelines

(<https://fmx.cpa.texas.gov/fm/pubs/purchase/misc/index.php?section=entertainment&page=entertainment>).

While not required in statute, GLO Financial Management intends for policies around purchasing and procurement to follow the same rules as state purchases and require proper documentation for all exceptions. Exceptions would be constitutionally allowed for entertainment purposes that are connected with the agency's statutory obligation, and expenses that are immediately reimbursed by non-state entities but still have the appearance of proper use of state resources.

Implementation Date: September 1, 2018

Contact: David Repp, Chief Financial Officer

MONITOR AND ASSIST THE ALAMO OPERATOR TO IMPROVE ITS PROCUREMENT PROCESSES

ACM's procurement controls need improvement. The audit included a review of a sample of disbursements totaling \$723,191.52 and interviews with staff. The ACM Purchasing Policy and Procedure (Policy) that was available at the time of fieldwork requires a purchase order for most purchases of \$500 or more. We observed the following purchases over \$500 without signed purchase orders in advance of the purchase date.

Three purchases involved purchase orders that were not approved in advance of the purchase.

- One purchase order was dated after the order was placed with the vendor.
- The supporting documents of the second consisted of a purchase order signed the day before the check was issued and a contractor proposal that was not signed by the contractor or someone from ACM
- On the third procurement, the supporting documents consisted of a purchase order approved on the same day that the check was written, and an undated proposal signed by the contractor and ACM

Two purchases of over \$1,100 each, did not have purchase orders, but were identified by ATI staff as emergency purchases. However, there was no documentation on file indicating this. The Policy does not address these types of purchases. Typically, emergency purchase procedures require approval and justification for deviating from standard purchasing procedures because of the emergency. Under these circumstances, this documentation may be added to the file shortly after the purchase.

- Both ATI and GLO staff indicated that one purchase involved was needed for an exhibit on short notice.
- ATI indicated that the other purchase was needed for an emergency repair.

ATI indicated that purchase orders were not required for two purchases of over \$1,500 each because they were controlled by the ACM board. Board minutes do not mention either one of these purchases. The Policy does not address board-controlled purchases, which causes uncertainty over how a purchase is designated as "board-controlled". It also creates some uncertainty over the extent to which Policy requirements must be followed regarding approvals, bids for purchases of \$5,000 or more, and other requirements applicable to higher purchasing thresholds.

- There was no purchase order on file for one of these purchases.
- The other purchase consisted of three payments, where a purchase order was on file for one of the payments. These payments were made under a contract signed by an ACM board member.

Paragraph 4.02 of the GLO/AE agreement to operate the Alamo states that all services under the contract are to be procured pursuant to "arms-length" contracts with unaffiliated entities and on commercially reasonable terms...". Section 7.01 of the ACM bylaws states that the ACM board may authorize any officer or agent of ACM to enter into a contract.

Without strengthened controls, the risk of misusing Alamo funds is increased.

RECOMMENDATIONS

Develop and implement a process to review the Alamo operator's compliance with its procurement policies.

Ensure that a policy is developed and implemented on board-controlled purchases and emergency purchases so that the documentation demonstrates compliance with bylaws and the Alamo operating agreement.

MANAGEMENT'S RESPONSE

Management is taking steps to address these issues. GLO Financial Management began running the day to day operations of the Alamo Accounting Office on January 5, 2018. In October 2017, new procedures were put in place that require Purchase Orders for all purchases over \$100, including credit card purchases. All Purchase Orders for non-routine expenditures over \$500 require GLO CFO or Executive approval and every other Purchase Order is approved by the GLO Director of Cash Management and Property Accounting. This standard will be followed until the new management agreement is signed with some adjustments made to include the new Alamo Finance Director. In conjunction with the new policy, ATI is implementing an electronic procurement system that will establish electronic procurement controls, as well as interface transactions with the accounting system.

GLO Financial Management anticipates strengthening these controls through the procurement policy, with an expected implementation of September 1, 2018. The new management agreement that is being finalized anticipates GLO Financial Management will create procurement policies that ATI is required to follow. GLO Financial Management staff will not approve or process payments for any purchases outside of this policy. This policy will include rules on board controlled purposes which ATI will be contractually obligated to follow. All policies will mirror GLO policies within the constraints of purchasing unique to a non-profit entity such as ATI.

Implementation Date: September 1, 2018

Contact: David Repp, Chief Financial Officer

ENSURE THAT THE ALAMO'S OPERATING BUDGET IS COMPLETE

ACM's FY2017 Alamo operating budget for its fiscal year ending June 30, 2017 is incomplete. It includes budgeted expenses by department in a variety of categories, such as payroll, insurance, supplies, membership and dues, postage, software, etc. However, the Director's budget only includes liability and property insurance and payroll. Actual expenses of \$375,951.09 for the Director's department are over twice the amount budgeted through December 2016. Expenses were incurred in a variety of categories for which no budget was established, including \$16,473.71 for employee search fees, \$19,744.73 in communications, and \$40,297.40 in computer maintenance.

The ACM Director of Accounting indicated that all departments submitted their budgets except for the Director's department. The then ACM chief Operating Officer presented this incomplete budget to the Alamo Endowment at the September 7, 2016 Board meeting.

Section 3.02 of the GLO/AE contract to operate the Alamo requires GLO and ACM to work together to create a budget as part of a written management plan. Section 3.02 of the agreement requires the management plan and budget to be submitted to GLO for approval. It's a good business practice for budgets to include all planned expenses for all departments.

Since the budget is incomplete, it is not an effective tool for managing the funds that are available to operate the Alamo.

RECOMMENDATIONS:

Work with the Alamo operator to develop a complete budget that fits within the resources/revenue that will be available for operating the Alamo. Develop and enforce a process for ensuring that the budget and management plan for the upcoming fiscal year are complete and available for GLO review and approval by July 1 of each year in accordance with the contract

MANAGEMENT'S RESPONSE

Management has addressed these issues. Beginning contractual year 2019, starting July 2018, ATI will be required to follow the budget prescribed by the GLO, through its internal budget policy. This policy will be presented to the ATI board for approval, but ATI will not have access to any funding outside of the GLO approved budget unless it comes from non-state entities or is approved in advance by the GLO. The ATI budget will align with the GLO budget and what is entered into the GLO 2020-2021 Base Reconciliation and Legislative Appropriations Request.

The Alamo Finance Director, in coordination with other GLO Financial Management staff, will provide the Alamo CEO and the GLO CFO with monthly budget and revenue reports. Budget reports for ATI will be broken down by departments within ATI.

Finally, ACM (now ATI) did not have a board-approved budget in 2016 due to it being a “startup” non-profit corporation, though its expenses were monitored and controlled. ATI did complete budgets for FY2017 and FY2018 that were approved by ATI’s board of directors.

Implementation Date: July 1, 2018

Contact: David Repp, Chief Financial Officer

ENSURE THAT CONFLICT OF INTEREST REVIEWS ARE PERFORMED BEFORE CONTRACT EXECUTION

GLO did not consistently check prospective contractors for conflicts of interest before executing contracts for projects or services at the Alamo. The Office of Compliance (OC) was not notified to perform conflict checks for two of the ten such contracts that we reviewed for this audit.

GLO policy is that the OC is responsible for conducting conflict checks on the potential vendors before the purchase is made. The agency’s procurement system notifies OC of a potential vendor if the vendor is known at the time that a requisition is processed. The Purchasing Department notifies OC about a potential vendor if the vendor is determined or changed later in the procurement process.

Without consistent conflict checks, the risk of GLO doing business with companies for which conflicts of interest exist is increased.

RECOMMENDATIONS

Modify the contracting approval process to ensure that the OC is notified of all potential vendors during the solicitation process or at the point that the vendor is selected, if no solicitation is required.

MANAGEMENT’S RESPONSE

Management is taking steps to address this issue. Conflicts checks have already begun in earnest and all new contracts have been vetted through GLO Office of Compliance. GLO Financial Management is creating new policies that include purchasing and procurement. This policy will require all contracts to be vetted for conflict of interest through the GLO Office of Compliance. Additionally, GLO Financial Management Staff, to include the Alamo Finance Director, has begun following this practice immediately.

Implementation Date: September 1, 2018

Contacts: David Repp, Chief Financial Officer

REQUIRE IMPROVED AUDIT TRAILS FOR PAYROLL EXPENSES IN REPLENISHMENT REQUESTS

The audit trail between the ACM payroll expenses in the replenishment requests and the supporting documentation for ACM payroll needs improvement. The payroll expenses in the replenishment requests are based on entries in ACM's general ledger. However, it is difficult to correlate these entries to the more detailed information in the payroll summaries generated from ACM's payroll processing company.

It is a good business practice to create a clear audit trail between a general ledger entry and the underlying support. The current audit trail makes it difficult to demonstrate that the amounts submitted and approved for replenishment were accurate and adequately supported

RECOMMENDATIONS

Require the audit trail between the payroll amounts in the replenishment requests and the related payroll summaries to be improved.

MANAGEMENT'S RESPONSE

Management concurs with the recommendations. Changes have already been incorporated into the payroll replenishments process to include information produced from ATI's payroll provider, ProLiant, rather than from the general ledger.

Implementation Date: January 5, 2018

Contact: David Repp, Chief Financial Officer

ENSURE THE TIMELY RESOLUTION OF OUTSTANDING ITEMS ON RECONCILIATIONS

ACM bank reconciliations and the working capital reconciliations have long-term outstanding items that have not been addressed. Timely resolution of reconciling items is a good business practice which helps to ensure accurate financial reporting. Prompt attention to these items also helps to address underlying issues before the passage of time makes them more difficult to resolve.

The December 2016 bank reconciliation for the operating account has eight outstanding checks from July 2015 through September 2016 totaling \$5,327.05 that were recorded in ACM's accounting records, but did not clear the bank. These checks were written from 94 days to 17 months before the 12-31-16 reconciliation date.

The December 2016 working capital reconciliation has a reconciling item that consists of 7 checks from 2015 and from August 2016 totaling \$2,619.00. These checks were paid from the ACM operating account, but not submitted for replenishment. They were written from 4 months to 13 months before the 12-31-16 reconciliation date. The working capital reconciliation helps ensure accountability the revolving funds that ACM uses to operate the Alamo.

Delays in resolving the bank reconciliation items may result in delays in correcting the accounting records. Delays in addressing the working capital reconciliation items increases the difficulty in resolving situations that lead to disbursements that were not replenished.

RECOMMENDATIONS

Ensure that the contractor addresses the long-term outstanding reconciling items and that going forward, it resolves reconciling items on a more timely basis.

MANAGEMENT'S RESPONSE

Management is taking steps to address this issue. ATI will no longer hold state money outside of the treasury. They will, however, hold their money in their own bank accounts. The Alamo Finance Director will perform monthly bank reconciliations to submit to the GLO CFO as part of regularly assigned job duties upon implementation of the contractual year 2019 contract beginning July 1, 2018. Outstanding checks will be voided after six months.

Implementation Date: July 1, 2018

Contact: David Repp, Chief Financial Officer



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

APPENDIX A – SELECTED CONTRACT REQUIREMENTS IN THE GLO/AE CONTRACT FOR OPERATING THE ALAMO

Section	Topic	Complies or Process exists to ensure compliance?	Comments
3.02	Written Management Plan	No	ACM did not develop a Management Plan. The contract requires AE and GLO to jointly develop a Management Plan and Budget by July 1 of each year. The plan must include specific components, such as activities to be conducted at the Alamo Complex, current and projected number of employees, staff management structure, budget, etc. These components exist in various documents, although not as part of an overall plan.
3.03	Budget	Partially	The ACM Chief Operating Officer presented a budget at the September 7, 2016 board meeting. However, the budget was incomplete, as the Director's division budget only included line items for payroll and insurance. This is discussed further in the issue "Ensure That the Alamo's Operating Budget is Complete".
3.04	Prior GLO approval for "major decisions"	Partially	The contract defines "major decision" as any one of nine circumstances listed in Section 3.04. These circumstances include a change exceeding the lesser of \$10,000 or 10% of a budget line item, change or cancellation of a material activity listed in the Management Plan, material reduction in staffing levels, material reallocation of space in the Alamo Complex, etc. ACM seeks GLO approval for major contracting and operational decisions. However, we did not observe a process for approving changes exceeding the

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			budgetary threshold in the contract. Also, without a Management Plan, there is no process for approvals to changes in a material activity in the plan.
3.05	Museum Policy	Yes	Section 3.05 requires a written museum policy to be developed in cooperation with GLO. The contract also requires the Alamo Complex to be operated in accordance with generally accepted museum standards and for the AE to seek certification by the American Alliance of Museums.
3.17	Monthly Financial Documents	Partially	<p>The contract requires ACM to submit certain financial documents to GLO within 30 days after the end of the following month. ACM did not submit the required documents within 30 days consistently until September 2016. These documents include the balance sheet, profit and loss statement, general ledger (which included the required accounts receivable reports), and bank reconciliations.</p> <p>The Revenue Administration Division in Financial Management monitors and reports compliance with this requirement to ACM and executive management at GLO. However, it does not retain a record, such as the email from ACM, as proof of when these documents were submitted.</p>
3.18	Audited financial statements	Yes	Section 3.18 requires ACM to submit audited financial statements by 120 days after the end of its fiscal year. ACM's audited financial statements were completed before the deadline. However, GLO did not maintain a record of when it received these financial statements from ACM.
4.02	Procurement	No	ACM does not have a formal process to review contractors or vendors for conflicts of interest. Section 4.02 of the contract indicates that goods and services are to be "procured pursuant to "arm's length" contracts with unaffiliated entities and on

Section	Topic	Complies or Process exists to ensure compliance?	Comments
			commercially reasonable terms”. Also, the bylaws for AE and for ACM both indicate that it is the policy to “avoid any situation which may constitute a conflict of interest....”
6.03	Employee background checks, licensing, training, and emergency staffing	Yes	ACM has written procedures to address contractual requirements for its employees. These requirements include pre-employment background checks, verification that employees are licensed as necessary for their job duties, employee orientation and training, and emergency staffing. Also, invoices for pre-employment background checks were observed in the review of replenishments.
7.01	Daily deposits into the State Treasury	Partially	<p>Section 7.01 requires all receipts to be deposited daily to a bank account established by the Texas Comptroller of Public Accounts. ACM secures the receipts daily and has them delivered by armored vehicle for deposit three times weekly into the sweep account. ACM transfers any funds in the “sweep account” into the State Treasury on most days.</p> <p>Credit card receipts are deposited immediately into a bank account referred to as the “credit card account”. The gift shop operator also deposits GLO’s share of the revenue into the credit card account. ACM transfers the balance in the credit card account monthly into the sweep account from which it is electronically transferred into the State Treasury.</p> <p>These funds are not considered to be deposited to a bank account established by the Comptroller until the transfer to the State Treasury. Effectively, these funds are held in a bank account for up to a month before the deposit takes place.</p>

Section	Topic	Complies or Process exists to ensure compliance?	Comments
			GLO has been working for several months with a financial institution to arrange for the credit card account to be transferred to a bank account controlled by the State Comptroller.
7.02	Timeliness of replenishment	Partially	GLO mostly, but not always complied with the requirement to pay ACM an amount to cover expenses within 30 days after receiving a replenishment request. It took GLO 43 days to fulfill the October 2015 replenishment request and 36 days for November 2016. The replenishment requests are very lengthy, often over 500 pages long. Revenue Administration indicated that there was some delay for November 2016 because of discussions about the rejection of some items in the replenishment request.
8.01	Insurance	Yes	Observed that ACM has liability, accident, health, workers' compensation, fine arts, and umbrella insurance. However, GLO does not have an ongoing process for ensuring that this insurance is maintained. It's partially mitigated by the fact that the insurance company will send a notice if the coverage is discontinued.



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