



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

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

SEPTEMBER 2017

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 are 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 ACM 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 (concursgenerally concurs/does not concur.) 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.

September 8, 2017

Tracey Hall, CPA, CISA
Chief Auditor
Office of Internal Audit

OBJECTIVES

The objectives of the audit were as follows:

1. Determine if procedures are in place to provide reasonable oversight of ACM'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 ACM'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 Chairman of the Board 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.

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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.

(See below) 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 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. Will this endanger the tax exempt status of ACM since it will be receiving revenues for services? Will it be subject to UBIT?

MANAGEMENT'S RESPONSE

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

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. Sec. 31.454. THE ALAMO COMPLEX ACCOUNT. (a) The Alamo complex account is a separate account in the general revenue fund.

(b) The account consists of:

(1) transfers made to the account;

(2) fees and other revenue from operation of the Alamo complex;

(3) grants, donations, and bequests from any source designated for the benefit of the Alamo complex; and

(4) income earned on investments of money in the account.

(c) The land office may accept a gift, grant, or bequest of money, securities, services, or property to carry out any purpose related to the preservation and maintenance of the Alamo complex, including funds raised or services provided by a volunteer or volunteer group to promote the work of the land office. All proceeds under this subsection shall be deposited to the credit of the account.

(d) Appropriations to the land office for the preservation, operation, or maintenance of the Alamo complex shall be deposited to the credit of the account.

(e) The land office may use money in the account only to administer this subchapter, including to support the preservation, repair, renovation, improvement, expansion, equipping, operation, or maintenance of the Alamo complex or to acquire a historical item appropriate to the Alamo complex.

(f) Any money in the account not used in a fiscal year remains in the account. The account is exempt from the application of Section 403.095, Government Code.

Added by Acts 2011, 82nd Leg., R.S., Ch. 1046 (H.B. 3726), Sec. 2, eff. September 1, 2011. 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 petty 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

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

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 there was no initial payment to the contractor nor is it properly consumed. 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

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

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 eight of the eleven (73%) 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
- Museum Policy
- 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

Appendix I 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.

MANAGEMENT'S RESPONSE

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

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 an ACM employee and volunteer party 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 a replenishment.

- 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 an ACM employee Thanksgiving party – 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

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

MONITOR AND ASSIST ACM 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. We observed the following purchases without signed purchase orders in advance of the purchase date.

- A credit card purchase of \$8,700.00 for drapes and other staging for an exhibit was supported by an invoice, but there was no purchase order on file. We did not observe any evidence of bidding or other steps to identify the best value or price.
- No purchase orders were on file for the \$1,558.10 reimbursement of travel expenses for a chief operations officer candidate or for \$1,153.00 of repairs on a dehumidifier.
- A total of \$7,650.00 paid to a contractor where the supporting documents consisted of purchase orders, and contractor proposals. There were no invoices of actual work performed. ACM staff indicated that this operational area signs the purchase order after the work is completed.
- A purchase order for \$972.22 in bathroom supplies was dated after the order was placed.
- \$49,783.97 for executive search services under a contract that was executed on 12-28-15 and signed by an ACM board member. A purchase order was on file only for the \$16,473.71 payment to the vendor on 8-19-16. The reason given as to why this contract did not go through the procurement process was that it was a board-controlled purchase. However, there was no documentation provided for approval by the board.

ACM's Purchasing Policy and Procedure requires a purchase order for purchases of \$500 or over that are not covered by a contract. Purchases of \$5,000 to \$24,999 require a purchase order signed by a director and Director of Finance, three bids, and, a Procurement Justification Memo. The Purchasing Policy and Procedure does not specifically address board-controlled purchases, but requires all of the above plus notification to the ACM Chairman and GLO staff for purchases between \$25,000 and \$49,999.

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 ACM’s compliance with its procurement policies.

Ensure that ACM develops and implements a policy on board-controlled purchases so that the documentation demonstrates compliance with the ACM bylaws and the Alamo operating agreement.

MANAGEMENT’S RESPONSE

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

ENSURE THAT THE ALAMO’S OPERATING BUDGET IS COMPLETE

ACM’s FY2017 Alamo operating budget for its fiscal year ending 6-30-17 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 9-7-2016 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 ACM 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

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

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

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

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 ACM to improve the audit trail between the payroll amounts in the replenishment requests and the related payroll summaries.

MANAGEMENT'S RESPONSE

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):

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

MANAGEMENT'S RESPONSE

Insert Managements response to the recommendations. Should (1) address the intent of the audit recommendation; (2) identify what will be done to address the issues . . .

Implementation Date:

Contact(s):



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	No	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”. Also, no evidence was found that it was prepared in collaboration with GLO as required by section 3.03 of the contract.
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

Section	Topic	Complies or Process exists to ensure compliance?	Comments
3.05	Museum Policy	No	<p>decisions. However, we did not observe a process for approving changes exceeding the 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.</p> <p>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. We have not seen evidence that GLO and ACM worked together on a policy. GLO staff has indicated that the current museum policy needs to be updated to reflect current practices.</p>
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, 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	<p>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.</p>
4.02	Procurement	No	<p>ACM does not have a formal process to review contractors or vendors for conflicts of</p>

Section	Topic	Complies or Process exists to ensure compliance?	Comments
6.03	Employee background checks, licensing, and training, and emergency staffing	Yes	<p>Section 4.02 of the contract indicates that goods and services are to be "procured pursuant to "arms length" contracts with unaffiliated entities and on 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...."</p> <p>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.</p>
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.



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

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Summaries / Status

Summary of Statement No. 14 *The Financial Reporting Entity* (Issued 6/91)

Summary

This Statement establishes standards for defining and reporting on the financial reporting entity. It also establishes standards for reporting participation in joint ventures. It applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body *and* either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The financial statements of the reporting entity generally should allow the users to distinguish between the primary government and its component units. To accomplish this goal, the financial statements should generally communicate information about the component units and their relationships with the

primary government rather than create the perception that the primary government and all of its component units are one legal entity.

Most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in one or more columns separate from the financial data of the primary government. Certain information should be disclosed about each major component unit included in the component units column. The required information may be presented by using more than one column in the general purpose financial statements (GPFS) for the component units and either including appropriate combining statements for the discretely presented component units in the reporting entity's GPFS or presenting appropriate condensed financial statements of the discretely presented component units in the notes to the reporting entity's financial statements.

Some component units, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government and should be reported as part of the primary government. That is, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. This method of inclusion is known as blending.

The notes to the reporting entity's financial statements should distinguish between information pertaining to the primary government (including its blended component units) and that of its discretely presented component units. The reporting entity's financial statements should make those component unit disclosures that are essential to fair presentation of the financial reporting entity's GPFS. The notes to the financial statements also should include a brief description of the component units and their relationships to the primary government as well as information about how the separate financial statements of individual component units may be obtained.

This Statement also requires certain disclosures about the entity's relationships with organizations other than component units, including related organizations, joint ventures, jointly governed organizations, and component units of another government with characteristics of a joint venture or jointly governed organization. This Statement also provides financial statement display requirements for joint ventures in which the participating government has an equity interest.

This Statement is effective for financial statements for periods beginning after December 15, 1992. Earlier application is encouraged.