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State Auditor

An Audit Report on
**The Bob Bullock Texas State
History Museum**

February 2012
Report No. 12-016



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Overall Conclusion

The Bob Bullock Texas State History Museum (Museum) has effective controls over revenues and expenditures, and it generally complies with requirements for administering the Bob Bullock Texas State History Museum Fund (Museum Fund). Texas Government Code, Section 445.011, requires the Museum to the extent possible to pay for operating costs from revenues generated; however, it also authorizes the Legislature to appropriate funds for the Museum's operation. The total cost for the Museum in fiscal year 2011 was more than \$13.1 million. According to the State Preservation Board's annual financial reports for fiscal years 2009 through 2011, the Museum's operating costs averaged \$6,539,574 and its operating revenues averaged \$6,288,848, resulting in an average annual operating deficit of \$250,726. In addition, at least \$6,935,844 in other Museum costs for fiscal year 2011 were paid from funding sources outside of operating revenues, including \$6,056,466 for debt service related to the Museum's construction.¹

Background Information

The Bob Bullock Texas State History Museum (Museum) opened on April 21, 2001. The Texas Legislature authorized the State Preservation Board to manage the design, construction, and governance of the Museum. The Museum is a division of the State Preservation Board. The Museum was established to help educate visitors about the history of Texas.

The Museum has controls in place to ensure that enterprise fund revenues are properly managed, safeguarded, and accounted for. The Museum accurately recorded and had sufficient supporting documentation for 99 percent of the revenue deposits tested from fiscal years 2010 and 2011.

There may be opportunities for the Museum to increase revenues. Specifically:

- The Museum was not able to show an IMAX feature film for 68 days in fiscal year 2011. According to Museum reports,² IMAX feature films represented 45 percent of the Museum's admissions revenue in fiscal year 2011.
- The Museum's facility rental spaces were underutilized in fiscal year 2011.³ The Museum did not have any facility rentals for 229 days in fiscal year 2011.

¹ The final maturity date for the last bond issue is February 2020.

² The Museum provided information on IMAX feature films from its ticketing information system. That information was unaudited.

³ Information on facility utilization and rentals was provided by the Museum. That information was unaudited.

The Museum properly authorized and supported its enterprise fund expenditures in fiscal years 2010 and 2011. The Museum had effective controls in place to help ensure that expenses and contracts related to the enterprise fund were properly recorded, authorized, and supported. All 30 expenditure transactions tested were properly authorized, recorded, and supported. In addition, 4 (80 percent) of the 5 contracts tested complied with Museum policies and procedures. One contract did not have documentation showing that the Museum had monitored the vendor's performance.

The Museum administered the Museum Fund in general compliance with applicable state laws and Museum policies and procedures. The Museum complied with statutory requirements in preparing an annual detailed report listing all revenues received and disbursed from the Museum Fund for fiscal years 2010 and 2011. In addition, the Museum recorded that it had earned \$164,250 in net revenue in fiscal year 2010. However, the Museum had deposited only \$100,000 of that revenue into the Museum Fund as of December 2011. Texas Government Code, Section 445.011, requires the Museum to transfer all net revenues into the Museum Fund. The Museum is authorized to spend all money it receives for any purpose connected with the Museum.

Summary of Management's Response

Museum management generally agreed with the findings and recommendations in this report. The Museum's detailed management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

The Museum should improve physical and environmental controls over its server room to help ensure the security of its information resources. Auditors identified several control weaknesses that increase the Museum's server room's vulnerability to environmental hazards, which could result in a disruption of operations or a loss of information resources.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to:

- Determine whether the Museum has processes and related controls to help ensure that (1) enterprise fund revenues are properly managed, safeguarded, and accounted for and (2) expenses and other financial transactions related to the enterprise fund are properly authorized and supported.

- Determine whether the Museum administers the Museum Fund in compliance with applicable state laws, rules, Museum policies and procedures, and terms of donor agreements.

The scope of this audit included processes for (1) revenue and expenditure transactions from the Museum's enterprise fund and (2) transfers to and from the Museum Fund from September 2009 through August 2011. Auditors also reviewed annual financial reports from the State Preservation Board from fiscal year 2001 through fiscal year 2011 for historical and background information.

The audit methodology included reviewing and collecting documentation from the Museum and the State Preservation Board, conducting interviews with Museum and State Preservation Board staff, and reviewing Museum and State Preservation Board policies and procedures and statutes. Specifically, auditors evaluated the controls over the Museum's revenue collection, expenditure approval, and Museum Fund transfer processes. This included analyzing and testing selected transactions within those areas. Auditors assessed the reliability of the State Preservation Board's internal accounting system and determined that the data from that system was sufficiently reliable for the purposes of this audit.

Auditors also communicated other, less significant issues to the Museum separately in writing.

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Detailed Results

Chapter 1

Legislative Appropriations Pay for Some Museum Expenses

The total costs for the Bob Bullock Texas State History Museum (Museum) in fiscal year 2011 were more than \$13.1 million. Those costs included debt service payments for the construction of the Museum's building, and some expenses were paid from legislative appropriations, as well as from other state funding sources. According to the State Preservation Board's annual financial reports, the Museum experienced positive net operating income in 3 of 11 fiscal years. The non-profit Texas State History Museum Foundation (Foundation) also raises private funds to support the Museum.

The costs for the Museum exceeded the revenues it generated.

The total costs for the Museum in fiscal year 2011 were \$13,167,864. That amount included \$6,232,020 in operating costs and \$6,935,844 in other costs (see Table 1). Funding sources other than Museum revenues paid for at least 53 percent of the Museum's total costs in fiscal year 2011. Legislative appropriations to the State Preservation Board paid for costs related to debt service on the bonds issued for the Museum's construction, insurance on those bonds, and Museum maintenance. In addition, the Texas Facilities Commission paid for the Museum's utilities in fiscal year 2011.

Table 1

| Museum Expenditures Not Paid by Operating Revenues in Fiscal Year 2011 | |
|--|--------------------------|
| Expenditure | Amount |
| Debt Service | \$6,056,466 ^a |
| Property and Casualty Insurance | 34,253 |
| Facilities - Museum Maintenance | 210,494 |
| Facility Utilities | 634,631 |
| Total | \$6,935,844 |

^a The final maturity date for the last bond issue is February 2020.

Sources: State Preservation Board and the Texas Facilities Commission.

The Museum has had difficulty achieving positive net operating income.

According to the State Preservation Board's annual financial reports, the Museum experienced positive net operating income in only 3 of the last 11 fiscal years. It most recently achieved a positive net operating income in fiscal year 2010. During the last three fiscal years, the Museum's operating costs averaged \$6,539,574, and its operating revenues averaged \$6,288,848, resulting in an average annual operating deficit of \$250,726. Texas Government Code, Section 445.011, states that to the extent possible, the costs of operating the Museum should be paid from revenues generated by the Museum; however, the Texas Government Code also permits the Legislature to appropriate funds for the Museum's operation. With the exception of fiscal year 2010, the Museum's operating revenues have been on a relative decline since its first full year of operations in fiscal year 2002.

The Foundation provides additional funding to the Museum.

**Texas Government Code,
Section 445.013**

The museum may establish and maintain one or more organizations of persons interested in supporting the programs and activities of the museum. Such an organization may be incorporated as a Texas nonprofit corporation.

The Foundation is a separate non-profit organization that is responsible for raising additional funds for the Museum, pursuant to Texas Government Code, Section 445.013 (see text box). From fiscal year 2009 through fiscal year 2011, the Foundation contributed approximately \$990,769 to the Museum. The Museum obtains funds from the Foundation by submitting a request to the Foundation (see Appendix 2 for a copy of a request letter). The Museum's and the Foundation's relationship was established through a memorandum of understanding (see Appendix 3 for a copy of the memorandum of understanding).

The Museum Has Adequate Controls Over Its Financial Transactions with Opportunities to Enhance Revenue

Overall, the Museum has adequate controls over its financial transactions. This includes controls to help ensure that (1) operating revenues are properly received, deposited, and recorded and (2) expenses are properly authorized and supported. The Museum properly deposited and recorded 99 percent of all deposits tested. In addition, the Museum properly authorized and supported all expenditure transactions tested.

However, the Museum could improve its enterprise fund operations by:

- Increasing potential revenue sources, including IMAX theatre showings, Museum facility rentals, and parking garage fees.
- Securing its theatre concessions inventory.
- Consistently monitoring vendor performance for compliance with contract terms.

Chapter 2-A

The Museum Properly Recorded and Supported Its Revenues; However, There Are Opportunities to Enhance Revenues and Improve Controls Over the Concessions' Inventory

The Museum's controls over its enterprise fund's revenue transactions were working as intended. Auditors tested 159 deposits made in fiscal years 2010 and 2011 to determine whether the revenues were (1) received, (2) deposited in a timely manner, and (3) assigned the correct revenue codes. The Museum correctly received, supported, and recorded 157 (99 percent) of the 159 deposits tested. Only 2 deposits (1 percent), for small amounts, did not reconcile to the supporting documentation because the Museum did not code the related transactions to the appropriate revenue category due to manual data entry errors (see Table 2 on the next page for the top revenue categories for fiscal year 2011 and Appendix 4 for more information about the Museum's revenues).

Table 2

| The Museum's Top Revenue Sources in Fiscal Year 2011 | | |
|--|--------------------------------|---------------------------|
| Revenue Category | Amount | Percent of Total Revenues |
| Admissions | \$2,950,199 | 49% |
| Store Merchandise Sales | 1,085,508 | 18% |
| Event/Facilities Rentals | 502,290 | 8% |
| Parking Fees | 376,090 | 6% |
| Membership Fees | 360,482 | 6% |
| Other Revenue Sources | 790,085 | 13% |
| Totals | \$6,064,655^a | 100% |
| ^a This column does not sum exactly due to rounding. | | |

Source: State Preservation Board.

Although the Museum generated nearly \$6.1 million in revenues in fiscal year 2011, it did not maximize its potential revenue due to gaps in the showing of feature films in its IMAX theatre⁴, the underutilization of its facility rental space⁵, and the underutilization of its parking garage.

Auditors noted that there were 68 days in fiscal year 2011 on which the IMAX theatre did not show a feature film. However, the cause of those gaps may have been outside of the Museum's control. Museum management explained that the Museum has little control over the IMAX films it receives, including when it receives the films and for how long, because the terms of those agreements are set by the film industry. IMAX feature films represented 45 percent of the Museum's admissions revenue in fiscal year 2011.

In addition, the Museum's facility rental spaces were underutilized in fiscal year 2011. The Museum has approximately 12 areas available for rent by the general public, other businesses, or other state agencies. In fiscal year 2011, the Museum had 131 days on which at least one facility rental space was booked. However, the Museum did not have any facility rentals for the other 229 days in fiscal year 2011 that were available for booking.

There also may be opportunities for the Museum to generate additional revenues by increasing utilization of its parking garage. The parking garage has 475 spaces. However, according to Museum staff, approximately 225 cars use the garage on an average day.

⁴ The Museum provided information on IMAX feature films from its ticketing information system. That information was unaudited.

⁵ The Museum provided information on facility utilization and rentals. That information was unaudited.

The Museum can improve controls over its theatre concessions inventory.

The Museum has inventory accounting procedures for both its retail store inventory and its theatre concessions inventory, and Museum employees performed those procedures for fiscal years 2010 and 2011. However, the State Preservation Board's accounting staff notified Museum staff of discrepancies between the physical count of the Museum's IMAX theatre concessions inventory and the point-of-sale count of the concessions inventory, with specific direction to develop and enforce policies and procedures for better inventory control. In addition, auditors observed that the door to the concessions inventory was not properly secured during several visits to the Museum. Inadequate controls over the concessions inventory could have contributed to inventory shrinkage of approximately \$4,043 in fiscal year 2011 and \$3,201 in fiscal year 2010. The Museum did not provide an explanation for the discrepancies in its concessions inventory counts.

Recommendations

The Museum should:

- Increase all sources of potential revenue, including increasing the utilization of the IMAX theatre, facility rental space, and parking garage.
- Secure access to the concessions inventory.

Management's Response

IMAX Theater Operations

The Museum did not show a feature film on 68 days in FY 2011 because the Museum has no control over which feature films are offered for screening and when they are shown in the IMAX Theater. Those decisions are made by the major studios and distributors based on film release dates. IMAX feature films fill a narrow niche in the market and are not available to the Museum on a year-round basis. Emerging competition in the form of two new digital IMAX theaters in the Austin market has decreased the Museum's feature film attendance and revenue in FY 2012. In the coming year, the Museum will continue to have fewer days showing feature films as a result of this decrease in attendance but plans to fill the schedule with additional showings of educational documentaries.

Facilities Rentals

The Museum rents its facilities to outside groups to maximize earned income on the days for which Museum programs are not scheduled. In FY 2011, the Museum presented 222 internal events that included exhibition openings, family programs, lectures, performances, the Foundation's Gala fundraiser,

film screenings, concerts etc. In addition, the Museum is closed for five holidays a year. As a result, the days actually available for facility rentals are far fewer than 360 days per year.

In FY 2011 the Museum's facility rental program booked 130 outside events. To ensure that the Museum is maximizing its facility rental potential, the Museum added one full-time staff to the Facility Rental division last year. This individual's focus is on marketing the Museum's facilities to new and returning clients. Beginning in FY 2012, the division began marketing rental specials on a quarterly basis to event coordinators to generate more event bookings at the Museum.

Parking

Since the fall of 2009, the Parking division has been working with the Membership division to increase utilization of the parking garage. In 2009, 8 parking memberships were sold resulting in \$2,400. In FY 2010, \$21,684 in parking memberships were sold and in FY2011 \$77,225 were sold. The primary purchasers of parking memberships are University of Texas students. This year the Museum anticipates revenue of \$90,000 to \$95,000 from these memberships. The Museum continues to monitor the parking space inventory and vehicle turnover to ensure that there is also adequate parking for Museum visitors.

The Museum also partners with the Texas Facilities Commission (TFC) in providing overflow parking when adjacent parking lots are being refurbished or are unavailable. The TFC also assists the Museum with the marketing of Museum parking spaces via email blasts during programs or events that will require additional parking such as University of Texas football games and events at the Frank Irwin Center. On some holidays when the Museum is closed, the Museum hires an outside vendor to manage the garage and receives a percentage of the revenues.

Theater Concessions

The agency agrees with the Auditor's recommendation. All issues related to concession storage and monitoring are being fully addressed. Inventory is being moved to an area where it can be secured and written policies and procedures for ordering, receiving and disposal of expired product have been updated. Concession inventory will be located in a locked storage area off the IMAX Theatre lobby. There is direct oversight from the Visitor Services division and limited access to those outside the division. The recommendation will be implemented by February 29, 2012 and the Director of Operations is the responsible party.

The Museum's Expenses Were Properly Authorized and Supported; However, the Museum Should Strengthen Its Contract Monitoring

The Museum has processes and controls in place to help ensure that expenses and other financial transactions related to the Museum's enterprise fund are properly authorized and supported. All 30 expenditures tested were properly authorized and supported. In addition, all 30 expenditures were related to Museum operations (see Table 3 for the top expenditure categories for fiscal year 2011 and Appendix 4 for more information about the Museum's expenditures).

Table 3

| The Museum's Top Expenditure Categories in Fiscal Year 2011 | | |
|---|---------------------|------------------|
| Expenditure Category | Amount | Percent of Total |
| Salaries and Wages | \$ 2,378,839 | 38% |
| Rentals and Leases | 1,202,027 | 19% |
| Payroll-related Costs | 717,951 | 12% |
| Other Operating Expenses | 596,730 | 10% |
| Cost of Goods Sold | 586,226 | 9% |
| Other Expenditures | 750,247 | 12% |
| Totals | \$ 6,232,020 | 100% |

Source: *Fiscal Year 2011 State Preservation Board Annual Financial Report*.

The Museum should strengthen its contract monitoring process.

The Museum had 59 active contracts that totaled \$9,460,214 in expenditures in fiscal years 2010 and 2011. Fifty-three (90 percent) of those contracts were managed by three divisions of the Museum: the Theatre Division (61 percent of the contracts), the Public Programming Division (20 percent of the contracts) and the Operations Division (9 percent of the contracts). Four (80 percent) of the 5 contracts that auditors tested complied with Museum policies and procedures. One contract did not have documentation showing that the Museum had monitored the vendor's performance.

Two of the three divisions that manage most of the Museum's contracts had some documented procedures for monitoring their contracts. However, many of those procedures were not sufficiently detailed to help ensure that the Museum has a strong contract monitoring process. Specifically:

- The Public Programming Division did not have any documented procedures for monitoring its contracts, but it did have a contract monitoring process in place.

- The Operations Division, which monitors commission revenues received from catered events, had procedures for verifying the commissions that its vendors paid. However, the Operations Division did not document the reviews that its staff performed. As a result, auditors could not verify that the reviews had been performed.

The Theatre Division had documented policies and procedures for the contracts it monitors, and it approved royalty payments before those payments were made to film studios to help ensure compliance with contractual agreements.

Recommendations

The Museum should:

- Develop written contract monitoring policies and procedures for its divisions to establish expectations and to help ensure that the individuals responsible for contract monitoring (1) understand what will be monitored, (2) who is responsible for monitoring, and (3) the criteria that should be used to evaluate and report contractor performance.
- Strengthen its controls over contract monitoring by documenting all results of contract monitoring efforts, including reviews.

Management's Response

The agency agrees with the Auditor's recommendations. Current agency policy requires museum contract managers to use the State of Texas Contract Management Guide as the basis from all contract monitoring procedures. Museum management is in the process of developing program specific contract monitoring procedures based on the recommendations in the State of Texas Contract Management Guide and they will be in place by May 1, 2012. These program specific policies will ensure that staff responsible for contract monitoring understand what will be monitored, who is responsible for monitoring, and the criteria that should be used to evaluate and report contractor performance. Policies will include a requirement to document all results of contract monitoring efforts. The Museum director is responsible for ensuring these procedures are implemented.

The Museum's Administration of the Museum Fund Generally Complied with Applicable State Laws

Museum Fund

The 76th Legislature (1999) established the Museum Fund. According to the *Fiscal Year 2002 State Preservation Board Annual Financial Report*, the Museum Fund had an end-of-fiscal-year balance of \$2,035,292.

The Museum administered the Bob Bullock Texas State History Museum Fund (Museum Fund) in general compliance with applicable state laws and Museum policies and procedures (see text box for more information about the Museum Fund).

The Museum Fund was established outside the State Treasury to hold money and securities that the Museum receives. The Museum can spend those funds for any purpose connected with the Museum. The Museum Fund had an ending balance of \$293,908 for fiscal year 2011. The Texas Treasury Safekeeping Trust Company, an organization created by the Legislature as a special purpose entity, manages the Museum Fund.

Texas Government Code, Section 445.012, requires the Museum to prepare an annual detailed report describing the status of the Museum Fund, a list of all donations and donors to the Museum Fund, and a list of all disbursements and their purpose from the Museum Fund. The Museum complied with those annual reporting requirements during fiscal years 2010 and 2011.

While the Museum complied with annual reporting requirements for the Museum Fund, it did not transfer all net revenue to the Museum Fund in fiscal year 2010 as required by Texas Government Code, Section 445.011.

The Museum recorded that it earned \$164,250 in net revenue in fiscal year 2010; however, as of December 2011, it had deposited only \$100,000 of that revenue into the Museum Fund. Texas Government Code, Section 445.011, requires the Museum to transfer all net revenues into the Museum Fund. The \$100,000 was the only transfer into the Museum Fund from the Museum's enterprise fund during fiscal years 2010 and 2011. That transfer was reasonably supported and authorized by management.

Recommendation

The Museum should fully comply with Texas Government Code, Section 445.011, and transfer all net revenue to the Museum Fund.

Management's Response

The agency has transferred an additional \$64,250 to the Museum Fund. However, the agency believes that the statutory provision requiring all net Museum revenue be transferred to the Museum Fund may no longer be practical. Since the Museum depends largely on earned revenue to operate the facility, and because the level of revenue generated during the year varies

substantially from month to month, monitoring and maintaining the Museum's cash flow is extremely important. The agency believes that having the option to keep net revenue in the Museum's operating account would be a sound management tool that could otherwise limit the number of cash transfers that might be necessary between the Museum Fund and the Museum's operating account.

The Museum Should Strengthen Controls Over the Physical Security of Its Information Systems

The Museum should improve physical and environmental controls over its server room to help ensure the security of its information resources. Auditors identified several control weaknesses that increase the Museum's server room's vulnerability to environmental hazards, which could result in a disruption of operations or a loss of information resources.

The Museum's server room has some physical and environmental controls, such as having only one door to the server room and a backup generator. However, auditors identified the following weaknesses in the Museum's controls for its server room:

- A water sprinkler system is used as the fire suppression system. Water can cause irreparable damage to computer equipment and other critical electronics. The server room does not contain a fire extinguisher.
- The servers are not stored in a waterproof rack.
- The server room does not have its own temperature and humidity controls.

Texas Administrative Code Requirements for Information Security

Title 1, Texas Administrative Code, Section 202.23, requires:

- An agency's head or his or her designated representative(s) to document and manage physical access to mission critical information resources facilities to ensure the protection of information resources from unlawful or unauthorized access, use, modification, or destruction.
- Information resources to be protected from environmental hazards and designated employees to be trained to monitor environmental control procedures and equipment and be trained in desired response in case of emergencies or equipment problems.

Title 1, Texas Administrative Code, Section 202.24, requires each state agency to maintain a written disaster recovery plan for major or catastrophic events that deny access to information resources for an extended period. Information learned from tests conducted since the plan was last updated must be used in updating the disaster recovery plan.

Because of those weaknesses, the Museum's information resources are not protected from environmental hazards that could disrupt operations or lead to the destruction of the Museum's information resources.

Auditors also identified 6 (40 percent) of 15 employees with access to the server room who did not require that access to perform their job duties. Inappropriate access to the server room increases the risk of unintentional and intentional disruptions to or loss of information resources. According to Museum staff, the current server room was not designed or constructed to function as a server room.

In addition, the Museum did not have a documented disaster recovery plan in place as required by Title 1, Texas Administrative Code, Section 202.24 (see text box for more information). Without a documented disaster recovery plan, the Museum's ability to address a loss of data resulting from an interruption in operations is reduced.

Recommendations

The Museum should:

- Consider modifying the server room or relocating it to an area that will reduce or eliminate the identified weaknesses.
- Limit server room access to individuals who require access to perform their job duties.
- Develop and maintain a comprehensive disaster recovery plan as required by the Texas Administrative Code.

Management's Response

The agency agrees with the Auditor's recommendations. The Museum has an overhead sprinkler system in its server room as required by the State Fire Marshall and has installed a halon fire extinguisher in the room as well. The Museum is pricing a system that will prevent the sprinklers in the server room from activating unless both the smoke detector in the room has been tripped and the temperature in the room reaches 140 degrees Fahrenheit. We will have a cost analysis completed by April 1, 2012. The responsible party for implementing the recommendations is the Museum Director. Currently, the sprinklers activate if the temperature in the room reaches 140 degrees. Since the sprinklers in the server room will not activate unless the temperature reaches 140 degrees, a waterproof rack is not necessary as the hardware would be destroyed by heat before it could be harmed by water.

The Facilities department does monitor the temperature in the server room and is able to adjust the zone on the fourth floor (where the server room is located) to cool the room. Humidity is also addressed with raising or lowering the temperature in this zone.

It was recommended that access to the server room be limited. This has been done and is now restricted to information technology staff, visitor services managers, and housekeeping and executive staff who have a master key to the building. To minimize access, visitor services ticketing assistants currently run settlement reports by remote access to this location.

A comprehensive disaster recovery plan is being drafted by a cross-departmental team. The sections pertaining to information services and loss of information resources are being addressed in the plan which will be completed in late spring. We can provide these details, which include backup information, contact information, and a list of mission critical applications, upon request.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Bob Bullock Texas State History Museum (Museum) has processes and related controls to help ensure that (1) enterprise fund revenues are properly managed, safeguarded, and accounted for and (2) expenses and other financial transactions related to the enterprise fund are properly authorized and supported.
- Determine whether the Museum administers the Bob Bullock Texas State History Museum Fund (Museum Fund) in compliance with applicable state laws, rules, Museum policies and procedures, and terms of donor agreements.

Scope

The scope of this audit included processes for (1) revenue and expenditure transactions from the Museum's enterprise fund and (2) transfers to and from the Museum Fund from September 2009 through August 2011. Auditors also reviewed annual financial reports from the State Preservation Board from fiscal year 2001 through fiscal year 2011 for historical and background information.

Methodology

The audit methodology included reviewing and collecting documentation from the Museum and the State Preservation Board, conducting interviews with Museum and State Preservation Board staff, and reviewing Museum and State Preservation Board policies and procedures and statutes. Specifically, auditors evaluated the controls over the Museum's revenue collection, expenditure approval, and Museum Fund transfer processes. This included analyzing and testing selected transactions within those areas.

Auditors assessed the reliability of the State Preservation Board's internal accounting system, Sage MIP Fund Accounting (MIP), and determined that the data in that system was sufficiently reliable for the purposes of this audit. To make this determination, auditors performed data reliability tests on revenue and expenditure data from MIP and reconciled that data to the Office of the Comptroller of Public Accounts' Uniform Statewide Accounting System (USAS). Auditors also reviewed password requirements and edit

checks to determine whether they were adequately designed and operating effectively.

Information collected and reviewed included the following:

- Policies and procedures for (1) enterprise fund revenue collection and financial reporting and (2) enterprise fund expenditure authorization and financial reporting.
- Policies and procedures for Museum Fund financial reporting and expenditure authorization.
- Enterprise fund revenue and expenditures transactions and related supporting documentation.
- Museum Fund transactions and related supporting documentation.
- Annual financial reports from the State Preservation Board from fiscal year 2001 through fiscal year 2011.
- Museum Fund financial reports for fiscal years 2010 and 2011.
- Museum concessions and retail store inventories.
- Museum contracts and related documentation.
- Payroll data from the Uniform Statewide Payroll/Personnel System (USPS).
- Total number of Museum employees.
- Museum attendance and admissions revenue.
- Museum facility rentals.
- IMAX theater schedule.

Procedures and tests conducted included the following:

- Interviewed management and staff at the State Preservation Board and the Museum.
- Analyzed and tested revenue transactions.
- Analyzed and tested expenditure transactions.
- Reviewed Museum inventory documentation for theater concessions and the retail store.
- Reviewed and analyzed the IMAX theater schedule.

- Reviewed and analyzed Museum facility rental data.
- Reviewed and tested transfers to the Museum Fund and detailed transactions of the Museum Fund.
- Reviewed admissions reports from the Museum.
- Reviewed Museum contracts and tested selected contracts.
- Reviewed State Preservation Board annual financial reports.
- Conducted a security walkthrough of the Museum's server room.
- Reviewed general controls over the State Preservation Board's MIP accounting system.

Criteria used included the following:

- Texas Government Code, Chapters 443 (State Preservation Board) and 445 (Texas State History Museum).
- Texas Government Code, Chapter 404 (State Treasury Operation of the Comptroller).
- Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards).
- State Preservation Board and Museum policies and procedures.
- Department of Information Resources' IS security policies.
- American Association of Museums' standards and best practices for U.S. museums.

Project Information

Audit fieldwork was conducted from October 2011 through December 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

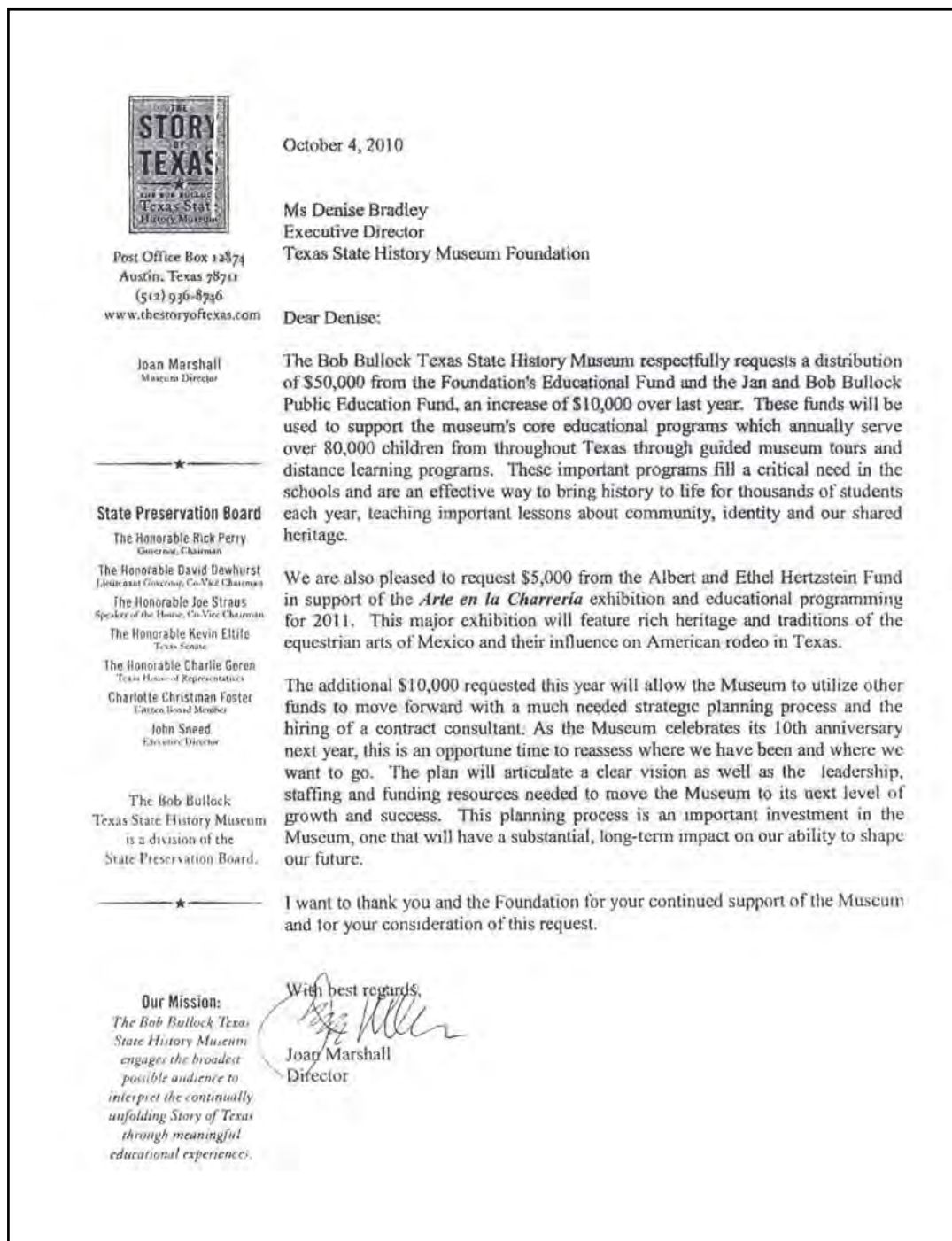
The following members of the State Auditor's staff performed the audit:

- Michael Simon, MBA, CGAP (Project Manager)
- Charles Wilson, MPAff (Assistant Project Manager)

- Kristina Aguilar
- Scott Boston, MPAff
- Tessa Mlynar
- Gregory Watson
- Stacey Williams, CGAP
- Dana Musgrave, MBA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

Sample Grant Request Letter to the Texas State History Museum Foundation

Below is a copy of a letter from the Bob Bullock Texas State History Museum (Museum) to the Texas State History Museum Foundation requesting funding to be used for specific Museum purposes.



Memorandum of Understanding Between the State Preservation Board and the Texas State History Museum Foundation

Below is a copy of the Memorandum of Understanding between the State Preservation Board and the Texas State History Museum Foundation, which is in effect until August 31, 2013.

MEMORANDUM OF UNDERSTANDING BETWEEN THE STATE PRESERVATION BOARD AND THE TEXAS STATE HISTORY MUSEUM FOUNDATION

This Memorandum of Understanding (MOU) is made and entered into this 4th day of October 2010 by and between the State Preservation Board (SPB) acting on behalf of The Bob Bullock Texas State History Museum (Museum), a division of the SPB, and the Texas State History Museum Foundation (Foundation), a Texas non-profit corporation. Hereinafter these entities are collectively referred to as the Parties.

I. RECITAL

The Museum, pursuant to §443.013 of the Texas Government Code, may and does establish and maintain one or more organizations of persons interested in supporting the programs and activities of the Museum. Such organizations may be and are incorporated as Texas nonprofit corporations.

II. AGREEMENT

Therefore, the Museum and the Foundation mutually agree to the following terms and conditions:

- 1) The Foundation's primary focus will be on the cultivation of long-term relationships that result in major, unrestricted gifts and the continued building of the endowment.
- 2) The Foundation will solicit and receive gifts, contributions, bequests and other donations for the mutual benefit of the Museum and the Foundation, provided that no art, artifacts, collections, or other items are donated for exhibition in the Museum facility or for the purposes of starting a permanent collection.
- 3) The Foundation will provide financial support to the Museum through:
 - a. an annual grant from the proceeds of the Foundation's annual fundraising event for general support of the Museum's educational initiatives. The Board of Trustees will determine the amount of the grant each year, not to exceed \$200,000 in any given year.
 - b. an annual distribution from its endowment based upon a written request from the Museum to be considered at the Board's fall meeting. The Foundation will only make the distribution if the request is in keeping with the intended purpose of the endowment funds and if the amount requested is within the amount available for distribution based upon the Foundation's Endowment Spending Policy.
- 4) The Foundation may make project-based grants to the Museum based upon the Foundation's ability to raise funds specifically for that purpose. However, all project-specific fundraising will be the primary responsibility of the Museum.
- 5) The Foundation shall not submit any solicitation that would obligate the Museum to perform any duty or service without first obtaining the Museum's approval.

- 6) The Museum will hold primary responsibility for:
 - a. securing funding for temporary exhibits and expansions to permanent exhibits.
 - b. securing marketing-related sponsorships such as sponsorships for IMAX© Theatre film rentals/royalties, promotions (print and media), in-kind contributions, events and exhibits.
 - c. the Museum Membership Program, including recruitment, retention, and recognition of members.
- 7) The Museum may accept unsolicited donations made by individuals, corporations, etc. and may solicit donations on its own behalf so long as no solicitation made by the Museum obligates the Foundation in any way.
- 8) The Museum at no time shall submit a request or make any communication on behalf of the Foundation, unless authorized in advance in writing.
- 9) The Museum and Foundation will routinely keep each other informed of potential solicitations and will notify one another prior to making any solicitation.
- 10) The Museum will routinely inform the Foundation of exhibits and programs for which it is seeking sponsors. At each Foundation board meeting, the Museum will provide a brief project description, estimated budget, and list of fundraising prospects. The Foundation trustees will review the information and inform the Foundation Executive Director of any projects or prospects with which they might offer assistance. The Foundation Executive Director will be responsible for communicating this information to the Museum Director and coordinating any subsequent fundraising activities that arise from the interests of board members.
- 11) The Museum will provide the Foundation with background information and marketing materials produced by the Museum that can be used to support fundraising solicitations.
- 12) The Museum will provide the Foundation with written quarterly reports on all projects funded by the Foundation.
- 13) The Museum and SPB will provide the Foundation with copies of all written correspondence to Foundation donors and/or Foundation board members and will inform the Foundation when verbal conversations regarding Museum support have taken place with Foundation donors.
- 14) The office of the Foundation Executive Director will be located on the 4th floor of the Museum facility, and the Foundation Executive Director will be entitled to unassigned underground parking as available at no rental cost to the Foundation.
- 15) The Foundation agrees to: a) provide for all of its own equipment and supply needs except a copy machine; b) arrange for independent phone, computer and fax service (not using state equipment or lines); c) provide quarterly reimbursement to the Museum for copies made on SPB copy machines (5 cents/page for less than 100 total pages per month; 3 cents/page for 100 or more copies per month); and d) maintain a private post office box for receipt of mail (overnight or surface deliveries may be made to the Museum facility's physical address).

- 16) The Foundation agrees to follow all security and access policies of the Museum regarding use of the building by personnel housed in the Museum facility.
- 17) The Foundation may hold an annual event in the Museum facility with no rental fee charged to the Foundation. The Museum will contribute the labor costs incurred for overtime worked by Museum staff during the events.
- 18) The Foundation will reserve the Museum facility on March 1-3 of each year for the Foundation's annual fundraising event, generally held on March 2. The Museum will close early (no later than 3:00pm) on the day of the Foundation's annual event to insure timely set up and preparation.
- 19) The Foundation may purchase items for fundraising purposes from the Museum's gift shop at wholesale cost.
- 20) Donors to the Foundation will not, as a general rule, receive Museum memberships in recognition of their contribution to the Foundation. The Foundation may purchase any memberships offered to donors at Museum cost. (e.g. A \$1,000 corporate membership currently includes free tickets and other items that cost the Museum \$220 to provide to the member; therefore, the Foundation would reimburse the Museum \$220 for each \$1,000 corporate membership given to donors.)
- 21) Any Museum privileges (e.g. provision of garage swipes) granted to Foundation donors by the Museum are at the discretion of the Museum, but will be granted only after the Museum has notified the Foundation.
- 22) The Foundation shall provide to the Museum each fiscal year a copy of its annual audit and annual budget.
- 23) The Museum shall provide to the Foundation each fiscal year a copy of its annual budget.
- 24) The SPB's Executive Director and the Museum's Director serve as ex-officio members of the Foundation Board of Trustees with all rights and responsibilities of other members of the Board except voting.
- 25) Persons employed by the Foundation are not employees or agents of the State of Texas, the SPB or the Museum, and neither the Foundation, the Museum, nor their employees shall make any representations to the contrary.
- 26) Neither the State of Texas, the SPB nor the Museum shall be liable for damages for any injury arising from any act or omission of the Foundation or its staff, nor shall the Foundation be liable for damages for any injury arising from any act or omission of the Museum or its staff.
- 27) The Museum shall not establish any other organization of persons interested in supporting the programs and activities of the Museum without first notifying the Foundation.
- 28) The Foundation agrees to hold the State of Texas, the SPB and the Museum harmless for any and all injuries arising from any act or omission of the Foundation or its staff.

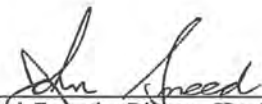
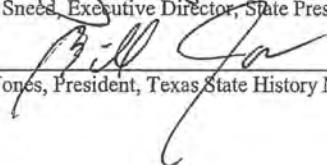
- 29) This MOU is not intended to make the Foundation a governmental body for purposes of the Public Information Act (PIA) contained in Chapter 552 of the Texas Government Code, nor is it intended to make information produced by the Foundation public information subject to disclosure pursuant to the PIA. *However, information, documents, and other materials related to this MOU may be subject to public disclosure pursuant to the PIA. The Museum will protect materials related to the MOU to the extent allowed by the PIA.*
- 30) This MOU shall remain in effect unless mutually amended in writing by the Parties or upon thirty days written notice if terminated by either the Foundation or the SPB. Such notice and any other notices that may be required by the Agreement shall be sent to the Parties at the following addresses:

Executive Director
 State Preservation Board
 P.O. Box 13286
 Austin, Texas 78711

President
 Board of Trustees
 Texas State History Museum Foundation
 c/o both the Foundation's address
 (P.O. Box 12456, Austin, TX 78711) and
 the current President's direct address.

27) This MOU shall commence on the date shown on Page One of the document and shall terminate August 31, 2013. This MOU or an amended version thereof may be renewed by written agreement of each of the Parties.

IN WITNESS **HEREOF**, the Parties have hereto entered this agreement on this 4th day of October, 2010.

| | |
|--|-----------------------|
|  _____ John Sneed, Executive Director, State Preservation Board | _____ Date 10/4/10 |
|  _____ Bill Jones, President, Texas State History Museum Foundation | _____ Date 10/4/10 |

Museum Revenues and Expenditures for Fiscal Year 2011

Table 4 lists the Bob Bullock Texas State History Museum's (Museum) operating revenues and each category's percent of total revenues.

Table 4

| Fiscal Year 2011 Museum Revenues | | |
|-------------------------------------|--------------------|---------------------------|
| Revenue Category | Amount | Percent of Total Revenues |
| Admissions | \$2,950,199 | 49% |
| Store Merchandise Sales | 1,085,508 | 18% |
| Event/Facilities Rentals | 502,290 | 8% |
| Parking Fees | 376,090 | 6% |
| Membership Fees | 360,482 | 6% |
| Foundation Grants | 312,683 | 5% |
| Concessions | 225,684 | 4% |
| Exhibit Rentals | 105,000 | 2% |
| Sponsorship/Grants Other | 72,012 | 1% |
| Commissions - Events | 50,895 | 1% |
| Contributions - State Employee | 19,359 | 0% |
| Texas the Big Picture Royalties | 7,897 | 0% |
| Distance Learning Fees | 7,200 | 0% |
| Registration Fees/Education Sales | 2,715 | 0% |
| Sales - Miscellaneous | 799 | 0% |
| Commemorative Sales Giftshop/Museum | 0 | 0% |
| Store Merchandise Returns | (14,158) | 0% |
| Total Operating Revenues | \$6,064,655 | 100% |

Source: State Preservation Board.

Table 5 lists the Museum's expenditures for fiscal year 2011 and each category's percent of total expenditures.

Table 5

| Fiscal Year 2011 Museum Expenditures | | |
|--|--------------------------------|-------------------------------|
| Expenditure Category | Amount | Percent of Total Expenditures |
| Salaries and Wages | \$2,378,839 | 38% |
| Rentals and Leases | 1,202,027 | 19% |
| Payroll-related Costs | 717,951 | 12% |
| Other Operating Expenses | 596,730 | 10% |
| Cost of Goods Sold | 586,226 | 9% |
| Materials and Supplies | 265,805 | 4% |
| Depreciation and Amortization | 183,220 | 3% |
| Professional Fees and Services | 121,256 | 2% |
| Repairs and Maintenance | 77,186 | 1% |
| Communication and Utilities | 40,045 | 1% |
| Travel | 33,385 | 1% |
| Printing and Reproduction | 29,293 | 0% |
| Interest | 59 | 0% |
| Total Operating Expenses | \$6,232,020^a | 100% |
| ^a This column does not sum exactly due to rounding. | | |

Source: State Preservation Board.

Bond Issues Related to the Construction of the Museum

The Texas Public Finance Authority issued three building revenue bonds totaling \$78,600,000 on behalf of the State Preservation Board for construction of the Bob Bullock Texas State History Museum (Museum) in fiscal years 1998, 1999, and 2000.

In fiscal year 2005, a fourth bond of \$37,295,000 was issued by the Texas Public Finance Authority to partially refund and defease the three outstanding revenue bonds. That bond has a final maturity date of February 2020. As of February 28, 2010, the total amount of outstanding bonds related to the Museum's construction was \$42,010,000.

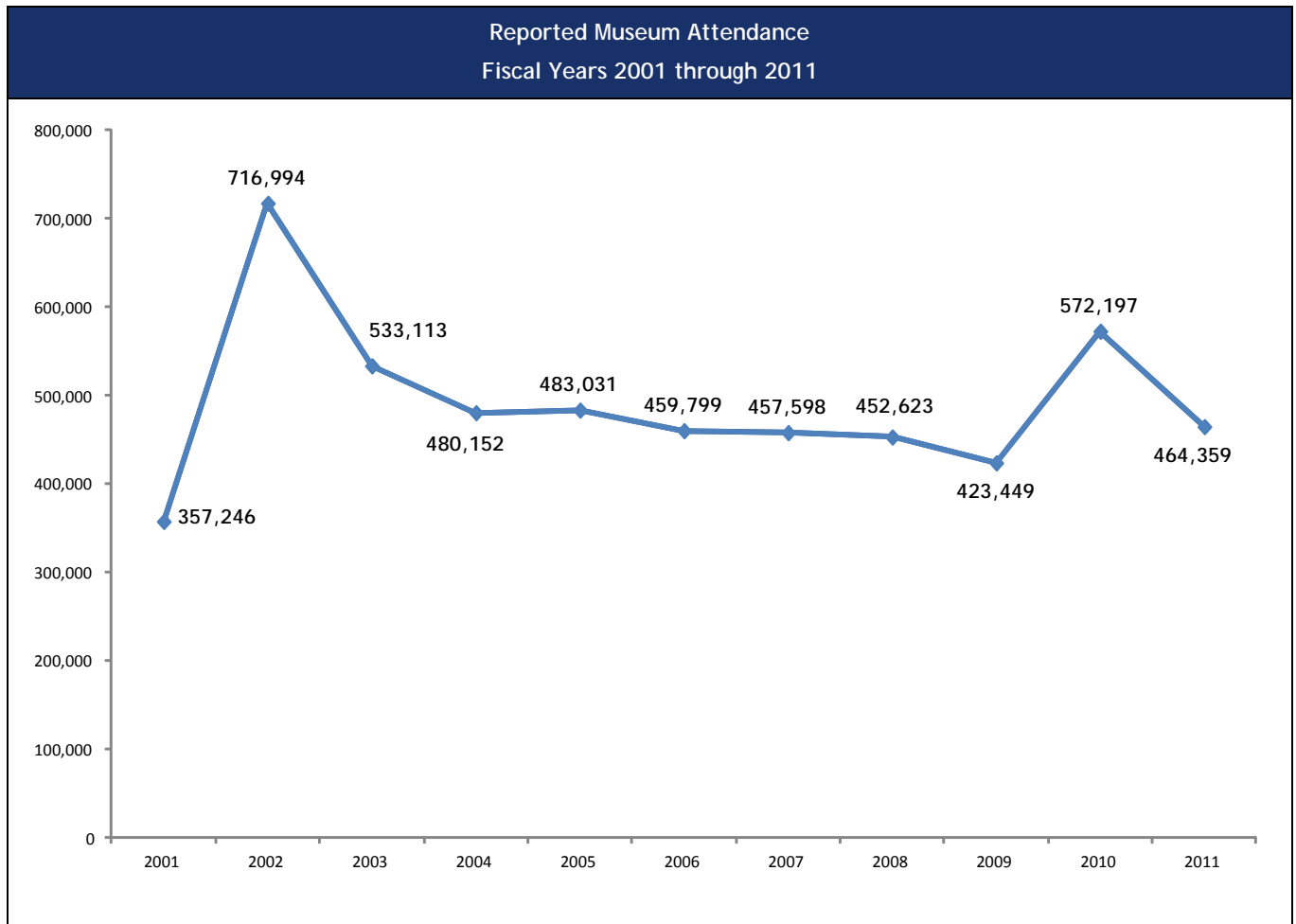
To pay the costs of these bonds, the Legislature appropriated the State Preservation Board \$79,318,869 between fiscal years 1998 and 2011, including \$6,206,075 in fiscal year 2010 and \$6,107,200 in fiscal year 2011. Those appropriations were for lease payments to the Texas Public Finance Authority for debt service payments on revenue bonds issued for the Museum's construction, as well as for insurance payments required by the Texas Public Finance Authority.

Of the \$79,318,869 total appropriations related to the revenue bonds, \$78,718,869 had been appropriated for debt service payments and \$600,000 had been appropriated for related insurance payments.

Museum Attendance for Fiscal Years 2001 Through 2011

Figure 1 shows the reported attendance for the Bob Bullock Texas State History Museum (Museum) for fiscal years 2001 through 2011.

Figure 1



Source: State Preservation Board.

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The Honorable Steve Ogden, Senate Finance Committee

The Honorable Thomas “Tommy” Williams, Member, Texas Senate

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

State Preservation Board

Members of the State Preservation Board

The Honorable Kevin Eltife

The Honorable Charlie Geren

Ms. Ida Clement Steen

Mr. John Sneed, Executive Director

Bob Bullock Texas State History Museum

Ms. Joan Marshall, Museum Director



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