COMMISSION MEETING

October 27, 2009

Texas Alcoholic Beverage Commission
5806 Mesa Drive
Austin, Texas 78731

José Cuevas, Jr., Presiding Officer
Midland

Steven M. Weinberg, MD, JD, Member
Colleyville

Melinda Fredricks, Member
Conroe
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agenda--TABC Commission Meeting – October 27, 2009</td>
<td>1</td>
</tr>
<tr>
<td>Minutes--TABC Commission Meeting – October 27, 2009</td>
<td>3</td>
</tr>
<tr>
<td>Attachment 1: Approval of Internal Audit Plan for FY 2010</td>
<td></td>
</tr>
<tr>
<td>Attachment 2: Licensing Imaging/Reorganization Update</td>
<td></td>
</tr>
<tr>
<td>Attachment 3: Approval to Adopt Amendment to Chapter 45, Changing</td>
<td></td>
</tr>
<tr>
<td>Title of Subchapter E from Miscellaneous to Regulation of Credit</td>
<td></td>
</tr>
<tr>
<td>Transactions</td>
<td></td>
</tr>
<tr>
<td>Attachment 3: Approval to Adopt Repeal of Current Rule §45.131,</td>
<td></td>
</tr>
<tr>
<td>Consumers and Non-Commercial Organizations</td>
<td></td>
</tr>
<tr>
<td>Attachment 3: Approval to Adopt New Rule §45.131, Cash Law</td>
<td></td>
</tr>
<tr>
<td>Provisions for Beer Sales</td>
<td></td>
</tr>
<tr>
<td>Certification of Minutes</td>
<td>13</td>
</tr>
</tbody>
</table>
Tuesday, October 27, 2009 – 9:30 a.m.

**AGENDA**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Call to Order</td>
<td>José Cuevas, Jr.</td>
</tr>
<tr>
<td>3.</td>
<td>Approval of Internal Audit Plan for FY 2010</td>
<td>Russell Gregorczyk</td>
</tr>
<tr>
<td>4.</td>
<td>Licensing Imaging/Reorganization Update</td>
<td>Amy Harrison</td>
</tr>
<tr>
<td>5.</td>
<td>Approval to Adopt Amendment to Chapter 45, Changing Title of Subchapter E from Miscellaneous to Regulation of Credit Transactions</td>
<td>Joan Bates</td>
</tr>
<tr>
<td>6.</td>
<td>Approval to Adopt Repeal of Current Rule §45.131, Consumers and Non-Commercial Organizations</td>
<td>Joan Bates</td>
</tr>
<tr>
<td>7.</td>
<td>Approval to Adopt New Rule §45.131, Cash Law Provisions for Beer Sales</td>
<td>Dexter Jones</td>
</tr>
<tr>
<td>8.</td>
<td>Public Comment</td>
<td>José Cuevas, Jr.</td>
</tr>
<tr>
<td>9.</td>
<td>Executive Session to Consult with Legal Counsel Regarding Pending and Anticipated Litigation Against the Agency and to Discuss the Duties, Responsibilities, and Evaluation of the Administrator (Govt. Code §551.071, §551.074)</td>
<td>José Cuevas, Jr.</td>
</tr>
<tr>
<td>10.</td>
<td>Next Meeting Dates: Tuesday, November 24, 2009 Tuesday, January 26, 2010</td>
<td>José Cuevas, Jr.</td>
</tr>
<tr>
<td>11.</td>
<td>Adjourn</td>
<td>José Cuevas, Jr.</td>
</tr>
</tbody>
</table>
MINUTES

REGULAR COMMISSION MEETING

9:30 a.m. – October 27, 2009

5806 Mesa Drive
Austin, Texas 78731
COMMISSION MEETING MINUTES
October 27, 2009

The Commissioners of the Texas Alcoholic Beverage Commission (TABC) met in Regular Session on Tuesday, October 27, 2009, at the Texas Alcoholic Beverage Commission, 5806 Mesa Drive, Suite 185, Austin, Texas.

PRESIDING OFFICER: José Cuevas, Jr.
COMMISSIONERS PRESENT: Melinda Fredricks
                        Steven M. Weinberg, MD, JD

STAFF PRESENT: Alan Steen, Administrator
                Joan Bates, Deputy General Counsel, Legal
                Carolyn Beck, Director of Communications and
                Governmental Relations
                Tiffany Blandford, Region 1 – Amarillo, Licensing
                Supervisor
                Lou Bright, General Counsel, Legal Services
                Mindy Carroll, Assistant Director, Education and Prevention
                Sherry Cook, Assistant Administrator
                Carrie Coulter, Region 4 – Austin, Licensing Supervisor
                Johnna Cunningham, Accounts Examiner, Licensing
                Division
                Darryl Darnell, Agent
                Loretta Doty, Director, Human Resources Division
                Darla Elam, Headquarters, Licensing Supervisor
                Diana Gonzalez, Director of Tax and Education Division
                Kathy Gersbach, Executive Assistant, Executive
                Thomas Graham, Marketing Practices
                Loretta Green, Region 2 – Dallas, Licensing Supervisor
                Amy Harrison, Director, Licensing Division
                Tanya Jimenez, Administrative Assistant, Executive
                Renee Johnston, Executive Assistant, Executive
The meeting of the Texas Alcoholic Beverage Commission was called to order at 9:33 a.m. by Presiding Officer José Cuevas.

APPROVAL OF COMMISSION MEETING MINUTES OF AUGUST 25, 2009

Presiding Officer José Cuevas called for approval of the Commission meeting minutes of August 25, 2009. Commissioner Steven Weinberg so moved to
approve the minutes as written, and Commissioner Melinda Fredricks seconded. The motion carried.

APPROVAL OF INTERNAL AUDIT PLAN FOR FY 2010

Presiding Officer José Cuevas called upon Russell Gregorczyk, TABC’s contracted Internal Auditor, to discuss the approval of the Internal Audit for the fiscal year 2010. (Attachment 1)

The Commissioners did not take action to approve the Proposed Internal Audit Plan for FY 2010 and it became an agenda item for November’s meeting. Before discussing the item, Mr. Gregorczyk asked the Commissioners for their suggestions on what type of format they would prefer for his presentation. He stated it could be presented in a PowerPoint presentation or in a summary format. The consensus was to continue with an Executive Summary format.

Mr. Gregorczyk noted that the fiscal year 2010 Internal Audit Plan has been modified to include an audit of the Commission Operations. Commissioner Weinberg voiced his appreciation of the modification. In addition to the Commission’s Operations audit, an audit in the areas of Licensing (Headquarters and Field Operations) and Enforcement (Headquarters and Field Operations) will be conducted.

Presiding Officer Cuevas asked for a motion to accept the internal audit plan as written. Commissioner Weinberg motioned. Commissioner Fredricks seconded. The motion carried.

LICENSING IMAGING/REORGANIZATION UPDATE

Presiding Officer Cuevas called upon Amy Harrison, Director of Licensing Division, for the next agenda item. Director Harrison’s PowerPoint presentation highlighted: (Attachment 2)

Licensing Imaging

- Neubus, an off-site imaging contractor has scanned, cleaned, and imaged over 49,786 files.
- A pilot project in Houston, Region 3, will begin front end imaging soon.
- Approximately 1,543 square feet of office space has been returned for Agency use at headquarters.
- Statewide target date of January 2010, for statewide front end imaging of originals in every regional office (Austin, El Paso, Houston, Dallas, San Antonio).
- Johnna Cunningham is in charge of quality control for the imaging project and as of this date, the licensing division is on target for completion in April 2010.
Director Harrison proudly boasted that Administrator Steen will no longer have a fear of the excessive amount of files stored over his office.

The Licensing and Information Resources Divisions are working toward developing and implementing on-line applications.

Director Harrison introduced the new Licensing Regional Supervisors:

- **Tiffany Blandford - Region 1 – Lubbock**

  Tiffany began working for TABC in April 2007 as an Auditor in the Amarillo District Office. While working as an Auditor, Tiffany was also involved in the ARTS implementation process, was an Education Liaison, Marketing Practice Liaison and a member of the Special Investigations Unit. On October 1 of this year, Tiffany was promoted to Regional Licensing Supervisor for Region 1 and is housed in Amarillo. Prior to working for the TABC, Tiffany was an auditor for an accounting firm in Wichita Falls and a Financial Aid Specialist for West Texas A&M University. Tiffany graduated from WTAMU with a BBA in General Business in December 2003. She and James, an Amarillo Police Officer, have been married for 5 years and have a 3 year old son, Jayden.

- **Loretta Green - Region 2 – Dallas**

  Loretta began her career with the TABC in April of 2001 as an Administrative Technician in the Fort Worth District Office. She was promoted to an Account Examiner in 2003. In 2005, Loretta was awarded the “Alan Shiver’s Jr. Award” as Employee of the Year. Prior to her promotion to Regional Supervisor, Loretta served as the regional lead application processor for the Dallas Region. Loretta worked for the Marshall Independent School District for 12 years before coming to work for TABC. She and her husband, David, have been married for 36 years and have two handsome sons, Justin and Zach, and one beautiful daughter-in-law, Natalie.

- **Richard “Dick” Wills – Region 3 – Houston**

  Dick began his tenure with the TABC as an auditor from 1981 to 1986. He then left the agency and went to work for IDS/American Express as a financial planner. He also worked in the retail sector as Vice President of EC Inc. His tenure with the private sector lasted for 17 years. In 2005, Dick returned to the TABC as an auditor and was promoted to Assistant Regional Compliance Supervisor in the Houston Region. In April of 2008, Dick was promoted to Regional Compliance Supervisor and on September 1, 2009 he became the Regional Licensing Supervisor. Dick is a proud lifetime member of Boy Scouts of America and has obtained the rank of “Eagle Scout”. He served as an MP in the United States Marine Corp from 1974 to 1976 and was stationed at Marine Barracks, Norfolk, VA. Dick received his BBA from the University of Wisconsin. He also attended universities in Israel, England, and
Mexico. Dick is also a Commissioned Peace Officer. Dick has been married for 25 years to Bonnie and they have two children, Lauren and Nick.

- **Carrie Coulter – Region 4 – Austin**

  Carrie began as a secretary in the Dallas office in 1989 and in 1993 transferred to the Fort Worth office to process applications. Carrie left the TABC in 1994 but moved to Austin in 1996 and came back to work for the TABC as an Administrative Technician in the Licensing Division. In 1999, she became the Supervisor of the Customer Service section. Carrie was promoted to Regional Licensing Supervisor for the Austin Region on October 1, 2009. Carrie has been married to her wonderful husband, Jim, for over 10 years and they have two precious daughters, Lauren 8 and Laira 5.

- **Yvette Price – Region 5 – San Antonio**

  Yvette began her career with the TABC as a Secretary in the Fiscal Services Division in Austin in 1993. Shortly thereafter, she was promoted to Administrative Assistant and in January 1995, she relocated to San Antonio in the Enforcement Division. In 1996, Yvette graduated from the Bexar County Peace Officer Academy and joined the Live Oak Police Department as a Reserve Police Officer. In April of 1999, Yvette was promoted to Agent and relocated to Fort Worth. While in Fort Worth, Yvette took on many other duties including training other Agents, conducting investigations, overseeing Licensing Account Examiners, providing education to retailers, all levels of school age students, colleges and the general public, participating and instructing Power Camps. She also served as a member of the steering committee for Shattered Dreams programs. On October 1, 2009, Yvette was promoted to Regional Licensing Supervisor for the San Antonio Region. She has been married for 25 years and has two sons. She currently holds her Advanced Peace Officer Certification.

- **Darla Elam – Resource Support Team – Austin Headquarters**

  Darla began working at the TABC in June of 1974 as a temporary file clerk for the summer. She was offered full time employment before the summer was over and decided to continue her career with the TABC. Over the years, she has held various positions in the Licensing Division and worked one year in the Bingo Division. She left the TABC when her family relocated to Lampasas but quickly returned to the agency. Darla was promoted October 1, 2009, to Licensing Resource Support Supervisor. Darla has 3 daughters, 3 son-in-laws, and 6 grandchildren with the 7th on the way.

In the final slide of her PowerPoint presentation, Director Harrison reflected on the Agency’s four cornerstones with a picture of the State of Texas and the words written, “Together we are supporting Texas through service, courtesy, integrity and accountability.”
Commissioner Weinberg quizzed Director Harrison on the advertising of the regional supervisor positions. Director Harrison stated that the positions were advertised and hired internally. Commissioner Weinberg commented that from their personal profiles, he recognizes their outstanding backgrounds which are attributes for the Agency.

Commissioner Weinberg asked who will supervise the regional supervisors. Director Harrison responded, Assistant Licensing Director Jo Ann Joseph.

Presiding Officer Cuevas asked if an applicant will be able to pay with a debit or credit card for on-line applications. Director Harrison responded affirmatively. Presiding Officer Cuevas inquired if an applicant could pay by check if they appeared in person. Director Harrison responded affirmatively.

Presiding Officer Cuevas asked Director Harrison if she knew the quantity of checks that are processed at each regional office. She deferred to BSD Director Charlie Kerr to answer. He did not have a specific number. Director Harrison commented that when the on-line applications are in place, the amount of under and/or over cash adjustments should reduce the workload for licensing and business services personnel.

Director Harrison noted that in some businesses a convenience fee is charged for the use of a debit or credit cards. She and Director Kerr are working on an incentive plan to encourage business owners to use the on-line application process when it becomes available. Their plan is for the Agency to absorb the fees associated in the use of the debit or credit cards without having a loss in revenues.

Administrator Steen reminded the Commission that less than five years ago, the Agency was using Model 204. He explained that Model 204 limited the ability for web support.

Administrator Steen acknowledged that the reorganization process as reported by Director Harrison will eventually allow more local control in the application process. This process will allow the licensed applicants to start their businesses faster.

Administrator Steen pointed out another benefit from the licensing reorganization is in the reduction of the workforce by 10 full-time employees at headquarters. These employees were moved to field services with additional resources becoming available for IT support.

Presiding Officer Cuevas quizzed Director Harrison in the changing of the passwords in the imaging project. Director Harrison responded if the password is not used for 30 days it becomes invalid. In normal use, after 90 days the user is prompted to change their password or it will expire.
Presiding Officer Cuevas commended Director Harrison, Assistant Director Joseph, the newly selected Regional Supervisors, and the Licensing Division staff for the accomplishments made during his service on the Commission since 2004. He applauded them for their service to the industry and in their teamwork. He also commended the Information Resources Division for their efforts to move the Agency into the 21st century.

Commissioner Weinberg stated that during his tenure on the board, he has been impressed with how quickly the Licensing Re-Engineering Project had progressed. He complimented the Division for including Commissioned Peace Officers as Regional Supervisors.

**APPROVAL TO ADOPT AMENDMENT TO CHAPTER 45, CHANGING TITLE OF SUBCHAPTER E FROM MISCELLANEOUS TO REGULATION OF CREDIT TRANSACTIONS**

Presiding Officer Cuevas called upon Deputy Counsel Joan Bates in the approval to adopt amendment to Chapter 45, Changing Title of Subchapter E from Miscellaneous to Regulation of Credit Transactions. Deputy Counsel Bates’ discussion was supported by a Power Point presentation. (Attachment 3)

Presiding Officer Cuevas called for a motion for approval to adopt amendment to Chapter 45, Changing Title of Subchapter E from Miscellaneous to Regulation of Credit Transactions. Commissioner Fredricks so moved and Commissioner Weinberg seconded. The motion carried.

**APPROVAL TO ADOPT REPEAL OF CURRENT RULE §45.131, CONSUMERS AND NON-COMMERCIAL ORGANIZATIONS**

Deputy Counsel Bates briefed the Commissioners on the approval to adopt Repeal of Current Rule §45.131, Consumers and Non-Commercial Organizations. (Attachment 3)

Presiding Officer Cuevas called for a motion for approval to adopt Repeal of Current Rule §45.131, Consumers and Non-Commercial Organizations. Commissioner Weinberg so moved and Commissioner Fredricks seconded. The motion carried.

**APPROVAL TO ADOPT NEW RULE §45.131, CASH LAW PROVISIONS FOR BEER SALES**

Deputy Counsel Bates asked for approval to adopt New Rule §45.131, Cash Law Provisions for Beer Sales. (Attachment 3)
Presiding Officer Cuevas called for a motion for approval to adopt New Rule §45.131, Cash Law Provisions for Beer Sales. Commissioner Weinberg so moved and Commissioner Fredricks seconded. The motion carried.

PUBLIC COMMENT

Presiding Officer Cuevas opened the floor for public comments. Mr. Bob Mann, Owner/Seller Server Trainer of Alcohol Safety Training School in Austin, Texas, came forward to address the Commission. Mr. Mann stated to the Commission that he feels TABC will be putting him out of business with the new proposed rule changes for Seller Training.

Mr. Mann briefed the Commission on his understanding of the creation of the Seller Server Training program. He stated that he has complied with rule changes in the past years. Now he is told by TABC personnel that his curriculum does not meet the standards. Mr. Mann met with Administrator Steen and was assured that he would be contacted when a Commission meeting regarding the rules is scheduled.

Mr. Mann asked the Commission to consider some options in making Seller Server Training favorable for him and TABC:

1. New Seller Server videos
2. Closely regulate schools that are not in compliance with Seller Server Training rules
3. Change certification process from 2 to 4 years
4. Reduce classroom hours from 4 hours to 3 hours
5. Allow schools to go beyond the basic minimum training hours
6. Allow schools such as his to be a goodwill ambassador to TABC

In his conclusion, Mr. Mann thanked the Commission for allowing him the time to address them and stated he is looking forward to being notified when a meeting is scheduled to discuss the rule changes for Seller Server Training.

Presiding Officer Cuevas asked Mr. Mann if a student takes his course, is it possible for him to enter the certification information through data entry. Mr. Mann responded that his computer equipment is not compatible with TABC format.

Assistant Administrator Sherry Cook stated that the new curriculum requirements will be browser based; therefore, the problem of computer compatibility will no longer exist.

Presiding Officer Cuevas assured Mr. Mann that TABC will provide a satisfactory working solution. He believes that TABC is heading in the right direction with the rule changes and that it will benefit the students, schools, and TABC.

Commissioner Fredricks asked about the timeline for when the new proposed rules would be presented to the Commission. Assistant Administrator Cook stated it had
been previously planned for November, however based on a meeting with industry and school representatives, it was determined that a blend of on-line versus classroom setting curriculum may be necessary. She stated that we would consider condensing the curriculum into shorter instruction time.

Assistant Administrator Cook believes the rule changes will be ready to discuss in January or February.

Presiding Officer Cuevas inquired why the rule changes could not be posted for comments and then brought back to the Commission. Assistant Administrator Cook answered some of the rule changes involve the time limits for the classroom settings. There is a possibility that the time limits can be changed, but by rule there is a certain amount of time required for a Seller Training class. One of the things TABC will be looking at is the differences between taking an on-line class versus a classroom setting. Therefore, a premature rule change could negatively impact the Commissions objectives.

Administrator Steen commented that these rule changes should be managed as it was done with the Cash and Credit Law changes. He emphasized the dialogue between the industry and TABC is most important in making these changes work for all concerned entities.

Commissioner Weinberg thanked Mr. Mann for addressing the Commission and voiced his belief that there would be a workable solution between Mr. Mann and the Agency.

**EXECUTIVE SESSION**

The regular open session of the Texas Alcoholic Beverage Commission was recessed at 10:39 a.m., October 27, 2009, and an executive session was held to consult with Legal Counsel regarding pending and anticipated litigation against the agency and to discuss the duties, responsibilities, and evaluation of the Administrator, pursuant to Texas Government Code, Sections §551.071 and §551.074.

The Texas Alcoholic Beverage Commission concluded its executive session at 12:38 p.m., October 27, 2009, and resumed the open regular session. No final action, decision or vote was made in executive session.

Presiding Officer Cuevas complimented Assistant Administrator Cook and Chief Moreno on the tremendous strides accomplished at the Agency in the last two years. He went on to say that unfortunately, there are some individuals who have not captured the Agency’s vision. He challenged the subordinates, captains, lieutenants, sergeants, and field operations to “step it up.” Presiding Officer Cuevas encouraged them to
continue following the agency’s mission and cornerstones as they carry out their duties of responsibility.

Addressing Chief Moreno, Presiding Officer Cuevas acknowledged the change in the work day for agents from 10 hours to 8 hours as an excellent idea. He stated that holding the agents accountable is important and asked Chief Moreno to further elaborate on other changes. Chief Moreno stated he has lowered the amount of traffic stops, changed the mindset of the agents from a patrol mentality to an investigative mentality and placing more emphasis on education and shared partnership with state and local law enforcement agencies.

Presiding Officer Cuevas stated that it is an opportunity to become part of a change in an agency that investigates and regulates. This Agency no longer puts drunks in jail as their primary responsibility. Instead, the Commission will focus on investigating regulatory infractions.

NEXT MEETING

Presiding Officer Cuevas announced the next meeting dates are scheduled for Tuesday, November 24, 2009, and Tuesday, January 26, 2010. There will not be a meeting in December.

ADJOURNMENT

Presiding Officer Cuevas called for a motion to adjourn. Commissioner Weinberg so moved and Commissioner Fredricks seconded. The motion carried, and Presiding Officer Cuevas announced that the meeting was adjourned.
Attachment 1

Approval of Internal Audit Plan for FY 2010
Texas Alcoholic Beverage Commission
Internal Audit Plan for FY 2010

For Consideration by the TABC Commissioners

on

October 27, 2009

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants
# TABLE OF CONTENTS

Transmittal Letter .......................................................... 1

Section 1: Internal Audit Guidelines .................................... 2

Section 2: Risk Assessment ................................................. 6

Section 3: FY 2010 Internal Audit Plan ................................. 10

Exhibit 1: Internal Audit Charter ......................................... 12

Exhibit 2: Risk Assessment Instrument ............................... 13

Exhibit 3: Risk Assessment Weightings ............................... 17

Exhibit 4: Risk Scores and Risk Rankings ......................... 18

Exhibit 5: Proposed Audits and Audit History .................. 19
September 23, 2009

Commission Members,
Texas Alcoholic Beverage Commission

The following document presents the fiscal year 2010 Internal Audit Plan for consideration and approval by the Commission. In accordance with the Texas Internal Auditing Act, the Commission approves the annual audit plan. Chapter 2102 of the Government Code requires that the internal audit plan include areas identified though risk assessment. This document presents the risk assessment results and the audit plan based on the results of the risk assessment.

This document also includes the internal auditing guidelines and internal audit charter under which the TABC internal audit program will operate. This information has not been included in previous internal audit plans, but was in other documents that have not been updated and approved by the Commission in a number of years. Approval by the Commission signifies approval of the internal audit plan, the internal audit guidelines and the internal audit charter for FY 2010.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants
SECTION 1:
TEXAS ALCOHOLIC BEVERAGE COMMISSION
INTERNAL AUDITING GUIDELINES

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this Section is to establish policies and guidelines to govern internal audits of all operations of the Texas Alcoholic Beverage Commission. The internal audit guidelines are reviewed for compliance with appropriate standards and updated as necessary each fiscal year. These guidelines, as well as the FY 2010 Internal Audit Plan, are approved by the Commission each year.

I. INTERNAL AUDIT CHARTER

The *Standards for the Professional Practice of Internal Auditing* state that the Internal Audit Charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

The Internal Audit Charter is an extremely important document that sets out the statement of purpose, authority, and responsibility for the internal auditing department. It is an agreement between the TABC Commissioners and the TABC Internal Auditor, which establishes the guidelines for an effective internal auditing program.

Although the Internal Audit Charter can include all relevant policies and procedures, a concise document is preferable. A concise document increases the likelihood that all parties will understand the purpose, authority, and responsibility of the internal auditing department. Exhibit 1 presents the TABC Internal Audit Charter.

II. INTERNAL AUDITING STANDARDS

A. The Internal Auditor shall conduct his/her activities in a manner that is consistent with the most recent edition of the *Standards for the Professional Practice of Internal Auditing*, *Certified Internal Auditor Code of Professional Ethics*, and the *Statement of Responsibilities of Internal Auditing*.

B. Sufficient and relevant evidence shall be obtained to afford a reasonable basis for the auditor's findings and recommendations. A written record of the auditor's work shall be retained in the form of working papers.
C. Standards of conduct for the Internal Auditor require that the Internal Auditor shall:

1. be free from personal or external impairments to independence in order that opinions, conclusions, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

2. be prudent in the use of information acquired in the course of his/her duties.

3. conduct all activities in accordance with the laws regarding confidentiality.

4. not use any information obtained in an audit for any personal gain nor in a manner, which would be detrimental to the welfare of the TABC, the Commissioners, or TABC employees.

III. INTERNAL AUDITING POLICIES

A. The Internal Auditor shall be responsible for performance audits of the TABC. Performance audit is defined as an independent appraisal activity performed by the Internal Auditor which includes determining whether the entity being reviewed is acquiring, protecting, and using its resources economically and efficiently, identifying the causes of inefficiency or uneconomical practice, and determining whether the entity has complied with laws, riders, rules and regulations.

B. The Commission shall appoint the TABC Internal Auditor.

1. The Internal Auditor shall report directly to the Commissioners.

2. The TABC Administrator shall be responsible for the administrative supervision of the Internal Audit program.

3. The Commission shall ensure the independence of the internal audit function.

4. The Commission shall monitor the internal audit function to assure compliance with the requirements of the Internal Auditing Charter and all Internal Auditing Guidelines and provide guidance to the Internal Auditor on any issues not specifically addressed by the Charter or the Guidelines.

5. The Internal Auditor shall submit to the Commission for approval, the annual audit plan, which shall be based on risk analysis and which shall identify individual audits to be performed during the year.
6. On at least a quarterly basis, the Internal Auditor shall meet with the Commission to present audit reports, discuss the status of implementing the Internal Audit Plan, including exceptions to the timely accomplishment of the plan; the status of management’s resolution of audit findings and other significant issues involving the internal audit function.

D. Special audit projects not included in the approved annual audit plan may be authorized by the Commission.

E. The Internal Auditor's activities in reviewing, appraising and reporting established policies, plans and procedures shall not in any way relieve TABC personnel of responsibilities assigned to them.

F. The implementation of, or action taken on, the Internal Auditor's recommendations shall be the duty of the TABC Administrator. The Internal Auditor will perform follow-up audits to determine what corrective action was taken and whether it is achieving the desired results.

IV. INTERNAL AUDITING PROCEDURES

A. The Internal Auditor prior to beginning an audit will inform the Administrator and the appropriate assistant administrators and division directors of the audit and its objectives by conducting an entrance conference.

B. The Internal Auditor will conduct an exit conference with the Administrator and appropriate assistant administrators and division directors, at which time exceptions noted during the course of the audit, will be discussed.

C. The Internal Auditor will independently make a determination on the results of the audit and issue a draft report to the Administrator, or the Administrator's designee for management response. A management response will be made within 14 calendar days of the issuance of the draft report.

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report to the Administrator, and the appropriate assistant administrators and division directors within 14 calendar days of receiving the management response. After approval by the Commission, the final report will be prepared.

E. If, during the course of an audit, the Internal Auditor detects situations or transactions that could be indicative of fraud or other illegal acts, or receives information from external sources alleging such actions, the Internal Auditor will:

1. Provide all pertinent information to the Administrator and members of the Commission.
2. Formally request approval from the Commission to expand audit procedures or perform an investigation.

3. Upon approval, the Internal Auditor will extend audit procedures or perform an investigation to obtain sufficient evidence to determine whether in fact such acts have occurred and, if so, the cause of the problem and the possible effect on the TABC's operations and programs.

4. Provide the Administrator and the Commission a formal report on the results. Upon receipt of evidence of illegality, the Administrator will forward findings to the appropriate legal entity.
SECTION 2:
TEXAS ALCOHOLIC BEVERAGE COMMISSION RISK ASSESSMENT

This section presents the results of the TABC Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section.

Purpose

One of the key findings in the State Auditor's Office report, Statewide Review of Internal Auditing, was that the scope of internal auditing is often limited in state agencies. The report states, "Because significant financial and operating risks to the agency may be overlooked if the scope of the internal auditors work is limited, we recommend that internal auditors:

- Document, in writing, a risk assessment that considers all the major systems and controls of the agency as part of the audit universe. The audit universe refers to all auditable subjects, activities, units, issues and functions within the organization.

- Identify the risk factors that affect the audit universe and weights that may be applied to the risk factors.

- Establish a method for combining and assigning risk factors and weights to develop a prioritized annual audit work plan.

- Develop an audit plan and work schedule based on the results of the risk assessment.

- Obtain written approval for the plan from the highest level within the organization.

- Implement the plan. Significant deviations from the audit plan should be supported by reasonable, documented explanations.

The purpose of conducting a Risk Assessment for the TABC was to incorporate all these recommended elements in an objective assessment of the agency. This should ensure that the scope of internal audit work at the TABC is not limited and that the Internal Audit Plan for FY 2010 is based on documented, written findings.

Concept of Risk

The concept of risk is fundamental in internal auditing. Given the importance of the concept of risk, it is necessary to define what risk is, describe types of risk and describe how risk was measured in performing the TABC Risk Assessment.
Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less risk. The Risk Assessment was designed to detect and evaluate the controls in place to reduce different types of risk exposure.

The TABC Risk Assessment was designed to measure different types of "risk exposure" and to assess the controls in place to compensate for different levels of risk. The types of risk exposure, which are relevant to the TABC, are:

- **Financial Exposure**: Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.

- **Regulatory Exposure**: Regulatory exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.

- **Information Exposure**: An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.

- **Efficiency Exposure**: An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.

- **Human Resource Exposure**: A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.

- **Environmental Exposure**: An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
  - Recent changes in key personnel
  - Changing economic conditions
  - Time elapsed since last audit
  - Pressures on management to meet objectives
  - Past audit findings and quality of internal control

- **Political Exposure**: A political exposure exists whenever an event in an audit area could cause the agency to be subjected to adverse political consequences.

- **Public Service Exposure**: A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
The TABC Risk Assessment Survey was designed to measure various types of risk ranging from the risk of loss of assets to the risk of adverse publicity due to erroneous information. The survey instrument allows meaningful comparisons among very different activities and types of risk by assigning all potential auditable topics a numeric score.

Methodology

The risk variables utilized for the TABC Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Fifteen risk variables or risk factors were selected to provide a cross-section of overall risk. These fifteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk. The risk variables and their weightings are presented in Exhibit 3.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable subjects, activities, units, issues and functions were determined. The universe of potential audit topics was developed through material such as the agency’s legislative appropriation for FY 2010, previous years’ internal audit risk assessments and audit plans, the organizational chart, and agency reports and publications such as the strategic plan.

The second step in the process was to utilize the survey instrument to assess the risk for each potential audit topic. This step was completed by updating the risk variables in the FY 2009 risk assessment.

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the TABC.

The final step in conducting the Risk Assessment was to rank and categorize every potential auditable topic. Based on the average score and the standard deviation of the potential audit universe, the potential auditable topics were categorized as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Risk</td>
<td>Over 216</td>
</tr>
<tr>
<td>High Risk</td>
<td>189 to 216</td>
</tr>
<tr>
<td>Average Risk</td>
<td>161 to 188</td>
</tr>
<tr>
<td>Low Risk</td>
<td>Below 161</td>
</tr>
</tbody>
</table>
Results

Exhibit 3 presents the results of the Risk Assessment for each potential audit topic. Four potential audit topics are rated as maximum risk and seven are rated as high risk within the agency as follows:

**Maximum Risk**

- Compliance Division- License Processing
- Licensing Division
- Information Resources Division
- Enforcement Division- Field Operations

**High Risk**

- Business Services Division- Accounting
- Enforcement Division- Headquarters Operations
- Legal Services Division
- Compliance Division- Field Operations
- Enforcement Division- Licensing Standards Investigators
- Office of Professional Responsibility
- Executive Administration
The Texas Internal Auditing Act requires certain audits to be performed on a periodic basis. Required audits include audits of the agency's accounting systems and controls, administrative systems and controls, electronic data processing systems and controls, and other major systems and controls. In addition, five general types of audits are required by the Standards for the Professional Practice of Internal Auditing as follows:

- **Reliability and Integrity of Information** - Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

- **Compliance with Policies, Plans, Procedures, Laws, and Regulations** - Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance with them.

- **Safeguarding of Assets** - Internal auditors should review the means of safeguarding assets and, and as appropriate verify the existence of such assets.

- **Economical and Efficient Use of Resources** - Internal auditors should appraise the economy and efficiency with which assets are employed.

- **Accomplishment of Established Objectives and Goals for Operations and Programs** - Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned.

The FY 2010 Internal Audit Plan for the TABC is based on the results of the risk assessment presented in the previous section, audits required to be performed on a periodic basis by the Internal Auditing Act and the Commission's input on areas where internal audits would be helpful. For FY 2010, the following topics will be audited:

- Licensing Division- Field Office License Processing (Maximum Risk)
- Licensing Division- HQ Operations (Maximum Risk)
- Enforcement Division- Field Operations (Maximum Risk)
- Enforcement Division- HQ Operations (High Risk)
- Commission’s Operations (Low Risk)
The audit of the License Division-Field Office License Processing will focus on the effectiveness and efficiency of the field offices in processing license applications to sell alcoholic beverages.

The audit of the Licensing Division- Headquarters Operations will evaluate compliance with laws and regulations and the effectiveness and efficiency of operating procedures within the Licensing Division. The specific scope of audit work will be determined in conjunction with TABC executive management.

The audit of the Enforcement Division – Field Operations will focus on evaluating the effectiveness and efficiency of functions performed by the Enforcement Division-Field Operations. The scope of audit work will be determined in conjunction with TABC executive management. Field offices selected for on-site audit work will be determined with input from TABC executive management.

The audit of the Enforcement Division – Headquarters’ Operations will focus on evaluating the effectiveness and efficiency of functions performed by the Enforcement Division Headquarters such as hiring officers, training, enforcement activities, and management of field office personnel; evaluating the reliability and integrity of performance measure reporting and management reporting by the division; and evaluating compliance with applicable laws and regulations.

The audit of the Commission’s Operations will focus on evaluating the effectiveness and efficiency of the operations of the Commission in areas such as rule-making, policy development, the content and frequency of Commission meetings, Commission involvement in strategic planning, the administrator’s conference and similar agency functions, training and orientation of Commission members, and other areas to be determined in conjunction with the Commissioners.

Follow-up audit reviews will be performed on all audits completed in prior years. The purpose of this work will be to determine the status of implementation of any recommendations made in those audits. In addition to these proposed audits and audit work, the risk assessment will be updated and an audit plan developed for FY 2011.

The proposed time estimates and time frames for the FY 2010 audit work are:

- Audit of Enforcement Division- Headquarters Operations – 140 hours (October 2009 to November 2009)
- Complete the Internal Audit Quality Assurance Review – 8 hours (October 2009)
- Prepare Annual Internal Audit Report for FY 2008 – 10 hours (October 2009)
- Audit of Enforcement Division-Field Operations – 160 hours (December 2009 to January 2010)
- Audit of Commission’s Operations – 120 hours (February to March 2010)
- Follow-up Review of Prior Years’ Audit Recommendations- 40 hours (March 2010)
- Audit of Licensing Division- Headquarters Operations – 140 hours (March 2010 to April 2010)
- Audit of Licensing Division- Field Office License Processing – 160 hours (May 2010 to June 2010)
- Update Risk Assessment and Prepare FY 2011 Audit Plan – 10 hours (August 2010)

The total budgeted time for FY 2010 audit work is 848 hours; total estimated costs are $70,920, plus travel expenses for fieldwork outside of Austin estimated at $4,000, plus the Quality Assurance Review fee of $2,000, for a total of $76,920.
EXHIBIT 1
TEXAS ALCOHOLIC BEVERAGE COMMISSION
INTERNAL AUDITING CHARTER

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the TABC Administrator and Commission of the Texas Alcoholic Beverage Commission.

AUTHORITY

The Internal Auditor reports directly to the TABC Commission. This reporting relationship ensures independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

The Internal Auditor, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unlimited access to all TABC activities, records, property, and staff members.

The Internal Auditor will have no responsibilities assigned other than those related to developing and implementing the internal audit program for TABC.

RESPONSIBILITIES

The Internal Auditor is responsible for assessing the various functions and control systems in the TABC and for advising the Administrator and Commission concerning their condition. The fulfillment of this accountability is not confined to but includes:

- Appraising the effectiveness and application of accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls, so as to ensure that all the major systems and controls are reviewed on a periodic basis.

- Evaluating the sufficiency of and adherence to TABC plans, policies, and procedures and compliance with all governmental laws and regulations.

- Performing special reviews requested by the Administrator and Commission.

- Conducting appraisals of the economy and efficiency with which resources are employed.

- Coordinating audit planning and scheduling activities with the State Auditor's Office.
1. Annual Dollars Involved
The dollar amount per year of assets, receipts, or disbursements involved in the program or for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or monitors the assets, receipts, or disbursements. Dollar amounts can be included in determining the evaluation for more than one auditable unit.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $500 thousand per year, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>At least $500 thousand per year but less than $1 million per year</td>
<td>2</td>
</tr>
<tr>
<td>At least $1 million per year but less than $5 million per year</td>
<td>3</td>
</tr>
<tr>
<td>More than $5 million per year</td>
<td>4</td>
</tr>
</tbody>
</table>

2. Transaction Volume
The number of transactions for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or reconciles the transaction. A transaction can be included in determining the evaluation for more than one auditable unit. Also, some auditable units are responsible for only summary transactions while others are responsible for the detailed transactions that make up the summary transactions.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1,000 per year, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Greater than 1,000 but less than 5,000 per year</td>
<td>2</td>
</tr>
<tr>
<td>Greater than 5,000 per year</td>
<td>3</td>
</tr>
</tbody>
</table>

3. Safeguarding Assets
Personnel in the auditable unit safeguard assets if they control access to assets. Access to assets includes both direct physical access and indirect access through the preparation and processing of documents that authorize the use or disposition of assets.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>No access to assets, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Limited access to assets</td>
<td>2</td>
</tr>
<tr>
<td>Some access to assets</td>
<td>3</td>
</tr>
<tr>
<td>Substantial access to assets</td>
<td>4</td>
</tr>
</tbody>
</table>
4. Impact of Adverse Publicity
This factor includes those circumstances that increase the adverse impact of errors. An auditable unit's visibility results from several sources, including: 1.) the Commission's or management's interest in the auditable unit's activities; 2.) involvement of outside groups, such as an advocacy group or the Legislature; or 3.) direct interaction with the public or clients.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little visibility, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Some visibility</td>
<td>2</td>
</tr>
<tr>
<td>High visibility</td>
<td>3</td>
</tr>
</tbody>
</table>

5. Time Since Last Audit or Review
The number of years between the date of the previous audit or review and the date of the risk assessment.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year or less</td>
<td>1</td>
</tr>
<tr>
<td>Over one year but less than three years</td>
<td>2</td>
</tr>
<tr>
<td>Three years or more</td>
<td>3</td>
</tr>
</tbody>
</table>

6. Results of Last Audit or Review
Auditor's evaluation of the results of the previous audit or review.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive findings or no findings</td>
<td>1</td>
</tr>
<tr>
<td>No prior audit or more than three years ago</td>
<td>2</td>
</tr>
<tr>
<td>Negative findings</td>
<td>3</td>
</tr>
</tbody>
</table>

7. Operational Changes
Auditor's evaluation of the impact on the auditable unit from changes in its operations, including changes in staff, size, funding, budget, responsibilities, or processing data. Changes include those made within the last year or anticipated to be made in the next year.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Few changes, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Some changes</td>
<td>2</td>
</tr>
<tr>
<td>Extensive changes</td>
<td>3</td>
</tr>
</tbody>
</table>
EXHIBIT 2
TEXAS ALCOHOLIC BEVERAGE COMMISSION
FY 2010 RISK ASSESSMENT

8. Personnel Turnover
In the last 12 months, the number of personnel leaving the auditable unit.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low turnover (15% or less), or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Average turnover (15% to 25%)</td>
<td>2</td>
</tr>
<tr>
<td>High turnover (more than 25%)</td>
<td>3</td>
</tr>
</tbody>
</table>

9. Policies and Procedures
The existence of policies and procedures documenting the auditable unit's activities.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written procedures current or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Written procedures, but not current</td>
<td>2</td>
</tr>
<tr>
<td>No written procedures</td>
<td>3</td>
</tr>
</tbody>
</table>

10. Training
Auditor's evaluation of the auditable unit's staff training, including cross training.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantial training, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Some training</td>
<td>2</td>
</tr>
<tr>
<td>Little training</td>
<td>3</td>
</tr>
</tbody>
</table>

11. Work Complexity
Auditor's evaluation of the work needed to complete assignments including amount of time, number of steps, and familiarity with agency laws, policies, and rules.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low work complexity, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Medium work complexity</td>
<td>2</td>
</tr>
<tr>
<td>High work complexity</td>
<td>3</td>
</tr>
</tbody>
</table>

12. Work Load Fluctuations
Auditor's evaluation of the fluctuations in the auditable unit's workload.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steady workload, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Some fluctuations in work load</td>
<td>2</td>
</tr>
<tr>
<td>Substantial fluctuation in work load</td>
<td>3</td>
</tr>
</tbody>
</table>
13. Sensitivity of Data
Auditor's evaluation of the type of data collected, processed, and prepared by the auditable unit.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little sensitive or confidential data, or</td>
<td>1</td>
</tr>
<tr>
<td>not applicable</td>
<td></td>
</tr>
<tr>
<td>Some sensitive or confidential data</td>
<td>2</td>
</tr>
<tr>
<td>Most data sensitive or confidential</td>
<td>3</td>
</tr>
</tbody>
</table>

14. Impact of Inaccurate Data
Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the agency.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little data provided outside the agency, or not</td>
<td>1</td>
</tr>
<tr>
<td>applicable</td>
<td></td>
</tr>
<tr>
<td>Some data provided outside the agency</td>
<td>2</td>
</tr>
<tr>
<td>Most data provided outside the agency</td>
<td>3</td>
</tr>
</tbody>
</table>

15. Management Review
Auditor's evaluation of the review given by upper management (Administrator, Assistant Administrator, Chief of Enforcement, or Division Director) of the auditable unit's activities.

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequent or detailed review, or not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Some direct review</td>
<td>2</td>
</tr>
<tr>
<td>Little direct review</td>
<td>3</td>
</tr>
</tbody>
</table>
# EXHIBIT 3

## TEXAS ALCOHOLIC BEVERAGE COMMISSION

**FY 2010 RISK ASSESSMENT AND RISK FACTOR WEIGHTINGS**

<table>
<thead>
<tr>
<th>RISK FACTOR:</th>
<th>Weight</th>
<th>*</th>
<th>Points</th>
<th>=</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Annual Dollars Involved</td>
<td>7.75</td>
<td>*</td>
<td>4</td>
<td>=</td>
<td>31.00</td>
</tr>
<tr>
<td>2. Transaction Volume</td>
<td>5.00</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>15.00</td>
</tr>
<tr>
<td>3. Safeguarding Assets</td>
<td>7.25</td>
<td>*</td>
<td>4</td>
<td>=</td>
<td>29.00</td>
</tr>
<tr>
<td>4. Impact of Adverse Publicity</td>
<td>7.50</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>22.50</td>
</tr>
<tr>
<td>5. Time Since Last Audit or Review</td>
<td>5.75</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>17.25</td>
</tr>
<tr>
<td>6. Results of Last Audit or Review</td>
<td>5.00</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>15.00</td>
</tr>
<tr>
<td>7. Operational Changes</td>
<td>6.75</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>20.25</td>
</tr>
<tr>
<td>8. Personnel Turnover</td>
<td>6.50</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>19.50</td>
</tr>
<tr>
<td>9. Policies and Procedures</td>
<td>5.00</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>15.00</td>
</tr>
<tr>
<td>10. Training</td>
<td>5.25</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>15.75</td>
</tr>
<tr>
<td>11. Work Complexity</td>
<td>7.00</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>21.00</td>
</tr>
<tr>
<td>12. Work Load Fluctuations</td>
<td>5.75</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>17.25</td>
</tr>
<tr>
<td>13. Sensitivity of Data</td>
<td>7.75</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>23.25</td>
</tr>
<tr>
<td>14. Impact of Inaccurate Data</td>
<td>7.75</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>23.25</td>
</tr>
<tr>
<td>15. Management Review</td>
<td>5.00</td>
<td>*</td>
<td>3</td>
<td>=</td>
<td>15.00</td>
</tr>
</tbody>
</table>

**Maximum Score** 300.00
## EXHIBIT 4
### TEXAS ALCOHOLIC BEVERAGE COMMISSION
### FY 2010 AUDIT UNIVERSE RISK ANALYSIS WEIGHTED SCORES

<table>
<thead>
<tr>
<th>POTENTIAL AUDIT TOPIC</th>
<th>WEIGHTED RISK ASSESSMENT SCORES</th>
<th>RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

### MAXIMUM RISK (ABOVE 216)
1. COMPLIANCE DIVISION - LICENSE PROCESSING 31 15 15 12 15 17 10 20 13 10 11 21 12 23 8 15 235
2. LICENSING DIVISION 31 15 22 15 17 5 20 7 10 5 21 12 23 23 5 231
3. INFORMATION RESOURCES DIVISION 31 15 29 15 12 5 14 7 10 5 21 12 23 23 5 226
4. ENFORCEMENT DIVISION - FIELD OPERATIONS 31 15 22 23 17 13 10 14 7 5 11 14 12 16 10 220

### HIGH RISK (189 TO 216)
5. BUSINESS SERVICES DIVISION-ACCOUNTING 31 15 29 15 6 5 7 7 5 11 21 12 23 23 10 219
6. ENFORCEMENT DIVISION- HQ OPERATIONS 31 15 22 15 17 10 20 13 5 11 21 6 16 16 5 212
7. LEGAL SERVICES DIVISION 15 5 22 15 17 10 20 13 5 11 21 6 16 16 5 207
8. COMPLIANCE DIVISION -FIELD OPERATIONS 31 15 15 15 17 5 14 7 5 5 21 6 23 8 10 195
9. ENFORCEMENT DIVISION- LIC STDs INVEST. 8 5 7 15 17 15 20 7 5 5 11 21 12 23 16 10 191
10. OFFICE OF PROFESSIONAL RESPONSIBILITY 8 5 15 23 12 10 20 7 15 11 14 17 23 8 5 191
11. EXECUTIVE ADMINISTRATION 31 15 22 15 12 5 14 7 5 5 21 12 16 16 5 188

### AVERAGE RISK (161 TO 188)
12. COMPLIANCE DIVISION - HQ OPERATIONS 31 15 15 15 17 10 14 7 10 11 14 6 8 8 5 184
13. AGENCY-WIDE PLANNING & BUDGETING 31 5 7 23 17 10 7 10 5 11 14 8 5 23 5 183
14. BUSINESS SERVICES DIVISION-SUPPORT SERVICES 23 15 22 15 17 10 7 7 5 11 14 12 8 8 10 182
15. HUMAN RESOURCES DIVISION 16 10 15 8 17 5 7 13 5 11 14 12 23 16 3 5 182
16. COMPLIANCE DIVISION- MARKETING PRACTICES 8 5 7 23 12 10 14 7 10 11 14 12 16 23 16 10 179
17. AGENCY-WIDE PROTEST PROCESS 8 5 7 23 12 10 20 7 5 11 7 17 16 16 15 177
18. TAX DIVISION - PORTS OF ENTRY 23 15 29 15 12 5 14 7 5 5 12 8 16 8 10 173
19. TAX DIVISION - HEADQUARTERS OPERATIONS 23 10 22 15 6 5 14 7 5 5 14 12 16 6 10 170
20. ENFORCEMENT DIVISION-TRAINING 8 5 7 23 17 10 14 13 5 5 14 12 16 16 5 168

### LOW RISK (BELOW 161)
21. AGENCY-WIDE TRAINING & STAFF DEVELOPMENT 16 5 15 8 17 15 14 7 5 5 14 12 8 8 5 151
22. TABC COMMISSION OPERATIONS 8 5 7 23 17 10 14 7 5 5 7 6 16 16 5 149
23. AGENCY-WIDE PERFORMANCE MEASURES 8 5 7 15 17 10 7 7 5 5 7 6 8 23 5 135
24. AGENCY-WIDE TRAVEL POLICIES & PROCEDURES 8 5 22 8 6 10 7 7 5 11 7 6 8 8 15 130

**Average Score:** 188  
**Standard Deviation:** 27
### EXHIBIT 5

**TEXAS ALCOLHOLIC BEVERAGE COMMISSION**

**AUDIT RISK RANKING AND INTERNAL AUDIT HISTORY**

<table>
<thead>
<tr>
<th>Potential Audit Topic</th>
<th>Risk Score</th>
<th>FY10 Plan</th>
<th>FY09</th>
<th>FY08</th>
<th>FY07</th>
<th>FY06</th>
<th>FY05</th>
<th>FY04</th>
<th>FY03</th>
<th>FY02</th>
<th>FY01</th>
</tr>
</thead>
<tbody>
<tr>
<td>LICENSE DIVISION - FIELD OFFICE PROCESSING</td>
<td>235</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LICENSING DIVISION- HQ OPERATIONS</td>
<td>231</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INFORMATION RESOURCES DIVISION</td>
<td>226</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENFORCEMENT DIVISION - FIELD OPERATIONS</td>
<td>220</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BUSINESS SERVICES DIVISION - ACCOUNTING</td>
<td>219</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENFORCEMENT DIVISION - H/Q OPERATIONS</td>
<td>212</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEGAL SERVICES DIVISION</td>
<td>207</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>COMPLIANCE DIVISION - FIELD OPERATIONS</td>
<td>196</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENFORCEMENT DIV - LIC. STDS. INVESTIGATORS</td>
<td>191</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>OFFICE OF PROFESSIONAL RESPONSIBILITY</td>
<td>191</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXECUTIVE ADMINISTRATION</td>
<td>188</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMPLIANCE DIVISION - H/Q OPERATIONS</td>
<td>184</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGENCY-WIDE PLANNING &amp; BUDGETING</td>
<td>183</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BUSINESS SERVICES DIVISION-SUPPORT SERVICES</td>
<td>182</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HUMAN RESOURCES DIVISION</td>
<td>182</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMPLIANCE DIVISION MARKETING PRACTICES</td>
<td>179</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGENCY-WIDE PROTEST PROCESSS</td>
<td>177</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX DIVISION - PORTS OF ENTRY</td>
<td>173</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX DIVISION- HEADQUARTERS OPERATION</td>
<td>170</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENFORCEMENT DIVISION-TRAINING</td>
<td>168</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGENCY-WIDE TRAINING &amp; STAFF DEVELOPMENT</td>
<td>151</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMMISSION OPERATIONS</td>
<td>149</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGENCY-WIDE PERFORMANCE MEASURES</td>
<td>135</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGENCY-WIDE TRAVEL POLICIES &amp; PROCEDURES</td>
<td>130</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGENCY-WIDE SUNSET COMMISSION REC.'S</td>
<td>N/A</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Attachment 2

Licensing Imaging/Reorganization Update
Imaging Update

- 49,786 files have been scanned, cleaned, imaged and are ready for viewing to date.
- Returned approximately 1,543 square feet to agency at HQ.
- Beginning pilot project in Region 3 (Houston) for front end imaging.

Imaging Update Continued

- Target to have statewide front end imaging for originals by January 2010.
- On target for April 2010 completion date.

Reorganization Update

MOST IMPORTANT...
all files located above Mr. Steen’s head are gone!!!!!
Region 1 - Lubbock
- Tiffany Blandford Licensing Supervisor
- 10 Team Members

Region 2 - Dallas
- Loretta Green Licensing Supervisor
- 11 Team Members

Region 3 - Houston
- Richard Wills Licensing Supervisor
- 12 Team Members

Region 4 - Austin
- Carrie Coulter Licensing Supervisor
- 13 Team Members

Region 5 - San Antonio
- Yvette Price Licensing Supervisor
- 13 Team Members

Resource Support Team
- Darla Elam Licensing Supervisor
- 12 Employees
Together we are supporting Texas through service, courtesy, integrity and accountability!

TABC
Texas Alcoholic Beverage Commission
service & integrity & accountability
Attachment 3

Approval to Adopt Amendment to Chapter 45, Changing Title of Subchapter E from Miscellaneous to Regulation of Credit Transactions

Approval to Adopt Repeal of Current Rule §45.131, Consumers and Non-Commercial Organizations

Approval to Adopt New Rule §45.131, Cash Law Provisions for Beer Sales
Legal Division

Repeal & Adoption Rules

Repeal—Consumers & Noncommercial Organizations.
1. Unlawful for manufacturer, general, local or branch distributor to sell beer on credit to a:
   - Veteran's organization;
   - Fraternal organization
   - Private Club; or
   - Ultimate Consumer
2. Any Sale of Beer on Credit is an illegal Inducement.
3. Free Beer to the Above is not an illegal inducement.
   Does not include Code §102.31—cash sales of malt beverages by Sellers to Retailers at all!

Adopt New Subtitle
Subchapter E, Chapter 45
Regulation of Credit Transactions

Changes to Final §45.131 from Proposed

Changed title of rule:
From: Payment Regulations for Beer
To: Payment Regulations for Malt Beverages.

Changes to Final §45.131 from Proposed

- **Delete** definition for Beer
- **Add** beer to definition of Malt Beverage
- **Amend** definition of seller:
  - Separate distributor license holders from local distributor permit holder, and
  - Add subsidiary or affiliate of seller

Changes to Final §45.131 from Proposed

- **Delete** provision that prohibits a retailer who has a cash law violation from renewing or obtaining new license, or voluntarily cancelling or suspending license.
- **Reason**: do not currently track cash law payments. No list.
Changes to Final §45.131 from Proposed

- Add managers to persons responsible for Retailer.
- Delete payment from reporting requirement (see above)
- Clarify how a Seller can claim an exception to cash law violation.
- Add repeat violation when penalty imposed.
- Revise calculation of time to match statute.

§45.131 Payment Regulations for Malt Beverages

- Delivery of malt beverages must be accompanied by invoice.

§45.131 Payment Regulations for Malt Beverages

- Retailer who fails to make a cash payment on or before delivery is in violation of this section unless an exception applies.
- Seller must enter report a violation using web access on forms provided by the Commission.
- Look Mom—No paper!
CERTIFICATION

REGULAR COMMISSION MEETING

9:30 a.m. – October 27, 2009

5806 Mesa Drive
Austin, Texas 78731
STATE OF TEXAS

COUNTY OF TRAVIS

This certifies that the attached is a true copy of the proceedings of the Texas Alcoholic Beverage Commission meeting held on October 27, 2009.

Alan Steen
Administrator

Sworn and subscribed before me this the 24th day of November 2009.

Gloria Darden Reed
Notary in and for Nueces County