Internal Audit Plan
Fiscal Year 2015
Texas Alcoholic Beverage Commission

As approved by the TABC Commissioners
On
September 23, 2014

Monday N. Rufus, P.C.
Certified Public Accountants and Consultants

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Certified Public Accountants & Consultants

Member: American Institute of Certified Public Accountants

August 27, 2014

Audit Committee and Commissioners
Texas Alcoholic Beverage Commission
Austin, Texas

Dear Commissioners:

As required by the Internal Auditing Act (Texas Government Code, Section 2102.008), we have prepared the audit plan for Fiscal Year 2015.

We prepared a risk assessment to determine the areas in the Texas Alcoholic Beverage Commission that should be considered for audit. Based on that risk assessment, the following areas are recommended for audit in Fiscal Year 2015:

• Personnel Processes	135
• Business Continuity	140
• Information Technology System Development	150
• ID Stamps/ Private Club Cards	130
• Follow-up on prior year's audit recommendations:	
Internal Audit of Enforcement Administration (Report Date: January 14, 2014)	30
Intern Audit of Excise Tax Administration (Report Date: July 11, 2014)	30
Additional Follow-up on Prior Internal Audit Recommendations Related to Tax Administration – Ports of Entry (Report Date: July 21, 2014)	20
Follow-up on the Comptroller's Post Payment Audit Recommendations (Report Date: July 1, 2014)	50
Total Hours	**685**

Your approval is required to enable the internal auditor to begin the audit activities for fiscal year 2015.

Sincerely,

Monday N. Rufus, P.C.

CC:
1. Sherry Cook, Executive Director, TABC
2. Ed Swedberg, Deputy Executive Director, TABC

I. Purpose

The Purpose of this internal audit plan is to document the development, risk assessment, scope of assignments and implementation timetable for fiscal year 2015 internal audit activities. This document will serve as the primary tool to carry out internal audit responsibilities in an efficient manner and prioritize the audit areas based on risk assessments agreed to by the Commissioners of the Texas Alcoholic Beverage Commission (Commission). Due to the nature, scope and timing of audit procedures contemplated here, planning for specific aspects of the audits is a continuing process. Accordingly, the plan will be revised as necessary and reviewed at least annually.

This plan has been prepared to meet planning guidelines as required by both generally accepted governmental auditing standards and the International Standards for the Professional Practice of Internal Auditing as determined by the Institute of Internal Auditors, Inc.

II. Background Information

In 1935, the Legislature created the Texas Alcoholic Beverage Commission (formerly the Texas Liquor Control Board).

The Texas Alcoholic Beverage Commission (TABC) is the state agency that regulates all phases of the alcoholic beverage industry in Texas. The duties of the commission include regulating sales, taxation, importation, manufacturing, transporting, and advertising of alcoholic beverages.

The TABC collects in excess of $200 million annually in taxes and fees, which aids in the financing of the state's public schools, local governments, research, human services, and other areas in which state government provides services to all Texans.

The Alcoholic Beverage Code, which was enacted to protect against involvement of the criminal element in alcoholic beverage trafficking authorizes the Texas Alcoholic Beverage Commission to:

- Grant, refuse, suspend, or cancel permits and licenses in all phases of the alcoholic beverage industry;
- Supervise, inspect, and regulate the manufacturing, importation, exportation, transportation, sale, storage, distribution, and possession of alcoholic beverages;
- Assess and collect fees and taxes;
- Investigate for violations of the Alcoholic Beverage Code and assist in the prosecution of violators;
- Seize illicit beverages;
- Adopt standards of quality and approve labels and size of containers for all alcoholic beverages sold in Texas;
- Pass rules to assist the agency in all of the above.

The Governor, with the advice and consent of the Senate, appoints three public members of the Commission for staggered six-year terms.

The Commissioners appoint an Executive Director who supervises the Commission's activities. The Commission's operating budget is prepared and approved by the Commission on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature.

The Commission is divided into twelve divisions: Executive; Field Operations – Enforcement, Audit & Investigations, and Ports of Entry; Business Services; Education and Prevention; Human Resources; Information Resources; Legal Services/General Counsel; Licensing; Office of Professional Responsibility; Tax; and Training. The Executive Division, which is headed by the Executive Director, provides oversight of the Deputy Executive Director, Director of the Office of Professional Responsibility, and the Director of Communications and Government Relations. The Executive Director works with the General Counsel (who reports to the Commissioners) on daily operations of the Commission. The other divisions report directly to the Deputy Executive Director.

The Commission generates revenue from alcoholic beverage license and permit fees, alcohol beverages taxes, cigarette taxes, airline beverage tax, and revenue collected on audits. This revenue is deposited into the General Revenue Fund.

A. Divisional Information

i. **Executive Division** – The Executive Division, led by the Executive Director, directs the daily operations of the Texas Alcoholic Beverage Commission. The Executive Director provides oversight of the Deputy Executive Director, Director of the Office of Professional Responsibility, and the Director of Communications and Government Relations. The Executive Director works with the General Counsel (who reports to the Commissioners) on daily operations of the Commission.

ii. Field Operations: Enforcement, Audit & Investigation, and Ports of Entry – The Field Operations division is the agency's largest and most visible division. Staff in field operations performs enforcement, audit and investigation functions involving, criminal, regulatory and administrative enforcement of the state's alcoholic beverage laws in three state regions. Additionally, Field Operations Division is responsible for ensuring compliance with personal importation laws and the collection of taxes and fees on alcoholic beverages and cigarettes brought into Texas from Mexico. Cigarette taxes are collected on behalf of the Office of the Comptroller of Public Accounts. Ports of Entry personnel are stationed at all major bridges along the Texas-Mexico border.

iii. **Business Services Division** – The Business Services Division is responsible for all fiscal operations of the agency, including revenue processing, accounts payable, payroll, time and leave accounting, maintenance of the general ledger, research and planning, preparation and oversight of the agency's legislative appropriations request, annual financial report, and performance reports. The general services section of Business Services is responsible for staff support functions of purchasing, historically underutilized business (HUB) program coordination, records retentions coordination, real and personal property

management, facilities leasing, fleet management, mail center operations, and warehousing.

iv. **Education and Prevention** – The Education and Prevention division oversees agency programs involving educating the public, retailers, and their employees of the laws associated with consuming alcoholic beverages. The division leads the agency's efforts to prevent illegal underage drinking, illegally making alcohol available to minors, as well as driving while intoxicated. The staff works with different statewide and local agencies, community coalitions and other groups to share information as well as participate in various programs to prevent underage drinking.

v. **Human Resources Division** – The Human Resources Division manages employment-related activities, including recruitment, selection, benefits and compensation, employee relations, classification, risk management, and implementation of the agency's equal employment opportunity program. The division also conducts background checks on prospective employees during the hiring process.

vi. **Information Resources Division** – The Information Resource Division is responsible for developing and maintaining the core technology applications for the agency, which includes licensing, enforcement, compliance, legal, and business services. The division also establishes and supports the technology infrastructure that facilitates agency operations, and is charged with researching and analyzing how to apply new technologies to solve business problems.

vii. **Legal Services / General Counsel Division –** The agency's Legal Services and General Counsel Division prepares, processes, and prosecutes administrative cases dealing with violations of the Alcoholic Beverage Code. The division also reviews and prosecutes application protests by the Commission, local authorities, and citizens to the issuance of licenses and permits. When violations by permittees and licensees throughout the state are alleged, a hearing is held by the State Office of Administrative Hearings. Outcomes of these hearings include recommendations to cancel, suspend, grant, or deny a license or permit. The General Counsel reports to the Commissioners and works with the Executive Director on daily operations of the Commission.

viii. **Licensing Division** – The Licensing Division investigates and processes applications for all phases of the alcoholic beverage industry, including the manufacture, sale, purchase, transportation, storage, and distribution of alcoholic beverages. The division must ensure that each applicant qualifies to hold such license/permit and adheres to all applicable regulatory requirements. The Licensing Division issues over 60,000 licenses and permits each year.

ix. **Office of Professional Responsibility** – The Office of Professional Responsibility (internal affairs) oversees or conducts all internal investigations concerning the conduct of agency employees.

x. **Tax and Marketing Division –** This Division is charged with the oversight of the taxing authority of the agency. Personnel receive, process and audit monthly excise tax reports to ensure taxes have been paid and that other reporting requirements are in adherence with the Alcoholic Beverage Code. This Division is also responsible for overseeing the promotion of alcoholic beverage products as well as the testing and labeling of the products in Texas. This Division aids in the enforcement of laws regulating the marketing of alcoholic beverage products and marketing relationships among alcoholic beverage retailers, wholesalers, and manufacturers. It is also responsible for approving label applications.

xi. **Training –** The training division manages training and development activities for the agency. Training and development activities conducted by the division include management/supervisory development programs, comprehensive law enforcement training, computer training and required core training.

B. The Agency's appropriations for the fiscal year 2015 are as follows:

		2015
Promote the Health, Safety, and Welfare of the Public:		
1.	Enforcement	$22,434,851
Process Applications and Issue Alcohol Beverage Licenses &Permits:		
1.	Licensing and Investigation	4,265,076
Ensure Compliance with Fees & Taxes:		
1.	Compliance Monitoring	6,152,052
2.	Ports of Entry	5,232,792
Indirect Administration		
1.	Central Administration	2,194,974
2.	Information Resources	2,456,530
3.	Other Support Services	629,860
	Grand Total	$43,366,135

For the fiscal year 2015 the General Appropriations Act authorized 646.8 full-time equivalent employees (FTEs), respectively.

III. Internal Audit Plan Methodology

This section summarizes the methodology used in preparing the internal audit plan. In order to understand the Agency and develop our risk assessment process, we reviewed the Agency's:

- Strategic plan
- Legislative appropriations request

- Appropriations and Riders in the General Appropriations Act
- State Auditor's Office and Internal Audit reports
- Other documents obtained from the Agency

We made inquiries of key personnel of the Agency through a questionnaire. The main purpose of our inquiries was to obtain a generalized overview of how each function fits financially and non-financially into the framework of the Agency. One of the major factors in performing our inquiries, rather than relying solely on the amounts budgeted to each function in determining risk assessment, was to identify how much effect one function has on another function, thereby identifying the total impact that a particular function has on the Agency. These inquiries were standardized to achieve responses to basic questions concerning each function. Questions related to business objectives, inputs, outputs, systems, critical success factors, process activities and business risks and controls. An assessment of the function's risk was also included, based on our inquiries and review of information obtained from the Agency.

In planning internal audit procedures, financial, operational, as well as compliance issues are considered in determining processes/systems of interest. Functional areas that cross many divisions and the interaction between divisions are key criteria in the process of identifying areas of interest. Agency financial reports, planning documents, laws, rules, and regulations, in addition to soliciting input from management, were all considered in developing the list of areas of interest. Upon completion of this list, each area was subjected to our risk analysis process.

The following Agency processes/systems have been considered during the development of the areas of interest list:

- Cash Disbursements and Travel Processing, Payables and Payroll
- Performance Measures Reporting
- Accounting and Budgeting
- Cash Receipts and Fee Processing
- Legal Services
- Business Continuity
- Information System – Security
- Information Technology System Development
- Enforcement Administration
- Audit & Investigations Administration
- Executive Administration
- Ports of Entry
- Fixed Assets Management
- Licensing Applications and Processing
- Open Records Request
- Professional Responsibility
- Historically Underutilized Business (HUB) Compliance
- Personnel Processes
- Excise Tax Administration
- Marketing Practices
- Label/Product Approval Process

- Education and Prevention
- ID Stamps/Private Club Cards
- Mailroom Services

There are numerous other areas that may be identified during the process of performing internal audit procedures over the next year. Continuing input from both the commissioners and management will be essential in identifying additional or new areas of risk that should be considered in the future.

Our risk assessment was performed through the consideration of various factors, including:

1. Exposure Level
2. Complexity of Unit
3. Materiality of Revenues and Expenditures
4. Results of Last Audit
5. Extent of other Coverage or Oversight
6. Quality of Internal Controls/Adherence to laws
7. Changes in systems and processes
8. Normal Audit Interval

Although all of the above factors were considered in the assessment of risk for each process/system, some of the factors were weighed more heavily and considered to be more critical to the Agency's internal control structure. The following critical factors were weighted more heavily in our assessment.

- Exposure Level
- Quality of Controls
- Changes in Systems and Processes

The other factors noted are not considered to be as critical to the internal control structure of the Agency. However, all factors were considered in assessing risk and were taken into consideration for each process/system as to their impact on the Agency. Once each area of interest was evaluated, it was assigned a risk factor of high, moderate or low. The following is the result of our risk assessment process.

<u>Processes Identified as High Overall Risk</u>

Business Continuity
Label/Product Approval Process
ID Stamps/Private Club Cards
Personnel Processes

<u>Processes Identified as Moderate Overall Risk</u>
Information Technology System Development
Accounting and Budgeting
Licensing Applications and Processing
Cash Receipts and Fee Processing
Information Systems – Security

Professional Responsibility
Excise Tax Administration
Enforcement Administration
Cash Disbursements and Travel Processing, Payables and Payroll
Marketing and Practice
Audit and Investigations Administration
Performance Measures Reporting
Open Records Request
Mailroom
Legal Services
Executive Administration
Historically Underutilized Business (HUB) Compliance
Ports of Entry
Fixed Assets Management
Education and Prevention

Processes Identified as Low Overall Risk

None

IV. Internal Audit Plan

The internal audit plan is designed to provide a review of all areas based on the level of risk. Although the plan is structured in this manner, it should not prevent the review of areas on a more frequent basis, in the case of future restructuring or development of new processes/systems. Also, special reviews might be added in the future as requested by the Commissioners or when deemed necessary by the internal audit function after performance of in-depth review of the specific divisions/systems.

Internal audit activities will be primarily concerned with documenting, testing and evaluating each division or system's internal control policies and procedures and the quality of performance in carrying them out. This will include reporting conditions and suggestions to management and evaluating management's response and plans for corrective actions. Opportunities for improved efficiency identified as a result of performing internal audit activities will be communicated to management and the Commissioners as part of the reporting process.

Internal Audit reviews for the fiscal year ending 2015 are planned for the following processes/systems:

Fiscal Year 2015	Estimated Hours
• Personnel Processes	135
• Business Continuity	140
• Information Technology System Development	150
• ID Stamps/ Private Club Cards	130
• Follow-up on prior year's audit recommendations: *Internal Audit of Enforcement Administration* (Report Date: January 14, 2014)	30

Intern Audit of Excise Tax Administration (Report Date: July 11, 2014)	30
• *Additional Follow-up on Prior Internal Audit Recommendations Related to Tax Administration – Ports of Entry* (Report Date: July 21, 2014)	20
• *Comptroller's Post Payment Audit Recommendations (Report Date: July 1, 2014)*	50
Total Hours	**685**

The above audits will take place in November 2014 – August 2015 with final reporting occurring in October 2015. The above plan does not preclude the internal audit function from identifying and assessing risk relating to new divisions or systems added to the Agency.

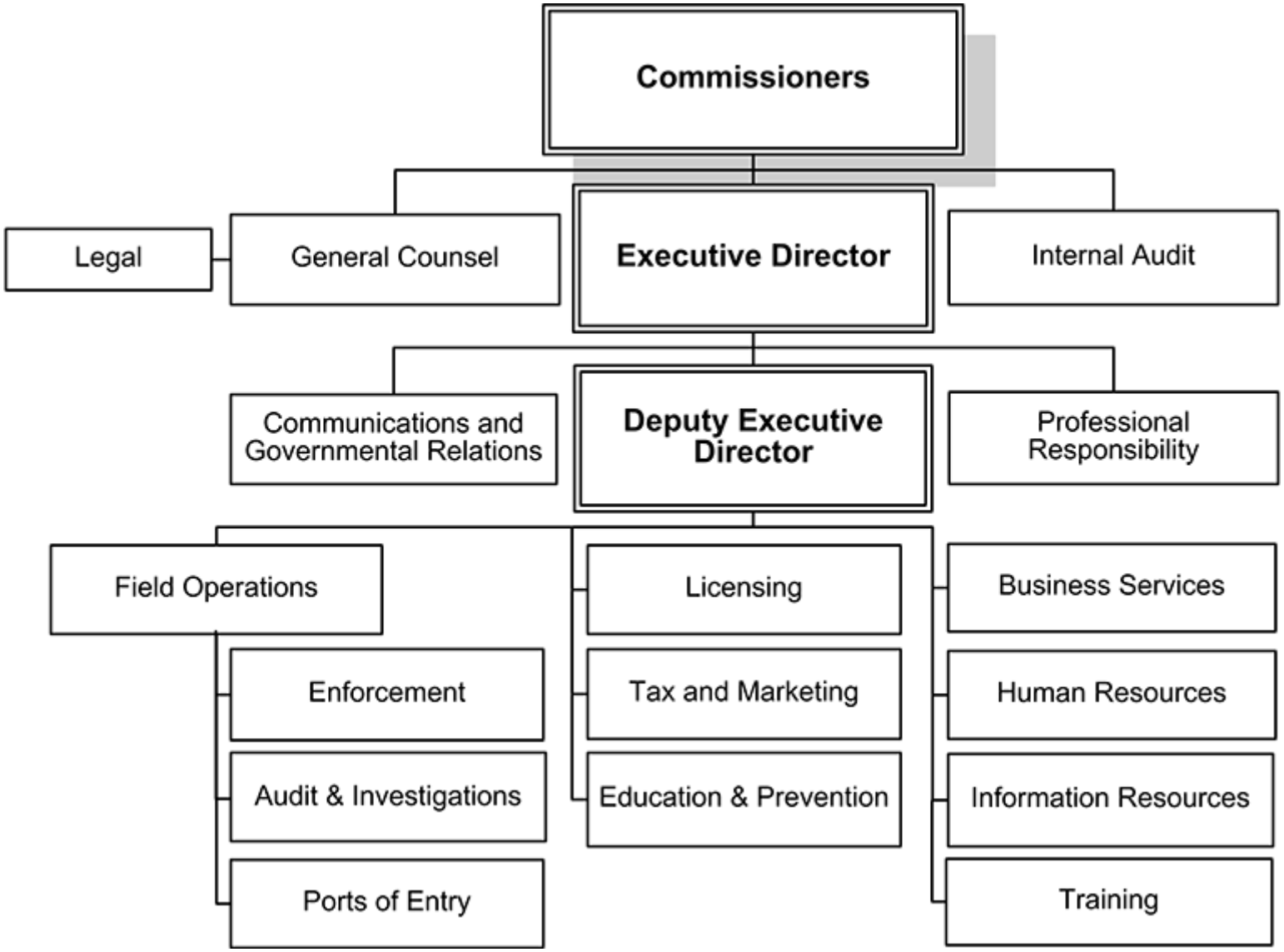
These processes/systems were identified for review through risk assessment methodology. As discussed above, this methodology included inquiries, through a questionnaire of key personnel of the Agency, identifying financial and non-financial risks, identifying interaction of divisions amongst each other, identifying rules and regulations the various divisions must comply with, and identifying the volume of transactions and personnel involved within each division.

V. Reporting

In compliance with the Texas Internal Auditing Act, the annual internal audit report for the above audits will be filed with the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the Commissioners, and the Agency's Executive Director by November 1, 2015.

Appendix A: Summary of Audit Risk Assessment

High = 38 and up
Mod = 30 – 37
Low = Less than 30

	Total Risk	Risk Rank
Business Continuity	38	1
Label/Product Approval Process	38	2
ID Stamps/Private Club Cards	38	3
Personnel Processes	38	4
Information Technology System Development	37	5
Accounting and Budgeting	36	6
Licensing Applications and Processing	36	7
Cash Receipts and Fee Processing	36	8
Information Systems – Security	36	9
Professional Responsibility	36	10
Fixed Assets Management	36	11
Excise Tax Administration	35	12
Enforcement Administration	34	13
Cash Disbursements and Travel Processing, Payables and Payroll	34	14
Marketing and Practice	34	15
Audit and Investigations Administration	34	16
Performance Measures Reporting	32	17
Open Records Request	32	18
Mailroom	32	19
Legal Services	32	20
Executive Administration	32	21
Historically Underutilized Business (HUB) Compliance	32	22
Ports of Entry	31	23
Education and Prevention	30	24

Appendix B: Organizational Chart