FOLLOW-UP: INTERNAL AUDIT OF THE

- BUSINESS CONTINUITY
- IDENTIFICATION STAMPS /
  PRIVATE CLUB CARDS
- INFORMATION TECHNOLOGY /
  SYSTEM DEVELOPMENT
- PERSONNEL PROCESSES
  
  AS OF AUGUST 31, 2016
  AT THE
  TEXAS ALCOHOLIC BEVERAGE COMMISSION
  (REPORT NO: TABC 016-004)
Commission Members
Texas Alcoholic Beverage Commission
Austin, Texas

We have reviewed the status of our internal audit recommendations related to the following as of August 31, 2016:

- Business Continuity (Report Date: August 31, 2015)
- Identification Stamps / Private Club Cards (Report Date: June 19, 2015)
- Information Technology System Development (Report Date: May 27, 2015)
- Personnel Processes (Report Date: February 20, 2015)

The accompanying schedules summarize our original findings and recommendations, current status, and remarks.

We appreciate the courtesy and cooperation shown by the management of the Agency during the course of the engagement.

Monday Rufus & Co., P.C.

August 31, 2016
Austin, Texas
TABLE OF CONTENTS

Introduction and Executive Summary.................................................................4

Internal Audit Results..........................................................................................6

Appendices:

1. Follow-up Schedule: Business Continuity......................................................7
2. Follow-up Schedule: Identification Stamps / Private Club Cards....................9
3. Follow-up Schedule: Information Technology System Development.............11
4. Follow-up Schedule: Personnel Processes....................................................15
5. Objective and Scope......................................................................................17
6. Background Information...............................................................................19
7. Report Distribution.......................................................................................21
**Introduction and Executive Summary**

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

The Texas Alcoholic Beverage Commission (Commission) 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 Commission collects in excess of $200 million annually in taxes and fees from alcoholic beverage license and permit fees, alcohol beverages taxes, cigarette taxes, airline beverage tax, and revenue collected on audits. This revenue 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 and is deposited into the General Revenue Fund.

**Business Continuity**

Continuity of Operations Plan (COOP) is an overall approach to providing alternative paths in support of critical business processes in the event of an emergency, disaster, or other disruption. This is an enterprise-wide view of what needs to be done to continue in business despite a risk coming to fruition. In essence, the job of the COOP is to ensure business functions can operate during and after a disaster or other contingency, and then to minimize recovery time to reach normal operations. The focus is on total business survival, not just information resources. However, the overall plan must include consideration of information systems and telecommunications network requirements. This aspect of the COOP is usually handled separately and referred to as a disaster recovery plan (DRP). As a result, our internal audit covers the COOP and DRP.

**Identification Stamps / Private Club Cards**

The Commission’s Excise Tax and Marketing Practices Division administers the Identification Stamps (ID Stamps)/Private Club Cards processes.

**Identification Stamps**

Local Distributor permittees submit orders for ID Stamps that are affixed on bottles of distilled spirits sold to Mixed-Beverage and Private Club permittees. Identification Stamps distilled spirits containers must have a serially numbered Identification Stamp issued by the TABC or other identification approved by the TABC when sold to the Mixed-Beverage permittee, mixed beverage with a food and beverage permittee, or the Private Club permittee. ID Stamps shall be affixed only by the holder of a local distributor permit who receives ID Stamps from the Commission.

The ID Stamp process must comply with requirements of Chapters 28 and 32 of the Texas Alcoholic Beverage Code (ABC) and the TABC Adopted Amendment §41.71.
**Private Club Cards:**

A Private Club Card member may enjoy the private club services and privileges for a period of not more than three days per invitation by the manager or other person in charge of the club premises and paying the club a fee of $3.00 for a valid temporary membership card.

The Private Club Cards process must comply with requirements of Chapters 28 and 32 of the Texas Alcoholic Beverage Code (ABC) and Chapter 41 of the TABC Administrative Rules.

**Information Technology System Development**

The Information Resources Division (IRD) is made up of the Director, the Assistant Director, Information Security Officer, Project Management Office, the Applications team and the Operations team. This division provides the agency with the technological development needed to conduct agency business. The division focuses on providing the technology that makes the citizens and regulated entities interact with TABC on a daily basis.

One of the functions of the IRD is to maintain a convenient way of ensuring that regulated entities interact with TABC. They ensure that the division maintains its legacy applications, while investing in modern technologies. They have embraced the need for a technology refresh to ensure that infrastructure and software support the growth and changes required to meet the agency needs.

Information Resources Division invests in the current technology to provide the level of services expected by the citizens of Texas. The Internet has become an essential tool for communicating with the general public; hence greater effort is made by the Information Resources Division to enhance their Internet capabilities.

**Personnel Processes**

The Commission’s 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. Agency personnel file and documentation is kept at the Human Resources Division.

The Training Division is responsible of enhancing the professionalism within the agency by providing ongoing training and education to all employees. All employees are encouraged to participate in a wide variety of courses ranging from customer service training to legislatively mandated law enforcement classes.
Internal Audit Results

The scope of this internal audit follow-up was limited to following up on the findings and recommendations included in the following:

- Business Continuity (Report Date: August 31, 2015)
- Identification Stamps / Private Club Cards (Report Date: June 19, 2015)
- Information Technology System Development (Report Date: May 27, 2015)
- Personnel Processes (Report Date: February 20, 2015)

Appendix 1 (Business Continuity), Appendix 2 (Identification Stamps / Private Club Cards), Appendix 3 (Information Technology System Development), and Appendix 4 (Personnel Processes) summarize and provide the status and steps taken by the management of the Commission to the recommendations made in these reports.
Appendix 1:

ENTITY: Texas Alcoholic Beverage Commission
PROJECT: Follow-up on prior Internal Audit Recommendations – Business Continuity (Report Date: August 31, 2015)
FISCAL YEAR: 2016

<table>
<thead>
<tr>
<th>PRIOR FINDINGS/RECOMMENDATIONS (issued by the Internal Auditor)</th>
<th>CURRENT STATUS</th>
<th>AUDITORS’ REMARKS</th>
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</thead>
<tbody>
<tr>
<td>Finding #1: Develop and maintain an agency-level training program for mission critical personnel of the agency.</td>
<td>P</td>
<td>Internal auditors made inquiries of the Continuity Coordinator at the TABC to determine if continuity training had been developed and implemented and that key agency personnel had been trained in their roles and responsibilities. We were informed that training exercises and testing have been scheduled to occur in Fiscal Year 2017. We reviewed the 2017 TABC Continuity Tabletop exercise workshop series provided by the Continuity Coordinator. We encourage the management of TABC to continue to make concerted efforts to ensure full implementation of our recommendation. No further work is deemed necessary in this area at this time.</td>
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**Recommendation:**
We recommend that:

1. The TABC ensure that a continuity training program is developed and implemented.

2. The TABC ensure key agency personnel are trained in their roles and responsibilities to ensure that mission-critical personnel are prepared to perform required continuity functions during an emergency.

**Management’s Response:**
*TABC concurs and will develop a formal training program and conduct formal agency-level training to mission critical personnel. However, it is premature to develop an adequate training program before the Continuity of Operations Plan (COOP) is approved by the State Office of Risk Management (SORM). The COOP was submitted to SORM on July 1, 2015 and awaits approval. Regarding the timing of the submission to SORM, the Continuity Coordinator had to be adequately trained prior to creation and submission of plan. With limited courses available and multiple pre-requisites, it took one year for the Continuity Coordinator to be adequately trained and certified. Meanwhile, TABC has determined the training approach (subject to change):*

<table>
<thead>
<tr>
<th>Finding 2#: Ensure Periodic Testing of the full Continuity of Operation Plan.</th>
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**Recommendation:** We recommend that the Commission fully test the COOP to ensure the plan is workable and can provide reasonable assurance of recovery of the total business should there be a disaster or disruption.

**Management’s Response:**
TABC Concurs and will develop a formal testing program and conduct a formal test of the Continuity of Operations Plan. However, it is premature to conduct an adequate test before the Continuity of Operations Plan is approved by the State Office of Risk Management (SORM) and before TABC employees have been trained (see Finding #2, above.) Therefore, TABC expects to conduct the first test within 30 days after the training program has been instituted. The COOP was submitted to SORM on July 1, 2015 and awaits approval. Regarding the timing of the submission to SORM, the Continuity Coordinator had to be adequately trained prior to creation and submission of plan. With limited courses available and multiple pre-requisites, it took one year for the Continuity Coordinator to be adequately trained and certified.

TABC has tested the Business Resumption Plan (BRP), the predecessor to the Continuity of Operations Plan (COOP). We realize the COOP institutes additional controls and rigor into the planning and testing, rendering BRP tests inadequate to accommodate new guidelines.

TABC believes there is reasonable assurance that the computer functions would be recovered should there be a disaster or disruption as demonstrated fully through the Disaster Recovery Plan.

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I = Implemented  
P = Partially Implemented  
N = Not Implemented
**Appendix 2:**

**ENTITY:** Texas Alcoholic Beverage Commission  
**PROJECT:** Follow-up on prior Internal Audit Recommendations - Identification Stamps / Private Club Cards  
**(Report Date: June 19, 2015)**  
**FISCAL YEAR:** 2016

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<tr>
<th>PRIOR FINDINGS/RECOMMENDATIONS (issued by the Internal Auditor)</th>
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</table>
| **Finding #1:**  
FINDING 1: No Employee Cross-training Regarding ID Stamps/Private Club Cards Functions performed by One Employee  
**Recommendation:** Management should cross-train another employee in processing Local Distributor ID Stamps and Private Club Cards orders to ensure continuity in the absence of the current employee performing the functions. Cross-training could also mitigate any potential errors and/or irregularities.  
**Management’s Response:**  
Management agrees with the findings and will cross-train another employee in processing Local Distributor ID Stamps and Private Club cards orders by December 2015.  
**Finding 2:** There is Not an Established Timeline for the Transition of Local Distributor Permittees Ordering ID Stamps from the Outside Contractor Instead of TABC.  
**Recommendation:** Management should establish a timeline for all Local Distributor permittees to start ordering ID Stamps online in order to meet the objectives of the contract agreement between TABC and the contractor.  
**Management’s Response:**  
Management agrees with the findings. Permittees that order the majority of the ID Stamps issued are currently utilizing the online system. The Commission will continue to allow other permittees to order stamps by paper rather than switch to the new online system until all “legacy stamps” being issued by the Commission are depleted. All permittees will be required to transition to the new | I | The auditors inquired if management has cross-trained another employee in processing ID Stamps and Private Club Cards. The Director of Excise Tax and Marketing Practices informed us that management had completed cross training of the Marketing Practices Coordinator position as backup for processing ID Stamps and Private Club Cards as of December 31, 2015. Additionally, he informed us that the ID Stamps manual had been updated. We obtained and reviewed a copy of the updated manual. No further work is deemed necessary in this area at this time.  
The internal auditors determined that TABC management has established August 31, 2016 as the last date for accepting paper orders. The information is also posted on the TABC’s website. Additionally, whenever a paper order is received, a reminder email is sent to remind the person of the August 31, 2016 deadline.  
The internal auditors were informed that as of July 31, 2016, approximately 95% of all stamps issued were ordered through the ID Stamps online system. The internal auditors obtained the |
online ordering system by August 31, 2016.

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order detail as of July 31, 2016 and selected a sample of 5 online and 3 paper orders and traced to supporting documentation. No exceptions were noted.

Norther further work is deemed necessary in this area at this time.
**Appendix 3:**

**ENTITY:** Texas Alcoholic Beverage Commission  
**PROJECT:** Follow-up on prior Internal Audit Recommendations – Information Technology System Development  
**Report Date:** May 27, 2015  
**FISCAL YEAR:** 2016

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<tbody>
<tr>
<td><strong>Finding #1:</strong> Ensure TABC Consistently Follow Project Charter Guidelines for its Information Technology projects</td>
<td>I</td>
<td>The internal auditors made inquiries of the Project Manager at the Project Management Office of the Information Resources Division (IRD) regarding the establishment of project charters prior to beginning a project. We were informed that the IRD has implemented a formal project charter approval process. The internal auditors obtained a list of projects initiated and completed from January 1, 2016 thru July 31, 2016, selected a sample of 2 projects and determined that a project charter was established for each project. No further work is deemed necessary in this area at this time.</td>
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<td><strong>Recommendation:</strong> We recommend that the TABC strengthen the Information System management process to ensure that project charters are established before projects begin.</td>
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<td><strong>Management’s Response:</strong></td>
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<td>TABC concurs that before February 2015 the Project Charter process was not followed consistently. TABC has already successfully implemented a formal Project Charter approval process since February 2015; every project since February 2015 has a formal, approved Project Charter.</td>
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<td><strong>Finding #2:</strong> Strengthen the System Development Process</td>
<td>P</td>
<td>The internal auditors inquired of the Project Manager at the Project Management Office of the Information Resources Division (IRD) regarding the inclusion of costs of time spent on projects. We were informed that the IRD has implemented procedures to track internal staff time spent on projects on a percentage basis and include these costs in the project estimates and closeout. The internal auditors obtained a list of projects initiated and completed from January 1, 2016 thru July 31, 2016, selected a sample of 2 projects and determined that an estimate of time and costs was established for each project, but the actual cost was not tracked. We encourage management to continue to make concerted efforts to ensure full implementation of our recommendation. No further work is deemed necessary in</td>
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<td><strong>Recommendation:</strong> We recommend that the TABC strengthen the system development process by including the cost of time that the TABC personnel spend on the projects as part of project cost. This additional information would improve the effectiveness of the cost benefit analysis, the monitoring procedures, and the evaluation of the results of the project during the post implementation review for the project.</td>
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<td><strong>Management’s Response:</strong></td>
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<tr>
<td>TABC Concurs. TABC’s systems remain stable in production, suggesting appropriate system development controls are in place and being</td>
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followed, though not always formalized, documented or auditable. IRD will implement appropriate procedures to track internal staff time spent on projects on a percentage basis and include internal staff costs in project estimates and actual computations.

Responsible Individual: David Brandon, Assistant Director of IRD

Status: Planned Completion by 8/31/15

Finding #3: Establish a Process that Supports Documenting All Information Technology Training and Lessons Learned:

Recommendation:

We recommend that the TABC establish a process of documenting all the Information Technology training.

Management’s Response:

TABC Concurs. We have implemented a formal Lessons Learned process during project closeout since February 2015. Therefore, few projects have formally gone through this process. Further, TABC had previously identified the need to strengthen our end-user training, even for small system changes. IRD will establish procedures to disseminate training for technology changes, predominantly using TABC’s Learning Management System (LMS).

Finding #4: Establish Policies and Procedures for Tailoring Projects

Recommendation:

The internal auditors inquired of the Project Manager at the Project Management Office of the Information Resources Division (IRD) if a process had been established for documenting training and lessons learned. We were informed that the IRD has implemented procedures for documenting training and lessons learned. The internal auditors obtained a list of projects initiated and completed from January 1, 2016 thru July 31, 2016, selected a sample of 2 projects, and verified documentation of training and lessons learned. No further work is deemed necessary in this area at this time.
We recommend that the TABC develop internal policies and procedures to ensure consistency by the employees as they accomplish their tasks.

**Management’s Response:**

TABC Concurs. Prior to the introduction of PM Lite, TABC used the Texas Project Delivery Framework and tailored it to the size of the project, as allowed by the Texas Project Delivery Framework. IRD will update Policy to establish thresholds, deliverables and guidelines for projects when using the Texas Project Delivery Framework or PM Lite.

Responsible Individual: Gary Henderson, Manager of the Project Management Office

Status: Planned Completion by 8/31/15
| I = Implemented | P = Partially Implemented | N = Not Implemented |
**Appendix 4:**

**ENTITY:** Texas Alcoholic Beverage Commission  
**PROJECT:** Follow-up on prior Internal Audit Recommendations – Personnel Processes  
(Report Date: February 20, 2015)  
**FISCAL YEAR:** 2016

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<tr>
<td><strong>Finding 1:</strong> Non-compliance with Required Equal Employment Opportunity (EEO) Supplemental Training</td>
<td>N</td>
<td>The internal auditors obtained and reviewed a copy of the Human Resource Policy being reviewed by the TABC Policy Committee which transfers the tracking, reporting, and notifying all employees of the status of EEO mandated training from the Human Resources Division to the Training Division. Additionally, the internal auditors obtained a list of active employees as of July 6, 2016 and selected sample of 9 to test for compliance with supplemental EEO training which is required every two years. We noted that all had attended the supplemental training, except one employee. That employee was hired November 1, 2007. There was no record of the last time the employee attended the required supplemental EEO training. The internal auditors also obtained a list of employees hired from September 1, 2015 through July 31, 2016, and selected a sample of 5 to determine compliance with EEO training within 30 days of hire. We noted that two of the employees who were hired in October 4, 2015 and January 28, 2016, respectively, had not taken the required EEO training. We encourage the management of TABC to make concerted efforts to ensure compliance with Section 21.010, Chapter 21, of the Texas Labor Code and TABC Human Resource manual Policy Number HR-1.03.</td>
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</table>

**Recommendation:**  
TABC should comply with Section 21.010, Chapter 21, of the Texas Labor Code and TABC Human Resource manual Policy Number HR-1.03 and ensure that every employee receives the required EEO supplemental training every 2 years.

**Management’s Response:**  
*The Human Resource Policy and Procedures Manual will be updated to transfer the responsibility of tracking, reporting, and notifying all employees of the status of EEO mandated training from the Human Resources Division to the Training Division. The Training Division will utilize the automated Learning Management System (LMS) to track, report, and notify employees and supervisors of mandated training renewal dates. Implementation of LMS for EEO Training was completed February 2015. All related policy updates will be completed by June 30, 2015.*
**Finding 2**: Incomplete Certification Section on Employment Eligibility Verification (Forms I-9)

**Recommendation:**
The Certification section in all employee Form I-9 documents should be fully completed to ensure that each employee’s employment eligibility is verified in compliance with the Immigration Reform and Control Act of 1986.

**Management’s Response:**
The Human Resources Division will conduct a self-audit of all I-9 forms. The audit will be completed no later than June 30, 2015. Any corrections that are necessary will be completed utilizing the U.S. Citizenship and Immigration Services (UCIS) standards for self-audits. The Human Resources Division will implement new procedures to ensure proper compliance with the Immigration Reform and Control Act of 1986 which will include a second review of all submitted I-9’s for new employees.

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Internal auditors obtained and reviewed a copy of the self-audit of Form I-9 performed by the Human Resources Division for employees hired from 6/1/2015 through 5/31/2016. Additionally, the internal auditors obtained a list of employees hired from September 1, 2015 through July 31, 2016. We selected a sample of 5 employees and tested for compliance with the Form I-9 requirements. No exceptions were noted.

No further work is deemed necessary in this area at this time.
Appendix 5:

Objective, Scope, and Background Information

Objective

The objective of these internal audit follow-ups was limited to following up on the findings and recommendations included in the following:

- Business Continuity (Report Date: August 31, 2015)
- Identification Stamps / Private Club Cards (Report Date: June 19, 2015)
- Information Technology System Development (Report Date: May 27, 2015)
- Personnel Processes (Report Date: February 20, 2015)

Scope

Our procedures included reviewing the previous audit reports, inquiring about the status of the reports’ recommendation(s), discussions with Commission management, obtaining supporting documentation, and verifying the information.

Methodology

The Texas Alcoholic Beverage Commission management from the respective audit follow-up areas completed the Prior Internal Audit Recommendation Schedules to determine the current status of the prior audit findings, recommendations, and corrective actions taken by management for the Business Continuity, Identification Stamps/Private Club Cards, Information Technology System Development, and Personnel Processes.

Information collected and reviewed included the following:

- Original Audit Reports for:
  - Internal Audit of Business Continuity (Report Dated: August 31, 2015)
  - Internal Audit of Identification Stamps / Private Club Cards (Report Dated: June 19, 2015)
  - Internal Audit of Information Technology System Development (Report Dated: May 27, 2015)

- Review of other pertinent reports and documents

Procedures and tests conducted included the following:
• Inquired about corrective actions taken by management for each report.

• Reviewed corrective actions taken by management for each report.

• Discussed the original report findings and the current status with the applicable division head.

• Reviewed recent State Auditor’s audit reports issued to determine if any of their audit results would affect or change our internal audit follow-up reports’ recommendations.

• Reviewed the TABC’s website to determine if there were changes that could impact the any of the audit areas being followed-up.

**Other Information**

Our internal audit was conducted 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 internal audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our internal audit objectives. Our internal audit also conforms to the Institute of Internal Auditor’s (IIA) *International Standards for the Professional Practice of Internal Auditing.*
Appendix 6:

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, Ports of Entry; Business Services; Education and Prevention; Human Resources; Information Resources; Legal Services/General Counsel; Licensing; Office of Professional Responsibility; Tax and Marketing; 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 other divisions report directly to the Deputy Executive Director while General Counsel reports directly to the Commissioners.
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.
Appendix 7:

Report Distribution

As required by Gov’t Code 2102.0091, copies of this report should be filed with the following:

**Governor’s Office of Budget and Planning**  
Attn: Drew DeBerry  
Phone: (512) 463-1778  
budgetandpolicyreports@gov.texas.gov

**Legislative Budget Board**  
Attn: Julie Ivie  
Phone: (512) 463-1200  
audit@lbb.state.tx.us

**State Auditor’s Office**  
Attn: Internal Audit Coordinator  
Phone: (512) 936-9500  
iacoordinator@sao.texas.gov

**Sunset Advisory Commission**  
Attn: Ken Levine  
Phone: (512) 463-1300  
sunset@sunset.texas.gov

**Texas Alcoholic Beverage Commission**  
Jose Cuevas, Jr., Presiding Officer  
Steven M. Weinberg, MD, JD  
Ida Louise “Weisie” Steen

**Texas Alcoholic Beverage Commission Management**  
Sherry Cook, Executive Director