INTERNAL AUDIT OF PERFORMANCE MEASURES REPORTING

FOR THE FISCAL YEAR ENDED 2013

AT THE

TEXAS ALCOHOLIC BEVERAGE COMMISSION

Approved by the Commission

on May 29, 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

Audit Committee
and Commissioners
Texas Alcoholic Beverage Commission
Austin, Texas

We have conducted an internal audit of Performance Measures Reporting (Measures) at the Texas Alcoholic Beverage Commission for the fiscal year ended 2013. Specifically, our internal audit was limited to the following Key Measures:

- Outcome: Percentage of Licensed Establishments Inspected Annually
- Output: Number of Inspections Conducted by Enforcement Agents
- Efficiencies: Average Cost Per Enforcement Inspection
- Output: Number of Licenses/Permits Issued
- Efficiencies: Average Cost Per License/Permit Processed
- Output: Number of Alcoholic Beverage Containers and Cigarette Packages Stamped

The report that accompanies this letter summarizes our comments and observations.

We have already discussed this report with various Texas Alcoholic Beverage Commission personnel, and we will be pleased to discuss it in further detail at your convenience.

Monday N. Rufus, P.C.

May 5, 2014
Austin, Texas

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Executive Summary

Performance Measures are an essential part of the State's Strategic Planning and Performance Budgeting System, which combines strategic planning, performance budgeting, and performance monitoring into the appropriations process which are used as a resource in making state funding decisions based on whether state agencies are accomplishing expected results.

The Internal Auditor is assessing the accuracy and related internal controls of the following reported performance measures so that the Governor, Legislature, and Commission's Governing Body can determine to what extent they can rely on reported performance when making decisions:

- Outcome: Percent of Licensed Establishments Inspected Annually
- Output: Number of Inspections Conducted by Enforcement Agents
- Efficiencies: Average Cost Per Enforcement Inspection
- Output: Number of Licenses/Permits Issued
- Efficiencies: Average Cost Per License/Permit Processed
- Output: Number of Alcoholic Beverage Containers and Cigarette Packages Stamped

Using the Guide to Performance Measure Management (2012 Edition) published by the State Auditor's Office (SAO), Legislative Budget Board (LBB), and Governor's Office of Budget, Planning, and Policy (GOBPP), we performed audit tests to determine the accuracy of the reported results for the aforementioned measures. Each measure audited falls into one of the following categories.

- **Certified.** Reported performance is accurate within +/-5 percent, and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

- **Certified With Qualification.** Reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but the deviation caused less than +/-5 percent difference between the number reported to ABEST and the correct performance measure result.

- **Inaccurate.** Reported actual performance is +/-5 percent or greater than the reported performance, or when there is a +/-5 percent or greater error rate in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused a +/-5 percent or greater difference between the number reported to ABEST and the correct performance measure result.

- **Factors Prevented Certification.** If documentation is unavailable and controls are not adequate to ensure accuracy. This designation is also used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.

Internal Audit Results

Information Technology

Internal auditors performed an assessment of the information technology (IT) controls for the Texas Alcoholic Beverage Commission (Commission), which is used for collecting and calculating performance measures data. Internal Auditors evaluated relevant general and application controls for sufficiency in ensuring the integrity of data for collecting, calculating, reviewing, and reporting the audited performance measures.

There were no deficiencies detected in IT controls that are significant to the objective of this internal audit.

Performance Measures

Outcome: Percentage of Licensed Establishments Inspected Annually. The result is **Certified**. The reported performance is accurate within +/-5 percent and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Output: Number of Inspections conducted by Enforcement Agents. The result is **Certified**. The reported performance is accurate within +/-5 percent and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Efficiencies: Average Cost Per Enforcement Inspection. The result is **Certified.** The reported performance is accurate within +/-5 percent and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Output: Number of Licenses/Permits Issued. The result is **Certified**. The reported performance is accurate within +/-5 percent and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Efficiencies: Average Cost Per License/Permits Processed. The result is **Certified.** The reported performance is accurate within +/-5 percent and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Output: Number of Alcoholic Beverage Containers and Cigarette Packages Stamped. The result is **Certified.** The reported performance is accurate within +/-5 percent and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Detailed Observations

The Commission Has Adequate IT General and Application Controls To Ensure Consistent Reporting of Reliable Information for Automated Systems.

The Commission has database security, data access controls, data back-up controls, and data output controls that are sufficient to ensure the integrity of data used for collecting, calculating, reviewing, and reporting the performance measures audited.

There were no deficiencies detected in IT controls that are significant to the objectives of this internal audit.

Outcome: Percentage of Licensed Establishments Inspected Annually

Results: Certified
Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

The TABC had strong controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TABC calculated and reported the performance measure accurately.

Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST): 86.08%

Performance Measure Purpose: Measures the TABC's degree of coverage achieved by enforcement agents and compliance officers during a specified period.

Definition: The percentage of licensed establishments inspected during a specified time period by enforcement agents and compliance officers, expressed as a ratio of the number of individual establishments subject to inspection.

Data Source: Agency's automated inspection records and automated licensing records. Field inspection personnel enter inspection information into the Daily Activity Report System (DARS) and the Agency Reporting Tracking System (ARTS). Licensing information is entered into the licensing automated system.

Calculation Method: The noncumulative performance measure is calculated by dividing the number of individual establishments actually inspected during a particular period by the number of licensed establishments subject to inspection during the same period.

Output: Number of Inspections Conducted by Enforcement Agents

Results: Certified
Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

The TABC had strong controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TABC calculated and reported the performance measure accurately.

Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST): 74,305

Performance Measure Purpose: Counting the number of inspections conducted provides an accurate representation of the number of times agents have conducted physical compliance checks with state laws during the course of their law enforcement duties.

Definition: Number of inspections of licensed premises conducted by agency enforcement during a specified period of time.

Data Source: Inspection records in the agency's agent activity reporting system. Field inspection personnel enter inspection information into the Daily Activity Report System (DARS).

Calculation Method: The cumulative performance measure is calculated by counting the number of automated inspection records that were originated for activity occurring during a specified period of time.

Efficiency: Average Cost Per Enforcement Inspection

Results: Certified
Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

The TABC had strong controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TABC calculated and reported the performance measure accurately.

Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST): $258.45

Performance Measure Purpose: Provides a unit cost figure for the core law enforcement activity.

Definition: The cost of all law enforcement activity during a specified period of time divided by the total number of inspections (physical compliance checks) conducted by enforcement agents during the same time period.

Data Source: Enforcement automated activity and inspection records which are data-entered using agent field notes or Agents Daily Activity Reports as source documents, and a Business Services Division agency expense allocation Chart for the period reported.

Calculation Method: The noncumulative performance measure is calculated by extracting all work hours reported for all enforcement activity from Enforcement activity records database and totaled. From the enforcement activity total extracted the total enforcement work hours that were devoted to public education/information activities. The latter total is subtracted from the former total to derive a total for the number of enforcement work hours related to inspection activities. The total expenditures for enforcement activities is then multiplied by a ratio created by dividing inspection activity work hours by total enforcement work hours to identify the amount of total Enforcement expenditures attributable to inspections and that amount is then divided by the total number of inspections conducted by enforcement agents during the same period to derive a "per inspection/compliance check unit cost."

Output: Number of Licenses/Permits Issued

Results: Certified
Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

The TABC had strong controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TABC calculated and reported the performance measure accurately.

Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST): 60,988

Performance Measure Purpose: The number of originals, renewals, and temporaries issued determines the revenue generated by the licensing division from license/permit fees and surcharges.

Definition: This measure provides the number of originals, renewals, and temporaries issued in a specific period.

Data Source: License/permit records which are created by data entry personnel. Information is entered from the license/permit applications as they are received by the division.

Calculation Method: The cumulative performance measures is calculated by using agency reports to find and count all temporary, original, and renewal applications approved within a specified date range.

Efficiency Measure: Average Cost Per License/Permit Processed

Results: Certified
Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

The TABC had strong controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TABC calculated and reported the performance measure accurately.

Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST): $55.36

Performance Measure Purpose: This measure allows management to monitor costs and control expenditures.

Definition: This measure is intended to represent the average cost to process a license or permit. For the purpose of this measure, an application is considered fully "processed" on the date on which it is either approved, denied, or withdrawn.

Data Source: Expenditure amounts from reports provided by the Uniform Statewide Accounting System (USAS) and agency computer systems.

Calculation Method: The noncumulative performance measure is calculated by dividing the total costs by the total number of licenses/permits processed, including temporaries and changes.

Output Measure: Number of Alcoholic Beverage Containers And Packages of Cigarettes Stamped

Results: Certified
Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

The TABC had strong controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TABC calculated and reported the performance measure accurately.

Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST): 1,524,925

Performance Measure Purpose: This measure provides a count of the individual items taxed at the Texas/Mexico ports of entry.

Definition: The total number of containers of alcoholic beverages and packages of cigarettes personally imported into Texas and required taxes and fees were paid by the persons importing the products.

Data Source: The total number of containers and packages imported is accumulated in computerized reports at each port location. These are manually compiled by ports supervisors and sent to the agency's headquarters. The cash deposit records are reconciled and used to compile a statewide Monthly Number of Containers Stamped Report.

Calculation Method: The cumulative performance measure totals for the containers and packages stamped are taken from the statewide Monthly Number of Containers Stamped reports pertaining to the reporting period and then summed.

Appendix 1

Objective and Scope

Objective
The objectives of this audit were to determine whether the Texas Alcoholic Beverage Commission (Commission):

- *Is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST).*

- *Has adequate controls in place over the collection, calculation, and reporting of its performance measures.*

Scope

Our audit scope included six (6) key performance measures the Commission reported for fiscal year 2013. (1) Outcome: Percentage of Licensed Establishments Inspected Annually; (2) Output: Number of Inspections Conducted by Enforcement Agents; (3) Efficiency: Average Cost Per Enforcement Inspection; (4) Output: Number of Licenses/Permits Issued; (5) Efficiency: Average Cost Per License/Permit Processed; (6) Number of Alcoholic Beverage Containers and Packages of Cigarettes Stamped.

We also reviewed controls over the submission of data used in reporting performance measures. Our procedures included interviews with the appropriate staff, reviewing and using the Guide to Performance Measurement (March 2012 Edition) published by the SAO, LBB, and GOBPP, a review of the operating policies and procedures, laws and regulations, and testing of compliance with these operating policies and procedures (including tracing performance to supporting documentation), laws, and regulations.

Methodology

The audit methodology consisted of auditing reported results for accuracy and adherence to performance measure definitions, evaluating controls over the Commission's performance measure calculation processes and related information systems, testing of original source documentation, and assessing the reliability of the data obtained from the Commission's information systems that support the performance measure data.

The internal auditors assessed the reliability of the data by:

1.) Determining population completeness and reasonableness
2.) Reviewing calculations of the performance measures
3.) Interviewing Commission employees and information technology staff knowledgeable in the systems generating the performance measures reports

4.) Reviewing supporting documentation for performance measure data

Information collected and reviewed included the following:

- Performance measure data stored in the Commission's information systems and spreadsheets.
- Supporting documentation retained for all six performance measures tested.
- Information technology system quarterly and annual performance measures reports.
- Commission written policies and procedures for the collection, calculation, review, approval, and reporting of performance measures.

Procedures and tests conducted included the following:

- Review of the Guide to Performance Measure Management (2012 Edition) published by the SAO, LBB, and GOBPP.
- Interviewing Commission staff to gain an understanding of the processes the Commission used to document, calculate, and report performance measures.
- Selected Performance Measures as per Risk Assessment and Audit Plan reported for fiscal year 2013.
- Selected the Commission's six key performance measures listed in the 2012-2013 Legislative Appropriation Act.
- Interviewing information technology staff to gain an understanding of the information systems the Commission used to collect and calculate its performance measures.
- Evaluating the sufficiency of the Commission's policies and procedures to determine whether they were adequate to help ensure the correct calculation of the performance measures.
- Auditing performance measure calculations for accuracy and to determine whether the calculations were consistent with the methodology agreed by the Commission, LBB, and GOBPP.
- Testing a sample of supporting documentation (using the SAO, LBB, and GOBPP Performance Measure Guideline 2012 Edition sample sizes) to verify the accuracy of reported performance and effectiveness of controls.

- Tested for supervisory and executive management review of information that supports the performance measures data.

- Assessing performance measure results in one of four categories:

  1.) Certified
  2.) Certified With Qualification
  3.) Inaccurate and
  4.) Factors Prevented Certification

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 with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing.*

Appendix 2

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 thirteen 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 3

Report Distribution

As required by Gov't Code 2102.0091, copies of these reports should be filed with the following:

Governor's Office of Budget and Planning and Policy
Attn: Kate McGrath
Phone: (512) 463-1778
internalaudits@governor.state.tx.us

Legislative Budget Board
Attn: Ed Osner
Phone: (512) 463-1200
Ed.Osner@lbb.state.tx.us

State Auditor's Office
Attn: Internal Audit Coordinator
Phone: (512) 936-9500
iacoordinator@sao.state.tx.us

Sunset Advisory Commission
Attn: Ken Levine
Phone: (512) 463-1300
sunset@sunset.state.tx.us

Texas Alcoholic Beverage Commission
Jose Cuevas, Jr., Presiding Officer
Steven M. Weinberg, MD, JD
Melinda S. Fredricks

Texas Alcoholic Beverage Commission Management
Sherry Cook, Executive Director