



TEXAS ALCOHOLIC BEVERAGE COMMISSION

ANNUAL INTERNAL AUDIT REPORT

FY2018

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September 25, 2018

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's Office
Texas Alcoholic Beverage Commission, Kevin J. Lilly, Presiding Officer
Texas Alcoholic Beverage Commission, Adrian Bentley Nettles, Executive Director

Dear Ladies and Gentlemen:

Attached is the fiscal year 2018 Internal Audit Report for the Texas Alcoholic Beverage Commission (TABC). This annual internal audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). TABC engaged Sandersen & Scheffer PLLC (S&S) on November 28, 2017 to provide internal audit services to the TABC in accordance with The Texas Internal Auditing Act, pursuant to the Request for Proposals (RFP) issued that year. S&S submits this FY2018 Annual Internal Audit Report on behalf of the TABC Commissioners.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for their governing board. The purpose of the annual internal audit report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual internal audit report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the FY2018 Annual Internal Audit Report is due November 1, 2018.

Please contact A. Bentley Nettles or Commissioner Kevin Lilly if you should have any questions about this audit report.

Sincerely,

Alan K. Sandersen, CPA, Partner



I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102,015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, Sandersen & Scheffer PLLC (S&S) will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the Texas Alcoholic Beverage Commission (TABC) for posting to their website.

II. FISCAL YEAR 2018 INTERNAL AUDIT PLAN STATUS

Sandersen & Scheffer PLLC prepared the Fiscal Year 2018 Annual Internal Audit plan based on a comprehensive review of prior activity and risk assessment procedures which was approved by the TABC commissioners on March 28, 2018.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

The Internal Auditor did not perform any services which would be considered consulting engagements, as defined in the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, and no non-audit services, as defined in Government Auditing Standards, 2011 Revision, Sections 3.33 - 3.58, during fiscal year 2018.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

S&S has been a member of the AICPA since inception, and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that we have consistently received an opinion of Pass in our external peer review of our accounting and auditing practice by the AICPA which is the equivalent of an unmodified opinion received under prior peer review language. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that S&S complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter in Appendix A.



V. FISCAL YEAR 2017 INTERNAL AUDIT PLAN

S&S developed the Fiscal Year 2018 Internal Audit Plan based on results of the annual risk assessment. The risk assessment included reviewing the agency's strategic plan, the Legislative Appropriations Request and the Survey of Employee Engagement results; reviewing prior audit reports and findings; and conducting discussions with management. Our assessment evaluated risk exposures relating to the TABC's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. We also included consideration of contract management and information technology risks.

The State Auditor's Office (SAO) annual report guidelines included the requirement to indicate which projects in the audit plan address certain items described below.

Proposed audits will focus on internal controls and business processes

VI. INTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2018

The following represent external audit services that were procured by the Texas Alcoholic Beverage Commission or were ongoing in fiscal year 2018.

<i>Task</i>	<i>Description</i>	<i>Report Number</i>	<i>Report Date</i>	<i>Report Title</i>	<i>Audit Status</i>
1	SAO Audit - Evaluate issues addressed and actions taken	18-1	August 31, 2018	Regarding SAO Report No.17-2 - Financial Processes at the Alcoholic Beverage Commission - Evaluate issues addressed and actions taken	Complete
2	Review response to prior year internal audit	18-2	August 31, 2018	Review response to prior year internal audit	Ongoing
3	Legal - Internal Audit of Record Retention and PI Request Processing	18-3	August 31, 2018	Internal Audit of Record Retention and Public Information Request Processing	Complete
4	Operations - internal audit of:	18-4	August 31, 2018	Internal Audit of Selected Processes and Procedures within the Audit and Operations areas	
4A	New Vendor Acquisition				Complete
4B	Business processes related to cash receipts				Complete
4C	Alcoholic Beverage and Cigarette Tax Collection via the Port of Entry Tax Collection System (POETCS)				Complete
4D	Excise Tax filings and payments methodologies				Deferred to October 2018
4E	Mixed beverage audit methodologies				" "



VII. REPORTING SUSPECTED FRAUD AND ABUSE

In accordance with the requirements of Section 7.09, and the General Appropriations Act (84th Legislature, Conference Committee Report) Article IX, and Texas Government Code, Section 321.022, the Texas Alcoholic Beverage Commission has posted information on how to report suspected fraud, waste or abuse of state funds on their website.

VIII. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, S&S will communicate any significant changes of the audit plan to TABC's executive management and present these changes to the TABC Commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the Audit Committee will be submitted to the State Auditor's Office (SAO).

IX. 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
iacordinator@sao.texas.gov

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

Texas Alcoholic Beverage Commission
Kevin J. Lilly, Presiding Officer



Texas Alcoholic Beverage Commission Management
Adrian Bentley Nettles, Executive Director

X. PRESENTATION OF REPORT

This annual internal audit report was presented to the Commissioners and approved on September XX, 2018



Appendix A



Report on the Firm's System of Quality Control

December 27, 2017

To the Members of
Sandersen & Scheffer, PLLC
and the Peer Review Committee of the Texas Society of CPAs

We have reviewed the system of quality control for the auditing practice of Sandersen & Scheffer, PLLC (the firm) in effect for the year ended July 31, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards). A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included an engagement performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the auditing practice of Sandersen & Scheffer, PLLC in effect for the year ended July 31, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Sandersen & Scheffer, PLLC has received a peer review rating of *pass*.

Eide Bailly LLP
Certified Public Accountants

What inspires you, inspires us. eidebailly.com