



Texas Alcoholic Beverages Commission

Internal Audit Services

FY 2025 Annual Internal Audit Report

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.



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McConnell Jones

July 15, 2025

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Internal Audit Coordinator, State Auditor

Dear Ladies and Gentlemen:

Attached is the FY 2025 Internal Audit Annual Report for the Texas Alcoholic Beverage Commission (TABC). This 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 McConnell & Jones LLP (MJ) to provide internal audit services to the agency in accordance with The Texas Internal Auditing Act. MJ submits this FY 2025 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 Internal Audit Annual Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Internal Audit Annual Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the FY 2025 Internal Audit Annual Report is due November 1, 2025.

Please contact Darlene Brown at 713.968.1600 or James Person at james.person@tabc.texas.gov if you should have any questions about this audit report.

Sincerely,

Darlene Brown, CIA, CFE
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, McConnell & Jones LLP (MJ) will ensure the required Annual 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 2025 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2025 Annual Internal Audit plan based on a comprehensive risk assessment which was approved by the TABC commissioners. The table below reflects the status of the approved Internal Audit Plan as of July 23, 2025.

Fiscal Year 2025 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Cybersecurity	25-001	March 24, 2025	Cybersecurity Audit	Completed
2	IT Penetration Testing	25-002	May 30, 2025	Penetration Testing	Completed
3	Follow-Up on Audit Findings	24-004	June 10, 2025	Report on Prior Audit Findings Follow-Up	Completed
4	Annual Internal Audit Report	N/A	N/A	N/A	Completed
5	Audit Communications, Committee Meetings, Project Management	N/A	N/A	N/A	On-going

Deviations from FY 2025 Annual Internal Audit Plan

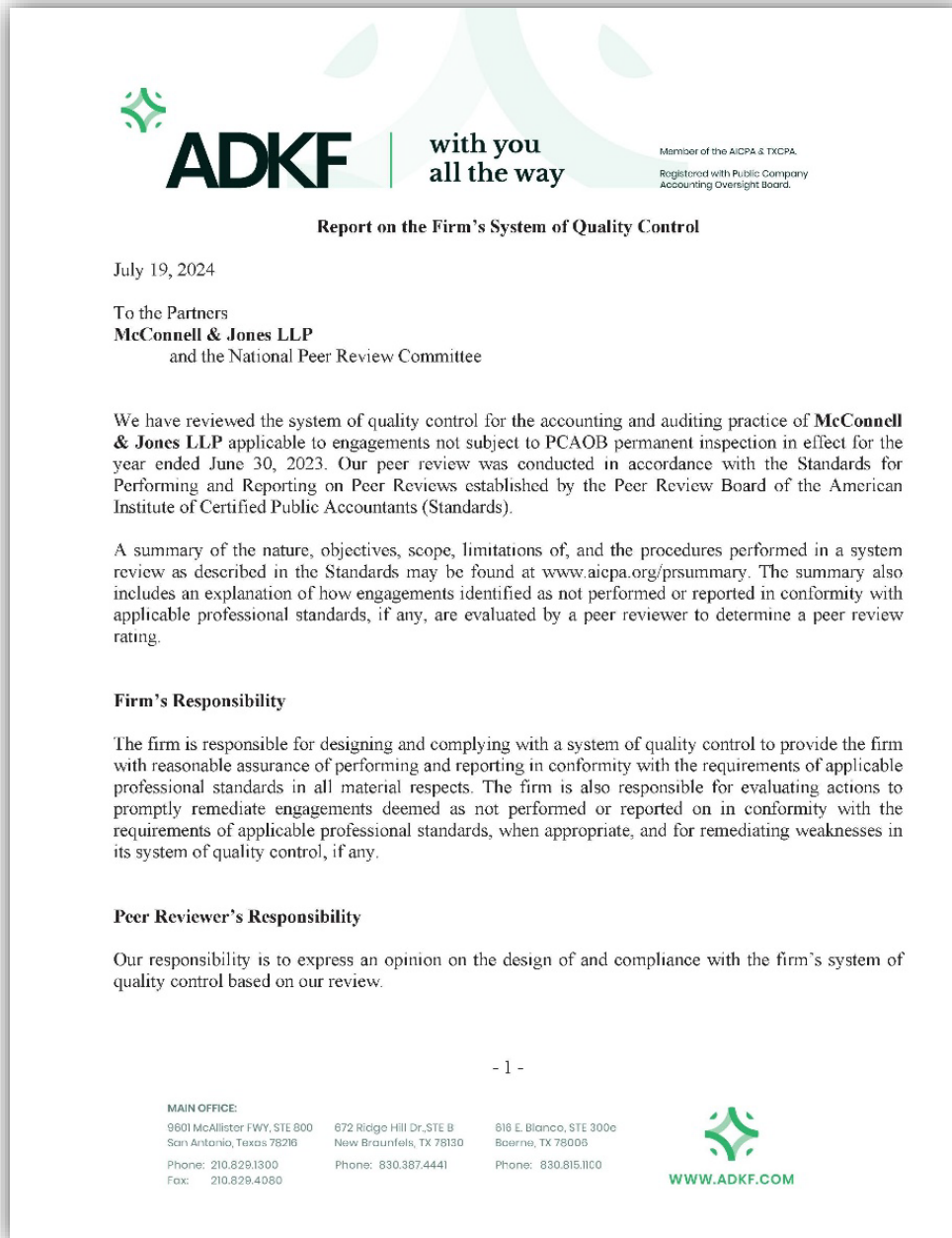
The FY 2025 Annual Internal Audit Plan was executed as originally approved with no deviations made.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit did not perform any consulting services during FY 2025.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987 and is subject to the AICPA's peer review process every three years. Issues noted by the peer reviewer were related to another practice line in the firm and not the risk advisory services practice. MJ developed an action plan to remediate the deficiencies noted. We provide a copy of our most recent peer review letter below.



Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act and audits of employee benefit plans.

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.

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiencies during our review:

- 1) The firm's quality control policies and procedures for engagement performance – supervision and review establish criteria to include supervision and review of the engagements in order for those engagements to comply with professional standards. Supervision and review on employee benefit plans and an audit in accordance with the single audit act was not adequate causing these engagements to not be performed in accordance with the standards. As a result, the following items were noted:
 - a. For the audit of a defined benefit plan, the firm did not document their understanding of the IT System, risks, and controls in the system, nor did they document the linkage between IT risk assessment and the procedures performed. In the audit of a 403(b) plan, the firm relied on control documentation from the prior year audit but did not carry the documentation forward into the workpapers selected for peer review. This caused the firm to omit documentation over the understanding of controls to include observation and inspection, inquiries of management, and controls at the service organization. In the single audit engagement performed under *Government Auditing Standards*, the firm failed to document inherent risk by assertion, sample size rational and population, and rational for dual testing of internal control and compliance testing. This resulted in two employee benefit plans and the single audit that did not conform to professional standards.
 - b. Sign-offs on various workpapers of two audits under *Government Auditing Standards* and an agreed upon procedures engagement were dated more than 60 days after the report release date.
- 2) The firm's quality control policies and procedures for monitoring has not been suitably complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. The firm's monitoring involved discussing areas for improvement in engagement performance with staff conducting employee benefit plans. In addition, the firm performed post-issuance reviews of engagements, but those reviews were not completed timely. As a result, the items noted in 1a and 1b caused two employee benefit plan audits and one single audit that did not conform to professional standards.

Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of **McConnell & Jones LLP** applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2023, 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*. **McConnell & Jones LLP** has received a peer review rating of *pass with deficiencies*.

ADKF, PC
ADKF, P.C.

V. INTERNAL AUDIT PLAN FISCAL YEAR 2026

MJ developed the Fiscal Year 2026 Annual Internal Audit Plan based on results of a comprehensive risk assessment which focused on the agency's audit universe and prioritizing audit resources on the highest risk areas. 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.

For FY 2026, MJ will conduct two scheduled audits, follow-up on prior audit findings and prepare the FY 2026 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **309 hours**. The planned audit activities, timing and estimated hours are summarized in the table below.

FY 2026 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Warehouse Operations with Fleet Management	High	October - December 2025	202
2	Staffing Advisory	High	September 2025	64
3	External Audit Assistance	Compliance	As Needed	2
4	Follow-Up on Audit Findings	Compliance	On-Going	8
5	Annual Updates and Internal Audit Report	Compliance	July 2025	21
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	12
	Total Hours			309

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2025

External audit services procured in fiscal year 2025 consisted of internal audit services necessary to execute TABC's internal audit plan.

VII. REPORTING SUSPECTED FRAUD AND ABUSE

Texas Alcoholic Beverage Commission includes a link to the State Auditor's Office website for fraud reporting at the footer of the Texas Alcoholic Beverage Commission website. In addition, reporting suspected fraud to the State Auditor is included in the agency's policies and procedures. These actions were implemented to comply with: Article IX, Section 7.10, the General Appropriations Act (81st Legislature)

- Article IX, Section 7.10, the General Appropriations Act (81st Legislature).
- Texas Government Code, Section 321.022.
- Section 7.09, page IX-37, the General Appropriations Act (86th Legislature), and

- Section 7.09, page IX-38, the General Appropriation Act (87th Legislature).

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's Global Standards, MJ 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.

This annual internal audit report was provided to the TABC Commissioners on June 24, 2025.

IX. REPORT DISTRIBUTION

This report is being distributed to the following individuals.

Texas Alcoholic Beverage Commission Members

Deborah Gray Marino, Member
M. Scott Adkins, Member
Hasan K. Mack, Member
Chad M. Craycraft, Member

Oversight Agencies

Governor's Office of Budget Planning and Policy
Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office