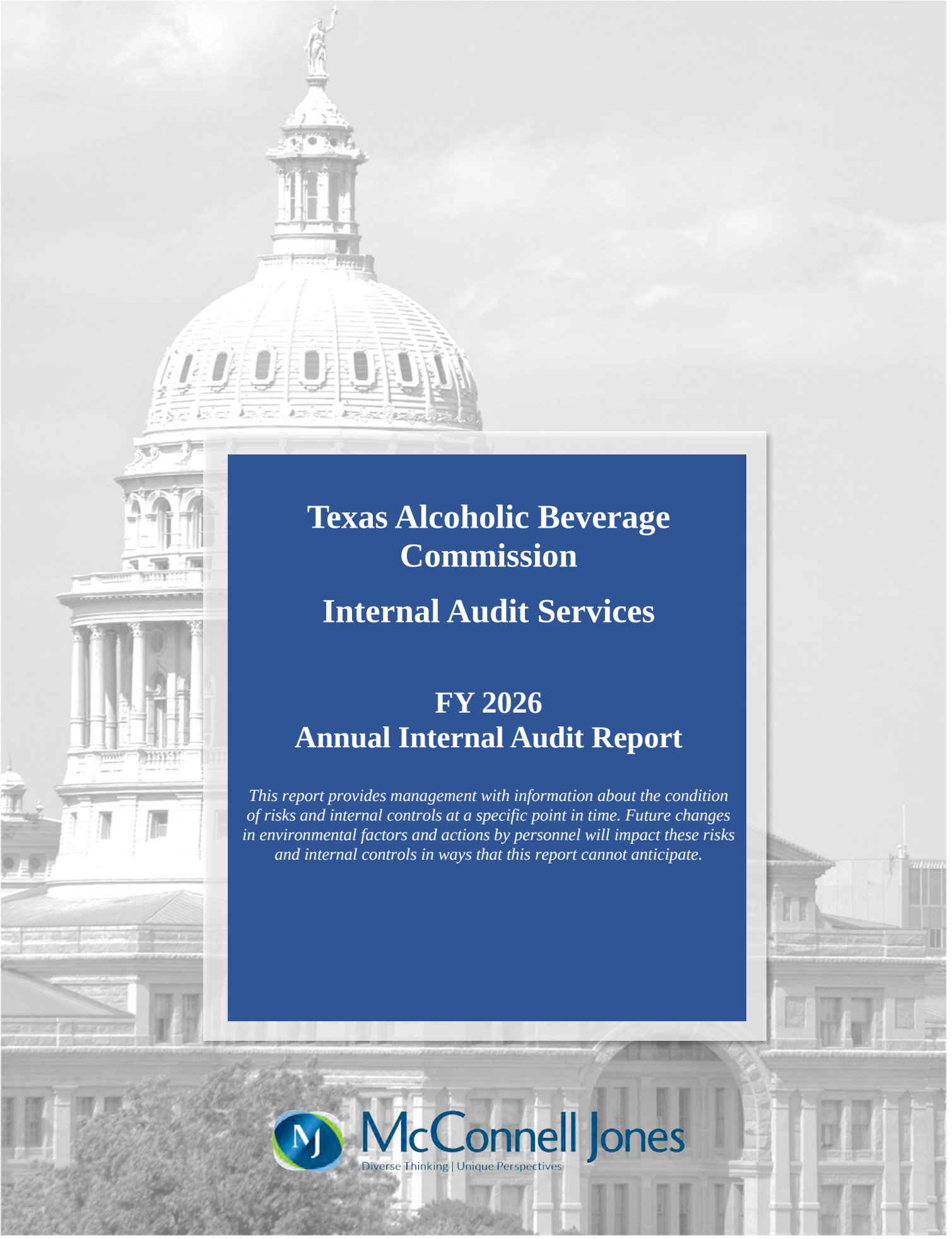


The background of the entire page is a grayscale photograph of the Texas State Capitol building. The image is dominated by the large, ornate dome, which features a statue of Liberty on top. The building's facade, with its classical columns and arches, is visible at the bottom and sides. The sky is filled with soft, white clouds.

Texas Alcoholic Beverage Commission

Internal Audit Services

FY 2026 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.



McConnell Jones
Diverse Thinking | Unique Perspectives

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McConnell Jones

October 4, 2026

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

Dear Ladies and Gentlemen:

Attached is the FY 2026 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 2026 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, Section 2102.009, the FY 2026 Internal Audit Annual Report is due November 1, 2026.

Please contact Liz Meyers at 512.828.3129 or James Person at james.person@tabc.texas.gov if you should have any questions about this audit report.

Sincerely,

Elizabeth (Liz) Meyers, CPA, CFE
Partner

6805 N. Capital of Texas Hwy.
Austin, TX 78731
Phone : 512.430.5358

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I. COMPLIANCE WITH POSTING REQUIREMENTS

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post the approved annual audit plan and internal audit annual report to the agency's internet website. 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. INTERNAL AUDIT PLAN FOR FISCAL YEAR 2026

McConnell & Jones LLP prepared the Fiscal Year 2026 Annual Internal Audit plan which was approved by the TABC commissioners. The table below reflects the status of the approved Internal Audit Plan as of August 31, 2026.

Fiscal Year 2026 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Warehouse Operations with Fleet Management	26-001	February 13, 2026	Warehouse Operations with Fleet	Completed
2	Staffing Advisory	26-002	May 30, 2026	Penetration Testing	Completed
3	Follow-Up on Audit Findings	26-003	May 21, 2026	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 2026 Annual Internal Audit Plan

The FY 2026 Annual Internal Audit Plan was executed as originally approved with no deviations.

III. CONSULTING SERVICES AND OTHER ACTIVITIES

Internal audit performed one advisory/consulting service during FY 2026, Staffing Advisory noted above. The objective of this advisory engagement was to evaluate the effectiveness of the TABC's

staff development strategy, including its ability to proactively identify employees interested in career progression and provide targeted training and mentorship to support leadership readiness and workforce continuity.

Internal Audit facilitated the creation of a structured staff development plan that proactively identifies employees with an interest in career progression. We also provided tools and training on the respective tools. The TABC Executive Team worked together to develop an action plan to formalize the agency's continuity plan during the engagement.

IV. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2026

External audit services procured in fiscal year 2026 consisted of internal audit services necessary to execute TABC's internal audit plan.

V. 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.


ADKF

with you
all the way

A member of the ADKF & TACOB
Organizational Planning Committee
& Governance Oversight Board

Report on the Firm's System of Quality Control

July 19, 2024

To the Partners
McConnell & Jones LLP
and the National Peer Review Committee

We have reviewed 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. 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 and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of 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 on in conformity with the requirements of applicable 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 and compliance with the firm's system of quality control based on our review.

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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

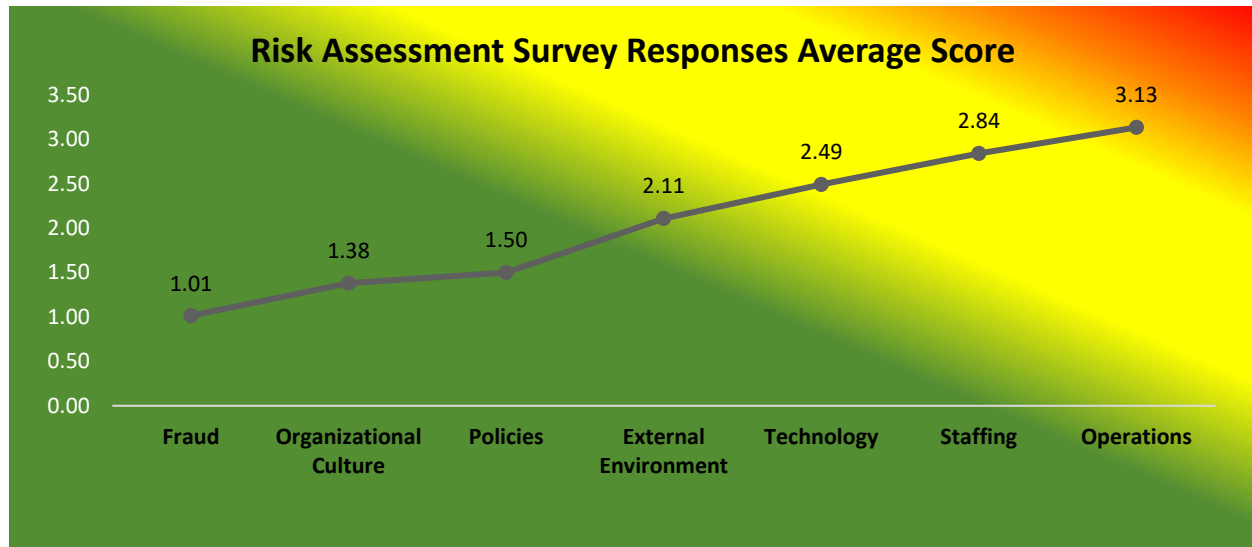
In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of **McConnell & Jones LLP** applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2023, has been suitably designed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

ADK/PC
ADKF, P.C.

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VI. INTERNAL AUDIT PLAN FISCAL YEAR 2027

MJ developed the Fiscal Year 2027 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. The focus of our risks assessment included the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. The following heatmap provides a summary of the risk assessment results.



For FY 2027, MJ will conduct three scheduled audits, follow-up on prior audit findings and prepare the FY 2027 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **357 hours**. The planned audit activities, timing and estimated hours are summarized in the table below.

Texas Alcoholic Beverage Commission FY 2027 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Open Records Administration	High	February – April 2027	114
2	Communications - Internal	Medium	November 2026- January 2027	87
3	Office of the Inspector General	High	February -April 2027	99
4	External Audit Assistance	Compliance	As Needed	2
5	Follow-Up on Audit Findings	Compliance	On-Going	15
6	Annual Risk Assessment	Compliance	May 2026	16
7	Annual Internal Audit Report	Compliance	August 2027	12

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
8	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	12
	Total Hours			357

In accordance with Section 2102.008 of the Government Code, this plan was approved by the TABC Commissioners on September 22, 2026.

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:

- Section 7.09, page IX-41, the General Appropriations Act (89th Legislature) and
- Texas Government Code, Section 321.022.

This annual internal audit report was provided to the TABC Commissioners.

VIII. REPORT DISTRIBUTION

This report is being distributed to the following individuals:

Texas Alcoholic Beverage Commission Members

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

Oversight Agencies

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