



## **TEXAS ALCOHOLIC BEVERAGE COMMISSION**

### **#18-4 Internal Audit of Selected Processes and Procedures within the Audit and Operations areas**

**August 31, 2018**

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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.



TABLE OF CONTENTS

Introduction ..... 5

Objective and Scope ..... 5

    Objective ..... 5

    Scope ..... 5

Results and Conclusion ..... 5

Acknowledgement ..... 6

Process & Procedures ..... 6

Business Objective 1 Review of all new vendors for the Months of May, June and July ..... 6





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## INTRODUCTION

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Sandersen & Scheffer PLLC (SnS) serving as the outsourced internal audit function (Internal Audit) for the Texas Alcoholic Beverage Commission (TABC) performed an internal audit of Audit and Business Operations. We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Pertinent information has not been omitted. This report summarizes the audit scope, our assessment based on our audit objectives and the audit approach.

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## OBJECTIVE AND SCOPE

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### Objective

The objective of this audit is to review the agency’s policies and procedures pertaining to the acquisition of the new vendors as it is governed by the State of Texas Procurement and Contract Management Guide. Identify the agency’s

steps taken as it adheres to the Guide when soliciting new vendors.

### Scope

Transactional activity during the fiscal year ended August 31, 2018

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## RESULTS AND CONCLUSION

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Internal Audit categorizes audit findings as Effective, Some Improvement Needed, Major Improvement Needed,

Unsatisfactory and Best Practices. Ratings are presented by business objective.

DESCRIPTION OF RATINGS	
Best Practices	Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.
Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally, however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.



Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.
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## ACKNOWLEDGEMENT

We wish to thank all staff involved in this audit for their professionalism and positive outlook toward the requests made in our assessments of the process of

Audits and Operations Requests. The timely completion of this audit was due to their efforts, and maintenance of documentation in electronic format.

## PROCESS & PROCEDURES

We reviewed the process of Vendor selection. This process is governed by the State of Texas Procurement and Contract Management Guide. The Procurement Cycle consists of five major stages as outlined in the guide: Procurement Planning, Procurement Method determination, Vendor Selection, Contract formation and Award, and Contract Management. Depending of the monetary value of the contract and depending on the nature of goods and services proved, different processes maybe applied in the selection of the New Vendors.

If a contract value less than \$5,000 for purchases of any Goods and Services, Oil and Fuel purchases, Repair Purchases and Emergency Purchases, Competitive Process is not required. For the contracts valued over \$5,000 but less than \$25,000 Informal competitive solicitation is required in purchasing of Goods and Services, Oil and Fuel, Repairs, and Emergency Purchases. For contract value over \$25,000 Formal Solicitation is required.

### Rating on following topic: Effective

BUSINESS OBJECTIVE 4A REVIEW OF ALL NEW VENDORS FOR THE MONTHS OF MAY, JUNE AND JULY	
<b>Business Objective</b>	Ensure that TABC’s process of selection of new vendors is according to the guidelines as it is outline in the State of Texas Procurement and Contract Management Guide.
<b>Business Risk</b>	Vendors are not selected in accordance with the State of Texas Procurement and Contract Management Guide which could result in noncompliance with the Guide’s rules.
<b>Management Controls</b>	<ul style="list-style-type: none"> <li>➤ Detailed written procedures exist and are reviewed on a regular basis</li> <li>➤ Updating of processes and procedures is a collaborative effort of the divisions involved in cross checking of the new vendors.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Conducted interviews</li> <li>➤ Performed audit testing</li> </ul>



	<ul style="list-style-type: none"> <li>Analyzed applicable documentation</li> </ul>
<b>Control Environment Assessment</b>	<ul style="list-style-type: none"> <li>The CAPPS system functions as unified platform where requisitions, purchase orders and payment vouchers are originated.</li> <li>All applicable activity in the system are reviewed by the designated personal in accordance with the State of Texas Procurement and Contract Management</li> </ul>
<b>Recommended Actions</b>	<ul style="list-style-type: none"> <li>Cross train staff in use of the system, while maintaining appropriate controls and audit trails.</li> </ul>
<b>Management Action Plan</b>	<p>This has been addressed in the self-assessment plan as well the Strategic Plan for Fiscal Years 2019-2023. Attainment is contingent upon actions requested.</p>

- The State of Texas Procurement and Contract Management Guide ensures proper guidelines in solicitations for goods and services from new vendors. In general, TACB has several levels which govern these selections of new vendors.
- If a contract value less than \$5,000 for purchases of any Goods and Services, Oil and Fuel purchases, Repair Purchases and Emergency Purchases, Competitive Process is not required. For the contracts valued over \$5,000 but less than \$25,000 Informal competitive solicitation is required in purchasing of Goods and Services, Oil and Fuel, Repairs, and Emergency Purchases. For contract value over \$25,000 Formal Solicitation is required.
- We selected 10 new vendors from the months of May, June, and July of 2018 and tested for appropriate vendor procurement and selection process as well as proper vendor approvals. There were no exceptions noted in the procurement and selection process and all selected vendor procurement documents appeared to have proper approvals.

**Rating on following topic: Needs Improvement**

BUSINESS OBJECTIVE 4B, BUSINESS PROCESSES RELATED TO CASH RECEIPTS	
<b>Business Objective</b>	Texas Government Code, Section 404.094, requires revenue to be deposited within 3 business days of receiving the payment.
<b>Business Risk</b>	Loss of interest revenue to the State.
<b>Management Controls</b>	<ul style="list-style-type: none"> <li>Funds to be deposited are forwarded to Headquarters at the close of each day's business with delivery subject to courier/mail efficiency.</li> <li>Headquarters makes daily deposits from that day's incoming funds prior to working any associated paperwork and other documentation.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>Conducted interviews</li> <li>Performed audit testing</li> <li>Analyzed applicable documentation</li> </ul>



<b>Control Environment Assessment</b>	<ul style="list-style-type: none"> <li>➤ Risk mitigation is dependent on eliminating timing uncertainties with delivery from field offices.</li> <li>➤ A delivery based system between field offices and headquarters has built in inefficiencies due to float compared to onsite posting of deposits.</li> </ul>
<b>Recommended Actions</b>	<ul style="list-style-type: none"> <li>➤ Implement onsite remote capture at field offices.</li> <li>➤ Consider online enhancements to the processes. This can create a first level of form based review and enhance the flow of data into Agency files. In a time of growth in the State economy and growth, this can allow the Agency to re-allocate tasks amongst FTP's in order to enhance efficiency.</li> </ul>
<b>Management Action Plan</b>	This has been addressed in the self-assessment plan as well the Strategic Plan for Fiscal Years 2019-2023. Attainment is contingent upon actions requested.

**Rating on following topic: Major Improvement Needed**

**Comments:**

- Failure to mitigate obsolescence risk could result in a downgrade of rating to Unsatisfactory
- Failure to mitigate software limitations for multiple wine rates will require approvals and actions from outside the agency.
- Mitigation steps necessary will require approvals and action from outside the agency.

BUSINESS OBJECTIVE 4C -ALCOHOLIC BEVERAGE AND CIGARETTE TAX COLLECTION VIA THE PORT OF ENTRY TAX COLLECTION SYSTEM (POETCS)	
<b>Business Objective</b>	<ul style="list-style-type: none"> <li>➤ Utilize reliable hand-held devices to automate and control tax collection activities at Ports of Entry</li> <li>➤ Apply the proper tax rate to wine at Ports of Entry (POE). Texas Alcoholic Beverage Code, Section 201.04, requires the use of three different tax rates based on the alcohol content of a gallon of wine</li> </ul>
<b>Business Risk</b>	<ul style="list-style-type: none"> <li>➤ Uncertainties created by use of equipment without repair warranty, and supporting software no longer supported by Microsoft</li> <li>➤ Charging the wrong rate of tax on wine based on the Point of Sale System (known as POETCS) utilized.</li> </ul>
<b>Management Controls</b>	<ul style="list-style-type: none"> <li>➤ Utilization of POETCS to automate process of collection</li> <li>➤ Reconcile actual daily collections against amounts computed by POETCS.</li> <li>➤ Reconcile actual deposits to records of funds to be deposited.</li> </ul>
<b>Control Tests</b>	<ul style="list-style-type: none"> <li>➤ Conducted interviews</li> <li>➤ Performed audit testing</li> <li>➤ Observed point of sales system in field.</li> <li>➤ Analyzed applicable documentation</li> </ul>





<p><b>Control Environment Assessment</b></p>	<ul style="list-style-type: none"> <li>➤ The current system is at or beyond its service life.</li> <li>➤ The operating systems are Windows XP/ Vista based, neither of which have been supported by Microsoft since April 8, 2014.</li> <li>➤ The handheld hardware is at or end of its service and support life meaning that supply of hardware cannot be reliably maintained.</li> <li>➤ There is limited/no current capability to support three wine rates.</li> </ul>
<p><b>Recommended Actions</b></p>	<ul style="list-style-type: none"> <li>➤ Update the POETCS system as contemplated, subject to any potential constraints of the budget process and capital asset acquisition processes.</li> <li>➤ Evaluate the feasibility of utilizing ship board collection of taxes and stamping, similar to that which is utilized in cigarette stamping with existing wholesale distribution companies in Texas. While this will not eliminate all potential issues, it should be considered as it relates to the significant volume that originates from ship board sales.</li> <li>➤ Modify metrics to consider non-revenue mission attributes involved with POE sites to:             <ul style="list-style-type: none"> <li>⇒ Recognize that public health issues related to import of illegal or tainted alcoholic beverages are involved.</li> <li>⇒ Recognize that controlling import volume mitigates negative impact on legitimate brick and mortar retailers in POE areas as well as seaports.</li> <li>⇒ Recognize that control activities at POE's are another aspect of border security to the extent that this an important matter of public policy.</li> </ul> </li> </ul>
<p><b>Management Action Plan</b></p>	<p>This has been addressed in the self-assessment plan as well the Strategic Plan for Fiscal Years 2019-2023. Attainment is contingent upon actions requested.</p>