



TEXAS ALCOHOLIC BEVERAGE COMMISSION

**#18-1 Regarding SAO Report No. 17-2
Financial Processes at the Alcoholic Beverage
Commission**

Evaluate issues addressed and actions taken

August 31, 2018

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INTRODUCTION

Sandersen & Scheffer PLLC (SnS) serving as the outsourced internal audit function (Internal Audit) for the Texas Alcoholic Beverage Commission (TABC) performed an internal audit regarding SAO Report No. 17-2 - Financial Processes at the Alcoholic Beverage Commission. 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.

OBJECTIVES AND SCOPE

The objective of this audit is to evaluate the contemporary status of items highlighted in the source audit and to identify the Agency’s actions taken regarding related processes and related

controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Agency policies and procedures

RESULTS AND CONCLUSIONS

Internal Audit categorizes audit findings as Effective, Some Improvement Needed, Major Improvement Needed, Unsatisfactory and Best Practices. Based

on the audit results, we determined that the there is:

Some Improvement Needed

Ratings Structure

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.

Acknowledgement

We wish to thank all staff involved in this audit for their professionalism and positive outlook toward the requests made in our evaluation of progress made to date regarding SAO Report No.17-2 | Financial Processes at the Alcoholic

Beverage Commission. The completion of this audit was due to their efforts, and maintenance of documentation in electronic format and other appropriate formats.

PROCESS PROCEDURES & RESULTS

With respect to management responses previously provided regarding SAO Report No. 17-044 we considered those clearly still in process as well as those in

need of further consideration. The following major comment categories were presented in SAO Report No. 17-044:

Major Comment Categories from SAO Report No. 17-044	
Chapter 1	The Agency Had Adequate Controls to Collect and Record Revenues in Accordance with Applicable Statutes, Rules, and Agency Policies and Procedures.
Chapter 2	The Agency Had Adequate Controls Over Payroll Actions; However, It Should Improve Certain Processes Related to Payroll Actions.
Chapter 3	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.
Chapter 4	Overall, the Agency Had Adequate Controls Over Nontravel Expenditures; However, It Should Strengthen and Enforce Controls Over Processing of Travel Expenditures.
Chapter 5	While the Agency Had Controls Over Automated Systems to Administer Financial Transactions, It Should Improve Certain Information Technology Controls.



Rating for following topic: Some Improvement Needed

Chapter 1, Recommendation #1 - Consistently deposit revenue within three business days of receipt.	
Business Objective	Texas Government Code, Section 404.094, requires revenue to be deposited within 3 business days of receiving the payment.
Business Risk	Loss of interest revenue to the State.
Management Controls	<ul style="list-style-type: none"> ➤ Funds to be deposited are forwarded to Headquarters at the close of each day's business with delivery subject to courier/mail efficiency. ➤ Headquarters makes daily deposits from that day's incoming funds prior to working any associated paperwork and other documentation.
Control Tests	<ul style="list-style-type: none"> ➤ Conducted interviews ➤ Performed audit testing ➤ Analyzed applicable documentation
Control Environment Assessment	<ul style="list-style-type: none"> ➤ Risk mitigation is dependent on eliminating timing uncertainties with delivery from field offices. ➤ A delivery based system between field offices and headquarters has built in inefficiencies due to float compared to onsite posting of deposits.
Recommended Actions	<ul style="list-style-type: none"> ➤ Implement onsite remote capture at field offices. ➤ 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.
Management Action Plan	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 for 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.



Chapter 1, Finding #4 - Update its policies and procedures to include its current tax rate procedures for alcoholic beverages at the ports of Entry.	
Business Objective	<ul style="list-style-type: none"> ➤ 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.
Business Risk	<ul style="list-style-type: none"> ➤ Charging the wrong rate of tax on wine based on the Point of Sale System (known as POETCS) utilized.
Management Controls	<ul style="list-style-type: none"> ➤ Utilization of POETCS to automate process of collection ➤ Reconcile actual daily collections against amounts computed by POETCS. ➤ Reconcile actual deposits to records of funds to be deposited.
Control Tests	<ul style="list-style-type: none"> ➤ Conducted interviews ➤ Performed audit testing ➤ Observed point of sales system in field. ➤ Reviewed current warranty repair and end of life cycle indications. ➤ Analyzed applicable documentation
Control Environment Assessment	<ul style="list-style-type: none"> ➤ The current system is at or beyond its service life. ➤ The operating systems are Windows XP/ Vista based, neither of which have been supported by Microsoft since April 8, 2014. ➤ The handheld hardware is at or end of its service and support life meaning that supply of hardware cannot be reliably maintained. ➤ There limited/no capability to support three wine rates.
Recommended Actions	<ul style="list-style-type: none"> ➤ Update the POETCS system as contemplated, subject to any potential constraints of the budget process and capital asset acquisition processes. ➤ 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. ➤ Modify metrics to consider non-revenue mission attributes involved with POE sites to: <ul style="list-style-type: none"> ⇒ Recognize that public health issues related to import of illegal or tainted alcoholic beverages are involved. ⇒ Recognize that controlling import volume mitigates negative impact on legitimate brick and mortar retailers in POE areas as well as seaports. ⇒ Recognize that control activities at POE's are another aspect of border security to the extent that this an important matter of public policy.
Management Action Plan	<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>



Rating for following topic: Effective

Comment: Implementation of additional control recommendations could result in an upgrade of rating to Best Practices

Chapter 4, Finding #5 - Overall, the Agency Had Adequate Controls Over Non-travel Expenditures; However, It Should Strengthen and Enforce Controls Over Processing of Travel Expenditures	
Business Objective	Best internal control practices. The executive director of the Agency has ultimate responsibility for day-to-day operations, making it difficult for a single person working under him or her to approve, deny or question those expense reports. To fulfill its fiduciary responsibilities without offending its executive director, the board of directors should establish a written plan for auditing as well as providing board oversight its executive director's expense report.
Business Risk	Avoid
Management Controls	A person who should audit an executive director's expense report is the person who causes the reimbursement check to be written. The Finance Department head can also be a reviewer/approver.
Control Tests	<ul style="list-style-type: none"> ➤ Conducted interviews ➤ Analyzed applicable documentation
Control Environment Assessment	At least one person who is subordinate to the Executive Director should be caused to review processed expense reports on a periodic basis.
Recommended Actions	Provide a list of Executive Director expense reports reimbursed since the last quarterly cycle during the first board meeting occurring in the next quarterly cycle and cause the packet to reviewed and initialed by two directors in attendance.
Management Action Plan	This is in addition to procedures put in place subsequent to issuance of SAO Report No. 17-044 and strengthens the procedures as they relate to subordinate review.

Rating for following topic: Effective

Chapter 5, Recommendation #2 - Periodically review and update user access, remove unauthorized users' access to automated systems and applications, and ensure that users have only the access necessary to perform their job functions.	
Business Objective	Best internal control practices for IT
Business Risk	Unauthorized access to IT systems
Management Controls	<p>Periodically: Adding/Removing Access</p> <ul style="list-style-type: none"> ➤ TABCHR sends CAPPs Security Coordinator emails as terminations are announced/received ➤ CAPPs Security Coordinator verifies if employee has CAPPs/USAS access ➤ If so, a Security Ticket is submitted to remove the user's access



	<p>Semi Annual Verification: Adding/Removing/Modifying Access</p> <ul style="list-style-type: none"> ➤ Agencies are notified via email and via FMX website of the Semi Annual Verification Deadline/Requirements ➤ A handful of reports are provided to the agency via email notification and the additional reports must be downloaded/retrieved from FMX security portal ➤ A folder is created under the K drive > CAPPs to save, review and edit reports to include Job Profiles based on Comptroller definitions ➤ These reports cover USAS, USPS, TINS, SPA, CAPPs and other various reports to verify security access for agencies employees ➤ Emails are sent to the User’s managers and they are required to verify the employee requires the same access in their current role and/or request removal/modifications ➤ Management must respond to the emails as verification of review that may include removals/modifications ➤ Upon receipt of verification emails, Security Coordinator submits Security tickets to: <ul style="list-style-type: none"> ⇒ Add employee access (after CTIA form is received) ⇒ Remove employee access ⇒ Modify employee access (due to new role) ➤ Once Semi Annual verification is completed, SFS Users Semiannual Security Access Attestation must be filled out and submitted to CPA. ➤ All documentation is kept on file and reviewed for completion of Security tickets
<p>Control Tests</p>	<ul style="list-style-type: none"> ➤ Conducted interviews ➤ Performed audit testing ➤ Analyzed applicable documentation
<p>Environment Assessment</p>	<p>TABC restated its internal procedures regarding IT access and has implemented controls to address the concerns highlighted.</p>
<p>Recommended Actions</p>	<p>None - Rating: Effective</p>
<p>Management Action Plan</p>	<p>n/a</p>