

The background of the entire page is a grayscale photograph of the Texas State Capitol building in Austin. The image shows the iconic white dome with the Statue of Liberty on top, and the classical architectural details of the building's facade, including columns and arches. The sky is overcast with soft clouds.

**Texas Alcoholic Beverage  
Commission**

**Internal Audit Services**

**FY 2022 and FY 2023  
Internal Audit Plan**

**MJ**

**McCONNELL & JONES LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

March 28, 2022

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

Dear Ladies and Gentlemen:

Attached is the FY 2022 and FY 2023 Internal Audit Plan for the Texas Alcoholic Beverage Commission (TABC) approved by TABC's Commissioners on March 22, 2022. The Annual Internal Audit Plan will enable the TABC to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. McConnell & Jones LLP (MJ) will execute this annual audit plan in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Darlene Brown at 713.968.1617 or Clark E. Smith at [clark.smith@tabc.texas.gov](mailto:clark.smith@tabc.texas.gov) if you should have any questions about this audit plan.

Sincerely,

Darlene Brown, CIA, CFE  
Partner

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## **1.0 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 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, MJ will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Alcoholic Beverage Commission's (TABC) General Counsel who will ensure the information is posted to their website.

## **2.0 PURPOSE**

The purpose of this document is to communicate the bi-annual risk-based audit plan as approved by the TABC's Commissioners, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan.

The Bi-Annual Internal Audit Plan was developed based on a prioritization of the audit universe, input from the TABC's leadership team, Commissioners and guidance provided by the State Auditor's Office (SAO). Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk rating.

## **3.0 RISK ASSESSMENT**

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of the TABC's leadership team and Commissioners. 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, policies and procedures, and contracts.

The types of risk exposure relevant to the TABC are:

- *Financial Exposure:* Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure:* Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
  - Recent changes in key personnel
  - Changing economic conditions
  - Time elapsed since last audit
  - Pressures on management to meet objectives
  - Past audit findings and quality of internal control
- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure:* A reputational exposures exists whenever an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

### 5.0 FY 2022 AND FY 2023 INTERNAL AUDIT PLANS

MJ will conduct one scheduled audit, follow-up on prior audit findings and prepare the FY 2022 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **199 hours**. The planned audit activities, timing and estimated hours are summarized in the table below.

#### FY 2022 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Port of Entry <ul style="list-style-type: none"> <li>Revenue Collection &amp; Recording</li> <li>Revenue Deposit</li> <li>Revenue Reporting</li> <li>Staffing</li> <li>Compliance</li> </ul>	High	May 2022 – July 2022	181
2	Follow-Up on Audit Findings	Compliance	On-Going	12
3	Annual Internal Audit Report	Compliance	August 2022	3
4	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	3
	<b>Total Hours</b>			<b>199</b>
	<b>Total Fees FY 2022</b>			<b>\$49,792</b>

*Proposed audits will focus on internal controls and business processes*

*Note: FY2022 included the initial comprehensive risk assessment which is not included in these hours.*

For FY 2023, MJ will conduct two scheduled audits, follow-up on prior audit findings and prepare the FY 2023 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **346 hours**. The planned audit activities, timing and estimated hours are summarized in the table below.

#### FY 2023 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Data Security <ul style="list-style-type: none"> <li>Cybersecurity Protection</li> <li>Data Handling</li> <li>Compliance with Texas Administrative Code (TAC) 202</li> </ul>	High	September 2022 – December 2022	150
2	Licensing <ul style="list-style-type: none"> <li>AIMS Implementation</li> <li>Compliance with Policy, Statute and Rules</li> <li>Sunset Recommendation Implementation Status</li> </ul>	High	March 2023 – May 2023	174
3	Follow-Up on Prior Audit Findings	High	On-Going	6
4	Annual Internal Audit Report	Compliance	August 2022	4

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
5	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	12
	<b>Total Hours</b>			<b>346</b>
	<b>Total Fees</b>			<b>\$49,839</b>

*Proposed audits will focus on internal controls and business processes*

## 6.0 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, MJ will communicate any significant changes of the audit plan to TABC executive management and present these changes to the TABC’s Commissioners for review and approval. Notification of significant changes to the internal audit plan approved by the Commissioners will be submitted to the State Auditor’s Office.

This two-year internal audit plan was presented to the Commissioners and approved on March 22, 2022.