

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 its ornate top, the surrounding classical architecture with columns and arches, and a clear sky with some light clouds. The building is the central focus of the background.

# Texas Alcoholic Beverages Commission

## Internal Audit Services

### FY 2022 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

September 13, 2022

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 2022 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 2022 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 2022 Internal Audit Annual Report is due November 1, 2022.

Please contact Darlene Brown at 713.968.1600 or Martin Wilson at 512.206.3221 if you should have any questions about this audit report.

Sincerely,

Darlene Brown, CIA, CFE  
Partner

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## 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 2022 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2022 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 August 31, 2022.

### Fiscal Year 2022 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Ports of Entry	22-001	July 19,2022	Ports of Entry	Completed
2	Follow-Up on Audit Findings	N/A	N/A	N/A	On-going
3	Annual Internal Audit Report	N/A	N/A	N/A	Completed
4	Audit Communications, Committee Meetings, Project Management	N/A	N/A	N/A	On-going

### Deviations from FY 2022 Annual Internal Audit Plan

The FY 2022 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 2022.

#### **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. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter below.

**Opinion**

In our opinion, 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, 2020, 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*.

*Turner, Stone & Company, L.L.P.*

• Turner, Stone & Company, L.L.P.

*Your Vision Our Focus*



**Report on the Firm's System of Quality Control**

June 18, 2021

To the Partners of  
**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** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2020. 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](http://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 a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with 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 in conformity with 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 the system of quality control and the Firm's compliance therewith based on our review.

**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.

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## V. INTERNAL AUDIT PLAN FISCAL YEAR 2023

MJ developed the Fiscal Year 2023 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. From this, a three-year internal audit plan was developed and approved in FY2022.

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

### Fiscal Year 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 2023	4
5	Audit Communications, Committee Meetings, Project Management	N/A	All Year	12
<b>Total</b>				<b>346</b>

## VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2022

External audit services procured in fiscal year 2022 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, on

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 Performance Standard 2020, 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.



## **IX. REPORT DISTRIBUTION**

This report is being distributed to the following individuals.

### **Texas Alcoholic Beverage Commission Members**

Mr. Kevin J. Lilly, Chairman  
Mr. Jason E. Boatright, Member  
Deborah Gray Marino, Member  
M. Scott Adkins, Member  
Hasan K. Mack, Member

### **Oversight Agencies**

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