

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 and the surrounding classical architecture, including columns and arches. The sky is overcast with soft clouds.

Texas Alcoholic Beverages Commission

Internal Audit Services

FY 2023 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

TABLE OF CONTENTS

Section	Page Number
<i>I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET</i>	<i>2</i>
<i>II. FISCAL YEAR 2023 INTERNAL AUDIT PLAN STATUS.....</i>	<i>2</i>
<i>III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED.....</i>	<i>2</i>
<i>IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)</i>	<i>3</i>
<i>V. INTERNAL AUDIT PLAN FISCAL YEAR 2024</i>	<i>5</i>
<i>VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2023.....</i>	<i>6</i>
<i>VII. REPORTING SUSPECTED FRAUD AND ABUSE.....</i>	<i>6</i>
<i>VIII. SIGNIFICANT INTERIM CHANGES</i>	<i>6</i>
<i>IX. REPORT DISTRIBUTION.....</i>	<i>7</i>



McConnell Jones

September 13, 2023

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 2023 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 2023 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 2023 Internal Audit Annual Report is due November 1, 2023.

Please contact Darlene Brown at 713.968.1600 or James Person at james.person@tabc.texas.gov if you should have any questions about this audit report.

Sincerely,

Darlene Brown, CIA, CFE
Partner

9130 Jollyville Rd.
Suite 320
Austin, TX 78759
Phone : 512.430.5358

WWW.MCCONNELLJONES.COM

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 2023 INTERNAL AUDIT PLAN STATUS

McConnell & Jones LLP prepared the Fiscal Year 2023 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, 2023.

Fiscal Year 2023 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Data Security	23-002	January 11, 2023	Data Security	Completed
2	Licensing	23-002	May 22, 2023	Licensing Audit Report	Completed
3	Follow-Up on Audit Findings	23-003	June 15, 2023	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 2023 Annual Internal Audit Plan

The FY 2023 Annual Internal Audit Plan was executed as originally approved with no deviations made.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit performed an advisory review of the Agency’s data security. The purpose of this advisory activity was to review TABC’s current data security controls and processes

environment and provide a roadmap forward to ensure TABC has implemented an appropriate level of cybersecurity protection and complies with the Texas Administrative Code (TAC) 202.

The engagement scope period was September 1, 2022 - September 26, 2022.

Advisory Engagement Focus

The advisory engagement was focused on the Innovation & Technology (IT) Division's controls related to Data Security:

1. Cybersecurity Protection
2. Data Handling Processes
3. Compliance with Texas Administrative Code (TAC) 202

Advisory Engagement Conclusions

Prior agency management shifted ITD's priorities to focus on the implementation of the Alcohol Industry Management System (AIMS) and away from TAC 202 compliance. As a result, TABC's cybersecurity posture and TAC 202 compliance suffered.

We identified challenges that ITD staff encounter while performing their processes and made five (5) recommendations as a path forward to better align their services with TAC 202 and data handling requirements.

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. 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.

Turner, Stone & Company, L.L.P.
Accountants and Consultants
12700 Park Central Drive, Suite 1400
Dallas, Texas 75251
Telephone: 972-239-1660 / Facsimile: 972-239-1665
Toll Free: 877-833-4193
Web site: turnerstone.com



V. INTERNAL AUDIT PLAN FISCAL YEAR 2024

MJ developed the Fiscal Year 2024 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.

For FY 2024, MJ will conduct two scheduled audits, follow-up on prior audit findings and prepare the FY 2024 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **311 hours**. The planned audit activities, timing and estimated hours are summarized in the table below.

FY 2024 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Enforcement Operations & Law Enforcement Division <input type="checkbox"/> Organization Structure and Staffing <input type="checkbox"/> Written Policies <input type="checkbox"/> Operational Processes <input type="checkbox"/> Internal Investigation Processes and Tracking	High	November 2023 – December 2023	164
2	Executive Operations <input type="checkbox"/> Agency Organization Structure and Staffing <input type="checkbox"/> Organization Culture <ul style="list-style-type: none"> • Setting and Communicating Expectations • Management Practices • Engaging & Motivating Employees <input type="checkbox"/> Employee Sentiment and Action Plans <input type="checkbox"/> Policy Development & Enforcement <input type="checkbox"/> Hotline Promotion <input type="checkbox"/> Employee Assistance Program Promotion	High	March 2024 – May 2024	103
3	External Audit Assistance	Compliance	As Needed	4
4	Follow-Up on Audit Findings	Compliance	On-Going	17
5	Annual Updates and Internal Audit Report	Compliance	August 2022	10

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	13
	Total Hours			311
	Total Fees FY 2024			\$50,000

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2023

External audit services procured in fiscal year 2023 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