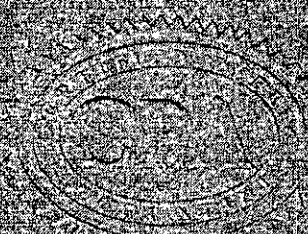


INTERNAL AUDIT OF THE  
LICENSING APPLICATION AND PROCESSING  
AS OF JUNE 26, 2017  
AT THE TEXAS ALCOHOLIC BEVERAGE COMMISSION  
(REPORT NO: TABC 017-002)



MONDAY RUTUS & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS



**MONDAY RUFUS & CO., P.C.**  
Certified Public Accountants & Advisors

Commission Members  
Texas Alcoholic Beverage Commission  
Austin, Texas

We have conducted an internal audit (audit) of the Licensing Application and Processing at the Texas Alcoholic Beverage Commission (Commission) as of June 26, 2017. The results of our audit disclosed that the Commission has procedures and controls in place related to the licensing application processing. We noted some opportunities for enhancing the controls in place in the licensing application processing.

The report that accompanies this letter summarizes our comments and recommendations.

*Monday Rufus & Co., P.C.*

June 26, 2017  
Austin, Texas

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## Executive Summary

### **Background Information**

In 1935, the Legislature created the Texas Alcoholic Beverage Commission (formerly the Texas Liquor Control Board).

The Texas Alcoholic Beverage Commission (Commission) is the state agency that regulates all phases of the alcoholic beverage industry in Texas. The duties of the Commission include regulating sales, taxation, importation, manufacturing, transporting, and advertising of alcoholic beverages.

The Commission collects in excess of \$300 million annually in taxes and fees from alcoholic beverage license and permit fees, alcohol beverages taxes, cigarette taxes, and revenue collected on audits. This revenue aids in the financing of the state's public schools, local governments, research, human services, and other areas in which state government provides services to all Texans and is deposited into the General Revenue Fund.

The Licensing Division is authorized seventy-seven (77) full-time-equivalent employees for fiscal years 2016 and 2017. The Licensing Division functions are aligned at headquarters as well as in five regions across the state with regional offices in Lubbock, Arlington, Houston, Austin, and San Antonio. The Licensing Division investigates and processes applications for all phases of the alcoholic beverage industry, including the manufacture, sale, purchase, transportation, storage, and distribution of alcoholic beverages. The division must ensure that each applicant qualifies to hold such license/permit and adheres to all applicable regulatory requirements. Licenses and permits are issued for a period of two years. In fiscal year 2016 approximately 82,386 licenses and permits were issued.

Three web-based systems used by the Licensing Division in the processing of license/permit applications in the state regional offices and TABC Headquarters are:

- *Agency Reporting Tracking System (ARTS):*  
ARTS is the internal TABC database for used to track work processed by personnel located at headquarters and in field offices. The system is used to track various license applications (originals, renewals and supplementals), cases, complaints and protests. Submitted license/permit original applications are entered into ARTS to begin documenting the application activities which may also include results from inspections and investigations conducted by Audit and Investigation and Enforcement Divisions.
- *Versa:Regulation (VR):*



VR is TABC's primary computer data base system utilized primarily by Licensing, Tax and Marketing Practices, Enforcement, and Audit and Investigation. License/permit application data is analyzed utilizing the VR system to ensure requirements and qualifications of the Texas Alcoholic Beverage Code are met.

- *Neubus (ESD):*  
Neubus is the electronic system which is used for imaging all applications to capture, store, manage, and share documents and information that has been imaged and allows all divisions of TABC access to these records.

Original license/permit applications continue to increase. Original license/permit applications are considered a priority and require the utilization of more licensing resources in the processing of these applications for new businesses. These original applications are being delivered by mail or walk-in at the regional offices. The Licensing Division continues to research ways to use its resources to accommodate the processing of applications. In July 2016 TABC began receiving via online, original applications which include; Agent's Permits (A), Agent's Beer Licenses (BK), Manufacturer's Agent's Permits (T), and Distiller's Agent's Permits (DK) to process. Licensing Division management continues to work with license/permit applicants in promoting the use of the TABC online services.

The Licensing Division collaborates closely with other divisions such as Legal, Business Services, Enforcement, and Audit and Investigation in order to provide any additional information and or support on licenses/permits applications.

#### **Summary of Internal Audit Results**

There are written policies and procedures related to the processing of the Licensing Division license/permit applications and related functions, and activities. We encourage the Licensing Division to continue working on having renewal and original license/permit applications submitted online so that available licensing staff resources may timely process the additional increase in license/permit applications being submitted to the Licensing Division.

#### ***Summary of Management's Responses***

*We concur with these findings and have been in communication with a Treasury Operations representative from the Texas Comptroller of Public Accounts office with reference to remote capture solutions. We mail money from the field offices on a daily basis. Once in the hands of the postal services, we have no control over the time it takes mail to arrive here at headquarters. Currently, license and permit holders can submit their renewal applications and pay fees online. Notices for renewing on-line are included with the renewal documents that are mailed 30-45 to license/permit holders. Our website*



also provides notices and information on how to renew online. The licensing division is initializing marketing efforts to reach out to all license and permit holders to encourage online submission. These marketing efforts will be implemented before year-end 2017 (12/31/2017) and will eliminate the mailing of paper renewals. Renewal notice postcards will diminish the number of paper renewals and directs the license/permit holder to go online to renew. Additionally, Rule 33.34 requires certain changes to be submitted 30 days following the date of the change in efforts to process renewal applications more efficiently.

Amy Harrison is working closely with our ITD division in collaboration with Xerox to meet this deadline. Ms. Harrison is also working with BSD division and the Treasury Operations Division of the State Comptroller to implement remote check deposits from our field offices by year end (12/31/2017). Ms. Amy Harrison is responsible for ensuring these implementations meet the year end deadline.

### **Objectives, Observations, Recommendations, and Management's Response**

The primary objectives of the internal audit were:

1. Reliability and Integrity of Information
2. Compliance with Policies, Procedures, Laws, and Regulations
3. Safeguarding of Assets
4. Efficiency and Effectiveness of Operating Procedures

### **RESULTS AND RECOMMENDATIONS**

#### **Internal Audit Objective 1: Reliability and Integrity of Information**

All license and permit applications submitted to the Licensing Division are reviewed by license and permit specialists to ensure accuracy and completeness of the documentation that has been submitted. The Licensing Division Resource Support Team also assist with questions which may arise during the processing of these applications. Once the license/permit application is approved any additional information received is imaged into the Neubus database system and is accessible to other TABC divisions such as Legal, Audit and Investigation, Enforcement, and Business Services.

#### **Internal Audit Objective 2: Compliance with Policies, Procedures, Laws, and Regulations**



To ensure that alcoholic industry license and permit holders comply with the applicable regulatory requirements, the Licensing Division functions involve working with the TABC Enforcement Division's Audit and Investigation units in monitoring licensees and permittees activities. The internal auditor randomly selected and tested a sample of thirty-seven (37) license/permit applications from a population of 37,687 applications processed during fiscal year 2016 to determine compliance with the TABC licensing requirements. No discrepancies were noted during the testing of the license/permit processing.

**Finding 1: License/Permit Application Fees Collected At Regional Offices Are Being Deposited After The Three (3) Days Requirement.**

**Criteria:**

State agencies are required to deposit fees and other revenue into the State Treasury within 3 days of collection.

**Condition:**

Four (4) of thirty-seven (37) license/permit applications tested showed that application fees paid by check or money order were date-stamped when received at the TABC regional offices and mailed to the TABC headquarters where they were processed for deposit into the State Treasury after the required three days deposit rule.

**Cause:**

The four license/permit applications were paper applications received at the TABC regional offices whose application fees were paid by check/money order. Once the checks/money orders are received and stamped *For Deposit Only Texas Alcoholic Beverage Commission*, the fees are considered received by TABC. Once the regional offices mailed the checks/money orders to the TABC Headquarters it took several days for them to be delivered to TABC Headquarters where they are processed and deposited into the State Treasury.

**Effect:**

Mailing checks/money orders received for license/permit application fees from the regional offices to the TABC Headquarters is causing TABC to be in non-compliance with the State Comptroller's Office 3-day deposit rules. It may also cause delays in processing approved applications waiting for fees to be paid if mail is delayed or lost.

**Recommendation:**

We encourage TABC management to continue working with the State Comptroller's Office in trying to use the remote capture solution (imaged checks) process to deposit license/permit application fees at the





TABC regional offices. The Licensing Division should also continue to work with licensees/permittees to submit their license/permit applications and pay fees online.

***Management Response:***

*We concur with these findings and have been in communication with a Treasury Operations representative from the Texas Comptroller of Public Accounts office with reference to remote capture solutions. We mail money from the field offices on a daily basis. Once in the hands of the postal services, we have no control over the time it takes mail to arrive here at headquarters. Currently, license and permit holders can submit their renewal applications and pay fees online. Notices for renewing on-line are included with the renewal documents that are mailed 30-45 to license/permit holders. Our website also provides notices and information on how to renew online. The licensing division is initializing marketing efforts to reach out to all license and permit holders to encourage online submission. These marketing efforts will be implemented before year-end 2017 (12/31/2017) and will eliminate the mailing of paper renewals. Renewal notice postcards will diminish the number of paper renewals and directs the license/permit holder to go online to renew. Additionally, Rule 33.34 requires certain changes to be submitted 30 days following the date of the change in efforts to process renewal applications more efficiently.*

*Amy Harrison is working closely with our ITD division in collaboration with Xerox to meet this deadline. Ms. Harrison is also working with BSD division and the Treasury Operations Division of the State Comptroller to implement remote check deposits from our field offices by year end (12/31/2017). Ms. Amy Harrison is responsible for ensuring these implementations meet the year end deadline.*

***Person Responsible for Implementation:*** Amy Harrison, Director of Licensing

***Completion Date:*** December 31, 2017

*Internal Audit Objective 3:* Safeguarding of Assets

TABC management is currently working with the State Comptroller's Office on a remote capture solution (deposits from imaged checks) project which would include the Licensing Division regional offices. Fees collected by check or money order for license/permit application fees would be imaged and automatically deposited the same day and not have to be mailed to TABC headquarters for processing and depositing.

*Internal Audit Objective 4:* Efficiency and Effectiveness of Operating Procedures

The Licensing Division continues to emphasize to license/permit applicants to submit their applications online instead of filling out and submitting paper applications. During fiscal year 2016, the Licensing





Division had approximately 75 license types which were submitting license renewal applications online and in paper form. TABC is currently in communication with a vendor to begin sending renewal reminder postcard mailings to license/permit holders instead of the Licensing Division generating preprinted renewal forms packets.

Original license/permit applications are delivered to the regional offices by mail or walk-in by applicants. The processing of original applications seems to be having an impact on the Licensing Division staff resources that could be used to process other license/permit applications which may already be in the TABC systems. The Licensing Division personnel have to review and ensure that all the statutory requirements are met and that proper fees are paid before the license/permit applications are approved. An original application may also require other documentation be submitted during the application process which may include, but not limited to: lease agreements, loans, bonds, criminal history, and other business agreements. The Resource Support Team located at headquarters functions include working with miscellaneous application issues and activities. The Resource Support Team currently consists of employees whose functions are in different areas of expertise. These include license/permit procedures, business entities, legal liaison, management halts, imaging, customer service, refund of fees, forfeitures of bonds, bond cancellations fees, and other issues which may arise in the processing of license/permit applications.

## **Appendix 1**

### **Objective and Scope**

#### **Objective**

The audit objectives are to determine the following:

- Reliability and Integrity of Information
- Compliance with Policies, Procedures, Laws, and Regulations
- Safeguarding of Assets
- Efficiency and Effectiveness of Operating Procedures

#### **Scope**

The audit scope included ensuring compliance with the Texas Alcoholic Beverage Code, TABC Administrative Rules Chapter 33-Licensing, Licensing Division operating procedures. The scope included interviews with the Director of Licensing, Licensing Processing Supervisor, Resource Support Team Supervisor, and appropriate division operations personnel. Licenses and permits in Neubus, TABC



Agency Reporting Tracking System (ARTS) and TABC Region Offices, and other pertinent reports and documents were tested for accuracy and compliance.

### **Methodology**

Our procedures included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of the tests; reviewing operating policies and procedures, laws, and regulations, conducting interviews with the appropriate staff of the Commission, testing for compliance with policies, procedures and laws, and review of other pertinent reports and documentation.

Information collected and reviewed included the following:

- Organizational chart for the TABC and Licensing Division
- TABC Approved Operating Budget for FY 2016-2017
- TABC Strategic Plan for Fiscal Years 2017-2021
- Management Questionnaire used for this project
- Organizational Chart for Licensing Division
- Listing of TABC regional office locations statewide
- Licensing Division Policies and Procedures
- TABC Administrative Rules, Chapter 33. Licensing
- Internal Audit Reports
- Texas Alcoholic Beverage Commission website [www.tabc.gov](http://www.tabc.gov)
- State Auditor's Office website: [www.sao.state.gov](http://www.sao.state.gov)

Procedures and tests conducted included the following:

- Interviewed Licensing Division personnel to obtain an understanding of the license and permit applications processing, personnel functions, activities, and controls in place.
- Interviewed Business Services Division personnel to determine license and permit fee collections controls in place.
- Accessed agency systems used in the processing of license and permit applications. The systems accessed were Neubus (ESD), Versa Regulation (VR), and the Agency Reporting and Tracking System (ARTS).
- Tested license and permit applications processed for compliance with Licensing Division and Texas Alcoholic Beverage Code requirements.
- Reviewed Licensing Division reports submitted to upper TABC management on license and permit activities.
- Other pertinent reports and documents



Criteria Used included the following:

- TABC Licensing Division Policies and Procedures
- TABC Strategic Plan (FYs 2017-2021) information for Licensing Division
- Texas Alcoholic Beverage Code license and permit requirements
- TABC Administrative Rules, Chapter 33- Licensing requirements and fees
- TABC Web Based Systems: ARTS, Versa Regulation (VR), and Neubus (ESD)
- Texas Alcoholic Beverage Commission Website
- Review of Other pertinent reports and documents.

### **Other Information**

Our internal audit was conducted in accordance with *generally accepted government auditing standards*. 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 internal audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our internal audit objectives. Our internal audit also conforms with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*.

### ***Appendix 2***

#### **Background Information**

In 1935, the Legislature created the Texas Alcoholic Beverage Commission (formerly the Texas Liquor Control Board).

The Texas Alcoholic Beverage Commission (TABC) is the state agency that regulates all phases of the alcoholic beverage industry in Texas. The duties of the Commission include regulating sales, taxation, importation, manufacturing, transporting, and advertising of alcoholic beverages.

The TABC collects in excess of \$300 million annually in taxes and fees, which aids in the financing of the state's public schools, local governments, research, human services, and other areas in which state government provides services to all Texans.

The Alcoholic Beverage Code, which was enacted to protect against involvement of the criminal element in alcoholic beverage trafficking authorizes the Texas Alcoholic Beverage Commission to:

- Grant, refuse, suspend, or cancel permits and licenses in all phases of the alcoholic beverage industry;



- Supervise, inspect, and regulate the manufacturing, importation, exportation, transportation, sale, storage, distribution, and possession of alcoholic beverages;
- Assess and collect fees and taxes;
- Investigate for violations of the Alcoholic Beverage Code and assist in the prosecution of violators;
- Seize illicit beverages;
- Adopt standards of quality and approve labels and size of containers for all alcoholic beverages sold in Texas;
- Pass rules to assist the agency in all of the above.

The Governor, with the advice and consent of the Senate, appoints three public members of the Commission for staggered six-year terms.

The Commissioners appoint an Executive Director who supervises the Commission's activities. The Commission's operating budget is prepared and approved by the Commission on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature.

The Commission is divided into thirteen divisions: Executive; Field Operations – Enforcement, Audit & Investigations, Ports of Entry; Business Services; Education and Prevention; Human Resources; Information Resources; Legal Services/General Counsel; Licensing; Office of Professional Responsibility; Tax and Marketing; and Training. The Executive Division, which is headed by the Executive Director, provides oversight of the Deputy Executive Director, Director of the Office of Professional Responsibility, and the Director of Communications and Government Relations. The other divisions report directly to the Deputy Executive Director while General Counsel reports directly to the Commissioners.

The Commission generates revenue from alcoholic beverage license and permit fees, alcohol beverages taxes, cigarette taxes, airline beverage tax, and revenue collected on audits. This revenue is deposited into the General Revenue Fund.



*Appendix 3*

**Report Distribution**

As required by Gov't Code 2102.0091, copies of these reports should be filed with the following:

**Governor's Office of Budget and Planning**

Attn: Drew Deberry  
Phone: (512) 463-1778  
[Budgetandpolicyreports@governor.state.tx.us](mailto:Budgetandpolicyreports@governor.state.tx.us)

**Legislative Budget Board**

Attn: Julie Ivie  
Phone: (512) 463-1200  
[Audit@lbb.state.tx.us](mailto:Audit@lbb.state.tx.us)

**State Auditor's Office**

Attn: Internal Audit Coordinator  
Phone: (512) 936-9500  
[iacoordinator@sao.state.tx.us](mailto:iacoordinator@sao.state.tx.us)

**Sunset Advisory Commission**

Attn: Ken Levine  
Phone: (512) 463-1300  
[sunset@sunset.state.tx.us](mailto:sunset@sunset.state.tx.us)

**Texas Alcoholic Beverage Commission**

Kevin J. Lilly, Presiding Officer  
Ida Louise "Weisie" Steen

**Texas Alcoholic Beverage Commission Management**

Ed Swedberg, Deputy Executive Director and Acting Executive Director

