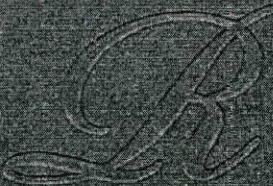


INTERNAL AUDIT OF THE
INFORMATION TECHNOLOGY
SYSTEM DEVELOPMENT
AS OF MAY 27, 2015

AT THE
TEXAS ALCOHOLIC BEVERAGE COMMISSION

(REPORT NO: TABC 015-003)

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Texas Alcoholic Beverage Commission
Austin, Texas

We have conducted an internal audit (audit) of the Information Technology System Development at the Texas Alcoholic Beverage Commission (Commission) as of May 27, 2015. The results of our audit disclosed that the Commission has procedures and controls in place related to the Information Technology System Development. We noted some opportunities for enhancing the processes and controls in place.

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

Monday N. Rufus, P.C.

May 27, 2015
Austin, Texas

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Executive Summary

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 \$200 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 the General Counsel reports directly to the Commissioners.

The Information Resources Division (IRD) is made up of the Director, the Assistant Director, Information Security Officer, Project Management Office, The Applications team and the

Operations team. This division provides the agency with the technological development needed to conduct agency business. The division focuses on providing the technology that makes the citizens and regulated entities interact with TABC on a daily basis. Information Resources division invests in the current technology to provide the level of services expected by the citizens of Texas. The Internet has become an essential tool for communicating with the general public; hence greater effort is made by the Information Resources to enhance their Internet capabilities.

One of the functions of the IR is to maintain a convenient way of ensuring that regulated entities interact with TABC. They ensure that the division maintains its legacy applications; while investing in modern technologies. They have embraced the need for a technology refresh to ensure that infrastructure and software support the growth and changes required to meet the agency business needs.

The division is tasked with 14 formal services including end-user support; voice; email, messaging, conferencing; desktop support; application development and support; access management; data management; project management office; security and risk analysis; infrastructure; audio visual; printing and copying; public facing services; and IT service management.

Texas Government Code, Chapter 2054 (Code) established the Texas Project Delivery Framework to be used by all state agencies when developing a major project costing greater than \$1 million. The primary intent of the legislature was for the state agency information resources and information resource technologies project be successfully completed on time and within budget and that the project function and provide benefits in the manner the agency projected its plans submitted to the department and in its appropriations request submitted to the legislature. In order to ensure successful completion of all information resources projects, the legislature mandated that all projects be managed using project management practices. In response, DIR adopted Texas Administrative Code, Chapter 216, which requires each state agency to manage information resources projects based on project management practices (See **Appendix 1**).

The TABC's Project Management Methodology follows the Statewide Project Delivery program and, more specifically, the Texas Project Delivery Framework established by the DIR. The Framework which is designed for major, large-scale IT projects was established to ensure state agencies are consistent in the selection, control, and evaluation of information resource projects that align with their business goals and objectives. Major projects include any information resources technology project identified in the biennial operating plan whose development costs exceed \$1 million and that requires one year or longer to reach operations status; involves more than one state agency, or substantially alters work method of the agencies personnel or the delivery of services to client; and any information resources technology project designated by the legislature in the General Appropriations Act as a major information resources project.

The Statewide Project Delivery program was established by the DIR to provide guidance, best practices, and tools to optimize technology project performance in areas such as risk and maturity assessments; system development methodologies; and project and portfolio management, governance, and reporting. For information resources not meeting the major project threshold, the TABC follows Project Management Lite (PM) also established by the DIR to enable state agencies and local entities to achieve their core missions through successful project delivery. Although there is no requirement to use the PM Lite process, it is DIR's intent

Texas Project Delivery Framework method of project selection control, evaluation based on alignment business

Project Management Practices the document and repeat methods state agencies use to a knowledge skills, techniques satisfy productivity requirements

Project Management Lite is a management process composed of too template best practices that empowers users more efficient project d

that its tools and templates can help in achieving project consistently, standardization, and project success (See **Appendix 2**).

According to the IRD personnel, none of the agency's information technology projects in at least the past 9 years have met the criteria established by the Code for a major project. The agency follows the PM Lite process for all other projects since its inception a few years ago. Prior to the creation of the PM Lite, the agency previously used a tailored version of the Texas Project Delivery Framework.

Internal Audit Results

The TABC has a system in place to ensure that the process of developing and enhancing their information systems is effective. There is evidence of overall strategy and senior management support information systems, project plans and methodology, and monitoring. However, these processes can be enhanced by ensuring that all projects have charter and documented all information technology training and lessons learned, establishing procedures for tailoring projects, and strengthening the development processes.

Summary of Management's Response

TABC concurs that before February 2015 the Project Charter process was not followed consistently. TABC has already successfully implemented a formal Project Charter approval process since February 2015; every project since February 2015 has a formal, approved Project Charter.

TABC Concurr. We have implemented a formal Lessons Learned process during project closeout since February 2015. Therefore, few projects have formally gone through this process. Further, TABC had previously identified the need to strengthen our end-user training, even for small system changes. IRD will establish procedures to disseminate training for technology changes, predominantly using TABC's Learning Management System (LMS).

TABC Concurr. Prior to the introduction of PM Lite, TABC used the Texas Project Delivery Framework and tailored it to the size of the project, as allowed by the Texas Project Delivery Framework. IRD will update Policy to establish thresholds, deliverables and guidelines for projects when using the Texas Project Delivery Framework or PM Lite.

TABC Concurr. TABC's systems remain stable in production, suggesting appropriate system development controls are in place and being followed, though not always formalized, documented or auditable. IRD will implement appropriate procedures to track internal staff time spent on projects on a percentage basis and include internal staff costs in project estimates and actual computations.

Objectives, Observations, Findings, Recommendations, and Management's Response

The primary objectives of the internal audit were to determine the following:

Compliance with Policies, Procedures, Laws, and Regulations

Safeguarding of Assets

- *Efficiency and Effectiveness of Operating Procedures*

RESULTS AND RECOMMENDATIONS

The TABC has developed an adequate system to ensure that the processes of developing information systems are effective. During our review we noted the following:

Internal Audit Objective 1. Compliance with Policies and Procedures, Laws, and Regulations

There is evidence that the TABC makes concerted efforts to adopt the Department of Information Resources (DIR) Texas Delivery Framework in their development efforts, when necessary.

Finding #1. Ensure TABC Consistently Follow Project Charter Guidelines for its Information Technology projects

Criteria:

A project charter defines the project dimensions such as scope, objectives and overall approach for the work to be completed. It is a written contract between the Project Team and the Project Sponsor stating clearly what is expected for the project. Project charter at the very least should address the following: Project Name, Project Purpose, Project Scope and some specific deliverables.

Condition:

Our review shows that TABC has not been employing the use of a project charter consistently in its information systems developments, as a result; project objective may not have been properly defined and some projects may also lack specific deliverables and timeline. According to the Department of Information Resources (DIR), Project Charters should be developed cooperatively with the project core team and approved by the Project Sponsor, Business Owner, and resource owners. Because there is no charter,

- The project and the project manager lack authority
- There is no written demonstration of management support for the project

- There are no clear expectations for project outcomes
- The scope and nature of the project may not be clearly defined
- The project could set off in a direction that is not aligned with organizational objectives

Cause:

Management has not established a system to ensure consistent employment of the use of a project charter.

Effect:

There is no assurance that projects are properly defined and aligned with the overall goals of the Commission.

Recommendation:

We recommend that the TABC strengthen the Information System management process to ensure that project charters are established before projects begin.

Management Response:

TABC concurs that before February 2015 the Project Charter process was not followed consistently. TABC has already successfully implemented a formal Project Charter approval process since February 2015; every project since February 2015 has a formal, approved Project Charter.

Responsible Individual: Gary Henderson, Manager of the Project Management Office

Status: Complete

Internal Audit Objective 2: Safeguarding of Assets

- There is evidence that each project is monitored during development and implementation to ensure accountability and optimization of resources.
- There is evidence of senior management commitment and approval of the necessary resources to complete each project.

Finding #2: Strengthen the System Development Process

Criteria:

The TABC should quantify all the costs related to each information technology project. The direct and indirect cost of the time that the TABC personnel spend on the project is not included in the estimated cost of the project. Total budgeted costs include hardware/software capital outlays and

development costs. Development costs can be calculated based on the total forecast number of project hours times an average internal and external hourly cost.

Condition:

Based on discussions with the Assistant Director of Information Resources and review of documents obtained from the IRD, there is no policy for establishing budget and tracking cost. It is also our understanding that if a project is to be performed in-house and considered a major project, a budget is established; if not, there is no tracking of cost as each project is charged to the IRD Cost Center. However, if there is a decision to outsource a project to an outside vendor, that decision is documented and a budget is established and tracked.

Cause:

The IRD management has not established a system for ensuring the tracking of in-house costs.

Effect:

When costs are not tracked and monitored, there is no assurance that the Commission's limited resources are used very effectively and efficiently.

Recommendation:

We recommend that the TABC strengthen the system development process by including the cost of time that the TABC personnel spend on the projects as part of project cost. This additional information would improve the effectiveness of the cost benefit analysis, the monitoring procedures, and the evaluation of the results of the project during the post implementation review for the project.

Management's Response:

TABC Concur's. TABC's systems remain stable in production, suggesting appropriate system development controls are in place and being followed, though not always formalized, documented or auditable. IRD will implement appropriate procedures to track internal staff time spent on projects on a percentage basis and include internal staff costs in project estimates and actual computations.

Responsible Individual: David Brandon, Assistant Director of IRD

Status: Planned Completion by 8/31/15

Internal Audit Objective 3: Efficiency and Effectiveness of Operating Procedures

- There is evidence that project milestones are set and tracked.

Finding #3: Establish a Process that Supports Documenting All Information Technology Training and Lessons Learned.

Criteria:

There should be a process for documenting all Information Technology training and lessons learned. The importance of documentation is to assure management and other interested parties that staff members have been trained on the new changes as a result of projects implemented. Embracing new technology can be challenging for many. Training all team members on the system, be it software, hardware or upgrade, will reduce the number of those who resist the technology due to lack of understanding. Additionally, lessons learned should be incorporated into the project early and spearheaded by an authorized staff. Documentation gives substance to a workplace's activities not only for legal matters, audits or disputes, but also for rules and regulations.

Condition:

The TABC has developed and enhanced many applications within the past 5 years. Our review however; indicates instances where the system developments or enhancements training and lessons learned were not documented.

Cause:

The Commission has not established a system to ensure consistent documentation of training and lessons learned on new technology projects developed.

Effect:

There is the lack of documented evidence of user training which ultimately impact the achievement of the goals and objectives established for the project. Additionally, when lessons learned are not documented, there is no assurance that unintended outcomes will not repeated during future projects. Additionally, positive things that occurred during a project may not be replicated in the future.

Recommendation:

We recommend that the TABC establish a process of documenting all the Information Technology training.

Management's Response:

TABC Concurrs. We have implemented a formal Lessons Learned process during project closeout since February 2015. Therefore, few projects have formally gone through this process. Further, TABC had previously identified the need to strengthen our end-user training, even for small system changes. IRD will establish procedures to disseminate training for technology changes, predominantly using TABC's Learning Management System (LMS).

Responsible Individual: David Brandon, Assistant Director of IRD

Status: Planned Completion by 8/31/15

Finding #4: Establish Policies and Procedures for Tailoring Projects

Criteria:

There should be internal policies and procedures to ensure consistency by the employees as they accomplish their tasks. TABC uses the Statewide Project Delivery program, and specifically the Texas Project Delivery Framework or the Project Management Lite, when necessary.

Condition:

The Commission has not developed internal guidelines for tailoring specific projects to ensure consistency among IRD staff during information technology development. Based on our discussion with the Assistant Director of Information Resources, the IRD has not developed internal policies as they rely on the DIR's project management guidelines. However, DIR's project guidelines are general in nature and may not apply to a specific project.

Cause:

The Commission has not established a system to ensure the existence of guidelines for tailoring specific projects among the IRD staff.

Effect:

There is the risk of inconsistencies in information technology development process by the staff of IRD. Additionally, tasks might not be completed efficiently.

Recommendation:

We recommend that the TABC develop internal policies and procedures to ensure consistency by the employees as they accomplish their tasks.

Management's Response:

TABC Concur. Prior to the introduction of PM Lite, TABC used the Texas Project Delivery Framework and tailored it to the size of the project, as allowed by the Texas Project Delivery Framework. IRD will update Policy to establish thresholds, deliverables and guidelines for projects when using the Texas Project Delivery Framework or PM Lite.

Responsible Individual: Gary Henderson, Manager of the Project Management Office

Status: Planned Completion by 8/31/15

Appendix 1

Texas Administrative Code

Pre. Rule

Next Rule

Texas Administrative Code

<u>TITLE 1</u>	ADMINISTRATION
<u>PART 10</u>	DEPARTMENT OF INFORMATION RESOURCES
<u>CHAPTER</u>	PROJECT MANAGEMENT PRACTICES
<u>SECTION 16</u>	PROJECT MANAGEMENT PRACTICES FOR STATE AGENCIES
<u>RULE 5216.11</u>	Requirement

Each state agency shall manage information resources projects based on project management practices that meet the following criteria:

- (1) Include a method for delivery of information resources projects that solve business problems;
- (2) Include a method for governing application of project management practices;
- (3) Be documented, repeatable, and include a single reference source (e.g., handbook, guide, repository) that communicates how to effectively apply use of the project management practice components;
- (4) Include a project classification method developed by DIR (see <http://www.dir.state.tx.us/projectdelivery/projectmgmt/classify/index.htm>), the agency, or another source that:
 - (A) Distinguishes and categorizes projects according to level of complexity and risk (e.g., technology, size, budget, time to deliver); and
 - (B) Defines how to use the project classification method to establish, scale, and execute the appropriate level of processes;
- (5) Include a method to periodically review, assess, monitor, and measure the impact of project management practices on the agency's ability to achieve its core mission;
- (6) Align with use of the Texas Project Delivery Framework;
- (7) Accommodate use of other practices and methods that intersect with application of project management practices; and
- (8) Be reviewed and updated at least annually to help ensure continuous process improvement.

Source Note: The provisions of this §216.11 adopted to be effective November 11, 2007, 32 TexReg 7894

Appendix 2

PM Lite 2.0, 17 Texas DIR



PM Lite 2.0

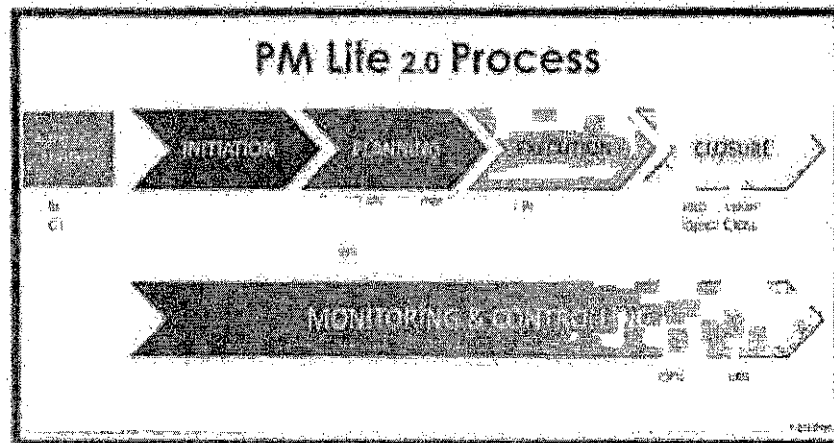
Delivering organizational strategy through the use of standardized project management practices.

PM Lite (Project Management Lite) is a project management process made up of tools, templates, and best practices that empowers its users to be more efficient and effective in project delivery regardless of project size or complexity.

In PM Lite's most recent release (PM Lite 2.0) DIR's PPMO simplified Project Management Institutes (PMI) project management processes facilitating a "lighter" and easy to use, toolset that aligns to a global standard.

The Program and Portfolio Management Office (PPMO) at DIR has created the PM Lite process to help enable state and local entities to achieve their core missions through successful project delivery. PM Lite is an optional process. Using these tools and templates can help your organization achieve project consistency, standardization, and project success.

IMPORTANT: PM Lite does NOT supersede the Texas Project Delivery Framework.



Processes and Tools

<http://dir.texas.gov/View-Resources/Pages/Content.aspx?id=17>

Appendix 3

Objective and Scope

Objective

The primary objectives of the internal audit were to determine the following:

Compliance with Policies, Procedures, Laws, and Regulations

- *Safeguarding of Assets*
- *Efficiency and Effectiveness of Operating Procedures*

Scope

Our scope included reviewing The Information Resources Management Act (Act), Chapter 2054, Sec. 151 - 156, Government Code, House Bill (H.B. No. 1789), and Texas Administrative Code, Chapter 216. We also reviewed the Statewide Project Delivery, Texas Project Delivery Framework, the PM Lite Methodology published by the DIR, TABC's Project Management Office, and TABC's PMO Documentation. We interviewed the appropriate staff of the TABC, reviewed the TABC's policies and procedures, tested for compliance with these operating policies and procedures, and reviewed other pertinent reports and documentation.

Methodology

Our procedures included collecting information and documentation; performing selected test and other procedures; analyzing and evaluating the result of the tests; reviewing operating 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:

- Interviewed the IRD Division staff to obtain an understanding of the activities, processes, and controls in place related to information technology/project development.
- Obtained access to the TABC's Project Management Office and TABC's PMO Documentation.
- Obtained and reviewed the Texas Project Delivery Framework published by the Texas Department of Information Resources.
- Obtained and reviewed the Statewide Project Delivery Framework published by the Texas Department of Information Resources.
- Obtained and reviewed the PM Lite Methodology published by the Texas Department of Information Resources.
- Selected a sample of projects and obtained documentation of activities from initiation to the end.

- Obtained and reviewed State Legislative Resources related to Information Resources
- Obtained and reviewed the Texas Administrative Code related to Information Resources
- Obtained and reviewed TABC's Project Library
- Obtained and reviewed TABC's PMO Documentation
- Tested for compliance with laws and regulations
- Reviewed other pertinent reports and documents

Criteria Used included the following:

- Texas Government Code, Chapter 2054
- Texas Administrative Code, Chapter 216
- Texas Project Delivery Framework
- Statewide Project Delivery
- TABC's Project Management Methodology
- HB No. 1789
- 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 4

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 \$200 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 the 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 5

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: Kate McGrath
Phone: (512) 463-1778
Internalaudits@governor.state.tx.us

Legislative Budget Board

Attn: Ed Osner
Phone: (512) 463-1200
Ed.Osner@lbb.state.tx.us

State Auditor's Office

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

Sunset Advisory Commission

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

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Jose Cuevas, Jr., Presiding Officer
Steven M. Weinberg, MD, JD
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Texas Alcoholic Beverage Commission Management

Sherry Cook, Executive Director