An Audit Report on

Financial Processes at the Alcoholic Beverage Commission

July 2017

Report No. 17-044

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Overall Conclusion

The Alcoholic Beverage Commission (Agency) had adequate controls to help ensure that it administered revenues, payroll actions, asset management, and non-travel expenditures in accordance with applicable statutes, rules, and Agency policies and procedures. However, it should improve certain controls in most of those areas. In addition, it should strengthen and enforce controls over its processing of travel expenditures.

> **Background Information**
>
> The Alcoholic Beverage Commission regulates sales, taxation, importation, manufacturing, transporting, and advertising of alcoholic beverages in Texas.
>
> The Agency collects more than $300 million annually in taxes and fees that help to finance public schools, local governments, research, human services, and other areas.
>
> For fiscal years 2016 and 2017, the Agency was appropriated $50 million and $50.1 million, respectively.
>
> Sources: The Agency and the General Appropriations Act (84th Legislature).

Revenues. The Agency had adequate controls to ensure that it collected and recorded revenues in accordance with applicable statutes, rules, and Agency policies and procedures. However, it should strengthen certain controls related to revenue report reviews and approvals.

Payroll Actions. The Agency had adequate controls to ensure that payroll actions complied with applicable statutes and Agency policies and procedures. However, it should strengthen controls to consistently document approvals of payroll actions and pay employees accurately based on the supporting documentation for payroll actions.

Asset Management. The Agency accounted for the 44 vehicles and firearms tested in compliance with requirements in the *State Property Accounting (SPA) Process User's Guide* and Title 34, Texas Administrative Code, Section 5.200.

Non-travel Expenditures. The Agency had adequate controls to ensure that it processed procurement and fuel card purchases, payments to unique vendors, and other non-travel expenditures in accordance with applicable rules and statutes. However, auditors identified certain non-travel expenditures for which the Agency did not have sufficient supporting documentation.

Travel Expenditures. The Agency did not obtain the necessary approvals for 24 (46 percent) of 52 travel expenditures tested; those 24 travel expenditures totaled $15,548.

Information Technology. The Agency had controls over automated systems to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Agency policies and procedures. However, it should improve certain controls over its accounting and asset management systems, as well as its personnel action form application.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

For more information regarding this report, please contact Michael Simon, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating [a]
1	The Agency Had Adequate Controls to Collect and Record Revenues in Accordance with Applicable Statutes, Rules, and Agency Policies and Procedures	Low
2	The Agency Had Adequate Controls Over Payroll Actions; However, It Should Improve Certain Processes Related to Payroll Actions	Medium
3	The Agency Had Adequate Controls to Account for Vehicles and Firearms	Low
4-A	Overall, the Agency Had Adequate Controls Over Non-travel Expenditures	Low
4-B	The Agency Should Strengthen and Enforce Controls Over Its Processing of Travel Expenditures	High
5	While the Agency Had Controls Over Automated Systems to Administer Financial Transactions, It Should Improve Certain Information Technology Controls	Medium

[a] A chapter/subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Agency agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Agency has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Agency policies and procedures.

The scope of this audit covered the Agency's activities related to revenue, payroll actions, inventory, non-travel expenditures, travel expenditures, and related information systems for fiscal year 2016 (September 1, 2015, through August 31, 2016) and the first quarter of fiscal year 2017 (September 1, 2016, through November 30, 2016).

The scope of this audit also covered the Agency's activities related to travel expenditures for fiscal year 2015 (September 1, 2014, through August 31, 2015).

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Detailed Results

Chapter 1

The Agency Had Adequate Controls to Collect and Record Revenues in Accordance with Applicable Statutes, Rules, and Agency Policies and Procedures

Chapter 1
Rating:
Low [1]

The Alcoholic Beverage Commission (Agency) collected $306.3 million and $69.3 million in revenues in fiscal year 2016 and the first quarter of fiscal year 2017, respectively. Revenue from taxes, licenses, fees, and permits represented 99.6 percent of revenues collected in fiscal year 2016 and the first quarter of fiscal year 2017. Auditors determined that overall, the Agency's controls for the revenue process were operating effectively; however, the Agency should strengthen certain controls over the revenue process.

Overall, the Agency had effective controls over processing revenues.

Auditors tested 25 revenue transactions totaling $3.9 million and determined that the Agency:

- Had adequate supporting documentation for those transactions.
- Generally deposited revenue in a timely manner.
- Processed those transactions with appropriate segregation of duties.
- Applied the appropriate rates or fees for those transactions.
- Accurately calculated the amounts on those transactions.
- Accurately entered those transactions into the Uniform Statewide Accounting System (USAS).

The Agency should improve processes for managerial review of revenue vouchers.

For one daily deposit journal voucher totaling $247,894, the Agency did not have evidence of required managerial review. Agency revenue policy requires the business services manager to review and sign each daily deposit journal voucher packet indicating that review and approval has taken place.

[1] Chapter 1 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Without managerial review, the Agency could record inappropriate revenue amounts in USAS.

The Agency should improve the timeliness of its revenue review processes.

For 4 (25 percent) of the 16 non-electronic funds transfer revenue transactions tested, the Agency did not deposit revenue payments into the State Treasury within 3 business days of receiving the payment. Texas Government Code, Section 404.094, requires revenue to be deposited within 3 business days of receiving the payment. On average, the Agency made those 4 deposits 1.5 days late. Not depositing revenue in a timely manner could result in a loss of interest revenue to the State.

The Agency performs an annual unassigned close-out process to move remaining unassigned funds from the prior fiscal year into various revenue object codes. However, the Agency did not review and assign one revenue transaction for 11 years after it initially deposited that revenue. (The "assignment" of revenue drives the revenue recognition process through which the Agency moves "assigned" funds from a default deposit/suspense account in USAS into the correct revenue object code.) Outside of the sample tested, auditors also identified 1,535 other revenue transactions totaling $96,150 for which the Agency performed review and assignment one or more years after its initial deposit of that revenue. Not performing the review process throughout the year increases the risk that the revenue object code or amount recorded in USAS could be incorrect.

The Agency should improve processes for review and approvals of ports of entry revenues.

While the Agency usually recorded and allocated ports of entry revenues accurately and in a timely manner, it did not consistently document approval of associated journal vouchers and document reviews of related weekly revenue reports. (See text box for additional information on ports of entry revenue.)

> **Ports of Entry**
>
> The Agency's ports of entry program monitors compliance with state personal importation laws along the Texas-Mexico border. The Agency verifies that persons importing alcoholic beverages meet all legal requirements for importing and collecting the appropriate fees and taxes. There are seven port of entry districts.
>
> Through an agreement with the Office of the Comptroller of Public Accounts, the Agency also determines compliance with state laws on the importation of cigarettes and collecting associated taxes.
>
> Source: The Agency.

Auditors tested 3 ports of entry journal vouchers that totaled $1,533,757 and contained 84 separate weekly revenue reports and determined that:

- For 1 (33 percent) of the 3 journal vouchers, the Agency did not have evidence of proper review. The amount reviewed by auditors in that journal voucher totaled $475,979. Agency revenue policy requires the business services manager to review and sign each journal voucher packet indicating that review and approval has taken place.

- For 73 (87 percent) of 84 weekly revenue reports, the Agency did not have evidence of proper review. The Agency's weekly revenue report form contains signature boxes for both the report preparer and port of entry supervisor, indicating a requirement to sign. Specifically:
  - Seven revenue reports did not contain the required preparer and supervisor signature.
  - Thirty-seven revenue reports did not contain the required preparer signature.
  - Fifteen revenue reports did not contain the required supervisor signature.
  - Thirteen revenue reports had the same signature for the preparer and supervisor.
  - The Agency was unable to provide one revenue report.

Auditors also tested 14 alcoholic beverage categories in the 3 journal vouchers discussed above to determine whether the ports of entry applied the appropriate tax rates. In 1 (7 percent) of 14 tax rate categories, the port of entry may not have applied the appropriate tax rate as specified in the Texas Alcoholic Beverage Code because it consistently charged one of three possible wine tax rates (Texas Alcoholic Beverage Code, Section 201.04, requires the use of three different tax rates based on the alcohol content of a gallon of wine, but the Agency consistently charged the highest of those three possible tax rates). As a result, the port of entry may have charged more tax than was required. It is important to note that all ports of entry also used that same tax rate. The Agency asserted that labels on wine from Mexico did not contain the information necessary for ports of entry to determine which tax rate to apply.

The Agency also asserted that 1,519 gallons of wine went through ports of entry in fiscal year 2016. Based on that number, the error described above would have resulted in a tax overcharge ranging from $380 to $760, depending on the actual alcohol content of those gallons of wine.

Recommendations

The Agency should:

- Consistently deposit revenue within three business days of receipt.

- Consistently follow its process to review and assign revenue transactions in a timely manner.
- Ensure that it adequately reviews and approves all journal vouchers and ports of entry revenue reports.
- Update its policies and procedures to include its current tax rate procedures for alcoholic beverages at the ports of entry.

Management's Response

Recommendation #1

Consistently deposit revenue within three business days of receipt.

Management response

Management agrees with this finding and will continue to strive for attainment of a three day deposit period. There have been rare occasions when the three day rule is exceeded due to high volume of work and/or a shortage of staff. The high volume of deposits continues as a result of industry growth, while the number of FTEs have not increased. Options for automation have also been limited due to budget constraints and requirements set forth by the Comptroller's Office. Currently TABC field offices accept payment and then mail checks daily to headquarters for processing. TABC has no control over the postal service or any delays that may be experienced. When these situations do occur, emphasis is placed on processing the larger dollar transactions first. Management will continue to monitor reporting to ensure compliance of the three day deposit requirement. Field offices will continue to mail checks daily and priority will be given to larger dollar transactions first.

Estimated completion date: Immediate

Title of person responsible: Fiscal Services Manager

The agency continues to encourage online renewals and payment of fees to minimize the number of checks received. The Licensing division is developing marketing efforts to encourage online renewals and will cease the mailing of paper renewals. TABC is also currently exploring options to image checks in field offices for faster deposits. Communication with the Comptroller is ongoing.

Estimated completion date: 12/31/17

Title of person responsible: Director of Licensing

Recommendation #2

Consistently follow its process to review and assign revenue transactions in a timely manner

Management Response

Management agrees with this finding. It is agency policy to assign all revenue within a year of deposit. Prior year's unassigned revenue is generally cleared from unassigned into the correct revenue codes within the year and all revenue is accounted for in USAS. Revenue will continue to assign revenue within the year. Agency divisions will receive quarterly notifications from the Fiscal Services Manager of any remaining unassigned funds pending their action.

Estimated completion date: Immediate

Title of person responsible: Fiscal Services Manager

Recommendation #3

Ensure that it adequately reviews and approves all journal vouchers and ports of entry revenue reports.

Management Response

Management agrees with this finding. There have been occasions when the deposit voucher was not signed or initialed by a manager in error. While documentation did not detail management review, all deposits into USAS were correctly released by a team lead and/or manager. BSD managers and team leads will continue to review journal vouchers and ensure they initial and date all transactions.

Estimated completion date: Immediate

Title of person responsible: Fiscal Services Manager

The previous ports of entry (POE) weekly report form, the P-928, contained two signature blocks. One for the preparer and one for the supervisor. This caused confusion as the supervisor both prepares and signs the form. Some supervisors were only signing one block. POE Form P-928 has been restructured to include only one signature block for the supervisor.

Estimated completion date: Completed

Title of person responsible: Director of Ports of Entry

Finding #4

Update its policies and procedures to include its current tax rate procedures for alcoholic beverages at the ports of Entry.

Management Response

Management agrees POE should update its procedures for collecting taxes on wine. Currently POE assesses a tax rate of $3.25 for a fifth of wine and $3.75 for a gallon of wine. While the auditor's report is correct that there are three different rates for wine, low wine, high wine and sparkling wine, currently the Ports of Entry Tax Collection System (POETCS) only reflects a charge of $3.25 for a fifth of wine and $3.75 for a gallon of wine. In the interest of efficiency when servicing taxpayers, only these two rates are used to expedite the payment process at bridges and the seaport. It should also be noted that wines from outside the United States do not always have clear labels making it difficult for the Taxpayer Compliance Officer to determine to proper tax rate. The higher tax rate is charged to ensure there is no underpayment of tax.

In the upgrade to the POETCS system, TABC will restructure the device to print stamps for low wine, high wine and sparkling wine therefore collecting the correct fees. TABC has issued an RFP for a new POETCS system but it is unknown when the new system will be online.

Estimated completion date: 08/31/18

Title of person responsible: Director of Ports of Entry

Chapter 2

The Agency Had Adequate Controls Over Payroll Actions; However, It Should Improve Certain Processes Related to Payroll Actions

Chapter 2
Rating:

Medium [2]

The Agency had adequate controls to ensure that it processed payroll actions in accordance with applicable statutes and Agency policies and procedures. However, it should strengthen certain payroll action processes to ensure that information on personnel action forms is accurate and that it properly processes, approves, and documents payroll actions.

In fiscal year 2016 and the first quarter of fiscal year 2017, the Agency paid a total of $509,995 in overtime; $148,772 in one-time merits; and $83,528 in promotion salary changes. Auditors tested 25 payroll actions (18 overtime payments, 4 one-time merit payments, and 3 promotion salary change payments) to determine whether the Agency made those payments in accordance with state requirements and Agency policies and procedures. For all 25 payroll actions tested, the Agency ensured that:

- It made payments to current employees at the time of the payroll period.
- All employees who received payroll actions were eligible for those pay actions.

Approval of payroll actions. The Agency did not consistently document approvals of payroll actions. For 16 (64 percent) of the 25 payroll actions tested, the Agency did not have appropriate approvals in accordance with Agency policy. Specifically:

- For 6 (24 percent) of the 25 payroll actions tested, the Agency was unable to provide documented approvals. The Agency did not print or file the approval workflows containing electronic approval signatures at the time all approvals were given; that information was also not protected in the personnel action form application. According to the Agency, approval workflow data prior to February 1, 2017, could no longer be accessed. (See Chapter 5 for further discussion on workflow data no longer being accessible.)
- For 9 (36 percent) of the 25 payroll actions tested, the Agency was not able to provide documentation showing that the chief financial officer obtained approval from executive management to approve personnel action forms on their behalf.

[2] Chapter 2 is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

- For 1 (4 percent) of the 25 payroll actions tested, the Agency was not able to provide documentation showing that executive management approved the payroll action.

Accuracy of payment. For 2 payroll actions tested, the Agency did not enter the payable overtime hours from the timesheets correctly on the personnel action forms. The Agency asserted that occurred because of data entry errors. The Agency corrected one error by paying one employee for three hours of overtime one month later; it did not correct the other error, which was an error of one hour.

For 2 payroll actions tested, the number of hours in the Uniform Statewide Payroll/Personnel System (USPS) for which employees were paid was less than the number of hours documented on the personnel action forms. To correct that, the Agency paid one employee for seven hours one month later. For the remaining payroll action, the Agency asserted that the employee had used five overtime hours earned as compensatory leave and, therefore, was not entitled to full payment for seven hours of overtime; however, the Agency was unable to provide support for that assertion.

Recommendations

The Agency should:

- Consistently maintain documentation to support all payroll actions, and maintain support for any individual's authorization to approve a personnel action form on another individual's behalf.

- Consistently pay employees accurately based on the supporting documentation for payroll actions.

Management's Response

Recommendation #1

Consistently maintain documentation to support all payroll actions and maintain support for any individual's authorization to approve a personnel action form on another individual's behalf.

Management Response

Management agrees with this finding. Documentation of approval workflows for Personal Actions Forms (PAFs) was not consistently kept and filed in employee personnel files. The agency will ensure to follow the current PAF process.

During times when the electronic system is down, human resources (HR) tracks all PAFs in an excel spreadsheet. PAFs are then printed and routed on paper for signatures from all required approvers. These paper PAFs with signatures replace the workflow history that is typically generated by SharePoint. Upon completion, the paper PAFs are filed in the employee's personnel file. Quarterly reviews on a selected sample of employee personnel files will be conducted by the HR Team Lead or the HR Director for compliance.

Estimated completion date: Immediate

Title of person responsible: Director of Human Resources

Recommendation #2

Consistently pay employees accurately based on supporting documentation for payroll actions.

Management Response

Management agrees with this recommendation and pays employees based on approved PAFs. An employee may only be paid for OT if three criteria are met; 1) an approved PAF with the amount of OT to be paid is listed, 2) the employee has those OT hours available to pay, 3) and there is budget available to pay these OT hours. Employees sometimes take OT as leave before a PAF is finalized. The employee will not be paid the full amount of OT as listed on the PAF but only what their remaining OT balance is. In instances with commissioned peace officers (CPOs), their timesheet may show more hours of OT than what is listed on a PAF. Regardless of the amount of OT on the timesheet, only hours listed on the PAF will be paid. Most CPOs are paid OT from grant funding or federal task forces. OT worked by CPOs may be outside those two functions and therefore do not qualify for payment.

When an instance occurs where the OT amount listed in a PAF is greater than an employee's balance, PAFs will be corrected with the new amount of OT hours to be paid. This correction will be dated and initialed by the payroll officer. The respective division director will be notified of the correction.

Estimated completion date: Immediate

Title of person responsible: Payroll Officer

Chapter 3

The Agency Had Adequate Controls to Account for Vehicles and Firearms

Chapter 3 Rating:

Low [3]

The Agency accounted for vehicles and firearms in compliance with requirements in the *State Property Accounting (SPA) Process User's Guide* and Title 34, Texas Administrative Code, Section 5.200. Auditors confirmed that all 44 vehicles and firearms tested existed, matched the description in the SPA system, and were accounted for in the SPA system.

[3] Chapter 3 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Chapter 4

Overall, the Agency Had Adequate Controls Over Non-travel Expenditures; However, It Should Strengthen and Enforce Controls Over Processing of Travel Expenditures

Overall, the Agency had adequate controls over its non-travel expenditures. A majority of the non-travel expenditures that auditors tested at the Agency complied with state statutes and rules.

However, the Agency did not consistently (1) ensure that travel expenditures complied with its travel policy or state law regarding approval of travel, (2) ensure that it coded payments to the correct object code, and (3) ensure that travel expenditures complied with the Agency's travel policy or state law regarding timeliness of payment.

Chapter 4-A

Overall, the Agency Had Adequate Controls Over Non-travel Expenditures

Chapter 4-A Rating:

Low [4]

Overall, the Agency had adequate controls over procurement and fuel card purchases, payments to unique vendors, and other non-travel expenditures to ensure that it:

- Made purchases as allowed by state purchasing policies.
- Procured items in the appropriate manner as required by the *State of Texas Procurement Manual* or received the required exemption from procurement requirements.
- Reviewed and approved payment vouchers before it made payment.
- Made payments in a timely manner.

However, for 2 (6 percent) of the 31 non-travel expenditures tested, the Agency did not have adequate support. Specifically:

- For one expenditure totaling $320, the Agency did not retain a corrected invoice to fully support the amount paid.
- For one expenditure, the Agency could not provide documentation to support the amount paid on a credit card invoice. However, that resulted

[4] Chapter 4-A is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

in a difference of only $16 between the invoice amount and the amount paid.

Recommendation

The Agency should strengthen its procedures to ensure that it retains all required expenditure documentation.

Management's Response

Recommendation #1

The agency should strengthen its procedures to ensure that it retains all required expenditure documentation.

Management response

Management agrees with this finding. Current procedure to process a payment is to ensure a three-way match of a purchase order, receiving report and invoice. The agency will continue to follow this process. Both instances noted in this audit were procurement card purchases. The procurement card administrator will continue to audit all information submitted by card holders on a quarterly basis and notify them of discrepancies. Card holders with repeat issues will have their cards revoked.

Estimated completion date: Immediate

Title of person responsible: Expenditures Manager and Procurement Card Administrator

Chapter 4-B

The Agency Should Strengthen and Enforce Controls Over Its Processing of Travel Expenditures

Chapter 4-B Rating:

High [5]

Results of Audit Tests of 53 Travel Expenditures Selected as a Result of Risks Identified During the Audit

Based on risks identified during the audit, auditors selected an expanded sample of travel expenditures. For 1 of the 53 travel expenditures that

[5] Chapter 4-B is rated High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

auditors selected in the expanded sample, auditors were unable to determine the allowability of the expenditure (which totaled $2,075) or verify that the Agency had support for the associated credit card bill. The Agency asserted that staffing changes had led to a past-due balance on a credit card the Agency used to book travel arrangements. The Agency was unable to provide travel documentation to substantiate the individual line items on the credit card bill, and it informed auditors that it paid the credit card bill by allocating the expenditure among various departments (which have different object codes in USAS) based on prior expense information, rather than based on actual expenditures that the various departments made.

A discussion of the results of audit tests on the 52 remaining travel expenditures that auditors selected as a result of risks identified during the audit is presented below.

Approval of travel expenditures. Twenty-four (46 percent) of the 52 travel expenditures tested did not contain (1) the approvals required by the Agency's policy; Texas Government Code, Section 660.003(e)(4) (see text box for additional details); or the Office of the Comptroller of Public Accounts' (Comptroller's Office) travel guidelines or (2) the approval of an individual other than the claimant. Those 24 expenditures totaled $15,548 and included the following:

- For eight travel expenditures, employees (1) did not submit travel requests for approval prior to departing for travel as required by the Agency's travel policy or (2) did not obtain approval for out-of-state travel prior to departing for travel as required by Texas Government Code, Section 660.003(e)(4).
- For 15 travel expenditures, the travel vouchers contained inappropriate approvals. Specifically, the former executive director submitted and approved her own travel requests. Agency policy requires travel reimbursements to be approved by an individual's supervisor, but it does not address approvals of the executive director's travel.
- For one travel expenditure, a staff member did not obtain the required approval to exceed lodging dollar limits specified in the Comptroller's

Texas Government Code, Section 660.003(e)

Texas Government Code, Section 660.003(e), specifies that a state agency may pay or reimburse a travel expense only if:

1. The expense is reasonable and necessary;
2. The purpose of the travel clearly involves official state business and is consistent with the agency's legal authority;
3. The expense and the travel during which the expense is incurred comply with:
   i. This chapter;
   ii. The rules adopted by the comptroller under this chapter; and
   iii. The travel provisions of the General Appropriations Act; and
4. For travel outside the state, the travel is approved in advance in accordance with the policy of the state agency that proposes to pay or reimburse the expense.

Office's travel guidelines. The amount of that travel expenditure was $215 per night for 5 nights. The dollar limit specified in the Comptroller's Office's travel guidelines was $142 per night.

During the course of this audit, auditors determined that the former executive director personally reimbursed the State for out-of-state travel expenses associated with some conference travel. Within the 52 travel expenditures tested, auditors identified documentation of 4 reimbursements for out-of-state travel by the former executive director totaling $1,987 that matched to the travel voucher documents the Agency provided. Through data analysis, auditors identified 1 additional reimbursement totaling $858 for out-of-state travel by the former executive director. Auditors did not test that transaction because it was not part of the expanded travel sample.

Recording of travel expenditures. The Agency did not record 6 (11 percent) of 53 travel expenditures tested in USAS using the correct object code. Specifically:

- The Agency reported two in-state travel expenditures using an object code for out-of-state travel.
- The Agency reported two out-of-state travel expenditures using an object code for in-state travel.
- On two items, the Agency combined an out-of-state travel expenditure and an in-state travel expenditure when it recorded those expenditures in USAS.

Timeliness of payments related to travel expenditures. The Agency did not process 13 (25 percent) of 53 travel expenditures tested in a timely manner:

- The Agency did not process 5 travel-related credit card invoices and remit payment within 31 days as required by statute. Specifically, Texas Government Code, Section 2251.021, states that "a payment by a governmental entity under a contract executed on or after September 1, 1987, is overdue on the 31st day after the later of: (1) the date the governmental entity receives the goods under the contract; (2) the date the performance of the service under the contract is completed; or (3) the date the governmental entity receives an invoice for the goods or service." On average, the Agency took 35 calendar days to remit payment on those 5 invoices. The Agency paid no credit card interest because it used an interest-free credit card. However, if the Agency does not remit payment in a timely manner, that could result in the Agency inaccurately allocating a credit card bill across various divisions/object code(s) and not to the specific division/object code(s) that made the expenditures. (The $2,075 expenditure discussed at the beginning of this subchapter is an example of the effect of not making payments in a timely manner.)

- The Agency did not approve and remit payment on 8 travel reimbursements within 10 business days as required by the Agency's travel policy. That policy states that "Upon submission by employee and approval by supervisor reimburse employee within 10 business days of receipt of final approved travel voucher." On average, the Agency took 28 business days to make those 8 reimbursements.

Results of Audit Tests of the Initial Five Travel Expenditures Tested

Auditors tested an initial sample of five travel expenditures totaling $852 and determined that, for each of those expenditures, the Agency:

- Made travel reimbursements as allowed.
- Reviewed and approved payment vouchers before payment.
- Generally made related payments in a timely manner.
- Obtained approval prior to travel.

Recommendations

The Agency should:

- Consistently maintain documentation to support all travel expenditures.
- Strengthen processes to consistently obtain required and appropriate approvals prior to travelers' departing for travel and processing related payments.
- Strengthen processes to ensure that it properly records travel expenditures in USAS.
- Strengthen processes to ensure that it makes travel-related payments in a timely manner.

Management's Response

Recommendation #1

Consistently maintain documentation to support all travel expenditures.

Recommendation #2

Strengthen processes to consistently obtain required and appropriate approvals prior to travel and processing related payments.

Recommendation #3

Strengthen processes to ensure that it properly records travel expenditures in USAS.

Recommendation #4

Strengthen processes to ensure that it makes travel-related payments in a timely manner

Management response

Management agrees with these findings. The Business Services Division (BSD) will strengthen internal review of travel reimbursement submissions to ensure all documentation is included, in addition to returning the reimbursement request to the traveler for additional documentation as necessary.

The agency will revise the internal travel policy to eliminate the need for prior supervisor approvals, as the agency's accounting process has changed with the CAPPS Financials implementation. The agency will also revise the internal policy to include prior approval for out of state travel as required by Texas Government Code, Section 660.003(e) (4). The policy update will also change the days required for reimbursement to align with the government code.

BSD sent an agency-wide communication to reiterate travel guidelines for travel request approvals, the requirement for all documentation to support expenditures, and the process to request to exceed the state lodging rate on May 15, 2017. BSD will continue to communicate travel policies through training opportunities and implement a semi-annual travel guidelines email to the agency.

BSD will strengthen payment processing by performing a more thorough review of travel expenditures prior to payment processing to USAS. In addition, a sample of travel payments will be audited quarterly to ensure compliance with travel policy and proper payment processing.

Estimated completion date: 12/1/17

Title of person responsible: Fiscal Services Manager

Chapter 5

While the Agency Had Controls Over Automated Systems to Administer Financial Transactions, It Should Improve Certain Information Technology Controls

Chapter 5
Rating:

Medium [6]

The Agency had controls over automated systems to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Agency policies and procedures. However, it should improve certain controls over its accounting and asset management systems and its personnel action form application.

The Agency should improve controls over accounting and asset management systems.

During fiscal years 2015 and 2016, the Agency used USAS to record all financial transactions. Overall, the Agency restricted logical access to USAS and USPS. The Agency completed the transition to the Centralized Accounting and Payroll/Personnel System (CAPPS) on September 1, 2016 (the beginning of fiscal year 2017). After the Agency completed that transition, it no longer entered vouchers directly into USAS, and information from CAPPS was automatically transferred directly into USAS.

The Agency used controls in CAPPS to ensure that purchase order vouchers would not be processed without proper approvals or allocated to improper amounts. However:

- Four employees had the ability to edit a non-purchase-order voucher in CAPPS, post that voucher in CAPPS to a batch in USAS, and then release the batch in USAS without secondary review and approval (see text box for additional information). The Agency asserted that, although the Agency requests the roles of CAPPS users, the Office of the Comptroller of Public Accounts sets up the permissions within those roles. However, the Agency is still responsible for assigning those roles and ensuring that it implements controls to mitigate the risk associated with having a single user who can both edit and approve a non-purchase-order voucher without secondary review and approval.

Non-purchase-order Vouchers

According to the Agency, examples of non-purchase-order vouchers include travel reimbursements, worker's compensation payments, purchases of evidence, and payments to expert witnesses.

Source: The Agency.

[6] Chapter 5 is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

- After the Agency completed the transition to CAPPS, two other employees had more access to USAS than was required for their job functions.

The Agency also did not properly restrict user access to the State Property Accounting (SPA) system for three users. Specifically, three users' full access to that system was not required for their job functions. The Agency asserted that those users needed inquiry and entry access to prepare a note disclosure for its annual financial report. Therefore, auditors concluded that full access (with inquiry, entry, update, and delete access) was not required for those users' job functions.

In addition, the Agency did not properly review access to USAS, USPS, and CAPPS. Specifically, the Agency did not request or receive verification from managers or directors outside of the Business Services Division regarding changes in staff that would necessitate changes in user access.

The Agency should improve controls over its personnel action form application.

The Agency had no policies or procedures to document how changes to the personnel action form application are to be made; the Agency also did not have a change log identifying what changes had been made to the personnel action form application. Auditors identified three employees who had more access to the personnel action form application than was required for their job functions. The Agency asserted that two of those employees required that level of access to ensure that the Agency could complete payroll in a timely manner. The Agency asserted that the third employee required access as part of that employee's responsibility to trouble-shoot other users' issues in the personnel action form application. Additionally, four employees could add or remove themselves or other employees from various approval groups in the personnel action form application without tracking of those changes. Without a change log, those issues increase the risk that unauthorized changes could be made without detection.

The Agency also did not consistently maintain electronic approval signatures in the personnel action form application. The Agency asserted that was due to a system update that an outside contractor made in January 2017 and February 2017. Title 1, Texas Administrative Code, Section 202.22, requires agencies to ensure that information is recoverable in accordance with risk management decisions. In addition, the Agency's record retention schedule specifies that personnel information or action forms must be retained in active use at the Agency for two years and that records of payroll payments must be retained for four years.

Recommendations

The Agency should:

- Implement mitigating controls to address the risk associated with a single individual's having the ability to both edit and release non-purchase-order vouchers without secondary review and approval.
- Periodically review and update user access, remove unauthorized users' access to automated systems and applications, and ensure that users have only the access necessary to perform their job functions.
- Implement documented policies and procedures for tracking changes to approval groups and the application in the personnel action form application.
- Consistently maintain electronic approval signatures in the personnel action form application.

Management's Response

Recommendation #1

Implement mitigating controls to address the risk associated with a single individual's having the ability to both edit and release non-purchase-order vouchers without secondary review and approval.

Management response

Management agrees with this finding. Although the CAPPS Job Profile of AP Manager II prescribed by the Comptroller CAPPS Security Team allows a user assigned to this job profile to complete the listed processes without additional approvals; the agency will create an internal business process for review and approval of non-purchase order vouchers by a different approver to mitigate the risk of a user solely completing the process for these vouchers.

Estimated completion date: 12/1/17

Title of person responsible: Fiscal Services Manager, Business Services Division

Recommendation #2

Periodically review and update user access, remove unauthorized users' access to automated systems and applications, and ensure that users have only the access necessary to perform their job functions.

Management agrees with the recommendation. BSD will develop and document an internal process to periodically review and remove security to ensure proper access for Comptroller administered systems. The ITD employee that had access to PAF is the system administrator. Like all information systems, system administrators have all privileges so they may troubleshoot and resolve technical issues. There is a valid business need for the administrator to have this access.

Estimated completion date: 12/1/17

Title of person responsible: CAPPS Project Manager

Recommendation #3

Implement documented policies and procedures for tracking changes to approval groups and the application in the personnel action form application.

Management agrees with the finding that policies and procedures for documenting changes to the PAF application are insufficient and will implement such policies and procedures according to TABC's application development methodology. The agency does have policies and procedures to document changes to any and all information systems. The SharePoint tool used for PAF is not a traditional application development platform, but rather a configurable tool. TABC uses the Zendesk help desk system to track requests and completion of those requests, particularly for ongoing and routine modifications. TABC was unable to provide documentation upon request regarding specific modifications to the system. SharePoint, as a development environment, lacks sufficient logs to document modifications to the system. For this reason, TABC is eager to 'go live' with the CAPPS HR system that will replace the PAF. The PAF system will be decommissioned upon rollout of the CAPPS HR modules. TABC's implementation of CAPPS HR has been delayed multiple years by the Texas Comptroller's Office, resulting in extending the use of the PAF system beyond its intended and useful life. TABC is reluctant to invest in a system that was scheduled to be replaced years ago. As a consequence, the PAF system failed to operate as intended during the audit period. TABC implemented a temporary, manual workaround process. The workaround did not have the strict controls of the automated system, nor was it cost-feasible to implement such controls for a temporary solution.

Estimated completion date: 8/31/17

Title of person responsible: Assistant Director of Innovation and Technology

Recommendation #4

Consistently maintain electronic approval signatures in the personnel action form application.

Management agrees with the finding that TABC did not consistently maintain electronic approval signatures in the PAF application. The inconsistencies occurred during a time when the PAF system failed to operate as intended. The related problems with the PAF system have been resolved. TABC could not reproduce the broken links in the personnel action form because the system was broken (undergoing maintenance) during the audit. The PAF system may continue to experience intermittent failures until replaced with CAPPS HR as the PAF system is beyond its useful and intended life.

Estimated completion date: Completed

Title of person responsible: Assistant Director of Innovation and Technology

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Alcoholic Beverage Commission (Agency) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Agency policies and procedures.

Scope

The scope of this audit covered the Agency's activities related to revenue, payroll actions, inventory, non-travel expenditures, travel expenditures, and related information systems for fiscal year 2016 (September 1, 2015, through August 31, 2016) and the first quarter of fiscal year 2017 (September 1, 2016, through November 30, 2016).

The scope of this audit also covered the Agency's activities related to travel expenditures for fiscal year 2015 (September 1, 2014, through August 31, 2015).

Methodology

The audit methodology included collecting information and documentation; interviewing Agency staff regarding financial and operational processes; identifying risk, conducting data analyses, and testing documentation related to revenue, payroll, asset management, non-travel expenditures, travel expenditures, and information technology; and analyzing and evaluating the results of the tests.

Data Reliability and Completeness

To determine the reliability of expenditure information in the Uniform Statewide Accounting System (USAS), payroll data in the Uniform Statewide Payroll/Personnel System (USPS), and asset data in the State Property Accounting (SPA) system, auditors reviewed the data for validity and completeness by (1) reviewing data query language, (2) performing a high-level review of data fields and their contents for appropriateness, (3) comparing USAS data to information in the Agency's annual financial report, and (4) comparing SPA data to the Agency's internal asset system. In addition, auditors relied on previous State Auditor's Office audit work on USAS and USPS.

To determine the reliability of revenue data from the Versa Regulation (Versa) system, auditors reviewed the data for validity and completeness by (1) reviewing data query language, (2) performing a high-level review of data fields and their contents for appropriateness, and (3) comparing data to USAS.

Auditors tested selected general controls for USAS, USPS, the SPA system, CAPPS, and Versa. Auditors also tested selected application controls for CAPPS and Versa.

Auditors also used expenditure data from the Agency's Lotus Notes application for additional testing. To determine the reliability of that data, auditors reviewed the data for validity and completeness by reviewing audit logs.

Auditors determined that the Agency's revenue, expenditure, payroll, and asset data discussed above was sufficiently reliable for the purposes of this audit.

The data in the Personnel Action Form application was of undetermined reliability for the purposes of this audit (see Chapter 5 for additional information on that application).

Sampling Methodology

Auditors selected a nonstatistical sample of transactions related to revenue and expenditures primarily through random selection. In some cases, auditors used professional judgment to select additional items for testing. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Auditors selected nonstatistical samples of transactions related to payroll primarily through random selection designed to be representative of the population. In some cases, auditors used professional judgment to select additional items for testing. Those sample items generally were not representative of the population. The test results as reported do not identify which items were randomly selected or selected using professional judgment. Therefore, it would not be appropriate to project those test results to the population.

Auditors used professional judgment to select a risk-based sample of transactions related to travel expenditures and inventory for testing. The sample items were generally not representative of the population and, therefore, it would not be appropriate to project those test results to the population.

Auditors selected a nonstatistical sample of monthly transactions related to revenue primarily through random selection. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- Agency policies, procedures, and guidelines.
- Agency expenditure and revenue data from USAS, asset data from the SPA system, and revenue data from Versa.
- Supporting documentation related to revenue.
- Invoices, travel vouchers, purchase requisitions, and supporting documentation for expenditures.
- List of Agency employees and employee payroll data from USPS.
- Employee personnel files, payroll actions, and time sheets.
- User access data and supporting documentation related to the general controls and application controls over the Agency's financial process systems.

Procedures and tests conducted included the following:

- Interviewed Agency staff to identify the Agency's financial and operational processes, including financial and administrative internal controls, and the information systems that support those processes.
- Tested a sample of Agency revenues, employee payroll actions, expenditures, and inventory to determine compliance with the Agency's policies and procedures and state laws and regulations.
- Analyzed payroll transactions to determine whether payments were appropriate and made only to Agency employees.
- Reviewed supporting documentation related to the general controls and application controls over the Agency's financial process systems.
- Conducted a physical inventory for a sample of the Agency's assets and compared the results with information in the SPA system.
- Reviewed third-party reports on the suitability of design and operating effectiveness of controls over information technology systems.

Criteria used included the following:

- Agency policies and procedures.
- Texas Alcoholic Beverage Code.
- Texas Government Code, Chapters 404, 660, and 2251.
- State of Texas Procurement Manual.
- Office of the Comptroller of Public Accounts' eXpendit purchasing procedures, manual of accounts, and travel policies and procedures.
- Title 1, Texas Administrative Code, Chapter 202.
- State Property Accounting (SPA) Process User's Guide.
- Title 34, Texas Administrative Code, Chapter 5.

Project Information

Audit fieldwork was conducted from December 2016 through June 2017. We conducted this performance audit 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Eric Ladejo, MPA (Project Manager)
- Adam Ryan, MACT (Assistant Project Manager)
- Mohammad Ali Bawany, MS
- James Collins
- Jeffrey Daniel Criminger
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (Audit Manager)

Appendix 2

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Zerwas, House Appropriations Committee
The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Alcoholic Beverage Commission

Members of the Alcoholic Beverage Commission
Mr. Kevin J. Lilly, Presiding Officer
Ms. Ida Clement Steen
Mr. Robert Saenz, Interim Executive Director and Executive Chief of Field Operations