

OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2015



OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2015

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS



Finance Commission Members and
Audit Committee Members
Office of Consumer Credit Commissioner
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Texas Financial Education Endowment (TFEE) Fund of the Office of Consumer Credit Commissioner (OCCC); and, its compliance with the Texas Finance Code, and OCCC's established policies and procedures, as applicable to the TFEE Fund, for the 7 months ended March 31, 2015.

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted certain matters, which are included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and OCCC's established policies and procedures. We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the Annual Internal Audit Report.

We have discussed the comments and recommendations from the TFEE Fund audit; and, the implementation status from the follow-up performed, with various OCCC personnel, and we will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations.

May 20, 2015

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INTRODUCTION

The Office of Consumer Credit Commissioner (OCCC) operates pursuant to Texas Finance Code, §14.001, and under the oversight of the Texas Finance Commission, who appoints the consumer credit commissioner. OCCC has authority to regulate consumer credit transactions and interest rates in Texas, offers protection to consumers, coordinates educational efforts aimed at consumers and industry alike, and advises lenders on compliance issues.

OCCC's primary task is to license and examine finance companies, home equity and junior lien mortgage lenders, residential mortgage loan originators, payday lenders, signature loan companies, motor vehicle sales finance companies, property tax lien lenders, and pawnshops. Pawnshop employees must also be licensed.

OCCC was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, OCCC is not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting OCCC's spending authority or limits. OCCC's entire operating funds are generated from fees assessed to the businesses it supervises and are used to fund both direct and indirect costs. General revenue funds are not used to support OCCC's operations.

2015 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in OCCC's approved 2015 Internal Audit Plan:

- Texas Financial Education Endowment Fund
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audit of the Texas Financial Education Endowment Fund, reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of OCCC's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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EXECUTIVE SUMMARY

BACKGROUND

Texas Financial Education Endowment Fund

In 2011, the 82nd Legislature enacted the Texas Financial Education Endowment (TFEE) Fund to be administered by the Finance Commission of Texas, through OCCC, to support statewide programs that would improve consumer credit, provide financial education, and asset-building opportunities. To comply with this mandate, on January 1, 2012, OCCC established the TFEE Fund, which in accordance with Texas Finance Code §393.628, is funded with annual assessment fees collected from credit access businesses (CABs) or CAB license holders.

TFEE Grant Program

Organizational Structure

OCCC implemented the TFEE grant program to award funds, from the TFEE Fund, to organizations that promote, provide, or support financial education or financial literacy initiatives. The TFEE grant program is administered by OCCC, the Grant Advisory Commission (GAC), and the Finance Commission. The Financial Literacy, Credit Education & Public Information Division (Division) at OCCC is responsible for managing the TFEE grant program, and is comprised of a Grant Coordinator, who is supervised by the Director of Strategic Communications, Administration, and Planning (Director), and reports directly to the Commissioner.

The Grant Coordinator makes presentations to the GAC and the Finance Commission regarding grant activity and acts as the liaison between grantees and the GAC. The GAC, who serves in an advisory role to the Grant Coordinator and the Finance Commission, is comprised of 7 members; to include, 2 members of the Finance Commission, and 5 members from various backgrounds in the financial literacy field. The GAC evaluates grant proposals, for recommendation to the Finance Commission, and oversees the development of the TFEE grant program.

Grant Awards

Successful applicants of the TFEE grant program must demonstrate evidence-based programming that increases financial capacity and promotes asset building. The TFEE grant program is a multi-year program; thus, grant awards may be made in 2-year cycles, but grant allocations are funded annually, based on performance and reporting compliance. In fiscal year 2014, the Finance Commission approved a total of \$250,000 from the TFEE Fund to be allocated for the fiscal year 2014-2016 TFEE grant awards.

Applicants interested in a TFEE grant award, are required to complete an application, which is available on the TFEE website. Along with the application, a checklist is provided to assist the applicant with ensuring all documents are submitted. Applications may be submitted online and by mail to the OCCC Grant Coordinator.

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The Grant Coordinator and the Executive Assistant perform an initial review of the grant applications to determine eligibility, using the application checklist to ensure all required documents are submitted with the application. Applications with missing documentation or not signed by the organization's authorized individual, are deemed *ineligible* during the initial review process.

The Grant Coordinator and the Executive Assistant log each *eligible* application into a spreadsheet to document the date received, organization and program name, contact information, amount requested by applicant, and whether it is to provide an adult or youth education program. They then assign each *eligible* application an application number.

Fiscal Year 2014-2016 TFEE Grant Awards

Although a number of applications were received by the October 15, 2013 deadline, a total of 33 *eligible* applications (after initial review) were logged into the spreadsheet. Of the 33 applications, 6 were deemed ineligible due to failure to meet the minimum qualifications, and the remaining 27 provided to the GAC for review.

The 27 applications were reviewed by the GAC, the Grant Coordinator and the Executive Assistant. As part of the review process, each application was scored using a 5-point scale, on the following eight components:

1. Alignment with TFEE Objectives – how well does the program support or address one or more of the TFEE objectives.
2. Experience/Effectiveness – evidence of ability to administer funds and implement programs to achieve predicted impact.
3. Value and Program Innovation – long-term, tangible improvements in financial health and use of innovative methods.
4. Target Population – experience reaching this audience; does program and experience meet the TFEE desired populations.
5. Outcomes – clearly defined and achievable objectives and activities and merit of the stated outcomes.
6. Evaluation & Measurement Strategy – clearly defined progress indicators and the ability to objectively measure results.
7. Program Budget & Funding – how realistic is the program budget and how valuable is designated use of desired funds.
8. Sustainability – does the grant help build a program that can be sustained beyond the grant cycle.

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Applications with the “highest” overall average total (score) were selected by the GAC for recommendation to the Finance Commission; and, on December 13, 2013, the Finance Commission approved the recommendation to award grants to the following 8 organizations:

1. Financial Mentors of America, Houston - *Game of Real Life*, \$35,000 (2 Year)
2. Independent Bankers Association of Texas Education Foundation, Austin - *IBAT Teach the Teacher Program*, \$30,000 (2 Year)
3. Texas Council on Economic Education, Houston - *Smarter Texas*, \$35,000 (1 Year)
4. Foundation Communities, Austin - *Financial Coaching Program*, \$35,000 (2 Year)
5. United Way of Tarrant County, Ft. Worth – *Financial Education and Coaching*, \$30,000 (1 Year)
6. Goodwill Industries of Central East Texas, Inc., Lufkin - *Workforce Development "Good Sense" Services*, \$25,000 (2 Year)
7. Society of St. Vincent de Paul – Diocesan Council of Austin - *Loan Conversion Program*, \$30,000 (2 Year)
8. Texas State Affordable Housing Corporation - *Texas Statewide Homebuyer Education Program*, \$30,000 (1 Year)

Funding for 1-year grants is for the period January 1, 2014 to December 31, 2014 and for 2-year grants, from January 1, 2014 to December 31, 2015. Award letters, signed by the Commissioner, along with the grant agreement, were sent to the 8 applicants that were approved for grant awards; while, regret letters were sent to the remaining applicants.

Each grant agreement was signed, as required, by the Commissioner and the grantee.

Grantee Reporting

At the request of the GAC, grantees are required to submit a Semi-Annual Grant Report, which reflects the following:

- Quarterly Financial and Program Progress -- number of people served
- Annual Performance and Outcomes Report – budget-to-actual and demographics of people served

To facilitate the reporting requirements, grantees were provided with a checklist to ensure complete and accurate reports were submitted. The Semi-Annual Grant Reports were due June 30, 2014 and December 31, 2014.

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In addition to the Semi-Annual Grant Report, the *Grant Program and Advisory Policy* requires that each grantee submit a Longitudinal Follow-up Report, which reports the assessment of consumer behavior and program impact 6 months to one year, upon program completion. As of March 31, 2015, grantees had not submitted Longitudinal Follow-up Reports.

Reimbursement Request

As part of the Semi-Annual Grant Report, grantees were allowed to submit an Expense Reimbursement Request Form for expenditures incurred. The grant agreement(s) define unallowable expenditures; therefore, to be approved for reimbursement, proof of payment (stamped paid invoices or receipts) for all allowable expenditures is required to be submitted with the Expense Reimbursement Request Form.

TFEE Fund

As indicated above, the TFEE Fund is funded with annual assessment fees collected from credit access businesses (CABs) or CAB license holders. Of the \$800 annual assessment fee collected from CABs, \$200 is designated for the TFEE Fund and accounted for separately in OCCC's general ledger. On a monthly basis, the amount recorded in OCCC's general ledger, as collected for the TFEE Fund, is transferred to the TFEE Fund, which is held at the Texas Treasury Safekeeping Trust Company (TTSTC). TTSTC requires that the 2 authorized individuals, the Accounting Manager and the Commissioner, approve the transfer of funds. These 2 individuals have a bank password and safe key, which are required to make transfers. Based on the imbedded controls of each password, the Accounting Manager prepares the transfer while the Commissioner confirms and finalizes it.

Upon receipt of an Expense Reimbursement Request Form from a grantee, approved by the Director, the Accounting Manager will transfer funds from the cash and cash equivalents TTSTC account to a Private Purpose Trust Fund, as established by the Comptroller, which is used to disburse TFEE funds.

On February 15, 2013, the Finance Commission approved the investment of \$1,400,000 of the funds on deposit in the TFEE Fund at TTSTC into the Endowment Program at TTSTC. The funds in the Endowment Program are invested in a diversified manner designed to preserve the purchasing power of the TFEE Fund's assets and provide a stable and growing distribution to beneficiaries. Per the TTSTC website, the investment objectives of the Endowment Program is to earn a long-term annual rate of return of 8.0% to provide a predictable, stable stream of distribution; ensure that the inflation-adjusted value of distributions is maintained over the long-term; and ensure that the inflation-adjusted value of the corpus after distributions is maintained over the long-term. On a periodic basis, the Commissioner will review TFEE Fund's cash equivalent account balance and determine if funds should be transferred for investment in the TFEE Fund's Endowment Program.

The Accounting Manager prepares quarterly TFEE investment reports which are reviewed and approved by the Commissioner before being presented to the Finance Commission. The TFEE investment reports and show fees deposited, interest earned, grant payments made, and bank fees paid.

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The following table reflects the cash, cash equivalents, and investment balances in the TFEE Fund at the end of each fiscal year through August 31, 2014, since its inception, and as of March 31, 2015, the latest information available for the fiscal year ended August 31, 2015.

TTSTC	August 31, 2012	August 31, 2013	August 31, 2014	March 31, 2015
Cash & Cash Equivalents				
Repurchase Agreement	\$ 700,382.01	\$ 458,870.92	\$ 1,167,288.47	\$ 1,119,746.40
Total	\$ 700,382.01	\$ 458,870.92	\$ 1,167,288.47	\$ 1,119,746.40
Investments – Endowment Program				
U.S. Government Agency Obligations	\$ -	\$ 32,461.08	\$ 54,360.45	\$ 60,849.56
Equity	-	31,557.82	36,428.25	35,500.57
Alternative Investments	-	1,187,566.94	1,271,910.74	1,731,006.86
Fixed Income	-	140,572.48	167,574.58	203,877.28
Total	\$ -	\$ 1,392,158.32	\$ 1,530,274.02	\$ 2,031,234.27

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Audit Scope/Objective

The scope of our audit was the Texas Financial Education Endowment (TFEE) Fund. The objective of our audit was to gain an understanding of the processes and controls in place over the TFEE Fund to determine whether it is being managed in accordance with applicable rules and regulations and established policies and procedures.

The procedures performed to achieve the objective of our audit were as follows:

1. Reviewed and obtained an understanding of the rules, laws and regulations of the Texas Finance Code (TFC), as applicable to the TFEE Fund.
2. Obtained and reviewed the TFEE Fund's written policies and procedures, collected documentation, and conducted interviews to document the formal/informal processes and controls over the TFEE Fund.
3. Obtained statements from the TTSTC for various months to support the establishment and existence of the TFEE Fund account and to confirm account balances.
4. Selected 5 months throughout the existence of the TFEE Fund and obtained the monthly reconciliations, as prepared by the Accountant, to test the following attributes:
 - a. Agreed to bank statement;
 - b. Agreed to general ledger; and,
 - c. Reviewed and approved by the Accounting Manager.
5. Obtained a listing of grant applications received as part of the fiscal year 2014 grant award process, and randomly selected 10 applications to test the following attributes:
 - a. Application was submitted before the October 15, 2013 deadline;
 - b. Application was complete and contained all the required documents as listed on the application checklist;
 - c. A scoring matrix was completed for each application and included a total score, which we recomputed; and
 - d. An award or regret letter, as applicable, was sent to each applicant.
6. From the 8 organizations that were awarded a TFEE grant, as part of the fiscal year 2014-2016 grant award process, we randomly selected 4 grant recipients to test the following attributes:
 - a. Finance Commission approved the organization to receive a grant award;
 - b. Grant agreement was signed by the Commissioner and the grantee;
 - c. Expense Reimbursement Request Forms were properly signed, supported, and Included only allowable expenditures; and,
 - d. Reimbursement was disbursed from the TFEE Fund.
7. Obtained the Semi-Annual Grant Reports submitted by the 4 grantees that were randomly selected for testing above, and ensured they were submitted by the due date, as reflected in the grant agreement, and contained all required information.

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8. Obtained a listing of annual assessment fees collected from CAB licensees for the 7 months ended March 31, 2015, and ensured the proper amount was transferred to the TFEE Fund.
9. Agreed TFEE Fund's balances reported in the Annual Financial Report for fiscal years 2012, 2013, and 2014 to the August bank statement for the respective fiscal year.
10. Obtained the 2 quarterly TFEE investment reports prepared in fiscal year 2015 and 3 prepared in fiscal year 2014, and ensured the following:
 - a. Amount reported agreed to the bank statement; and,
 - b. Reports were signed by the Investment Officer, and approved by the Commissioner.

I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code 2102.015 and the State Auditor's Office, within 30 days of approval by the Finance Commission, OCCC will post the following information on its website:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by OCCC to address such concerns.

II. Internal Audit Plan for Fiscal Year 2015

The Internal Audit Plan (Plan) included one audit to be performed during the 2015 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 17 audit areas were identified as the potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

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Following are the results of the risk assessment performed for the 17 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Texas Financial Education Endowment Fund	Fiscal Division	Human Resources
Property Tax Lender Examinations	Regulated Examinations	Records Management
Motor Vehicle Sales Finance Examinations	Pawn Examinations	Business Licensing
Billing and Collection of Fees	Registration	Professional Licensing (Pawnshop Employees & MLO)
	Fixed Assets	Credit Access Business Examinations
		Complaint Investigations
		Management Information Systems
		Risk Management

In the prior 3 years, internal audits were performed in the following areas:

Fiscal Year 2014:

- Professional Licensing

Fiscal Year 2013:

- Credit Access Business Examinations

Fiscal Year 2012:

- Complaint Investigations

The areas recommended for internal audits and other tasks to be performed for fiscal year 2015 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Texas Financial Education Endowment Fund	5/20/2015
1.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/20/2015
-	Other Tasks Assigned by the Finance Commission	None

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III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

IV. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

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V. Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	5/20/2015	TFEE Fund	<p>1. Policies and Procedures</p> <ul style="list-style-type: none"> • The reporting requirements, as reflected in the TFEE Fund's policies and procedures, differ from instructions provided in the grant agreements and followed by the grantees. As such, the current practice is for grantees to submit only one semi-annual grant report instead of 2 different reports, which were due quarterly and annually. • The TFEE Fund's policies and procedures state that applications with the highest overall average total (score) are those recommended for TFEE grant awards; however, guidance is not provided for a situation where applicants may receive the same score. • The TFEE Fund's policies and procedures state that OCCC will conduct a follow-up 6 months to one year after program completion to assess the program impact. However, procedures have not yet been developed to perform this function. <p>Recommendation We recommend OCCC, with guidance from the GAC, revise the TFEE Fund's policies and procedures to reflect current practices in place and to include guidance for issues and requirements not currently addressed.</p> <p>Management's Response OCCC recognizes the value in ensuring policies and procedures are complete and accurate and prior to this audit, the Grant Coordinator (GC) had already begun drafting amendments to the program policies for improvement.</p> <p>Amendments reflecting these recommendations along with other recommended policy changes will be submitted to the GAC for review and ultimately approved by the Audit and Finance Committee prior to awarding of the upcoming 2016-17 grant cycle.</p>		To ensure policies and procedures are complete, accurate, and reflect OCCC's current practices in place.

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	5/20/2015	TFEE Fund	<p>2. Grant Award Amounts</p> <p>As part of the 2014–2016 grant award process, 8 organizations were awarded grants ranging in amounts from \$25,000 to \$30,000. However, we were not provided with the basis used to determine the allocation of the amounts to the 8 different organizations.</p> <p>Recommendation We recommend that the rationale used in determining the allocation of grants awarded to various applicants be documented to provide evidence that it was done in a systematic and rational manner.</p> <p>Management’s Response The amount grantees could request ranged from \$5,000 to \$40,000. Each of the grantees that were selected requested \$40,000; however, the total fund amount was \$250,000. In an effort to fund more programs, the GAC decided to grant more programs at a lesser amount than requested.</p> <p>For future grant cycles, GC will document the rationale for which funds are allocated for each grantee. In addition, GAC will determine fund allocations based on <i>“the proposed grantees application with its ability and scope to reach the most consumers, and evaluate community and statewide impact.”</i> This process is consistent with the way organizations with identical scores are evaluated.</p> <p>Amendments reflecting these changes will be submitted to the GAC for review and ultimately approved by the Audit and Finance Committee prior to awarding of the upcoming 2016-17 grant cycle.</p>		To provide evidence that grants are awarded in a systematic and rational manner.

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	5/20/2015	2015 Follow-Up	<p>Follow-Up of Prior Year Audits</p> <p>Following is the status of the recommendations made during fiscal year 2014 that had not been fully implemented.</p> <p><u>Professional Licensing</u></p> <ol style="list-style-type: none"> 1. Fee Reconciliation <p>A monthly reconciliation between the Pawnshop Employee Database to the general ledger for license fees was not being performed. We recommend OCCC perform a reconciliation to ensure all fees are properly received for licenses approved and renewed; and implement a review process.</p> 2. Review and Approval of Applications <p>Consider implementing a quality control review process whereby the population of the RMLO and Pawnshop Employee applications received are sampled and reviewed on a periodic basis to provide added assurance.</p> 	<p>Implemented</p> <p>Implementation Delayed</p> <p>OCCC has not yet been able to implement a quality control process. However, the agency was able to implement a process where one employee processes applications and a different employee reviews and approves the applications. OCCC plans to adopt a new quality control process by December 2015.</p>	

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VI. Proposed Internal Audit Plan for Fiscal Year 2016

The risk assessment performed during the 2015 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2016. The Internal Audit Plan for Fiscal Year 2016 will be developed and presented to the Finance Commission at a meeting to be determined at a later date.

- Property Tax Lender Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

VII. External Audit Services Procured in Fiscal Year 2015

OCCC procured the internal audit services documented in the Internal Audit Plan for fiscal year 2015.

VIII. Reporting Suspected Fraud and Abuse

OCCC has provided information on their home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. OCCC has also developed a Fraud Policy that provides information on how to report suspected fraud.

IX. Organizational Chart

