

OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2017



OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2017

TABLE OF CONTENTS

	<u>Page</u>
Internal Auditor's Report	1
Introduction	2
Internal Audit Objectives.	3
I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information.....	4
II. Consulting and Nonaudit Services Completed.....	4
III. External Quality Assurance Review.....	4
IV. Internal Audit Plan for Fiscal Year 2017.....	4-5
V. Executive Summary Texas Financial Education Endowment Fund Background.....	6-8
Audit Objective, Scope, and Methodology.....	8-10
Registration Background.....	11-13
Audit Objective, Scope, and Methodology.....	13-14
VI. Observations/Findings and Recommendations Summary and Related Rating of Observations/Findings and Recommendations	15
Observations/Findings and Recommendations.....	16-19
VII. External Audit Services Procured in Fiscal Year 2017	20
VIII. Reporting Suspected Fraud and Abuse.....	20
IX. Proposed Internal Audit Plan for Fiscal Year 2018	20
X. Organizational Chart	21
Attachment Attachment A -- History of Areas Audited.....	22

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 Office of Consumer Credit Commissioner's (OCCC) internal control structure over (1) the administration of the investment portfolio of the Texas Financial Education Endowment (TFEE) Fund and its compliance with established policies and procedures, and applicable laws and regulations, for the 6 months ended February 28, 2017; and, through March 31, 2017 for reimbursement requests paid from the TFEE Fund; and, (2) the Registration area, for the 6 months ended February 28, 2017.

The results of our tests disclosed that such controls were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and OCCC's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations", which is included in page 15 of this report.

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 results and implementation status of our follow-up procedures performed; and, includes all information required for the Annual Internal Audit Report.

We have discussed the findings and recommendations from the audits of the TFEE Fund and the Registration area; and, the implementation status from the follow-up performed, with various OCCC personnel; and, 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 made.



June 13, 2017 – TFFE Fund
July 17, 2017 – Registration and 2017 Follow-Up

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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.

2017 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in OCCC's 2017 Internal Audit Plan, dated January 25, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on February 17, 2017:

- TFEE Fund
- Registration
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audits of the TFEE Fund and the Registration area; reflects the follow-up performed in the current year of the findings that were presented in the prior year annual internal audit report; and, meets the State of Texas Internal Audit Annual requirements.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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 after approval by the Finance Commission, OCCC will post the following information on its website:

- An approved fiscal year 2018 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2017 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. 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.

III. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 7, 2015, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2017

The Internal Audit Plan (Plan) included two audits to be performed during the 2017 fiscal year. The Plan also included a follow-up of the findings that were presented in the prior year annual internal audit report, other tasks as assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2017.

Risk Assessment

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

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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

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

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

Fiscal Year 2016:

- Motor Vehicle Sales Finance Examinations
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2015:

- Texas Financial Education Endowment (TFEE) Fund
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2014:

- Professional Licensing
- Follow-Up of the Prior Year Internal Audits

The internal audits and other tasks performed for fiscal year 2017 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Texas Financial Education Endowment (TFEE) Fund <i>Objective:</i> To determine whether OCCC's internal control structure over the administration of the investment portfolio of the TFEE Fund are sufficient to ensure compliance with established policies and procedures, and applicable laws and regulations.	6/13/2017
2.	Registration <i>Objective:</i> To determine whether OCCC's policies, procedures and processes in place, as applicable to the Registration area, are sufficient to ensure compliance with the Texas Administrative Code (TAC), Texas Finance Code (TFC), and, Texas Occupations Code (TOC).	7/17/2017
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	7/17/2017
-	Other Tasks Assigned by the Finance Commission	None

V. Executive Summary

Texas Financial Education Endowment Fund

Background

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, with the Texas Treasury Safekeeping Trust Company (TTSTC), a corporation created by the Texas Comptroller of Public Accounts (Comptroller). In accordance with Texas Finance Code §393.628, the TFEE Fund is funded with annual assessment fees collected from credit access businesses (CABs), or CAB license holders. OCCC's Commissioner along with employees of the Finance and Accounting Area, are responsible for managing the TFEE Fund, which includes the administration of the TFEE Fund's investment portfolio.

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. Each GAC member is required to review the TFEE Fund's Conflict of Interest Policy and sign the form to denote agreement to comply with the Policy, prior to their participation in the grantee selection process. Members of the Finance Commission are required to complete Public Funds Investment training offered by the Texas Higher Education Coordinating Board within 6 months of their appointment to the Finance Commission.

TFEE Fund

Accounting for the TFEE Fund's Cash Equivalent and Investment Accounts

As indicated above, the TFEE Fund is funded with annual assessment fees collected from CAB license holders. Of the \$800 annual assessment fee collected from CABs, \$200 is designated for the TFEE Fund and for in a separate cash account in OCCC's general ledger.

Periodically, the amount recorded in OCCC's general ledger, as collected for the TFEE Fund, is transferred to the TFEE Fund's interest-bearing cash equivalent account held at TTSTC. TTSTC requires that the 2 authorized individuals, OCCC's Commissioner and Accounting Manager, 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.

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, also at TTSTC. The funds invested in the Endowment Program are accounted for in an investment account in OCCC's general ledger. The funds in the Endowment Program are invested in a diversified manner by TTSTC to preserve the purchasing power of the TFEE Fund's assets and provide a stable and growing distribution to beneficiaries. Per TTSTC's Endowment Policy dated October 2016, the investment objectives of the Endowment Program are to earn a long-term annual rate of return of 6.0% 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.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

On a monthly basis, the Accountant IV prepares a reconciliation of the TFEE Fund's cash account, within the general ledger, to the TFEE Fund's cash equivalent account bank statement to ensure account accuracy. The Accountant IV also obtains a monthly Statement of Fiduciary Net Position from TTSTC, which displays the TFEE Fund's investment balances, by investment type (i.e. equity, alternative, fixed income, etc.); and, used to prepare the journal entry for the change in the general ledger's investment balance. The cash and investment account reconciliations are reviewed and used by the Accounting Manager to prepare the quarterly investment reports. Upon account reconciliation, the Commissioner reviews the TFEE Fund's cash equivalent account balance and determines if funds should be transferred for investment in the TFEE Fund's Endowment Program. For the 6 months ended February 28, 2017, a transfer in the amount of \$650,000 was made from the TFEE Fund's cash equivalent account into the TFEE Fund's Endowment Program account.

Once a transfer is made by OCCC from the TFEE Fund's cash equivalent account into the TFEE Fund's Endowment Program account, TTSTC is responsible for investing the funds in accordance with its Endowment Policy. Pursuant to TTSTC's Endowment Policy, funds are invested in obligations in which the Comptroller is authorized to invest, as specified in Section 404.024 of the Texas Government Code. On an annual basis, OCCC receives a detailed report of the TFEE Fund's investments held by TTSTC, which reflects the TFEE Fund's pro-rata ownership of the total TTSTC Endowment Fund balance. The Accounting Manager and Commissioner review the detailed investment report to ensure agreement to the monthly Statement of Net Position. The TFEE Fund's pro-rata ownership varies by investment type; however, at August 31, 2016, the TFEE Fund's total pro-rata ownership was .053% of the total TTSTC Endowment Fund balance.

TTSTC's Chief Investment Officer presents the TFEE Fund's investment activity to the Finance Commission on a periodic basis, which includes the types of investments held in the TFEE Fund along with their quarterly and annual performance. The last presentation was made at the February 19, 2016 Finance Commission meeting.

Investment Policy/Procedures

OCCC's Investment Policy, which was last approved by the Finance Commission on October 21, 2016, is the policy that governs OCCC's investment of funds, and states that OCCC has adopted TTSTC's Endowment Policy for the management and oversight of the TFEE Fund's investments. The Finance Commission reviews TTSTC's Endowment Policy on a biennial basis, with the last review conducted in February 2016, for alignment with OCCC's Investment Policy.

As reflected in the table below, the amounts in the TFEE Fund have been invested in repurchase agreements; U.S. government agency obligations; and, equity, alternative, and fixed income investments, which are all investments authorized by TTSTC's Endowment Policy.

The Commissioner and Accounting Manager are OCCC's investment officers. In accordance with OCCC's Investment Officer Responsibilities policy, within a reasonable period after the end of the quarter, the investment officers shall ensure the preparation of quarterly investment reports, which include all of OCCC's investments, and signed by both investment officers. The investment reports reflect activity of the TFEE Fund that occurred for the reported period; to include, beginning and ending investment and cash balances, deposits, interest earned, transfers, grant payments made, and bank fees paid.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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, 2016, since its inception; and, for the 6 months ended February 28, 2017, the period of audit.

TTSTC	August 31, 2012	August 31, 2013	August 31, 2014	August 31, 2015	August 31, 2016	February 28, 2017
Cash & Cash Equivalents						
Repurchase Agreement	\$ 700,382.01	\$ 458,870.92	\$ 1,167,288.47	\$ 1,087,282.04	\$ 1,490,803.98	\$ 1,188,435.62
Total	\$ 700,382.01	\$ 458,870.92	\$ 1,167,288.47	\$ 1,087,282.04	\$ 1,490,803.98	\$ 1,188,435.62
Investments – Endowment Program						
U.S. Government Agency Obligations	\$ -	\$ 32,461.08	\$ 54,360.45	\$ 57,523.24	\$ 121,620.29	\$ 42,423.22
Equity	-	31,557.82	36,428.25	40,905.82	53,652.49	41,365.95
Alternative Investments	-	1,187,566.94	1,271,910.74	1,764,177.28	1,739,016.84	2,492,693.38
Fixed Income	-	140,572.48	167,574.58	145,140.33	127,722.02	253,526.86
Total	\$ -	\$ 1,392,158.32	\$ 1,530,274.02	\$ 2,007,746.67	\$ 2,042,011.64	\$ 2,830,009.41

Disbursements

Upon receipt of a semiannual Expense Reimbursement Request Form from a grantee, approved by the Director of Strategic Communications, Administration, and Planning; 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. For the 6 months ended February 28, 2017, there were 7 disbursements made to grantees, totaling \$35,570; and, for the month of March 2017, there were 8 disbursements, totaling \$76,892.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY**Objective**

The objective of our audit was to gain an understanding of OCCC's internal control structure over the administration of the investment portfolio of the Texas Financial Education Endowment (TFEE) Fund to determine its compliance with established policies and procedures, and applicable laws and regulations.

Scope

The scope of our audit was to assess OCCC's administration of the investment portfolio of the TFEE Fund to determine its compliance with established policies and procedures, and applicable laws and regulations for the 6 months ended February 28, 2017; and, through March 31, 2017 for reimbursement requests paid from the TFEE Fund.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Methodology

The audit methodology included a review of laws and regulations, policies and procedures, and other internal and external documentation; and, an interview and correspondence with the Manager of Accounting and Grant Coordinator.

We obtained and/or reviewed the following documentation:

- a. OCCC's Organizational Chart.
- b. TFEE Policy Manual.
- c. OCCC's Investment Policy Statement.
- d. TFEE Investment Officer Responsibilities.
- e. TTSTC Endowment Policy.
- f. Certificate(s) for the 2 Investment Officers for investment training completed during the last 2 years.
- g. Conflict of Interest Forms signed by the Grant Advisory Committee (GAC) members.
- h. The 1st and 2nd Quarter Investment Reports for Fiscal Year 2017.
- i. The 4th Quarter Investment Reports for Fiscal Year 2015 and 2016.
- j. Detail of investments held in the TFEE Fund as of August 31, 2016.
- k. Investment allocation percentages by investment type for Fiscal Year 2016.
- l. TFEE Fund bank statements for November 2016 and February 2017.
- m. TTSTC balance sheets for November 2016 and February 2017.
- n. TFEE Fund receipts and disbursements from September 1, 2016 through March 31, 2017.
- o. For a sample of 8 reimbursement requests:
 - Reimbursement request form; and,
 - Receipts, invoices, and timesheets for all expenditures incurred.
- p. Bank reconciliations for the period from September 1, 2016 through February 28, 2017.
- q. Detailed general ledger for the operating account.
- r. Copies of transfers made from OCCC's operating account to the TFEE Fund for the 6 months ended February 28, 2017.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

We performed various procedures to achieve the objective of our audit, to include the following:

1. Updated our understanding of state laws and regulations and OCCC's policies and procedures, as applicable to the administration of the TFEE Fund's investment portfolio.
2. Selected the 2 quarterly investment reports submitted to the Finance Commission during the 6 months ended February 28, 2017 and tested for the following:
 - 1) The ending cash balance agreed to the TTSTC cash equivalent account bank statement;
 - 2) The total ending TFEE Fund investment portfolio balance agreed to TTSTC's financial statements; and,
 - 3) The investment reports were signed by both of OCCC's investment officers.
3. Ensured that \$200 of the \$800 annual fee collected from CAB licensees during the 6 months ended February 28, 2017, were deposited into the TFEE Fund account.
4. Ensured investments in the TFEE Fund were authorized by TTSTC's Endowment Policy.
5. Reviewed detail of investments held in the TFEE Fund as of August 31, 2016 to ensure investment balances were correct according to OCCC's percentage of investments held by TTSTC.
6. Obtained the TFEE Fund cash equivalent account reconciliations performed for the 6 months ended February 28, 2017 and tested for the following:
 - 1) Traced the bank balance per the reconciliation to TTSTC's original bank statement;
 - 2) Traced the reconciled book balance to the general ledger;
 - 3) Tested the clerical accuracy of the reconciliation;
 - 4) Scanned the bank reconciliation for unusual reconciling items;
 - 5) Approval by the Manger of Accounting; and,
 - 6) Timely preparation.
7. Reviewed documentation to support investment training obtained by the 2 investment officers.
8. Ensured OCCC's Investment Policy was reviewed and approved by the Finance Commission on an annual basis.
9. Selected 4 of the 7 reimbursement requests paid from the TFEE Fund during the 6 months ended February 28, 2017; and, 4 of the 8 reimbursement requests paid in March 2017, and tested for the following:
 - 1) Expenditures were for an allowable cost;
 - 2) Expenditures were properly supported;
 - 3) Expenditures occurred during the grant award period;
 - 4) Reimbursement request form was signed by the representative of the organization/grantee; and,
 - 5) Reimbursement request form was signed to denote approval by the Director of Strategic Communications, Administrative, and Planning.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report
Fiscal Year 2017

Registration

Background

The Registration area (the Area), which is managed by the Licensing and Registration Division, is supervised by the Manager of Licensing and Registration, who reports directly to the Commissioner; and, consists of a Primary and a Secondary Specialist for Registrations. The Area is responsible for registering the following four types of industries: (1) Debt Management Service Providers (DMSP); (2) Crafted Precious Metal Dealers (CPMD); (3) Refund Anticipation Loan (RAL) Facilitators; and (4) Registered Creditors.

New Applications

Debt Management Service Providers (DMSP) & Registered Creditors

DMSP and Registered Creditor applications can be submitted either online through OCCC's internal system, ALECS (Application Licensing Examination Compliance System), and submitting the required fee through ACH or credit card; or, by mail. Applications and other required forms are available on OCCC's website.

To apply for a DMSP registration, the applicant must submit the following items:

- Application;
- Application Questionnaire;
- \$680 Fee
- Disclosure of Owners and Principal Parties;
- Statutory Agent Form;
- Surety Bond or Proof of Insurance;
- Debt Management Service Agreement;
- Proof of the 501 (c) (3) status; and
- Fingerprints – The applicant must provide a complete set of legible fingerprints in a format prescribed by OCCC and approved by the Texas Department of Public Safety and the Federal Bureau of Investigation. Once the applicant is in the TXDPS system, the Registration Specialist or the Manager of Licensing and Registration will check the criminal history of the applicant on the TXDPS website. If any criminal history results in denial of registration, a letter is sent by certified mail to the applicant's home address.

To apply for a Registered Creditor registration, the applicant is required to complete an application and submit a fee of \$10 per consumer goods and services location, and \$15 per manufactured housing location.

For both types of registrations, applications received by mail are opened and date stamped by the mail room staff; and, attached fees are sent to the Accounting Department for processing. The application is then forwarded to the Registration Department with indication of the received fee amount. The Primary Specialist performs the initial review of paper applications and inputs the information into ALECS, which will then be reviewed by either the Secondary Specialist or the Manager of Licensing and Registration prior to issuance of a registration. However, all DMSP applications are reviewed by the Manager of Licensing and Registration or Commissioner since they contain more complex requirements than the other three registration types.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Once all required information has been reviewed and approved, the applicant will be notified that their application was approved and their registration certificate may be printed from ALECS.

A Questionnaire Letter is mailed to the applicant to request any required information that was not submitted. If a response is not received from the applicant within 30 days from the date of the Questionnaire Letter, a second Questionnaire Letter is sent, requiring a response within 14 days. The application is denied if a response is not received after the second request deadline.

Refund Anticipation Loan (RAL) Facilitators

RAL Facilitator applications can only be submitted online through ALECS along with a \$50 fee for each registered location. The application asks for the applicant's business information; including, operating name; address; phone number; fax number; and, begin date, which is when the applicant began engaging in business as a facilitator. If the begin date field is prior to the application date, the system will prompt the assessment of a \$250 late filing fee.

For all applications completed online for the above three registration types, upon entering all required information and submitting the required fee(s), the applicants may print their certificate of registration from ALECS.

Crafted Precious Metal Dealers (CPMD)

Although CPMD applications can only be submitted through the Texas Department of Public Safety's (TXDPS) website, they are registered by OCCC. The applicant creates an account and completes required information; such as, company name, assumed name, mailing address, physical address, and phone number. Applicants may also register temporary locations by providing their hours of operation in addition to location details. Fees are \$50 for each permanent location and \$25 for each temporary location. Upon entering all required information and submitting the required fee(s), the applicant may print their certificate from the TXDPS website. The Manager of Licensing and Registration and the specialists are given access to the accounts created on the TXDPS website to perform the following three functions:

- To assist applicants with common technical issues; such as, unknown username password reset failure, etc.;
- To modify accounts; such as, changes in dealer name, address, etc.; and,
- To obtain statistics for reporting purposes.

Renewals

All registrations are required to be renewed annually. The Area sends multiple reminder emails and renewal mailers to registrants, which include information on how to renew, renewal fees, and renewal due dates.

DMSP registrants are required to renew their registration by December 31st and pay the annual renewal fee of \$430 for each registered DMSPs. The renewal mailers indicate the name and mailing address for the company with a list of all the registered locations and total renewal fee due.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Registered Creditor registrants are required to renew their registration by October 31st and pay the annual renewal fee of \$10 per consumer goods and services location, and \$15 per manufactured housing location. The renewal mailers indicate the name and mailing address for the company with a listing of all registered locations, along with the total amount of renewals due.

RAL Facilitator registrants are required to renew their registration by December 31st and pay the annual renewal fixed fee of \$50, per registered location.

CPMD registrations expire one year from the initial issuance. The TXDPS website sends an automated email to notify the registrant of the renewal 45 days prior to expiration of the current registration. The renewal fee is \$50 per permanent location only since temporary locations are not authorized to renew.

For all four registration types, registrants are given a 30-day grace period before a \$250 late filing fee is assessed, for each location.

During the period from September 1, 2016 through February 28, 2017, the following number of new and renewal applications, by type, were received along with the amount of fees collected.

Registration Type	Number of New Applications	Number of Renewal Applications	Total Applications Received	Fees Collected
Debt Management Service Providers	6	71	77	\$ 34,400
Registered Creditors	451	6,564	7,015	\$ 79,965
Refund Anticipation Loan Facilitators	1,483	855	2,338	\$ 131,700
Crafted Precious Metal Dealers	91	416	507	\$ 25,250

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether OCCC's policies, procedures and processes in place, as applicable to the Registration Area (Area), are sufficient in ensuring compliance with the Texas Administrative Code (TAC), Texas Finance Code (TFC), and Texas Occupations Code (TOC).

Scope

The scope of our audit was to review and/or test selected processes and functions performed by the Area during the 6 months ended February 28, 2017.

Methodology

The audit methodology included a review of laws and regulations; OCCC's established policies and procedures, and other internal and external documentation; and, an interview and correspondence with the Manager of Licensing and Registration.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

We obtained and/or reviewed the following documentation:

- a. Registration Area's Organizational Chart.
- b. OCCC's Registration Procedures.
- c. OCCC'S Quarterly Executive Summary presented to the Finance Commission as of February 28, 2017.
- d. List of OCCC's Actual Performance for Non-Key Measures for Fiscal Year 2016.
- e. List of Registrations Processed during Fiscal Year 2016.
- f. List of New and Renewal Applications received for Debt Management Service Providers, Registered Creditors, RAL Facilitators, and Crafted Precious Metal Dealers during the period from September 1, 2016 through February 28, 2017.
- g. Registration Fee Report for the period from September 1, 2016 through February 28, 2017.
- h. For a selected sample of 20 applications (10 new registration applications and 10 renewals):
 - 1) Paper and Online (ALECS) Applications;
 - 2) Payment Receipts;
 - 3) Application Questionnaire;
 - 4) Disclosure of Owners and Principal Parties;
 - 5) Statutory Agent Disclosure;
 - 6) Surety Bond;
 - 7) Debt Management Service Agreement;
 - 8) Proof of 501 (c) (3) status;
 - 9) Fingerprints Review Form; and
 - 10) Annual Report.

We performed various procedures to achieve the objective of our audit; to include, the following:

1. Updated our understanding of state laws and regulations relevant to OCCC's Registration Area and OCCC's established policies and procedures.
2. Selected 20 registrations (10 new registration applications and 10 renewals) received during fiscal year 2017, as of February 28, 2017, and tested for the following:
 - 1) Application completeness;
 - 2) Receipt of required documents; and,
 - 3) Receipt of applicable fees.
3. Selected a sample of 20 registration fees collected during fiscal year 2017, as of February 28, 2017, and agreed them to the registration fee report for completeness.
4. Tested the accuracy of the fiscal year 2016 reported performance measure "Number of Registrations Processed".

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

VI. Observations/Findings and Recommendations**SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and
RECOMMENDATIONS**

As OCCC's internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor's Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the findings in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
Texas Financial Education Endowment (TFEE) Fund		
1	TFEE Cash Equivalent Account Reconciliations	Low
2	TFEE Grant Program Disbursements	Low
Registration		
3	Number of Registrations Processed	Low
	<p style="text-align: center;"><u>Description of Rating</u></p> <p>A finding is rated <i>Priority</i> 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.</p> <p>A finding is rated <i>High</i> 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.</p> <p>A finding is rated <i>Medium</i> 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.</p> <p>A finding is rated <i>Low</i> 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.</p>	

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
1	6/13/2017	Texas Financial Education Endowment Fund (TFEE)	<p>1. <u>TFEE Cash Equivalent Account Reconciliations</u></p> <p>Our review of the 6 TFEE Fund cash equivalent account reconciliations prepared for fiscal year 2017, disclosed 4 instances where the reconciliations were completed 2 or more months after the respective month-end.</p> <p>Recommendation We recommend that OCCC ensure the timely completion of TFEE Fund reconciliations to identify any discrepancies or unusual items in a timely manner.</p> <p>Management's Response OCCC agrees with this recommendation. The Accounting Department will amend its policy and procedures to ensure the timely reconciliation of the TFEE account</p> <p>2. <u>TFEE Grant Program Disbursements</u></p> <p>The TFEE Policy Manual indicates that grant funds may not be used for entertainment or alcoholic beverages. Our review of 8 reimbursement requests, disclosed one instance where the grantee was reimbursed for an alcoholic beverage of a nominal amount that was included in a meal receipt.</p> <p>Recommendation We recommend that OCCC strengthen its controls over the review of reimbursement requests to ensure grantees are reimbursed only for allowable costs.</p> <p>Management's Response OCCC agrees with the recommendation. Management will retrain grant coordinator and prevent non-allowable costs from being reimbursed. In addition, grantee submitted a reimbursement check for the finding above and check will be credited to the TFEE grant.</p>		<p>To ensure the accuracy of the TFEE Fund in a timely manner.</p> <p>To ensure grant funds are used for allowable costs.</p>
2	7/17/2017	Registration	<p>3. <u>Number of Registrations Processed</u></p> <p>According to the OCCC 2017-2021 Strategic Plan, for the performance measure "Number of Registrations Processed", which is reported annually, the total number of financial service providers registered with OCCC is the number of registrations in force at the end of each reporting period, as reported in the database. Our review of the 2016 reported performance measure indicated that an average of the quarterly amounts rather than a count of registrants was used in the computation.</p>		<p>To ensure compliance with the established calculation, as included in the definition.</p>

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
2	7/17/2017	Registration	<p>Recommendation We recommend that OCCC calculate the performance measure in accordance with the established method of calculation to ensure actual performance is reported in alignment with the approved definition.</p> <p>Management's Response OCCC agrees with this recommendation. Although the report noted an average, the count of registrations for each registration type was reported in the executive summary for the 2016 fiscal year-end report to the finance commission. The performance measures will report the total count of registrations for all FY 17 data and for future performance data. The recommended action has already been corrected and implemented.</p>		

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
2	7/17/2017	2017 Follow-Up	<p>Follow-Up of Prior Year Audits</p> <p>Following is the status of the recommendations made during fiscal year 2016 that had not been implemented.</p> <p>1. <u>Notification Letter</u></p> <p>OCCC should comply with Section XII – Examination Process of the Examiner Manual and ensure a copy of the notification letter is included in the examination work papers that are submitted to the Austin office to provide evidence that the notification letter was sent to the licensee, as required.</p> <p>2017 Follow-Up: OCCC implemented a new examination software in March 2017. The software allows notification letters to be sent to the licensee's email directly from the system and retains the date and a copy of the notification letter sent to the licensee.</p> <p>2. <u>Examination Work Papers</u></p> <p>OCCC should implement quality control procedures to ensure proper completion of examination work papers.</p> <p>2017 Follow-Up: The new examination software implemented in March 2017, does not allow examiners to finalize an examination unless all required fields in the examination checklist are completed in their entirety.</p> <p>3. <u>ROE Review</u></p> <p>OCCC should strengthen controls to comply with the established goal.</p> <p>2017 Follow-Up: In 1 of the 10 examinations tested, the review was performed 11 days after the 120-day deadline for examinations with a rating of 4 or 5. OCCC is currently in the process of hiring a new employee to assist with the review of examinations to meet their established goal.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Incomplete/ Ongoing</p>	

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
2	7/17/2017	2017 Follow-Up	4. <u>Reminder Letters</u> OCCC should strengthen controls to ensure reminder/notification letters sent to the licensees are maintained with the examination work papers to provide evidence that licensees are informed of their delinquency and support the basis for performing a follow-up examination or issuing an administrative action.	Fully Implemented	

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

VII. External Audit Services Procured in Fiscal Year 2017

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2017. No other external audit services were performed.

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 Prevention Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

IX. Proposed Internal Audit Plan for Fiscal Year 2018

The risk assessment performed during the 2017 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 2018. The Internal Audit Plan for Fiscal Year 2018 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

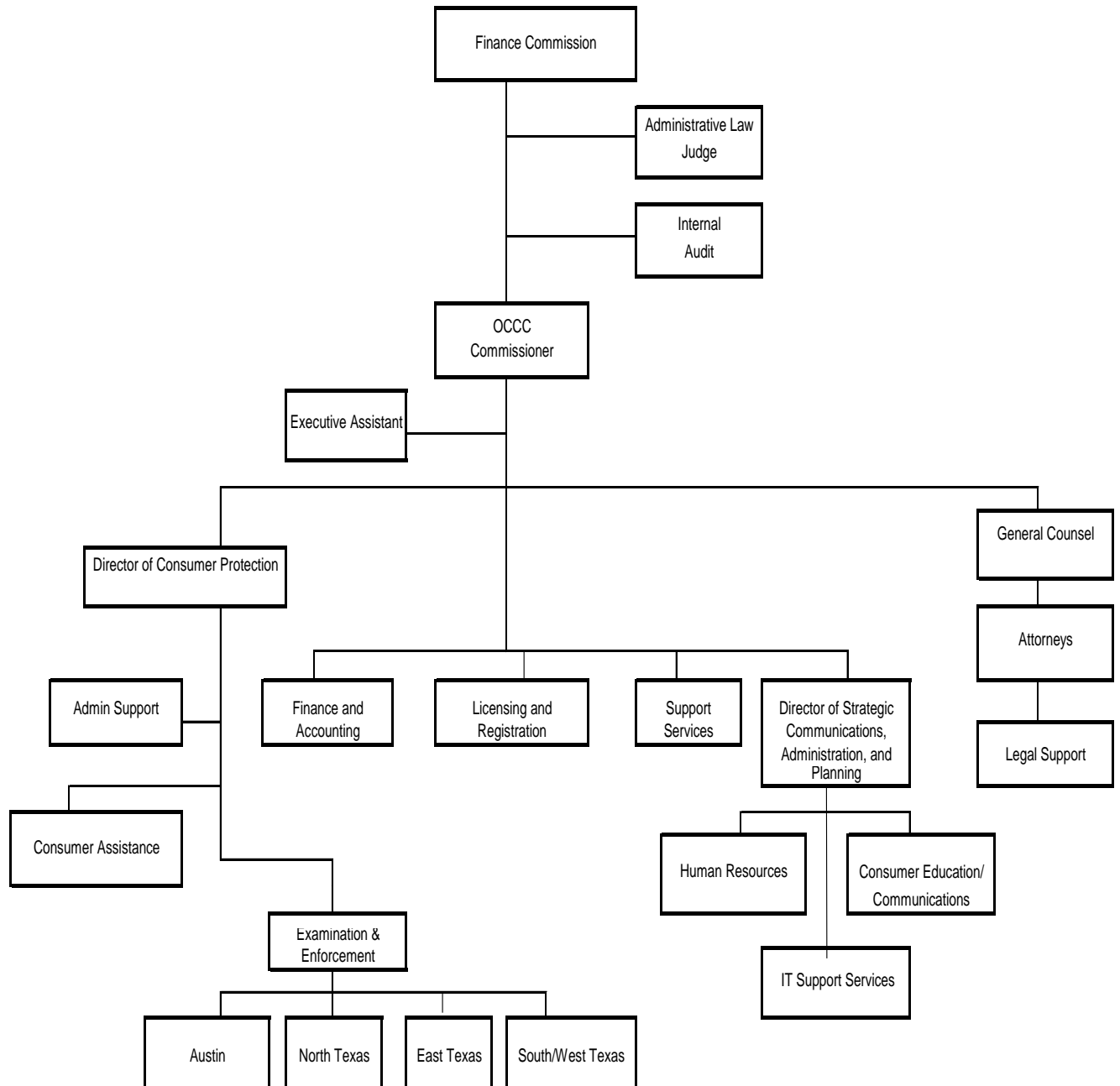
- Fixed Assets
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

X. Organizational Chart



OFFICE OF CONSUMER CREDIT COMMISSIONER
History of Areas Audited
For Fiscal Year 2017

POTENTIAL AUDIT TOPIC		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Billing and Collection of Fees			A							F
2	Business Licensing	B	F			A					H/F1
3	Complaint Intake and Investigation		F				A				F1
4	Credit Access Business Examinations (Effective FY 2012)							A			
5	Fiscal Division (includes Purchasing, Travel & Payroll)				C			C			F
6	Fixed Assets		A		C1			C1			
7	Human Resources			A	C			C			
8	Management Information Systems	B, E	E	E		A		E	E	E	I
9	Motor Vehicle Sales Finance Examinations		F								A
10	Pawn Examinations				A						
11	Professional Licensing (Pawnshop Employees & MLO) (Effective FY 2012)								A		H/F1
12	Property Tax Lender Examinations (Effective FY 2012)										F1
13	Records Management		A								
14	Registration (Effective FY 2012)										
15	Regulated Lenders Examinations				A						
16	Risk Management			G			G				G
17	Texas Financial Education Endowment (TFEE) Fund (Effective FY 2013)									A	

Legend

- A** Audit performed by Garza/Gonzalez & Associates
- B** Audit performed by Wiener Strickler, LLP
- C** Post-payment audit performed by the Comptroller of Public Accounts
- C1** Limited review performed by the Comptroller of Public Accounts
- D** Post procurement audit performed by the Texas Facilities Commission
- E** Controlled penetration test performed by the Department of Information Resources
- F** Audit performed by the State Auditor's Office
- F1** Audit performed by the State Auditor's Office - limited review of processing procedures
- G** Risk management program review or on-site consultation performed by the State Office of Risk Management
- H** Criminal history record audit performed by the Department of Public Safety
- I** Cyber security and risk assessment review by NTTData through the Department of Information Resources