

**OFFICE OF CONSUMER CREDIT COMMISSIONER**  
Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2018



OFFICE OF CONSUMER CREDIT COMMISSIONER  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2018

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 2018.....	4-5
V. Executive Summary Property Tax Lender Examinations Background.....	6-9
Audit Objective, Scope, and Methodology.....	9-12
VI. Observations/Findings and Recommendations Summary and Related Rating of Observations/Findings and Recommendations .....	13
Observations/Findings and Recommendations.....	14-17
VII. External Audit Services Procured in Fiscal Year 2018.....	18
VIII. Reporting Suspected Fraud and Abuse.....	18
IX. Proposed Internal Audit Plan for Fiscal Year 2019 .....	18
X. Organizational Chart .....	19
ATTACHMENT Attachment – History of Areas Audited.....	20

# 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 the Property Tax Lender Examinations area (area) and its established policies and procedures, as applicable to the area, for the purpose of determining OCCC's compliance with applicable laws and regulations provided in the Texas Finance Code, the Texas Tax Code, and the Texas Administrative Code, for the 9 months ended May 31, 2018.

The results of our tests disclosed that OCCC's internal control structure over the area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify a certain matter 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 13 of this report.

We also performed a follow-up of the findings and recommendations 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 compliance with the State of Texas Internal Audit Report requirements.

We have discussed the comments and recommendations from the audit of the area; 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 made.



June 29, 2018

# OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report  
Fiscal Year 2018

---

## 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, pawnshops, and pawnshop employees.

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.

### 2018 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in OCCC's 2018 Internal Audit Plan, dated November 27, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on December 15, 2017:

- Property Tax Lender Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audits of the Property Tax Lender Examinations area; reflects the results of the follow-up procedures 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 Report requirements.

## OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2018

---

### 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 2018

---

#### 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 2019 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2018 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 2018**

The approved Internal Audit Plan (Plan) included one audit to be performed during the 2018 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 2018.

#### **RISK ASSESSMENT**

Utilizing information obtained through the completed questionnaires received and background information reviewed, 19 audit areas were identified as potential audit topics. A risk analysis, utilizing 8 risk factors, was completed for each of the 19 potential audit topics and then compiled to develop an overall risk assessment.

**OFFICE OF CONSUMER CREDIT COMMISSIONER**

## Annual Internal Audit Report

Fiscal Year 2018

Following are the results of the risk assessment performed for the 19 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Regulated Lenders Examinations	Motor Vehicle Sales Finance Examinations	Billing and Collection Fees
Pawn Examinations	Credit Access Business Examinations	Fixed Assets
Legal and Enforcement	TFEE Fund Grant Administration	Records Management
Property Tax Lender Examinations	Compliant Intake and Investigation	Fiscal Division (Includes Purchasing, Travel, & Payroll)
	Management Information Systems	Business Licensing
	TFEE Fund Investment Portfolio Administration	Professional Licensing (Pawnshop Employees & MLO)
		Registration
		Human Resources
		Risk Management

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

Fiscal Year 2017:

- Registration
- TFEE Fund – Investment Portfolio Administration
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2016:

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

Fiscal Year 2015:

- TFEE Fund – Grant Administration
- Follow-Up of the Prior Year Internal Audits

The internal audit and other tasks performed for fiscal year 2018 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Property Tax Lender Examinations <i>Objective:</i> To determine whether OCCC's policies, procedures, and processes in place, as applicable to the Property Tax Lender Examinations area (area), are sufficient to ensure compliance with applicable laws and regulations.	6/29/2018
1.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	6/29/2018
-	Other Tasks Assigned by the Finance Commission	None

## OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2018

---

### V. Executive Summary

#### Property Tax Lender Examinations

##### BACKGROUND

A property tax lender (PTL) makes loans to property owners to pay delinquent or due property taxes. Such loans are secured by a superior tax lien transferred from a taxing unit to the PTL, which allows the PTL to foreclose on the property if the loan defaults. PTLs are regulated by Chapter 351 of the Texas Finance Code (the Property Tax Lender License Act; the Act) and the Texas Tax Code (TX) Sec. 32.06 and Sec. 32.065. Title 7, Chapter 89 of the Texas Administrative Code (TAC) provides rules to assist in the administration and enforcement of the Act. A PTL must hold a license to conduct authorized property tax lending activities in Texas unless explicitly excluded by the Act; and, can charge only the types of fees authorized by the Act. As of May 31, 2018, there were 90 licensed PTLs in the state.

The Act authorizes OCCC to conduct examinations of PTL licensees and provides the extent to which examiners can access PTL's records. As such, OCCC conducts compliance examinations to assess a licensee's compliance with the Act; TX Section 32; TAC, Chapter 89; as well as, federal consumer lending laws including the Truth in Lending Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act.

##### Organizational Structure

The Director of Consumer Protection (the Director), who reports to the Commissioner, is responsible for administering the Examination and Enforcement area, which performs PTL examinations. The Examination and Enforcement area, headquartered in Austin, is staffed with 4 review examiners, 1 out-of-state coordinator, 1 financial analyst, and 3 administrative support positions. Field examiners are based in 3 regional offices located in Dallas-Fort Worth; Houston; and, San Antonio. Each regional office is managed by a regional supervisory examiner, who reports to the Director, and staffed with a team of 12 to 13 field examiners that are led by an assistant supervisor.

##### ALECS Examination Module

Effective March 2017, OCCC transitioned its entire examination processes to an online examination module within its licensing portal, the *Application Licensing Examination Compliance System* (ALECS). An examination is referenced as a *workitem* within ALECS. Each workitem contains sections and subsections that are comparable to the examination workflow and include menus; such as, *Examination Information and Rating*, *Exam Details*, and *Online Examination Tool*. The Examiner in Charge (EIC) is responsible for ensuring completion of all sections/subsections in a workitem.

The ALECS examination module has various built-in internal controls; to include, the following:

- Role-based user access control.
- Licensee information auto-feeds applicable to the examination module.
- Appropriate examination checklists are automatically loaded based on license type.
- Required fields are clearly marked – a user cannot save a section/subsection unless all “required” fields are completed.



## OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report  
Fiscal Year 2018

---

- Expandable required fields that adjust to user input. (e.g., if an examiner selects a 4- or 5-rating, additional required fields are automatically loaded for the examiner to document the approver's name and date.)
- Automated logging for examination status change and document upload.
- Generates Report of Examination using the static data and data input from examination.
- Workpaper and report are locked once finalized.
- Tracking functionality to ensure timely review.

### Examination Process

The examination process consists of 3 phases: examination scheduling, conducting the examination; and, if applicable, an examination review.

#### Examination Scheduling

OCCC schedules compliance examinations for all license types, together, as opposed to scheduling separately by license type. The 3 regional supervisory examiners are responsible for monthly examination scheduling for their respective region. The primary determining factor for examination scheduling is the licensee's risk, as assessed by OCCC. A risk score for each licensee is calculated by ALECS using the following risk factors:

- Last examination date, or licensed date, if never examined
- Last examination rating
- Number of complaints received
- Licensee's market share

In addition to the risk score, other factors; such as, staff availability and budget/travel constraints are also considered in scheduling. Staff availability is especially relevant to PTL examinations since few examiners are qualified to perform PTL examinations due to PTL's statutory requirements considered the most complex among license types regulated by OCCC.

#### Conducting PTL Examinations

Examination activities consist of *Pre-Work* and *Site Exam*. Pre-work generally includes review of various documentation available offsite; such as, previous examination reports, financial reports and complaints, and completing records requests. The examination period is from the last examination date through the current examination date.

The EIC leads the site exam utilizing checklists in the ALECS Online Examination Tool section. These checklists are based on the examination work papers OCCC had developed over the years and covers applicable sections of the Act, TX, TAC, and federal consumer lending laws. As part of the examination process, examiner(s) review a sample of PTL loans (*transactions*) to ensure compliance with applicable state and federal requirements; including, authorized charges and disclosures. The minimum transaction sample size for a PTL examination is 30; and, if the population size is smaller than 30, all transactions are reviewed. Any compliance violations identified during the examination are documented in ALECS as *comments*; and, as *special instructions* if the licensee must take certain remedial action. Special instructions often relate to a monetary correction where a licensee is required to either refund or credit the borrowers' account(s). In such cases, correction amounts are listed in the *Monetary Correction Worksheet*.

## OFFICE OF CONSUMER CREDIT COMMISSIONER

### Annual Internal Audit Report

Fiscal Year 2018

Upon completion of all examination procedures, the EIC assigns an examination rating, using a scale of 1 to 5, based on the licensee's level of compliance. An examination rated "4" or "5" requires either the Director's or a review examiner's approval. OCCC's current examination rating policy is as follows:

Rating	Basis
1	No exceptions; no comment report.
2	Few exceptions; no significant examination issues.
3	Several exceptions; few significant issues requiring remedy; possible minimal refunding required.
4	Several significant issues requiring urgent remedy; moderate refunding required; prior examination issues not addressed by licensee; moderate procedural or systemic error; follow-up examination is required.
5	Significant issues requiring immediate remedy; substantial refunding required; repeated examination issues on previous exams not addressed by licensee; serious procedural or systemic errors; follow-up examination is required; licensee will be monitored until unacceptable level of compliance is cleared or administrative action is taken.

At the conclusion of an examination, which is generally the last day of the site exam, the EIC generates a Report of Examination (ROE) through ALECS. The standardized report is populated with the licensee's general information, and the comments and special instructions documented by the EIC during the examination. Once the ROE is finalized by the EIC, the licensee is notified that it may be accessed in ALECS, and the ROE is locked to prevent modification.

If applicable, the licensee must complete the remedial action specified in the special instructions section of the ROE and submit evidence of remediation to OCCC within 60 days of the report date. For each monetary correction identified in the Monetary Correction Worksheet, the licensee must document either refund and/or adjustment, and return the completed worksheet to OCCC along with evidence of compliance; such as, the refund check image or an image of the borrower's statement where the adjustment was made. Review examiners are responsible for ensuring that the licensee completes all remedial actions specified in the special instructions section of the ROE. A reminder/notification letter is sent to licensees who fail to provide a response within the 60-day follow-up period to inform them that their response is overdue. Failure to correct the matter(s) may result in a follow-up examination and/or administrative action.

During the period from September 1, 2017 to May 31, 2018, OCCC completed 20 PTL examinations, with the following ratings:

	Ratings					Total
	1	2	3	4	5	
<b>PTL Exams</b>	9	--	10	1	--	20

#### Examination Review

All 4- and 5-rated ROEs and a sample of 3-rated ROEs are reviewed by the Director, a review examiner, or a supervisory examiner to—

- Ensure accuracy, including grammar and spelling;
- Determine whether a proper sample size was selected; and,

## **OFFICE OF CONSUMER CREDIT COMMISSIONER**

Annual Internal Audit Report  
Fiscal Year 2018

---

- Evaluate the licensee's response to special instruction(s).

An examination becomes available for review after the 60-day follow-up period. Once a week, a review examiner, who performs review coordinator duties, generates a list of finalized reports ready for review from ALECS and assigns them to authorized reviewers. OCCC's goal is to review examination reports within 30 days after assignment to a reviewer. Summary of review activities is documented by the reviewer in appropriate sections of the work item in ALECS. The reviewer will close the work item when all review activities are completed.

### **Annual Report**

In accordance with Sec. 351.164 of the Act and TAC §89.404, by March 31 of each year, each licensee must file with OCCC an annual report for the prior calendar year's property tax lending activity. OCCC has developed an Excel reporting template for licensees to complete and submit their activity through ALECS. OCCC must then annually prepare and publish, on its website, a consolidated analysis and recap of these reports. OCCC prepares the PTL Consolidated Volume Report using consolidated raw data that is extracted and aggregated from individual reports in ALECS. To enhance data quality, ALECS validates reported data and a Financial Analyst manually researches outliers.

### **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 Property Tax Lender Examinations area (the area), are sufficient and operating effectively to ensure compliance with applicable laws and regulations provided in the Act, TX, and TAC.

#### **Scope**

The scope of our audit was to review OCCC's established policies and procedures and the processes and controls in place over the area; and, relevant activities performed during the 9-month period from September 1, 2017 through May 31, 2018 (audit period).

#### **Methodology**

The audit methodology included a review of applicable laws and regulations, policies and procedures, and other internal and external documentation; an interview and correspondence with OCCC employees, to include the Director of Consumer Protection, a Review Examiner, and a Financial Analyst; and, a review of sample examination work papers and reports.

We obtained and/or reviewed the following documentation:

- a. Texas Finance Code Chapter 351 (the Property Tax Lender License Act (the Act)), the Texas Tax Code (TX) Sec. 32.06 and 32.065; and, Texas Administrative Code (TAC) Title 7, Part 5, Chapter 89.
- b. Examination and Enforcement organizational chart.

## OFFICE OF CONSUMER CREDIT COMMISSIONER

### Annual Internal Audit Report

Fiscal Year 2018

---

- c. OCCC's written policies and procedures:
  - (1) Examination Manual SECTION VIII (Property Tax Loans) and SECTION XII (General and PTL segments), reviewed and revised January 2018
  - (2) Examination Policy, effective January 2018
  - (3) Examination Scheduling Procedure, effective January 2018
  - (4) Examination Procedure, effective January 2018
  - (5) Examination Review Policy, reviewed and updated January 2018
  - (6) Financial Examiner Training Procedures, effective September 1, 2017
  - (7) Financial Examiner Initial Training Curriculum
- d. OCCC's examination templates:
  - (1) Summary of Loans Reviewed
  - (2) Report of Examination
  - (3) Monetary Correction Worksheet
  - (4) Finance Charge Calculator Spreadsheet
  - (5) PTL Statement Affidavit and Records Affidavit
- e. OCCC's internal log/report/listing:
  - (1) Active PTL licenses as of May 31, 2018
  - (2) PTL examinations completed during the audit period
  - (3) Field examiners qualified for PTL examinations, fiscal year 2017
  - (4) PTL Annual Reporting Delinquent Report as of April 27, 2018
- f. ALECS user roles matrix as of June 19, 2018, which were applicable to the audit period.
- g. Various screenshots of ALECS examinations module, including checklists.
- h. Financial Examiner Initial Training Curriculum and Texas Finance Code Chapter 351 Lesson Plan.
- i. PTL Consolidated Volume Report for Calendar Year 2016 and supporting documentation.
- j. Performance measures reports and supporting documentation for the following periods:
  - FY 2018, second quarter for quarterly measures
  - FY 2017 for annual measures
- k. For 6 examinations completed during the audit period:
  - (1) ALECS screenshots of examination and review history
  - (2) *Summary of Loans Reviewed* spreadsheet
  - (3) Report of Examination
  - (4) Correspondence between OCCC and license holder
  - (5) *Monetary Correction Worksheet* and evidence of refund/credit, if applicable
- l. For 10 annual reports for calendar year 2017:
  - (1) ALECS screenshots of submission records
  - (2) Annual report spreadsheet, as uploaded to ALECS by licensee
  - (3) Annual report raw data, as extracted by ALECS
- m. For 4 examiners qualified for PTL examinations:
  - (1) Training records
  - (2) Property Tax Examination Certification Report

## OFFICE OF CONSUMER CREDIT COMMISSIONER

### Annual Internal Audit Report

Fiscal Year 2018

---

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

1. Updated our understanding of the laws and regulations provided in the Act and applicable sections in the TX and TAC.
2. Reviewed the area's written policies and procedures; collected available documentation; and, conducted interviews to document the formal/ informal processes and controls in place.
3. Assessed whether such processes and controls in place are adequate to ensure compliance with regulatory requirements.
4. Reviewed the Online Examination Tool (checklists) in the ALECS examination module to ensure inclusion of significant and applicable compliance requirements of the Act, TX, and TAC.
5. For the following quarterly/annual performance measures, verified that the reporting was substantiated and that supporting documentation was retained:

*Quarterly measure (fiscal year 2018, second quarter)*

- Number of Compliance Examinations Performed

*Annual measures (fiscal year 2017)*

- Percentage of Examinations Reporting Acceptable Level of Compliance
- Percentage of Licensees Examined Annually
- Percentage of Re-examinations Resulting in Acceptable Compliance Rating

6. Selected 6 of the 20 examinations conducted by OCCC during the audit period to test for the following attributes:
  - (1) The *Number Reviewed* summary in the *Summary of Loans Reviewed* spreadsheet accurately summarized the attached transactions list.
  - (2) Sample size was at least 30 transactions; or, all transactions if the population size was less than 30.
  - (3) If the population size was less than 30, assessed whether the small population size was accurate based on the number of loans reported by the licensee in its annual reporting.
  - (4) If special instructions were included in the ROE—
    - the licensee was given a 60-day follow-up period to respond; and,
    - an acknowledgement signature was obtained from the licensee and uploaded to ALECS.
  - (5) If monetary corrections were required—
    - the correction amounts in the ROE agree to those in the Monetary Correction Worksheet; and,
    - evidence of correction/refund for each item listed in the Monetary Correction Worksheet was included in the workpapers.
  - (6) If 4- or 5-rated, the examination was reviewed timely, in accordance with review procedures.

## OFFICE OF CONSUMER CREDIT COMMISSIONER

### Annual Internal Audit Report

Fiscal Year 2018

---

7. Selected 10 of the 90 active PTL licensees as of May 31, 2018 to test for the following attributes:
  - (1) Annual report for calendar year 2017 was submitted timely.
  - (2) Reported data in the uploaded file agreed to the aggregated raw data extracted by ALECS.
  - (3) If annual report was not submitted by the deadline--
    - licensee was listed in the Annual Reporting Delinquent Report;
    - licensee was referred for enforcement action; and,
    - a letter was sent to the licensee to notify them of the enforcement action.
8. Selected 4 of the 9 field examiners qualified for PTL examinations to test for the following attributes:
  - (1) Examiner completed the required initial training hours.
  - (2) Examiner passed the competency test.
  - (3) The *Property Tax Examination Certification Report* was prepared and submitted to the examiner's supervisor, the Director, and the training coordinator upon successful completion of training.
9. Reviewed ALECS user roles matrix to evaluate adequacy of assigned roles for each user based on the user's position and job responsibilities.

**OFFICE OF CONSUMER CREDIT COMMISSIONER**

Annual Internal Audit Report

Fiscal Year 2018

---

**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.

<b>Summary of Observations/Findings &amp; Recommendations and Related Ratings</b>		
<b>Finding No.</b>	<b>Title</b>	<b>Rating</b>
1	Annual Report Consolidation	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 2018

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	Property Tax Lender Examinations	<p><b>1. Annual Report Consolidation</b></p> <p>Our review of the annual report consolidation process disclosed the following:</p> <p>(1) Average Interest Rates</p> <p>Interest rates had to be manually copied from each of the licensee's annual report to calculate the average interest rates reported in the <i>Consolidated Volume Report for Calendar Year 2016</i> since they were not properly extracted by ALECS due to the inconsistencies in the formats reported. Of the 72 annual reports included in the aggregated raw data, 3 reports had the interest rate values expressed as a percentage; 1 report as a fraction of 1; and, 36 reported a zero value instead of the correct value. The remaining 32 properly reported a zero or no value.</p> <p>(2) Data Validation</p> <p>Our testing of annual reports for calendar year 2017 for 10 licensees, disclosed 1 instance where the licensee was able to enter data into the incorrect fields in the Excel reporting template due to deficiencies in data validation and worksheet protection. The built-in data validation within ALECS also did not detect the error. As a result, incorrect data was included in the aggregated raw data that had to be manually corrected by OCCC staff, for the following fields in Schedule D:</p> <ul style="list-style-type: none"> <li>• Total Closing Costs, Residential</li> <li>• Total Closing Costs, Non-Residential</li> <li>• Average Interest Rate, Residential</li> <li>• Average Interest Rate, Non-Residential</li> </ul> <p><b>Recommendation</b></p> <p>We recommend that OCCC review and revise, as considered necessary, the annual report Excel template to enhance data quality and improve efficiency.</p> <p><b>Management's Response</b></p> <p>(1) Average Interest Rates</p> <p>A Programming Change has been implemented and is in place for the 2017 reporting cycle. This will allow the data that is entered by the licensee for interest rates to be correctly exported.</p>		Accuracy, timeliness, and efficient consolidation of annual reports required by Sec. 351.164 of the Act.



**OFFICE OF CONSUMER CREDIT COMMISSIONER**

## Annual Internal Audit Report

Fiscal Year 2018

---

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	Property Tax Lender Examinations	<p>(2) Data Validation</p> <p>Licensees can currently enter incorrect data or correct data in incorrect places. Before publishing aggregate reports a review for reasonableness of data is conducted. When licensees input incorrect data they are notified and required to re-report that information correctly. In addition, we are in the planning stages of transitioning away from Excel reports to web forms and will have this completed within one year. Licensees will not be able to enter data into invalid fields on web forms.</p>		

# OFFICE OF CONSUMER CREDIT COMMISSIONER

## Annual Internal Audit Report

Fiscal Year 2018

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	2018 Follow-Up	<p><b>Follow-Up of Prior Year Internal Audits</b></p> <p>Following is the status of the recommendations made during fiscal year 2017 that had not been implemented.</p> <p><b><u>TFEE</u></b></p> <p><b>1. TFEE Cash Equivalent Account Reconciliation</b></p> <p>OCCC should ensure the timely completion of TFEE Fund reconciliations to identify any discrepancies or unusual items in a timely manner.</p> <p><b>2018 Follow-Up:</b> OCCC has implemented the TFEE Bank Reconciliation procedure to complete bank reconciliation by the 25<sup>th</sup> of the following month. Our review of the 3 TFEE Fund cash equivalent account monthly reconciliations prepared during fiscal year 2018, identified 1 instance where the reconciliation was completed 3 months after the month-end due to staff turnover and increased workload during preparation of the annual financial report.</p> <p><b>2. TFEE Grant Program Disbursements</b></p> <p>OCCC should strengthen its controls over the review of reimbursement requests to ensure grantees are reimbursed only for allowable costs.</p> <p><b>3. Number of Registrations Processed</b></p> <p>OCCC should 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>Following is the status of the recommendations made during fiscal year 2016 that had not been implemented.</p> <p><b><u>Motor Vehicle Sales Finance (MVSF) Examination</u></b></p> <p><b>1. ROE Review</b></p> <p>OCCC should strengthen controls to comply with the established goal.</p>	<p><b>Substantially Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Substantially Implemented</b></p>	

**OFFICE OF CONSUMER CREDIT COMMISSIONER**

## Annual Internal Audit Report

Fiscal Year 2018

---

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	2018 Follow-Up	<b>2018 Follow-up:</b> OCCC has implemented a new procedure to ensure timely review effective 12/11/2017; however, our review of the 13 MVSF examinations completed, 1 instance was identified where an examination completed on 12/15/2017 had never been reviewed. The OCCC has confirmed that this exception was due to a system error during implementation and that the problem has been corrected.		

## **OFFICE OF CONSUMER CREDIT COMMISSIONER**

Annual Internal Audit Report

Fiscal Year 2018

---

### **VII. External Audit Services Procured in Fiscal Year 2018**

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2018. 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 2019**

The risk assessment performed during the 2018 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 2019. The Internal Audit Plan for Fiscal Year 2019 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.

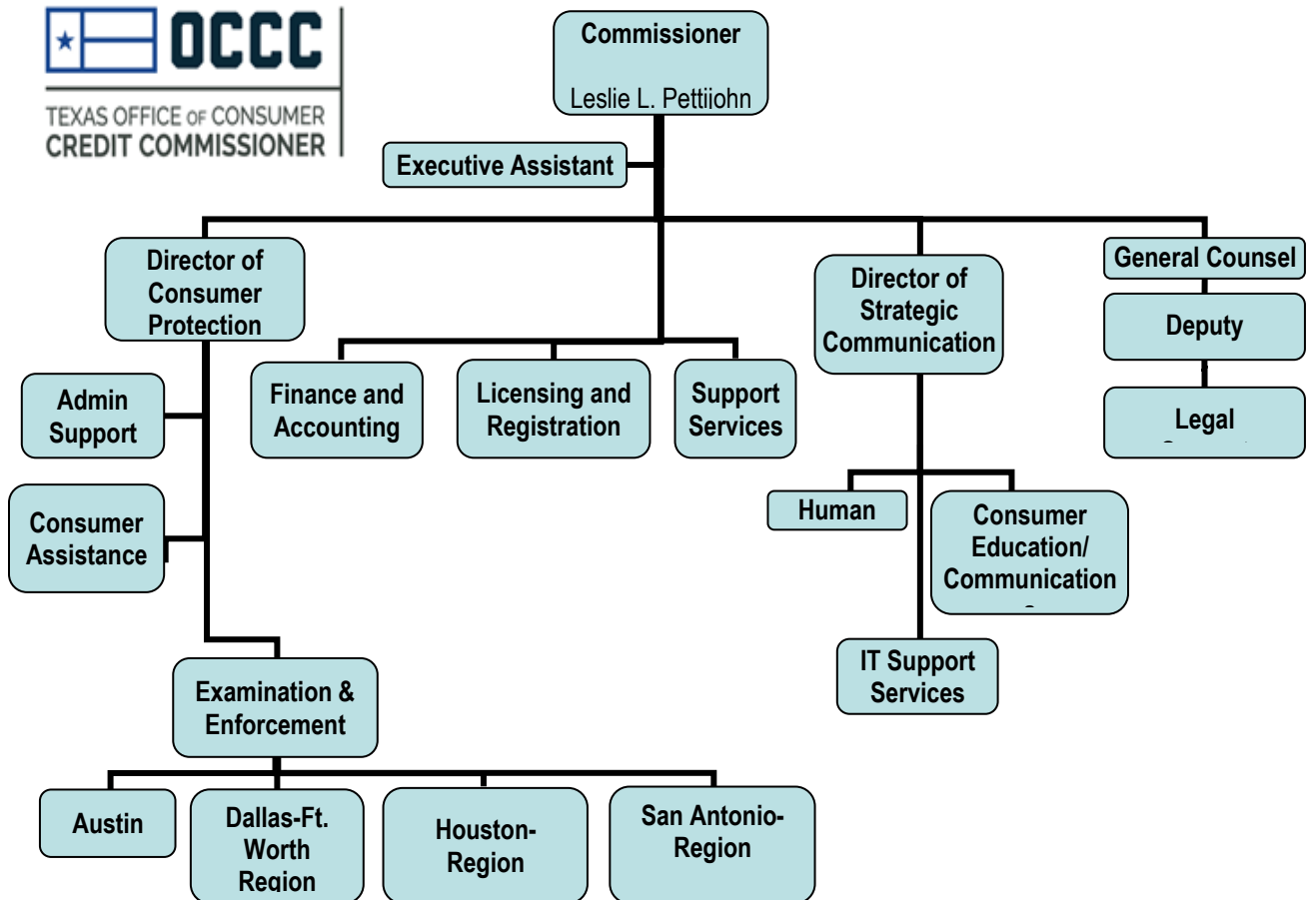
- Regulated Lenders Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

## OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2018

### X. Organizational Chart



Source: OCCC

**OFFICE OF CONSUMER CREDIT COMMISSIONER**  
**Annual Internal Audit Report**  
**Fiscal Year 2018**

ATTACHMENT

**OFFICE OF CONSUMER CREDIT COMMISSIONER**  
**History of Areas Audited**  
**For Fiscal Year 2018**

	POTENTIAL AUDIT TOPIC	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Billing and Collection of Fees		A								B
2	Business Licensing	B			A					F*	B*
3	Complaint Intake and Investigation	B				A					
4	Credit Access Business Examinations (Effective FY 2012)						A				
5	Fiscal Division (includes Purchasing, Travel & Payroll)			C			C				B
6	Fixed Assets	A		C*			C*				
7	Human Resources		A	C			C/G*				
8	Legal and Enforcement (Effective FY 2018)										B*
9	Management Information Systems	E*	E*		A		E*	E*	E*		B*/E1
10	Motor Vehicle Sales Finance Examinations	B								A	
11	Pawn Examinations			A							
12	Professional Licensing (Pawnshop Employees & MLO) (Effective FY 2012)							A		F*	B*
13	Property Tax Lender Examinations (Effective FY 2012)										
14	Records Management	A									
15	Registration (Effective FY 2012)										A
16	Regulated Lenders Examinations			A							
17	Risk Management		D			D				D	
18	TFEE Fund Grant Administration (Effective FY 2013)								A		A*
19	TFEE Fund Investment Portfolio Administration (Effective FY 2017)										A

**Note:** Performance Measures was audited as a separate auditable area in fiscal year 2009. Effective fiscal year 2015, Performance Measures was removed as a separate auditable area and is now included in the scope of the applicable audit areas(s).

**Legend (audits/reviews with asterisk are considered limited scope for the audit area)**

- A** Internal audit performed by Garza/Gonzalez & Associates
- B** Audit performed by the State Auditor's Office (SAO)
- C** Post payment audit performed by the Comptroller of Public Accounts
- D** Risk Management Program Review (RMPR) or On-Site Consultation (OSC) performed by the State Office of Risk Management (SORM)
- E** Controlled penetration test performed by the Department of Information Resources
- E1** Cyber security and risk assessment performed by NTT Data
- F** Criminal history record audit performed by the Department of Public Safety
- G** EEO policy review performed by the Texas Workforce Commission