

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

**INTERNAL AUDIT ANNUAL REPORT**

Fiscal Year 2022



OFFICE OF CONSUMER CREDIT COMMISSIONER  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2022

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# Garza/Gonzalez & Associates

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CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Office of Consumer Credit Commissioner's (OCCC) internal control structure over the Regulated Lenders Examinations Area (the Area); and, its compliance with applicable Texas Finance Code chapters, Texas Administrative Code rules, and the Area's established policies and procedures, for the 7 months ended March 31, 2022.

The results of our tests disclosed that OCCC's internal control structure over the Area 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 13 of this report.

We also performed a follow-up of the findings and recommendations that were presented in the prior year internal audit reports, 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 Annual Report requirements.

We have discussed the comments and recommendations from the audit of the Area; and, the implementation status from the follow-up procedures performed, with various OCCC personnel; and, will be pleased to discuss them in further detail.



May 20, 2022

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## INTRODUCTION

The Office of Consumer Credit Commissioner (OCCC) operates pursuant to Chapter 14 of the Texas Finance Code, and under the oversight of the Finance Commission of Texas, 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 perform examination of licensed industries; such as, motor vehicle sales finance companies, regulated lenders, payday/title loan lenders, and pawnshops/pawn employees; and, oversee registered industries such as debt management and settlement providers and registered creditors.

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 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.

### **2022 Internal Audit Plan**

Following is the internal audit and other functions performed, as identified in OCCC's *Internal Audit Plan for Fiscal Year 2022*, dated November 19, 2021, and approved by the Audit Committee and Finance Commission on December 17, 2021:

- Fiscal Year 2022 Risk Assessment & Preparation of the 2022 Internal Audit Plan
- Regulated Lenders Examinations Area Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2022 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the Regulated Lenders 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 internal audit reports; and, meets the State of Texas Internal Audit Annual Report requirements.

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### 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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## 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 guidelines, within 30 days after approval by the Finance Commission, OCCC will post the following information on its website:

- An approved fiscal year 2023 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2022 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 Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Technical Update April 2021, Sections 3.64-3.106.

## III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated December 15, 2021, 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 2022

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2022. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year ended August 31, 2021; other tasks as may have been assigned by the Finance Commission or Audit Committee; and, preparation of the Internal Audit Annual Report for fiscal year 2022.

### Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 17 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.

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

<b>HIGH RISK</b>	<b>MODERATE RISK</b>	<b>LOW RISK</b>
Fiscal Division (Includes Fixed Assets & Travel)  Revenue Accounting Process	Procurement/Contract Management/HUB  Regulated Lenders Examinations  Legal and Enforcement  Motor Vehicle Sales Finance Examinations  Credit Access Business Examinations  Pawn Examinations  Management Information Systems [(MIS) Includes Disaster Recovery Plan]  Payroll and Human Resources	Complaint Intake and Investigation  Property Tax Lender Examinations  TFEE Fund Grant Administration  Business Licensing  Business Registration  Professional Licensing (Pawnshop Employees & RMLO)  Records Management

In the prior 3 years, the following audits and functions were performed by the internal auditor:

Fiscal Year 2021:

- Risk Assessment & Preparation of the Internal Audit Plan
- TFEE Fund Investment Portfolio Administration Audit (*Required Periodic Audit*)
- Fiscal Division (Includes Fixed Assets & Travel) Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2020:

- Risk Assessment & Preparation of the Internal Audit Plan
- Records Management Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2019<sup>1</sup>:

- Risk Assessment & Preparation of the Internal Audit Plan
- Investment Administration Controls Audit (*Required Periodic Audit*)
- Information Technology Change Management Program Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

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<sup>1</sup> Performed by McConnell & Jones LLP.

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The internal audits and other tasks performed for fiscal year 2022 were as follows:

<b>Report No.</b>	<b>Audits/Report Titles</b>	<b>Report Date</b>
1.	Regulated Lenders Examinations Area <i>Objective:</i> To determine whether OCCC’s policies, procedures, processes, and internal controls in place over the Regulated Lenders Examinations Area (the Area), provide reasonable assurance that effective and timely examinations are performed; that they are performed in accordance with applicable state laws and regulations; and, that internal controls are operating effectively.	5/20/2022
	Internal Audit Annual Report	5/20/2022
1.	<i>Includes all reported audit results for Fiscal Year 2022 and a follow-up of findings and recommendations that were presented in the prior year internal audit reports.</i>	
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None



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### V. Executive Summary

#### Regulated Lenders Examinations

##### Background

Non-depository lenders, who engage in the business of making, transacting, or negotiating consumer loans with a rate of interest greater than 10%, are required to be licensed by the Office of Consumer Credit Commissioner (OCCC) as *Regulated Lenders*. These lenders are regulated by Chapter 342 of the Texas Finance Code (TFC) and Chapter 83, Subchapter A of the Texas Administrative Code (TAC). TFC, Chapter 342 authorizes OCCC to conduct examinations of the licensees' transactions, records, and place of business. OCCC licenses and regulates lenders based on the type(s) of loans they operate. Following are the types of loans that lenders may engage in, along with the corresponding subchapter of TFC Chapter 342 that regulates them:

- Consumer installment loans (Subchapter E)
- Signature and small dollar loans (Subchapter F)
- Secondary mortgage loans (Subchapter G)

As of March 31, 2022, there were 3,504 licensed Regulated Lenders in the state of Texas.

##### Organizational Structure

The Director of Consumer Protection (the Director), who reports to the Commissioner, has oversight of the Examination and Enforcement Area, which is responsible for conducting regulated lenders examinations. The Examination and Enforcement Area, headquartered in Austin, is staffed with 2 Supervising Examiners, 5 Review Examiners, 1 Industry Submissions Financial Examiner, 1 Financial Analyst, 1 Administrative Support Supervisor, and 3 Administrative Support staff. The 3 regional offices, which are located in Dallas-Fort Worth, Houston, and San Antonio, are each managed by a Regional Supervisory Examiner, and staffed with 8 to 11 Financial Examiners.

##### ALECS

Regulated lenders examinations are completed using OCCC's Application, Licensing, Examination, and Compliance System (ALECS), an online examination module. ALECS equips Examiners with a personal dashboard upon log-in, using unique credentials. The personal dashboard provides Examiners with their assigned examinations, referred to as "work items". Examination workpapers in ALECS are divided into the following sections:

- Examination Details
- User Notes
- Examination Information and Rating
- Prepare Examination Report
- Action Section
- Document History

Pre-approved standard comments have been built into ALECS, which are utilized by Examiners when completing the work item, which must be completed in its entirety before the Examiner can prepare and finalize the Report of Examination (ROE). Once the ROE is finalized, the work items are automatically removed by ALECS from the Examiner's dashboard; and, the Examiner is required to upload all reports, attachments, and/or correspondence relating to the examination to OCCC's network, and delete them from their computer.

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## Examination Process

### Scheduling Examinations

The Regional Supervisory Examiners are responsible for scheduling monthly compliance examinations for their respective region using the Scheduling Module in ALECS. Exams are scheduled using a risk-based approach that includes consideration of attributes such as the following:

- Last examination date, or license date, if no previous examination;
- Last examination rating;
- Number of complaints received; and,
- Market share.

In addition to the risk score, other factors; such as, staff availability, budget/travel constraints, and geographic location of licensees, are also considered when scheduling an examination.

### Conducting Examinations

During an examination, Examiners complete checklists in ALECS that address a licensee's compliance with applicable sections of the Texas Finance Code, Texas Administrative Code, and federal consumer lending laws. Each line of every checklist is required to be completed before ALECS will allow the Examiner to finalize the examination. As part of the examination process, Examiners will review a sample of transactions that occurred during the examination period, which begins from the date of the previous examination to the current examination date. For Subchapter E and F examinations, the minimum sampling size is 70 transactions; while, the minimum sampling size for Subchapter G examinations is 30. Thus, when a licensee's total transactions for the examination period is less than the minimum required sampling size, the Examiner is required to review all transactions. The 'Summary of Loans Reviewed' spreadsheet is used by Examiners to list the transactions reviewed. Any compliance violations identified during an examination are documented as comments; and, as special instructions if the licensee must take certain remedial action. Special instructions may relate to a monetary correction, which requires the licensee to either refund or credit the borrower's account; and, such correction amounts are listed in the "Monetary Correction Worksheet".

Upon completion of an examination, the Examiner assigns it an examination rating, using a scale of 1 to 5, based on the licensee's level of compliance. OCCC's current examination rating policy is as follows:

<b>RATING</b>	<b>BASIS</b>
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; follow-up only required if there is a monetary issue that cannot be corrected during the examination.
4	Several significant issues requiring urgent remedy; moderate refunding required; prior examination issues not addressed by licensee; moderate procedural or systemic errors; follow-up is required.
5	Significant issues requiring immediate remedy; substantial refunding required; repeated examination issues; serious procedural or systemic errors; follow-up is required; monitored until unacceptable level of compliance is cleared and administrative action is taken.

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At the conclusion of an examination, the Examiner generates a Report of Examination (ROE) through ALECS, which he/she signs. The standardized report is populated with the licensee's general information, and the comments and special instructions documented by the Examiner during the examination. Upon completion of an examination, the Examiner finalizes all ROEs in ALECS, with ratings of 1 through 3; and, those rated 4 and 5 require further review and approval (of the assigned rating) by the Regional Supervising Examiner before they can be finalized. Examinations with an ROE rated a 1 or 2 do not require further review, and are automatically closed in ALECS after the ROE is finalized. Examinations with an ROE rated a 3 or higher require review by a Review Examiner (as further described below) before they can be closed.

The licensee is required to sign ROEs that include special instructions. 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, an image of the refund check or the borrower's statement where the adjustment was made. Failure to correct the matter(s) may result in a follow-up examination and/or administrative action.

During the period from September 1, 2021 through March 31, 2022, OCCC conducted 451 regulated lenders examinations. The following table reflects the type of examination conducted along with the assigned rating:

TYPE OF EXAMINATION	RATING					TOTAL
	1	2	3	4	5	
Subchapter E	9	6	19	4	1	39
Subchapter F	178	141	76	8	-	403
Subchapter G	-	-	4	5	-	9
Total	187	147	99	17	1	451

**Review of Examinations**

ROEs rated 3 or higher are reviewed by a Review Examiner within ALECS. A review consists of reviewing the ROE comments and special instructions; making review comments regarding content, grammar, and structure; and, closing the examination. As of May 2022, ROEs rated a 3 or higher were in the following review statuses:

RATINGS	EXAMINATION REVIEW STATUS				TOTAL
	# OF CLOSED EXAMS	# OF EXAMS IN REVIEW	# OF EXAMS READY FOR REVIEW	# OF EXAMS PENDING OR EXPIRED	
3	55	16	25	3	99
4	5	6	4	2	17
5	1	-	-	-	1
Total	61	22	29	5	117

**Training**

All newly hired financial examiners are required to complete a 5-to-6-week training session, which includes a variety of topics; however, emphasis may be placed on specific license types depending on OCCC's need for the placement of the examiner. At the end of the training session, the trainees are required to pass a competency test, and complete on-the-job training for each license type. Upon completion of the on-the-job training, a senior staff member submits a Certification Report to the trainee's Regional Supervisor, Director of Consumer Protection, and the Training Coordinator, certifying that the trainee has the ability to, and may, conduct independent exams for the respective license type.

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OCCC also hosts an annual training session for all examiners; and, offers examiners the opportunity to attend external training classes held by NACCA, AARMR, and others.

### **Performance Measures**

Since examinations are completed, processed, and tracked in ALECS, the data needed for performance measures is obtained from reports generated through ALECS. The Administrative Program Specialist is responsible for compiling all information needed for performance measures reporting and including them in the Consumer Protection Section of the Finance Commission Reports.

### **Audit Objective, Scope, and Methodology**

#### **Objective**

The objective of the audit was to determine whether OCCC's policies, procedures, processes, and internal controls in place over the Regulated Lenders Examinations Area (the Area), provide reasonable assurance that effective and timely examinations are performed; that they are performed in accordance with applicable state laws and regulations; and, that internal controls are operating effectively.

#### **Scope**

The scope of this audit was to review and/or test the Area's selected functions and examinations performed, for the 7-month period from September 1, 2021 to March 31, 2022 (audit period).

#### **Methodology**

The audit methodology included a review of applicable laws and regulations, OCCC's established policies and procedures, and other internal and external documentation; and, remote interviews and correspondence with selected OCCC employees.

We obtained and/or reviewed the following internal and external documentation:

- a. Texas Finance Code Chapter 342 *Consumer Loans*.
- b. Texas Administrative Code Chapter 83, Subchapter A *Rules for Regulated Lenders*.
- c. OCCC Policies and Procedures related to the Area.
- d. OCCC's agency-wide organizational chart.
- e. Examples of examination templates, checklists, and logs, used by the Area.
- f. Screenshots of ALECS examination and scheduling modules.
- g. Fiscal year 2022 Actual Performance for Output Measure 2<sup>nd</sup> Quarter performance measure results reported to the Finance Commission on April 22, 2022 and supporting documentation.
- h. List of active regulated lenders as of March 31, 2022.
- i. List of ROEs prepared for regulated lenders during the audit period.

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- j. Training certification records for selected Financial Examiners.
- k. ROEs, related examination workpapers, and examination review documentation, as applicable, for selected examinations.
- l. Spreadsheet showing examination dates, previous examination dates, follow-up examination dates, and ratings for selected regulated lenders.

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

1. Reviewed and obtained an understanding of state laws and regulations applicable to the Area.
2. Obtained and reviewed OCCC's written policies and procedures; and, conducted virtual interviews, to obtain an understanding of controls, processes and current practices in place over the Area, and to evaluate whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.
3. Selected 25 examinations conducted during the audit period to test the following attributes:
  - a. Proper sample size of transactions was reviewed and listed in the *Summary of Loans Reviewed Worksheet*.
  - b. Examination rating was assigned in accordance with the Examination Rating Policy.
  - c. Examinations with an ROE rated 4 or 5 were approved by the Regional Supervisor.
  - d. Examinations with an ROE rated 3 or higher were reviewed within a reasonable time (within 3 months).
  - e. Completion of *Monetary Correction Worksheet*, as applicable.
  - f. Licensee signature obtained for ROEs that included special instructions.
  - g. Follow-up procedures were performed, as applicable, for special instructions included in ROEs.
  - h. Examinations were closed within a reasonable number of days (within 90 days).
4. Reviewed the ROEs for the 25 selected examinations in procedure 3, for the following attributes:
  - a. Proper citation(s) of statutes and regulations.
  - b. Grammatically correct and easy to comprehend.
  - c. Inclusion of a due date within the special instructions section.
5. Obtained the last 2 examination dates and ratings for 25 selected active licensees to ensure examinations were conducted within a reasonable amount of time (within 24 months).

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6. Agreed the 2<sup>nd</sup> quarter performance measures submitted to the Finance Commission to the supporting documentation generated from ALECS.
7. Selected 5 financial examiners and obtained supporting documentation to ensure each Examiner completed the initial training, attended the annual training, and was certified for the license type of examinations conducted.

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**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
1	Special Instructions – Licensees Signature	Low
2	Examination Frequency	Low
3	Examination Review Frequency	Low
Observation No.	Observations	
1	Training Certification Program	-
2	Report of Examination (ROE) – Quality Review	-
3	Examination Status Reports	-

Description of Rating

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

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

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

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

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**OBSERVATIONS/FINDINGS and RECOMMENDATIONS**

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal
1	5/20/2022	Regulated Lenders Examinations	<p><b>1. Special Instructions – Licensee’s Signature</b></p> <p><i>Section XII Examination Process</i> procedures manual states: “an examiner completing an examination report that requires the licensee to comply with special instructions should obtain an electronic signature from the licensee and should upload the signature into ALECS.”</p> <p>Of the 25 examinations reviewed, 3 Reports of Examination (ROE) included special instructions; however, in 1 instance, the licensee’s signature was not obtained.</p> <p><b>Recommendation</b></p> <p>We recommend that OCCC determine if ALECS has the capability of having a built-in safeguard that would prevent an examination from being closed without this procedure being performed.</p> <p><b>Management’s Response</b></p> <p>The OCCC agrees with the recommendation. The Change Management Committee will evaluate potential programming changes in ALECS that may implement a control to require signatures in exams with special instructions. The OCCC will also conduct training for all financial examiners regarding the requirement to obtain signatures on exam reports that include special instructions. The evaluation and training will be completed by September 30, 2022.</p> <p><b>2. Examination Frequency</b></p> <p>Texas Finance Code §342.552 states that the Commissioner or the Commissioner’s representative shall, at the times the Commissioner considers necessary, examine the licensee’s place of business and transactions. OCCC’s website states ‘Currently, the majority of loan companies in Texas are examined approximately once every 18 to 24 months.’</p> <p>Currently, a risk assessment is used to determine the frequency of examinations for each licensee. Our review of the examination dates for and rating assigned to the last 2 examinations for 25 licensees disclosed the following:</p> <ul style="list-style-type: none"> <li>• In 3 instances, examinations rated a “3” were last conducted between 3 and 7 years from the 7-month audit period ended March 31, 2022; and,</li> <li>• In 1 instance, an examination rated a “4” in fiscal year 2020 was previously examined approximately 5 years from the previous examination in fiscal year 2015, where it was rated a “3”.</li> </ul> <p><b>Recommendation</b></p> <p>We recommend that OCCC review the current weight assigned to the “last examination date” and “last examination rating” attributes used in the risk assessment to determine if adjustments are necessary to ensure licensees of higher risk are examined more frequently.</p>	<p>To ensure compliance with OCCC’s policies and procedures.</p> <p>To ensure reasonableness of examination frequency.</p>



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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/20/2022	Regulated Lenders Examinations	<p><b>Management’s Response</b></p> <p>The OCCC agrees with the recommendation to review current risk score weight attributes to ensure they are appropriate to ensure examination frequency remains reasonable and high-risk licensees are examined more frequently. The impact of COVID-19 limited the agency’s ability to travel to conduct examinations for parts of FY 2020 and FY 2021, resulting in some delays in the frequency of examinations. This review will be completed by September 30, 2022.</p> <p><b>3. Examination Review Frequency</b></p> <p>Our sample of 25 ROEs prepared during the audit period included a total of 8 ROEs that required a review based on their assigned rating: 7 rated “3”, and 1 rated “4”. As of March 31, 2022, only 3 examinations were reviewed; however, 2 of the 3 were reviewed 5 and 6 months after the examination was finalized; 4 have been finalized for 3 to 6 months, and have the exam status ‘Ready for Review’ but have not been reviewed; and, 1 is pending a response from the licensee for the special instructions; therefore, is not ready to be reviewed.</p> <p><b>Recommendation</b></p> <p>We recommend that OCCC establish guidelines or goals that will provide review of examinations in a timely manner to identify workpapers that require additional analysis or require further development, which will ensure workpapers contain sufficient information to support the basis for the conclusions reached in the examination and properly reported in the ROE.</p> <p><b>Management’s Response</b></p> <p>The OCCC agrees with this recommendation and will evaluate and update exam review policies and procedures to ensure the review of examinations are performed in a timely manner. The procedures will be updated by September 30, 2022.</p>	<p>To ensure examinations are being reviewed in a timely manner.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/20/2022	Regulated Lenders Examinations	<p style="text-align: center;"><b><u>Observations</u></b></p> <p><b>1. Training Certification Program</b></p> <p>Our review for compliance with the training certification program indicated that 3 of the 5 selected examiners were exempt from completing the certification training process, based on their years of service with OCCC. It is OCCC’s practice to exempt employees who were hired before January 2017, the date the certification program was implemented; however, the exception is not documented in the training policies and procedures.</p> <p><b>Recommendation</b></p> <p>We recommend that OCCC include this exception in their training policies and procedures to ensure they are comprehensive and implemented in a uniform manner.</p> <p><b>Management’s Response</b></p> <p>The OCCC agrees with this recommendation and will update training policies and procedures to note that examiners who were already independently conducting examinations prior to January 2017 are exempt from certification. The policies and procedures will be updated by September 30, 2022.</p> <p><b>2. Report of Examination (ROE) – Quality Review</b></p> <p>Our review of 25 ROEs prepared during the audit period for adherence to OCCC’s internal quality control standards disclosed the following:</p> <ul style="list-style-type: none"> <li>• In 1 instance, the special instructions section had 2 different response due dates (8/31/2021 &amp; 1/15/2022); and,</li> <li>• In 1 instance the standardized ROE populated by ALECS reflected the phrase “INSERT LICENSEE NAME” since the licensee’s name was not entered.</li> </ul> <p><b>Recommendation</b></p> <p>We recommend that OCCC re-enforce the importance of inserting complete and accurate information into ALECS since it is the system used to prepare ROEs; and, that these issues also be corrected during the review process.</p> <p><b>Management’s Response</b></p> <p>The OCCC agrees with this recommendation and will conduct training for all Financial Examiners to ensure staff are aware of the importance of including accurate information in ALECS prior to issuing examination reports. This training will be completed by September 30, 2022.</p>	<p>To ensure exceptions to OCCC’s training policies and procedures are documented.</p> <p>To ensure ROEs meet OCCC’s quality standards.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/20/2022	Regulated Lenders Examination	<p><b>3. Examination Status Reports</b></p> <p>We were provided with a report generated from ALECS that documented the examinations' statuses as of March 31, 2022, which was used to review the Exam Status for 25 examinations. In 2 instances the exam status was listed as 'Ready for Review' and did not indicate a close date; however, based on our review of the examination review documentation, both examinations were reviewed and closed in March 2022. We were subsequently provided with weekly generated ALECS reports, which disclosed the correct statuses.</p> <p><b>Recommendation</b></p> <p>We recommend that OCCC continue investigating the cause of the conflicting information between the 2 reports to ensure reports generated from ALECS reflect correct data that may be relied upon by OCCC when reporting various information.</p> <p><b>Management's Response</b></p> <p>The OCCC agrees with the recommendation. The IT department will evaluate the report parameters and data environments to ensure reports are generated correctly and efficiently. Additionally, exam staff will also conduct a weekly sampling of exam status reports for a period of time to verify report accuracy. This will be completed by September 30, 2022.</p>	To ensure the accuracy of the information in ALECS being reported.

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
1	5/20/2022	2022 Follow-Up	<p align="center"><b><u>Follow-Up of Prior Year Internal Audits</u></b></p> <p>Following is the status of the recommendations made in prior years that had not been fully implemented.</p> <p>TFEE Fund Investment Portfolio Administration (Report date 3/19/2021)</p> <p>1. TFEE Cash Account Reconciliations</p> <p>OCCC should consider defining bank reconciliation completion dates within its TFEE Bank Reconciliation procedure manual to ensure any discrepancies or unusual items are identified and resolved in a timely manner.</p> <p>Fiscal Division (Report date 5/20/2021)</p> <p>1. Travel Policies &amp; Procedures (P&amp;P)</p> <p>OCCC should update its travel policies and procedures to be consistent with current requirements and practices.</p> <p><i><u>FY 2022 Status</u></i>  <i>Travel policies and procedures have been updated; however, one policy is not consistent with OCCC's current practice. The corporate charge card policy was updated to state employees must utilize the issued card for official state business expenses; however, current practice allows an exception to this policy that is not included in the policy. Employees may elect not to use the issued card if an explanation is provided in the travel documentation. We recommend that the travel policy be revised to include this practice.</i></p> <p>2. Rental vs. Personal Vehicle Cost Analysis (Observation)</p> <p>OCCC should establish agency-wide guidance for justification of alternative travel methods, including those due to health concerns, to ensure employees perform this function in a uniform manner; to optimize a balance between conservation of state funds and employee impact; and, to promote a sense of fairness among travelers.</p> <p>Records Management (Report date 6/19/2020)</p> <p>1. Imaged Record Verification (Observation)</p> <p>The Licensing department should evaluate and revise, as considered necessary, the current imaging and verification logging procedures; and, ensure Licensing staff consistently follow the established procedures.</p>	<p><b>Fully Implemented</b></p> <p><b>Substantially Implemented –</b></p> <p>OCCC anticipates update to policies will be completed by September 30, 2022.</p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p>

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### **VII. External Audit Services Procured in Fiscal Year 2022**

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2022. No other external audit services were performed.

### **VIII. Reporting Suspected Fraud and Abuse**

OCCC has provided information on their website 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 2023**

The risk assessment performed during fiscal year 2022 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2023. The Internal Audit Plan for Fiscal Year 2023 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.

- Human Resources and Payroll
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission or Audit Committee

ATTACHMENT

**OFFICE OF CONSUMER CREDIT COMMISSIONER  
History of Areas Audited  
For Fiscal Year 2022**

	POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Business Licensing						B*	D				
2	Business Registration						A	D				
3	Complaint Intake and Investigation	A						D				
4	Credit Access Business Examinations		A					D				
5	Fiscal Division (Includes Fixed Assets & Travel)		C*				B	C*/D*		C1*	A*	
6	Legal and Enforcement						B*	D				
7	Management Information Systems [(MIS) Includes Disaster Recovery Plan]	E*	E*	E	E*	E*	B*/E	D*/E*	A1*/E		E/E*	
8	Motor Vehicle Sales Finance Examinations					A		D				
9	Pawn Examinations							D				
10	Payroll and Human Resources		C*/F*					C*	F*			
11	Procurement/Contract Management/HUB		C*				B	C*/D*				
12	Professional Licensing (Pawnshop Employees & RML0)			A			B*	D				
13	Property Tax Lender Examinations							A/D				
14	Records Management								A			
15	Regulated Lenders Examinations							D				A
16	Revenue Accounting Process						B	D				
17	TFEE Fund Grant Administration				A		A*	D				
<i>Required Periodic Audit</i>												
18	TFEE Fund Investment Portfolio Administration						A	D	A1		A	

**Note:** Performance Measures is included in the scope of the applicable audit area(s).  
OCCC is currently undergoing an SDSI Audit conducted by the State Auditor's Office.

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

- A Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- A1 Internal audit performed by McConnell & Jones LLP.
- B Audit performed by the State Auditor's Office.
- C Post-Payment audit performed by the Comptroller of Public Accounts (CPA).
- C1 Overpayment Recovery audit performed by the CPA.
- D Sunset Review performed by the Sunset Advisory Commission.
- E IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- F Review performed by the Texas Workforce Commission.