



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



Texas Finance Commission Office of Consumer Credit Commissioner Internal Audit

**FY 2019 Risk Assessment
FY 2019 Annual Audit Plan**

October 31, 2018

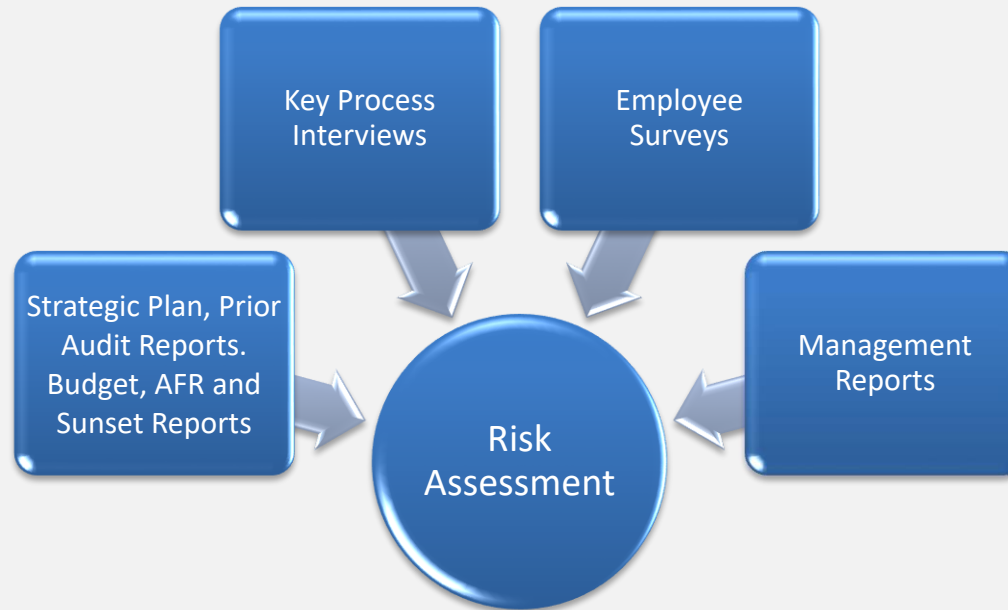


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Risk Assessment Methodology



Internal Audit performed the following procedures in conducting the risk assessment:

- ❑ Reviewed OCCC's Strategic Plan, Annual Financial Report, operating budget, prior internal audit reports, Sunset Self-Evaluation Report and the Sunset Staff Report to obtain a preliminary understanding of the agency's operations.
- ❑ Interviewed OCCC's commissioner, leadership team and managers to identify the key processes within their respective departments.
- ❑ Deployed electronic risk assessment survey to all OCCC staff.
- ❑ Analyzed process responsibilities to assess the associated risk, including financial, operational and compliance risks.

Office of Consumer Credit Commissioner

Agency Mission

The mission of the Office of Consumer Credit Commissioner (OCCC) is to regulate non-depository financial services and to educate consumers and creditors, fostering a fair, lawful, and healthy credit environment for economic prosperity in Texas.

Agency Operational Objectives

- ❑ Regulate fairly, efficiently, and effectively, balancing the needs of both consumers and creditors by enforcing Texas credit laws and licensing qualified financial service providers;
- ❑ Educate consumers about rights, responsibilities, and remedies; and educate financial services providers about rights and responsibilities;
- ❑ Communicate collaboratively with and encourage communication among the financial services industry, consumer public, and the OCCC; and
- ❑ Protect and safeguard consumers against abusive, unfair, and deceptive lending practices.

Regulatory Oversight

Licenses

- ❑ Regulated Lenders
- ❑ Property Tax Lien Lenders
- ❑ Certain Residential Mortgage Loan Originators
- ❑ Commercial Motor Vehicle Sales Finance
- ❑ Motor Vehicle Sales Finance Dealers and Holders
- ❑ Credit Access Businesses
- ❑ Pawnshops and Pawnshop Employees

Registrations

- ❑ Debt Management and Settlement Service Providers
- ❑ Manufactured Housing Creditors
- ❑ Refund Anticipation Loan Facilitators
- ❑ Crafted Precious Metal Dealers
- ❑ Registered Creditors (Retail Sellers)

Key Department Responsibilities

Consumer Protection

- Complaint resolution
- Investigations
- Examinations and supervision
- Regulatory filings (annual reports, plain language contracts, documentary fee, debt cancellation agreements)

Legal

- Enforcement actions against persons or businesses that violate the state rules or laws
- Rulemaking facilitation
- Advisory guidance
- Public information request facilitation
- General legal advice to agency staff

Key Department Responsibilities (*Cont'd.*)

Finance and Accounting

- Fee collection
- Budget development
- Payroll processing
- Accounts payable processing
- Financial analysis
- Account reconciliations
- Financial statement preparation

Licensing and Registration

- Licensing
- Registrations
- Background checks to ensure entity meets eligibility requirements
- License and registration renewals
- License transfer applications
- Online portal tech support for licensees and applicants

Key Department Responsibilities (*Cont'd.*)

Administrative Support Services

- Procurement
- Contracting
- Risk management
- Governmental relations

Human Resources

- Job posting and recruiting
- Applicant screening
- New employee onboarding
- Employee separations
- Time and leave accounting
- Employee benefits coordination
- Ensure agency compliance with state's Position Classification Act (salary/ position requirements)
- Workforce planning and policy
- Employee training, education and development
- Employee performance evaluation facilitation

Key Department Responsibilities (*Cont'd.*)

IT Support Services

- General IT support
- Network security
- Application support

Financial Education & TFEE

- Consumer financial education
- Management of grant program to support statewide financial education and consumer credit building activities
- Industry outreach and education

OCCC Primary Business Functions

Internal audit identified **15 primary functions** that OCCC staff manage.

1. Customer Service
2. Licensing and Registration
3. Examinations & Supervision
4. Complaint & Investigations
5. Texas Financial Education Endowment Grant Program
6. Legal & Enforcement
7. Training (Internal and External)/Financial Education
8. Human Resources
9. Information Technology Support
10. Accounting & Financial Management
11. Rule-Making
12. Contract Management & Procurement
13. Internal Policy Management
14. Document Management/ Records Retention
15. Public Information Requests

Mapping Key Business Processes to Departmental Functions

We identified 32 primary business processes and mapped the respective business process to OCCC's eight departments.

Primary Function/Process	Legal	Consumer Protection	Licensing	Information Technology	Administration	Accounting
Access Control Management				✓		
Application Processing			✓			
Assessments/Fee/Fine Management	✓	✓	✓			✓
Background Checks			✓			
Budgeting	✓	✓	✓	✓	✓	✓
Building Management					✓	
Cash Management						✓
Consumer Complaints		✓				
Consumer Education/Publications					✓	
Customer Service	✓	✓	✓	✓	✓	✓
Cyber and Information Management Security	✓	✓	✓	✓	✓	✓
Document Management	✓	✓	✓	✓	✓	✓
Examinations		✓				
Financial Reporting						✓
HR Compliance (State and Federal)					✓	
Investigations		✓				
IT Support Management				✓	✓	

Mapping Key Business Processes to Departmental Functions (*Cont'd.*)

Primary Function/Process	Legal	Consumer Protection	Licensing	Information Technology	Administration	Accounting
Leave Management					✓	
Legal Case Management	✓					
Legislative Monitoring	✓				✓	
Licensing			✓		✓	
Mail Room Management		✓				
Management of Office Inventory					✓	
Offsite Monitoring		✓				
Payroll						✓
Policy and Procedures Management	✓	✓	✓	✓	✓	✓
Procurement					✓	
Public Information Requests	✓					
Risk Management (SORM)	✓				✓	
Training		✓	✓		✓	
Travel and Expense Management		✓				✓
Web Management				✓	✓	

Risk Factors

Business process risks estimate the impact and likelihood that have the potential to affect the agency's mission, objectives or reputation. We deployed an electronic survey that evaluated the following agency risks on a 1-3 score. The average scores were then included in the respective business process and department assessment.

- ❑ Control Environment - Integrity and ethical values; organization structure; risk assessment; management philosophy and operating style; managing change; commitment to competence; compliance with laws and regulations; management oversight.
- ❑ Policy Management - Planning and budgeting; policies and procedures; human resources.
- ❑ Performance Management - Effective and efficiency of operations; performance measurement systems.
- ❑ Information Management - Information flow; communication; automation.
- ❑ Resource Management – Human resources, cash, estimations, assessments.

We also conducted interviews and reviewed key documents to assess the following risks on a 1-3 score. The average scores were then included in the respective business process assessment.

- ❑ Business Process Characteristics – Number of market/internal variables.
- ❑ Impact on Financial Statements – Number of estimates and the dollar amount of assets, receipts, or disbursements for which it is responsible or the degree of its responsibility related to the agency's primary mission.
- ❑ Fraud Risks – Amount of manual processes and the impact of these on the agency's reputation and/or ability to accomplish its objectives.
- ❑ Account Characteristics – The amount of calculations or complexities in the process.

Risk Description

Control Environment	
Significant impact on internal controls or of non-compliance with regulations	2.45 – 3.00
Moderate impact on internal controls or of non-compliance with regulations	1.45 – 2.44
Little to no impact on internal controls or of non-compliance with regulations	0.00 – 1.44
Performance Management	
Significant impact of not monitoring performance or inefficiencies	2.45 – 3.00
Moderate impact of not monitoring performance or inefficiencies	1.45 – 2.44
Little or no impact of not monitoring performance or inefficiencies	0.00 – 1.44
Resource Management	
Significant impact on agency resources	2.45 – 3.00
Moderate impact on agency resources	1.45 – 2.44
Little or no impact on agency resources	0.00 – 1.44

These factors are based on surveys. We evaluated these risks on a 1-3 score. The average scores were then included in the respective business process assessment.

Policy Management	
Significant impact of not following established policies	2.45 – 3.00
Moderate impact of not following established policies	1.45 – 2.44
Little or no impact of not following established policies	0.00 – 1.44
Information Management	
Significant impact of incorrect information or high data sensitivity	2.45 – 3.00
Moderate impact of incorrect information or high data sensitivity	1.45 – 2.44
Little or no impact of incorrect information or high data sensitivity	0.00 – 1.44

Risk Description (*Cont'd*)

These factors are based on interviews and document review. We evaluated these risks on a 1-3 score. The average scores were then included in the respective business process assessment.

Business Process Characteristics	
Significant number of dynamic market variables	2.45 – 3.00
Moderate number of dynamic market variables	1.45 – 2.44
Little to no dynamic market variables	0.00 – 1.44

Impact on Financial Statements	
Balance based on a high number of estimates	2.45 – 3.00
Balance based on a moderate number of estimates	1.45 – 2.44
Balance based on few, if any, estimates	0.00 – 1.44

Fraud Risk	
Significant manual processes	2.45 – 3.00
Moderate manual processes	1.45 – 2.44
Little or no manual processes	0.00 – 1.44

Account Characteristics	
Process has many calculations and/or complexities	2.45 – 3.00
Process has some calculations and/or complexities	1.45 – 2.44
Process has few calculations and/or complexities	0.00 – 1.44

Risk Description (*Cont'd*)

All together there were nine risk factors were evaluated with a total maximum score of 32 points.

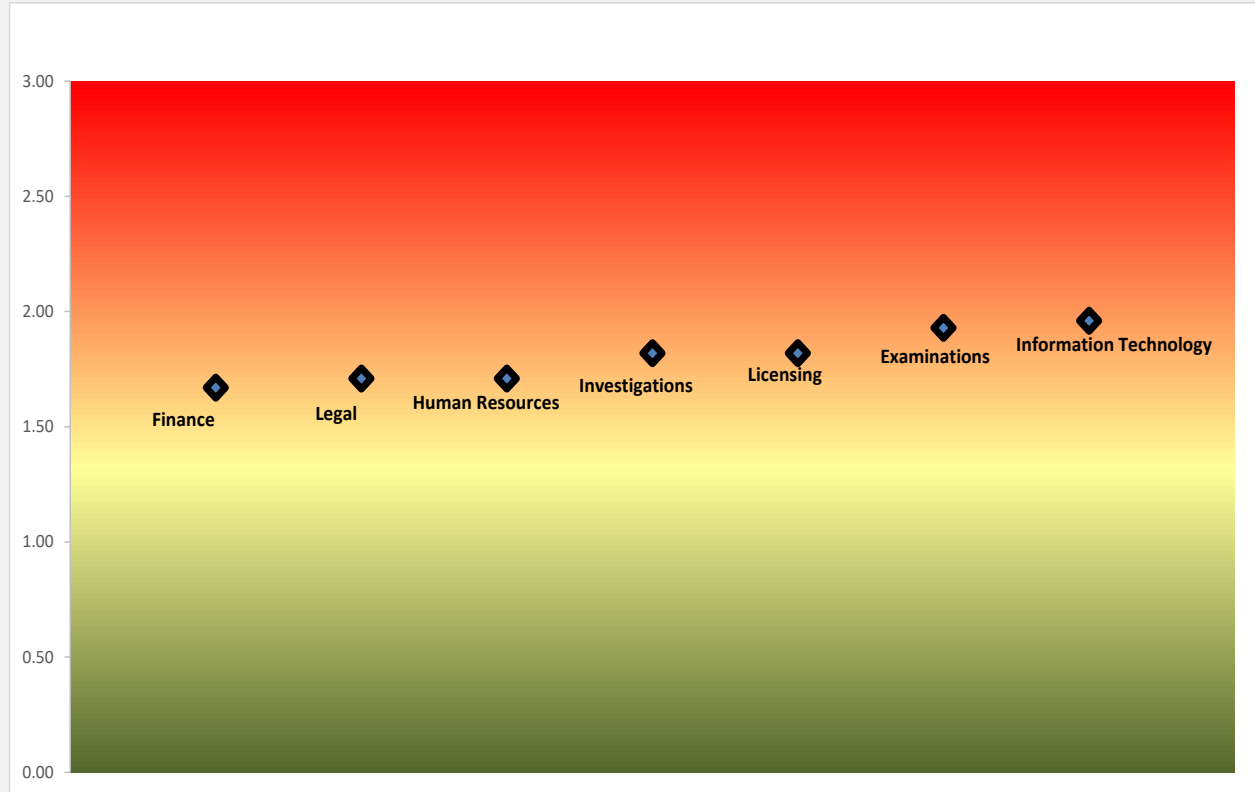
Overall Score	
High Risk	2.45 – 3.00
Moderate Risk	1.45 – 2.44
Low Risk	0.00 – 1.44

It is important to note that the nine risk factors and resulting scores are related to the impact the process and function has on the agency's ability to meet its mission and regulatory requirements. These are not based on comparisons to other agencies or organizations.

Function and Business Process Risk

Internal audit analyzed OCCC's function and business process risks by assigning risk factors and weights in the following categories:

- ❑ Control Environment
- ❑ Policy Management
- ❑ Performance Management
- ❑ Information Management
- ❑ Resource Management
- ❑ Business Process Characteristics
- ❑ Impact on Financial Statements
- ❑ Fraud Risks
- ❑ Account Characteristics



FY 2019 Annual Internal Audit Plan – Proposed

MJ proposes to perform the following audit activities in FY 2019.

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours	Estimated Fees
1	Information Technology – Change Management	High	January – March 2019	65	\$8,010
2	Investment Administration Controls of the Texas Financial Education Endowment (TFEE) Fund	High	January 2019	42	\$4,470
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	8	\$1,002
4	Update Risk Assessment & FY 2020 Annual Audit Plan	Compliance	July - August 2019	8	\$1,169
5	Annual Audit Report	Compliance	August 2019	2	\$999
6	Audit Communications, Committee Meetings, Project Management	N/A	All Year	2	\$272
Total				127	\$15,378

Note: This budget excludes the initial risk assessment and FY 2019 Annual Audit Plan development.

This budget does not exceed the contracted amount of \$17,812, including the initial risk assessment and FY 2019 Annual Audit Plan.

Information Technology Change Management Audit

The information technology change management controls are rated high risk due to:

- ❑ Impact on operations.
- ❑ Impact on data reliability.

Objective:

- ❑ To determine if processes and controls in place provide reasonable assurance that changes to the agency's information systems/applications do not expose the agency to vulnerabilities and do not negatively impact operations. The focus will be on how system changes impact the agency's processes.

Proposed Scope:

- ❑ Change management policies.
- ❑ Change management project planning.

Proposed Audit Activities:

- ❑ Review change management policy.
- ❑ Conduct interviews.
- ❑ Sample software patch application, upgrades and changes.

Proposed Hours: 65

Proposed Fees: \$8,010

Investment Administration Controls

The Texas Financial Education Endowment (TFEE) Fund audit is a compliance audit of the investment administration controls.

Objective:

- ❑ To determine if the Texas Financial Education Endowment (TFEE) Fund investments and reporting are accurately reported and follow guidance of the Public Funds Investment Act.

Proposed Scope:

- ❑ Investment policy components compliance.
- ❑ Investment instruments compliance.
- ❑ Investment reporting compliance.
- ❑ Training compliance.
- ❑ Investment reporting accuracy and completeness.

Proposed Audit Activities:

- ❑ Interviews and walk throughs.
- ❑ Reconciliation of investments statements to trial balance, investment reports and balance sheet.
- ❑ Training verification.
- ❑ Sample audit testing of investment activities.

Proposed Hours: 42

Proposed Fees: \$4,470