



An Audit Report on

**The Office of  
Consumer Credit Commissioner:  
A Self-directed, Semi-independent Agency**

January 2017  
Report No. 17-020



An Audit Report on

# The Office of Consumer Credit Commissioner: A Self-directed, Semi- independent Agency

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## Overall Conclusion

The Office of Consumer Credit Commissioner (Office) has established controls and processes to accurately report financial and performance data and appropriately set fees and penalties.

Auditors did not identify significant errors in **the Office's fiscal year 2016 annual financial** report. However, the Office should improve controls over its financial reporting process to ensure that its accounting system fully supports its annual financial report and that it achieves separation of duties for users of Sage MIP (its internal accounting system) and the Uniform Statewide Accounting System.

The Office had an adequate process for setting fees and penalties that was based on the **Office's approved budget**. It adjusted its licensing and regulatory fees, as appropriate, to collect the amount of revenue necessary to cover its operating expenditures. In addition, for the industries tested, the Office complied with statutory and regulatory requirements for the calculation and collection of fees and penalties.

The Office correctly calculated the performance measures tested and related controls were operating effectively. The three performance measures tested as of August 31, 2016, were:

- Percent of Written Complaints Resolved within 90 Calendar Days.
- Average Processing Time (Days) for License Applications.
- Percentage of Examinations Reporting Acceptable Level of Compliance.

Auditors also identified information technology weaknesses related to user access, change management, and policies and procedures that the Office should address.

Auditors communicated other, less significant issues to Office management in writing.

### Background Information

The Office of Consumer Credit Commissioner (Office), which was created in 1963, licenses and regulates non-depository lenders in Texas. As of August 31, 2016, the Office had 23,996 licensees and 10,601 registrants. The **Office's mission statement is "to regulate the credit industry and to educate consumers and creditors, fostering a fair, lawful, and healthy credit environment for economic prosperity in Texas."** The 81st Legislature granted the Office self-directed and semi-independent (SDSI) status effective September 1, 2009.

The Finance Commission of Texas oversees the Office and approves the **Office's operating budget**. The **Office's** fiscal year 2016 budget included total revenue of \$9,199,065 and total expenditures of \$9,325,017.

The Office reported 93.5 full-time equivalent positions for fiscal year 2016.

**Sources:** The Office's Web site, *Strategic Plan for Fiscal Years 2015-2019*, and fiscal year 2016 budget.

This audit was conducted in accordance with Texas Finance Code, Section 16.004.

For more information regarding this report, please contact **Audrey O'Neill**, Audit Manager, or **Lisa Collier**, First Assistant State Auditor, at (512) 936-9500.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating <sup>a</sup>
1	The Office Should Improve Controls Over Financial Data	Medium
2	The Office Complied with Requirements for Setting Fees and Penalties	Low
3	The Office Correctly Calculated the Performance Measures Tested	Low
4	The Office Should Improve Controls Over Information Technology Security	Medium

<sup>a</sup> A chapter 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 and reduce risks to the audited entity.

A chapter 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 and reduce risks to the audited entity.

A chapter 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 and reduce risks to a more desirable level.

A chapter 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.

## ***Summary of Management's Response***

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Office agreed with the recommendations in this report.

### *Audit Objectives and Scope*

The objectives of this audit were to:

- Verify the accuracy of certain financial and performance data and the effectiveness of related controls at the Office.
- Evaluate the **Office's** processes for setting fees and penalties.

The scope of this audit covered financial and performance information, applicable processes, and other supporting documentation for fiscal year 2016 (September 1, 2015, through August 31, 2016).

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# Detailed Results

Chapter 1

## The Office Should Improve Controls Over Financial Data

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Chapter 1  
Rating:  
Medium <sup>1</sup>

Auditors did not identify significant errors in the Office of Consumer Credit Commissioner's (Office) fiscal year 2016 annual financial report. However, the Office should improve controls over its financial reporting process to ensure that its accounting system fully supports its annual financial report and that it achieves separation of duties for users of Sage MIP (its internal accounting system) and the Uniform Statewide Accounting System (USAS).

### Year-end Certification

The Office submitted the required year-end USAS and interagency activity certification to the Office of the Comptroller of Public Accounts on September 30, 2016. That certification requires state entities to certify that year-end balances in USAS reconcile to year-end balances in the entities' accounting systems.

However, the Office did not maintain documentation to support the assertions it made in that certification that it reconciled balances as of August 31, 2016, in USAS with balances as of August 31, 2016, in Sage MIP at the time it submitted its certification. In addition, auditors noted several differences between USAS and Sage MIP, as discussed below.

### User Access in Sage MIP and USAS

All six users who had access to Sage MIP had the ability to create, edit, and process transactions. That level of access was more than those users' job duties required. One of those users also had administrative access to the Sage MIP database and server, and that user could both transfer transactions to USAS and release those transactions in USAS. Improper levels of user access increase the risk that an individual could process an inappropriate or unauthorized transaction that could go undetected.

### Fiscal Year 2016 Annual Financial Report

Auditors identified discrepancies in expenditure line items in the Office's fiscal year 2016 annual financial report and the corresponding line items in Sage MIP. Those discrepancies occurred because the Office did not have a

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<sup>1</sup> Chapter 1 is rated Medium because 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.

formal review process for making year-end adjusting entries or a process to ensure that it made adjusting entries in a timely manner.

The Office developed its annual financial report using information from USAS. To complete that report, the Office made adjusting entries in USAS to finalize its accounting information for the fiscal year. For example, the Office entered adjusting entries into USAS at the end of the fiscal year to move revenue from the system clearing account into the appropriate revenue accounts. However, the Office did not adjust revenues in a timely manner, and revenue information was not available in USAS until after the end of the fiscal year. In addition, the Office had not entered manual adjustments into Sage MIP at the time it issued its annual financial report, which resulted in discrepancies between Sage MIP and the annual financial report.

The Office also made an error when it made a required adjustment to capitalize an expenditure for information technology. That resulted in the misstatement of two line items in its fiscal year 2016 annual financial report. Specifically, the Office overstated professional fees and services by \$9,792 and understated materials and supplies by the same amount. The Office issued an updated version of its fiscal year 2016 annual financial report on November 17, 2016, and corrected the misstatements in the two line items.

In addition, for two line items tested, the Office entered adjusting entries into USAS at the end of the fiscal year, but it did not also enter those adjusting entries into Sage MIP. That resulted in a \$1,225 discrepancy in the line item for fees and other charges and an \$11,874 discrepancy in the line item for consumables. However, those discrepancies did not result in errors in the annual financial report.

All six year-end adjusting entries that auditors tested were accurate and properly supported. However, the same Office employee both prepared and reviewed 4 (67 percent) of 6 year-end adjusting entries tested. That occurred because the Office did not have a formal review and approval process for making year-end adjusting entries, as noted above.

Auditors tested the accuracy of selected financial data in the Office's fiscal year 2016 annual financial report and determined the following:

- Licenses, Fees, and Permits. The Office accurately recorded and sufficiently supported all transactions tested in the line item for licenses, fees, and permits, and related controls were operating effectively.
- Travel. All Office travel expenditures tested were recorded accurately and sufficiently supported, and related controls were operating effectively.

- Professional Fees and Services and Other Expenditures. The Office accurately recorded and sufficiently supported all transactions tested for the line item for professional fees and services. However, the Office did not have evidence of proper approval for 1 (8 percent) of the 12 professional fees and services transactions tested. The Office accurately recorded, sufficiently supported, and properly approved all transactions that auditors tested for the line item for other expenditures.
- Capital Assets. The Office properly capitalized a server that it acquired during fiscal year 2016 in its annual financial report.
- Reclassification of Private Purpose Trust Funds. The Office appropriately reclassified private purpose trust funds to special revenue funds based on direction it received from the Office of the Comptroller of Public Accounts. The Office also reported that reclassification correctly in its fiscal year 2015 annual financial report, and it continued to report these funds correctly in its fiscal year 2016 annual financial report.

#### Recommendations

##### The Office should:

- Revise its financial reporting processes to resolve discrepancies between its annual financial report and Sage MIP prior to issuing its annual financial report.
- Maintain documentation to support the required year-end reconciliation of balances in USAS with Sage MIP.
- Implement segregation of duties for users with access to Sage MIP and USAS.
- Develop, document, and implement a formal review and approval process for adjusting entries that requires different individuals to prepare and approve those entries in a timely manner.
- Develop, document, and implement a formal process to ensure that it obtains all required approval signatures prior to making entries in USAS.

## Management's Response

*The OCCC agrees with the recommendations and the Manager of Accounting is responsible for implementing the actions below. The OCCC will revise the financial reporting process to include a documented reconciliation process between the annual financial report and SAGE MIP prior to issuance of the annual financial report. The documentation with appropriate management approval will be maintained in support of the Year-end Certification. The OCCC will draft a formal policy and procedure to support the review and approval process for adjusting entries. The policy and procedure will require separate individuals to prepare and approve the entries. Further, the policy and procedure will provide formal guidance as to the timing of preparation, entry, and posting of entries to USAS and SAGE MIP. The OCCC will draft and implement a formal policy to support the entry, review, and approval process for USAS transactions, including more frequent revenue adjustments. The policy will specify required approvals and also require that backup documentation is appropriately filed and maintained. The financial reporting policy and procedural changes will be implemented by April 30, 2017.*

*To address the concerns regarding segregation of duties, administrative access to the SAGE MIP database and server has been removed from the SAGE MIP user. The OCCC will further evaluate the duties and responsibilities of all accounting staff to ensure that proper segregation of duties is being maintained. The evaluation will be completed by March 31, 2017.*

Chapter 2  
Rating:  
Low <sup>2</sup>

The Office established sufficient controls to set fees and penalties in compliance with the Texas Administrative Code and the Texas Finance Code. Specifically, the Office established adequate controls to help ensure that it:

- Budgeted sufficient revenue and adjusted its licensing and regulatory fees, as appropriate, to cover its operating expenditures.
- Accurately calculated fees and penalties for the industries that auditors tested (those industries are specified below).
- Appropriately assessed and collected fees and penalties for the industries that auditors tested (those industries are specified below).

The Office had an adequate process for setting fees and penalties; that process was based on the Office's budget, which the audit committee of the Finance Commission of Texas approved. During fiscal year 2016, the Office reported that it collected \$10,638,749 in revenue from licenses, fees, and permits. That amount represented approximately 99 percent of the Office's \$10,704,085 in total revenue for fiscal year 2016. The Office used its budget projections to determine the amount of revenue it would need to cover its operating expenditures. The Office also adjusted its fees by discounting fee amounts to collect the desired amount of revenue.

For the industries that auditors tested, the Office:

- Had adequate documentation to support that it appropriately assessed and collected fee amounts.
- Charged fees that were within statutory limits.
- Calculated fees accurately.

Budgeting

The audit committee of the Finance Commission of Texas approved the Office's fiscal year 2016 budget. The Office adjusted its licensing and regulatory fees for regulated lenders and motor vehicle sales finance lenders to collect the amount of revenue necessary to meet its estimated revenue target.

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<sup>2</sup> Chapter 2 is rated Low because the issues identified do not present risks or effects that could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

## Licensing and Regulatory Fees

**For the industries that auditors tested, the Office complied with Texas Administrative Code requirements for the calculation of licensing and**

### Non-depository Lenders

The Office has regulatory oversight of several categories of non-depository lenders, including businesses in licensed industries and businesses in registered industries.

Businesses in licensed industries are required to obtain operational licenses from the Office and are subject to routine and periodic examinations. Licensed industries include:

- Commercial motor vehicle sales finance.
- Credit access businesses.
- Motor vehicle sales finance lenders.
- Pawnshops and pawn employees.
- Property tax lenders.
- Regulated lenders.
- Residential mortgage loan originators.

Businesses in registered industries are required to register with the Office; however, they are not subject to routine and period examinations.

Registered industries include:

- Crafted precious metal dealers.
- Debt management and settlement providers.
- Manufactured housing creditors.
- Refund anticipation loan facilitators.
- Registered creditors.

Source: The Office's Web site.

**regulatory fees for non-depository lenders in fiscal year 2016 (see text box for additional information on non-depository lenders). Specifically, it accurately calculated and appropriately assessed and collected licensing and regulatory fees. Auditors tested 28 fee transactions for the following industries: regulated lenders, motor vehicle sales finance lenders, and credit access businesses.**

### Penalties

**For the industries that auditors tested, the Office complied with Texas Finance Code requirements for the calculation of penalties for non-depository lenders in fiscal year 2016. Specifically, for 24 transactions tested, the Office accurately calculated and appropriately assessed and collected penalties. The 24 transactions tested included 8 injunction orders for credit access businesses and 16 agreed orders for motor vehicle sales finance lenders.**

**An injunction order or an agreed order specifies the final penalty and provides the basis for the penalty amount assessed. For the 24 transactions that auditors tested, the Office negotiated the penalties within statutory limits and obtained approval from its commissioner for those penalties.**

## The Office Correctly Calculated the Performance Measures Tested

Chapter 3  
Rating:  
Low<sup>3</sup>

The Office correctly calculated the three performance measures tested for fiscal year 2016: (1) Percent of Written Complaints Resolved within 90 Calendar Days, (2) Average Processing Time (Days) for License Applications, and (3) Percentage of Examinations Reporting Acceptable Level of Compliance. Specifically:

- The Office reported the Percent of Written Complaints Resolved within 90 Calendar Days on a quarterly basis, and it calculated that performance measure correctly for all four quarters of fiscal year 2016. The Office calculated that performance measure by dividing the total number of written complaints that is resolved within 90 calendar days or fewer by the total number of all written complaints it resolved during the reporting period.
- The Office accurately reported the Average Processing Time (Days) for License Applications for the October 2016 meeting of the Finance Commission of Texas. That performance measure was not designated as a “key/benchmark” measure in the Office’s strategic plan; therefore, the Office reported it only annually. The Office calculated that performance measure by determining the number of days it took (from receipt date to completion date) to process each application, and then summing those days and dividing the sum by the number of applications it processed during the reporting period.
- The Office reported the Percentage of Examinations Reporting Acceptable Level of Compliance on a cumulative basis at the bimonthly meetings of the Finance Commission of Texas. The Office calculated that performance measure by dividing the total number of examinations it processed with an acceptable level of compliance by the total number of processed examinations it conducted during the reporting period (see text box for additional details).

### Percentage of Examinations Reporting Acceptable Level of Compliance

The Office rates examinations on a scale of 1 to 5 to signify a licensee’s overall compliance level. Ratings from 1 to 3 are considered acceptable.

The Office reports the performance measure for examinations performed in five industries: motor vehicle sales finance lenders, pawnshops, regulated loans, credit access businesses, and property tax lenders.

Source: The Office.

The Application, Licensing, Examination, and Compliance System (ALECS), which the Office uses to monitor and manage applications, licensees, and their examinations, duplicated three examination records, which resulted

<sup>3</sup> Chapter 3 is rated Low because the issues identified do not present risks or effects that could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

in the Office not correctly calculating that performance measure for three of the five industries reported. However, the Office identified the duplicate records at the end of fiscal year 2016 and made corrections in ALECS, which resulted in correct calculations for the reporting of the final performance measure at the end of fiscal year 2016.

Auditors also determined that the controls over reporting the three performance measures were designed and operating effectively.

#### Recommendation

The Office should review the data it uses to calculate performance measures prior to presenting performance measures to the Finance Commission of Texas to ensure that the data is accurate.

#### **Management's Response**

*The OCCC agrees with the recommendation and works diligently to present accurate data. As stated in the report, the Examination Acceptable Level of Compliance measure accuracy was temporarily affected by record duplications in the examination database. The implementation of the new automated examination scheduling, examination reporting, and examination review functionality (scheduled for Feb 2017) will eliminate the possibility of duplicate examination records. To further strengthen the review of this performance measure data, an additional level of management review and validation will also be initiated. A senior review examiner will review and validate the report prior to the Director's review. This process will be implemented prior to the next regularly scheduled Finance Commission Meeting (2/17/17). The Director of Consumer Protection is responsible for implementation.*

## The Office Should Improve Controls Over Information Technology Security

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Chapter 4  
Rating:  
Medium <sup>4</sup>

Auditors performed limited reviews of four information technology systems that the Office used to manage the data it reported and that were applicable to the audit objectives:

- ALECS, which the Office used to record and track performance measure data and calculate and record licensee and registrant fees.
- Sage MIP, which the Office used to record and report accounting activity and generate other financial reports.
- The Complaints/Investigation Database, which the Office used to record and track complaints and investigations and to report performance measure data.
- USAS, which the Office used to prepare its annual financial report.

Auditors reviewed (1) controls over logical access and change management for ALECS; (2) controls over logical access for USAS, Sage MIP, the Complaints/Investigation Database, and the Office's local area network; (3) information security policies and procedures; and (4) reconciliations between ALECS and Sage MIP.

Auditors determined that data the Office used for financial accounting, fee and penalty assessment calculations, and performance measure reporting was reasonably accurate and complete. However, the Office should strengthen certain information technology security controls. Specifically:

- The Office did not document 12 (75 percent) of 16 information technology policies and procedures until the last quarter of fiscal year 2016. For example, prior to June 2016, the Office did not document policies and procedures related to information security awareness and training, information resources incident response, and information resources identification and authentication.
- During fiscal year 2016, the Office did not have documented policies and procedures for the job duties of information technology staff.
- Office personnel requested all change management requests that auditors tested. However, the Office did not require management

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<sup>4</sup> Chapter 4 is rated Medium because 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.

approval for change management requests, and it did not have documented criteria regarding the classification of change management requests. That occurred because, as of the end of fiscal year 2016, the Office had not developed policies and procedures regarding a formal process for processing change management requests for ALECS.

- The Office had not performed formal reviews of user access to its automated systems. As a result, two former employees had active user accounts in ALECS as of August 24, 2016. After auditors brought that matter to its attention, the Office terminated those user accounts. Auditors also identified certain weaknesses in user access for ALECS. To minimize security risks, auditors communicated details about those weaknesses directly to Office management.

#### Recommendations

The Office should:

- Develop, document, and implement information technology policies and procedures for change management and the job duties of information technology staff.
- Develop, document, and implement a formal process for change management requests that includes documented management approvals.
- Develop, document, and implement formal reviews of user access for its automated systems, and conduct those reviews at least annually.
- Strengthen controls to address weaknesses in user access for ALECS.

#### Management's Response

*The OCCC agrees with the recommendations and is actively working to improve its Information Technology security posture. Towards that end, the OCCC was already in the process of an independent outside assessment of its IT security controls when this audit began. The OCCC will continue to formalize its policies and procedures to include the respective job duties of IT staff. The OCCC will formalize its change management process through documented policies and procedures. The agency uses a ticketing system (osTicket) to document changes to the ALECS system, but will modify the procedure to include criteria for types of changes and document management approval by the manager of the requesting department. The modification will be implemented in January 2017. To address concerns*

*regarding user access, termination procedures in the Human Resource department have been strengthened to receive confirmation that IT has terminated user access before finalizing an employee's separation. Further, the security coordinator will conduct a semiannual review for user access within the agency's automated systems. Results of the review will be documented. Controls related to user access for ALECS are in development and will be implemented in January 2017. The agency's Information Security Officer and the Director of Administration will jointly be responsible for implementation of these recommendations with an overall expected completion date of May 31, 2017.*

# Appendices

## Appendix 1

### *Objectives, Scope, and Methodology*

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#### Objectives

The objectives of this audit were to:

- Verify the accuracy of certain financial and performance data and the effectiveness of related controls at the Office of Consumer Credit Commissioner (Office).
- Evaluate the Office's processes for setting fees and penalties.

#### Scope

The scope of this audit covered financial and performance information, applicable processes, and other supporting documentation for fiscal year 2016 (September 1, 2015, through August 31, 2016).

#### Methodology

The audit methodology included collecting information and documentation, performing selected tests and other procedures on the information obtained, analyzing and evaluating the results of tests, and conducting interviews with Office management and staff. In addition, the methodology included performing a limited review of the general and application controls over the information technology systems that the Office used to manage and report financial data and performance measure data. Auditors also reviewed user access controls for the Uniform Statewide Accounting System (USAS).

#### Data Reliability and Completeness

Auditors used revenue and expenditure information from Sage MIP and USAS to verify the accuracy of certain financial information. To determine the reliability of that data, auditors compared revenues and expenditure populations from Sage MIP to USAS and tested selected general controls for those systems. In addition, auditors reviewed the Office's reconciliation process for the Application, Licensing, Examination, and Compliance System (ALECS) and Sage MIP.

Auditors used examination and licensing data from ALECS and revenue data from Sage MIP to review the Office's process for setting fees and penalties, and auditors used data from ALECS and complaint data from the Office's Complaints/Investigations Database to verify the accuracy of certain

performance information. To determine the accuracy of that data, auditors reviewed the parameters used to extract the data from those systems, tested access to those systems, and tested the Office's process for making changes to ALECS.

Auditors determined that the data was sufficiently reliable for purposes of this audit.

#### Sampling Methodology

To assess the Office's financial processes related to revenue from penalties and travel expenditures, and to verify the accuracy of data used to calculate two selected performance measure results, auditors selected nonstatistical samples primarily through random selection designed to be representative of the population. Test results may be projected to the population, but the accuracy of the projection cannot be measured.

To assess the Office's financial processes related to revenue from fees, auditors selected nonstatistical samples of fees primarily through random selection designed to be representative of the population. In some cases, auditors used professional judgment to select additional fees for testing. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Auditors also used professional judgment to select risk-based samples of Office financial reconciliations, change management requests, expenditures made for professional fees and services, other types of expenditures, year-end adjusting entries, and data used to calculate one selected performance measure. The sample items were generally not representative of the population and, therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Office's policies and procedures.
- Revenue and expenditure data from Sage MIP and related supporting documents.
- Selected performance measure data from ALECS and the Complaints/Investigations Database and related supporting documents.
- The Office's reconciliations for revenue data transfers between ALECS and Sage MIP.
- The Office's strategic plan for fiscal years 2015 through 2019.

- Program code used for selected data extracts.
- The Office’s annual financial reports for fiscal years 2015 and 2016.
- Fees assessment data from ALECS and related supporting documents.
- The Office’s supporting documents for penalty assessments.

Procedures and tests conducted included the following:

- Tested internal controls and selected significant accounts, including testing of detailed supporting documentation, to determine the accuracy of selected financial data in the Office’s financial reports for fiscal year 2016.
- Tested selected performance measure data that the Office reported to the Finance Commission of Texas.
- Evaluated the Office’s annual fee-setting process.
- Tested selected licensing and regulatory fee transactions and selected administrative penalty transactions to determine whether the Office accurately calculated and appropriately assessed and collected the amounts.

Criteria used included the following:

- Office policies and procedures.
- Title 7, Texas Administrative Code, Part 5.
- Texas Finance Code, Chapters 14 and 349.
- Title 1, Texas Administrative Code, Section 202.24.
- Office of the Comptroller of Public Accounts’ Reporting Requirements for Fiscal 2016 Annual Financial Reports of State Agencies and Universities (Simplified Reporting Agencies).
- Office of the Comptroller of Public Accounts’ travel policies and procedures.
- Department of Information Resources’ *Security Control Standards Catalog*, version 1.3.
- Governmental Accounting Standards Board Statement No. 34 Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.

## Project Information

Audit fieldwork was conducted from July 2016 through December 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Shahpar Michelle Hernandez, CPA, M/SBT, CISA (Project Manager)
- Krista L. Steele, MBA, CPA, CFE, CIA, CGAP (Assistant Project Manager)
- Robert H. (Rob) Bollinger, CPA, CFE
- John Felchak
- Lisa Lack
- Shelby Rounsaville
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Audrey O'Neill, CIA, CFE, CGAP (Audit Manager)

## Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> 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.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> 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.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> 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.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> 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.

Copies of this report have been distributed to the following:

Legislative Audit Committee

Office of the Governor

**The Honorable Greg Abbott, Governor**

Members of the Finance Commission of Texas

**Ms. Stacy G. London, Chair**

**Mr. Hilliard Shands III, Vice Chair**

**Mr. Robert Borochoff**

**Mr. Hector J. Cerna**

**Ms. Margaret Curl**

**Mr. Phillip A. Holt**

**Mr. William M. Lucas**

**Ms. Lori B. McCool**

**Mr. Matthew Moore**

**Mr. Vince E. Puente Sr.**

**Mr. Paul Plunket**

Office of Consumer Credit Commissioner

**Ms. Leslie Pettijohn, Consumer Credit Commissioner**



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