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State Auditor

An Audit Report on

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

March 2022
Report No. 22-023



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. It set its fiscal year 2021 fees as part of its budget process. Those fees and penalties assessed by the Office were within limits set by statute and applicable rules.

The Office performed reconciliations and maintained appropriate controls over processing receipts. These controls helped ensure that the Office's fiscal year 2021 annual financial report was mathematically accurate and internally consistent. In addition, the annual financial report accurately reported License and Fee transactions, Cash in Treasury, Cash Equivalents, Investments, Net Increase in Fair Value, and Fund Balances. The Office's annual report to the Legislature and the Governor, which is required by Texas Finance Code, Section 16.005, contained revenue and expenditure totals that were consistent with data in the annual financial report.

The Office had processes to collect and accurately calculate the performance measures tested. It reported accurate results to the Finance Commission of Texas (Finance Commission) for these two performance measures:

- Monies Returned to Consumers.
- Number of Complaints Closed.

The Office's budget was designed to keep the Office in compliance with the Finance Commission's rules for liquidity. However, the Office ended fiscal year 2021 with unreserved cash balances in excess of limits set by Finance Commission policy. These cash balances were higher than expected because the Office spent \$1.7 million less than it budgeted, largely due to factors related to the COVID-19 pandemic.

Background Information

The Office of Consumer Credit Commissioner (Office), which was created in 1963, licenses and regulates nondepository financial service providers in Texas. Licensed industries include motor vehicle sales finance, pawn shops, and residential mortgage loan originators. The Office reported that it had 18,813 licensees and 10,135 registrants as of August 31, 2021.

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 2021 General Fund budget included total revenue of \$8,412,291 and total expenditures of \$8,843,678.

The Office reported 68.5 full-time equivalent positions at the end of August 2021.

Sources: The Office's website, *Strategic Plan for Fiscal Years 2021-2025*, fiscal year 2021 budget, and Finance Commission of Texas meeting packet for October 2021.

The Office generally has automated processes and related controls that help ensure the accuracy and completeness of its data. However, the Office inconsistently processes change management requests.

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 ^a
1	The Office Had Effective Controls That Helped Ensure the Accuracy and Completeness of Its Financial Data and Required Reports	Low
2	The Office Reported Accurate Results for the Two Performance Measures Tested	Low
3	The Office Had an Adequate Budget Process and Complied with Requirements for Setting Fees	Low
4	The Office’s Automated Controls Were Generally Adequate, But It Should Continue Implementing Recommended Information Technology Controls	Medium

^a A subchapter 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 subchapter 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 subchapter 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 the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A subchapter is rated **Low** if the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(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.

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

Summary of Management’s Response

At the end of Chapter 4 in this report, auditors made a recommendation to address the issues identified during this audit. The Office agreed with this recommendation.

Audit Objectives and Scope

The objectives of this audit were to:

- Determine whether the Office has processes and related controls to help ensure the accuracy and completeness of financial and performance data.

- 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 2021 (September 1, 2020, through August 31, 2021).

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Detailed Results

Chapter 1

The Office Had Effective Controls That Helped Ensure the Accuracy and Completeness of Its Financial Data and Required Reports

**Chapter 1
Rating:**
Low ¹

The Office of Consumer Credit Commissioner (Office) had processes and related controls that were effectively designed, in place, and operating to help ensure the accuracy and completeness of its financial data. The Office performed reconciliations and maintained appropriate controls over processing receipts. These controls helped ensure that the Office's fiscal year 2021 annual financial report is significantly and mathematically accurate.

In addition, the Office submitted its biennial and annual reports to the Legislature and the Governor, as required.

Fiscal Year 2021 Annual Financial Report

The Office's financial statements are internally accurate. All totals shown in the annual financial report were calculated correctly. There were no differences between the totals on the combining schedules and the exhibits in the annual financial report. The Office accurately recorded and sufficiently supported the five year-end adjusting entries tested. The Office also reconciled its annual financial report to its Micro Information Products (MIP) accounting system as part of the preparation process. (See text box for more information about the Office's systems.)

The Office accurately reported the following accounts in the fiscal year 2021 annual financial report:

- **Fee Revenue** – The Office accurately reported the 27 fee revenue transactions tested. These transactions were supported by adequate documentation. In all cases, the Office collected the appropriate fee amount.

The Office's Key Automated Systems

The Uniform Statewide Accounting System (USAS) is the Office's accounting system of record. The Office uses USAS to prepare its annual financial report.

Micro Information Products (MIP) is the accounting system that recorded financial activity and generated financial reports during the audit period. The Office replaced this system with the Centralized Accounting and Payroll/Personnel System (CAPPS) at the beginning of fiscal year 2022.

Application, Licensing, Examinations, Compliance System (ALECS) is the Office's regulatory system, which the Office uses to record certain financial data, record and track complaints and investigations, and report performance measure data.

Source: The Office

¹ The risk related to the issues discussed in Chapter 1 is rated as Low because the audit identified strengths that support the Office's ability to administer the functions audited.

- Cash in Treasury, Cash Equivalents, Investments, and Net Increase in Fair Value – The Office accurately reported the amounts in these accounts.
- Fund Balances – The Office correctly classified its fund balances.

Additionally, related controls were operating effectively. Specifically:

- **Financial reconciliations.** The Office performed reconciliations as required and appropriately resolved differences identified as part of each reconciliation. The Office’s accounting policies and procedures require monthly reconciliations of (1) fee revenues recorded in the Texas.gov² Payments System and the Office’s Application, Licensing, Examinations, Compliance System (ALECS), (2) expenses recorded in MIP and the Uniform Statewide Accounting System (USAS), and (3) cash recorded in MIP and cash held at the Texas Treasury Safekeeping Trust Company.
- **Cash deposits.** The Office appropriately deposited cash received at its office. In addition, the supporting documentation for all cash deposits tested was properly signed and reviewed.

Required Reports

Texas Finance Code, Section 16.005, requires the Office to submit two reports to the Legislature and the Governor: an annual report and a biennial report.

The Office submitted its most recent annual report in October 2021. This report contained all required information, including revenue and expenditure totals. These totals match revenue and expenditure totals in the Office’s fiscal year 2021 annual financial report.

The Office submitted its most recent biennial report in November 2020. This report contained all information required by the statute.

² Texas.gov is the State’s official digital platform that processes online payments.

The Office Reported Accurate Results for the Two Performance Measures Tested

**Chapter 2
Rating:**
Low³

The Office reported accurate results for the two performance measures tested in its reports to the Finance Commission of Texas (Finance Commission) for fiscal year 2021. The two performance measures tested were:

- Monies Returned to Consumers.
- Number of Complaints Closed.

Monies Returned to Consumers

The Office had a process to collect and accurately calculate and report Monies Returned to Consumers. For fiscal year 2021, the Office reported that the total Monies Returned to Consumers was \$3,385,505. The data for this measure was accurately reported and adequately supported by source documentation.

Number of Complaints Closed

The Office had a process to collect and accurately calculate and report the Number of Complaints Closed. For the four quarters of fiscal year 2021, the Office reported that the Number of Complaints Closed was 430, 416, 432, and 447, respectively. Data for this measure was accurately reported and adequately supported by source documentation.

³ The risk related to the issues discussed in Chapter 2 is rated as Low because the audit identified strengths that support the Office's ability to administer the function audited.

The Office Had an Adequate Budget Process and Complied with Requirements for Setting Fees

**Chapter 3
Rating:**
Low ⁴

The Office set its fiscal year 2021 fees as part of its budget process. The Office set these fees and assessed penalties during fiscal year 2021 within limits set by statute and applicable rules.

The Office's budget was designed to keep the Office in compliance with the Finance Commission's rules for liquidity. However, the Office ended fiscal year 2021 with unreserved cash balances in excess of limits set by Finance Commission policy. These cash balances were higher than expected because the Office spent \$1.7 million less than it budgeted, largely due to factors related to the COVID-19 pandemic.

Budgeting

The Office used the following process to create the budget:

- The Office estimated it would spend \$8.8 million in fiscal year 2021. It based this estimate on expenditures for the prior three years, budget requests from the Office's managers, and anticipated personnel costs.
- The Office determined that it wanted to finance \$8.4 million of its spending from current year revenues and \$0.4 million from its unreserved cash balances.
- The Office then forecast available fee revenue from each industry that it licenses and registers, using its judgment and considering the following factors:
 - ♦ The actual or projected number of licenses or registrations in each industry when the budget was being developed, as well as the number of prior year licenses or registrations.
 - ♦ Estimated license renewal rates.
 - ♦ Potential fee discount rates.
- The Office then performed what it called a *fair share analysis*, in which it compared each licensed industry's proportion of licenses to the percentage of revenue it expected to receive from that industry's fees, to ensure that no industry subsidized another. The Office did not perform a

⁴ The risk related to the issues discussed in Chapter 3 is rated as Low because the audit identified strengths that support the Office's ability to administer the function audited.

similar analysis on its registered industries because those industries provide less than 5 percent of revenues.

- The Office prepared the final draft budget, which it presented to the Finance Commission. The Finance Commission approved the budget.

Fees

The Office sets its fees by starting with the maximums set by statute and rule. The Office then discounted renewal assessment fees in creating the revenue budget. The Office used its “fair share” analysis to verify that each industry would cover its costs after discount. The fair share analysis compares the proportion of its resources the Office estimates it will need to regulate each industry to the revenue that industry will contribute. The analysis does so by comparing the percentage of the number of renewed licenses or registrations to the percent of total revenue the Office estimates it will collect from that industry.

The Office performed an additional fee analysis during the year before each industry’s renewal period. If the analysis showed that the Office would meet its revenue targets with additional discounts, the Office increased the discount. In fiscal year 2021, the Office increased the discounts for regulated lenders and pawn shops. The industries and their discounts are listed in Table 2.

Table 2

Industries With Discounted Renewal Fees			
Industry	Base Fee	Discount	Fee After Discount
Motor vehicle sales finance - Licensed Location	\$460	21.7%	\$360
Motor vehicle sales finance - Registered Office	\$430	23.3%	\$330
Pawn shops	\$625	40.0%	\$375
Regulated lenders	\$600	35.0%	\$390
Residential mortgage loan originators	\$200	50.0%	\$100

Source: The Office.

Penalties

The Office did not include penalties in its revenue budget. Penalties are imposed as a result of a violation by a licensee. The Office evaluates each licensee’s violation and uses internal enforcement guidelines to assess a penalty. These enforcement guidelines include a review of applicable rules

and statutes. For all eight penalties tested, the penalty amounts were equal to or less than those allowed by enforcement guidelines.

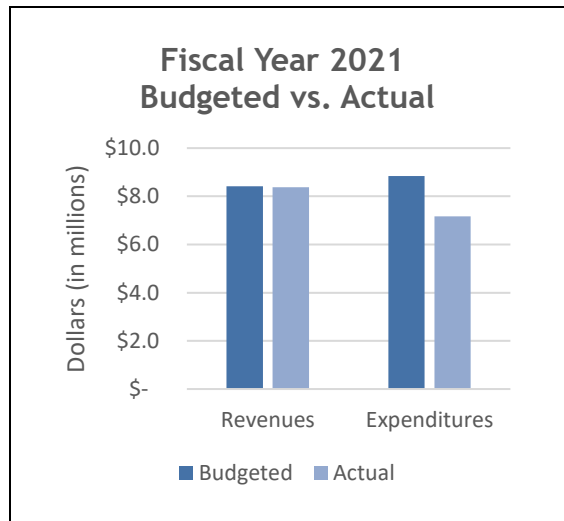
Fiscal Year 2021 Budget and Actual Results

Budget. The Office budgeted \$8.8 million in costs for fiscal year 2021 and planned to raise \$8.4 million in revenues. It planned to finance the \$431,390 difference from its unreserved cash balances. The Office intended to lower these reserves, since the reserves at the end of fiscal year 2020 contained sufficient cash to cover the Office’s monthly budget for 5.9 months, which is slightly less than the 6-month maximum allowed by Finance Commission policy.

Actual Results. Figure 1 shows the differences between the Office’s budgeted and actual revenues and expenditures for fiscal year 2021. During fiscal year

2021, the Office raised \$8.4 million in revenues, which was within \$31,013 (0.4 percent) of the budgeted amount. However, the Office spent \$7.1 million, which was \$1.7 million (19 percent) less than the amount budgeted. The Office cited two key reasons—both related to the COVID-19 pandemic—that expenditures were lower than budgeted. Delays in filling vacant positions contributed to personnel costs that were \$840,783 below budget, and restrictions on travel helped result in travel costs that were \$389,519 below budget. As a result, the Office ended the year with \$5.6 million in unreserved cash

Figure 1



Source: The Office’s annual financial report for fiscal year 2021 and the Office’s budget.

balances, which would cover 7.6 months of budgeted costs, which exceeds the Finance Commission’s maximum of 6 months. The Finance Commission voted on December 16, 2021, to increase the Office’s Long-term Facilities Planning Reserve by approximately \$3.0 million to address this overage.

The Office's Automated Controls Were Generally Adequate, But It Should Continue Implementing Recommended Information Technology Controls

**Chapter 4
Rating:
Medium⁵**

The Office generally has automated processes and related controls that help ensure the accuracy and completeness of its data. However, the Office inconsistently processes change management requests.

The Office implemented certain information technology controls recommended in previous audits, including:

- Implementing formal user access reviews for its directories and automated systems. The Office's management stated that these reviews are performed twice each year. These controls performed as designed.
- Strengthening user access controls in the Office's Application Licensing Examination Compliance System (ALECS).
- Documenting the job duties of information technology staff.

User Access

The Office verified that only authorized users could access key systems and directories, including ALECS, through the user access review that it implemented. The Office also verified that ALECS users could only access the parts of ALECS needed for their duties. In addition:

- All active users of the Office's Micro Information Products (MIP) accounting system were active employees. (The Office replaced MIP when it implemented the Centralized Accounting and Payroll/Personnel System [CAPPS] at the beginning of fiscal year 2022.)
- The Office's staff's access to USAS is appropriately restricted. All Office accounts with access to USAS are either system-generated or are associated with Office employees. None of the Office's staff's USAS accounts have access to both enter and release transactions.
- The Office strengthened its password requirements for ALECS to substantially meet Microsoft's password complexity requirements.

⁵ The risk related to the issues discussed in Chapter 4 is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

Change Management

The Office implemented a change management policy and a change request form, as recommended. However, the Office's change management process is informal and does not include detailed procedures regarding process steps. In addition, the policy did not capture the current procedure for tracking changes. The policy provides guidelines on change management, including requirements that:

- The Office's change management team review high-risk requests.
- The Office use change management processes in proportion to the projected inherent risk of the proposed change.

However, the Office did not always document all steps of the change process on the request form. Completion of most steps in the process was documented in emails. In addition, the Office did not document user acceptance for 2 (50 percent) of 4 changes.

Recommendation

The Office should develop, document, and implement procedures for information technology change management that include documented management approvals and that accurately reflect actual practice.

Management's Response

Management agrees with the recommendation. The Office will review and revise its change management policy and procedures to include documented management approvals and to accurately capture actual practice. The revised policy and procedures will require consistent usage and documentation of the risk matrix. Additionally a compliance component to review completed requests on a regular, ongoing basis for accuracy and completeness will be included.

This effort will be coordinated and implemented by the Project Manager and Programmer with oversight from the agency head. Completion is expected by 31-August-2022.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Office of Consumer Credit Commissioner (Office) has processes and related controls to help ensure the accuracy and completeness of financial and performance data.
- 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 from September 1, 2020, through August 31, 2021. The scope also included a review of significant internal control components related to financial and performance data and the budgeting process (see Appendix 3 for more information about internal control components).

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.

Data Reliability and Completeness

Auditors used examination, consumer complaint, and licensing data from the Office's Application, Licensing, Examination, and Compliance System (ALECS) to review fee revenue information and to verify the accuracy of performance measures. To determine the reliability of that data, auditors (1) reviewed the parameters used to extract the data from that system, (2) tested access to that system, (3) reviewed record completeness, and (4) reviewed data fields and their contents for accuracy and validity. Auditors determined that the data in ALECS was sufficiently reliable for purposes of this audit.

Auditors used financial information from the Office’s Micro Information Products (MIP) system to verify the accuracy of certain financial information. To determine the reliability of financial information in MIP, auditors reviewed the validity and completeness of the information by (1) reviewing user access, (2) performing a high-level review of data fields and their contents for appropriateness, and (3) comparing that information to other sources. Auditors determined that the data in MIP was sufficiently reliable for the purposes of this audit.

Auditors independently obtained financial data from the Uniform Statewide Accounting System (USAS), analyzed the data output, and relied on previous State Auditor’s Office audit work to determine that the USAS revenue data was sufficiently reliable for the purposes of this audit.

Sampling Methodology

Auditors selected a nonstatistical sample of 27 of the 34,599 fee revenue transactions from ALECS, primarily through random selection. In some cases, auditors selected additional ALECS fee revenue transactions for testing based on risk. This sample design was chosen to (1) ensure that the sample included a cross section of revenue transactions from ALECS and (2) address specific risk factors identified in the population. The test results as reported do not identify which items were randomly selected or selected based on risk; therefore, it would not be appropriate to project the test results to the population.

Auditors selected a nonstatistical, risk-based sample of the 5 largest of 20 financial statement adjusting entries that the Office used in preparing its fiscal year 2021 annual financial report. This sample included 95 percent of the dollars in these entries. 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 selected a nonstatistical sample of 10 of 100 cash deposits through random selection. This sample design was chosen to ensure that the sample included a cross section of cash deposits. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To assess the Office’s reconciliation processes, auditors selected a nonstatistical sample of 2 of 12 each of the 3 types of monthly reconciliations—cash, revenues, and expenditures—primarily through random selection. In some cases, auditors selected additional monthly reconciliations for testing based on risk. This sampling design was chosen to ensure that the sample would address specific risk factors identified in the population. The test results as reported do not identify which items were

randomly selected or selected using professional judgment; therefore, it would not be appropriate to project the test results to the population.

To assess the Monies Returned to Consumers performance measure, auditors selected a nonstatistical sample of 26 examinations and complaints that resulted in monies being returned to consumers, primarily through random selection. There were 444 such examinations and 184 complaints. In some cases, auditors selected additional examinations for testing based on risk. This sample design was chosen to (1) ensure that the sample included a cross section of monies returned to consumers and (2) address specific risk factors identified in the population. The test results as reported do not identify which items were randomly selected or selected based on risk; therefore, it would not be appropriate to project the test results to the population.

To test the Number of Complaints Closed performance measure, auditors selected a nonstatistical sample of 26 of 1,725 complaints closed, primarily through random selection. In some cases, auditors selected additional complaints closed for testing based on risk. This sample design was chosen to (1) ensure that the sample included a cross section of complaints closed and (2) address specific risk factors identified in the population. The test results as reported do not identify which items were randomly selected or selected based on risk; therefore, it would not be appropriate to project the test results to the population.

Auditors selected a nonstatistical, risk-based sample of 8 out of 57 penalties, selecting the largest penalty paid under each law cited in the population. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To test information technology change orders, auditors selected a nonstatistical random sample of 5 of the 25 change orders implemented during fiscal year 2021. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Office's fiscal year 2021 annual financial report.
- The Office's policies and procedures.
- Finance Commission of Texas (Finance Commission) meeting packets, budget information, and supporting documentation for the Office's budget process.

- All fiscal year 2021 year-end adjusting accounting entries and related supporting documentation.
- Financial data from USAS and MIP, and revenue data from ALECS.
- Office reconciliations for cash, revenue, and expenditures and the supporting documentation.
- The Office’s Texas Treasury Safekeeping Trust Company investment reports.
- The Office’s Strategic Plan for Fiscal Years 2021–2025.
- Data and supporting documents for selected performance measures.

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 annual financial report for fiscal year 2021.
- Evaluated the Office’s budgeting and penalty assessment processes.
- Tested selected licensing and regulatory fee transactions.
- Examined the Office’s penalty assessments.
- Tested selected performance measure data that the Office reported to the Finance Commission.

Criteria used included the following:

- The Office’s policies and procedures.
- Title 7, Texas Administrative Code, Parts 1 and 5.
- Texas Finance Code, Chapters 11, 14, 16, and 349.
- The Office of the Comptroller of Public Accounts’ financial reporting requirements.
- The Office’s strategic plan for fiscal years 2021 through 2025.
- Title 1, Texas Administrative Code, Chapter 202.

Project Information

Audit fieldwork was conducted from September 2021 through March 2022. 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. Those standards also require independence in both fact and appearance. At the time of the audit, legislative funding was vetoed. This condition could be seen as potentially affecting our independence in reporting results related to this agency. However, we proceeded with this audit as set forth by the annual state audit plan, operated under the Legislative Audit Committee. We believe this condition did not affect our audit conclusions.

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

- Gregory Scott Adams, CPA, MPA, CGFM (Project Manager)
- Sarah-Jane Puerto, CIA, CFE, CGAP (Assistant Project Manager)
- Steven Arnold, CFE
- Ashlie Garcia, CFE
- Derek Lopez, MBA
- Hudson Marsh
- Susana Preciado
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Cesar Saldivar, CIA, CFE, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-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 3 provides a description of the issue ratings presented in this report.

Table 3

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)/function(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 the 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.

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for five integrated components of internal control, which are listed in Table 4.

Table 4

Internal Control Components	
Component	Component Description
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Related State Auditor's Office Reports

Table 5

Related State Auditor's Office Reports		
Number	Report Name	Release Date
21-010	<i>A Report on the Self-reported Implementation of Sunset Advisory Commission Management Actions</i>	February 2021
19-027	<i>A Report on the Implementation Status of Prior State Auditor's Office Recommendations</i>	February 2019
17-020	<i>An Audit Report on the Office of Consumer Credit Commissioner: A Self-directed, Semi-independent Agency</i>	January 2017

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Joan Huffman, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Finance Commission of Texas

Mr. Phillip A. Holt, Chair
Mr. George (Cliff) McCauley, Vice Chair
Dr. Robin Armstrong
Mr. Robert (Bob) Borochoff
Mr. Hector J. Cerna
Mr. Larry Long
Mr. William M. (Will) Lucas
Ms. Sharon McCormick
Ms. Roselyn "Rosie" Morris
Mr. Vince E. Puente, Sr.
Ms. Debbie Scanlon
Ms. Laura Nassri Warren

Office of Consumer Credit Commissioner

Ms. Leslie Pettijohn, Consumer Credit Commissioner



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