



John Keel, CPA
State Auditor

The Office of Consumer Credit Commissioner

A Follow-up Audit Report on

April 6, 2012

Members of the Legislative Audit Committee:

The Office of Consumer Credit Commissioner (Office) fully implemented 10 (91 percent) of 11 recommendations that auditors selected for follow up from *An Audit Report on the Office of Consumer Credit Commissioner* (State Auditor's Office Report No. 09-003, September 2008). Specifically, of the 11 recommendations selected for follow-up audit work:

- The Office fully implemented three recommendations regarding its licensee examination process.
- The Office fully implemented two recommendations regarding its complaint resolution process, and its implementation of one recommendation regarding its complaint resolution process is incomplete/ongoing.
- The Office fully implemented four recommendations regarding its licensing of motor vehicle sales finance dealers.
- The Office fully implemented the recommendation to strengthen its information technology as the State Auditor's Office had recommended in 2007 (see *An Audit Report on Performance Measures at the Office of Consumer Credit Commissioner*, State Auditor's Office Report No. 07-039, July 2007).

While the Office has made significant progress in implementing most of the prior audit recommendations, it should continue its efforts to strengthen its complaint resolution process. Specifically, although the Office has policies and procedures to guide its complaint resolution process, it does not consistently ensure that it properly documents in its database the reason complaints are open for more than 90 days.

Background Information

In September 2008, the State Auditor's Office issued *An Audit Report on the Office of Consumer Credit Commissioner* (State Auditor's Office Report No. 09-003). Auditors selected 11 of the 12 recommendations in that report for follow up based on Office management's original responses to the recommendations, the Office's subsequent self-reported recommendation implementation status and implementation date, and the level of risk.

Implementation Status Definitions

Fully Implemented - Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing - Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

SAO Report No. 12-026

Table 1 provides additional details on the Office's implementation of prior State Auditor's Office recommendations.

Table 1

Status of Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by the Office	Implementation Status as Determined by Auditors	Auditor Comments
Recommendations Regarding the Examination Process				
1	The Office should ensure that examiners in the field submit examination reports to the Office's Austin headquarters on a timely basis.	Fully Implemented	Fully Implemented	Examiners submitted 3,358 (97 percent) of 3,475 examination reports completed between September 1, 2010, and December 31, 2011, to the Office within 30 days. On average, examiners submitted those reports within 10 days.
2	The Office should continue to work toward providing a supervisory review of examinations in a timely manner while also working to reduce its backlog of examination reviews.	Fully Implemented	Fully Implemented	The Office significantly reduced its backlog of examination reviews. Auditors tested 30 examination reports with compliance ratings of 3, 4, or 5 and determined that the Office had performed and documented its reviews of those reports in a timely manner.
3	The Office should draft formal policies and procedures to guide the examination review process.	Fully Implemented	Fully Implemented	The Office developed and approved policies and procedures to guide its examination review process.
Recommendations Regarding the Complaint Process				
4	The Office should provide a way for consumers to call in a complaint after regular business hours.	Fully Implemented	Fully Implemented	The Office implemented a voicemail system to capture complaints after regular business hours.
5	The Office should ensure that all data entered into the complaint database is accurate and is reviewed for accuracy and completeness.	Fully Implemented	Fully Implemented	The Office entered all 15 complaints auditors tested into its complaints database completely and accurately; it had also reviewed those complaints.
6	The Office should ensure that complaint technicians document the reason for delay in its database for all complaints that are not closed within 90 days.	Fully Implemented	Incomplete/Ongoing	The Office implemented additional policy and procedures instructing technicians to document the reason complaints are not closed within 90 days. However, 14 (52 percent) of 27 complaints not closed within 90 days did not have a documented reason for the delay.
Recommendations Regarding the Licensing Process				
7	The Office should collect all required documentation for licensing dealers.	Fully Implemented	Fully Implemented	The Office collected all required background information for 30 licensed dealer files tested.
8	The Office should ensure all licensees receive a complete criminal history check upon applying for a license.	Fully Implemented	Fully Implemented	The Office ensured that all 30 licensed dealer files tested received a completed criminal history check.
9	The Office should ensure that it does not issue a license to any applicant or principal party unless the Office has a completed criminal history check on file.	Fully Implemented	Fully Implemented	The Office ensured that all 30 licensed dealer files tested received a completed criminal history check.
10	The Office should ensure that continuous criminal history checks are performed on applicants whose fingerprints are rejected.	Fully Implemented	Fully Implemented	The Office now uses the Fingerprint Applicant Services of Texas (FAST) system, which is available through the Department of Public Safety, to facilitate the electronic submission of fingerprint-based background checks.

Status of Implementation of Prior Audit Recommendations				
No.	Recommendation	Implementation Status as Reported by the Office	Implementation Status as Determined by Auditors	Auditor Comments
Recommendations Regarding Information Technology				
11	The Office should implement recommendations made in the July 2007 State Auditor's Office report, where feasible.	Fully Implemented	Fully Implemented	The Office added emergency contact information for key personnel to its disaster recovery plan. In addition, its server room now has an operational smoke detector.

Recommendation

The Office should develop and implement an effective monitoring control that ensures that a documented reason exists in its complaints database for complaints not closed within 90 days.

The Office agreed with the above recommendation, and its management's response is in the attachment to this letter.

Sincerely,

John Keel, CPA
 State Auditor

Attachment

- cc: Members of the Finance Commission of Texas
 Mr. William J. White, Chair
 Ms. Susan H. Burton
 Mr. Darby Byrd
 Mr. Victor E. Leal
 Ms. Stacy G. London
 Ms. Cindy F. Lyons
 Ms. Lori B. McCool
 Mr. Jonathan Bennett Newton
 Mr. Larry Patton
 Mr. Paul Plunket
 Mr. Hilliard Shands, III
 Ms. Leslie L. Pettijohn, Consumer Credit Commissioner



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Attachment

Section 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine the implementation status of prior State Auditor's Office recommendations and evaluate whether management has taken corrective actions to address selected recommendations in *An Audit Report on the Office of Consumer Credit Commissioner* (State Auditor's Office Report No. 09-003, September 2008).

Scope

The scope of this audit included reviewing the Office of Consumer Credit Commissioner's (Office) implementation status of selected recommendations concerning complaints, examinations, and licensing of motor vehicle sales finance dealers in Texas from September 1, 2010, through December 31, 2011.

Methodology

The audit methodology consisted of identifying and collecting information on the implementation of selected prior audit recommendations. To determine the implementation status of selected recommendations, auditors conducted interviews; reviewed Office policies and procedures; and performed selected tests and procedures regarding complaints received and closed, examinations completed, and motor vehicle sales finance dealers licensed.

Auditors assessed the reliability of the Office's data associated with complaints, examinations, and licensing of motor vehicle sales finance dealers by (1) on-site observation of data extraction, (2) reviewing query language used to generate the data, (3) analyzing key data elements for completeness and reasonableness, (4) interviewing Office employees knowledgeable about the data, and (5) reviewing a prior State Auditor's Office report and working papers related to information technology. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- *An Audit Report on the Office of Consumer Credit Commissioner* (State Auditor's Office Report No. 09-003, September 2008) and supporting working papers.

- The Office's policies and procedures for complaints, examinations, and licensing of motor vehicle sales finance dealers in Texas.
- The Office's examination, complaint, and motor vehicle sales finance dealer licensing files.
- The Office's data on examinations completed, complaints received, and licensed motor vehicle sales finance dealers contained in its information systems.

Procedures and tests conducted included the following:

- Tested and analyzed examinations to determine whether examination reports were submitted and reviewed in a timely manner; this included determining the status of the Office's examination report backlog.
- Tested motor vehicle sales finance dealers' license files to determine whether the Office processed background checks correctly.
- Tested complaints to determine whether the Office documented and processed complaints in accordance with its policies and procedures.
- Followed up on information technology recommendations in *An Audit Report on Performance Measures at the Office of Consumer Credit Commissioner* (State Auditor's Office Report No. 07-039, July 2007).

Criteria used included the following:

- Title 7, Texas Administrative Code, Section 84.613.
- Title 1, Texas Administrative Code, Chapter 202.
- The Office's policies and procedures for examinations, complaints, and licensing of motor vehicle sales finance dealers.
- *Carrying Out a State Regulatory Program, A National State Auditors Association Best Practices Document*, National State Auditors Association, 2004.

Project Information

Audit fieldwork was conducted from January 2012 through February 2012. 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:

- Jennifer R. Wiederhold, CGAP (Project Manager)
- Anton Dutchover (Assistant Project Manager)
- Thomas Andrew Mahoney
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Ralph McClendon, CISSP, CCP, CISA (Audit Manager)

Management's Response

Management of the Office of Consumer Credit Commissioner provided the following response:

Management agrees with the recommendation of the SAO in this audit. Complaint procedures were previously amended to incorporate the referenced closing statement of written complaints not closed within 90 days. Consumer assistance staff has been retrained on this procedure and this specific issue. Each staff member has signed a copy of the procedure confirming their understanding and expectation of compliance. The monitoring review of this component of the procedure will be elevated from the manager of consumer assistance to the director of consumer protection.

The period of review in this follow-up audit contained over 3000 complaints of which approximately 1600 were written. Of these 1600 written complaints 27 were not closed within 90 days, less than 2% of written complaints closed. The weakness in implementation in the policy that resulted in insufficient closing statements for 14 complaints has been rectified.

Person responsible for Implementation: Director of Consumer Protection

Date for completion of implementation: March 31, 2012