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An Audit Report on

Performance Measures at the Office of Consumer Credit Commissioner

July 2007

Report No. 07-039



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Overall Conclusion

The Office of Consumer Credit Commissioner (Commission) reported reliable results for 80 percent (four of five) of the fiscal year 2006 key performance measures audited. A result is considered reliable if it is certified or certified with qualification.

Specifically:

- Three key performance measures—Percent of Written Complaints Resolved within 90 Calendar Days, Percentage of Examinations Reporting Acceptable Level of Compliance, and Percent of New Licensees Undergoing Background Checks When Required—were certified with qualification primarily because the Commission deviated from the measures' definitions contained in the Automated Budget and Evaluation System of Texas (ABEST). However, the deviations caused less than a 5 percent difference between the number reported in ABEST and the actual performance measure result.
- One key performance measure—Number of Employee License Applications Processed—was certified with qualification because the Commission did not have sufficient input controls or policies and procedures identifying input controls over the data used to calculate key performance measures.
- One key performance measure—Number of Business Applications Processed—was inaccurate because the Commission deviated from the measure's definition in ABEST and the actual performance was not within 5 percent of the performance reported.

Background Information

Entities report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

Table 1 summarizes the certification results from audit testing.

Table 1

Office of Consumer Credit Commissioner (Agency No. 466)			
Related Objective or Strategy, Classification, and Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results
A, Outcome, Percent of Written Complaints Resolved within 90 Calendar Days	2006	96.55%	Certified with Qualification
B, Outcome, Percentage of Examinations Reporting Acceptable Level of Compliance	2006	91.11%	Certified with Qualification
B, Outcome, Percent of New Licensees Undergoing Background Checks When Required	2006	100.00%	Certified with Qualification
B.2.1, Output, Number of Business Applications Processed	2006	2,221	Inaccurate
B.2.1, Output, Number of Employee License Applications Processed	2006	3,143	Certified with Qualification
<p>A measure is Certified if reported performance is within +/-5 percent of actual performance and if controls appear adequate to ensure accuracy for collecting and reporting performance data.</p> <p>A measure is Certified with Qualification if reported performance is within +/-5 percent of actual performance but controls over data collection and reporting are not adequate to ensure continued accuracy.</p> <p>A measure is Inaccurate when reported performance is not within +/-5 percent of actual performance or there are more than two errors in the sample tested.</p> <p>Factors Prevent Certification when actual performance cannot be determined because of insufficient documentation and inadequate controls or when there is deviation from the measure definition and the auditor cannot determine the correct result.</p>			

Summary of Management's Response

The Commission generally agrees with the findings and recommendations in this report.

Summary of Information Technology Review

The Commission has adequate general and application controls over information systems that support performance measure data, except for certain weaknesses that might directly affect data integrity in the future. Some improvements should be made to strengthen the disaster recovery plan and the controls over database access, audit trails, and physical security. These issues did not affect the integrity of the fiscal year 2006 performance measure data tested.

Summary of Objectives, Scope, and Methodology

The objectives of the audit were to determine whether the Commission (1) is accurately reporting selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST) and (2) has adequate control systems over the collection, calculation, and reporting of selected key performance measures.

The scope of the audit covered five key performance measure results reported by the Commission for fiscal year 2006. Auditors also reviewed controls over the submission of data used in reporting the performance measures and traced performance measure information to the original source documents when possible.

The audit methodology included selecting five key performance measures, auditing reported results for accuracy and adherence to measure definitions, evaluating controls over the performance measures certification process and related information systems, and testing of original source documentation.

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Detailed Results

Chapter 1

The Commission Should Improve Its Processes for Reviews and Ensure Alignment of Its Performance Measure Reports with Definitions in ABEST

The Office of Consumer Credit Commissioner (Commission) does not adequately review and document its reviews of reported performance measures to ensure that its reported performance measures are aligned with the measure definitions included in the Automated Budget and Evaluation System of Texas (ABEST). The Commission's written procedures are not sufficiently detailed to indicate how the data and the calculation of the measures are reviewed. Further, the reviews often are not formally documented.

The Commission's reviews were not sufficient to detect several errors resulting from deviations from a performance measure's definition in ABEST. Specifically:

- The Commission overstated by 37 percent its reported results in ABEST for the performance measure Number of Business Applications Processed. The Commission reported that 2,221 applications were processed in fiscal year 2006, but auditors' recalculations put the total at 1,403 processed. Motor vehicle sales finance businesses were not included in the performance measure definition for fiscal year 2006. The Commission incorrectly included 818 applications from motor vehicle sales finance businesses, which it began licensing on September 1, 2002.
- The Commission incorrectly included complaints that turned into investigations in its reported results for Percent of Written Complaints Resolved within 90 days. ABEST specifically excludes complaints that turn into investigations in the measure definition.
- The Commission reported the Percentage of Examinations Reporting Acceptable Level of Compliance using ratings on a 5-point scale, while the ABEST definition requires the use of ratings on a 3-point scale. The Commission in 2002 changed the number of levels used in its examination rating system, but it did not obtain a change in the measure definition.
- The Commission based its calculations for Percent of New Licensees Undergoing Background Checks When Required only on business licenses, rather than on licensed individuals, which is what is required. The Commission's calculations did not include pawnshop employee

licensees. Additionally, although background checks were performed on each individual who is a licensed principal party of a business that auditors tested, the Commission incorrectly included each licensed business location only once in its performance measure calculation even though the ABEST definition requires that all new licensees be included. Further, the Commission's calculations included principal parties who were already licensed under other business licenses and should not have been included, based on the measure definition, because additional background checks were not required.

Recommendations

The Commission should:

- Improve its written policies and procedures for the review of performance measures to ensure that the activity reported is aligned with the measures' definition and methodology in ABEST. If a change in definition and methodology is warranted, the Commission should work with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to change the definition and methodology in ABEST before changing its method of calculation and reporting.
- Ensure that all reviews of performance measures are documented, signed, and dated.

Management's Response

The agency generally agrees with the findings and agrees with the recommendations; the Director of Administration will be responsible for working with the Legislative Budget Board (LBB) to update and clarify the definitions of the measures. The agency will initiate meetings with the LBB to bring the definitions up-to-date. The agency will implement the modified procedures upon approval by the LBB.

The agency will implement changes to procedures to make sure that reviews of performance measure data are documented, signed and dated. The amended procedures will be in place by November 2007.

The Commission Reported Reliable Results for Four of Five Key Performance Measures Audited

Key Measures

Number of Business Applications Processed

Results: Inaccurate

A measure is inaccurate when reported performance is not within +/-5 percent of actual performance or there are more than two errors in the sample tested.

This performance measure was inaccurate because the Commission overstated by 37 percent the Number of Business Applications Processed for fiscal year 2006 (as described in Chapter 1). This resulted in a more than a 5 percent difference between the reported performance and the actual performance, as recalculated by the auditors.

The Commission does not have adequate input controls to ensure that the data used for this performance measure's calculation is entered correctly into the Commission's licensing database. The same licensing technician who inputs data from the business application into the licensing database also verifies these entries for accuracy. A subsequent review by the ABEST coordinator is not documented and, except in a small number of cases, this review does not compare the data entered against the information in the source documents.

Recommendations

The Commission should:

- Improve its written policies and procedures for the review of performance measure as discussed in Chapter 1 to ensure that the activity reported for this measure is aligned with its definition and methodology in ABEST.
- Improve its written policies and procedures to ensure that data is reviewed for accuracy and completeness by persons other than the one responsible for original data input.

Management's Response

As it relates to this finding the agency reported the correct number of business license applications processed for the time period reviewed. The difference between the finding and what was reported deals with a definition issue as stated by the SAO in Chapter 1 of this report. The 77th Legislature gave the agency additional regulatory authority over the Motor Vehicle Sales Finance industry. Effective September 1, 2002, entities that provide for financing of motor vehicles were required to be licensed. The LBB increased the target goals associated with this performance measure to account for these motor vehicle sales finance applications being processed. Although the performance measure target goal was amended to account for this increased activity in

processing applications, the definition for calculating this goal was not properly amended to specifically include motor vehicle sales finance applications into the calculation. The report finds that the reported number of processed applications should not include the processed applications for motor vehicle sales finance applications.

The agency generally agrees with this finding and agrees with the recommendations. The agency will improve its written policies and procedures to ensure that the activity reported for this measure is aligned with its definition. The Director of Administration will be responsible for working with the Legislative Budget Board (LBB) to update and clarify the definitions of the measures. The agency will initiate meetings with the LBB to bring the definitions up-to-date. The agency will implement the modified procedures upon approval by the LBB.

The agency will amend its policies and procedures and implement additional internal controls to ensure that data is reviewed for accuracy and completeness by someone other than the person entering the data. These reviews will be documented, signed and dated. The Director of Administration will work with agency staff to amend these policies and procedures. These amended policies and procedures will be in place by November 2007.

Percent of Written Complaints Resolved within 90 Calendar Days

Percentage of Examinations Reporting Acceptable Level of Compliance

Percent of New Licensees Undergoing Background Checks When Required

Number of Employee License Applications Processed

These performance measures were accurate, but they were certified with qualification because the Commission's controls are not adequate to ensure continued accuracy of performance measure reporting. In some cases, these measures also deviated from the ABEST definitions (as detailed in Chapter 1). Except for the Percentage of Examinations Reporting Acceptable Level of Compliance measure, the same employee who enters information into the Commission's database is also responsible for verifying the accuracy of the data input. A review performed by the ABEST coordinator, which does not trace the data back to source documents, is not documented. A review by the Commissioner also does not examine the source documents, except in cases in which a license is denied.

Results: Certified With Qualification

A measure is certified with qualification if (1) reported performance deviated from the measure definition but the deviation caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result or (2) reported performance is within +/-5 percent of actual performance but controls over data collection and reporting are not adequate to ensure continued accuracy.

The data for Percentage of Examinations Reporting Acceptable Level of Compliance is reviewed by an employee who is different from the person who entered the data, but this review is not documented, nor is it sufficient to detect deviations from ABEST measure definitions and methodologies and duplicate entries.

For the Percent of Written Complaints Resolved within 90 Calendar Days, the Commission's reported results for this performance measure deviated from the measure's definition in ABEST (as discussed in Chapter 1). Also, input controls were weak because complaints are not logged in or assigned a number upon receipt before the complaints are distributed throughout the Commission. One person is responsible for entering the complaint into the database, processing the complaint, and resolving the complaint without a review and approval process prior to the resolution. The employee's manager examines some of the resolved complaints each month, but this review is not documented. There is no evidence that the information entered into the database is verified by anyone other than by the person responsible for the input. Auditors also found that start dates, which indicate when a complaint is received, were assigned and entered into the database in an inconsistent manner.

For the Percentage of Examinations Reporting Acceptable Level of Compliance, auditors found that the Commission deviated from the measure definition (as discussed in Chapter 1). The Commission did not have a process in place requiring the documentation of reviews that would detect such deviations or other errors. Auditors found that the Commission is not detecting instances in which it is inputting and reporting on duplicate entries in its database.

For the Percent of New Licensees Undergoing Background Checks When Required, the Commission's reported results for this performance measure deviated from the measure's definition in ABEST (as discussed in Chapter 1). Also, the information entered into the Commission's database is not verified for accuracy by someone other than the person who entered the data. The ABEST coordinator's review of performance measure data is not defined by written procedures or documented.

The Commission's reported results for the Number of Employee License Applications Processed were accurate. However, input controls over performance measure data are weak. Specifically, there are no reviews to verify the accuracy of performance measure data entered into the Pawnshop Employee Licensing Database other than a review performed by the person responsible for the input, and that review is not documented.

Recommendations

The Commission should:

- Verify that performance measure calculations adhere to ABEST performance measure definitions and methodology (as detailed in Chapter 1).
- Implement a log or number-stamp system to record when written complaints are received.
- Create a standard methodology for selecting complaints for review to ensure that all agents have their work reviewed on a regular basis.
- Revise its written procedures to define what is to be considered the start date for a written complaint and adhere to this policy to promote consistency.
- Update its data entry review procedures to include the search for and combination of duplicate records entered into the databases.
- Improve its written policies and practices to require that information entered into each database is reviewed for accuracy by someone other than the employee who entered the information. All reviews should be documented, signed, and dated.
- Improve its written policies and procedures for performance measure reporting to describe detailed review steps and ensure that all reviews are documented, signed, and dated, in addition to other automated edit checks to prevent duplicate records.

Management's Response

The agency generally agrees with the finding and agrees with the recommendations; the Director of Administration will be responsible for working with the Legislative Budget Board (LBB) to update and clarify the definitions of the measures. The agency will initiate meetings with the LBB to bring the definitions up-to-date. The agency will implement the modified procedures upon approval by the LBB.

The Director of Consumer Protection will work with agency staff to amend the following policies and procedures. These amended policies and procedures will be in place by September 1, 2007.

- *The agency will amend its policies and procedures and implement a log to record the receipt of complaints.*

- *The agency will implement a review of complaint data entry on a more consistent and regular basis. The current procedures will be amended to require and document reviews.*
- *The agency will amend its policies and procedures as well as its definitions relating to the start dates of consumer complaints. A standard will be set for complaint start dates.*
- *The agency will amend its policies and procedures and implement additional internal controls to ensure that data is reviewed for duplicate record entries and for accuracy and completeness. These reviews will be documented, signed and dated.*

Specific Information Technology Controls Should Be Improved

The Commission has adequate general and application controls over information systems that support performance measure data, except for certain weaknesses that might directly affect data integrity in the future. Testing of the data used during this audit provided assurance that the data in the databases is sufficiently valid and reliable to support the fiscal year 2006 reported performance measures, except as previously noted in Chapters 1 and 2. Auditors observed several weaknesses in the Commission's information technology controls, which increase the risk of the data being lost or accessed by an unauthorized user. Specifically:

- Although written policies and procedures exist for system level access, there are no formal database level access control policies and procedures that offer guidance on passwords.
- The audit trail records only the last three edits made and does not specify details of what the changes were.
- Errors are corrected by directly making changes in the database, rather than through the application or a documented authorization process with an audit trail.
- The building fire detection system lacks heat or smoke detectors in the server room.
- Although weekly back-ups are stored off site, daily back-ups of the data are stored on a shelf in the server room.
- The disaster recovery plan identifies incremental stages for the physical restoration of the office, but it does not specify how this is to be carried out. In addition, the plan lists only the office phone numbers for Commission staff and no other entities.

Recommendations

The Commission should:

- Strengthen user access controls to the Complaint, Licensing and Examination, and Employee Pawnshop databases by developing written policies and procedures for passwords, including a process for assigning and deleting user access.
- Expand the audit trail function of the databases to identify all edits made to data files. The audit trail should record a timestamp, user id, and a comment field listing the reason for the modification. The audit trail also

should include a way to track corrections that currently cannot be made by end users, but must be made by Information Resources or the director of administration.

- Use heat or smoke detection systems in the server room to minimize the risk of fire damage to the Commission's server room.
- Store daily back-ups in a place that would protect them from fire or water damage.
- Enhance its disaster recovery plan to include specific information about how to carry out the plan, as well as after hours contact information for Commission personnel and information for contacts outside the Commission.

Management's Response

The agency generally agrees with the findings and recommendations; the Director of Administration is responsible for required modifications and implementation.

The agency will amend its policies and procedures to document the process of assigning passwords for its databases. The agency will also amend its procedures to better document the addition and deletion of users. These changes will be in place by September 1, 2007.

- *The agency will contact a consultant to determine the viability of implementing an audit trail as suggested in the recommendation.*
- *The agency has contacted the building management and has requested a proposal from the fire detection service provider for additional heat or smoke detectors in the server room. The agency will evaluate the viability of the proposal.*
- *The agency has implemented a procedure for storage of the differential back-ups in the agency's fireproof safe. This was implemented July 20, 2007.*
- *The agency will update its Disaster Recovery Plan to provide the additional information requested. These changes will be made by November 2007.*

Appendix

Appendix

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Office of Consumer Credit Commissioner (Commission) accurately reports selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Determine whether the Commission has adequate control systems over the collection, calculation, and reporting of selected key performance measures.

Scope

The scope of this audit covered fiscal year 2006.

Methodology

Auditors selected five key measures reported in ABEST. The Commission completed questionnaires and interviews related to its performance measurement processes to help identify preliminary control information.

Specific tests and procedures included:

- Auditing calculations for accuracy and to ensure that they were consistent with the methodology agreed on by the Commission and the Legislative Budget Board.
- Analyzing the flow of data to evaluate the existence of proper controls.
- Testing a sample of source documents to verify the accuracy of reported performance.
- Performing a high-level review of all information systems that support performance measures data.
- Reporting performance measures results in one of four categories: (1) certified, (2) certified with qualification, (3) inaccurate, or (4) factors prevent certification.

Project Information

Audit fieldwork was conducted from May 2007 through June 2007. This audit was conducted in accordance with generally accepted government auditing standards.

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

- Ron Zinsitz, CPA, CIDA (Project Manager)
- Scott Ela (Assistant Project Manager)
- Michael Boehme, PHR
- Kelli Davis
- Barrett Sundberg, MPA
- Joseph Kozak, CPA, CISA (Information Systems Audit Team)
- J. Scott Killingsworth, CIA, CGFM (Quality Control Reviewer)
- Michael C. Apperley, CPA (Assistant State Auditor)

Copies of this report have been distributed to the following:

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The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Office of Consumer Credit Commissioner

Ms. Leslie Pettijohn, Consumer Credit Commissioner

Finance Commission of Texas

Mr. John L. Snider, Commission Chair
Mr. Gary D. Akright, Commission Member
Mr. Mike Bradford, Commission Member
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