OPERATIONAL AUDIT

Department of Consumer Credit

For the period July 1, 2010 through June 30, 2015

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Audit Report of the Department of Consumer Credit

For the Period July 1, 2010 through June 30, 2015

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 74 O.S. § 212, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection http://digitalprairie.ok.gov/cdm/search/collection/audits/ pursuant to 65 O.S. § 3-114.

Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

August 30, 2016

TO THE DEPARTMENT OF CONSUMER CREDIT COMMISSION

This is the audit report of the Department of Consumer Credit for the period July 1, 2010 through June 30, 2015. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

Gary A Jones

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Department of Consumer Credit is a state regulatory agency originally created in 1969 to regulate the consumer lending business in Oklahoma through the newly adopted Oklahoma Uniform Consumer Credit Code. The Code represented the first body of law in Oklahoma comprehensively regulating non-commercial credit, small loans, installment sales and usury. The Code also exempts Oklahoma from federal regulation, although Oklahoma's rules must be substantially similar to Federal Truth in Lending requirements. The Department is also responsible for the licensing and regulation of mortgage brokers, mortgage lenders, mortgage loan originators, supervised lender, deferred deposit lenders, pawnshops, rental purchase lessors, health spa contracts, credit service organizations, consumer litigation funders, and precious metal and gem dealers.

The Department is governed by the Commission on Consumer Credit. The Commission on Consumer Credit consists of nine members appointed by the Governor with the consent of the Senate. Five of those members are at-large members. The four additional members are appointed as follows: one member is recommended by the Oklahoma Consumer Finance Association, one from the Independent Finance Institute, one from the Oklahoma Pawnbrokers Association and one from the Oklahoma Association of Mortgage Professionals. The State Banking Commissioner, Mick Thompson, is a non-voting tenth member of the Commission.

Board members as of July 2016 are:

Bob Moses .... Chairman

Joe Wilbanks. .... Vice-Chairman

Shawn Karnes. .... Commissioner

Armando Rosell .... Commissioner

Suzy Barnes. .... Commissioner

Jerry Douglas. .... Commissioner

Rick Harper. .... Commissioner

Craig Stanley .... Commissioner

Kent Carter .... Commissioner

Mick Thompson .... State Banking Commissioner

The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.[1]

	FY 2014			FY 2015		
REVENUES	**Budgeted**	**Actual**	**Variance**	**Budgeted**	**Actual**	**Variance**
General Appropriations	31,730	31,730	-	-		-
Licenses, Permits, and Fees	3,049,359	3,442,306	392,947	4,000,000	3,664,302	(335,698)
Grants, Refunds and Reimbursements	-	1,346	1,346	-	2,743	2,743
Total Revenues	**3,081,089**	**3,475,382**	**394,293**	**4,000,000**	**3,667,045**	**(332,955)**
EXPENDITURES						
Personnel Services	2,368,587	2,241,731	(126,856)	2,746,564	2,548,296	(198,268)
Professional Services	329,550	229,434	(100,116)	317,678	252,598	(65,080)
Travel Expenses	299,400	198,593	(100,807)	407,400	280,384	(127,016)
Administrative Expenses	290,500	191,787	(98,713)	290,496	238,549	(51,947)
Property, Furniture, Equipment, and Related Debt	36,000	64,646	28,646	1,536,000	26,012	(1,509,988)
General Assistance, Awards, Grants, and Other		10,525	10,525		7,055	7,055
Transfers and Other Disbursements		350	350		22	22
Total Expenses	**3,324,037**	**2,937,066**	**(386,971)**	**5,298,138**	**3,352,916**	**(1,945,222)**
Expenditures Over (Under) Revenues		**(538,316)**			**(314,129)**	

Year-End Cash Balances: FY 13 - FY 15			
	FY 13	**FY 14**	**FY 15**
Appropriated Funds	12,849	11,003	-
Non-Appropriated Funds	3,662,993	4,278,080	4,610,263
Total Available Cash	3,675,842	4,289,083	4,610,263

Summary of agency responses to budgeted-to-actual variances

This information is a summary of responses obtained from the Department of Consumer Credit. It is for informational purposes only and has not been audited.

- **Expenditures**

  On February 25, 2015, a purchase order was generated to encumber $1,500,000.00 for Commissioners of the Land Office. The funds were to be used to facilitate the leasing/ buildout of space in a venture involving the CLO, Manhattan Construction and OMES-Capital Assets Management.

  On June 19, 2015, during the renewal of purchase orders for FY 2016, it was discovered that the previous year's purchase order was erroneously coded by ABS to a regular budget line as opposed to the proper use of capital expense account.

  The actual variance between budgeted and actual expense for property, furniture and equipment is under $10,000.00 for FY 2015 once it is corrected for the building funding error.

[1] This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited. See summary of management's explanation of variances below chart.

Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duties it is to collect, disburse, or manage funds of the state.

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2010 through June 30, 2015. Detailed audit procedures focused on the period of July 1, 2013 through June 30, 2015, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Department of Consumer Credit operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenue, expenditures (both miscellaneous and payroll), and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that revenues and payroll expenditures were accurately reported in the accounting records. However, internal controls do not provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Inventory Counts not Conducted

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)*[2] states that, "Management must establish physical control to secure and safeguard vulnerable assets. . . . Management periodically counts and compares such assets to control records." Furthermore, the *Standards* state that management should design "an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets."

The agency does not perform an annual inventory count. While they do maintain an inventory listing required for state reporting, without a regular count this listing may be inaccurate or incomplete.

The lack of an inventory provides the opportunity for the inventory to be misstated or misappropriated without detection.

It appears management did not have a plan in place to perform annual physical inventory.

Recommendation

We recommend management ensure that a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets.

Views of Responsible Officials

Although the Department maintains an inventory listing for assets as required by OMES, we certainly agree that a comprehensive annual inventory listing and count of all assets, not just IT assets, should be implemented. Such a count shall be assigned to someone independent of the purchasing process to ensure integrity of the process and results.

[2] Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Inadequate Segregation of Duties over Expenditures

The GAO *Standards* state in part, "Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud . . . . No one individual should control all key aspects of a transaction."

Based on our review and testing of their procedures, we determined the agency has designed and implemented controls that include management approval of all expenditure prior to payment. However, we noted the controls were not operating effectively for two of 60 randomly selected expenditure claims. The two expenditure claims noted did not include a signature that would indicate an approval for payment.

When current designed processes are not followed, management's approval of purchases could be circumvented and fictitious payments could be processed and concealed. Management's failure to independently obtain and review expenditure data, and document the process, creates a risk that management could rely on information that has been manipulated to conceal fictitious payments. Also, lack of maintaining reliable, accurate and adequate supporting documents could result in errors or irregularities in the agency's financial records.

Recommendation

We recommend management follow current designed procedures of properly segregate duties to ensure that no one individual can initiate purchases, create purchase orders, and receive items that have been ordered without proper approval. Additionally, management independent of the expenditure process should perform a detailed review of all expenditures and retain evidence that expenditure review was performed.

Views of Responsible Officials

In addition to controls already in place, the Department agrees with the recommendation that the Administrator should sign off on a monthly expenditure report. This report should then be filed with monthly financial paperwork to document the final approval process.

OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV