



DEPARTMENT OF CONSUMER CREDIT

Operational Audit

For the Period of July 1, 2015 through June 30, 2021

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Department of Consumer Credit**

**For the Period
July 1, 2015 through June 30, 2021**



Cindy Byrd, CPA | State Auditor & Inspector

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September 17, 2021

TO THE DEPARTMENT OF CONSUMER CREDIT

We present the audit report of the Department of Consumer Credit for the period July 1, 2015 through June 30, 2021. 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,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



Background

The Department of Consumer Credit (the Department or Agency) 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, 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), which consists of nine members appointed by the Governor with the consent of the Senate. The tenth commissioner is the Oklahoma Banking Commissioner, who is an ex officio member of the commission.

Commission members as of September 2021 are:

Bob Moses	Chairman
Joe Wilbanks	Vice-Chairman
Armando Rosell	Commissioner
Jerry Douglas	Commissioner
Blake Hollingsworth.....	Commissioner
Rick Harper.....	Commissioner
Chris Johnson	Commissioner
Alfredo Madrid	Commissioner
Barry Anderson.....	Commissioner
Mick Thompson	Commissioner

**Department of Consumer Credit
Operational Audit**

The following table summarizes the department's sources and uses of funds for fiscal years 2020 and 2021 (July 1, 2019 through June 30, 2021).

Sources and Uses of Funds for FY 2020 and FY 2021

	2020	2021
Sources:		
Licenses, Permits, Fees	\$ 6,002,538	\$ 7,184,071
Grants Refunds & Transfers	85,976	22,645
Total Sources	\$ 6,088,514	\$ 7,206,716
Uses:		
Personnel Services	\$ 4,410,668	\$ 4,391,693
Administrative Expenses	307,605	217,006
Professional Services	181,732	202,630
Travel	191,073	16,900
Furniture, Library, Tuition	8,284	16,100
Total Uses	\$ 5,099,362	\$ 4,844,329

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

**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 duty 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, 2015 through June 30, 2021. To assess risk and develop our audit objective, we held discussions with management, distributed surveys to the Department’s personnel, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue and expenditure data from the Statewide Accounting System and assessing the trends for any notable risks
- Reviewing the Department’s HR All Actions report from the Statewide Accounting System to assess changes that had a financial impact during the audit period
- Reviewing inventory listings, discussing the inventory count process with staff, and reviewing evidence of inventory counts
- Reviewing transfers to the State’s general fund to ensure they were substantially in line with 14A O.S. § 6-303.

Two objectives were developed as a result of the procedures performed, as discussed in the next section. No other significant risks or findings were identified.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are

¹ *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

OBJECTIVE I Determine whether the Agency's non-payroll expenditures were independently reviewed and approved in line with GAO *Standards for Internal Control*.

Conclusion The Department's non-payroll expenditures are not independently reviewed and approved in line with GAO *Standards for Internal Control*.

Objective Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the expenditure processes through discussion with management and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

Independent, Documented Review of Non-Payroll Expenditures Needed The Administrator approves the Department's invoices, and the Chief of Staff sends the invoices to the Office of Management and Enterprise Services, Agency Business Services (ABS) for payment. While the Deputy Director reviews the expenditure reports provided by ABS, the review is focused on travel expenses related to inspections and is not formally documented.

Repeat Finding While the Department has made steps to correct the previous audit finding and no evidence of inappropriate expenditures came to our attention, a reliable, documented review of expenditures is key to guarding against inappropriate expenditures. The Chief of Staff or ABS could initiate an unauthorized expenditure, or make an error, without detection.

According to GAO *Standards for Internal Control*:

- Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
- If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.
- Management should take adequate and timely actions to correct deficiencies reported by the external auditors.

Recommendation

Given that the Administrator is independent of processing expenditures and most familiar with the Department’s approved payments, we recommend he perform a line-item detailed review of expenditures after payment. This could be performed on a regular or random basis, and documentation of this review should be retained.

Views of Responsible Officials

We appreciate the acknowledgement that we have made improvements on this objective since the last audit. Our goal is continuous improvement, and therefore the Administrator will conduct a monthly line-item review of all expenditures after payments are posted. Administrator will sign and date the line-item report. A log will be kept documenting the monthly review.

OBJECTIVE II Determine whether effective internal control activities are in place to ensure all funds received by the Agency are deposited, in line with GAO Standards for Internal Control.

Conclusion Effective internal control activities are not in place to ensure all funds received by the department are deposited, in line with GAO *Standards for Internal Control*.

Objective Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the revenue processes through discussion with management and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

Formal Documentation of Deposits to Licensing Activity Reconciliation Should Be Retained Two office staff, who vary according to who is physically present in the office, open the mail and prepare the deposits. The Administrative Assistant makes entries in the Department’s licensing database, sends deposit data to ABS to post in the Statewide Accounting System, and reconciles deposit documentation to the licensing database. At the end of the month, the Chief of Staff reconciles the deposit documentation, including documents from the bank, to a report from the licensing database.

While the Chief of Staff’s review is independent and effective as designed, it is not formally documented. An independent review of

deposit records to licensing activity is key to ensuring any error by the Administrative Assistant or ABS is detected.

As noted in the previous finding, *GAO Standards for Internal Control* emphasize that management is responsible for designing control activities, and if segregation of duties is not possible in a process, alternative control activities should be designed to mitigate any resulting risk.

Recommendation

The Chief of Staff should formally document her monthly reconciliation of the deposit and licensing activity. Documentation of this review should be retained for audit purposes.

Views of Responsible Officials

Chief of Staff will formally document the review of the monthly deposit reconciliation. A log will be kept for documentation purposes.

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