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Four Steps to Internal Audits for Collection Agencies & Debt Buyers

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Introduction

Compliance with state, federal, and internal regulations is of the utmost importance, and not just for your agency's operational well-being. Your clients are expecting you to conduct various audits of your processes and procedures.

An internal audit program is the firewall between your agency's operations and potential non-compliant actions. But what exactly is an internal audit? According to the Institute of Internal Auditors:

[Internal auditing](#) is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In everyday practical terms, this means that an internal audit is a process for reviewing what a company is doing in order to identify present and potential risks. Such an audit is also a good way to make recommendations for mitigating those risks and minimizing expenses that may result from those risks.

This whitepaper lays out some of the key steps for developing an internal audit process, specifically for collection agencies and for debt buyers.

Step 1: Establish an internal audit foundation

Research and understand applicable regulatory requirements, as well as guidance and company processes. Suggested sources for understanding how to perform risk assessments, and defining the nature, timing and extent of audit procedures, include:

- [Committee of Sponsoring Organizations of the Treadway Commission](#) (COSO) – 1985 Internal Control Framework
- [Sarbanes Oxley Act](#) (SOX) – 2002
- [Dodd-Frank Act](#) – 2010
 - [Consumer Financial Protection Bureau](#) (CFPB)
 - CFPB Examination Procedures – Debt Collection
 - CFPB Bulletin 2012-03: Service Providers
 - Affected various other existing regulatory bodies that have an impact on the debt collection industry
 - [Office of the Comptroller of the Currency](#) (OCC) Bulletin 2013-29: Third-Party Relationships

The CFPB regularly publishes updates that can be an integral part of your auditing process. Sites like [ACA International](#) and [insideARM.com](#) are also valuable resources for information regarding laws and regulations.

Suggested sources to better understand what's required in an audit include:

- Fair Debt Collections Practices Act (FDCPA)
- Fair Credit Reporting Act (FCRA)
- Regulation E
- Unfair, Deceptive or Abusive Acts & Practices (UDAAP)
- Health Insurance Portability & Accountability Act (HIPAA)
- Gramm-Leach-Bliley Act (GLBA)

Audit staff should additionally audit for compliance with client contract and service requirements, and with your own internal work standards. When conducting internal audits, it's important to define roles and responsibilities with senior management. You'll want to ensure that there's a clear reporting structure and ongoing communication. Lack of clarity around deliverables will make your auditing process not only inefficient, but could encourage lapses.

Step 2: Plan and scope

For any type of audit, you must first determine the scope of what you will review and set up an audit plan. You might decide to review your business for one specific item of concern, or to fully review at an account level much the same way a regulator would review a business.

Collection Agency

1. Determine the scope for each internal audit. Perhaps review one specific area of concern, or extend the scope to an account level much the same way a regulator would.
2. Create a document to memorialize your review. Such a document can be as formal or informal as needed for your purposes. For instance, the document could be a full template to be marked according to each account in each category, or it could be more informal and in narrative form.
3. Determine and gather the documents you will need for your review. For example, system reports of call times, batch tracking reports, collector activity reports, and so on.

Debt Buyer

1. Focus on collection vendor management and areas to review.
2. Conduct regular risk assessments to identify weaknesses that could lead to compliance issues later on, including:
 - a. Data security risk assessment – to determine the likelihood and impact of a data breach occurring.
 - b. Collection vendor risk assessment – financials, complaints received, BBB rating, prior score, inventory placed with vendor.
3. Create and publish an annual audit calendar.

Step 3: Conduct an audit

Collection Agency

1. Create workflows for the items you audit.
2. If you do not currently have a procedure for the task being reviewed, this can become a building block in your overall Compliance Management System CMS.
3. When done properly, operational audits can:
 - a. Help increase productivity,
 - b. Help cut down on unnecessary expenses,
 - c. Allow you to identify and quantify “best practices” for your organization.
4. Announce your audit. Unless there is a specific reason for confidentiality, an audit should be an open book process. If those persons (and their particular workflow tasks) being reviewed understand the “what and why” of your efforts, you will get greater cooperation and more complete information.

Debt Buyer

Vendor/agency audits examine adherence with company and regulatory requirements, which can include compliance, data security, operational, and financial review procedures. The goal is to identify current and potential risks, and to ensure that proper controls are in place to manage and mitigate those risks.

1. Establish tools for the ongoing monitoring of changes in requirements. This should be part of your roles and responsibilities conversations.
2. Decide what KPIs you'll track, and how to track them.
3. Consider different areas for review, including:
 - Organization information,
 - Account workflow,
 - Financial information,
 - Training,
 - Data security,
 - Compliance with applicable laws,
 - Complaint/dispute handling and resolution, and
 - Vendor management.
4. Make sure to use a standard questionnaire.

Step 4: Audit reporting and follow-up

For long-term tracking and analysis of data, a more formal outline will be your better choice. These documents can be housed in most data logging and tracking systems. Once you set the scope of your audit, you will want to create a document that is automatically populated with information for each element you want to review.

Collection Agency

1. Work closely with your IT teams to research and implement a data logging system. These systems are set up specifically to maintain this type of data. There are a number of free (or add on) systems you can use, or you might choose to purchase a more comprehensive system that will allow you to track audits, collector disciplinary action, and monetary compensation along with profitability per head. This is very much an individual agency choice.
2. Publish your preliminary results to all involved parties for feedback and understanding and remediation plans.
3. Review preliminary feedback and produce your initial audit report. Provide your initial audit report to local counsel, compliance or agency owner for review.
4. Publish your final audit report with remediation timelines and log results into your systems.
5. Schedule review and follow up of any remediation items.

Debt Buyer

1. Policy implementation and training are integral for success. While the audit team can't be composed of your entire organization, key findings from the audit team should be shared with the wider organization.
2. Make sure your audit team meets regularly to discuss progress, issues, successes, and critical points that need attention.

Summary

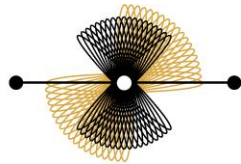
In summary, the specific scope of your audit will determine how much crossover there is between different audit types — compliance, operational, client-specific or vendor audits. These internal audits are extremely valuable as they identify shortfalls and allow for remediation. Remember that proactive audit and analysis reporting to your Board of Directors is a CFPB requirement, so always involve senior leadership, owners or counsel prior to publication of final audit results.



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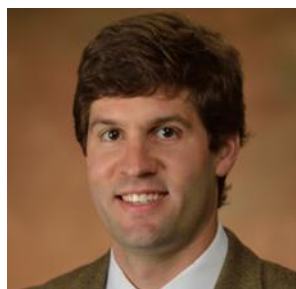


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Contributors



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Prior to joining Security Holdings, Brett served in the internal audit department of a global consumer and commercial services company, and in the audit and enterprise risk services department of one of the world's largest professional services firms. Brett is a Certified Public Accountant and Certified Fraud Examiner. He currently serves on the DBA Certification Council and is the Chair for the Council's Standards Committee.



Terri Haley is the Director of Compliance at the Compliance Professionals Forum and past Vice President of Global Contractual Compliance for iQor, where she helped develop a new division responsible for both the internal and external review of client contractual requirements and service expectations.

Prior to that, Terri was Director of Compliance at United Collection Bureau, Inc., and at RMA Inc. Most recently, she has joined the team at InsideARM.com in the role of Director of Compliance.



Bobbi Chester is Vertical Marketing Manager at Interactive Intelligence supporting the Interaction Collector solutions set and the Financial Services and Collections industries. She has nearly 18 years' experience with contact center technologies, beginning in 1997 at MCI (later Verizon Business) as part of a specialized services team selling complex call routing and treatment solutions to Fortune 1000 and global clients.

Just prior to joining Interactive Intelligence Bobbi was Director of Marketing for a contact center outsourcing company headquartered near Chicago.