

OFFICE OF FINANCIAL INSTITUTIONS
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED APRIL 19, 2021

**LOUISIANA LEGISLATIVE AUDITOR
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BATON ROUGE, LOUISIANA 70804-9397**

TEMPORARY LEGISLATIVE AUDITOR
THOMAS H. COLE, CPA, CGMA

DIRECTOR OF FINANCIAL AUDIT
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor



Office of Financial Institutions
Executive Department

April 2021

Audit Control # 80200034

Introduction

The primary purpose of our procedures at the Office of Financial Institutions (OFI) was to evaluate certain controls OFI uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. In addition, we determined whether management has taken action to correct the findings reported in the prior report.

Results of Our Procedures

We evaluated OFI's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of OFI's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to revenue collections, examinations of residential mortgage lenders and check cashers, payroll expenditures, state travel card expenditures, and cash.

Follow-up on Prior-report Findings

We reviewed the status of the prior-report findings in OFI's procedural report dated August 15, 2018. We determined that management has resolved the prior-report finding related to Noncompliance with Unclaimed Property Regulations. The prior-report findings related to Examinations of Regulated Entities Not Performed and Inadequate Controls over Payroll Function have not been resolved and are addressed again in this report.

Current-report Findings

Examinations of Residential Mortgage Lenders Not Performed

OFI did not examine the records of 176 (29%) of 608 residential mortgage lenders (RML), as of December 31, 2019, at least once every three years as required by state law. Failure to perform examinations of RMLs in accordance with state law increases the risk of undetected deficiencies and noncompliance with state laws and regulations. This is the third consecutive engagement that required examinations of RMLs were not performed.

Management stated the required examinations were not completed because of staffing issues. Additional staff were needed to complete the examinations. Of the 176 past-due examinations, management stated that 15 were completed and 35 were in progress as of September 30, 2020.

Management should address staffing issues to ensure RML examinations are performed at least once every three years as required by state law. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Controls over Payroll Function

For the third consecutive engagement, OFI did not maintain adequate controls over payroll records, increasing the risk that errors and/or fraud may be committed and not detected in a timely manner.

In a test of 22 timesheets and related payroll records for the period July 1, 2018 through December 31, 2019, we noted the following:

- Two (33%) of six employees' compensatory time entries were entered into the payroll system 117 business days after the pay period in which the compensatory leave was earned.
- Five (23%) timesheets were approved by the supervisor one to six business days after disbursing payroll.
- Two (9%) timesheets were not dated by the supervisor to determine if approved prior to disbursing payroll.

A review of a system report for the period of July 1, 2018, through December 31, 2019, disclosed 1,068 (40%) of 2,669 hours of compensatory time were entered into the payroll system between 31 and 396 business days after earning the compensatory leave.

Good internal control requires that supervisory approvals are obtained prior to disbursing payroll and compensatory leave earned is credited to the employees balance in a timely manner. These errors occurred because management had not adopted electronic timesheets for its employees during the period covered by this engagement, and OFI's written time and attendance procedures did not clearly outline the timing of the approval process or processing of compensatory time. In addition, management stated the primary reason for the untimely entry of compensatory leave earned was due to having insufficient Administrative Services staff to process compensatory time that was not submitted by employees to timekeepers within the pay period that the compensatory leave was earned.

Management should implement controls to ensure that supervisory approvals are obtained prior to disbursing payroll, and compensatory leave earned is credited to employee leave records in a timely manner. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 3-4).

Revenue Collections

OFI's revenue collections consist mainly of application, licensing, registration, assessment, and examination fees charged to regulated entities within OFI's three divisions: Depository, Non-Depository, and Securities. We obtained an understanding of OFI's controls over these revenue collections and selected transactions from the period July 1, 2018, through December 31, 2019, for testing. Based on the results of our procedures, OFI had adequate controls in place to ensure that fees were appropriately assessed in accordance with state law and revenue collections were timely deposited and properly recorded.

Examinations of Residential Mortgage Lenders and Check Cashers

OFI's responsibility for regulating the non-depository entities, residential mortgage lenders and check cashers, includes performing examinations in accordance with schedules established by OFI or by law, then determining the appropriate enforcement actions authorized by the Commissioner and law. We reviewed applicable laws and OFI's policies to obtain an understanding of the examination procedures, schedules, and enforcement actions, including assessment of penalties. We reviewed examination reports to determine that exams were completed in accordance with schedules set by state law and policy. Based on the results of these procedures, OFI did not examine the records of residential mortgage lenders at least once every three years as required by state law (see Current-report Findings).

Payroll Expenditures

Salaries and related benefits comprise approximately 81.1% of OFI's expenditures. We obtained an understanding of OFI's controls over payroll processing. We agreed OFI's payroll registers for the period July 1, 2018, through December 31, 2019, to the general ledger and reviewed selected employee timesheets, overtime reports, and leave records. Based on the results of our procedures, we determined that OFI did not maintain adequate controls over payroll records (see Current-report Findings).

State Travel Card Expenditures

OFI participates in the state of Louisiana's travel card program for higher cost travel expenditures. We obtained an understanding of OFI's controls over access to and use of these cards/accounts. We agreed OFI's bank statements for the period July 1, 2018, through December 31, 2019, to the general ledger and reviewed selected travel logs, invoices, and transactions from this period. Based on the results of our procedures, OFI had adequate controls in place to ensure that travel purchases were approved and made for proper business purposes; sufficient documentation was maintained to support purchases; and purchases were properly reconciled to invoices and receipts.

Cash

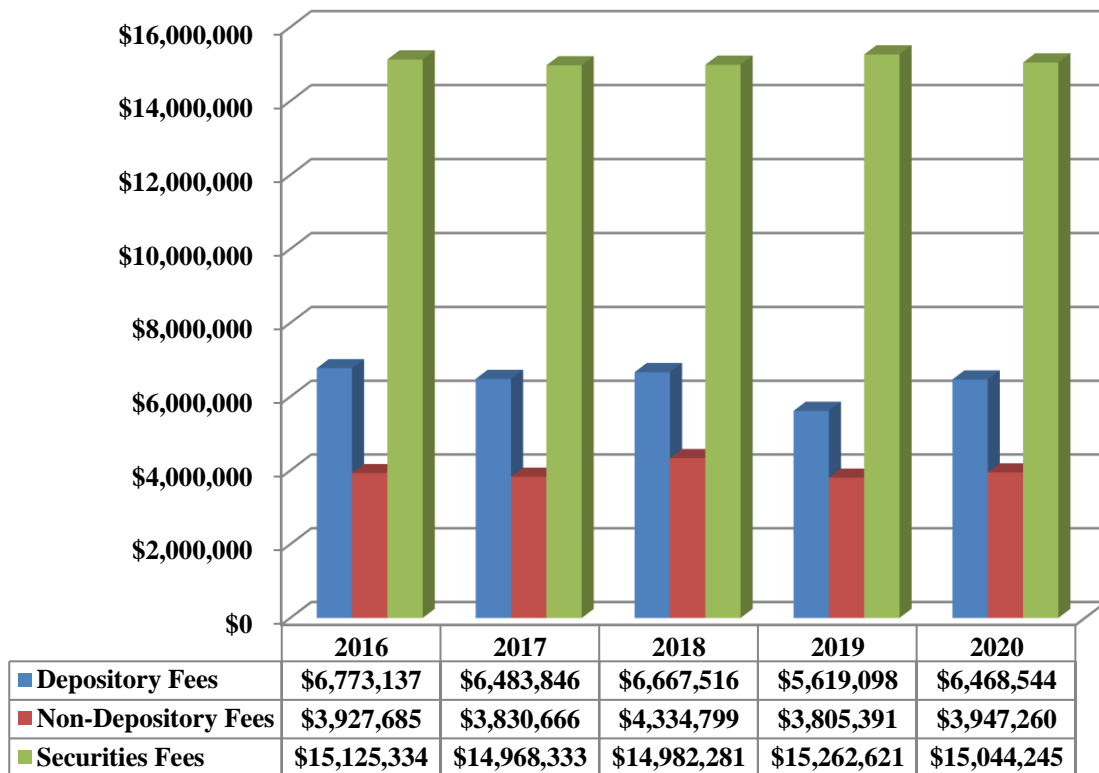
OFI is authorized to maintain a separate imprest fund bank account. We obtained an understanding of OFI's controls over reconciling the bank account. We reviewed the December 2019 bank reconciliations and the submission of unclaimed property. Based on the results of our procedures, we determined that OFI had adequate controls over bank reconciliations and submission of unclaimed property.

Trend Analysis

We compared the most current and prior-year financial activity using OFI's Annual Fiscal Reports and/or system-generated reports and obtained explanations from OFI's management for any significant variances. We also prepared an analysis of OFI's revenue.

As shown in Exhibit 1, OFI's revenue has remained fairly stable since fiscal year 2016 as the result of fairly consistent fees and regulated entities. The revenue for fiscal year 2020 totaled approximately \$25 million as of June 30, 2020, with 59% of the revenue provided by the Securities Section, the division with the largest number of regulated entities.

Exhibit 1
Five-Year Revenue Trend, by Fiscal Year



Source: Business Objects Financial Reports and Annual Fiscal Reports

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Thomas H. Cole

Thomas H. Cole, CPA, CGMA
Temporary Legislative Auditor

KDN:CLL:BQD:EFS:aa

OFI 2020

APPENDIX A: MANAGEMENT'S RESPONSES



STATE OF LOUISIANA
OFFICE OF FINANCIAL INSTITUTIONS
BATON ROUGE, LOUISIANA



April 13, 2021

Thomas H. Cole, CPA
Temporary Legislative Auditor
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Response to Audit Finding
Examinations of Residential Mortgage Lenders Not Performed

Dear Mr. Cole:

The Office of Financial Institutions (OFI) concurs with the above-reference audit finding.

Standardized testing and education requirements across states for Mortgage Loan Originators (MLOs), which began in 2012, has led to a significant increase in the number of Residential Mortgage Lender (RML) licensees regulated by OFI. The number of MLOs licensed by OFI at June 30, 2012, was 3,106 as compared to 9,435 at June 30, 2020 (204 % increase). Over that same time-period, OFI had a 47% increase in Licensed Residential Mortgage Lenders, Brokers, and Servicers. These increases are similar to those experienced by other state regulators and have directly affected the ability of many states to meet examination schedules. Even though examination schedules can become protracted, OFI does examine all RML entities on a periodic basis over time.

Effective July 1, 2019, OFI implemented a new three-year examination schedule for RML. This risk based scheduling program considers previous examination findings, severity of complaints, and volume of Louisiana lending activity to determine prioritization of examinations with a maximum length of time of three years between examinations. In conjunction with this new examination schedule, OFI implemented new streamlined examination procedures for those RML licensees that have an annual loan volume of \$1,000,000 or less. These licensees engage in limited lending activity, are lower risk entities, and as of December 31, 2020, comprised 49% (333 of 675) of mortgage entities licensed by OFI. Of the 333 entities, 70% (232) reported no lending activity. The average number of loans and the average loan amount for the remaining 30% (101) of the entities was 5 and \$163,339, respectively.

Over the last two years, five additional corporate examiners were hired to conduct mortgage examinations, increasing the total number of mortgage examiners to nine. These nine examiners are at various stages of training. In April 2020, every district depository/non-depository examiner, for a total of thirty-eight examiners, was mandated to register for a virtual 100-hour

Mortgage training course so that district depository/non-depository examiners can assist with conducting mortgage examinations for the larger, more complex mortgage entities. District depository/non-depository examiners will staff those mortgage examinations upon completion of other depository/non-depository examinations. In-house Mortgage Loan Review training was conducted on July 22, 2020, by an OFI senior mortgage examiner. Forty-two compliance examiners (corporate and depository/non-depository) attended this training. OFI will hire additional examiners during calendar year 2021 and provide additional mortgage training to examination staff as needed.

The new streamlined examination procedures for lower risk entities, the new risk based examination schedule, and hiring additional corporate examiners to conduct mortgage examinations has allowed OFI to conduct more examinations during fiscal year 2019/2020 compared to previous fiscal years. OFI plans to further increase examination productivity by hiring additional examiners, utilizing excess examiner capacity within district depository/non-depository examination staff, developing additional risk focused examination procedures, and focusing on examiner training.

Sincerely,

A handwritten signature in blue ink that reads "Stanley M. Dameron". The signature is fluid and cursive, with a long horizontal line extending to the right.

Stanley M. Dameron, Commissioner
Office of Financial Institutions



STATE OF LOUISIANA
OFFICE OF FINANCIAL INSTITUTIONS
BATON ROUGE, LOUISIANA



January 14, 2021

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Response to Audit Finding
Inadequate Controls over Payroll Function

Dear Mr. Purpera:

The Office of Financial Institutions (OFI) concurs with the above-referenced audit finding.

OFI had a paper timekeeping system in place until August 9, 2020. On August 10, 2020, OFI implemented the electronic timekeeping component of the statewide payroll system. Through this new system component, employees electronically request supervisory approval for leave taken and compensatory time earned prior to taking leave and working compensatory time. Upon supervisory approval of those requests, leave and compensatory time is electronically posted to the system. After the end of the pay period, employees and supervisors are required to electronically certify their hours worked and leave taken prior to established deadlines programmed into the system. Supervisors are required to reject timesheets of employees when they are not accurate and to work with employees to correct inaccurate timesheets and ensure that they are certified prior to system deadlines. The Human Resource staff monitors system reports to ensure that all time is entered correctly and that all certification is performed timely within system deadlines prior to the pay date.

In addition, on Monday of payroll week, Human Resources runs various system reports to detect input errors or other errors that may occur when payroll processes on Monday evening. Those reports are the *Payroll Locks Report*, the *Payroll Simulation Error Report*, the *Off-Cycle Report*, the *Employee Variance Report*, the *Mismatch Report*, and the *Errors in AFS Closures Report*. Tuesday morning after payroll has been processed in the system, but prior to payroll checks being issued on Friday, Human Resources runs additional system reports to detect errors and to ensure that paychecks will be issued for correct amounts. Those reports are the *Payroll Locks Report*, the *Payroll Simulation Report*, the *Payroll Gross/Net Wages Comparison Report*, the *Employee Benefits/FMLA Arrears Report*, the *Deductions Not Taken Report*, the *Mismatch Report*, and *Remuneration Statements for each employee*. Human Resources has always run and reviewed these Monday and Tuesday payroll reports after time was manually entered into the payroll system by timekeepers and continues to run these reports since implementation of electronic timekeeping. Human Resources' review of payroll reports throughout the payroll

process in addition to supervisory review of timesheets has always provided OFI with several layers of control to prevent errors and/or fraud. Because of these processes, payroll errors occur very infrequently and if a payroll error does occur, it is even more infrequent that the error is not caught and corrected timely.

The majority of the outstanding compensatory time requests that were not entered timely resulted from employee travel for examinations and training that were submitted untimely and/or inaccurately. These untimely and/or inaccurate compensatory time requests required Human Resources staff to work with OFI employees to ensure that those requests were correct and appropriately documented prior to entry into the system. Because travel for state employees was suspended in March 2020 due to COVID-19, submission of these problematic compensatory time requests ceased shortly after March 2020. In addition, with the implementation of electronic timekeeping in August 2020, all compensatory time is now required to be requested by the employee and approved by the supervisor in the system during the pay period which the compensatory time is earned. At the end of the pay period, both the employee and the supervisor are required to electronically certify the accuracy of time and attendance prior to system deadlines.

With the implementation of electronic timekeeping, the issues addressed in the above-referenced audit finding have been fully resolved.

Sincerely,



Christine Kirkland, CPA, CIA
Acting Commissioner
Office of Financial Institutions

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Financial Institutions (OFI) for the period from July 1, 2018, through June 30, 2020. Our objective was to evaluate certain controls OFI uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. The scope of our procedures, which is summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review OFI's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. OFI's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated OFI's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to OFI.
- Based on the documentation of OFI's controls and our understanding of related laws and regulations, and results of our analytical procedures, we performed procedures on selected controls and transactions relating to revenue collections, examinations of residential mortgage lenders and check cashers, payroll expenditures, state travel card expenditures and cash.
- We compared the most current and prior-year financial activity using OFI's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from OFI's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at OFI and not to provide an opinion on the effectiveness of OFI's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.