

OFFICE OF FINANCIAL INSTITUTIONS
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED SEPTEMBER 7, 2022

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA



Office of Financial Institutions
Executive Department

September 2022

Audit Control # 80220044

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 examinations of residential mortgage lenders and payroll expenditures.

Follow-up on Prior-report Findings

We reviewed the status of the prior-report findings in OFI’s procedural report dated April 19, 2021. We determined that management has resolved the prior-report finding related to Inadequate Controls over Payroll Function. The prior-report finding related to Examinations of Residential Mortgage Lenders Not Performed is addressed again in this report.

Current-report Finding

Examinations of Residential Mortgage Lenders Not Performed

OFI did not examine the records of 153 (19%) of 791 residential mortgage lenders (RML) at least once every three years, as required by state law, per management’s analysis on May 26, 2022. 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 fourth consecutive engagement that required examinations of RMLs were not performed.

Management stated the required examinations were not completed because of staffing issues within OFI and regulated entities related to the coronavirus pandemic and staff turnover. Additional staff were needed to complete the examinations. Of the 153 past-due examinations, management stated that six were completed and 16 were in progress as of June 30, 2022.

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).

Examinations of Residential Mortgage Lenders

OFI's responsibility for regulating the residential mortgage lenders, includes performing examinations in accordance with schedules established by OFI or by state law, then determining the appropriate enforcement actions authorized by the Commissioner and state 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 Finding).

Payroll Expenditures

Salaries and related benefits comprised approximately 83.5% of OFI's expenditures in fiscal year 2021. We obtained an understanding of OFI's controls over the time and attendance function and reviewed selected employee time statements, overtime reports, leave records, and pay rate authorizations during the period July 1, 2020, through December 31, 2021. Based on the results of our procedures, OFI had adequate controls in place to ensure timely review and approval of employee time statements including overtime and leave requests, employees were paid the amounts authorized; and employees compensatory time was timely entered into the payroll system.

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.

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Waguespack", with a long horizontal flourish extending to the right.

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

KDN:CLL:BQD:EFS:aa

OFI 2022

APPENDIX A: MANAGEMENT'S RESPONSE



STATE OF LOUISIANA
OFFICE OF FINANCIAL INSTITUTIONS
BATON ROUGE, LOUISIANA



August 25, 2021

Michael J. "Mike" Waguespack, CPA
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. Waguespack:

The Office of Financial Institutions (OFI) concurs with the above-referenced 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 as of June 30, 2012 was 3,106 as compared to 14,469 as of June 30, 2022 (366% increase). Over that same time-period, Licensed Residential Mortgage Lenders, Brokers, and Servicers increased from 429 to 873 (103%). 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. OFI has implemented corrective actions, as discussed below, over the past several years.

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, 2021, comprised 52% (418 of 810) of mortgage entities that reported lending activity to OFI. Of the 418 entities, 70% (293) reported no lending activity. The average number of loans and the average loan amount for the remaining 30% (125) of the entities was 4 and \$429,015, respectively.

In April 2020, every depository/non-depository field examiner, for a total of thirty-eight (38) examiners, was instructed to register for a virtual 100-hour Mortgage training course so that depository/non-depository field examiners could assist with conducting RML examinations for larger, more complex RML entities. In addition, an OFI senior mortgage examiner conducted in-

house Mortgage Loan Review training, which was attended by forty-two (42) examiners. Even though the majority of the depository/non-depository field examination staff have had some mortgage training, these examiners have been unable to participate on RML examinations because of depository examination priorities throughout the COVID pandemic.

OFI is currently developing procedures for accepting RML examinations from other state regulators through the Conference of State Bank Supervisors' (CSBS) State Examination System. These examinations will be for RML entities that operate across multiple states and that have implemented common controls and procedures for their lending activities across all locations. Accepting examinations from other state regulators will allow OFI to more efficiently conduct examinations of these larger RML entities, which should result in reduced examination hours and better utilization of examination staff. These new procedures are currently in the testing phase and will be modified as needed based on testing and are scheduled to be fully implemented by December 31, 2022.

During the five year period from July 1, 2017 to June 30, 2022, thirty-seven (37) examiners separated from service across all divisions within OFI and thirty-one (31) examiners were hired. Of those thirty-one (31) hires, sixteen (16) or fifty-two percent (52%) were still employed as of June 30, 2022. Additionally, of those thirty-one (31) hires, eight (8) were mortgage examiners and five (5) or sixty-three percent (63%) were still employed as of June 30, 2022. Therefore, over this five year period, OFI's turnover rate for all examiners was forty-eight percent (48%) and for mortgage examiners was thirty-seven percent (37%). Over this same five year period, OFI had 111 authorized positions of which seventy-nine (79) were Examiner Series positions. Consequently, since thirty-seven (37) of the seventy-nine (79) Examiner Series positions separated from service, OFI lost forty-seven (47%) of its entire examination staff over this five year period.

Because it takes between three to five years to fully train an examiner depending on the type of examination performed, OFI has been in a continuous training mode for the last five years, which contributes to a decrease in examination productivity. Non-competitive examiner salaries is the primary cause for OFI's high turnover rate. The salaries of OFI's examiners have not kept pace with federal examiners that conduct joint examinations with OFI and with industries regulated by OFI. Due to the high quality training that OFI provides to its examination staff, once an examiner has a few years of experience, they become highly marketable and can earn higher salaries outside of OFI. To attempt to increase examiner salaries, OFI has gone to Louisiana State Civil Service twice within the last six years to request pay increases. Civil Service granted pay increases for all Examiner Series positions ranging from 1.37% to 10%, depending on the level of the position, effective June 26, 2017. Despite these pay increases, turnover continued; therefore, OFI once again went to Civil Service in March 2022. This time, Civil Service granted pay increase ranging from 1% to 7%, depending of the level of the position, but only for Examiners 1 through 4, not the entire Examiner Series. Examiners 1 through 4 were also granted premium pay ranging from \$1.50 to \$2.00 per hour. These pay adjustments were effective April 4, 2022. In both 2017 and 2022, Civil Service granted amounts significantly below what OFI felt was necessary to stop examiner turnover. Turnover continued after the 2017 pay increase and OFI believes that turnover will continue after the 2022 pay

increase because the salaries of OFI examiner are still considerably below that of other federal regulators and industries regulated by OFI and because of the current competitive job market.

OFI currently has approximately 20% to 25% of its examiner positions vacant and continues to attempt to hire examiners; however, because of the current competitive job market, OFI's applicant pools are considerably lower than in past years prior to the pandemic. OFI has a continuous job posting for examiners on the Civil Service website and has recently subscribed to ZipRecruiter in an effort to funnel additional applicants to the Civil Service website. OFI will participate in various university career fairs this fall and will continue its efforts to hire qualified applicants for examiner positions, including mortgage examiners.

In addition to the streamlined examination procedures for lower risk entities, the risk based examination schedule, and the new procedures for accepting examinations from other state regulators as discussed above, OFI will continue to look for ways to streamline the mortgage examination process. OFI will also continue to focus on training current mortgage examiners to efficiently perform mortgage examinations, to try to find ways to utilize other examination staff to assist with mortgage examinations, and to hire additional mortgage examiners. These efforts will continue until OFI can perform an examination of each licensed RML once every three years.

Sincerely,



Stan Dameron, 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, 2020, through June 30, 2022. 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 examinations of residential mortgage lenders and payroll expenditures.
- 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.