

# Audit Highlights



Highlights of Legislative Auditor report on the Division of Financial Institutions, issued on November 5, 2009. Report # LA10-04.

## Background

The Division of Financial Institutions was created in 1983. The purpose of the Division is to maintain a safe and sound financial institutions system that promotes a conducive business environment, protects consumers, and defends the public interest. This is accomplished through equitable licensing, examination, and enforcement of depository, lending, debt collection, and money transmission activities.

The Division's primary responsibilities include: (1) reviewing all applications for licensing, (2) issuing new and renewal licenses, (3) examining licensees on an annual basis, (4) processing written complaints, (5) conducting investigations of violations, and (6) testing and approving collection agency managers.

The Division's administrative office is located in Carson City, with another office in Las Vegas where the Commissioner is located. In fiscal year 2008, the Division had a total of 31 authorized positions. In November 2008, the Interim Finance Committee approved the Division's request for 10 additional examiner positions. The Division is self-funded and collected revenues of about \$3.9 million during 2008.

## Purpose of Audit

The purpose of this audit was to determine whether the Division performed timely examinations of non-depository institutions, and whether financial and administrative practices were carried out in accordance with applicable state laws, regulations, policies, and procedures. This audit focused on the Division's regulatory, financial, and administrative activities for calendar year 2008.

## Audit Recommendations

This audit report contains 12 recommendations to improve the Division's regulatory, financial, and administrative activities. Two recommendations include improving controls to help ensure non-depository licensee examinations are performed timely. We also made 10 recommendations to improve controls over revenues, travel expenditures, equipment inventory records, and personnel requirements.

The Division accepted the 12 audit recommendations.

## Status of Recommendations

The Division's 60-day plan for corrective action is due on February 5, 2010. In addition, the six-month report on the status of audit recommendations is due on August 5, 2010.

## Division of Financial Institutions

### Department of Business and Industry

## Results in Brief

The Division did not always perform timely examinations of non-depository licensees. Non-depository licensees include collection agencies and companies that provide services such as check cashing, high-interest and title loans. These licensees often deal with individuals with a financial hardship. Therefore, examinations are important to ensure consumers are protected against unethical business practices, and violations are promptly detected and corrected. During our audit, the Interim Finance Committee approved the Division's request for additional staff to help ensure examinations are performed when required.

The Division can improve controls over its financial and administrative activities, including revenues, travel expenditures, equipment inventory records, and personnel requirements. For example, controls were not in place to ensure revenues were adequately safeguarded and staff deposited payments timely. In addition, travel costs were higher than necessary, and travel reimbursements were not always accurate. Furthermore, staff did not maintain accurate property and equipment inventory records. Finally, the Division did not always comply with state personnel requirements. During our audit, management took action to start addressing control weaknesses as they were identified.

## Principal Findings

Required examinations were not always performed timely. Of 50 non-depository licensees tested, 24 (48%) did not receive a timely examination during 2008. In addition, the Division did not consistently use a risk-based approach for scheduling examinations to ensure higher-risk licensees were examined before lower-risk licensees. When examinations are not performed timely, consumers are not adequately protected against unethical business practices, and compliance violations may not be detected and corrected in a timely manner.

The Division did not follow its records retention schedule for maintaining licensee files for 6 years. Instead, examination working papers, including correspondence with the licensee, were retained for about 1 to 2 years, until the licensee's next examination was completed. Licensee files are official state records and should be retained to support work performed and any future actions needed.

Better controls are needed over the Division's revenues. Control weaknesses included: (1) payments not adequately safeguarded, (2) payments not always deposited timely, (3) collections not compared to deposits, (4) payments returned to licensees without adequate approval, and (5) accounts receivable not reported when required. Controls are important because the Division collected and deposited about \$3.9 million during 2008. Without proper safeguards in place, there is an increased risk that theft or loss could occur and go undetected.

Division staff did not use the least expensive method of travel when conducting state business. Our review of employee travel claims revealed examiners traveling over 50 miles one-way use their personal vehicles instead of using a state motor pool vehicle and car pooling. For instance, three examiners traveled to Elko for one bank examination and drove separately costing a total of \$1,113 for 1 week. If a motor pool vehicle was used, we estimate the Division would have saved \$876.

The Division does not have adequate policies for claiming mileage when examiners travel from home to a licensee's place of business. Currently, the Division allows employees to claim all mileage when traveling from home to a licensee's business, even when the mileage driven is less than the employee's normal commute. For example, one monthly travel claim we tested included the reimbursement of \$280 for mileage less than the normal commute. This amount could be disallowed in the future depending on policies adopted by the Division.

Accurate property and equipment records were not maintained. Of 25 assets tested, we identified 9 discrepancies. Some equipment could not be located, certain disposed items were not removed from the agency's inventory report, and some equipment was on hand but not listed on the inventory report. Accurate property records are important to maintain accountability and enhance loss prevention. These problems occurred because the Division lacks written policies and procedures for controlling equipment.