Audit Report

Department of Labor, Licensing and Regulation
Office of the Commissioner of Financial Regulation

December 2007

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.

- Electronic copies of our audit reports can be viewed or downloaded from our website at http://www.ola.state.md.us.

- Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.

- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

December 17, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Labor, Licensing and Regulation – Office of the Commissioner of Financial Regulation (hereinafter referred to as OCFR) for the period beginning April 20, 2004 and ending May 6, 2007.

Our audit disclosed that OCFR had not established adequate internal control over its cash receipts. Additionally, OCFR's examinations of mortgage lenders were not being performed within the time frame required by State law. Finally, we noted that new licenses issued (such as for mortgage lenders and collection agencies) were not being reviewed by supervisory personnel to ensure that they were issued only to qualified applicants.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

* **Denotes item repeated in full or part from the preceding audit report**

Background Information

Agency Responsibilities

The Department of Labor, Licensing and Regulation – Office of the Commissioner of Financial Regulation (OCFR) is responsible for licensing, regulating, examining, and investigating mortgage lenders, mortgage originators, consumer loan companies, sales finance companies, installment loan lenders, credit service businesses, check cashers, debt collection agencies, money transmitters, and debt management service providers. OCFR also supervises state-chartered commercial banks, trust companies, savings banks, credit unions, and safe deposit companies. In addition, OCFR is responsible for oversight of entities responsible for retail credit accounts, retail installment contracts, and credit grantor contracts. According to the State's records, during fiscal year 2007, OCFR's operating expenditures totaled approximately $7.5 million.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the four findings contained in our preceding audit report on OCFR dated September 30, 2004. We determined that OCFR satisfactorily addressed two of these items. The remaining two items are repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1
Controls over cash receipts were not adequate.

Analysis
Our review disclosed that controls over OCFR's cash receipts were inadequate. These receipts consisted primarily of bank assessment fees, licensing fees, examination fees, and penalties, and were collected through various lockbox accounts, or at OCFR's office. According to OCFR's records, during fiscal year 2007, cash receipts collected at its office totaled approximately $1.9 million, of which approximately $1.4 million were forwarded by OCFR to the Department's Office of the Secretary for deposit. The remaining $500,000, representing examination and licensing fees, were subsequently mailed to the lockbox accounts for deposit. In this regard, although examination and licensing fees were to be mailed directly to the lockbox accounts, these fees were sometimes mailed to OCFR's office in error. Specifically, we noted the following conditions:

- Two employees with access to the initial recordation document (that is, the automated check log) also processed collections. Furthermore, the automated check log could be altered without detection by these employees.

- The employee responsible for maintaining the records of unpaid penalties also had access to the related penalty payments. In addition, the employee responsible for forwarding examination fees, received in error, to the lockbox account also verified the corresponding lockbox deposits and generated billings for unpaid examination fees.

- Verifications were not performed to ensure that licensing fees received by OCFR's office in error were properly forwarded to the appropriate lockbox for deposit.

- Independent verifications of refunds issued were not performed. Specifically, output reports of refunds issued were not generated and verified to supporting documentation by supervisory personnel.

As a result of these deficiencies, there was a lack of assurance that all collections received were ultimately deposited and that refunds issued were proper.

Recommendation 1
We recommend that employees who process collections not have access to the automated check log, and that employees who maintain records of unpaid penalty and examination fees be denied access to the related collections. In addition, we recommend that OCFR take steps to minimize the volume of examination and licensing fees received at its offices and, for fees received, we recommend that an employee independent of the cash receipts functions verify that all recorded fees were subsequently forwarded to the lockbox accounts for deposit. We also recommend that OCFR generate output reports of refunds issued and that supervisory personnel verify the propriety of refunds issued, at least on a test basis, to supporting documentation. We advised OCFR on accomplishing the necessary separation of duties using existing personnel.

Consumer Credit

Finding 2
Examinations of mortgage lenders were not being performed within the time frame required by State law.

Analysis
OCFR did not always conduct examinations of mortgage lenders within the time frame required by State law. Specifically, as of June 2007, examinations for 13 of 20 mortgage lenders tested were overdue for periods ranging from 2 to 25 months. OCFR is required to perform periodic examinations of such entities to ensure compliance with applicable laws and regulations and to ensure proper licensure.

State law requires that each mortgage lender be examined at least once every three years and that each new mortgage lender be examined within 18 months of initial licensure. According to OCFR's records, approximately 6,200 mortgage lenders were licensed as of June 30, 2007. A similar condition was commented upon in two preceding audit reports.

Recommendation 2
We again recommend that OCFR examine all mortgage lenders within the time frame required by State law.

License Processing

Finding 3
License issuances were not reviewed and approved by supervisory personnel to ensure they were issued only to qualified applicants.

Analysis
License issuances were not reviewed and approved by supervisory personnel to ensure that they were issued only to qualified applicants who provided all required information (for example, surety bonds and credit reports). Consequently, licenses could be issued to unqualified applicants without detection.

This situation was commented upon in our preceding audit report. In response to our preceding report, OCFR implemented procedures in July 2006 whereby licensing supervisory personnel randomly selected a sample of licenses issued and verified that the applicants had met all qualifications and had provided all required documentation. Although license issuances occur throughout the year, these supervisory reviews were only performed during July and August 2006. According to OCFR's records, approximately 19,300 licenses were issued as of June 2007.

Recommendation 3
We again recommend that OCFR require supervisory review and approval of new license issuances, at least on a test basis, to help ensure that licenses are issued only to qualified applicants.

Finding 4
OCFR had not established adequate procedures to ensure that businesses that did not renew their licenses had discontinued conducting business in Maryland.

Analysis
Adequate procedures had not been established to ensure that certain businesses (such as mortgage lenders and collection agencies) that did not renew their licenses were no longer doing business in Maryland. Such licenses were required to be renewed on a biennial basis. OCFR generates a listing each year of businesses that failed to renew their licenses, as required, and sends a letter to notify each business that its license was not renewed. Each business owner is requested to sign and notarize the letter, and return it to OCFR as evidence that

the business is no longer operating in Maryland. Although we were advised by OCFR management personnel that additional follow-up procedures (such as attempts to contact the business by phone) may take place with businesses that do not return these letters, any such follow-up procedures were generally not documented.

We tested five businesses that appeared on OCFR's 2005 listing of businesses that had not renewed their licenses and determined that, as of June 2007, two of the businesses were continuing to operate in Maryland without current licenses. OCFR did not have a signed and notarized letter on file from these two businesses and there was no evidence that it had attempted to contact them. State law requires that certain financial businesses obtain licenses in order to conduct business in Maryland.

Recommendation 4
We recommend that OCFR establish procedures to ensure that businesses that have not renewed their licenses have discontinued operating in Maryland. For example, OCFR could attempt to contact businesses by phone that do not return signed and notarized letters certifying they are no longer operating in Maryland. We also recommend that the follow-up efforts be documented.

Mortgage Lender–Originator Fund

Finding 5
Documentation supporting payroll expenditures charged to the Mortgage Lender–Originator Fund was not maintained.

Analysis
OCFR did not maintain documentation supporting payroll expenditures charged to the Mortgage Lender–Originator Fund. Specifically, during fiscal year 2007, the payroll costs for 45 employees were charged to the Fund based on pre-determined percentages (ranging from 30 percent to 100 percent) of the portion of each employee's time spent on mortgage lender and originator related activities. However, OCFR did not maintain documentation to support how the percentages were determined.

Effective October 1, 2005, State law established the Mortgage Lender–Originator Fund as a special non-lapsing fund, and established a requirement for mortgage originators (certain employees of mortgage lenders) to be licensed by January 1, 2007. The Fund is used to pay the costs incurred by OCFR relating to the regulation of mortgage lenders and originators and requires that the related licensing fees be deposited to the Fund. According to OCFR's records, as of June 2006 and June 2007, the Fund's balances were approximately $2.9 million and $5.5 million, respectively.

Recommendation 5

We recommend that OCFR maintain documentation supporting payroll expenditures charged to the Mortgage Lender–Originator Fund. Specifically, OCFR should document its determination of the percentage of time spent by employees on mortgage lender and originator related activities.

Audit Scope, Objectives, and Methodology

We have audited the Department of Labor, Licensing and Regulation – Office of the Commissioner of Financial Regulation (OCFR) for the period beginning April 20, 2004 and ending May 6, 2007. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine OCFR's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of OCFR's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided to OCFR by the Department of Labor, Licensing and Regulation – Office of the Secretary. These support services (for example, payroll, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of Office of the Secretary.

Our audit scope was limited with respect to OCFR's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all OCFR cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

OCFR's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect OCFR's ability to maintain reliable financial records, operate effectively and efficiently and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to OCFR that did not warrant inclusion in this report.

The Department of Labor, Licensing and Regulation's response, on behalf of OCFR, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.

APPENDIX

DLLR
STATE OF MARYLAND
DEPARTMENT OF LABOR, LICENSING AND REGULATION

MARTIN O'MALLEY, Governor
ANTHONY G. BROWN, Lt. Governor
THOMAS E. PEREZ, Secretary

OFFICE OF THE SECRETARY

DLLR Home Page • http://www.dllr.state.md.us
DLLR E-mail • mddllr@dllr.state.md.us

December 14, 2007

Mr. Bruce A. Myers, CPA
Legislative Auditor
301 West Preston Street, Room 1202
Baltimore, MD 21201

RE: Response to Draft Legislative Audit Report, November 2007

Dear Mr. Myers:

I am enclosing the Department of Labor, Licensing and Regulation's response to the draft audit report on the Office of the Commissioner of Financial Regulation (OCFR). We appreciate the additional time you afforded the Department to submit our response. We take the auditor's findings with all due seriousness and wanted to allow sufficient time for internal review so that we could provide responses that adequately address the concerns raised.

Our Office of the Commissioner of Financial Regulation performs a critical regulatory role to protect Maryland consumers and to ensure the stability and viability of our financial institutions. OCFR is on the frontline of the foreclosure crisis we are experiencing in Maryland and throughout the nation as the chief regulator of the mortgage industry. At such a time, the Department is particularly eager to ensure that OCFR's internal systems and processes are sound and that we identify any procedures and resources necessary to support its essential regulatory function. The audit process is a useful tool in making those ongoing assessments.

Again, please accept our response to the draft audit report and do not hesitate to contact me or Commissioner Bloom Raskin with any concerns or questions.

Sincerely,

Thomas E. Perez /VA
Secretary
Department of Labor, Licensing and Regulation

Enclosures

500 N. CALVERT STREET
BALTIMORE, MD 21202-3651

410-230-6001 • FAX 410-333-0853
TTY USERS, CALL VIA THE MARYLAND RELAY SERVICE

Keeping Maryland Working and Safe

DLLR
STATE OF MARYLAND
DEPARTMENT OF LABOR, LICENSING AND REGULATION

MARTIN O'MALLEY, Governor
ANTHONY G. BROWN, Lt. Governor
THOMAS E. PEREZ, Secretary

Office of the Commissioner of Financial Regulation
Sarah Bloom Raskin, Commissioner

www.dllr.state.md.us/finance
E-mail • finreg@dllr.state.md.us

MEMORANDUM

To: Bruce A. Myers, CPA

From: Sarah Bloom Raskin, Commissioner of Financial Regulation

Re: Response to Draft Legislative Audit Report, November 2007

Date: December 14, 2007

As Commissioner of Financial Regulation, I am pleased to provide to you and members of the Joint Audit Committee the Office of the Commissioner of Financial Regulation's (OCFR) response to the draft audit report dated November 2007. We appreciate the thoroughness of your staff in conducting the audit and trust that the process has and will assist OCFR in maintaining policies and procedures that ensure the highest performance standards for the Office.

Further, we have used this process as an opportunity to reflect upon and refine our internal systems. We have paid particular attention to findings that were identified in a prior audit before I began as Commissioner. We are eager to address the concerns noted in the report and believe our response will indicate that eagerness. Where OCFR's inability to meet timeliness demands is a result of a lack of resources, such as is the case with examinations of mortgage lender licensees, we have so noted. That said, OCFR remains committed to reducing that timeliness gap while maintaining high standards for its examinations which are at the core of our regulatory oversight.

As you know, this is a critical time for the regulation of financial institutions. The current economic climate and troubles in the mortgage industry demand increased regulatory oversight for all our financial institutions. We thank you for the opportunity to respond to your concerns and anticipate that our proposed actions will adequately address the findings noted for this agency.

Office of the Commissioner of Financial Regulation
500 North Calvert Street • Suite 402
Baltimore, Maryland 21202-3651

410-230-6100
(Toll Free) 1-888-784-0136
(Fax) 410-333-3866 / 410-333-0475

Department of Labor, Licensing and Regulation
Commissioner of Financial Regulation
Regulatory Policy Unit

Legislative Audit Response: Draft Report (November 2007)

Background Information

Agency Responsibility

The Commissioner of Financial Regulation regulates financial institutions through its licensing, examination and enforcement functions. In so doing, it furthers the missions of consumer protection and assuring the safe and sound operation of Maryland chartered depository financial institutions.

In particular, the Agency is responsible for regulating the activities of banks, trust companies, savings banks, and credit unions, as well as money transmitters, safe-deposit companies, sales finance companies, installment loan lenders, credit services businesses, check-casher outlets, debt collection agencies, debt management companies, mortgage lenders (including lenders, brokers and servicers) and mortgage originators. Additionally, the agency issues licenses for non-depository institutions and approves charter applications for banking institutions and credit unions to form new institutions, open branches, make stock acquisitions, form affiliates and merge with other financial institutions.

Agency Response

Finding # 1
Controls over cash receipts were not adequate.

Auditor's Recommendation #1
We recommend that employees who process collections not have access to the automated check log, and that employees who maintain records of unpaid penalty and examination fees be denied access to the related collections. In addition, we again recommend that an employee independent of the cash receipts functions verify that all recorded licensing fees and examination fees collected at OCFR were subsequently forwarded to the lockbox accounts for deposit. We also recommend the OCFR generate output records of refunds issued and the supervisory personnel verify the propriety of refunds issued, at least on a test basis, to supporting documentation.

Agency Response #1

The agency agrees that there are certain inadequacies in its internal controls over cash receipt functions and is taking steps to develop its procedures and implement them in order to correct those inadequacies. Specifically, the agency has adjusted its staffing pattern and will establish protections in its automated check log that restrict employee access to the log.

Pursuant to the adjustments, the following staff members are involved in the cash receipt system: The receptionist is responsible for receiving mail, opening mail and entering the check information into the automated check log. Another employee has been designated to process the checks. That employee determines whether a check is forwarded to the lockbox, deposited with the agency's budget office or returned to the sender. A licensing supervisor reviews the log and indicates approval of the action taken.

The agency is working with its Office of Information Technology to create safeguards within the automated excel check log so that an employee's ability to alter the log is restricted to the data field(s) for which he or she is responsible. The agency will create columns in the check log that allow a viewer "read only" access for any fields of information for which the viewer is not directly responsible.

Further, the agency is seeking to minimize cash receipts coming directly to the office by moving to a system whereby all payments would be sent to the lockbox. Currently, the agency accepts credit card payments and checks. However, the agency is exploring the use of ACH payments to allow the electronic transfer of funds directly into its accounts. Providing and encouraging the use of a lockbox and ACH payments would reduce the cash payments received in the office.

In order to verify that payments received in the agency in error were appropriately redirected to the lockbox, the agency would circulate the lockbox statement to all units—licensing, enforcement and compliance—that anticipate receipt of such funds for their review. These units will review the statement to make sure that all expected payments due the agency have been received at the lockbox.

In order to verify the refunds issued, the agency will work with Department of Budget and Management (DBM) to obtain regular statements of refunds it issues on behalf of OCFR. DBM issues the refunds at the request of the agency and therefore the agency will need to receive verification of their issuance from DBM. DLLR's budget office will obtain and circulate the DBM statements regarding refunds to OCFR units in order to cross-reference OCFR's records of refunds requested against the refunds ultimately issued by DBM. The units will review the statements to make sure that all refunds requested by the agency were issued.

Finding #2

Examinations of mortgage lenders were not being performed within the time frame required by state law.

Auditor's Recommendation #2
We again recommend that OCFR examine all mortgage lenders within the time frame required by state law.

Agency Response #2:
The agency concurs with this finding and is well aware that mortgage lenders are not being examined within the timeframe mandated by Maryland law. Maryland law requires that existing mortgage lender licensees be examined at least once every three years and each new mortgage lender licensee be examined within 18 months of receiving a license. The agency works to perform as many examinations as possible, but is unable to meet the mandate.

The reason for the agency's inability to meet the examination schedule is two-fold: First, we have not had adequate staffing to perform examinations and those examiners we have and will hire, given the comparatively low salaries we can offer, are often trainees who are not able to conduct examinations on their own for 6-12 months. Second, the examinations themselves are becoming increasingly complex as we seek to bring heightened scrutiny to the mortgage industry in the wake of the subprime mortgage crisis. For example, as we increase our regulatory oversight, exams that previously took two days onsite to conduct will require fifty percent (50%) more time. Further, our examiners are, in essence, victims of their own success: their examinations have yielded more enforcement actions and those actions, in turn, require more of the examiner's time and may reduce the number of examinations they can ultimately conduct.

It should be noted that the agency has made significant strides in hiring more examiners; concurrently, however, there has been a rapid growth of new licensees. Previously, there were only four examiners in the unit and currently there are eighteen. Six of our trainees have very recently been promoted to full examiner and will now be able to conduct examinations on their own. We anticipate other trainees will be successful in making that transition as well. The unit has established performance goals for the number of examinations examiners are expected to conduct annually. However, that said, OCFR is cognizant that the implementation of proposed new laws and regulations over the industry and the implementation of a new examination tool will increase, rather than diminish, the time required for effective examination.

Finding #3
License issuances were not reviewed and approved by supervisory personnel.

Auditor's Recommendation #3
We again recommend the OCFR require supervisory review and approval of new license issuances, at least on a test basis, to help ensure that licenses are issued only to qualified applicants.

Agency Response #3
The agency concurs with the need to monitor and verify new license issuances to help ensure that licenses are issued only to qualified applicants. The agency established

monitoring procedures in 2006, but fell behind in that system due to an unprecedented number of new licensees in FY 2007. The Maryland Mortgage Originator Law went into effect January 1, 2007, and as a result, the number of original license applications grew from approximately 2,800 in FY 2006 to nearly 14,800 in FY 2007. This tremendous influx of applications affected the licensing application reviews. As of this date, the agency has processed these license applications and is now working diligently to bring its monitoring current. The agency anticipates that all monitoring will be current as of the end of calendar year 2007.

The monitoring procedures will be memorialized in the agency's set of policies and procedures. They are as follows:

1. The licensing supervisory staff will randomly select a sample of 10% of the licenses issued in the previous month using the license release sheets.
2. For each license selected, supervisory staff will retrieve the related application file for review.
3. The goals of the review are to:
    - Ensure that any manual applications were entered into the system within 48 to 72 hours of receipt;
    - Ensure that the proper fees have been paid and, if the application was submitted manually, that payment has been documented in the file;
    - Ensure that applicants meet the qualifications for the license for which they are applying and that the required documents are in the file (e.g. financial statements prepared or reviewed by a CPA, current credit reports, surety bond, etc.)
4. Supervisory staff will follow up on any findings to resolve discrepancies, note the findings of the review on a summary worksheet, initial and date the summary, and file it in a separate monitoring file. They will take any administrative actions, procedural or operational, required by their findings.

Finding #4

OCFR lacked adequate procedures to ensure that businesses that did not renew their licenses were not operating in Maryland.

Auditor's Recommendations #4

We recommend that OCFR establish procedures to ensure that businesses that have not renewed their licenses have discontinued operating in Maryland. For example, OCFR could attempt to contact businesses by phone that do not return signed and notarized letters certifying they are no longer operating in Maryland. We also recommend that the follow-up efforts be documented.

Agency Response #4

The agency agrees that it is important to have established procedures in place for licensees who fail to renew their licenses. The agency does take measures to ensure that nonrenewing licensees are contacted and made aware of the penalties for operating without a license. Further, the agency requires nonrenewing licensees to submit a notarized affidavit that they have ceased to conduct business.

In an effort to improve its process, the agency has reviewed and refined its procedure as follows:

1. On a monthly basis, the licensing unit will print a list of all licenses that have expired within the last sixty (60) days.
2. Staff will determine which licensees on the list have a license renewal pending, a new application filed or have sent an affidavit of nonrenewal.
3. For licensees whose licenses have lapsed without notifying OCFR, OCFR will send a letter which:
   - Notes their nonrenewal;
   - Advises them of the penalties for operating without a license; and
   - Requests them to either renew or return within 5 days a notarized affidavit that they are ceasing to conduct business as a licensee.
4. A record of when the letter was sent and any response thereto shall be noted in the database.
5. If there has been no renewal or returned affidavit after 30 days from the sending of the letter, the licensing unit will attempt to contact the former licensee by telephone.
6. If the former licensee fails to respond or is otherwise noncompliant, the licensing unit will refer the former licensee to the enforcement unit for investigation.

Finding #5

Documentation supporting payroll expenditures charged to the mortgage lender – originator fund was not maintained.

Auditor's Recommendations #5

We recommend that OCFR maintain documentation supporting payroll expenditures charged to the Mortgage Lender – Originator Fund. Specifically, OCFR should document its determination of the percentage of time spent by employees on mortgage lender and originator related activities.

Agency Response #5

The agency is specially funded for the licensing and regulatory activities associated with the Mortgage Lender – Originator Fund. The agency is committed to refining its procedures to provide adequate accounting and oversight of these funds generally and specifically related to staffing costs.

OCFR will review the payroll costs and the percentage of employees' time attributable to this funding source. OCFR will then develop a timesheet that allows employees funded through this source to account for the time they are spending on regulatory activities for these licensees. Employees will use the newly developed timesheet to document their time. Those timesheets will be reviewed annually to determine if the percentage of time apportioned to the funding source accurately reflects the time employees spent related to the mortgage lender-originator licensees. Percentages of employees time paid for by this funding source will be adjusted accordingly to reflect the information obtained from the review of timesheets.

AUDIT TEAM

Mark A. Ermer, CPA
Audit Manager

Susanne M. Anacker
Senior Auditor

Kimberly H. Ugalde
Staff Auditor