

OFFICE OF FINANCIAL INSTITUTIONS  
EXECUTIVE DEPARTMENT  
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
PROCEDURAL REPORT  
ISSUED AUGUST 15, 2018

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

**LEGISLATIVE AUDITOR**  
DARYL G. PURPERA, CPA, CFE

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**FOR STATE AUDIT SERVICES**  
NICOLE B. EDMONSON, CIA, CGAP, MPA

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

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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Office of Financial Institutions  
Executive Department



August 2018

Audit Control # 80180043

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## 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 to provide overall 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, 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 collection, examinations of non-depository entities, payroll expenditures, state travel card expenditures, and cash.

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## Follow-up on Prior-report Findings

We reviewed the status of the prior-report findings in OFI's procedural report dated July 12, 2017. We determined that management has resolved the prior-report finding related to "No Examination Penalties Assessed." The prior-report findings related to "Examinations of Regulated Entities Not Performed" and "Inadequate Controls over Payroll and HR Functions" have not been resolved and are addressed again in this report.

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## Current-report Findings

### Examinations of Regulated Entities Not Performed

For the second consecutive engagement, OFI is not performing examinations of non-depository entities in accordance with applicable laws and policies, increasing the risk that entities will not receive the required examinations and deficiencies will go undetected. The OFI Commissioner is authorized by statute to examine the records of non-depository entities. Louisiana Revised Statute (R.S.) 6:1091(A)(2) requires OFI to perform an examination of the books, records, and

accounts of every residential mortgage lender (RML) licensee at least once every three years. All other schedules for non-depository entities are set at the discretion of the Commissioner. Although OFI has a written policy established for check casher examinations to be performed at a minimum every three years, this policy is currently under revision by management to include separate risk-based schedules for corporate and non-corporate check cashing entities.

We compared lists of non-depository licensees that were active as of January 31, 2018, whose licenses were issued prior to January 31, 2015, to lists of exams completed during the period July 1, 2015, through June 30, 2018, noting the following:

- We identified 199 (62%) of 319 RMLs with loan activity that were licensed for the entire period but had not received an examination of books, records, and accounts as required by statute. Although management implemented an off-site monitoring program in fiscal year 2014 to review reports submitted by the RMLs and performed examinations based on risk from fiscal year 2014 to fiscal year 2016, the off-site monitoring program was not utilized in fiscal year 2017 or fiscal year 2018. Of the 199 licensees that did not receive an exam during this period, 72 licensees received off-site monitoring during FY15 or FY16, and 127 licensees received neither an examination nor off-site monitoring. Management has represented that exams are currently behind schedule because OFI is transitioning to new examination schedules and procedures.
- We identified 279 (31%) of 886 check casher branches that were licensed for the entire period but had not received an examination within the past three years. Management has represented that OFI is currently in the process of developing corporate exam schedules and procedures for these 279 branches and has one corporate examination, with 85 of these branches, in progress as part of its new process.

Management also represented that non-depository exams were initially behind schedule due to employee turnover and industry changes in previous years which required OFI to allocate more resources to depository entities.

Management should update and implement official written policies to include all non-depository entities, reflect current examination schedules, and ensure that new risk-based RML schedules meet the requirements of R.S. 6:1091(A)(2); then, continue to monitor the examinations for compliance with policy and statutes. 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 second consecutive engagement, OFI did not have adequate controls over payroll processing and timekeeping records. OFI's internal policies require employees and supervisors to certify time and attendance and submit all documentation to Human Resources. In a test of payroll disbursements for the period July 1, 2017, through December 31, 2017, we noted 7 (64%) of 11 time sheets tested were not approved by the supervisor prior to disbursing payroll increasing the risk of inaccurate or fraudulent payroll disbursements.

These errors occurred because management was not effectively monitoring the policies to ensure that payroll documentation was approved in a timely manner. In addition, OFI's written time and attendance procedures do not clearly outline the timing of the approval process.

Management should develop and execute internal control policies to ensure that payroll is processed in a timely and accurate manner. Management concurred in part with the finding, noting that supervisors may not be approving time sheets prior to payroll disbursement, and there are plans to transition to electronic time sheets in early fiscal year 2018/2019 to correct the issue; however, there are other compensating controls to address the risk of inaccurate or fraudulent payroll disbursements (see Appendix A, pages 3-4).

Additional Comments:

Although management indicated that OFI has other compensating controls in place to prevent inaccurate or fraudulent disbursements, it is still necessary for supervisors to certify actual attendance prior to disbursing payroll.

### **Noncompliance with Unclaimed Property Regulations**

For the two years ending June 30, 2018, OFI did not adequately research outstanding checks during the bank reconciliation process and report outstanding checks, which were held for more than one year, as abandoned property to the State Treasurer's Office in accordance with unclaimed property regulations in R.S. 9:159. During our procedures, we noted that the December 2017 bank reconciliation included 26 outstanding checks totaling \$5,385 with check dates ranging from June 2013 through October 2016. Management represented that outdated procedures and staffing issues are contributing factors for the noncompliance.

Management should research these outstanding checks to determine if the checks should be voided, reissued, or remitted to the State Treasurer's Office. Management should also develop and implement procedures to ensure that research on outstanding checks is performed as part of the monthly bank reconciliation process and timely reports are remitted to the State Treasurer's Office. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 5).

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## **Revenue Collection**

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, 2016, through December 31, 2017, 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.

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## **Examinations of Non-Depository Entities**

OFI's responsibility for regulating the various non-depository entities 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 selected completed exam files for testing and reviewed the files for appropriate checklists, approvals, and enforcement actions based on policy. We compared lists of completed exams provided by management to lists of regulated entities to determine that exams were completed in accordance with schedules set by statute, policy, or other criteria. Based on the results of these procedures, except as noted in the Current-report Findings section, we determined that OFI is performing examinations of regulated non-depository entities in accordance with existing schedules and assessing penalties in accordance with policy.

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## **Payroll Expenditures**

Approximately 83% of OFI's expenditures consist of salaries and employee benefits. We obtained an understanding of OFI's controls over payroll processing and the timekeeping function. We agreed OFI's payroll registers for the period July 1, 2016, through December 31, 2017, to the general ledger and reviewed selected employee time sheets, overtime reports, leave records, and payroll monitoring reports from this period. Based on the results of our procedures, we determined that OFI did not have adequate controls over payroll processing and timekeeping functions (see Current-report Findings).

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## **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, 2017, through December 31, 2017, 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.

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## **Cash**

OFI is authorized to maintain \$31,150 in a separate imprest fund bank account and petty cash mainly to process small refunds and one-time payments to vendors. We obtained an understanding of OFI's controls over reconciling the bank account and maintaining the petty cash funds. We reviewed all bank reconciliations for the period July 2016 through December

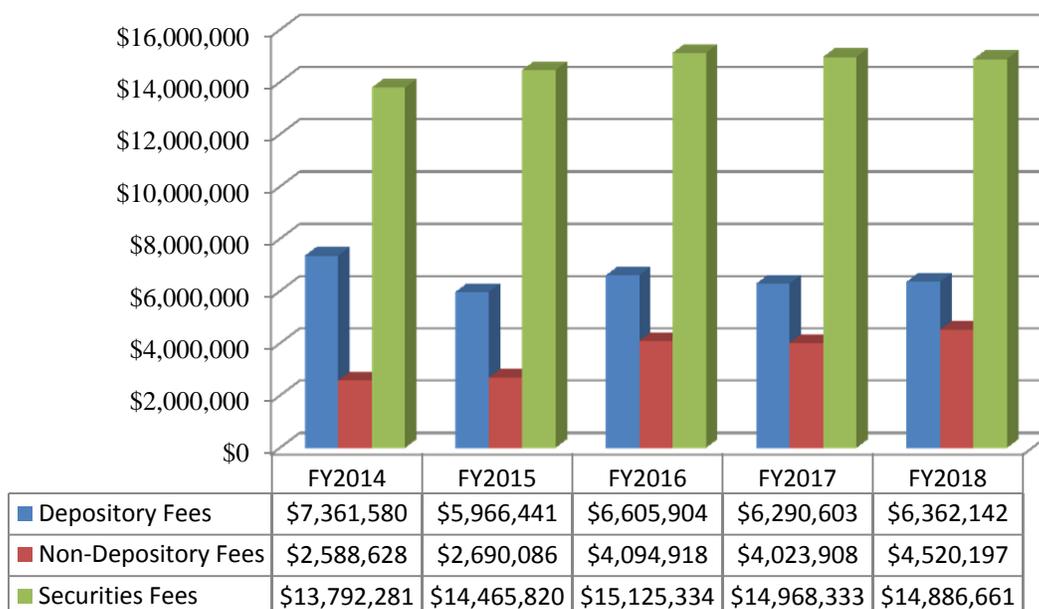
2017 and reviewed the petty cash fund records as of March 2018. Based on the results of our procedures, we determined that OFI had adequate controls in place over the petty cash fund but did not have adequate controls in place for reconciling the bank statements (see Current-report Findings).

## 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 revenues and regulated entities.

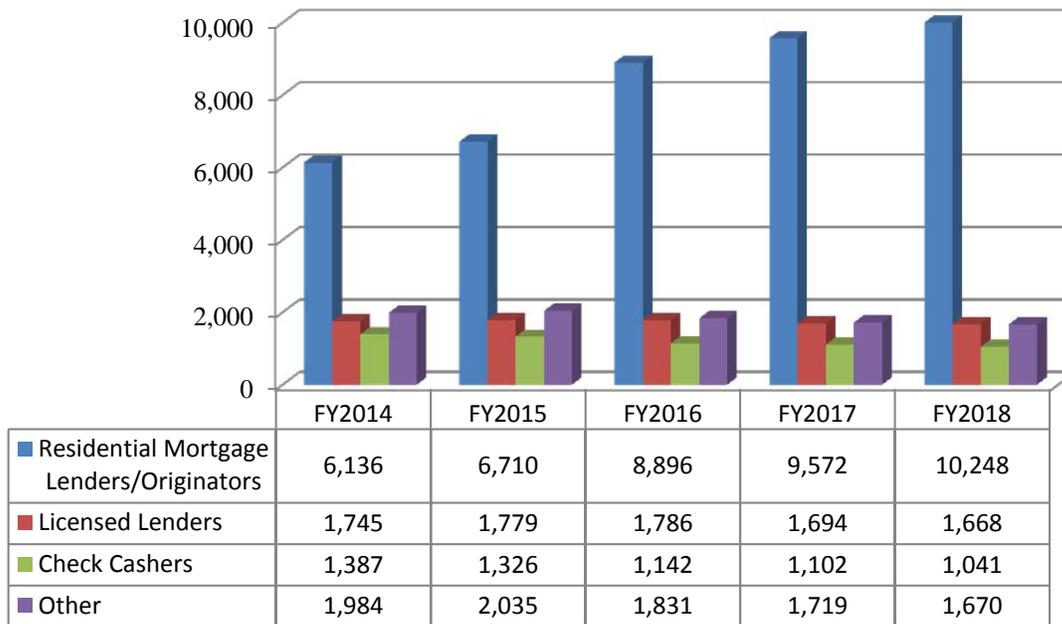
As shown in Exhibit 1, OFI's revenue has remained fairly stable since fiscal year 2016 when there was an increase in non-depository revenue mainly due to authorized fee increases in the 2015 Regular Legislative Session and a large increase in the number of licensed residential mortgage entities as shown in Exhibit 2. The revenue for fiscal year 2018 totaled approximately \$26 million as of June 30, 2018, with 58% of the revenue provided by the Securities Section, the division with the largest number of regulated entities (Exhibit 1).

**Exhibit 1**  
**Five-Year Revenue Trend**



**Source:** Business Objects Financial Reports and Annual Fiscal Reports

**Exhibit 2**  
**Five-Year Non-Depository Entities Trend**



**Source:** OFI Quarterly Report as of June 30, 2018

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

Respectfully submitted,

Thomas H. Cole, CPA  
First Assistant Legislative Auditor

ARC:DM:BH:EFS:aa

OFI 2018

## **APPENDIX A: MANAGEMENT'S RESPONSES**





STATE OF LOUISIANA  
OFFICE OF FINANCIAL INSTITUTIONS  
BATON ROUGE, LOUISIANA



July 31, 2018

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

Re: Response to Audit Finding  
Examination of Regulated Entities Not Performed

Dear Mr. Purpera:

The Office of Financial Institutions (OFI) concurs with the above-reference audit finding. Several years ago, OFI decided to cross-train examiners to perform examinations of both depository and non-depository institutions. This cross training has allowed OFI to better utilize examination staff; however, this cross training also forces OFI to shift examination priorities during economic downturns and staffing shortages. The recent Oil and Gas related economic downturn caused OFI to allocate more examination resources to depository institutions, which caused some non-depository examinations to be performed outside of established procedure. Even though examination schedules can become protracted, OFI does examine all non-depository entities on a periodic basis over time.

With regard to Residential Mortgage Lenders (RML), standardized testing and education requirements across states for Mortgage Loan Originators, which began in 2012, has led to a significant increase in the number of RML licensees regulated by OFI. The number of Mortgage Loan Originators (MLOs) licensed by OFI at June 30, 2012 was 3,106 as compared to 9,044 at June 30, 2017 (191% increase). Over that same time-period, OFI had a 25% 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.

Early in fiscal year 2018, OFI began implementing revised non-depository examination schedules and processes. The decision to revise non-depository examination schedules and processes occurred because of industry changes coupled with employee turnover and the need for OFI to move toward risk focused examination approaches. While OFI has successfully implemented revised examination schedules for several non-depository programs, new schedules and processes for RML are still being developed.

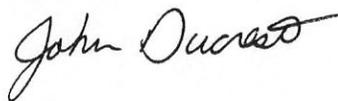
The RML program involves the most complex and detailed examination of all non-depository programs; and therefore, takes significantly more resources than other programs. OFI has hired two additional examiners to conduct RML examinations and corporate examinations for Check Cashers and will hire at least three additional examiners over the next few months. These

Daryl G. Purpera, CPA, CFE  
Louisiana Legislative Auditor  
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examiners have begun conducting examinations of RML licensees with limited lending activity. Since January 1, 2018, they have completed 44 of these RML examinations. OFI also added an additional Deputy Chief Examiner to assist with policy and schedule development and program oversight. As with other non-depository programs, the RML program will encompass risk based scheduling, and will consider the previous examination findings and severity of complaints when determining the examination schedule. Scheduling criteria will consider the volume of Louisiana lending activity and risk to Louisiana consumers to determine prioritization and scoping of examinations. Based on loan origination data from the Nationwide Mortgage Licensing System (NMLS), 56% of RML entities licensed by OFI reported less than \$1,000,000 in Louisiana loan originations for calendar year 2017. These licensees reported on average two loans totaling \$111,159 compared to OFI's remaining 44% of licensees that reported an average of 190 loans totaling \$33,707,229.

With respect to Check Cashier examinations, OFI developed and implemented risk based scheduling in late 2017. Converting to the new corporate examination schedule and training the two new RML/Corporate examiners delayed the corporate Check Cashier examinations. As noted in the audit, a corporate examination of the largest licensed Check Cashier is currently in process. This entity has 124 (23%) of the 541 licensed branches for entities identified for corporate examinations. Once this examination is completed, the 31% of Check Cashier branches that were not examined will reduce to 22%. OFI will continue to make progress with its corporate examination schedule as additional examiners are hired and trained.

Sincerely,

A handwritten signature in black ink that reads "John Ducrest". The signature is written in a cursive, flowing style.

John Ducrest, Commissioner  
Office of Financial Institutions



STATE OF LOUISIANA  
OFFICE OF FINANCIAL INSTITUTIONS  
BATON ROUGE, LOUISIANA



July 3, 2018

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 in part with the referenced audit finding. OFI agrees that supervisors may not approve Fixed Time-Entry Sheets before payroll is disbursed; however, OFI disagrees that the untimeliness of signatures increases the risk of inaccurate or fraudulent payroll disbursements. OFI has other compensating controls in place to prevent inaccurate or fraudulent payroll disbursements.

Employees have established work schedules and agency timekeepers enter those work schedules into the LaGov HCM system. In LaGov HCM, employees are either positive or negative time-entry employees. For positive time-entry employees, every hour worked by the employee is entered into LaGov HCM. For negative time-entry employees, only hours not worked (leave hours) and hours worked in addition to the employee's establish work schedule (overtime hours) are entered into LaGov HCM. Except for six employees, all of OFI's employees are negative time-entry employees. In addition, except for four employees (two students and two part-time employees), all of OFI's employees are salaried employees. Salaried employees have 80-hour work schedules and earn compensatory time for overtime hours worked rather than being paid for overtime. Salaried employees earn the same gross pay each pay period unless their leave balances are insufficient to cover leave taken during the pay period.

Employees request leave with a leave slip and compensatory time with a compensatory time form. Leave and compensatory time are required to be pre-approved. Supervisors ensure that they have received all leave slips from employees for the pay period by reconciling leave slips submitted to leave calendars maintained, to email requests received, or to both. If an employee fails to submit a leave slip and is out of the office when payroll is processed, the supervisor submits the leave slip for processing with only the supervisor's signature and the employee signs the leave slip upon return to work. Compensatory time forms are subject to review by Human Resources staff prior to entry into LaGov HCM to ensure that employees calculate compensatory time according to office policy.

Timekeepers enter leave taken and compensatory time earned for all negative time-entry employees and two of the positive time-entry employees from signed leave slips and compensatory time forms. Timekeepers enter time for the two part-time employees and the two students from signed timesheets because these employees are not subject to leave and overtime. After timekeepers enter all time and attendance information into LaGov HCM for the pay period, they generate the LaGov HCM *Time-Entry Audit Report*. Timekeepers then reconcile leave slips, compensatory time forms, and timesheets to the *Time-Entry Audit Report* to ensure all time and attendance information is accurate in LaGov HCM. If timekeepers detect input errors during the reconciliation process, timekeepers correct the errors and then perform the reconciliation process again. OFI's Internal Auditor performs a final reconciliation of the time and attendance information entered by every Timekeeper to the *Time Entry Audit Report* to ensure accuracy of input.

On Monday of payroll week, once the *Time-Entry Audit* reconciliation is complete, Human Resources runs various LaGov HCM 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*. Timekeepers also prepare Fixed Time-Entry Sheets on Monday that reflect time and attendance information as it appears in LaGov HCM. Timekeepers send the Fixed Time-Entry Sheets to employees and supervisors for review and signature. Tuesday morning after payroll has been processed in LaGov HCM, but prior to payroll checks being issued on Friday, Human Resources runs additional LaGov HCM 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*.

As is illustrated from the process explained above, OFI has several layers of controls in place to prevent inaccurate and fraudulent payroll disbursements. Because of this process, payment errors occur very infrequently and if a payment error does occur, it is even more infrequent that the error is not caught and corrected before payroll is disbursed. Because OFI has not adopted electronic timesheets for its employees, it is difficult for employees across the state to review paper Fixed Time-Entry sheets prepared by Timekeepers on Monday afternoon and to sign and return them before payroll processes on Monday night. To address this issue, OFI will transition to electronic timesheets in early fiscal year 2018/2019. Electronic timesheets will correct the untimely certification issue.

Sincerely,



John Ducrest, CPA  
Commissioner of  
Financial Institutions

CK:pcs



STATE OF LOUISIANA  
OFFICE OF FINANCIAL INSTITUTIONS  
BATON ROUGE, LOUISIANA



July 3, 2018

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

**Re: Response to Audit Finding  
Noncompliance with Unclaimed Property Regulations**

Dear Mr. Purpera:

The Office of Financial Institutions (OFI) concurs with the referenced audit finding. Not reporting to Unclaimed Property was an oversight that resulted from staff turnover. Once the matter was brought to OFI's attention, OFI immediately resolved the issue. Letters were mailed to payees for 24 of the 26 outstanding checks. Fourteen of those 24 checks totaling \$2,812.50 were reissued and a total of \$1,567.52 for 10 checks was remitted to the State Treasurer's Office. Two of the 26 outstanding checks were voided because research revealed that one check totaling \$995.00 was a duplicate check and the other check totaling \$10.00 was for an item that had never been received and was no longer needed. New procedures have been drafted and submitted for management review. Those procedures require research on outstanding checks when they have remained outstanding on the bank statement for a period of 90 days. The procedures also address timely reporting to the State Treasurer's Office.

Sincerely,

A handwritten signature in cursive script that reads "John Ducrest".

John Ducrest, CPA  
Commissioner of  
Financial Institutions

CK:pcs



## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Financial Institutions (OFI) for the period from July 1, 2016, through June 30, 2018. Our objective was to evaluate certain controls OFI uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. The scope of our procedures, which are 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 control 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, we performed procedures on selected controls and transactions relating to revenue collections, examinations of non-depository entities, 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.