

Audit Report

**Maryland Department of Labor
Office of the Commissioner of Financial Regulation**

April 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

April 16, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Office of the Commissioner of Financial Regulation (OCFR) for the period beginning July 20, 2015 and ending January 2, 2020. OCFR is the primary regulator for financial institutions chartered in Maryland, including banks, credit unions, and State-licensed financial entities, including mortgage lenders. OCFR is responsible for licensing and supervising these businesses to ensure compliance with the laws and regulations of Maryland.

Our audit disclosed that license issuances, such as for mortgage lenders and collection agencies, were not being reviewed by OCFR supervisory personnel to ensure that licenses were issued only to qualified applicants.

Our audit also included a review to determine the status of the finding contained in our preceding audit report. We determined that OCFR satisfactorily addressed this finding.

MDL's response to this audit, on behalf of OCFR, is included as an appendix to this report. We reviewed the response to our finding and related recommendation, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by the OCFR. We also wish to acknowledge MDL's and OCFR's willingness to address the audit issues and to implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Name Change and Agency Responsibilities

The Maryland Department of Labor¹– Office of the Commissioner of Financial Regulation (OCFR) is responsible for chartering and supervising Maryland state-chartered banks, credit unions, and trust companies; licensing and supervising state-licensed financial institutions including mortgage lenders, mortgage brokers, mortgage servicers, mortgage loan originators, affiliated insurance producer-originators, check cashers, money transmitters, consumer debt collection agencies, consumer lenders, installment lenders, sales finance businesses, credit services businesses, debt management companies; and registering and supervising credit reporting agencies and debt settlement companies, to ensure compliance with the laws and regulations of Maryland.

OCFR issues licenses for non-depository institutions after investigation of each applicant and approves charters for banking institutions and credit unions to form new institutions, open branches, make stock acquisitions, form affiliates, and merge with other financial institutions. OCFR also serves as a resource to consumers and to the entities and individuals that it supervises and regulates by, for example, investigating consumer complaints, providing guidance to regulated entities and individuals as to their responsibilities under the law, and connecting citizens to effective financial education. According to the State's records, during fiscal year 2019, OCFR's operating expenditures totaled approximately \$9.6 million.

Status of Finding from Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated December 22, 2015. We determined that the OCFR satisfactorily addressed this finding.

¹ Chapter 91, Laws of Maryland 2019 effective July 1, 2019, changed the name of the Department of Labor, Licensing, and Regulation to the Maryland Department of Labor.

Findings and Recommendations

License Issuances

Finding 1

Business license issuances were not reviewed and approved by supervisory personnel to ensure that licenses were issued only to qualified applicants.

Analysis

Business license issuances (initial and renewals) were not reviewed and approved by supervisory personnel to ensure that licenses were issued only to qualified applicants. According to OCFR's records, 16,759 business licenses were issued in fiscal year 2019 to various institutions and entities, such as mortgage lenders, collections agencies, check cashing outlets, and credit service businesses.

Applicants must submit documentation, such as surety bonds, financial statements, and volume of business statements showing that they have met the qualifying criteria for the license for which they are applying. The applications are processed by OCFR employees who review the documentation submitted by the applicant and issue the related license via an automated system.

Our review disclosed that OCFR did not have procedures for supervisory personnel to review the licenses issued to ensure that applicants submitted all the required documentation and were qualified for the license. Although supervisory personnel review certain select applications during the application process, such as those that have been pending for 60 days, this review process would not provide assurance that the license issuance process was functioning as intended or that other licenses issued were valid.

Recommendation 1

We recommend that OCFR establish procedures to require supervisory review and approval of business license issuances, at least on a test basis, to help ensure that all required documentation is provided and that licenses are issued only to qualified applicants.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Office of the Commissioner of Financial Regulation (OCFR) for the period beginning July 20, 2015 and ending January 2, 2020. The audit was

conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included consumer credit and oversight of financial institutions, including examinations and licensing. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided to OCFR by the MDL – Office of the Secretary. These support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audits of the Office of the Secretary.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of OCFR's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to OCFR, were considered by us during the course of this audit.

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 a finding relating to a condition that we consider to be a significant deficiency 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 audit did not disclose any instances of noncompliance with applicable laws, rules, or regulations.

The response from MDL, 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 MDL regarding the results of our review of its response.

April 13, 2020

Mr. Gregory A. Hook, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

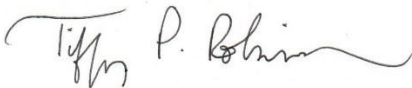
Re: Legislative Audit Report for Department of Labor – Office of the Commissioner of
Financial Regulation – Audit Period July 20, 2015 to January 2, 2020

Dear Mr. Hook:

I would like to acknowledge receipt of your most recent Legislative Audit of the Office of the Commissioner of Financial Regulation dated March, 2020. This Audit contained one Finding for which the Agency anticipates having a procedure in place to resolve the Finding by July 1, 2020. Note that at the end of the Auditors' on-site Field Work, we anticipated an earlier resolution date, but the date was pushed back due in part to the response to the coronavirus pandemic. Our Agency performs a critical role ensuring the stability and viability of the State's financial institutions and protecting Maryland's consumers. The Agency is particularly eager to ensure that our internal systems and processes are sound. We strongly believe that the audit process is a very useful tool in making these assessments.

I want to thank Audit Manager Adam J. Westover, CPA, Senior Auditor Lauren Franchak, CPA, and Staff Auditor Steven A. Crocker, CFE for their professionalism, cooperation and assistance during this Audit. Your team provided us with valuable advice and suggestions. Please express our gratitude to your audit team for their hard work during our audit.

Sincerely,



Tiffany P. Robinson
Secretary
Maryland Department of Labor

Maryland Department of Labor
Office of the Commissioner of Financial Regulation
Audit Period- 7/20/2015 – 1/2/2020

Agency Response Form

Finding 1

Business license issuances (initial and renewals) were not reviewed and approved by supervisory personnel to ensure that licenses were issued only to qualified applicants.

We recommend that OCFR establish procedures to require supervisory review and approval of business license issuances, at least on a test basis, to help ensure that all required documentation is provided, and that licenses are issued only to qualified applicants.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	OCFR agrees that best business practices, though not required by law, include the implementation of quality control protocols to ensure compliance with statutory mandates and office policies and procedures. To that end, although reviews of licensing applications by OCFR's managers have been completed on a de facto basis since the previous audit, OCFR has been developing a formal quality review process (similar to that which has been established in the mortgage supervision program) as part of its planned updates to the licensing program and will soon implement measures by which Licensing supervisors will regularly review (and appropriately document results of) business license applications on a test basis to ensure that licenses are being issued to qualified applicants.		
Recommendation	Agree	Estimated Completion Date:	7/1/2020
Please provide details of corrective action or explain disagreement.	Implement a documented standalone quarterly quality control function in the Licensing Unit.		

AUDIT TEAM

Adam J. Westover, CPA
Audit Manager

Lauren E. Franchak, CPA
Senior Auditor

Steven A. Crocker, CFE
Staff Auditor