

Audit Report

Maryland Department of Labor Office of Financial Regulation

September 2024



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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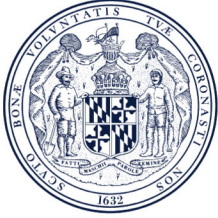
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

September 20, 2024

Brian S. Tanen, CPA, CFE
Legislative Auditor

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 Financial Regulation (OFR) for the period beginning January 3, 2020 and ending January 15, 2024. OFR is the primary regulator for financial institutions chartered in Maryland, including banks, credit unions, and State-licensed financial entities, including mortgage lenders. OFR is responsible for licensing and supervising these businesses to ensure compliance with laws and regulations of Maryland.

Our audit disclosed that annual business license renewals were not being reviewed by OFR supervisory personnel during our audit period to ensure only qualified applicants had their licenses renewed.

Our audit also included a review to determine the status of the finding contained in our preceding audit report. We determined that OFR did not satisfactorily address this finding, which is repeated in this report.

MDL's response to this audit, on behalf of OFR, is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues. In accordance with our policy, we have redacted any vendor names or products mentioned by MDL in this document.

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

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Background Information

Name Change and Agency Responsibilities

Chapter 28, Laws of Maryland 2023 effective July 1, 2023, changed the name of the Maryland Department of Labor (MDL) – Office of the Commissioner of Financial Regulation to Office of Financial Regulation (OFR). OFR 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.

OFR 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. OFR 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 2023, OFR's expenditures totaled approximately \$12.1 million (see Figure 1 on the following page).

Figure 1
OFR Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	71	88.8%
Frozen ¹	2	2.5%
Vacant	7	8.7%
Total	80	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$10,060,057	83.0%
Technical and Special Fees	914,231	7.6%
Operating Expenses	1,139,401	9.4%
Total	\$12,113,689	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
General Fund	\$ 6,251	0.1%
Special Fund	12,107,438	99.9%
Total	\$12,113,689	

Source: State financial and personnel records

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 April 16, 2020. We determined that OFR did not satisfactorily address that finding, which is repeated in this report.

¹ Prior to December 1, 2021, a hiring freeze resulted in certain positions being frozen. Frozen positions were unauthorized to be filled according to budgetary instructions from the Department of Budget and Management. Any position that is currently marked as frozen has not been filled since the freeze was lifted; however, these positions now are available to be filled.

Findings and Recommendations

License Renewals

Finding 1

The Office of Financial Regulation (OFR) did not have procedures for supervisory reviews of business license renewals to ensure that only qualified applicants had their licenses renewed.

Analysis

OFR did not have procedures for review and approval of annual business license renewals by supervisory personnel to ensure that only qualified applicants had their licenses renewed. According to OFR's records, 20,224 business licenses were issued in fiscal year 2023 to various institutions and entities, such as mortgage lenders, collections agencies, check cashing outlets, and credit service businesses; of which 16,148 were license renewals that could be unilaterally processed by any of 10 OFR employees.

Applicants for a license renewal must submit evidence of required continuing education, a statement of business volume and proof of the required surety bond if the entity does not already have the maximum bond required, as well as the required license fee. Our arbitrary test of 20 licenses that were renewed in calendar year 2023 without independent review and approval disclosed 2 that lacked the required documentation of continuing education or surety bond. As a result, there was a lack of assurance that these applicants had the necessary qualifications for the license.

A similar condition regarding the issuance of initial and renewal license applications was commented upon in our preceding audit report. Although OFR established certain procedures to review initial license applications on a test basis, no procedures were established for review of renewal licenses.

Recommendation 1

We recommend that OFR

- a. establish procedures to require supervisory review and approval of business license renewals, at least on a test basis, to help ensure that all required documentation is provided and that license renewals are only issued to qualified applicants (repeat); and**
- b. obtain the required support for the aforementioned applications that did not have the required documentation and take any necessary corrective action.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Office of Financial Regulation (OFR) for the period beginning January 3, 2020 and ending January 15, 2024. 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 OFR'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 OFR by 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 MDL – Office of the Secretary.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of January 3, 2020 to January 15, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of OFR's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated,

neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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 was 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

OFR'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 OFR, 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 conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect OFR's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding is also considered a significant instance of

noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to OFR that did not warrant inclusion in this report.

MDL's response, on behalf of OFR, to our finding and recommendations, is included as an appendix to this report. As prescribed in 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.

APPENDIX



OFFICE OF THE SECRETARY
1100 N. Eutaw Street 6th Floor
Baltimore, MD 21201
Portia Wu, Secretary

September 19, 2024

Sent Via Email to: response@ola.state.md.us

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Re: Legislative Audit Report for Department of Labor – Office of Financial Regulation – Audit Period
January 3, 2020, to January 15, 2024.

Dear Mr. Tanen:

I would like to acknowledge receipt of your most recent Legislative Audit of the Office of Financial Regulation dated August 2024. This Audit contained one Finding and the Agency Response Form relating to this Audit is being sent to you along with this letter. The Agency anticipates having a final procedure in place to resolve the Finding by October 31, 2024, as described in the Agency Response Form.

The Office of Financial Regulation 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.

The Commissioner and I want to thank Audit Manager Robert A. Wells, Jr., CPA, Senior Auditor Matusala Y. Abishe, and Staff Auditor Jonathan D. Souders, 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 the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Portia Wu", written over a light blue horizontal line.

Portia Y. Wu, Esq.
Secretary
Maryland Department of Labor

Cc: Antonio P. Salazar, Commissioner of Financial Regulation

Attachment – Agency Response Form

Phone: 410-230-6020 • Facebook: MarylandLabor • Internet: labor.maryland.gov

Maryland Department of Labor Office of Financial Regulation

Agency Response Form

License Renewals

Finding 1

The Office of Financial Regulation (OFR) did not have procedures for supervisory reviews of business license renewals to ensure that only qualified applicants had their licenses renewed.

We recommend that OFR

- a. establish procedures to require supervisory review and approval of business license renewals, at least on a test basis, to help ensure that all required documentation is provided and that license renewals are only issued to qualified applicants (repeat); and
- b. obtain the required support for the aforementioned applications that did not have the required documentation and take any necessary corrective action.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	OFR understands the importance of maintaining the integrity of its licensing processes and believes its automated and manual procedures limit the risk of unqualified applicants receiving licenses. It developed and implemented a set of quality control policies and procedures to test the approval process for new business license applicants to ensure statutory compliance in response to the 2020 audit. Those changes did not extend to renewal applications. OFR will correct the omission and develop and implement appropriate policies and procedures to review renewal applications.		
Recommendation 1a	Agree	Estimated Completion Date:	10/31/2024
Please provide details of corrective action or explain disagreement.	OFR has drafted amendments to its existing quality control policy and procedures and the Licensing Unit has implemented the revised policy draft on a trial basis, consistent with the Non-Depository Unit's practice of testing and troubleshooting new policies prior to final implementation. This draft includes procedures for the supervisory review of sample batches of renewal business license applications to ensure statutory compliance. The Licensing Unit also began adding internal notes to its licensing system during the pre-renewal process to provide more information for supervisors during the renewal review		

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

Agency Response Form

	process. OFR anticipates that the final revised policy will be ready to fully implement by October 31, 2024.		
Recommendation 1b	Agree	Estimated Completion Date:	2/7/2024
Please provide details of corrective action or explain disagreement.	OFR took corrective action by obtaining the required support for the applications that were identified in the audit as not having the required documentation.		

AUDIT TEAM

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Audit Manager

Matusala Y. Abishe
Senior Auditor

Jonathan D. Souders
Staff Auditor