

Audit Report

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

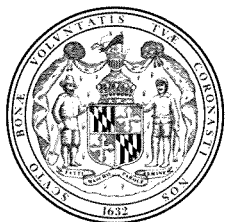
January 2013

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

January 9, 2013

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, 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 for the period beginning October 26, 2009 and ending August 1, 2012. The Office is the primary regulator for financial institutions chartered in Maryland, including banks, credit unions, and State-licensed financial entities, including mortgage lenders. The Office is responsible for licensing and supervising these businesses to ensure compliance with the laws and regulations of Maryland.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge the cooperation extended to us by the Office during the course of this audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Department of Labor, Licensing and Regulation – Office of the Commissioner of Financial Regulation is responsible for supervising the activities of the following entities: state-chartered banks, trust companies, savings banks, credit unions, money transmitters, safe-deposit companies, sales finance companies, installment loan lenders, credit services businesses, check-cashing outlets, debt collection agencies, debt management companies, debt settlement services, mortgage lenders (including lenders, brokers, and servicers), and mortgage originators. The Office also oversees retail accounts, retail installment contracts, and credit grantor contracts. Additionally, the Office issues licenses for non-depository institutions after an investigation of each applicant and approves license applications for banking institutions and credit unions to form new institutions, open branches, make stock acquisitions, form affiliates, and merge with other financial institutions.

According to the State's records, during fiscal year 2012, the Office's operating expenditures totaled approximately \$8.5 million.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the four findings included in our preceding audit report dated August 17, 2010. We determined that the Office satisfactorily addressed all of those findings.

## **Findings and Recommendations**

Our audit did not disclose any significant deficiencies in the design or operation of the Office's internal control. Nor did our audit disclose any significant instances of noncompliance with applicable laws, rules, or regulations. A less significant finding was communicated to the Office that did not warrant mention in this report.

A draft copy of this report was provided to the Office. Since there are no recommendations in this report, a written response was not necessary.

## **Audit Scope, Objectives, and Methodology**

We have audited the Department of Labor, Licensing and Regulation – Office of the Commissioner of Financial Regulation for the period beginning October 26, 2009 and ending August 1, 2012. 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 the Office'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 included 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. The areas addressed by the audit included consumer credit and oversight of financial institutions, including examinations and licensing, and cash receipts. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Office'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 the Office 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.

The Office'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.

AUDIT TEAM

**Matthew L. Streett, CPA, CFE**  
Audit Manager

**W. Thomas Sides**  
Senior Auditor

**Peter Rorick**  
Staff Auditor