

Department of Financial Institutions

**For the Years Ended
June 30, 1997, and June 30, 1996**

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June 5, 1998

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Bill C. Houston, Commissioner
Department of Financial Institutions
Fourth Floor, John Sevier Office Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Financial Institutions for the years ended June 30, 1997, and June 30, 1996.

We conducted our audit in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Financial Institutions' compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Financial Institutions is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit resulted in no audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Financial Institutions' management in a separate letter.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/ws
98/083

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Financial Institutions
For the Years Ended June 30, 1997, and June 30, 1996

AUDIT SCOPE

We have audited the Department of Financial Institutions for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, payroll and personnel, external examinations, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The audit report contains no findings.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of Financial Institutions
For the Years Ended June 30, 1997, and June 30, 1996

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Department of Financial Institutions

For the Years Ended June 30, 1997, and June 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Financial Institutions. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The primary mission of the Department of Financial Institutions is to provide the citizens of Tennessee with a sound system of state-chartered financial institutions. The Bank Division is responsible for the regulation and supervision of state-chartered financial institutions such as state-chartered banks, savings banks, savings and loan associations, credit card banks (banks which only engage in credit card operations), and business and industrial development corporations (BIDCOs). The Credit Union Division is responsible for the regulation and supervision of state-chartered credit unions. The Compliance Division is responsible for regulatory oversight activities such as licensing, examination, and complaint resolution for industrial loan and thrift companies; insurance premium finance companies; home mortgage servicing, lending, and brokering; money transmitters (money order issuers); and title pledge lending. On March 1, 1998, the Department of Financial Institutions became responsible for examining check cashing and check advance companies.

The Department of Financial Institutions attempts to encourage the development of depository financial institutions while restricting their activities to the extent necessary to safeguard the interests of depositors. The department also works to ensure that both depository and non-depository financial institutions comply with governing laws and regulations.

An organization chart of the department is on the following page.

AUDIT SCOPE

We have audited the Department of Financial Institutions for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, payroll and personnel, external examinations, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

Our objectives in reviewing revenue transactions were to determine whether

- revenue transactions appeared accurate and valid,
- cash collected during the fiscal year was deposited timely and accounted for in the appropriate fiscal year, and
- fees had been billed or charged and recorded at the correct amount.

We discussed collection and receipt controls and procedures with key management personnel to gain an understanding of the department's procedures over these areas. We reviewed supporting documentation and tested a sample of transactions that were deposited during the audit period by tracing deposits through the receipting process to determine whether controls were adequate and records were complete.

We had no findings related to revenue; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

EXPENDITURES

Our objectives in reviewing expenditure transactions were to determine whether

- expenditures were for goods and services authorized and the goods or services were received,
- payments were made in a timely manner,
- records were reconciled with Department of Finance and Administration reports,

- payments for travel were made in accordance with the *Comprehensive Travel Regulations*, and
- funds encumbered were liquidated for the same purpose as the original encumbrance.

We discussed purchasing, receiving, disbursement, contract, and reconciliation controls and procedures with key management personnel to gain an understanding of the department's procedures over these areas. We reviewed supporting documentation and tested a sample of transactions to determine whether transactions were adequately supported and approved, invoices were mathematically correct, duplicate payment was precluded, discounts were taken, transactions were charged to the proper object code, sales tax was not paid, proper bidding procedures were followed, single-source purchases were properly approved, journal voucher transfers were proper, and invoices were not split.

We had no findings related to expenditures.

EQUIPMENT

Our objectives in reviewing equipment were to determine whether equipment

- is properly safeguarded,
- is properly recorded on the property listing, and
- can be located.

We discussed controls and procedures over equipment with key management personnel to gain an understanding of the department's procedures over these areas. We tested a sample of equipment on the property listing to ensure that the information on the listing agreed with the actual item. We traced a sample of equipment located in the offices to the property listing to ensure that the items were properly recorded on the property listing.

We had no findings related to equipment.

PAYROLL AND PERSONNEL

Our objectives in reviewing payroll and personnel were to determine whether

- payroll disbursements were made only for work authorized and performed;
- payroll is recorded correctly, distributed properly, and computed using rates in accordance with contracts, laws, and regulations;
- employees are qualified for their positions; and
- performance evaluations are completed timely.

We discussed controls and procedures over payroll and personnel with key management personnel to gain an understanding of the department's procedures over these areas. We had no findings related to payroll and personnel.

EXTERNAL EXAMINATIONS

Our objectives in reviewing external examinations were to determine whether

- the agency is properly planning, documenting, reviewing, and reporting its examination assignments;
- the agency's examiners are properly qualified for their positions; and
- the agency's examiners are properly supervised.

We discussed controls and procedures over external examinations with key management personnel to gain an understanding of the department's procedures over these areas. We tested a sample of examinations of banks, trust companies, credit unions, industrial loan and thrift companies, and premium finance companies to determine whether the department has performed the examinations in accordance with the state's rules and regulations. We also performed testwork to determine whether the examiners were qualified.

We had no findings related to external examinations; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to annually evaluate its systems of internal accounting and administrative control and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of our review of the department's compliance with the Financial Integrity Act were to determine whether

- the agency's reports were filed in compliance with the Financial Integrity Act of 1983,
- documentation to support the agency's evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions have been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We determined that the Financial Integrity Act reports were submitted on time, and support for the reports was adequate.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Financial Institutions filed its report with the Department of Audit on April 7, 1997. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Financial Institutions has corrected the previous audit finding concerning noncompliance with policies and procedures for its institutional examination documentation and review.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Financial Institutions divisions and allotment codes:

336.00 Department of Financial Institutions

