



Department of Commerce

Consumer Finance License Audit

Audit Period: July 2012 through March 2013

Results Summary:

Objective	Conclusion
Processing initial applications for license or registration	Improvement Needed
Processing renewal applications for license or registration	Improvement Needed

Report number: 2013-COM-02

Issuance date: June 20, 2013



Executive Summary

Background

The Division of Financial Institutions' Consumer Finance Section within the Ohio Department of Commerce (COM) is responsible for regulating non-depository consumer finance companies in Ohio. The License Section of Consumer Finance focuses primarily on the issuance and renewal of the 14 different license or registration types, as well as letters of exemption. The section oversees over 11,000 active licenses. Active license and registration types include mortgage brokers, loan originators, check cashers, and pawnbrokers. License fees are credited to the Consumer Finance Fund. As of March 2013, \$3.1 million was collected for licenses and fees during State Fiscal Year 2013.

During the engagement, OIA identified opportunities for COM to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank COM staff and management for their cooperation and time in support of this audit. This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform assurance work related to the Consumer Finance Section within the Division of Financial Institutions. This work was completed between March and June 2013. The scope of this review included the key processes over the issuance and renewal of the different license and registration types for non-depository consumer finance companies in Ohio. The scope did not include initial or renewal applications for precious metals dealers due to a December 2012 United States District Court order that ordered COM to cease enforcement of the Precious Metals Dealers Act and made dealers' compliance with the act voluntary. The scope also did not include applications referred to the Enforcement Section within the Consumer Finance Section. The audit period is July 2012 through March 2013.

The objectives of the review included the following:

1. Evaluate the design and effectiveness of controls over processing initial applications for license or registration.
2. Evaluate the design and effectiveness of controls over processing renewal applications for license or registration.



Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Security of Confidential Personal Information

Ohio Revised Code provides that each agency adopt rules regulating access to the confidential personal information (CPI) the agency keeps, whether electronically or on paper. Agencies should develop controls to address the protection of information deemed as personally identifiable from intentional or unintentional disclosure or misuse. A Department-wide CPI policy states that “employees should consider how information they work with should be handled, and what measures need to be taken to safeguard CPI. Records including CPI and other confidential information should be maintained electronically or in lockable filing cabinets or locked rooms when not in use.”

CPI is retained by the Consumer Finance Section in several ways. CPI is retained in paper form in Jeter Files, which are requested and “checked-out” from the Division’s file room when they are needed by Licensing Examiners. These folders may remain at an Examiner’s desk for multiple days before being returned to the file room. When being returned to the file room, the folders are placed in an in-box on the work floor rather than delivered directly to the file room. Sensitive information is also stored electronically in both the licensing system (CAVU) and in the Nationwide Mortgage Licensing System (NMLS) web portal, both of which are accessed by Licensing Examiners and the Licensing Supervisor. No redaction is present in either system to limit a user’s ability to view sensitive information, such as Social Security Numbers (SSNs). Examiners and the Supervisor also have access to private reports containing sensitive information from both the FBI and from various credit bureaus, yet no procedures exist to outline how access to this information should be handled. Retaining sensitive information, both in hard copy and electronic form, increases the risk this information could be misused for identity theft.

Recommendation

Consider exploring ways to limit exposure to sensitive information (such as SSNs), such as keeping Jeter files in locked cabinets when employees are away from their desk to ensure compliance with the Department-wide CPI policy. Additionally, explore the need to fully display SSNs and other sensitive information in CAVU and consider electronically limiting or redacting this information. As a long term plan, consider moving the information contained in the Jeter Files to an electronic format to further reduce the risk of CPI being unsecured or compromised. Furthermore, develop and implement written security procedures, specific to the



duties of the Consumer Finance Licensing Section, to ensure compliance with the Department's CPI Policy.

Management Response

Consumer Finance will hold an annual review meeting and will require an annual meeting to review Agency policies with specific focus on the handling of CPI. The first annual review meeting will be held August 2, 2013.

Consumer Finance has already begun development of procedures to outline each step in the application and renewal process by license type to include necessary safeguards for CPI. In addition, the Division will evaluate procedures to better address paper files when in the custody of Division staff.

The access of CPI both via computer and Jeter files is currently tracked. A method to review a sample of the Division's access to identify anomalies in user access to CPI will be developed. This will include a review from the Division's legal team, but from outside the Consumer Finance Section.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Deputy Superintendent for Consumer Finance	June 2014

Observation 2 – Supervisory Review

Supervisory reviews should be conducted to help ensure processes are followed and completed timely. Performance of supervisory reviews should be documented. The Consumer Finance Licensing Section does not have standardized supervisory review processes in place for all application processes.

- The Licensing Supervisor processes all renewal applications from NMLS and all company exemption applications with no preventative or detective oversight.
- The Licensing Supervisor conducts a detective supervisory review after issuance of licenses/registrations for non-NMLS renewal applications and branch office applications. However, the supervisory review is not standardized or documented.
- The Licensing Supervisor conducts a preventative supervisory review of each initial application before issuance of licenses/registrations. However, the supervisory review is not documented.

Furthermore, it was noted during interviews with staff and management that all Licensing Staff with access to the licensing system (CAVU) have the ability to create a CAVU account, generate and clear any review flags, update CAVU statuses, and issue a license/registration without any secondary reviews. CAVU maintains an audit trail that reflects all activity performed within an



applicant's CAVU file, as well as who performed the activity; however, there is no monitoring of the audit trail to ensure flags are appropriately cleared and licenses/registrations are appropriately issued.

Failure to have standardized and documented supervisory review processes in place for all application processes increases the possibility of licenses/registrations being issued when requirements are not met, leads to inconsistency in the supervisory review process, and also increases the possibility that the necessary preventative or detective supervisory reviews do not occur.

Recommendation

Develop and implement a standardized preventative or detective supervisory review process for all applications with the capability to document completion of supervisory reviews. For example, consider creating either a paper or electronic supervisory review checklist for each application type to ensure consistency in the supervisory review process and to provide a means to document completion of the review. Consider transferring the processing of NMLS renewal applications and company exemption applications to Licensing Examiners so that the Licensing Supervisor may conduct a preventative or detective review over these applications. Finally, consider developing and implementing monitoring procedures to detect instances where CAVU flags are inappropriately cleared and licenses/registrations are inappropriately issued.

Management Response

Consumer Finance has already begun development of procedures to outline each step in the process. This will include documentation of the supervisory review for both applications and renewals by license type.

A method to review the Division's licensing system (CAVU) activity will be developed and will include monitoring of a sample of the status changes in CAVU.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Deputy Superintendent for Consumer Finance	June 2014

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee