



Department of Commerce

Securities Audit

Audit Period: June through December 2013

Results Summary:

Objective	Conclusion
Initial Licensing Applications	Well-Controlled with Improvement Needed
Renewal Licensing Applications	Well-Controlled with Improvement Needed
Registration Forms for Sale of Securities	Well-Controlled with Improvement Needed

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Executive Summary

Background

The Division of Securities licenses securities professionals in Ohio who sell securities. The Division licenses broker-dealers, securities salespersons, investment advisors and investment advisor representatives. In addition, the Division registers filings for securities issuers. The division implemented a new database program called Securities Tracking and Registration (STAR), which is designed specifically for state securities regulators. With this new program, registration filers will be able to submit electronic filings and receive access to all filings through a web portal. In state fiscal year 2013, the Division of Securities licensed over 183,000 securities professionals and investment officers, received over 7,000 registration filings, and collected over \$17 million in license and registration fees.

During the audit, OIA identified opportunities for Department of Commerce to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank Department of Commerce (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 Division of Securities. This work was completed between December 2013 and March 2014. The scope of this review included the key processes over the licensing of the various securities professionals and firms regulated by the Division of Securities and registration of securities offered for sale to Ohioans. The scope did not include enforcement activities. The audit period is June through December 2013.

The objectives of the review included the following:

1. Evaluate the design and effectiveness of controls over processing initial licensing applications.
2. Evaluate the design and effectiveness of controls over processing renewal licensing applications.
3. Evaluate the design and effectiveness of controls over processing registration forms for sales of securities.



Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with 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 – Timeliness of Deposits

Ohio Administrative Code (OAC) section 113-1-02(A) requires state agencies to deposit all monies collected, within three business days of receipt by a state entity, into the state treasury.

For all fifteen STAR deposits tested, COM did not deposit funds collected within three business days of receipt. Funds were deposited between four and eleven business days of receipt, with an average of seven business days of receipt. Currently, the STAR check logs are not given to the Fiscal Department for OAKS coding and deposit until after all the payments have been applied to each application within STAR.

COM is not in compliance with OAC section 113-1-02(A). Untimely deposits also increases the likelihood of lost or misplaced checks. Furthermore, non-compliance with the timely deposit rule reduces potential interest income to the state.

Recommendation

Update policies and procedures over the revenue collection process to emphasize compliance with COM’s legal requirement and commitment to depositing receipts within three business days of receipt. Management should consider making appropriate changes to procedures for the current processes which are at risk for not meeting the three-day deposit rule.

Management Response

In order to ensure all funds collected are deposited within three days of receipt, the division and fiscal office will establish improved protocols. This will include revising the revenue log to include reporting the date of delivery, printed signature, signature, batch numbers, and total batch amount. The account clerk will report on the revenue log when deposits are processed. The revenue log will act as a detective control to identify funds not deposited within three days of receipt.

Division and fiscal office staff will receive training to gain a better understanding of deposit processes and to ensure there is no delay in processing. Also, additional resources were identified as backups.



Finally, the division and fiscal office will use a spreadsheet to record dates that funds are received, applied in STAR, and delivered to the fiscal office. This spreadsheet will be closely monitored to ensure there are no delays in depositing funds.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Assistant Chief Financial Officer	May 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