

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2023-030  
October 2022

**OFFICE OF FINANCIAL REGULATION**

Division of Financial Institutions  
and Prior Audit Follow-Up



Sherrill F. Norman, CPA  
Auditor General

## Commissioner of the Office of Financial Regulation

The Office of Financial Regulation is established by Section 20.121(3)(a)2., Florida Statutes. The Office is administratively supported by the Department of Financial Services but operates under the direction of the Financial Services Commission which is composed of the Governor, Attorney General, Chief Financial Officer, and Commissioner of Agriculture. The head of the Office is the Director of the Office of Financial Regulation, who may also be known as the Commissioner of Financial Regulation. During the period of our audit, the following individuals served as Commissioner of Financial Regulation:

Russell C. Weigel, III	From March 9, 2020
Abby Vail, Acting	From July 26, 2019, through March 8, 2020
Ronald L. Rubin	Through July 25, 2019

The team leader was Justin Farris, CPA, and the audit was supervised by Karen Van Amburg, CPA.

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# OFFICE OF FINANCIAL REGULATION

## Division of Financial Institutions and Prior Audit Follow-Up

### **SUMMARY**

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This operational audit of the Office of Financial Regulation focused on the Division of Financial Institutions (Division) and included a follow-up on the findings noted in our report No. 2019-104. Our audit did not disclose any reportable conditions regarding the Division or the other matters included within the scope of our audit.

### **BACKGROUND**

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State law<sup>1</sup> specifies that the Office of Financial Regulation (Office) is responsible for regulating banks, credit unions, other financial institutions, finance companies, and the securities industry. Pursuant to the financial institutions codes,<sup>2</sup> the Office, Division of Financial Institutions (Division), is responsible for regulating State-chartered financial institutions to provide for and promote the safe and sound conduct of business by those institutions.

The Division had 95 authorized positions and was organized into the Bureau of Bank Regulation and the Bureau of Credit Unions. As of June 30, 2022, the Division was responsible for regulating 69 State-chartered banks with assets totaling approximately \$98.4 billion and 66 State-chartered credit unions with assets totaling approximately \$79.8 billion.

### **AUDIT RESULTS**

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Our audit did not disclose any reportable conditions regarding the regulation of State-chartered banks and credit unions by the Office or the other matters included within the scope of our audit. Nothing came to our attention through our audit procedures to indicate that Office controls, as designed and implemented, were not adequate to ensure that State-chartered banks and credit unions were properly regulated, other matters were properly administered, and related laws, rules, and other guidelines were followed. As such, we are not making any recommendations.

### **PRIOR AUDIT FOLLOW-UP**

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The Office had taken corrective actions for the findings included in our report No. 2019-104.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

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The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant

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<sup>1</sup> Section 20.121(3)(a)2., Florida Statutes.

<sup>2</sup> Chapters 655 through 667, Florida Statutes.

information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2021 through July 2022 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.

This operational audit of the Office of Financial Regulation (Office) focused on the Division of Financial Institutions (Division). For those areas, the objectives of the audit were to:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed into operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies noted in our report No. 2019-104.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives; instances of noncompliance with applicable governing laws, rules, or contracts; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, Office policies and procedures, and other guidelines, and interviewed Office personnel to obtain an understanding of Office bank and credit union regulation processes.
- Examined Division records for the one bank newly chartered in the State during the period July 2019 through January 2021 to determine whether the Division timely and properly reviewed and approved the bank charter application in accordance with Chapters 655 and 658, Florida Statutes.
- Examined Division records for the four credit unions that were newly chartered in the State during the period July 2019 through January 2021 to determine whether the Division timely and properly reviewed and approved the applications for credit union charters in accordance with Chapters 655 and 657, Florida Statutes.
- From the population of 138 financial institutions that submitted quarterly reports and audit reports to the Division during the period July 2019 through January 2021, examined one audit report and one quarterly report for 40 selected financial institutions (21 banks and 19 credit unions) to determine whether the Division ensured that State financial institutions timely submitted required reports to the Division.
- From the population of 38 examinations of State-chartered banks and 42 examinations of State-chartered credit unions conducted by the Division during the period July 2019 through January 2021, examined Division records for 8 selected bank examinations and 8 selected credit union examinations to determine whether the Division properly and timely performed examinations of State-chartered banks and credit unions.
- From the population of 550 assessments, totaling \$27,849,559, paid by 148 financial institutions to the Division during the period July 2019 through January 2021, examined Division records for 40 selected assessments, totaling \$2,462,055 and paid by 40 financial institutions, to determine whether the Division ensured that financial institution assessments were: paid in accordance with Section 655.047, Florida Statutes; appropriately charged; timely collected; and appropriately recorded in the Regulatory Enforcement and Licensing (REAL) system.
- Evaluated Office actions to correct the findings noted in our report No. 2019-104. Specifically, we:
  - From the population of 53 enforcement actions issued by the Division of Securities during the period July 2019 through January 2021, examined Division of Securities records for 15 selected enforcement actions with fines to determine whether the Division timely filed Uniform Disciplinary Action Reporting forms to the Central Registration Depository system or the Investment Adviser Registration Depository system.
  - From the population of 247 securities regulation complaints closed by the Office during the period July 2019 through January 2021, examined 25 selected complaints to determine whether the Office timely acknowledged receipt of the complaints, appropriately closed complaints, and sent closing letters to complainants.
  - From the population of 140 investigations closed by the Office, Bureau of Financial Investigations, during the period July 2019 through January 2021, examined records for 15 selected investigations to determine whether required investigation documentation, including Case Audit Checklists, was included in investigation records.

- Examined records for all 76 employees who had REAL system access privileges and who separated from Office employment during the period July 2019 through January 2021 to determine whether the Office timely deactivated employee REAL system access privileges upon employment separation.
- Examined the records for all 22 investigation referrals sent by the Office to the Department of Financial Services during the period July 2019 through December 2021 to determine whether the referrals were timely made and accurately recorded in the REAL system.
- Observed, documented, and evaluated the effectiveness of selected Office processes and procedures for:
  - Purchasing activities.
  - The administration of Office contracts. As of April 2, 2021, the Office was responsible for 17 active contracts totaling \$25,298,282.
  - The administration of purchasing cards in accordance with applicable guidelines. As of March 1, 2021, the Office had 187 active purchasing cards.
  - The acquisition and management of real property leases in accordance with State law, Department of Management Services rules, and other applicable guidelines. During the 2020-21 fiscal year, the Office was responsible for 35 real property leases.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Obtained the views of management concerning the conclusions in this report. Management's views are summarized under the heading **MANAGEMENT'S RESPONSE**.

## ***AUTHORITY***

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Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA  
Auditor General

***MANAGEMENT'S RESPONSE***

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Office management concurred with the audit results.