

COMPLIANCE AND CONTROL AUDIT REPORT

**BANK COMMISSIONER'S OFFICE
SAVINGS AND LOAN DEPARTMENT
DEPARTMENT OF CREDIT UNIONS
CONSUMER CREDIT COMMISSIONER'S OFFICE
OFFICE OF THE SECURITIES COMMISSIONER**

OBTAINING AUDIT INFORMATION

This audit was conducted by Randy Tongier, Financial-Compliance Audit Manager, and Roy Fitzpatrick, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices.

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Summary of Legislative Post Audit's Findings

The Legislative Division of Post Audit conducted compliance and control audit work at the Bank Commissioner's Office, Savings and Loan Department, Department of Credit Unions, Consumer Credit Commissioner's Office, and Office of the Securities Commissioner in partial fulfillment of the Legislative Post Audit Act's requirement that audit work be conducted at each State agency at least once every three years. This compliance and control audit addressed the areas of receipts. There were no prior audit findings and recommendations. The period covered by this audit was the fiscal year ended June 30, 1989.

Did the Bank Commissioner's Office, Savings and Loan Department, Department of Credit Unions, Consumer Credit Commissioner's Office, and Office of the Securities Commissioner comply with legal and procedural requirement applicable to their receipts, and provide adequate internal control over receipts? The agencies' procedures for handling receipts were in accordance with legal and procedural requirements and generally provided adequate controls over receipts, with three exceptions. Those exceptions related to the timely deposit of receipts. The Bank Commissioner's Office, Savings and Loan Department, and Office of the Securities Commissioner did not deposit receipts as often as required by State law.

The report recommends that the Bank Commissioner's Office, Savings and Loan Department, and Office of the Securities Commissioner either ensure that receipts are deposited in the State Treasury daily as required by State law or request the Pooled Money Investment Board to grant an exception to that requirement. We would be happy to discuss these recommendations or any other items in the report with legislative committees, individual legislators, or other State officials.



Meredith Williams
Legislative Post Auditor

**BANK COMMISSIONER'S OFFICE
SAVINGS AND LOAN DEPARTMENT
DEPARTMENT OF CREDIT UNIONS
CONSUMER CREDIT COMMISSIONER'S OFFICE
OFFICE OF THE SECURITIES COMMISSIONER**

The Legislative Post Audit Act requires that an annual financial statement audit be conducted of the State's general purpose financial statements. The Act also requires that audit work be conducted at each State agency at least once every three years. Audit work conducted as part of the annual financial statement audit partially fulfills the latter requirement. Also in partial fulfillment of that requirement, the Legislative Division of Post Audit has conducted compliance and control audit work at the Bank Commissioner's Office, the Savings and Loan Department, the Department of Credit Unions, the Consumer Credit Commissioner's Office, and the Office of the Securities Commissioner covering the fiscal year ended June 30, 1989.

To avoid duplication of audit work conducted as part of the annual, Statewide audit, our audit work focused on areas not covered by the Statewide audit. These areas normally include receipts and locally administered funds. Because the five agencies covered by this report had no locally administered funds, the only area reviewed was receipts. These agencies had no prior audit findings and recommendations. The audit addresses the following specific question:

- 1. Did the Bank Commissioner's Office, the Savings and Loan Department, the Department of Credit Unions, the Consumer Credit Commissioner's Office, and the Office of the Securities Commissioner comply with legal and procedural requirements applicable to their receipts, and provide adequate internal control over receipts?**

We identified the legal and procedural requirements applicable to the audited agencies' receipts by reviewing relevant statutes, administrative regulations, and sections of the Division of Accounts and Reports' Policy and Procedure Manual. We also interviewed agency personnel, reviewed written procedures, and examined related supporting documents to identify the agencies' procedures for handling receipts. We then compared those procedures with the applicable legal and procedural requirements. In addition, we identified the potential for loss or misuse of receipts, and we evaluated the level of control provided by the agencies' procedures in preventing and detecting loss or misuse of those receipts. Finally, we performed analytical tests of receipts, reviewed accounting records, and tested a sample of transactions at each agency.

In conducting this audit work, we followed all applicable generally accepted government auditing standards set forth by the U.S. General Accounting Office.

Background

This audit report covers five State agencies — the Bank Commissioner's Office, the Savings and Loan Department, the Department of Credit Unions, the Consumer Credit Commissioner's Office, and the Office of the Securities Commissioner. The operations of each agency are briefly described below.

Bank Commissioner's Office

The Bank Commissioner is appointed by the Governor, subject to Senate confirmation, to a four-year term. The Commissioner, through his Office, is responsible for ensuring the financial integrity of State-chartered banks. A major part of meeting this responsibility involves the examination of all State banks and trust companies at least every 18 months.

The Banking Board comprises nine members, six representing the banking industry and three representing the general public. Board members are appointed by the Governor to three-year terms, subject to Senate confirmation. The Board makes decisions on applications for new State banks, branch facilities, and relocations of existing facilities.

The operations of the Bank Commissioner's Office are funded primarily by annual assessments paid by regulated banks. The amount paid by each bank depends on the asset level of that bank. Sources and uses of funds for fiscal year 1989 are presented below.

Bank Commissioner's Office Sources and Uses of Funds Fiscal Year 1989

BEGINNING CASH BALANCE		\$ 292,165
SOURCES OF FUNDS:		
Assessments and Other Fees Collected	\$ 2,758,886	
Less: Deposits to the General Fund	<u>203,505</u>	
Net Fees	\$ 2,555,381	
Other Receipts	<u>10,319</u>	
Total Sources of Funds		2,565,700
USES OF FUNDS:		
Salaries and Wages	\$ 2,161,799	
Contractual Services	282,963	
Commodities	10,219	
Capital Outlay	21,174	
Non-Operating Uses of Funds	<u>25,479</u>	
Total Uses of Funds		<u>2,501,634</u>
ENDING CASH BALANCE		\$ <u>356,231</u>

Savings and Loan Department

The Savings and Loan Department monitors savings and loan institutions to ensure that they are operating according to sound financial practices. In carrying out this responsibility, the Department conducts at least one financial examination of each institution every 18 months. The Savings and Loan Commissioner, appointed by the Governor to a four-year term, supervises the operations of the Department.

The Savings and Loan Board comprises seven members appointed by the Governor to four-year terms, subject to Senate confirmation. Five Board members are to have savings and loan industry experience, and the remaining two members are to represent the general public. The Board makes decisions on applications for charters and new locations.

The operations of the Savings and Loan Department are funded mainly by examination fees and biennial assessments. The examination fees are based on the number of hours worked by the examiners. The amount of the biennial assessment for each savings and loan institution depends on its asset levels. Sources and uses of funds for fiscal year 1989 are presented below.

Savings and Loan Department Sources and Uses of Funds Fiscal Year 1989

BEGINNING CASH BALANCE		\$ 141,488
SOURCES OF FUNDS:		
Fees, Assessments, and Other Receipts Collected	\$ 263,244	
Less: Deposits to the General Fund	<u>52,649</u>	
Total Sources of Funds		210,595
USES OF FUNDS:		
Salaries and Wages	\$ 166,582	
Contractual Services	41,452	
Commodities	628	
Capital Outlay	<u>464</u>	
Total Uses of Funds		<u>209,126</u>
ENDING CASH BALANCE		<u>\$ 142,957</u>

Department of Credit Unions

The Department of Credit Unions regulates State-chartered credit unions. A major part of this regulation involves examinations to determine each credit union's financial stability and compliance with applicable laws and regulations. The Credit Unions Administrator, appointed by the Governor to a four-year term, subject to Senate confirmation, supervises the Department's activities.

The Credit Union Council comprises seven members appointed by the Governor to three-year terms, subject to Senate confirmation. Five of the members are to be officers of Kansas credit unions. The Council is authorized to review the activities of the Credit Union Department.

The operations of the Department of Credit Unions are funded by fees assessed each State-chartered credit union. The amount of the fees depends on the credit union's level of assets. Sources and uses of funds for fiscal year 1989 are presented below.

**Department of Credit Unions
Sources and Uses of Funds
Fiscal Year 1989**

BEGINNING CASH BALANCE		\$ 213,079
SOURCES OF FUNDS:		
Assessments Collected	\$ 532,106	
Less: Deposits to the General Fund	106,421	
Total Sources of Funds	425,685	
USES OF FUNDS:		
Salaries and Wages	\$ 366,208	
Contractual Services	91,999	
Commodities	3,830	
Capital Outlay	5,152	
Total Uses of Funds	467,189	
ENDING CASH BALANCE		\$ 171,575

Consumer Credit Commissioner's Office

The Consumer Credit Commissioner is appointed by the Governor, subject to confirmation of the Senate. The Office of the Commissioner is responsible to protecting consumer buyers, lessees, and borrowers from unfair business practices on the part of suppliers of consumer credit and investments. The Commissioner administers the Uniform Consumer Credit Code and the Kansas Investment Certificate Act.

The operations of the Consumer Credit Commissioner's Office are funded mainly by registration, license, and other fees. Sources and uses of funds for fiscal year 1989 are presented on the next page.

**Consumer Credit Commissioner's Office
Sources and Uses of Funds
Fiscal Year 1989**

BEGINNING CASH BALANCES		\$ 344,512
SOURCES OF FUNDS:		
Registration, License, and Other Fees Collected	\$ 438,020	
Less: Deposits to the General Fund	<u>87,604</u>	
Net Fees	\$ 350,416	
Other Receipts	<u>1,482</u>	
Total Sources of Funds		351,898
USES OF FUNDS:		
Salaries and Wages	\$ 229,539	
Fees for Professional Services	58,914	
Commodities	1,889	
Capital Outlay	8,740	
Transfers to Kansas State University	65,000	
Other Payments	<u>375</u>	
Total Uses of Funds		<u>364,457</u>
ENDING CASH BALANCES		<u>\$ 331,953</u>

Office of the Securities Commissioner

The Securities Commissioner is appointed by the Governor with the consent of the Senate. The Office of the Securities Commissioner is responsible for ensuring that securities offerings to Kansas investors are fair, equitable, and nonfraudulent, as well as for maintaining public confidence in the capital formation markets of the State.

Operations of the Office of the Securities Commissioner are funded primarily by registration fees. Sources and uses of funds for fiscal year 1989 are presented below.

**Office of the Securities Commissioner
Sources and Uses of Funds
Fiscal Year 1989**

BEGINNING CASH BALANCES		\$ 515,710
SOURCES OF FUNDS:		
Registration Fees Collected	\$ 2,480,442	
Less: Deposits to the General Fund	<u>1,481,244</u>	
Net Fees	\$ 999,198	
Other Receipts	<u>2,796</u>	
Total Sources of Funds		1,001,994

USES OF FUNDS:		
Salaries and Wages	\$ 742,239	
Contractual Services	168,269	
Commodities	13,218	
Capital Outlay	<u>63,244</u>	
Total Uses of Funds		<u>986,970</u>
ENDING CASH BALANCES		<u>\$ 530,734</u>

Did the Bank Commissioner's Office, the Savings and Loan Department, the Department of Credit Unions, the Consumer Credit Commissioner's Office, and the Office of the Securities Commissioner Comply With Legal and Procedural Requirements Applicable to Their Receipts, and Provide Adequate Internal Control Over Receipts?

For fiscal year 1989, our review showed that these agencies complied with legal and procedural requirements applicable to receipts except that the Bank Commissioner's Office, the Savings and Loan Department, and the Office of the Securities Commissioner did not deposit receipts in the State Treasury on a timely basis. In addition, their procedures provided adequate internal control over receipts. Our conclusions were based on the following.

With Few Exceptions, the Agencies Complied With Applicable Requirements And Provided Adequate Controls

In the area of receipts, we identified the agencies' procedures for handling receipts, determined whether those procedures met applicable legal requirements, evaluated the internal controls provided by those procedures, and tested a sample of transactions, records, and reports to determine whether the applicable procedures had been followed. In particular, we determined that:

- ◇ amounts due the agencies were properly assessed and collected
- ◇ amounts collected by the agencies were deposited in the State Treasury on a timely basis
- ◇ the agencies' receipts procedures provided adequate controls to limit to an acceptable level the risk of loss or misuse of receipts and the risk of noncompliance with legal and procedural requirements

The Bank Commissioner's Office, the Savings and Loan Department, and the Office of the Securities Commissioner Did Not Deposit Receipts as Often As Required by State Law

State law requires State agencies such as those covered by this audit to deposit receipts in the State Treasury on a daily basis, unless the Pooled Money Investment Board grants an exception to that requirement. In testing for compliance with this requirement, we found that these three agencies did not deposit receipts as frequently as required.

Of the 56 individual receipts we tested at the Bank Commissioner's Office, 30 (54 percent) were deposited from one to 13 days after the required deposit date. Of the 40 individual receipts we tested at the Savings and Loan Department, 19 (48 percent) were deposited from one to 39 days after the required deposit date. And of the 40 individual receipts we tested at the Office of the Securities Commissioner, 23 (58 percent) were deposited from one to nine days after the required deposit date.

Timely deposit of receipts not only achieves compliance with legal requirements, it also reduces the risk of loss or misuse because moneys in the State Treasury are more secure than moneys on hand at a State agency's offices. In addition, because moneys that could have been invested by the Pooled Money Investment Board had they been in the State Treasury were not available for investment, the State lost the opportunity to earn interest on these moneys. Although information was not available to allow us to estimate the loss, it appears that the amount of interest lost was very small. However, even this loss could have been avoided.

Recommendation

The Bank Commissioner's Office, the Savings and Loan Department, and the Office of the Securities Commissioner should each either take steps to ensure that receipts are deposited in the State Treasury daily as required by State law or request the Pooled Money Investment Board to grant them an exception to that requirement.

APPENDIX A

Agency Response

On August 6, 1990, we provided a copy of the draft audit report to the Bank Commissioner's Office, the Savings and Loan Department, the Department of Credit Unions, the Consumer Credit Commissioner's Office, and the Office of the Securities Commissioner. Their responses are included in this Appendix.

STATE OF KANSAS

W. Newton Male
Bank Commissioner



Michael D. Heitman
Deputy Commissioner

OFFICE OF
BANKING DEPARTMENT
TOPEKA

August 16, 1990

Meredith Williams
Legislative Division of Post Audit
109 West 9th, Suite 301
Mills Building
Topeka, Kansas 66612



Dear Mr. Williams:

This will acknowledge receipt of the draft copy of the compliance and control audit report covering State fiscal year 1989, as compiled by Auditor Roy Fitzpatrick.

We are in complete agreement with the findings of the audit report. We ask that you review the copies of the attached letters wherein we requested an exemption from making daily deposits, except in certain instances, and the answer we have received from Lyell Ocobock, Executive Officer, Pooled Money Investment Board. As you will note we are well within the limits approved by the Board.

We welcome an audit at any given time and would like to advise that Roy Fitzpatrick conducted a thorough and complete audit of our 1989 receipts.

If we can provide you with any other information, please feel free to contact us.

Sincerely,

W. Newton Male
State Bank Commissioner

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STATE OF KANSAS

W. Newton Male
Bank Commissioner



Michael D. Heitman
Deputy Commissioner

OFFICE OF

BANKING DEPARTMENT
TOPEKA

August 8, 1990

Lyell D. Ocobock, Executive Officer
Pooled Money Investment Board
Room 304N, Landon State Office Bldg.
900 SW Jackson
Topeka, Kansas

Dear Lyell:

During a recent audit of this office by the Legislative Division of Post Audit, it was recommended that the Bank Commissioner's Office make deposits in the State Treasury on a daily basis as required by K.S.A. 75-4215. With regard to this matter, I submit the following information.

During the months of July and January of any fiscal year, we receive assessments from the state-chartered banks and trust companies. During those two months we will make daily deposits and at any other time during the fiscal year that we may have collected at least \$200.00. With the exception of July and January, there are many times that we may have only a few dollars to deposit and it seems hardly be worthwhile to make up a deposit and take it to the State Treasurer's office, when that deposit may only be for a dollar or so.

Taking the above information into consideration, we hereby request the Pooled Money Investment Board grant us an exception to the daily deposit when the amount is less than \$200.00.

Thank you for your consideration of our request for the above-mentioned exemption relating to daily deposits of amounts less than \$200.00. I will appreciate receiving your reply in order that I may notify the Legislative Division of Post Audit of our compliance with K.S.A. 75-4215.

Sincerely,

W. Newton Male
State Bank Commissioner

/bd

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AUG 10 1990

POOLED MONEY INVESTMENT BOARD

Landon State Office Building
900 S.W. Jackson Street
Suite 304-N
Topeka, KS 66612-1220
(913) 296-3372 *

BOARD MEMBERS
Joan Finney, Chairman
Clayton C. McMurray
Harland E. Priddle

Executive Officer
Lyell D. Ocobock

August 9, 1990

Mr. W. Newton Male
State Bank Commissioner
Banking Department
700 Jackson, Suite 300
Topeka, Ks. 66603-3714

Dear Mr. Male:

In response to your request dated August 8, 1990, this is to advise you that the minimum policy established by the board regarding frequency of deposits provides that deposits to the State Treasurer are to be made when an agency has accumulated at least \$2,000.00 or it has been ten working days since the last deposit, whichever occurs first, providing that adequate security for safekeeping of the deposit is available within your office.

You should continue to make daily deposits during your peak collection months of January and July, as indicated in your letter is your current procedure. Other than the peak months, your request to make deposits with the State Treasurer when you have collected \$200.00 falls within the minimum board policy.

If you have any questions, please advise.

Sincerely,

A handwritten signature in cursive script that reads "Lyell D. Ocobock".

Lyell D. Ocobock
Executive Officer

LDO:mb

STATE OF KANSAS



Savings and Loan Department

Room 509
Landon State Office Building
900 Jackson

TOPEKA, KANSAS 66612-1220

September 6, 1990

MIKE HAYDEN, *Governor*
DAVID DOUGLASS, *Commissioner*

SEP 7

Mr. Meredith Williams
Legislative Division of Post Audit
109 W. 9th, Suite 301, Mills Bldg.
Topeka, KS 66612-1285

Dear Mr. Williams:

I have reviewed the draft copy of the compliance and control audit report for fiscal year 1989.

I find that the report is accurate. We have followed the auditor's recommendation since the matter was called to our attention.

Sincerely,


David Douglass
Commissioner

DD:vh



Kansas State Department of Credit Unions

400 Kansas Avenue, Suite B
Topeka, KS 66603
Phone (913) 296-3021

September 11, 1990



Mr. Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 West 9th Suite 301
Mills Building
Topeka, KS 66612-1285

Dear Mr. Williams:

This letter is to acknowledge receipt of a copy of the draft report on the audit of the Kansas State Department of Credit Unions for State fiscal year 1989.

The department concurs with this audit report.

Yours truly,

A handwritten signature in cursive script that reads "Wayne Warfel".

Wayne Warfel
Administrator

WF:fc

THE STATE OF KANSAS



MIKE HAYDEN
Governor

OFFICE OF *Consumer Credit Commissioner*

NEIL H. ARASMITH
Commissioner

August 14, 1990

Mr. Meredith Williams
Legislative Post Audit
109 W. 9th, Suite 301
Mills Building
Topeka, Kansas 66612

AUG 14 1990

Dear Mr. Williams:

I have reviewed the compliance and control audit for the fiscal year 1989 and concur with your findings.

I would like to thank Mr. Fitzpatrick for the kind and courteous manner in which he conducted himself during the audit.

If your office needs additional information, please let us know.

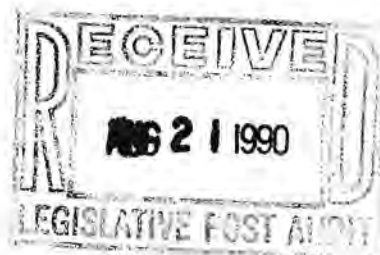
Sincerely,

A handwritten signature in cursive script that reads "Neil Arasmith".

NEIL H. ARASMITH
COMMISSIONER

NHA:dr

STATE OF KANSAS



OFFICE OF THE SECURITIES COMMISSIONER

Second Floor

618 South Kansas Avenue

Topeka, Kansas 66603-3804

(913) 296-3307

Mike Hayden,
Governor

M. Douglas Mays,
Securities Commissioner

August 21, 1990

Meredith Williams,
Legislative Post Auditor
Legislative Division of Post Audit
109 West 9th, Suite 301
Topeka, Kansas 66612-1285

Re: Compliance and Control Audit Report for FY 1989

Dear Mr. Williams:

We have reviewed the draft of the audit report referenced above and agree with your recommendations based on findings that receipts were not all deposited on a timely basis.

As recommended, we intend to request that the Pooled Money Investment Board grant us an exception to the requirement for daily deposits. In support of this request, our justifications will be based on a cost-benefit approach in order to appropriately balance efficiency with security.

Thanks again to you and your staff for the professional and courteous manner of conducting the audit.

Sincerely,

A handwritten signature in black ink, appearing to be "M. Douglas Mays".

M. Douglas Mays
Securities Commissioner

COMPLIANCE AND CONTROL AUDIT REPORT

**BANK COMMISSIONER'S OFFICE
SAVINGS AND LOAN DEPARTMENT
DEPARTMENT OF CREDIT UNIONS
CONSUMER CREDIT COMMISSIONER'S OFFICE
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