

LBA Financial Audit Report Summary:

Banking Department, for the Nine Months Ended March 31, 2002

Reporting Entity And Scope

The reporting entity and scope of this audit and audit report is the revenues, expenditures, and fixed assets reported by the New Hampshire Banking Department (the Department), excluding the New Hampshire Public Deposit Investment Pool (PDIP) for the nine months ended March 31, 2002. Pursuant to RSA 383:22, the PDIP was established for the purpose of investing the funds of the State and other governmental entities. The PDIP operates under contract with a private investment advisor and receives an independent audit annually.

Organization

The New Hampshire Banking Department, established pursuant to RSA 383, is a regulatory state agency. The Department is under the direction of a commissioner and deputy commissioner, both appointed by Governor and Council to six year terms. The Department employs 25 full-time and two part-time employees and is comprised of two divisions, Banking and Consumer Credit.

The Banking Division is responsible for the supervision and examination of the 60 state-chartered banks, credit unions, and other similar depository institutions. State statute requires that the Department conduct an examination of the condition and management of each institution, with certain exceptions, at least once every 18 months. Joint examinations are performed by the Department and federal regulatory agencies on certain institutions annually. During the nine months ended March 31, 2002, the Banking Division performed 18 examinations. The Division is comprised of a chief bank examiner and 13 examiners.

The Consumer Credit Division is responsible for the licensing and examination of 2,083 non-depository licensees, such as first or second mortgage companies, retail sellers of motor vehicles, sales finance companies, and other small loan companies. During the nine months ended March 31, 2002, the Division processed approximately 1,900 license applications and renewals. It also performed 23 examinations of non-depository institutions. The Division is comprised of an administrator of industry regulation and licensing, a consumer credit administrator, and five examiners.

Funding

The Department is self-supporting, operating initially from General Fund appropriations, and subsequently recovering these funds through licenses, examination fees, and year-end assessments. Assessments are levied on depository and non-depository institutions in accordance with RSA 383:11.

The fiscal year 2002 appropriations combined with supplemental warrants, balances forward, and transfers resulted in a spending authority of \$2,304,224 in the General Fund. Estimated restricted revenue combined with supplemental warrants, balances forward, and transfers resulted in anticipated fiscal year 2002 restricted revenue of \$1,912,971 in the General Fund. The actual financial activity of the Department is summarized below.

Summary of Revenues And Expenditures For The Nine Months Ended March 31, 2002	
	<u>General Fund</u>
Total Revenues	\$ 1,248,680
Total Expenditures	<u>1,209,491</u>
Excess Revenues Over Expenditures	<u>\$ 39,189</u>

The auditor's report on the Department's financial statements was qualified with respect to the lack of presentation of the financial position of the Department in the General Fund.

The audit report included auditor's reports on compliance and internal control over financial reporting and on management issues. The following is a list of the comments in the report.

Internal Control Comments

- Segregation Of Duties Control Procedures Need To Be Established
- Formal Policy For Accounts Receivable Should Be Developed And Collection Procedures Should Be Improved
- Monthly Revenue Reconciliations Should Be Performed
- Initial Controls Over Cash Receipts Should Be Enhanced
- Cost Allocation Methods Should Be Improved
- An Effective Timekeeping System Should Be Utilized
- A Formal Information Security Policy And Disaster Recovery Plan Should Be Developed

State Compliance Comments

- Department Statutes Should Be Reviewed For Relevancy
- The Number Of Examinations Of Consumer Credit Institutions Needs To Be Increased
- The Department Should Revise Its Assessment Methodology And Timing of Collections
- Administrative Rules Should Be Adopted As Required By Statute

Management Issues Comments

- Procedures For The Identification Of Unlicensed Institutions And Providing Public Awareness Should Be Improved
- The Department Should Seek Legislation To Help Enforce Governing Statutes
- A Long-Term Strategic Plan Should Be Developed