Office of the State Auditor
Audit Report
Department of Banking
July 1, 1994 to November 30, 1995
# Department of Banking
## Audit Report

<table>
<thead>
<tr>
<th>Table of Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Scope</td>
<td>2</td>
</tr>
<tr>
<td>Objectives</td>
<td>2</td>
</tr>
<tr>
<td>Methodology</td>
<td>2</td>
</tr>
<tr>
<td>Conclusion</td>
<td>3</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Mail Log and Untimely Deposits</td>
<td>3</td>
</tr>
<tr>
<td>Dishonored Checks</td>
<td>4</td>
</tr>
<tr>
<td>Departmental Response</td>
<td>5</td>
</tr>
</tbody>
</table>
The Honorable Christine Todd Whitman  
Governor of New Jersey  

The Honorable Donald T. DiFrancesco  
President of the Senate  

The Honorable Jack Collins  
Speaker of the General Assembly  

Mr. Albert Porrini  
Executive Director  
Office of Legislative Services  

We have completed an audit of the Department of Banking for the period July 1, 1994 to November 30, 1995.

We found that the financial transactions included in our testing were related to agency's programs, were reasonable and were properly recorded in the accounting system. However, we did note areas where improvement is needed. The department does not maintain a mail log, license application fees are not deposited timely and the department has not implemented its collection procedures for dishonored checks. Details of the findings and recommendations are included in our report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair  
State Auditor
Department of Banking

Scope

We have completed an audit of the Department of Banking for the period July 1, 1994 to November 30, 1995. Our audit included financial activities accounted for in the state's General Fund.

Total expenditures of the agency during the seventeen month audit period were $10.0 million. The prime responsibility of the department is to regulate, charter, license, supervise and examine a wide range of financial entities which have loan and investment services. These entities are mainly comprised of commercial banks and bank holding companies, savings banks, savings and loan associations and holding companies. In addition, the department’s supervisory authority extends to financially related activities such as mortgage bankers, mortgage brokers, brokers, check cashing and selling companies, and credit unions. The department’s commissioner serves as the chairman of the Pinelands Development Credit Bank which facilitates the preservation of pineland resources and accommodates regional growth influences. Revenues of the agency totaled $13.8 million and the major components of revenue were assessments levied on financial institutions, examination fees and license fees.

Objectives

The objectives of our audit were to determine whether the financial transactions were related to the agency’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant issues noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.
A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of the transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

**Conclusion**

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted significant internal control weaknesses meriting management's attention.

We also found that the agency has resolved the significant issues noted in our prior report except for the matter related to the maintenance of a mail log and untimely deposit of license fees. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.

**Mail Log and Untimely Deposits**

The department collects revenue from assessments levied on financial institutions, examination fees and licensing fees. Our test of revenues disclosed that the department does not maintain a mail log which lists all cash items at the point of receipt. Checks and attached documents are forwarded from the mailroom to either the licensing unit or the fiscal unit. Good internal control procedures require the listing of cash items at the point of receipt in order to minimize the risk of checks being lost or stolen. The department has not established procedures to implement the maintenance of a mail log.

During our audit period the department’s Licensing Unit received $4.7 million in license application fees. Our testing of the revenue received by the Licensing Unit disclosed that the unit’s procedures did not require receipts to be deposited in accordance with Department of the Treasury Circular Letter 94-24. The circular requires agencies to deposit moneys the same day they are received. The timely deposit of revenues permits the state to better manage its financial resources and maximize its investment earnings. In addition,
undeposited receipts are at risk of loss. Our testing of 54 cash receipts found that 34 had been deposited late, up to 25 days after receipt.

**Recommendation**

We recommend:

The department strengthen its controls over the processing of cash receipts by listing checks at a central point of receipt and delivering the checks to the cashier for depositing.

The Licensing Unit establish procedures to assure that cash receipts are deposited in compliance with the requirements of Treasury Circular Letter 94-24.

**Dishonored Checks**

In accordance with N.J.A.C. 3:1-6.7, the department is to inform a licensee, by letter, of a dishonored check and request that payment be made by certified check within 20 days of the letter date. If payment is not received within that period, the department is to suspend the license until payment is received. Our test of dishonored checks disclosed that the department is not enforcing its dishonored check procedures. We found 25 dishonored checks totaling $13,748 for mortgage and financial brokerages who were issued licenses for which proper payment had not been received. As of the close of our field work, the Licensing Unit had initiated collection procedures for one of the dishonored items.

**Recommendation**

We recommend that the department enforce its dishonored check procedures.