



OFFICE OF FINANCIAL REGULATION

LINDA B. CHARITY
ACTING COMMISSIONER

August 6, 2009

The Honorable Marti Coley, Chair
Joint Legislative Auditing Committee
Room 876, Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1400

Dear Chair Coley:

Pursuant to Section 20.055(5)(h), Florida Statutes, the attached document is our six-month follow-up response to the Auditor General Report, Number 2009-110, Operational Audit of the Office of Financial Regulation's Regulation of Financial Institutions issued on February 6, 2009.

Should you have any questions concerning this response, please contact Mr. Robert Dyar, Inspector General, at 410-9601.

Sincerely,

Linda B. Charity

Enclosure

cc: David W. Martin, Auditor General

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Office of Financial Regulation

Six-Month Response to the Audit Findings Regulation of Financial Institutions Audit Number 2009-110

Finding No. 1: Review of De Novo Bank Applications

OFR did not adequately document, through the use of its established worksheets and checklists, the elements of de novo bank applications that were reviewed for compliance with the requirements of Florida law and rules.

Recommendation: To promote the consistent review of de novo bank applications, as well as better ensure documentation and transfer of institutional knowledge, OFR should amend its current policies and procedures to require the completion of the established worksheets and checklists. To better facilitate the use of these documents, OFR should consider the development of a checklist encompassing into one standard document all of the review requirements pertinent to an application for a de novo bank.

Auditee Response: Concur. We will adopt checklists and/or worksheets to document our existing de novo application review process. We will also update our policies and procedures to incorporate these checklists and/or worksheets and their use.

Auditee Six-month Follow-up Response: Pending. Checklists have been written and implemented, and are being evaluated on the work-sites to ensure that the checklists fulfill the necessary requirements. Upon completion of the evaluations, policies and procedures will be updated as required.

Finding No. 2: Credit Union Examinations

Contrary to OFR policies and procedures, OFR staff did not always adequately complete an examination checklist in support of the credit union examinations performed.

Recommendation: To better provide for the conduct and documentation of examination procedures, OFR should ensure that all credit union examinations are supported by completed checklists.

Auditee Response: Concur. We have updated and formally adopted a checklist to document our current practices.

Auditee Six-month Follow-up Response: Resolved.

Finding No. 3: Bank Examination Reports

In conducting bank examinations, OFR was to follow the Federal Deposit Insurance Corporation (FDIC) *Risk Management Manual of Examination Policies* (Policies) and supplemented its guidance through memorandums to staff, notes from management meetings, and training schools provided through FDIC. Our audit found that OFR generally followed FDIC policies and procedures. However, we did find that OFR Reports of Examination did not always include all mandatory FDIC disclosures.

Recommendation: We recommend OFR ensure that Reports of Examination contain all mandatory disclosures and that, where applicable, examination files contain explanations documenting the justification for any significant divergence from applicable reporting requirements.

Auditee Response: Concur. We will review and update our policies and procedures to address better documentation of the reasons for excluding certain examination pages in the final examination report as permitted under FDIC policies and procedures.

Auditee Six-month Follow-up Response: Pending. We designed a checklist to capture the documentation. The checklist has been implemented, and is being evaluated on the work-sites to ensure that the checklist fulfills the necessary requirements. Upon completion of the evaluations, policies and procedures will be updated as required.

Finding No. 4: Bank Examination Documentation

OFR had not established a single, uniform checklist to document the completion of all applicable bank examination procedures.

Recommendation: To better provide for the conduct and documentation of applicable examination procedures, OFR should establish a single, standard checklist of examination procedures. Such a checklist should, at a minimum, reference the procedures typically performed during an examination and make provisions for the identification of the examiner who performed the procedures, and when necessary, explanations as to the reason that a standard procedure was not performed.

Auditee Response: Concur. We will develop a checklist to document current practices and update our policies and procedures to incorporate the check list and its use.

Auditee Six-month Follow-up Response: Pending. Checklists have been written, implemented, and are being evaluated on the work-sites to ensure that the checklists fulfill the necessary requirements. Upon completion of the evaluations, policies and procedures will be updated as required.

Finding No. 5: Bank and Credit Union Examination Review

Area field offices did not always document the independent supervisory review of examination working papers and Reports of Examination.

Recommendation: To more adequately ensure the accuracy and completeness of all Reports of Examinations and supporting working papers, OFR should ensure reviews of Reports of Examination and the supporting working papers are completed by a staff person independent of the examination.

Auditee Response: Concur. We will update our exam completion memo to better document the independent reviews of examination working papers and Reports of Examination. We will also review our policies and procedures to ensure that it addresses documentation and the requirement for independent review.

Auditee Six-month Follow-up Response: Pending. The memo has been updated and implemented, and is being evaluated on the work-sites to ensure that the memo fulfills the necessary requirements. Upon completion of the evaluations, policies and procedures will be updated as required.

Finding No. 6: Financial Institution Surveillance

OFR had not established written procedures related to on-going surveillance of State-chartered financial institutions.

Recommendation: We recommend that OFR adopt written surveillance procedures.

Auditee Response: Concur. We are working on a policy to adopt current practices.

Auditee Six-month Follow-up Response: Pending. We have developed an off-site surveillance program and drafted a corresponding off-site surveillance policy for State-chartered financial institutions. The Division has been testing an off-site surveillance program with its Tallahassee HQ staff and anticipates disseminating surveillance data to our field staff in the near future (August when new quarterly financial data becomes available). The written surveillance program and associated procedures will be formally adopted when we are satisfied with the results of the off-site surveillance test program. We are currently planning a demonstration of the new off-site surveillance program at our annual meeting in October.