

EXECUTIVE DIGEST

FINANCIAL INSTITUTIONS BUREAU

INTRODUCTION

This report, issued in August 1999, contains the results of our performance audit* of the Financial Institutions Bureau (FIB), Department of Consumer and Industry Services (CIS).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

FIB, within CIS, is governed by Sections 487.301 - 487.598 of the *Michigan Compiled Laws*. The overall administration of FIB activities is the responsibility of the commissioner of FIB, who is appointed by the Governor with the advice and consent of the Senate.

FIB's mission* is to maintain a regulatory climate conducive to healthy, competitive, and responsible financial institutions and, thereby, instill public confidence in these institutions. To fulfill its mission, FIB's four major objectives are to: ensure that financial institutions operate safely, soundly, and in compliance with applicable law; ensure that financial services are available to meet the needs of Michigan citizens; provide a full range of

competitive opportunities to financial institutions; and encourage financial institutions to advance economic development.

For fiscal year 1997-98, the Legislature appropriated approximately \$11.6 million for FIB operations, and FIB had 123 employees as of November 30, 1998.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess FIB's effectiveness in regulating, supervising, and examining banks, credit unions, savings banks, and other licensed financial entities to ensure that those institutions operate safely and soundly.

Conclusion: We concluded that FIB was generally effective in regulating, supervising, and examining banks, credit unions, savings banks, and other licensed financial entities. However, we noted reportable conditions* relating to the examinations of credit union computer information systems and consumer finance examinations (Findings 1 and 2).

Noteworthy Accomplishments: FIB's Credit Union Division and Bank and Trust Division are accredited by national organizations. In 1989, the Credit Union Division was the first state credit union regulator to receive accreditation from the National Association of State Credit Union Supervisors (NASCUS). The Bank and Trust Division was among the first state banking departments to receive the Conference of State Bank Supervisors (CSBS) accreditation in 1986. The Credit Union Division was reaccredited by NASCUS in 1994, and the Bank and Trust Division was reaccredited by CSBS in 1993 and 1998. The

Divisions are subject to annual reviews to maintain their accreditations. For reaccreditation, NASCUS and CSBS review documentation and visit FIB to assess the Divisions' operations to determine that they continue to effectively fulfill their responsibilities.

Audit Objective: To assess FIB's processes and internal control structure* related to the billing and collection of supervisory, examination, application, license, and registration fees.

Conclusion: We concluded that FIB's processes and internal control structure related to the billing and collection of fees were generally effective. However, we noted a reportable condition related to the assessment of consumer finance late penalties (Finding 3).

Audit Objective: To assess FIB's compliance with applicable State statutes, the *Michigan Administrative Code*, State procedures, and CIS and FIB policies and procedures that could have a material impact on FIB operations.

Conclusion: We concluded that FIB was generally in compliance with applicable State statutes, the *Michigan Administrative Code*, State procedures, and CIS and FIB policies and procedures. However, as noted under the internal control objective, we noted a reportable condition related to the assessment of consumer finance late penalties (Finding 3).

Noteworthy Accomplishments: FIB established agreements with other state banking departments, the

Federal Deposit Insurance Corporation, and federal reserve banks to coordinate the supervision of multi-state and State-chartered banks. FIB has also established agreements with the National Credit Union Administration and with other states through NASCUS for the supervision of multi-state and State chartered credit unions. These agreements improve FIB's ability to effectively and efficiently examine and supervise the institutions, and reduce the regulatory burdens on the institutions by minimizing duplication of efforts and ensuring consistency.

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Financial Institutions Bureau. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included examination of FIB's records and activities for the period of October 1, 1996 through November 30, 1998. Our methodology included developing a preliminary review of FIB's operations. We analyzed the preliminary information and determined in which areas to concentrate our detailed analysis and testing. We designed tests to meet our audit objectives, evaluated the results of our testing, and reported our findings.

To assess FIB's effectiveness in meeting its responsibilities related to statutory examination requirements, we reviewed samples of examination files for documentation. This was to ensure that examinations were accurate and complete and that State financial institutions were operating safely and soundly.

We examined FIB's internal control structure related to the billing and collection of supervisory, examination, application, license, and registration fees. In addition, we reviewed a sample of billings to verify the propriety of amounts charged and collected. We also reviewed FIB's assessment of penalties for items not received on a timely basis.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 3 findings and 4 corresponding recommendations. FIB's preliminary response indicated that it will take steps to comply with all of the recommendations.

FIB complied with 5 of our 6 prior audit recommendations. The other recommendation was rewritten for inclusion in this report.