Thomas A. Schweich

Missouri State Auditor

INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

Division of Finance

May 2011

Report No. 2011-17

http://auditor.mo.gov

May 2011

Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Department of Insurance, Financial Institutions and Professional Registration, Division of Finance

Background	The Division of Finance of the Department of Insurance, Financial Institutions and Professional Registration (DOF) incorporates, regulates and licenses Missouri financial institutions, including residential mortgage brokers, state-chartered banks and savings and loan associations, non-depository trust companies, Missouri Certified Capital Companies and thousands of consumer credit companies. The DOF is required by state law to periodically examine these institutions to assess their solvency and ensure they are abiding by state laws and regulations. The DOF helps protect the financial interests of Missouri's citizens by taking actions to merge, close or otherwise address institutions with severe financial difficulties.
Access to Information	The DOF did not provide the State Auditor's Office access to most financial institution examination records. As such, we could not confirm whether the DOF is properly examining financial institutions and adequately protecting the financial interests of Missourians. We identified instances of noncompliance from looking at the limited records the DOF did provide, as described below. Auditors need to review the withheld documents to check for other instances of noncompliance. The State Auditor's Office is confident in its power to compel production of these documents. Because of the significance of the findings, we did not want to delay this audit report, but a subsequent audit will be completed which will pursue the production of these records.
Financial Institution Examinations	Section 369.324, RSMo, suggests the DOF must examine associations every 12 months. The DOF claims, however, that some associations can wait 18 months between examinations. Even using the DOF's more relaxed interpretation, the DOF was late performing association examinations 47 percent of the time. There is no documentation that the DOF consistently completed all required procedures, employed supervisory reviews or used the most recent version of examination programs when reviewing banks which closed between March 2008 and April 2010. Without documentation it is impossible to know whether all necessary examination procedures are being performed. The audit also uncovered several errors in the association examination tracking database. Access to the withheld documents is necessary to determine if additional mistakes occurred. All three written agreements the DOF has with federal agencies for the sharing of examination responsibilities are outdated. The most recent agreement is from 2006, and the other agreements are from 1994 and 1993. Current written agreements are needed to clearly explain each agency's obligations.

Financial Institution Assessments

During the 3 years ended June 30, 2010, the DOF collected $1,546,000 more from banks than necessary to cover actual costs. The DOF is allowed to assess banks the actual costs incurred for conducting examinations, but the amount the DOF assessed for administrative costs exceeded actual costs. The DOF transferred the over-assessments for fiscal years 2008 and 2009 ($956,697) to the General Revenue Fund. After audit staff questioned this practice, however, the DOF used the fiscal year 2010 over-assessment to offset fiscal year 2011 assessments.

The DOF claims that overhead rates for association and trust assessments are reviewed annually, but there is no documentation of such a review and the rates have not changed in several years. The DOF adds a 40 percent overhead rate to association examination costs and a 25 percent overhead rate to trust examination costs to cover personnel costs. The DOF must review these rates for reasonableness each year and adjust them accordingly.

Although the overall performance of this entity in the areas audited was **Fair***, the current rating is **Incomplete**, because the DOF denied auditors access to necessary documents. As noted above a subsequent audit will be completed which will review the requested documents.

American Recovery and Reinvestment Act 2009 (ARRA or Federal Stimulus)

The Department of Insurance, Financial Institutions and Professional Registration, Division of Finance did not receive any federal stimulus monies during the audited time period.

***The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

Excellent: The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.

Good: The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.

Fair: The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.

Poor: The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

Division of Finance
Table of Contents

THOMAS A. SCHWEICH
Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration
and
Richard J. Weaver, Commissioner
Division of Finance
Jefferson City, Missouri

We have audited certain operations of the Department of Insurance, Financial Institutions and Professional Registration, Division of Finance, in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2010, 2009, and 2008. The objectives of our audit were to:

1. Evaluate the division's internal controls over significant management and financial functions.

2. Evaluate the division's compliance with certain legal provisions.

3. Evaluate the economy and efficiency of certain management practices and operations, including certain revenues and expenditures.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the division; and testing selected transactions. Citing confidentiality requirements, the division did not permit us full access to listings of completed financial institution examinations, examination reports and related documentation, or consumer complaints filed with the division. We could not audit certain information because of the limitations the division imposed on the scope of our audit.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

Except as discussed in the second paragraph, we conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the division's management and was not subjected to the procedures applied in our audit of the division.

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Insurance, Financial Institutions, and Professional Registration, Division of Finance.

Thomas A Schweich

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Jeannette Eaves, CPA
In-Charge Auditor:	Robyn Lamb
Audit Staff:	Kelli Oldham
	Lacy Miller, M.Acct.

Division of Finance
Management Advisory Report
State Auditor's Findings

1. Access to Information

The Division of Finance (DOF) did not provide access to most financial institution examination records based upon its interpretation of state law. As a result, there is less assurance the DOF is meeting statutory responsibilities and adequately protecting the financial interests of state citizens.

The recent financial crisis that has resulted in the collapse of several Missouri financial institutions amplifies the need for a thorough independent review of financial institution examination procedures to ensure the DOF meets statutory responsibilities and adequately protects the financial interests of state citizens. The DOF should provide access to DOF examination tracking reports, working papers and reports of examinations performed, and consumer complaints to allow the Office of State Auditor to perform an independent review of DOF regulatory procedures.

Section 361.080, RSMo, requires DOF personnel to, "keep secret all facts and information obtained in the course of all examinations and investigations," but says, "except: (1) To the extent that the public duty of the director requires the director to report information to another government official or agency or take administrative or judicial enforcement action regarding the affairs of a financial institution. . . ." The commissioner of the DOF, like the head of every other state agency, has a public duty to cooperate with the state auditor. Section 29.130, RSMo, provides the state auditor with free access to all offices of this state for the inspection of such books, accounts, and papers as concern any of his duties. The DOF has failed to fully comply with the provisions of Section 29.130, RSMo.

Through a confidentiality agreement, the DOF provided examination tracking reports of financial institution examinations (excluding institution names) performed in recent years. The DOF did not provide access to working papers and reports of examinations performed, and most consumer complaints filed with the DOF. As a result, we could not reach conclusions regarding the adequacy of the financial institution examinations performed and the proper resolution of consumer complaints filed with the DOF. The DOF provided examination reports and related examination programs of financial institutions closed between March 2008 and April 2010. In addition, the DOF provided documentation relating to 12 consumer complaints originally received by our office and referred to the DOF, and provided access to a listing of, as well as the corresponding examination history and most recent reports for, consumer credit companies closed during calendar years 2008 and 2009.

The results of tests performed on the limited information provided to us by the DOF disclosed instances of noncompliance with various state laws and internal policies and concerns with the accuracy of the information provided. These findings are presented throughout this report. Had we been able to fully test compliance with regulatory and procedural provisions applicable to DOF functions and verify the validity of the data provided by the DOF, other instances of noncompliance and concerns might have come to our attention that would have been included in this report.

Recommendation

The DOF reconsider providing the State Auditor the necessary access to division records and personnel to ensure the division is adequately protecting the financial interests of state citizens.

Auditee's Response

The Division disagrees with this audit finding. The Division derives its regulatory authority from Chapter 361. Its employees are "bound under oath to keep secret all facts and information obtained in the course of all examinations and investigations" and are subject to criminal conviction, forfeiture of office and fines for failure to follow this provision. Section 361.080, RSMo Supp. 2010. The Auditor's Office believes Section 361.080.1(1), the first of the enumerated exceptions, allows the Division to release any document requested by the Auditor's Office. That exception allows release of the information to a government official or agency if the Director's public duty requires release of the information. No existing statute requires the Division to release the requested information to the Auditor's Office. Additionally, the Auditor's Office argues that the Division can provide the information when it is "necessary or required" under Section 361.080.1(7). However, despite requests from the Division, the Auditor's Office has not shown a public duty requiring such release or the necessity of the release. The Audit Report's paraphrasing of Section 361.080 is insufficient to persuade the Division that it can release more information than it has, particularly in light of the severe penalties that can be imposed on Division employees in the event of an unauthorized release of information under Section 361.080.3.

The Auditor's Office sought access to all Division documents, including those considered confidential under Section 361.080. To the extent possible, the Division provided the information requested or sufficient information to allow the Auditor's Office to reach conclusions with respect to the issues presented. As an example, the Division provided redacted copies of examinations of banks closed by the Division. Additionally, the Division provided a report containing a list of banks and examination dates so the Auditor's Office could determine if the Division had met its statutory duty to perform examinations timely. The names of the banks were redacted. However, from that report the Auditor's Office could determine if the Division was complying with the timeliness requirements of the examination statute. Not all records requested could be produced and still comply with the Division's confidentially requirement. The Audit Report's statement suggesting that there is a concern about the adequate protection of the financial interests of Missourians as a result of the Division's compliance with its confidentially statute is ill-considered and untrue.

Auditor's Comment

Auditors in the State Auditor's office routinely review confidential information of governmental entities, and are legally obligated, under the threat of a possible felony conviction and up to 5 years imprisonment, to keep confidential any matters they learn during the audit. Currently, the DOF does not receive any independent review of the timeliness of financial institution examinations or the working papers prepared during financial institution examinations. The DOF must be subject to oversight to ensure it is meeting its obligations to the citizens of Missouri.

2. Financial Institution Examinations

The DOF did not always perform association examinations in accordance with the internal examination frequency policy, and has not considered possible statutory requirements to determine the required frequency of association examinations. In addition, bank examination procedures performed and supervisory review of this work were not always documented. Also, the association examination tracking database was not always accurate or updated for examinations performed. Furthermore, the DOF does not have current agreements with the federal agencies with which it shares examination responsibilities.

The DOF regulates approximately 280 banks, 6 associations, and 6 trusts by performing examinations of condition and operations. A composite CAMELS rating[1] of 1 to 5 (where 1 is the least degree of supervisory concern and 5 the highest degree of supervisory concern) is assigned to each financial institution.

2.1 Association examinations

DOF personnel did not always ensure association examinations were performed in accordance with internal policies, resulting in untimely examinations.

The DOF performed 15 association examinations between December 2002 and April 2010. In these 15 instances, the DOF was untimely in the performance of the examinations 7 times (47 percent), averaging approximately 50 days late.

According to DOF management, statutes do not specify the frequency with which association examinations are to be conducted. As a result, the DOF has determined associations will be examined at the same frequency as banks. The frequency of bank examinations is governed by Section 361.160, RSMo, which requires banks with a CAMELS rating of 3, 4, or 5 to be examined every 12 months, and banks with ratings of 1 or 2 to be examined every 18 months. The bank examination agreement between the Federal Deposit Insurance Corporation (FDIC) and the DOF further requires a bank

[1] A rating assigned financial institutions based on an evaluation and rating of six components; capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

to be examined every 12 months if the bank's total assets are greater than $500 million.

In addition, although the DOF maintains statutes do not require specific frequencies for association examinations, wording in Section 369.324, RSMo, suggests annual examinations may be required. This section provides that associations shall pay for each annual or special examination.

To ensure associations are adequately monitored and supervised, examinations should be performed in accordance with internal frequency requirements. Consideration of all possible statutory language is necessary to ensure compliance with association examination frequency requirements.

2.2 Bank examinations

DOF bank examiners did not always properly document on examination programs whether required examination procedures were performed, and examination programs sometimes lacked evidence of a supervisory review. In addition, the most current version of examination programs was not always used.

Our review of the examination programs for four of five banks closed between March 2008 and April 2010 noted the following:

- For the four bank examination programs reviewed (100 percent), the completion of several required procedures were not documented by examiners.
- For two of the four bank examination programs reviewed (50 percent), there was no evidence a supervisor had reviewed documentation of examination procedures performed.
- For three of the four bank examination programs reviewed (75 percent), the most recent version of the program was not completed by examiners or examiners in-charge.

Internal policies require various procedures to be completed by examination staff and for the examiner in-charge to document the review of procedures performed by staff. Without documentation and supervisory reviews of examination procedures performed, the DOF cannot be assured all necessary and required examination procedures have been properly performed.

2.3 Association examination tracking report

The report of the results of association examinations performed and the frequency of the examinations was not accurate or up-to-date.

Three errors occurred because association examinations performed by the Office of Thrift Supervision (OTS) were not entered in the examination tracking database. One additional error occurred because the incorrect examination agency was entered into the database. These errors were discovered by the DOF after we had noted potential exceptions related to the frequency of examinations. Had we been provided full access to information contained in the database, (see MAR finding number 1), we may have identified additional erroneous information.

Accurate and reliable reports are needed to ensure the DOF ensures association examinations are conducted within timeframes required by state law.

2.4 Examination agreements

The DOF does not have current written agreements with the federal agencies that also conduct financial institution examinations. The DOF alternates examination responsibilities with the OTS to perform association examinations and the FDIC and Federal Reserve Banks to perform bank examinations. The most recent agreement with the FDIC was entered into in 2006 under the previous commissioner. In addition, the most recent agreement with the OTS was entered into in 1994 and the most recent agreements with the Federal Reserve Banks were entered into in 1993.

Current written agreements are necessary to ensure the current responsibilities of each party are clearly documented.

Recommendations

The DOF:

2.1 Review state law to determine whether annual examinations are required for associations, and monitor scheduled examination dates more closely to ensure compliance with applicable statutes and internal policies.

2.2 Ensure required examination procedures and supervisory reviews are performed and documented, and the most current version of the bank examination program is used.

2.3 Ensure examination tracking reports are accurate and up-to-date.

2.4 Ensure current association and bank examination written agreements are entered into with the applicable federal agencies.

Auditee's Response

2.1 The Division disagrees with the assertion of the Auditor's Office that it has not always performed association examinations in a timely manner. There are no statutory time requirements for association examinations. The Division has established an internal goal utilizing the same time standards used for bank examinations because the institutions present similar safety and soundness issues. The Division certainly strives to complete all examinations within *these time frames. As shown through the information provided to the Auditor's Office, the Division performed 1,821 financial institution examinations during the examined period of December 2002 through April 2010. Of those examinations, 99.62 percent were conducted within the statutory guidelines and internal goals.*

Additionally, the Audit Report failed to account for the Division's working relationship with the Office of Thrift Supervision (OTS). The OTS sets the next examination date for associations based on the date of issuance of the prior examination report. The Division sets the date based on the first day of fieldwork. That discrepancy accounts for a portion of the seven timing issues presented in the Audit Report.

2.2 *The Division partially agrees with this audit finding. The Audit Report criticized the documentation and supervision of examinations based on review of examination programs of banks that were closed after those examinations. Banks in problem status, as these institutions were, are examined every 6 months. However, the exams performed are limited in scope so not every item on the examination program is required at those examinations. The Division has not created a special examination program for these limited examinations. Additionally, in any examination, the program is merely a guide that is altered as the examination progresses. Nothing in the guide is considered a requirement or required by statute.*

Every examination goes through several levels of review before the official report is issued. No report leaves the Division without those reviews. In the case of banks that are closing, the last examination is not intended to follow all the normal examination procedures because the focus is to assure the bank can close in an orderly fashion. The supervisors are active at all times in the end stages of a bank. The lack of supervisor signatures is not an indication that all levels of supervision were not involved.

To the extent that some Division examiners used outdated examination forms, the Division will take steps to assure that examiners use the appropriate form and will improve documentation of supervisory involvement.

2.3 *The Division partially agrees with this audit finding. The Division works diligently to assure that its internal reports are accurate and recognizes the need for such accuracy. To the extent errors were found in internal reports, the Division will determine the reason and work to assure those errors are not repeated. However, the Division* *disagrees that the Auditor was not provided sufficient information to determine the extent of the errors. The document provided did have redacted information. However, that same document was used to point out the errors contained in the Auditor's Report. Therefore, the Division provided sufficient information from which such errors could be discerned.*

2.4 The Division disagrees with this audit finding. The Division operates under several agreements with other financial institution regulators to perform alternating examinations. Those agreements were written so that each regulator can meet its statutory obligations. As neither the state nor federal agencies have had statutory changes necessitating changes to the agreement and those agreements are between the agencies and not the individuals who signed on behalf of the agency, the criticized agreements are still current and valid.

Auditor's Comment

2.3. The errors described above were detected when we presented apparent examination frequency exceptions to the DOF and the DOF determined dates in the examination tracking report were not accurate. Additional errors may have been detected had we been allowed to review documentation to support the report.

3. Financial Institution Assessments

Banks were assessed approximately $1,546,000 more than actual examination costs during the 3 years ended June 30, 2010. In addition, overhead rates used in the calculations of association and trust assessments have not been changed in several years and there is no documentation that rates have been annually reviewed.

3.1 Bank assessments

The DOF misinterpreted statutory requirements when calculating bank assessments and determining transfers to be made to the General Revenue Fund. When calculating annual bank assessments for the 3 years ended June 30, 2010, the DOF assessed banks an additional 15 percent of examination costs to pay for various administrative costs. However, this assessment exceeded actual costs, and resulted in the DOF over-assessing banks $589,335, $484,483, and $472,214 during the years ended June 30, 2010, 2009, and 2008, respectively.

The DOF transferred the amounts related to the over-assessment to the state General Revenue Fund for the 2 years ended June 30, 2009. However, since expenditures paid by the General Revenue Fund were already reimbursed through the state's cost allocation plan, it does not appear appropriate to transfer additional amounts to the General Revenue Fund. After we questioned this practice, the over-assessment related to the year ended June 30, 2010, was not transferred, and was used to offset fiscal year 2011 assessments.

The DOF should assess banks the actual costs incurred by the Division of Finance Fund and only reimburse the state General Revenue Fund for expenditures actually paid by that fund.

3.2 Overhead rates

Overhead rates used when calculating association and trust assessments have not been changed in several years and there is no documentation that rates have been annually reviewed. The DOF adds a 40 percent overhead rate to association examination costs and a 25 percent overhead rate to trust examination costs to determine total costs to be assessed for examinations performed. These rates are intended to cover costs related to personnel who review and process examination reports but do not actually participate in the on-site examination. DOF officials indicated rates were reviewed for reasonableness annually, but no documentation was maintained and the overhead rates had not been changed in several years.

To ensure actual costs of association and trust examinations are assessed to the appropriate institutions, the overhead rates applied to the assessments should be annually reviewed for reasonableness and adjusted as necessary.

Recommendations

The DOF:

3.1 Comply with statutory provisions related to bank assessments. In addition, the DOF should work with the General Assembly to transfer $956,697 from the state's General Revenue Fund to the Division of Finance Fund, and reduce future bank assessments by this amount.

3.2 Re-calculate the overhead rate for association and trust examination assessments on an annual basis and retain documentation.

Auditee's Response

3.1 The Division partially agrees with this audit finding. The Audit Report found issues with respect to the assessments issued to banks that fund the Division's operations. Due to changes in how the Office of Administration reports overhead costs to agencies, the Audit Report concluded that the Division overcharged the assessment. The assessment statute allows the Division to charge "up to fifteen percent of the estimated expenses to pay the costs of rent and other supporting services such as the costs related to the division's services from the state auditor and attorney general and an amount sufficient to cover the cost of fringe benefits furnished by the state." Section 361.170.1 RSMo. The Division's assessment never exceeded the fifteen percent statutory cap. The Division used estimates of these numbers to make the assessment. Recently, the Office of Administration was able to provide actual costs but the Division used the estimate. The Division has altered the assessment methodology, starting with the assessment mailed during the audit, *to address this finding. Of note is the fact that the average rate of assessment is one-half of what it was 10 years ago.*

3.2 The Division partially disagrees with this audit finding. The Audit Report questions the Division's review of its overhead rates. Those rates are reviewed annually as the assessments are calculated. Because the statute requires the Division to base assessments on very specific cost items, those must be reviewed annually. A Division employee calculates the overhead rates and provides them to the Deputy Director who then reviews them again. Hence, the rates are reviewed twice. The Division will attempt to make that process more clear in the future.

Auditor's Comment

3.1 The DOF response has not addressed the recommendation to reduce future bank assessments to offset over-assessments. In addition, the recent OA change referred to by the DOF actually occurred in 2002.

Division of Finance
Organization and Statistical Information

The Missouri General Assembly created the State Banking Department headed by the Bank Commissioner, in 1907. This department became the Department of Finance in 1921 and was placed under the management and control of the Commissioner of Finance. Effective July 1, 1946, the Missouri Constitution changed the name of the department to the Division of Finance (DOF) and placed it within the Department of Business and Administration. The Reorganization Act of 1974 abolished the Department of Business and Administration and transferred the DOF to the newly created Department of Consumer Affairs, Regulation and Licensing. The passage of Constitutional Amendment No. 6, adopted on August 7, 1984, renamed the Department of Consumer Affairs, Regulation and Licensing to the Department of Economic Development. Under the authority of the Reorganization Act of 1974 and executive order 06-04, effective August 28, 2006, the DOF was transferred from the Department of Economic Development to the Department of Insurance, Financial Institutions and Professional Registration.

The DOF incorporates, regulates, and licenses various financial institutions of the state. As of June 30, 2010, the DOF regulated 2,724 licensed consumer credit companies, 382 licensed residential mortgage brokers, 273 state-chartered banks, 6 state-chartered savings and loan associations, 6 non-depository trust companies, and 4 Missouri Certified Capital Companies. The 2,724 licensed consumer credit companies consisted of 1,046 payday lenders, 610 consumer installment lenders, 427 small loan companies, 274 title lenders, 132 motor vehicle time sales businesses, 77 retail installment businesses, 69 premium finance companies, 57 sale of checks businesses, and 32 credit service organizations.

State statutes provide that each state-chartered bank and trust company be examined by staff of the DOF at least once each year to determine each institution's solvency, safety of operations, and adherence to applicable state laws and regulations, except those institutions receiving a satisfactory examination rating may be reviewed once in an 18 month period. These examinations are accomplished with alternating examination agreements with the Federal Deposit Insurance Corporation and the Federal Reserve Banks. The DOF may also take action to merge, close, or otherwise address institutions with severe financial difficulties. State-chartered savings and loan associations are examined by DOF staff in accordance with the state-chartered bank and trust company statutes. These examinations are accomplished with alternating examination agreements with the Office of Thrift Supervision. Non-depository trust companies are examined by DOF staff in accordance with internal policies requiring a review once in an 18 month period. Consumer credit companies are examined by DOF staff in accordance with internal policies requiring a review once in an 18 month period, except those institutions receiving a non-satisfactory examination rating are reviewed again in either 3 or 6 months depending on the rating.

The DOF is self-supporting through statutory assessments and fees based on the total assets and the relative costs to examine the institutions under its supervision. The DOF is funded by three separate sources, as follows:

The Division of Finance Fund receives monies assessed on banks, trust companies, and other corporations. Expenditures incurred by the DOF for the regulation of banks, trust companies, and other corporations subject to its jurisdiction are paid exclusively from this fund.

The Residential Mortgage Licensing Fund receives fees set and collected for application fees, investigation of license applicant fees, examination fees and contingent fees. Any other miscellaneous fees are also received through this fund. The actual cost of administering the Residential Mortgage Licensing Law is transferred to the Division of Finance Fund, with excess revenues remaining in the Residential Mortgage Licensing Fund.

The Division of Savings and Loan Supervision Fund receives monies assessed on savings and loan associations and other corporations. The actual cost of regulating state chartered savings and loan associations and other corporations is transferred to the Division of Finance Fund. Any amount remaining in the Division of Savings and Loan Supervision Fund which exceeds five percent of the amount assessed to the savings and loan associations and other corporations is transferred to the state General Revenue Fund.

The State Banking Board, Savings and Loan Commission, and Residential Mortgage Board were created to handle appeals from certain decisions and orders of the Commissioner of Finance.

The State Banking Board, a judicial body, was created in 1955 to handle appeals from certain decisions and orders of the Commissioner of Finance. The bipartisan board is comprised of five members; two must be non-bankers, one must be a lawyer and two must be experienced bankers.

State Banking Board Members at June 30, 2010

Member	Term Expires
Glen (Brad) Williams (1)	August 29, 2009
M. Elizabeth Fast (1)	August 29, 2007
Robert M. Robuck (1)	August 28, 2007
Linda G. Renner (1)	August 27, 2005
Vacancy	

(1) Although the member's term has expired, he or she continues to serve on the State Banking Board until a successor is appointed by the Governor.

The Savings and Loan Commission, created in 1957, serves a similar function for state-chartered thrift associations. This bipartisan commission is also comprised of five members, one of whom must be a lawyer.

Savings and Loan Commission Members at June 30, 2010

Member	Term Expires
Richard C. Fellhauer (1)	October 10, 2005
Charles R. (Rick) Butler (1)	October 10, 2003
Bayard C. Plowman (1)	August 29, 2003
Vacancy	
Vacancy	

(1) Although the member's term has expired, he continues to serve on the Savings and Loan Commission until a successor is appointed by the Governor.

The Residential Mortgage Board was created in December 1996 to hear appeals of decisions of the Commissioner of Finance relating to mortgage brokers. This bipartisan board is comprised of five members; one must be a lawyer and three must be experienced in mortgage brokering.

Residential Mortgage Board Members at June 30, 2010

Member	Term Expires
Gregory C. Lucas	October 10, 2010
Richard L. Smith (1)	October 10, 2009
John W. Scates (1)	October 10, 2008
Vacancy	
Vacancy	

(1) Although the member's term has expired, he continues to serve on the Residential Mortgage Board until a successor is appointed by the Governor.

The DOF is organized into several main areas including Fiscal and Administration, Mortgage Licensing, Consumer Credit, and an Examination section. At June 30, 2010, the DOF had 106 full-time employees and 4 part-time employees, with a majority of these consisting of bank and trust examination section employees (83) and consumer credit section employees (16). The DOF maintains five examination field offices in Kansas City, St. Louis, Springfield, Columbia, and Sikeston. The Commissioner is appointed by the Governor with the advice and consent of the Senate. D. Eric McClure served as the Commissioner from January 3, 2003, until January 12, 2009. Richard J. Weaver, the previous Deputy Commissioner of Finance, was appointed Commissioner of Finance on April 17, 2009.

American Recovery and Reinvestment Act of 2009 (Federal Stimulus)

The DOF did not receive any federal stimulus monies during the 3 years ended June 30, 2010.

Appendix A-1

Division of Finance
Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments
Year Ended June 30, 2010

		Division of Finance Fund	Residential Mortgage Licensing Fund	Division of Savings and Loan Supervision Fund	Total (Memorandum Only)
RECEIPTS					
Financial institutions examination fee	$	8,831,976	0	0	8,831,976
Consumer finance license fees		1,064,775	0	0	1,064,775
Salesman licenses or permits		0	328,500	0	328,500
Loan administration fees		0	0	33,346	33,346
Other fees		100,249	0	0	100,249
Miscellaneous		1,367	0	0	1,367
Interest		31,905	6,389	385	38,679
Transfers in		442,754	0	0	442,754
Total receipts		10,473,026	334,889	33,731	10,841,646
DISBURSEMENTS					
Personal service		5,784,648	0	0	5,784,648
Employee fringe benefits		2,272,403	0	0	2,272,403
Expense and equipment		953,428	0	0	953,428
Cost allocation plan		95,271	0	0	95,271
State owned facilities operations		150,949	0	0	150,949
Leasing operations		88,195	0	0	88,195
Transfers out to General Revenue Fund		484,483	3,674	13,127	501,284
Transfers out to Division of Finance Fund		0	419,828	21,491	441,319
Transfers out to Department of Insurance, Financial Institutions and Professional Registration Administrative Fund		103,336	0	0	103,336
Total disbursements		9,932,713	423,502	34,618	10,390,833
RECEIPTS OVER (UNDER) DISBURSEMENTS		540,313	(88,613)	(887)	450,813
CASH AND INVESTMENTS, JULY 1		647,111	454,002	36,083	1,137,196
CASH AND INVESTMENTS, JUNE 30	$	1,187,424	365,389	35,196	1,588,009

Appendix A-2

Division of Finance
Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments
Year Ended June 30, 2009

		Division of Finance Fund	Residential Mortgage Licensing Fund	Division of Savings and Loan Supervision Fund	Total (Memorandum Only)
RECEIPTS					
Financial institutions examination fee	$	7,327,555	0	0	7,327,555
Consumer finance license fees		1,007,100	0	0	1,007,100
Salesman licenses or permits		0	79,340	0	79,340
Loan administration fees		0	0	35,701	35,701
Other fees		37,880	0	0	37,880
Miscellaneous		1,145	0	0	1,145
Interest		57,574	15,095	739	73,408
Transfers in		232,320	0	0	232,320
Total receipts		8,663,574	94,435	36,440	8,794,449
DISBURSEMENTS					
Personal service		5,198,027	0	0	5,198,027
Employee fringe benefits		1,904,622	0	0	1,904,622
Expense and equipment		817,870	0	0	817,870
Cost allocation plan		96,998	0	0	96,998
State owned facilities operations		150,375	0	0	150,375
Leasing operations		89,091	0	0	89,091
Transfers out to General Revenue Fund		472,214	2,809	357	475,380
Transfers out to Division of Finance Fund		0	197,623	29,521	227,144
Transfers out to Department of Insurance, Financial Institutions and Professional Registration Administrative Fund		83,252	0	0	83,252
Total disbursements		8,812,449	200,432	29,878	9,042,759
RECEIPTS OVER (UNDER) DISBURSEMENTS		(148,875)	(105,997)	6,562	(248,310)
CASH AND INVESTMENTS, JULY 1		795,986	559,999	29,521	1,385,506
CASH AND INVESTMENTS, JUNE 30	$	647,111	454,002	36,083	1,137,196

Appendix A-3

Division of Finance
Combined Statement of Receipts, Disbursements, and Changes in Cash and Investments
Year Ended June 30, 2008

		Division of Finance Fund	Residential Mortgage Licensing Fund	Division of Savings and Loan Supervision Fund	Total (Memorandum Only)
RECEIPTS					
Financial institutions examination fee	$	6,574,587	0	0	6,574,587
Consumer finance license fees		1,208,234	0	0	1,208,234
Salesman licenses or permits		0	186,210	0	186,210
Loan administration fees		0	0	27,036	27,036
Other fees		120,598	0	0	120,598
Miscellaneous		744	0	0	744
Interest		109,292	35,310	1,529	146,131
Transfers in		280,466	0	0	280,466
Total receipts		8,293,921	221,520	28,565	8,544,006
DISBURSEMENTS					
Personal service		5,007,099	0	0	5,007,099
Employee fringe benefits		1,806,253	0	0	1,806,253
Expense and equipment		785,835	0	0	785,835
Cost allocation plan		105,318	0	0	105,318
State owned facilities operations		157,414	0	0	157,414
Leasing operations		85,707	0	0	85,707
Transfers out to General Revenue Fund		421,566	107,878	11,845	541,289
Transfers out to Division of Finance Fund		0	263,818	15,613	279,431
Transfers out to Department of Insurance, Financial Institutions and Professional Registration Administrative Fund		61,924	0	0	61,924
Total disbursements		8,431,116	371,696	27,458	8,830,270
RECEIPTS OVER (UNDER) DISBURSEMENTS		(137,195)	(150,176)	1,107	(286,264)
CASH AND INVESTMENTS, JULY 1		933,181	710,175	28,414	1,671,770
CASH AND INVESTMENTS, JUNE 30	$	795,986	559,999	29,521	1,385,506

Appendix B

Division of Finance
Comparative Statement of Appropriations and Expenditures (1)

	Year Ended June 30,								
	2010			2009			2008		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
DIVISION OF FINANCE FUND									
Information Technology Services Division personal service	$ 51,248	45,984	5,264	46,248	45,822	426	44,901	42,033	2,868
Information Technology Services Division expense and equipment	99,552	80,807	18,745	126,552	109,054	17,498	99,543	86,429	13,114
Division of Finance personal expense and equipment	936,260	854,308	81,952	749,838	676,517	73,321	707,858	657,770	50,088
Division of Finance personal service	6,216,626	5,738,664	477,962	5,799,996	5,152,205	647,791	5,547,419	4,965,066	582,353
Operation of state-owned facilities, related services, utilities, systems furniture, structural modifications, and related expenses expense and equipment	150,949	150,949	0	157,841	150,375	7,466	164,115	157,414	6,701
Payment of real property leases, related services, utilities, systems furniture, structural modifications, and related expenses expense and equipment	89,496	88,195	1,301	89,097	89,091	6	86,355	85,708	647
Out-of-State Examinations	50,000	18,313	31,687	50,000	32,299	17,701	50,000	37,512	12,488
Reimbursing the Division of Employment Security benefit account for claims paid to former state employees for unemployment insurance coverage and for related professional services	7,903	0	7,903	7,903	0	7,903	7,903	0	7,903
Total Division Of Finance Fund	7,602,034	6,977,220	624,814	7,027,475	6,255,363	772,112	6,708,094	6,031,932	676,162
Total All Funds	$ 7,602,034	6,977,220	624,814	7,027,475	6,255,363	772,112	6,708,094	6,031,932	676,162

(1) The amounts include Office of Administration appropriations which were expended on behalf of the Division of Finance for information technology services and unemployment insurance claims.

Appendix C

Division of Finance
Comparative Statement of Expenditures (From Appropriations) (1)

	Year Ended June 30,				
	2010	2009	2008	2007	2006
Salaries and wages	$ 5,784,647	5,198,027	5,007,099	4,695,516	4,340,691
Travel:					
In-state	419,985	373,001	333,252	360,534	345,291
Out-of-state	101,478	108,656	103,691	102,322	85,882
Fuel and utilities	8,006	7,351	6,667	12,391	8,218
Supplies	61,675	53,519	62,760	46,285	51,625
Professional development	90,588	94,247	103,225	96,968	91,532
Communication services and supplies	35,357	33,958	35,722	35,159	40,198
Services:					
Professional	125,307	39,739	37,044	56,583	62,192
Housekeeping and janitorial	6,777	6,924	6,939	11,343	7,170
Maintenance and repair	12,715	16,992	25,827	26,426	26,364
Equipment:					
Computer	53,012	77,944	49,588	59,177	52,155
Office	41,738	11,836	20,735	12,314	28,895
Other	1,118	0	505	287	1,579
Property and improvements	0	230	0	0	0
Debt service	25,537	27,129	17,846	15,102	0
Building lease payments	202,165	198,873	211,478	179,312	112,770
Equipment rentals and leases	159	91	77	160	644
Miscellaneous expenses	597	756	4,712	3,834	328
Rebillable expenses	4,559	4,040	2,240	0	0
Refunds	1,800	2,050	2,525	2,800	1,300
Program distributions	0	0	0	0	4,774
Total Expenditures	$ 6,977,220	6,255,363	6,031,932	5,716,513	5,261,608

(1) The amounts include Office of Administration appropriations which were expended on behalf of the Division of Finance for information technology services.