

Department of Business Oversight

2015 SLAA REPORT

December 23, 2015

Alexis Podesta, Acting Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Podesta,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Business Oversight submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Lisa Crowe, Chief Deputy Commissioner, at (916) 324-6623, lisa.crowe@dbo.ca.gov.

BACKGROUND

Introduction

Pursuant to the State Leadership Accountability Act (SLAA), the Department of Business Oversight (DBO) submits this report on the review of our systems of internal control and monitoring processes for the biennial period ending December 31, 2015. Questions should be directed to Lisa Crowe, Chief Deputy Commissioner, at (916) 324-6623 or Lisa.Crowe@dbo.ca.gov.

Background

The DBO serves as the state's primary regulator of financial service providers. At the end of 2015, the DBO licensed and supervised more than 360,000 individuals and businesses. Its regulatory purview extends over banks, credit unions, payday lenders, mortgage lenders and servicers, escrow companies, broker-dealers, financial advisers and money transmitters (Western Union, PayPal and others). The DBO has two primary regulatory responsibilities: protect consumers and protect the health of financial service markets.

The DBO's regulatory authority and its licensees are governed by the California Financial Code and Corporations Code. The DBO's FY 2015-16 budget totaled \$89.6 million and authorized 618 positions. The DBO is funded entirely with special funds derived mainly from fees paid by licensees. The DBO was formed July 1, 2013 from the merger of the Department of Corporations (DOC) and Department of Financial Institutions (DFI).

Mission:

Serve Californians by effectively overseeing financial service providers, enforcing laws and regulations, promoting fair and honest business practices, enhancing consumer awareness, and protecting consumers by preventing potential marketplace risks, fraud and abuse.

RISK ASSESSMENT PROCESS

The Department of Business Oversight (DBO) was formed July 1, 2013 from the merger of the Department of Corporations and the Department of Financial Institutions. The merger occurred under the Governor's Reorganization Plan #2. Each entity brought to the merger unique internal business policies, processes, procedures and controls. While efforts have been made to blend and modernize these operations and procedures under the DBO, more work needs to be done. The DBO is actively working to develop and document a formal monitoring structure and process for identification of risks.

The State Leadership Accountability Act, Ongoing Monitoring General Framework and Guidelines will be used as a model for the DBO's process. Currently, the DBO manages risks by holding all staff and management accountable for reporting any potential weaknesses or anticipated threats to carrying out DBO mission critical functions, up to the executive level of DBO. Priority is given to those risks deemed to be most likely, or most impactful, or both. As risks are identified, they are documented and shared across functions and up through the management chain to determine entity-wide or cross-functional impact. The monitoring of risks and actions taken to mitigate risk is reported entity-wide through weekly and monthly management meetings.

EVALUATION OF RISKS AND CONTROLS

Compliance- External- Service Provider—Inadequate Internal Control System

The process of consolidating two disparate networks (from Department of Corporations and Department of Financial Institutions) into a single integrated network continues. This new, integrated environment provides a more efficient, robust and secure system that now allows future data growth and expanded application development. In June of 2014, the DBO implemented a new mission-critical system, DOCQNET, which absorbed approximately 70 Department of Corporations legacy systems. Since the implementation of the DOCQNET system, the Department of Technology has implemented new information systems security standards; including enhanced privacy and security guidelines in regards to data encryption and privacy notifications. While the remainder of the DBO network is supported solely by internal ITO staff, current maintenance and operation of the DOCQNET system continues to be almost completely reliant on contracted vendors. Not having state staff completely trained and maintaining the DOCQNET system the DBO will be reliant on contractors to understand state security standards and privacy guidelines leaving the DBO open to possibly not following the Department of Technology standards and guidelines.

The DBO is developing a plan to migrate the support of the DOCQNET system from contracted vendors to State staff. By transitioning support to State staff the DBO will eliminate the risks associated with contract vendor staff.

Operations- Internal- Oversight, Monitoring, Internal Control Systems

Since its creation under the Governors Reorganization Plan #2 (GRP2), the DBO has not completed an assessment of all its systems of internal control.

The DBO plans to establish an Internal Audit Program in fiscal. The program will report directly to the Commissioner and will provide the necessary evaluation.

Operations- Internal- Staff—Key Person Dependence, Succession Planning

There is an ongoing loss of institutional knowledge due to key retirements, and the average age of the DBO workforce has increased. The lack of a DBO-wide leadership program aggravates the problem of a weak middle management team. Additionally, employee morale is low due to languishing issues associated with the consolidation of the two departments.

The DBO will roll out its first strategic plan in early 2016. The DBO is committed to efficient and effective operations, a culture of accountability and alignment of performance measures with strategic goals. The strategic plan will include as one of its goals: "Build an exceptional organization with outstanding leadership and a highly engaged, collaborative workforce." Key activities to accomplish this goal and to mitigate the risks outlined above include creation of DBO-wide leadership development and mentoring programs. In addition a DBO training program will be developed and monitored for attendance.

Reporting- External- Information Collected—Inadequate, Inaccurate, Misinterpreted, Untimely

California finance lenders often fail to timely file reports and/or responses to regulatory examinations. This in turn can cause the DBO to miss its reporting deadlines, and impedes the DBO's ability to remedy violations found during examinations.

The DBO is exploring ways to acquire additional tools to improve the timely filing of reports and examination responses by its licensees. The only compliance action currently available to the DBO is license revocation or suspension.

ONGOING MONITORING

Through our ongoing monitoring processes, the Department of Business Oversight reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Department of Business Oversight, Lisa Crowe, Chief Deputy Commissioner, is responsible for the overall establishment and maintenance of the internal control system. We have identified Lisa Crowe, Chief Deputy Commissioner, as our designated agency monitor(s).

Frequency of Monitoring Activities

The DBO continues to monitor ongoing processes on a monthly basis through the chain of command.

Reporting and Documenting Monitoring Activities

The DBO plans to change the way it monitors risks. Now that the executive team is fully staffed, the DBO will follow the recommended structure outlined in the SLAA materials rolled out by the Department of Finance.

Procedure for Addressing Identified Internal Control Deficiencies

Deficiencies are identified and reported through the chain of command.

CONCLUSION

The Department of Business Oversight strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Business Oversight accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Lisa Crowe, Chief Deputy Commissioner

cc: Department of Finance
Legislature

State Auditor
State Library
State Controller
Secretary of Government Operations