AUDITORS' REPORT

Department of Banking

FISCAL YEARS ENDED JUNE 30, 2024 AND 2025

STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor

CRAIG A. MINER
State Auditor

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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November 18, 2026

INTRODUCTION

We are pleased to submit this audit of the Department of Banking (DOB) for the fiscal years ended June 30, 2024 and 2025 in accordance with the provisions of Section 2-90 of the Connecticut General Statutes. Our audit identified internal control deficiencies and instances of noncompliance with laws, regulations, or policies.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Banking during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Romina Andrade
Jacob Guerra
George Meleounis
Michael Stemmler

Michael Stemmler
Principal Auditor

Approved:

John C. Geragosian
State Auditor

Craig A. Miner
State Auditor

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Department of Banking disclosed the following two recommendations, which were not repeated from the previous audit.

Finding 1

Untimely Purchase Orders

Criteria

Section 4-98 of the General Statutes states that no budgeted agency may incur any obligation except by the issuance of a purchase order and a commitment transmitted to the State Comptroller.

The State Accounting Manual requires agencies to create purchase orders for all purchases of commodities, services, and equipment. Purchase orders must be created, approved, and posted prior to ordering goods or services.

Condition

Our review of 20 expenditure transactions, totaling $1,002,243, identified nine instances, totaling $393,699, in which DOB did not promptly initiate a purchase order or commit sufficient funds. The delays ranged from two to 29 days.

Context

DOB had over 1,800 expenditure transactions, totaling $3,609,062, during the audited period. We stratified our universe by transaction amounts, including amounts less than $10,000, amounts between $10,000 and $50,000, and amounts greater than $50,000. We randomly selected four transactions from the first stratum, six from the second, and ten transactions from the third, to produce a total selection of 20.

Effect

When obligations are incurred prior to the commitment of funds, there is less assurance that agency funding will be available when payment is due.

Cause

There were delays between when other divisions received invoices and submitted them to the business office.

Prior Audit Finding

This finding has not been previously reported.

Recommendation

The Department of Banking should strengthen internal controls over purchase orders to ensure compliance with Section 4-98 of the General Statutes and the State Accounting Manual.

Agency Response

"We agree with this finding. DOB has updated its processes to be in full compliance with this requirement. Also, the funds, although not encumbered, were always available."

Finding 2

Controls Over Required Reporting

Criteria

Section 36a-128 of the General Statutes requires the Banking Commissioner to submit a report to the joint standing committee of the General Assembly on or before January 1, 2025, and annually thereafter, summarizing the development and implementation of federal, state, and local laws, regulations and policies relating to financial institutions and the merger of financial institutions identified in the preceding calendar year. The report should also recommend any changes to such laws.

Condition

In our review of 16 required reports covering the audited period, we noted DOB did not submit the Merger Analysis Report, due January 1, 2025. DOB submitted the January 1, 2026, report on June 25, 2026, 175 days late.

Context

The department has approximately 15 mostly annual reporting requirements. We judgmentally selected eight significant reporting requirements, including any new reports required by recent legislation. Each report selected was due annually. Therefore, we reviewed 16 reports.

Effect

Intended report recipients may not have current information to make informed decisions regarding the department and its operations.

Cause

The Merger Analysis Report was a new requirement per Public Act 23-126. DOB indicated miscommunication resulted in it not submitting the 2024 report and the late submission of the 2025 report, which it submitted after our inquiry.

Prior Audit Finding

This finding has not been previously reported.

Recommendation

The Department of Banking should strengthen internal controls to ensure compliance with Section 36a-128 of the General Statutes.

Agency Response

"We agree with this finding and as a result we have instructed the appropriate staff that, within 2 weeks of the end of each legislative session, to provide the Commissioner and every Division Director with a written summary of all new reporting requirements that the agency is expected to comply with."

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our prior audit report on the Department of Banking contained no recommendations.

OBJECTIVES, SCOPE, AND METHODOLOGY

We have audited certain operations of the Department of Banking in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2024 and 2025. The objectives of our audit were to evaluate the:

1. Department's internal controls over significant management and financial functions;

2. Department's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and

3. Effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

In planning and conducting our audit, we focused on areas of operations based on assessments of risk and significance. We considered the significant internal controls, compliance requirements, or management practices that in our professional judgment would be important to report users. The areas addressed by the audit included payroll and personnel, revenue and cash receipts, accounts receivable, purchasing and expenditures, and reporting systems.

The Department of Administrative Services administers payroll and personnel functions and information technology services for the Department of Banking. Our audit reviewed these functions, based on assessments of risk and significance, as they relate to the Department of Banking. Our review did not include reviewing other aspects of the Department of Administrative Services' operations.

Our methodology included reviewing written policies and procedures, financial records, meeting minutes, and other pertinent documents. We interviewed various personnel of the department and certain external parties. We also tested selected transactions. Our transaction selections were designed to provide sufficient and appropriate evidence to support our findings, conclusions, and recommendations. This testing was not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also 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 contracts, grant agreements, 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.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying financial information is presented for informational purposes. We obtained this information from various available sources including the department's management and state information systems. It was not subject to our audit procedures. For the areas audited, we:

1. Identified deficiencies in internal controls;

2. Identified apparent noncompliance with laws, regulations, contracts and grant agreements, policies, or procedures; and

3. Did not identify a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of the Department of Banking.

ABOUT THE AGENCY

Overview

The Department of Banking (DOB) primarily operates under the provisions of Title 36a, Chapters 664 through 669, Title 36b, Chapters 672 through 672c, and Section 47a-21 subsection (b), (d), (h), (i), and (j) of the Connecticut General Statutes. DOB functions as a regulatory agency responsible for the supervision, licensing, and regulation of financial institutions and organizations within the state. Among such institutions are state-chartered banks and credit unions, suppliers of consumer credit such as mortgage lenders, brokers, consumer collection agencies, small loan companies, and check cashers. DOB also has jurisdiction over landlord/tenant security deposit conflicts. DOB administers and enforces Connecticut's Truth-in-Lending Law and Uniform Securities Act, among other consumer-credit laws. DOB receives most of its revenue through the registration, supervision, and examination of the securities business within the state, including brokerage firms, investment banking houses, retail stockbrokers, and investment advisors.

The department's mission is to protect users of financial services from unlawful or improper practices by ensuring regulated entities and individuals adhere to state banking, consumer credit, and securities laws. The department accomplishes this through regular, thorough, and cost-effective examinations of the entities it supervises.

Organizational Structure

The Department of Banking is comprised of the executive office, three operating divisions and several support units to accomplish its mission. Specific regulatory functions are assigned to each operational division.

- Consumer Credit Division - issues seventeen license or registration types across several sectors of the non-depository financial services market, including federal student loan servicers; private education lenders and loan creditors; and commercial financing brokers and providers. In addition to its licensing authority, the division also administers various laws related to consumer credit issues including the Truth-in-Lending laws and retail installment sales financing laws.

- Financial Institutions Division - regulates various entities pursuant to Title 36a of the Connecticut General Statutes, including state-chartered bank and trust companies, savings banks, savings and loan associations, credit unions, international trade and investment corporations and certain non-banking corporations that exercise fiduciary powers.

- Securities and Business Investments Division - responsible for registering securities and business opportunity offerings sold in or from Connecticut, registering (licensing) broker-dealers, agents, investment advisers and investment adviser agents who transact business in Connecticut and registering branch offices of broker-dealer and investment advisory firms. The division also conducts examinations of broker-dealers, investment advisers and branch office registrants, and enforces the Connecticut Uniform Securities Act, the Connecticut Business Opportunity Investment Act, and the Connecticut Tender Offer Act.

In 2024, Public Act 23-204 created the Office of the Student Loan Ombudsperson. The office is administratively held within the DOB and is led by a student loan ombudsperson, who is appointed by the Banking Commissioner. The ombudsperson has independent statutory authority to analyze and monitor laws and policies that impact student loan borrowers at the federal, state, and local level, and to

make related recommendations. The student loan ombudsperson also works directly with loan borrowers to address complaints and help them navigate issues and identify resources.

The Department of Administrative Services (DAS) Small Agency Resource Team (SmART) has administered the DOB payroll and human resources functions since October 2018, and the department's information technology services was centralized under the DAS Bureau of Information Technology Solutions (BITS) in December 2021.

Jorge L. Perez was appointed Banking Commissioner effective March 13, 2015, and continues to serve in that capacity.

Significant Legislative Changes

Notable legislative changes that took effect during the audited period are presented below:

- Public Act 23-82 (Section 1), effective June 27, 2023, allowed the banking commissioner to adopt regulations, forms, and ordered governing the business use of digital assets by entities and individuals under DOB's regulatory jurisdiction.

- Public Act 23-126 (Section 25), effective October 1, 2023, modernized banking laws by expanding DOB's regulatory authority over small loans and financial institutions, increasing consumer protection responsibilities, and improving licensing and regulatory efficiency. In addition, DOB is required to submit a report to the Banking Committee, on or before January 1, 2025, and annually thereafter in accordance with the provisions of Section 11-4a of the General Statutes.

- Public Act 23-201 (Sections 10 through 12), effective July 1, 2024, required certain lenders offering specific types of commercial financing to register annually with DOB, starting October 1, 2024, and allowed DOB to impose civil penalties pursuant to Section 36a-50 of the General Statutes for violations of such commercial financing disclosure requirements.

- Public Act 23-204 (Sections 166 & 167), effective October 1, 2023, required private education lenders and creditors to register with DOB and provide certain information about their loans and borrowers. It also required DOB to publish a summary of the information it receives and allowed it to bar certain violators for up to ten years. Section 167 established the Office of the Student Loan Ombudsman within DOB, and required the ombudsman, beginning January 1, 2024, to annually submit a report to the Banking and Higher Education and Employment Advancement committees on the office's implementation and effectiveness and the added steps DOB must take to gain regulatory control over student loan servicer licensing and enforcement.

- Public Act 24-146, effective October 1, 2024, made conforming changes to provisions within Public Act 23-82, notably adding nonfungible tokens (NFT) to the list of digital assets DOB may regulate and capped the total amount of service fees at 15% per transaction for virtual currency kiosks.

Financial Information

Banking Fund

DOB does not receive General Fund appropriations. Instead, the department funds its operations by collecting annual assessment fees on supervised financial institutions. The State Treasurer is responsible for depositing these fees into the legally separate State Banking Fund as outlined in Section 36a-65(b)(2)

of the General Statutes. DOB may only expend amounts in the fund pursuant to approval by the General Assembly.

The Banking Fund budgetary fund balances plus reserves were $56,644,339 and $70,084,380 as of June 30, 2024, and 2025, respectively.

General Fund

The State Treasurer deposits any fines or civil penalties imposed by the Banking Commissioner and any late fees received by the commissioner into the General Fund. Fees collected from institutions filing with the Securities and Exchange Commission are also deposited in the General Fund.

Revenues by Fund

A summary of revenues by fund during the audited period and the preceding fiscal year follows:

	Fiscal Year Ended June 30,		
	2023	2024	2025
Banking Fund	$ 42,607,585	$ 41,790,748	$ 42,933,579
General Fund	6,359,501	6,465,248	9,447,253
Federal & Other Restricted Accounts Fund	78,300	85,500	90,000
Total	**$ 49,045,386**	**$ 48,341,496**	**$ 52,470,832**

Banking Fund revenue remained relatively flat. General Fund revenues fluctuate year-to-year depending on penalty assessments and settlements.

Revenues by Account

A summary of revenues by account for the audited period and the preceding fiscal year follows:

	Fiscal Year Ended June 30,		
	2023	2024	2025
Fees	$ 41,400,854	$ 41,241,549	$ 41,865,242
Fines	1,042,371	1,199,398	4,376,660
Licenses	6,416,900	5,642,650	6,078,725
Miscellaneous	185,261	257,899	150,205
Total	**$ 49,045,386**	**$ 48,341,496**	**$ 52,470,832**

There was an increase in broker/investment advisor penalties assessed in fiscal year 2025. Fluctuations in fines are expected, as most of the revenue is generated from only a few large fines. License receipts also fluctuate as companies enter and exit the business each year as impacted by factors in the financial market.

Banking Fund Expenditures

Expenditures for the Banking Fund by account during the audited period as compared to the preceding fiscal year follows:

	Fiscal Year Ended June 30,		
	2023	2024	2025
Personal Services and Employee Benefits	$ 21,693,011	$ 21,620,217	$ 22,406,450
Employee Allowances and Travel	159,803	193,965	293,695
Contractual Services	304,798	208,568	307,573
Motor Vehicle Costs	14,110	4,144	4,944
Premises and Property	780,115	780,016	715,178
Communications	1,297	926	75
Information Technology	9,750	101,291	(12,413)
Purchased Commodities	(11,466)	58,759	61,450
Other Expenditures	568,159	330,172	880,592
Total	**$ 23,519,577**	**$ 23,298,058**	**$ 24,657,544**

Expenditures grew slightly in fiscal year 2025, primarily due to approved bargaining unit wage increases. The increase in other expenditures in fiscal year 2025 was due to a settlement reached with a large investment management company.