



FACT SHEET

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Report: **2005-123**

The California State Auditor released the following report today:

Department of Corporations
***It Needs Stronger Oversight of Its Operations and More Efficient Processing
of License Applications and Complaints***

BACKGROUND

The Department of Corporations (Corporations), within the Business, Transportation and Housing Agency, is responsible for licensing and regulating the securities and financial services industries, including businesses such as securities brokers and dealers, investment and financial planners, and certain fiduciaries and lenders. As part of these responsibilities, Corporations issues and renews licenses, examines and investigates licensees, and collects periodic assessments from certain licensees. Corporations is supported solely by the fees and assessments it collects. Although it also conducts investigations into alleged violations of the laws over which it has jurisdiction, Corporations has for several years been required to transfer any fines and penalties it collects to the State's General Fund.

KEY FINDINGS

Our review of Corporations concerning licenses, examinations, investigations, and assessments during the last seven years revealed the following:

- Corporations has not analyzed fees it charges businesses to determine whether fees matched the cost of providing services. As a result, it has consistently overcharged for some activities and undercharged for others. In effect, excess revenues generated from some types of fees allow Corporations to offset the funding shortfalls for the services it provides for other applicants.
- Corporations' monthly and quarterly performance reports indicate that it has fallen short of its goals. Additionally, the effectiveness of strategic planning efforts is undercut by inaccurate statistical information about its actual performance. Also, Corporations does not always identify goals for its performance measures. Without sufficient data and benchmarks, it is impossible for Corporations to effectively assess the value of its efforts.
- Corporations does not always process applications within the time limits set by law, but only some of the delays are due to its processing.
- Issues regarding complaints:
 - ✓ Corporations did not always resolve complaints related to securities regulation and financial services as quickly as it could have. When it does not investigate complaints promptly, its ability to protect consumers from fraudulent activities is compromised.
 - ✓ Corporations' enforcement division did not always identify a reason for rejecting complaints. Further, when it did identify a reason, it did not always fully document its rationale.
 - ✓ Corporations has recently modified its procedure for handling complaints. In addition to developing formal policies for rejecting and referring complaints, it has centralized the intake of all complaints into a new complaint team believing that this will allow it to respond immediately to complaints. Because this process was initiated near the end of our fieldwork, we were unable to test whether it will correct any of the weaknesses identified, but it appears the process contains good business practices.
- Corporations has a significant examination backlog for escrow office licensees and California Finance Lender licensees, which could leave consumers less well protected.

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