

STATE BANK DEPARTMENT

Enabling Laws

Act 40 of 2003
AR Code §23-46-101 et seq

History and Organization

The State Bank Department was created by the General Assembly in 1913. It has the responsibility to perform periodic examinations of state chartered banks, bank holding companies, trust companies and other entities to determine safety and soundness and compliance with laws and regulations.

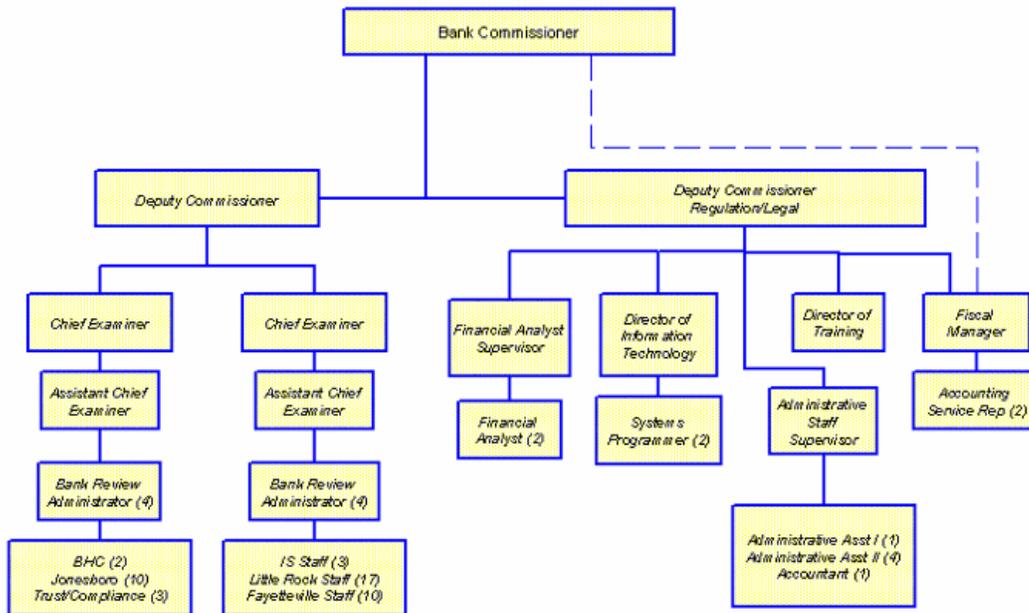
These examinations are accomplished by on-site evaluation of assets and liabilities, adequacy of internal routines and controls, the competency of management, the adequacy of capital of the institution, and other evaluations as performed by examiners.

The Bank Commissioner is charged with the responsibility of ensuring all state banks operate in compliance with state and federal laws. He also has responsibility for the approval of new branches, changes in ownership, and Plans of Exchange, whereby bank stock is exchanged for bank holding company stock.

In order to discharge the statutory responsibilities of the above, the Bank Commissioner and bank examiners periodically conduct investigations, hold hearings and perform all actions necessary to discharge their statutory responsibilities. Act 60 of 1933 created the Arkansas State Banking Board. The Board consists of six (6) members whose powers and duties include: Pass upon bank charter applications and charter amendments; pass upon proposed reorganizations, mergers and consolidations, conversions from National Charter to State Charter; hold hearings; propose regulations; and otherwise perform all actions necessary to discharge their statutory responsibility. The Commissioner and the State Banking Board have full authority to issue rules and regulations.

The Bank Commissioner, aided by the team of examiners, is required periodically to issue Cease and Desist Orders, Memorandums of Understanding, or obtain official Resolutions of Affirmative Action from banks when safety and soundness issues arise that warrant such action.

The Mission of the State Bank Department is to allocate available human and other resources existing in our Examination, Information Technology, and Administrative Services Divisions to ensure the continuance of safe and sound financial practices in state chartered financial institutions. We will maintain a legal and regulatory structure for Arkansas that provides the public with convenient, safe, and competitive banking, which allows for economic development within this State.



Agency Commentary

The Arkansas State Bank Department has statutory responsibility for the examination and regulation of state chartered banks, bank holding companies, trust companies and other entities to determine safety and soundness, and compliance with laws and regulations. At fiscal year-end June 30, 2004, this included 120 state-chartered banks, 104 bank holding companies, one county industrial development corporation, six regional industrial development corporations, two trust companies, one capital development corporation and the Arkansas Capital Corporation. The Mission of the State Bank Department is to allocate available human and other resources existing in our Examination, Information Technology and Administrative Services Divisions to ensure the continuance of safe and sound financial practices in state chartered financial institutions. The Department will continue its policy of being an advocate of banking and seeking every means available to improve those financial institutions found to be in need of assistance. In order to execute these responsibilities and fulfill the mission and goals of the Department, certain budget requests are imperative.

The Department requests Capital Outlay appropriation to replace state vehicles according to the State's mileage and time of service policy, to purchase additional vehicles, if needed, and to replace fully depreciated Department equipment.

The Department is requesting to re-classify ten (10) Financial Examiner positions to Bank Senior Examiner in order to maintain the career path and enhance employee retention.

Also requested is reclassification of three (3) Bank Senior IS (Grade 24) positions to Bank Senior Examiner (Grade 23) and reclassification of a Management Project Analyst II position to an Accounting Services Rep II, with no change in grade level.

Additions in Operating Expenses are requested each year for increases in rental expenses for three locations, travel costs, and other areas of general operations. Also requested is a first year increase

for renewal of software licenses, followed by a decrease in the second year.

Increases are requested in Conference Fees and Travel to cover increases in training and travel costs to maintain examiner certifications.

Other resources are requested for replacement of obsolete data processing equipment according to the Department's three-year replacement plan. This is the cornerstone of the Department's IT plan which has been filed with the Department of Information Systems per their instruction for the new biennium.

Approval of all requests will allow the Bank Department to continue to meet demands placed upon it by the financial industry and to continue to monitor the safety and soundness of all Arkansas state banking institutions under its jurisdiction. This will be accomplished by priorities set by the Department to regulate and supervise the changing banking environment.

Funding for the State Bank Department is provided by semi-annual assessments of all institutions under the supervisory authority of the Department.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
STATE BANK DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2003

Findings

The Arkansas Administrative Statewide Information System (AASIS) fails to provide adequate controls to ensure the reliability of financial data, and therefore, does not adequately safeguard the financial assets to the Agency. Specifically, the security configuration does not provide adequate segregation of duties in an environment with a limited number of personnel, resulting in an excessive number of conflicts regarding the restricted access to financial data and data entry.

Recommendations

The Agency work with the AASIS staff to train additional personnel in order to resolve job conflicts and maximize the segregation of duties.

Employment Summary

	Male	Female	Total	%
White Employees	40	24	64	93 %
Black Employees	3	1	4	6 %
Other Racial Minorities	0	1	1	1 %
Total Minorities			5	7%
Total Employees			69	100 %

Publications

A.C.A 25-1-204

Name	Statutory Authorization	Required for		# Of Copies	Reason (s) for Continued Publication and Distribution
		Governor	General Assembly		
Report of the Bank Commissioner	A.C.A. 23-46-210	Y	N	100	Required for the Governor by Statute. Copies provided to the State Library and requesting banks. Report is also available on the Agency's website.

Analysis of Budget Request

Appropriation / Program: 051 - State Bank Department-Operations

Funding Sources: SIB - Bank Department Fund

The State Bank Department is funded entirely by Special Revenue fees assessed and collected on a semi-annual basis, as authorized in Arkansas Code §19-6-412. Base Level for this appropriation includes graduated salary increases of 3% to 1.5% each year over the FY05 salary levels, along with related Personal Services Matching costs for 77 Base Level positions. This includes a \$600 minimum increase for employees earning \$20,000 and below. Also included in Personal Services Matching is a \$40 per month increase in the monthly contribution for State Employee's health insurance for a total State contribution of \$320 per month per budgeted employee.

The Department is requesting reclassification of 3 Bank Senior Information Systems Examiner positions, Grade 24, to Bank Senior Examiner, Grade 23, and reclassification of 10 Financial Examiner positions, Grade 20, to Bank Senior Examiner, Grade 23. Salary and matching costs are \$19,933 in FY06 and \$20,693 in FY07. In addition, reclassification of a Management Project Analyst II to an Accounting Services Rep II, with no change in grade, is requested.

Also requested are increases in Operating Expenses of \$18,500 in the first year and \$34,250 in the second year for additional rent costs; \$28,755 in FY06 and \$49,072 in FY07 for additional examiner travel expenses; and \$10,830 and \$13,106, respectively, for association dues, subscriptions, phone expenses, rent of office equipment, and other general operating costs.

In Conference Fees & Travel, the request is for additions of \$32,503 in FY06 and \$63,456 in FY07 to cover increases in training and travel costs to maintain examiner certifications.

Capital Outlay of \$206,775 each year is requested for replacement of vehicles and fully depreciated office equipment.

As enumerated in the Department's Information Technology Plan submitted to the Department of Information Systems, Capital Outlay is requested in amounts of \$110,000 each year for replacement of data processing equipment. Also included are additions of \$15,000 in the first year in Operating Expenses for renewal of software licenses and a corresponding reduction of \$20,000 in the second year.

Continuation of special language concerning special pay rates and funding levels in the Bank Department Fund is also requested.

The Executive Recommendation provides for Base Level, plus Capital Outlay of \$200,000 each year, and the requested reclassifications of examiner positions.

Appropriation / Program Summary

Appropriation / Program: 051 State Bank Department-Operations
Funding Sources: SIB - Bank Department Fund

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
		2003-2004 Actual	2004-2005 Budget	2004-2005 Authorized	2005-2006			2006-2007		
					Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	3,627,498	4,724,824	4,808,133	4,795,369	4,812,146	4,812,146	4,927,058	4,944,475	4,944,475
#Positions		73	77	77	77	77	77	77	77	77
Extra Help	5010001	3,619	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
#Extra Help		1	1	1	1	1	1	1	1	1
Personal Services Matching	5010003	906,388	1,145,903	1,109,277	1,196,339	1,199,495	1,199,495	1,221,050	1,224,326	1,224,326
Operating Expenses	5020002	944,768	1,269,108	1,269,108	1,269,108	1,342,193	1,269,108	1,269,108	1,350,536	1,269,108
Travel-Conference Fees	5050009	209,373	277,030	277,030	277,030	309,533	277,030	277,030	340,486	277,030
Professional Fees and Services	5060010	69,090	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Capital Outlay	5120011	184,185	314,025	314,025	0	316,775	200,000	0	316,775	200,000
Total		5,944,921	7,905,890	7,952,573	7,712,846	8,155,142	7,932,779	7,869,246	8,351,598	8,089,939
Funding Sources										
Fund Balance	4000005	2,053,704	2,313,599		1,707,709	1,707,709	1,707,709	1,567,567	1,567,567	1,567,567
Special Revenue	4000030	6,204,816	7,300,000		7,572,704	8,015,000	7,792,637	7,732,648	8,215,000	7,953,341
Total Funding		8,258,520	9,613,599		9,280,413	9,722,709	9,500,346	9,300,215	9,782,567	9,520,908
Excess Appropriation/(Funding)		(2,313,599)	(1,707,709)		(1,567,567)	(1,567,567)	(1,567,567)	(1,430,969)	(1,430,969)	(1,430,969)
Grand Total		5,944,921	7,905,890		7,712,846	8,155,142	7,932,779	7,869,246	8,351,598	8,089,939

The FY05 Budgeted amount in Personal Services Matching exceeds the Authorized amount due to matching rate adjustments during the 2003-05 Biennium.

Change Level by Appropriation

Appropriation / Program: 051-State Bank Department-Operations

Funding Sources: SIB - Bank Department Fund

Agency Request

Change Level		2005-2006	Pos	Cumulative	% of BL	2006-2007	Pos	Cumulative	% of BL
BL	Base Level	7,712,846	77	7,712,846	100.0	7,869,246	77	7,869,246	100.0
C01	Existing Program	297,363	0	8,010,209	103.8	371,659	0	8,240,905	104.7
C03	Discontinue Program	0	0	8,010,209	103.8	(20,000)	0	8,220,905	104.4
C08	Technology	125,000	0	8,135,209	105.4	110,000	0	8,330,905	105.8
C09	CLIP Reclass	0	0	8,135,209	105.4	0	0	8,330,905	105.8
C10	Reclass	19,933	0	8,155,142	105.7	20,693	0	8,351,598	106.1

Executive Recommendation

Change Level		2005-2006	Pos	Cumulative	% of BL	2006-2007	Pos	Cumulative	% of BL
BL	Base Level	7,712,846	77	7,712,846	100.0	7,869,246	77	7,869,246	100.0
C01	Existing Program	100,000	0	7,812,846	101.3	100,000	0	7,969,246	101.2
C03	Discontinue Program	0	0	7,812,846	101.3	0	0	7,969,246	101.2
C08	Technology	100,000	0	7,912,846	102.5	100,000	0	8,069,246	102.5
C09	CLIP Reclass	0	0	7,912,846	102.5	0	0	8,069,246	102.5
C10	Reclass	19,933	0	7,932,779	102.8	20,693	0	8,089,939	102.8

Justification

C01	The Department is requesting additions in rent expense of \$18,500 in FY06 and \$34,250 in FY07; \$28,755 in FY06 and \$49,072 in FY07 for additional examiner travel expenses; and \$10,830 in FY06 and \$13,106 for association dues, subscriptions, phone expenses, rent of office equipment, and other general operating costs. In Conference Fees and Travel, \$32,503 in the first year and \$63,456 are requested for increases in training and travel costs to maintain examiner certifications. Capital Outlay of \$206,775 for each year is requested for replacement of state vehicles and for replacement of fully depreciated office equipment.
C03	Reduction of \$20,000 requested in the second year in the category for Software Licenses. The Department will renew its software agreements in the first year, which will allow for reduction in the second year.
C08	\$15,000 is requested in the first year in Operating Expenses for renewal of software licenses and Capital Outlay of \$110,000 each year is requested for replacement and upgrading of information technology equipment in accordance with the Department's Technology Plan submitted to the Department of Information Systems.
C09	Request is to reclassify a Management Project Analyst II position to an Accounting Services Representative II, with no change in grade level.
C10	Request is to reclassify 3 positions of Bank Senior IS Examiner, Grade 24, to Bank Senior Examiner, Grade 23. Also requested is reclassification of 10 positions of Financial Examiner, Grade 20, to Bank Senior Examiner, Grade 23, to maintain the career path for examiner positions to foster employee retention.