

STATE OF CONNECTICUT

**AUDITORS' REPORT
SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED
JUNE 30, 2002, 2003 AND 2004**

AUDITORS OF PUBLIC ACCOUNTS
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September 25, 2006

**AUDITORS' REPORT
SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 2002, 2003 AND 2004**

We have made an examination of the financial records of the Secretary of the State for the fiscal years ended June 30, 2002, 2003 and 2004. This report on that examination consists of the Comments, Recommendations and Certification which follow.

Financial statements pertaining to the operations and activities of the Office of the Secretary of the State are presented on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing the Secretary of the State's compliance with certain provisions of financial related laws, regulations, contracts and grants, and evaluating the Secretary of the State's internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Office of the Secretary of the State (Office) is an elective constitutional post. Its duties and responsibilities are set forth by Article Fourth, Section 23, of the Constitution of Connecticut and by various sections, most notably Title 3, Chapter 33, of the General Statutes. The primary functions of the Secretary of the State are:

- Custodian of the State seal, public records and documents, particularly of the acts, resolutions and orders of the General Assembly. Other public documents recorded and filed include State agency regulations, schedules of State Boards and Commission meetings, town ordinances and acts and the surety bonds of State officers and employees.

- Commissioner of Elections of the State which includes being the repository of political party rules and campaign finance statements and compiling voter registration statistics.
- Recording various corporate certifications and reports as well as the collection of the appropriate fees.
- Recording commercial transactions and the collection of the applicable fees in accordance with the Uniform Commercial Code (UCC).
- Appointments of Notaries Public.
- Publishing the State Register and Manual and other publications.

During the period under examination, the State Board of Accountancy, per Section 20-280, subsection (e), of the General Statutes was within the Office of the Secretary of the State. That Board operates, generally, under the provisions of Title 20, Chapter 389 of the General Statutes and is responsible for licensing and regulating the public accounting profession in this State. Members of the Board are appointed by the Governor and their appointments are coterminous with the Governor's term of office. As of June 30, 2004, the members of the Board were:

Thomas F. Reynolds, Chairman
Richard P. Bond
James S. Ciarcia
Philip J. DeCaprio Jr., CPA
Richard Gesseck, CPA
Leonard M. Romaniello Jr., CPA
Richard Sturdevant
Michael Weinshel, CPA

The Office of the Secretary of the State has organized itself into six divisions in order to address its duties and responsibilities: Commercial Recording, Election Services, Information Technology, Management and Support Services, Records and Legislative Services, and the State Board of Accountancy. In accordance with Section 5 of Public Act 05-287, the State agency assigned to the State Board of Accountancy for administrative purposes only was changed, effective July 1, 2005, from the Office of the Secretary of the State to the Office of Policy and Management.

Susan Bysiewicz was elected Secretary of the State in November 1998, and served continuously from January 6, 1999, through the audited period. Maria M. Greenslade served as Deputy Secretary of the State from January 6, 1999, through the audited period.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts totalled \$25,578,490, \$24,297,898 and \$13,005,967 during the fiscal years ended June 30, 2002, 2003, and 2004, respectively, as follows:

	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
	\$	\$	\$
Commercial recording fees	9,100,212	10,853,821	10,854,612
Franchise taxes	204,139	26,600	6,801,795
Other corporate fees and penalties	964,764	1,037,803	900,283
Accountants licensing and examinations	1,959,662	1,827,125	1,770,341
Notary public registrations	657,489	633,540	630,605
Sale of documents and publications	119,701	317,463	120,854
Restricted contributions:			
Federal grants received		5,000,000	
Commercial recording account	-	<u>4,601,546</u>	<u>4,500,000</u>
Total General Fund Receipts	<u>\$ 13,005,967</u>	<u>\$24,297,898</u>	<u>\$25,578,490</u>

The commercial recording account is essentially an administrative or budgetary account. The Office retains revenues in the “Commercial Recording Administrative Account” up to the budgeted amount. The Account was established in accordance with Section 3-99c of the General Statutes to provide funding for the costs of operating the Commercial Recording Division. Certain fees received by the Office are deposited in this Account until sufficient funds are available to provide for the costs of operating the Division. As discussed below, this Account was accounted for within a special revenue fund effective with the 2003-2004 fiscal year.

Receipts from franchise taxes were notably higher in the 2001-2002 fiscal year due to the payment of approximately \$6,000,000 by a banking institution desiring the authorization of a large number of shares of stock. The increase in “Sale of documents and publications” during the 2002-2003 fiscal year was due to the fact that an update of the General Statutes of Connecticut is produced biennially.

A summary of General Fund expenditures by major object from both budgeted and restricted accounts for the fiscal years ended June 30, 2002, 2003, and 2004, is presented below:

	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
Personal services	\$ 1,774,595	\$ 5,424,667	\$ 5,376,120
Contractual services	1,204,914	2,755,805	2,442,429
Commodities	56,019	127,933	132,377
Sundry charges	75	1,220,628	1,252,214
Equipment	891	<u>20,845</u>	<u>177,200</u>
Total Expenditures	<u>\$ 3,036,494</u>	<u>\$ 9,549,878</u>	<u>\$ 9,380,340</u>

Personal services costs accounted for approximately 57 percent of General Fund expenditures during the audited period. The remaining General Fund expenditures were expended primarily for contractual services and sundry charges. Significant categories of expenditures included outside consulting services, EDP services, and fringe benefit charges for those employees charged to the "Commercial Recording Administrative Account".

The decrease in General Fund revenues and expenditures from fiscal year 2003 to 2004 was primarily due to a change in accounting procedures resulting from implementation of a new State accounting system. That system established a new Special Revenue Fund entitled "Grants and Restricted Accounts Fund" to account for certain Federal and other revenues that are restricted from general use and were previously accounted for in the General Fund. Further comments on this Fund are presented below.

Special Revenue Fund - Federal and Restricted Accounts:

As previously explained, beginning with the 2003-2004 fiscal year, Federal grant and other restricted account activity previously recorded in the General Fund was recorded by the Comptroller in a newly established Special Revenue Fund.

Revenues and expenditures of this Fund, as recorded by the State Comptroller for the fiscal year ended June 30, 2004, totaled \$34,184,018 and \$7,192,007, respectively. A summary of Fund activity is presented below:

	<u>Fiscal Year Ended</u>
	<u>June 30, 2004</u>
	\$
Revenue:	
Federal grants	27,719,501
Commercial recording account	6,340,096
Interest income	82,937
Refunds of expenditures	<u>41,484</u>
Total Revenue	<u>\$ 34,184,018</u>
Expenditures:	\$
Personal services	4,512,091
Contractual services	2,526,671
Commodities	136,018
Equipment	<u>17,227</u>
Total Expenditures	<u>\$ 7,192,007</u>

Other Special Revenue Funds:

During the audited period, expenditures from other Special Revenue Funds totaled \$258,590 and were primarily for equipment.

Capital Project Funds:

Expenditures for State capital projects totaled \$170,316 during the audited period. Most of the funds were expended for data processing consulting services relating to the automation of the Voter Registration System.

Connecticut Citizenship Fund (Foundation):

The Connecticut Citizenship Fund was established as a foundation, pursuant to Section 4-37e of the General Statutes. This organization was created to increase citizen interest and participation in government, particularly State and local government; to increase and improve citizen participation in elections; to stimulate more education of and involvement of Connecticut's school-aged children concerning government; and to engage in any lawful act or activity for which corporations may be formed under said Act.

Sections 4-37f through 4-37j of the General Statutes establish certain requirements for foundations affiliated with State agencies. Section 4-37f of the General Statutes sets forth the requirement that any foundation must have a full audit of its books and accounts either annually or every third year, depending on the amount of revenue received each year. Our review has disclosed that the Office of the Secretary of the State had not engaged a firm to perform an audit since the fiscal year ended June 30, 2001. Further comments can be found in the "Condition of Records" section of this report.

CONDITION OF RECORDS

Our examination of the records of the Secretary of the State disclosed matters of concern requiring disclosure and agency attention.

Lack of Controls over Attendance and Compensatory Time:

Criteria: Management Personnel Policy 80-1 published by the Department of Administrative Services provides that compensatory time earned by management and confidential employees must be authorized in advance and compensatory time earned during a calendar year must be used by the end of the succeeding calendar year.

The Office's Employee Handbook contains attendance policies that call for the reporting of unscheduled absences and leave time usage, as well as quarterly attendance reviews by supervisors and reports to the Human Resources Office if unscheduled absences reach certain thresholds.

Condition: We found that a few of the employee requests for compensatory time either lacked a reason for the request or failed to cover the period for which compensatory time was awarded. Two employees were permitted to use a total of 148 hours of compensatory time beyond the date the time should have expired.

Some units within the Office maintained a ledger (commonly referred to as the "Red Book") detailing daily tardiness and other attendance matters. Notations in these ledgers seemed to indicate that leave time was being used with provisions for the employees to make up the time rather than incur charges to leave balances, but the resolution of these incidents was not always documented. The data in the ledgers was not reported quarterly to the Human Resources Office, despite the fact that certain staff appeared to reach thresholds for unscheduled absences. There was no evidence that the information was considered in the performance appraisal process.

Effect: There is an increased risk that staff may receive the benefit of compensatory time after the time should have lapsed. The 148 hours noted above resulted in approximately \$5,300 in additional personnel costs for the affected employees.

Conformance with attendance policies promulgated by the Office may not always be accomplished when leave time is recorded in such an informal fashion. Irregular attendance patterns may not be brought to the attention of management, and accountability for the correction of time taken may not be available.

Cause: A lack of administrative oversight contributed to these conditions. Controls designed to automatically lapse compensatory time were built into the CORE-CT system, but the fields required to activate the controls were never populated with the necessary codes.

Recommendation: The Office should ensure that compensatory time is properly administered by requiring authorization forms to be properly completed and automated controls to be promptly activated, and that unscheduled absences are reported in accordance with relevant policies. (See Recommendation 1.)

Agency Response: "With respect to compensatory time, the Department of Administrative Services recently issued a new policy that expands the types of employees eligible for compensatory time and details circumstances where granting such time is appropriate. The Office of the Secretary of the State is reviewing the new policy and will revise its policy accordingly. Human Resources has already activated appropriate CORE-CT fields to monitor timely usage of compensatory time.

The Human Resources Division will distribute Quarterly Attendance Reports for all staff to supervisors and managers effective immediately (starting with the quarter ending June 30, 2006). Managers will be directed to follow-up with Human Resources if thresholds are met."

Administration of Employee Separations:

Criteria: The Office of the Secretary of the State has established an exit interview process designed to gather information pertaining to employees' experiences while employed by the Office, as well as providing the opportunity for the Office to document the collection of credentials and other items provided to the employees.

Sound internal control procedures require that access to networks and data processing systems be terminated upon separation of the employee to prevent unauthorized access to those resources.

Sections 5-247-2 and 5-250-2 of the Regulations of Connecticut State Agencies provide that accruals for sick leave and vacation time are earned for each completed calendar month of State service.

Condition: Three of five files examined for separated employees did not contain completed exit interview questionnaires. An examination

of the active logon IDs used to access applications that reside at the Department of Information Technology found several that were assigned to employees that had separated from the Office.

Three of five payments made to employees at termination appeared to be inaccurate due to computational errors and the failure to accrue for the final month of service.

Effect: The risk of unauthorized access to State data processing systems is increased when prompt termination of user privileges does not take place.

Employees separating from service were not always credited for all leave time accrued.

Cause: These conditions were caused by clerical payroll errors and the lack of an established method of communicating employee separations between the Personnel and Management Information System units.

Recommendation: The Office should exercise increased care in the calculation of separation payments and improve the exit interview process by documenting interviews and notifying the data processing unit of the separations. (See Recommendation 2.)

Agency Response: “The Agency is in the process of updating their exit interview form, which is completed at the exit interview, to include the following checklist item: “Management Information Systems (MIS) notified of separation and asked to terminate access.” MIS, in turn, will maintain a log documenting removal of access. Future exit interview forms will be included in employee folders when completed. Exit interviews will be conducted for employees who left the office in the past forty-five (45) days.

Errors pointed out in processing separations are being reviewed and will be completed before the end of June 2006. Any monies due to separated employees will be paid. A Business Office employee has been cross-trained to do payroll. As a backup measure, this worker is performing a bi-weekly review of adjustments due to payroll exceptions, including separated workers.”

Accountability - Revenues and Receipts:

Background: The Office of the Secretary of the State utilizes the CONCORD

system to process the majority of commercial recording transactions. Upon the receipt of documents requesting such transactions, a uniquely numbered “work order” is generated. Work orders are tracked in the CONCORD system. If the proper fee is not submitted with the transaction, or if there are other problems processing the order, the transaction is placed in pending status until the problems can be corrected.

If payment is made with a work order and that order is placed in a pending status, the amount is recorded as a credit for use by the requestor when they file the proper paperwork. Credit balances are eligible to be refunded upon request.

Criteria:

Sound business practices and proper internal control procedures prescribe that revenue should be properly accounted for. Verification of the deposit of receipts and the proper processing of the transactions may be enhanced with the preparation of reconciliations or accountability reports that compare deposits made by the Revenue Section, with the transactions processed by the various individual units.

Condition:

Our review of internal controls over revenues and receipts disclosed that transactions processed by the individual units of the Office were not routinely reconciled to control totals from the Office’s Revenue Section.

An analysis of open work orders revealed approximately 7,500 pending orders. We examined 18 of those files and found 17 of them to be erroneously recorded as open when in fact they should have been closed. In most of these cases, a subsequent work order was processed that eliminated the need for the original order. These results lead us to question whether the majority of the pending files were valid.

A report of those work orders with credit balances indicated that approximately 80,000 credit balances existed, totaling \$8,000,000. A review of the 12 largest credit balances, totaling over \$3,700,000, found that the balances were erroneous.

Effect:

Current internal controls over revenues and other receipts do not provide management with reasonable assurance that all receipts are properly accounted for.

The ability to manage workloads and evaluate the progress made toward alleviating backlogs is hampered when the amount of erroneous data is so excessive.

The existence of invalid credit balances increases the risk that

these amounts could be refunded in error.

Cause: The Office's revenue system does not include methods and procedures to reconcile transactions processed by the individual units to the control totals per the Office's Revenue Section.

The aging of the open work orders and the magnitude of the credit balances suggested that this data had not been analyzed by the Office on a regular basis. Many of the errors were due to data input errors by inexperienced staff.

Recommendation: The Office should continue its efforts to implement procedures that would ensure the proper accountability of transaction activity with recorded revenue and receipts. In addition, a thorough review of all pending work orders and credit balances should be performed to eliminate erroneous records. (See Recommendation 3.)

Agency Response: "The Office is committed to continuing its efforts on this issue. The Commercial Recording Division will produce a monthly report of open work orders for each unit. Supervisors of the units will be given this report to expedite these work orders, as necessary.

The agency recently changed its address to a post office box to speed mail delivery and processing. The mail can now be picked up at 6:30 to 7:00 AM, rather than the previous 9:30 AM, and distributed to divisions for processing by 9 AM rather than 12 PM. This allows work in the divisions to begin earlier."

Administration of Foreign Corporation Investigations:

Background: In accordance with Section 33-920 of the General Statutes, a foreign corporation may not transact business in Connecticut without a certificate of authority. A "foreign corporation" is one that is organized under a law other than the law of Connecticut. Foreign corporations meeting the requirements for a certificate are required to submit an application fee to the State as well as file annual reports and the associated fees with the Office.

The Office does not actively seek out unauthorized foreign corporations doing business in this State. Instead, investigations of apparently unauthorized foreign corporations begin when a complaint is received (usually from a competing business) or when a foreign corporation submits an application for a certificate of authority indicating that they have transacted business in Connecticut in excess of 90 days.

Criteria:

Section 33-921 of the General Statutes provides for penalties of \$165 per month, as well as a mandatory \$225 license fee, for corporations that meet the requirements to obtain a certificate of authority and have not done so. Corresponding Statutes exist for limited liability companies and non-profit corporations.

Section 33-616 of the General Statutes provides for false statement provisions in accordance with Section 53a-157b of the General Statutes if materially false statements are made on documents filed with the Secretary of the State, including the application for certificate of authority.

Section 53a-157b of the General Statutes states that a person is guilty of false statement in the second degree when he intentionally makes a false written statement under oath or pursuant to a form bearing notice, authorized by law, to the effect that false statements made therein are punishable, which he does not believe to be true and which statement is intended to mislead a public servant in the performance of his official function.

In order to properly assess the progress made by the Office in investigating allegedly unauthorized foreign entities, there should be a method to regularly report to management the number of entities that are awaiting investigation and the age of the cases that are pending.

Since State law generally requires foreign entities to have a certificate of authority to conduct business in the State, the existence of such authority should be verified for all of those entities that do business directly with the State itself.

Condition:

The form utilized by the Office for foreign entities to obtain certificates of authority is not signed under oath, and only the instructions to the form provide for notice to the applicant of the false statement provisions.

At the time of our inquiry, a substantial number of files relating to potentially unauthorized foreign entities were awaiting investigation. These files were not formally recorded as an investigation until the case was opened. By the nature of these cases, it was not possible to estimate the potential revenue to the State from penalties and registration fees without a thorough review.

Based on our inquiries, there is no mechanism in place between the Office of the Secretary of the State and contracting State agencies to verify that foreign entities have a certificate of authority prior to conducting business with the State itself.

Effect: It is not clear whether the intended application of the false statement provisions is legally valid under the circumstances.

Accountability of the foreign investigation caseload is reduced when the files awaiting review are not included in the monitoring process.

The State of Connecticut may be transacting business with entities that do not have the required certificates of authority.

Recommendation: The Office of the Secretary of the State should examine the administration of the foreign entity investigations and communicate with State agencies regarding the need for the verification of such authority prior to conducting business with the State. (See Recommendation 4.)

Agency Response: “The Agency has followed up with the Office of the Attorney General on the issue of whether the false statement provisions currently in use are adequate. Based upon their direction, we will be changing the form to include the penalty of false statement provision directly on the form, rather than just on the instruction sheet. However, the Attorney General has not recommended that an oath be required. The foreign investigations that are outstanding are for businesses that have already filed a Certificate of Authority. The Agency is reviewing its process for monitoring the number of pending investigations and will make changes to more accurately reflect the status of each case. With respect to a recommendation that this Agency “communicate with State agencies regarding the need for the verification of such authority prior to conducting business with the State,” any state agency that contracts with foreign businesses can verify them on the Agency’s website. Since the Secretary of the State is not the agency responsible for promulgating and monitoring adherence to state procurement laws, regulations and procedures, we do not believe that an expanded role in this regard is appropriate, nor do we have resources to take on duties beyond those currently in place.”

Internal Controls over the Procurement Process:

Criteria: Section 3-117 of the General Statutes requires State agencies to certify the receipt of goods and services prior to payment, unless contracts provide for advance payments.

Section 4-98 of the General Statutes prohibits agencies from incurring obligations without the benefit of a properly executed commitment document.

Section 4-213 of the General Statutes prohibits hiring a personal service contractor without a properly executed personal service agreement.

General Letter 71-C promulgated by the Department of Administrative Services requires that purchases exceeding \$2,500 in a fiscal year be based on at least three competitive quotations. Sound internal controls dictate that evidence should be available to indicate that vendors adhered to the actual terms of relevant contracts.

Condition: Full payment in the annual amount of \$48,000 was made to a vendor despite a provision for monthly payments.

We noted two instances in which personal service agreements were approved after the work was performed.

Our sample of expenditures revealed four instances in which we could not verify the amounts paid to bids or contract award information.

Effect: Noncompliance with statutory requirements could result in the Office exceeding its authorized appropriations due to breakdowns in budgetary controls.

The inability to document conformance with State procurement policies could result in incurring costs that exceed those negotiated in procurement arrangements.

Cause: These conditions were caused by a lack of adherence to promulgated purchasing procedures.

Recommendation: The Office of the Secretary of the State should improve procurement procedures to ensure compliance with relevant procurement laws and retain documentation necessary to evidence such compliance. (See Recommendation 5.)

Agency Response: “Each division manager has been given a copy of State purchasing authorities delegated by DAS as well as requirements for instituting a Personal Service Agreement. The Business Office will continue to monitor contracts on a monthly basis to ensure they do not expire prior to completing the necessary paperwork for the extension of a current contract or implementation of a new contract.”

Monitoring of Telephone Usage:

Criteria: Sound business practice requires that an entity's expenditures should be for valid and reasonable business purposes. The Office's employee handbook requires that Agency telephones be used for official purposes only. It also requires employees to reimburse the Office for charges resulting from the personal use of business telephones.

Monitoring systems are most effective if they supply accurate data on which managerial decisions can be based without the need for additional information. In addition, agencies should only be charged for those expenses that are directly incurred as a result of their operation.

In March 2005, the Governor's Office issued a press release ordering a crackdown on directory assistance calls from State government telephones. The use of directory assistance should be discouraged due to the cost and the availability of online directories.

Condition: In response to a prior audit recommendation, the Office had implemented a call accounting system that was capable of providing a variety of reports concerning the telephone activities of each extension. These reports were not scrutinized by management nor distributed regularly to supervisors for their review. However, we did note an apparent decrease in the volume of out-of-State calls that were made.

We noted that the data used by the call accounting system to approximate the cost of local and long-distance calls was not accurate when compared to the phone bills from the telecommunication providers. Out-of-state calls did not have a cost associated with them on system reports. As a result, the Office was not fully recovering the full operating cost of telephones for the other agencies in the same building.

In order to test compliance with the Governor's directive, we examined the Office's use of directory assistance for the period January through March 2006. During that period, 286 calls were made to directory assistance.

Effect: There is reduced assurance that telephone costs and employees' time are only attributable to official business if usage reports are not monitored on a regular basis.

Incorrect costs reported by the call accounting system prevents an

accurate assessment of the costs involved in the event that costs need to be recovered from employees. The failure of the Office to recover the costs of out-of-State calls made by other agencies distorts the operating costs used for budgetary purposes.

The consistent use of directory assistance increases operating costs and appears to conflict with the Governor's Order.

Cause: Distribution of printed telephone usage reports was seen as too cumbersome, so the Office was awaiting the availability of electronic distribution before making the reports available.

A lack of administrative oversight resulted in the failure to detect that the pricing matrix used by the call accounting system was inaccurate.

We were unable to determine the cause of the apparently excessive usage of directory assistance.

Recommendation: The Office should consider instituting procedures to improve the management of telecommunications resources by regularly distributing usage reports, accurately recording the costs of calls generated from the telephone call accounting system, and attempting to minimize the use of directory assistance. (See Recommendation 6.)

Agency Response: "Effective June 1, 2006 each agency manager will receive monthly copies of all long distance calls for their staff members to review, sign and reimburse if there are any calls that are not business-related. Telephone reports will be reviewed on a monthly basis by the Business Office as well as divisional managers."

Property Control – Records and Reports:

Criteria: In accordance with Section 4-36 of the General Statutes, State agencies are required to file annual reports with the Office of the State Comptroller detailing the value of inventories on hand as of each June 30.

Condition: We attempted to trace a sample of 10 equipment items into the inventory records and found that eight of them were not recorded in the Office's asset management system.

An examination of the amounts reported on the Office's Property Inventory Report as the values of the supply and merchandise inventories revealed that the amounts were not adequately supported and were likely overstated. These amounts represent approximately 20 percent of the entire inventory value reported by

the Office.

Effect: Inventory losses could occur and go undetected if items are not recorded in the inventory records. In addition, the Office's inventory reports are misstated.

Cause: These conditions were caused by a lack of administrative control.

Recommendation: The Office should take steps to improve the accuracy of its property control records. (See Recommendation 7.)

Agency Response: "The Secretary of the State has purchased a new scanner recommended by DAS for the purpose of property control. One employee of the Business Office has been assigned to work on updating the Asset Management section of CORE-CT with our new scanner. We have also hired a temporary employee to help with this task to make sure all items have been inventoried and entered into the scanner by June 30, 2006."

Reporting Requirements of the Connecticut Citizenship Fund:

Criteria: The Connecticut Citizenship Fund was established as a foundation in accordance with Section 4-37e of the General Statutes. Section 4-37f of the General Statutes requires that foundations obtain an audit for each year in which revenues exceed \$100,000. A foundation having receipts less than \$100,000 for each of three consecutive years shall have an audit conducted for the third fiscal year. For years in which an audit is not required, financial statements shall be provided to the executive authority of the State agency for which the foundation was established.

Condition: An audit of the Connecticut Citizenship Fund had not been performed since the fiscal year ended June 30, 2001. Financial statements required by Section 4-37f of the General Statutes were not filed with the Secretary of the State.

Effect: The failure to obtain an audit or provide financial statements to the Office prevents a determination as to whether the foundation adhered to the applicable statutory requirements.

Cause: A lack of administrative control contributed to this condition.

Recommendation: The Office of the Secretary of the State should take steps to cause the Connecticut Citizenship Fund to comply with relevant statutory requirements for foundations. (See Recommendation 8.)

Agency Response: "The Office will convene the board of the Citizenship Fund and

review requirements for foundations, including financial statements. All appropriate action will be taken to ensure requirements are met.”

RECOMMENDATIONS

Our prior audit contained four recommendations. One of those has been adequately addressed, and the other three have been restated to reflect current conditions. Five additional recommendations have been presented as a result of our current review.

Status of Prior Audit Recommendations:

- **The Office should continue its efforts to implement procedures that would ensure the proper accountability of transaction activity with recorded revenue and receipts.** This recommendation is being repeated. (See Recommendation 3.)
- **Procedures should be established to ensure that the Office's telephone usage is adequately monitored and that employees reimburse the Office if there is any personal use of its telephones.** This recommendation has been modified to reflect current conditions. (See Recommendation 6.)
- **The Office should implement internal control procedures to ensure its compliance with Section 4-36 of the General Statutes and the State of Connecticut's Property Control Manual.** This recommendation has been modified to reflect current conditions. (See Recommendation 7.)
- **The Office should take the necessary steps to ensure that customers' credit card numbers and related personal information are restricted to the fewest number of employees required to process the payment.** This recommendation has been adequately addressed.

Current Audit Recommendations:

1. **The Office should ensure that compensatory time is properly administered by requiring authorization forms to be properly completed and automated controls to be promptly activated, and that unscheduled absences are reported in accordance with relevant policies.**

Comment:

Compensatory time was not approved in advance as required and time was used beyond the dates it should have expired.

2. **The Office should exercise increased care in the calculation of separation payments and improve the exit interview process by documenting interviews and notifying the data processing unit of the separations.**

Comment:

Three of five separated employees' files did not contain completed exit interview forms or had not gone through the established exit interview process, and a similar number of errors were made with payments at termination.

- 3. The Office should continue its efforts to implement procedures that would ensure the proper accountability of transaction activity with recorded revenue and receipts. In addition, a thorough review of all pending work orders and credit balances should be performed to eliminate erroneous records.**

Comment:

Accountability reports were not prepared, and there were a large number of pending cases and credit balances that appeared to be erroneous.

- 4. The Office of the Secretary of the State should examine the administration of the foreign entity investigations and communicate with State agencies regarding the need for the verification of such authority prior to conducting business with the State.**

Comment:

Foreign entity investigations did not appear to be initiated in a timely manner. It was unclear whether the false statement provisions were properly incorporated into the necessary documents, and a statewide process to ensure compliance by all vendors doing business with the State was not in place.

- 5. The Office of the Secretary of the State should improve procurement procedures to ensure compliance with relevant procurement laws and retain documentation necessary to evidence such compliance.**

Comment:

Personal service contractors were engaged prior to the execution of the necessary agreements, a payment was made in advance without contractual provisions providing for such payments, and documentation evidencing adherence to the provisions of State contract awards was not always on hand.

- 6. The Office should consider instituting procedures to improve the management of telecommunications resources by regularly distributing usage reports, accurately recording the costs of calls generated from the telephone call accounting system, and attempting to minimize the use of directory assistance.**

Comment:

Reports detailing telephone usage within the Office were not distributed regularly for review by managers, and the cost data supplied by the call accounting system did not permit recovery of the correct amounts. Directory assistance usage appeared to be excessive.

- 7. The Office should take steps to improve the accuracy of its property control records.**

Comment:

Eight of ten items sampled were not recorded in the inventory records, and the valuation of the supply and merchandise inventories appeared to be overstated.

- 8. The Office of the Secretary of the State should take steps to cause the Connecticut Citizenship Fund to comply with relevant statutory requirements for foundations.**

Comment:

An audit of the foundation had not been performed since 2001, and financial statements required by Section 4-37f of the General Statutes were not on file with the Office of the Secretary of the State.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Office of the Secretary of the State for the fiscal years ended June 30, 2002, 2003 and 2004. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Office of the Secretary of the State for the fiscal years ended June 30, 2002, 2003 and 2004, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Office of the Secretary of the State complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Office of the Secretary of the State is the responsibility of the Office of the Secretary of the State's management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2002, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Office of the Secretary of the State is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Office of the Secretary of the State's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: the lack of accountability over revenue.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe the following reportable condition described above to be material or significant weaknesses: the lack of accountability over revenue.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Secretary of the State during the course of our examination.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts