

STATE OF CONNECTICUT



*AUDITORS' REPORT
SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED
JUNE 30, 2005, 2006 AND 2007*

AUDITORS OF PUBLIC ACCOUNTS

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September 24, 2008

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2006 AND 2007**

We have made an examination of the financial records of the Secretary of the State for the fiscal years ended June 30, 2005, 2006 and 2007. This report on that examination consists of the Comments, Condition of Records, 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.

Auditors of Public Accounts

- 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.

The Office of the Secretary of the State has organized itself into four divisions in order to address its duties and responsibilities: Commercial Recording, Legislation and Election Administration, Information Technology, and Management and Support Services. In accordance with Section 5 of Public Act 05-287, the State agency that the State Board of Accountancy is assigned to 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 to December 9, 2005. Lesley D. Mara was appointed as Deputy Secretary of the State, effective January 6, 2006, and served through the rest of the audited period.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts totaled \$13,930,699, \$10,747,295 and \$12,530,372 during the fiscal years ended June 30, 2005, 2006, and 2007, respectively, as follows:

	<u>2006-2007</u>	<u>2005-2006</u>	<u>2004-2005</u>
	\$	\$	\$
Commercial recording fees	8,820,420	8,902,105	9,638,019
Franchise taxes	333,620	251,836	301,197
Other corporate fees and penalties	2,419,727	804,250	919,709
Accountants licensing and examination	-	720	2,108,684
Notary public registrations	667,090	671,875	656,800
Sale of documents and publications	<u>289,515</u>	<u>116,509</u>	<u>306,290</u>
Total General Fund Receipts	<u>\$ 12,530,372</u>	<u>\$ 10,747,295</u>	<u>\$ 13,930,699</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.

The decrease in accountants' licensing and examinations fees was due to a change in legislation placing the State Board of Accountancy under the Office of Policy and Management for administrative purposes only, effective July 1, 2005.

As a result of a prior audit recommendation, the Office increased their collection efforts for penalties due to foreign corporation investigations. A total of approximately \$1.7 million in penalties was collected in fiscal year 2007.

A summary of General Fund expenditures by account for the fiscal years ended June 30, 2005, 2006, and 2007, is presented below:

	<u>2006-2007</u>	<u>2005-2006</u>	<u>2004-2005</u>
Personal services and employee benefits	\$ 1,632,795	\$ 1,526,835	\$ 1,598,335
Other Expenses	<u>1,151,514</u>	<u>1,252,746</u>	<u>971,874</u>
Total Expenditures	<u>\$ 2,784,309</u>	<u>\$ 2,779,581</u>	<u>\$ 2,570,209</u>

Personal services costs accounted for approximately 58 percent of General Fund expenditures during the audited period. The remaining General Fund expenditures were expended primarily for contractual services. Significant categories of expenditures included EDP services and printing and binding.

Special Revenue Fund - Federal and Restricted Accounts:

Revenues and expenditures of this Fund for fiscal years ended June 30, 2005, 2006, and 2007 are presented below:

	<u>2006-2007</u>	<u>2005-2006</u>	<u>2004-2005</u>
Revenue:	\$	\$	\$
Commercial recording account	8,027,341	8,026,759	6,959,966
Interest income	1,470,902	1,334,114	728,951
Refunds of expenditures	-	<u>2,882</u>	-
Total Revenue	<u>\$ 9,498,243</u>	<u>\$ 9,363,755</u>	<u>\$ 7,688,917</u>
Expenditures:	\$	\$	\$
Personal services and employee benefits	5,863,078	5,537,801	5,347,997
Other Expenses	7,917,025	3,006,437	4,125,041
Building and Equipment	<u>9,707,085</u>	-	<u>119,934</u>
Total Expenditures	<u>\$ 23,487,188</u>	<u>\$ 8,544,238</u>	<u>\$ 9,592,972</u>

The majority of the equipment expenditures in fiscal year 2007 were for voting machines as part of the Help America Vote Act (HAVA). Revenue increased due to the interest generated from HAVA monies which were held until the purchase of voting equipment could be made.

Other Special Revenue Funds:

During the audited period, expenditures from other Special Revenue Funds totaled \$124,875 and were primarily for equipment.

Capital Project Funds:

Expenditures for State capital projects totaled \$28,800 during the audited period. Funds were expended for data processing consulting services relating to the Campaign Finance Information 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 although an audit was performed on the foundation's financial statements, the Office of the Secretary of the State had not received an audit report or opinion in accordance with said statute. 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.

Completion of Internal Control Questionnaire:

Criteria: The Office of the State Comptroller's Accountability Directive Number 1 requires State agencies to conduct an annual internal control self-assessment.

Condition: The Annual Internal Control Questionnaire had not been completed since January 2006.

Effect: While we acknowledge that the value of the internal control questionnaire is somewhat diminished due to the lack of updating for the current State accounting system, it appears to still provide general value regarding the existence or absence of basic internal controls. Without agency completion, it is possible that the absence of certain controls may not be detected by management.

Cause: It appears that the lack of completion was due to an oversight.

Recommendation: The Office should comply with the State Comptroller's Accountability Directive Number 1 by annually completing the Internal Control Questionnaire. (See Recommendation 1.)

Agency Response: "The Internal Control Questionnaire has already been submitted by the Agency, including the one for '08-'09. In addition, a calendar diary has been established to ensure future timely submissions."

Lack of Timely Service Ratings:

Criteria: Section 5-237-1 of the State Regulations indicates that the appointing authority shall complete an annual service rating for each permanent employee and file such in the employee's personnel record at least three months prior to the employee's annual salary increase date.

Condition: We were informed by Office staff that service ratings were removed from employee personnel files as a result of an institutional grievance filed by the Administrative and Residual (A&R) union in December 2006. The grievance indicated that such service ratings were removed because they were not received at least three months prior to the employee's annual salary increase date.

- Effect:* The lack of timely and valid service ratings prevents management from taking personnel actions as necessary.
- Cause:* We were informed that the Human Resources Unit was having difficulty obtaining service ratings from supervisory staff in a timely manner.
- Recommendation:* The Office should comply with Section 5-237-1 of the State Regulations by ensuring that all employee service ratings are conducted and filed within the employee's personnel record in a timely manner. (See Recommendation 2.)
- Agency Response:* "The Agency is committed to providing all staff with timely and thorough service evaluations. An internal tracking guideline has been developed to assist with tracking and the Human Resources Director will follow-up directly with managers, including at managers' meetings that take place every 4-6 weeks to ensure timely completion of appraisals. The Human Resources Director shall also notify the Deputy Secretary of the State if additional follow-up is necessary to meet deadlines."

Administration of Compensatory Time:

- Criteria:* In accordance with the Connecticut Handbook for Appointed Officials, appointed officials are not eligible to receive compensatory time.
- The DAS Management Personnel Policy 06-02 indicates that written authorization from the Agency Head must be obtained in advance for non-appointed Managerial and Confidential employees to earn compensatory time.
- Condition:* We noted that the Deputy Secretary of the State earned and used 41 hours of compensatory time during fiscal year 2007. The practice was curtailed and 17 additional hours that had been credited to the employee were removed from the record when the Office learned that its practices were inconsistent with promulgated procedures.
- In addition, we noted three instances in which employees who earned compensatory time did not have a record of approval on file with the Human Resources Unit.
- Effect:* We noted that the compensatory time earned and used by the Deputy Secretary of the State was isolated, as this practice ceased upon an understanding of the policy.

Without documentation on hand, we were unable to determine if

the earning of compensatory time was authorized.

Cause: Due to the actions of the previous administration, it was thought that such practice was allowed. It appears that the Office administration was unaware of the policy that appointed officials do not receive compensatory time.

The instances in which we noted a lack of approval on file for compensatory time was claimed to be due to misfiling.

Recommendation: The Office should ensure its administration of compensatory time complies with DAS' Management Personnel Policy 06-02 and the Connecticut Handbook for Appointed Officials. (See Recommendation 3.)

Agency Response: "The Agency has already provided documentation regarding the Deputy's unique circumstances. It should also be noted that seventeen (17) of the hours approved in this one-time request have not and will not be used in light of this policy clarification. Additionally, HR will monitor and bring to the relevant manager's attention any instances where time sheets submitted contain comp time that has not been pre-approved. The HR Director will provide reports on this monitoring to the Deputy Secretary of the State."

Elimination of Access to Information Systems:

Background: Electronic access to the State's Data Center, which resides within the Department of Information Technology, is obtained through the use of IDs provided by commercial security software known as ACF2. ACF2 logons, authorized by management, are assigned to State employees to provide such access.

Criteria: Sound internal controls dictate that access to information systems should be disabled upon the separation of an employee to prevent unauthorized access to the information system environments.

Condition: We noted several separated employees with active ACF2 logon IDs.

Effect: Although the risk is somewhat low, the failure to disable ACF2 logons for separated employees increases the opportunity for unauthorized access.

Cause: The Office's Manager of Information Technology did not feel it was necessary to disable the ACF2 logons for separated employees if their access to the Local Area Network (LAN) was already disabled.

Recommendation: The Office should promptly disable all access to data processing systems upon an employee's separation. (See Recommendation 4.)

Agency Response: "The current Agency policy when employees leave is to disable access to the Local Area Network and to disable the ACF2 password. ACF2 logon IDs use a preset user id nomenclature (e.g., ssc1111 through ssc9999), not a surname (e.g., JQPublic) and then an eight (8) character/numeric password. The Agency believes its policy is adequate to address the security concern. However, from this point forward, IT will also disable ACF2 logon IDs when employees leave the Agency."

Late Processing of Commitments:

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

Condition: We noted numerous instances where goods and services were ordered by Office staff prior to the issuance of an approved purchase order.

Effect: Without a properly executed commitment prior to ordering from vendors, it is possible that the Office may exceed its budgetary limits.

Cause: We were informed by fiscal staff that certain operational units chose to incur such obligations with vendors prior to the formal approval and issuance of purchase orders for purposes of expediency.

Recommendation: The Office should comply with Section 4-98 of the General Statutes. (See Recommendation 5.)

Agency Response: "With respect to purchases identified by the auditors, managers did provide verbal approval as to the necessity of such purchases and confirmation that such purchases were within budget. While some of the purchasing was due to the exigent circumstances surrounding the purchase of new voting systems and other activities required to comply with the rigorous requirements and deadlines of the Help America Vote Act, the Agency agrees with this recommendation and will comply."

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 Office’s Revenue Section, with the transactions processed by the various individual units.

Proper internal control dictates that for accountability purposes, accounting codes should be established for activities that generate revenue.

Proper internal control also dictates that a periodic review should be performed of long outstanding open work orders, older customer balances with no recent activity, and large customer balances to determine if a resolution is needed.

Section 33-612 of the General Statutes indicates that if the Secretary of the State refuses to file a document, it shall be returned to the domestic or foreign corporation or its representative within five days after the document was delivered, together with a brief written explanation of the reason for refusal.

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.

We inquired and were informed by Office staff that there is no transaction code established on the CONCORD or Core-CT systems to account for expedited services fees on customer filings.

An analysis of an open work order report revealed approximately 14,480 pending orders. We examined 25 of those files and found

17 of them to be erroneously reported as open when in fact they were closed. As a result, we questioned whether the data provided in this report was accurate. Of the eight cases that were still open, it was noted that a subsequent work order was processed that eliminated the need for the original order. Therefore, no action would be expected on these files except to remove them from the open category. These results lead us to question whether the majority of the pending open work orders reported were valid.

Upon our review of the accuracy of high customer balances, we noted that nine out of the ten we tested were proven to be invalid. We additionally noted through supplemental testing that certain customer balances exist for which there has not been any work order activity in years. Based on the customer account balance report we received from Office staff in February 2008, the total amount of deferred revenue received from customers appeared to be approximately \$5.4 million.

We were informed that the backlog in the Commercial Recording Division has been reduced to six or seven days for processing filings and depositing applicable revenue.

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 somewhat hampered with the existence of erroneous data in a report designed to assist management.

The existence of invalid credit balances increases the risk that these amounts could be refunded in error.

Although dramatically reduced from the prior audited period, due to the backlog in the filing process within the Commercial Recording Division it is not possible for the Office to comply with Section 33-612 of the General Statutes.

Cause:

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

We were unable to identify the reason for the errors in the report of open work orders. The aging of the open work orders and the magnitude of the credit balances indicated that this data had not been analyzed by the Office on a regular basis. We were informed

that many of the errors were due to data input errors by inexperienced staff.

Recommendation: The Office should implement procedures that would ensure the proper accountability of transaction activity with recorded revenue and receipts; properly design the report on open work orders to eliminate errors, and examine credit balances to eliminate erroneous records; and continue its efforts to reduce its backlog in processing filings. (See Recommendation 6.)

Agency Response: “The Business Office is working closely with the Commercial Recording Division to create and test ad hoc reports to allow the Financial Unit to balance with CONCORD. This report will be a temporary solution for reconciliation while the Agency works with its vendor to design a new process for reconciliation as part of its CONCORD update currently underway.

The Commercial Recording Division (CRD) will use a new reporting mechanism to provide management oversight of the open, pending work order figures. The Third Phase Upgrade of CONCORD is currently in design and that update will include a monthly reporting feature to track the open work orders going forward.

Finally, with respect to the reference to backlogs, there is no backlog in any other area of filing other than in filing Annual Reports. As referenced above, the Agency makes a tremendous effort to manage this huge volume in a timely way for customers and within existing limited staff resources. The Agency received an average of about 17,000 Annual Reports per month for filing in 2007. The CRD has made tremendous progress in this area and appreciates the auditor’s recognition of that progress. CONCORD is undergoing a Third Phase Upgrade that will further leverage automation to prevent any backlog over time and the Commercial Recording Division is developing an outreach campaign to increase awareness of Online Annual Report Filing among key users, including lawyers and paralegals, in an effort to reduce paper filings.”

Lack of Segregation of Duties Within the CONCORD System:

Criteria: Sound internal control dictates that certain duties should not be performed by the same staff. Access and rights to agency systems should be closely monitored to assist in maintaining good internal controls.

Condition: We were informed that Commercial Recording Division staff have the ability within the CONCORD system to waive fees for

expedited services without managerial approval.

We also noted that a business office employee has the ability to authorize refunds to filers while also having the ability within CONCORD to modify customer account balances.

Effect: The risk of erroneous or unauthorized refunds is increased by the absence of a proper segregation of duties.

Cause: It appears that the condition exists, in part, due to a lack of administrative oversight.

Recommendation: The Office should give consideration to evaluating incompatible functions to determine where duties should be segregated. Employee access rights to financial systems and the applicable levels of access should be evaluated for propriety as well. (See Recommendation 7.)

Agency Response: “This condition is limited in scope specifically to the \$25 fee for Expedited Services. While it is technically true that staff could potentially waive expedited fees without managerial approval because the expedited fee often is not entered into CONCORD until after it is determined that the service can be completed within the expedited time frame, that potential is outweighed by the inconvenience and inefficiency of entering expedited fees upfront, only to have to execute a complicated refund procedure involving the Financial Unit and Core-CT if the volume of expedited requests pending means that the division could not meet the expedited timeframe for additional customers. The division’s current policy is not administered through CONCORD, but rather, through workflow and command-chain execution. Expedited fees still may not be waived without supervisory authority, and staff are aware that they are subject to discipline if they attempt to waive expedited fees without authority.

The Agency has not been presented with any evidence that unauthorized waivers have occurred. However, the Agency will adopt a method for logging expedited fee waivers, in accordance with the auditor’s recommendation, so they can be tracked and so that compliance with policy can be more effectively monitored.”

Lack of Written Policies and Procedures:

Criteria: Proper internal control dictates that formal written policies and procedures should be established and disseminated to provide guidance to employees in the performance of their related duties.

Condition: No current formal written policies or procedures appeared to exist in the areas of revenue receipts processing within the Management and Support Services Division or the revenue receipt and filing process within the Commercial Recording Division. The Management and Support Services Division Fiscal Administrative Manager maintained a notebook with a written listing of certain procedures but this did not appear comprehensive and lacked formal distribution to staff.

Effect: The ability to effectively train staff, as well as the effectiveness and efficiency of the functions within the Office of the Secretary may be somewhat diminished.

Cause: We were informed that the Office's Commercial Recording Division has a Workflow Process Committee which has been working to create current policies and procedures. Since they have met only once, approval and implementation of such has yet to occur.

Recommendation: The Office should continue in its mission to establish formal written policies and procedures for all of its functions. (See Recommendation 8.)

Agency Response: "The Business Office is in the process of completing a procedures manual for the Financial Unit that consolidates all of its instructions and procedures that will be accessible to the staff in the unit by the end of this fiscal year.

The Commercial Recording Division's activities are governed by written workflow procedures, a set of highly prescriptive rules codified in the Connecticut General Statutes and the highly rigid and detailed CONCORD database fields. These were reviewed and consolidated into one manual by a work flow committee established by the Deputy Secretary of the State almost two years ago. Phase Two under the new Commercial Recordings Division Director is to review all forms, policies and procedures and to update them, as appropriate, into one more comprehensive, user-friendly manual."

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 for each month or part thereof for corporations that meet the requirements to obtain a certificate of authority and have not done so. However, the statute also provides amnesty for foreign corporations which have obtained a certificate of authority not later than 90 days after commencing business transactions in the State. Such corporations shall not be liable for the monthly penalty.

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. For accountability purposes, it would appear logical to have the Foreign Corporation Investigation database provide automatic sequential assignment of case numbers when a case is entered. All cases should be promptly entered upon receipt. This would provide management with a reliable number of cases taken in by the Foreign Corporation Investigation Unit, provide the ability to review the timeliness of case investigation, and may act to better ensure that cases are not lost or inadvertently removed from the system.

For cases involving a reduction or waiver of a penalty against a business, notification with the specific reason for such should be well documented in the foreign corporation case files.

In order to improve the effectiveness of the Foreign Corporation Investigation Unit, other State resources should be considered to determine if there are other entities transacting business in the State without a certificate of authority to do so.

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:

In our review, we noted that the Office has been granting three-month waivers of penalties to all businesses that have been cited as having failed to obtain a certificate of authority while doing business in the State since 1998. Statutory requirement provides that a waiver should only be granted if the business obtains a certificate of authority within the first ninety days of transacting business in the State.

While it is recognized that the Foreign Corporation Investigation Unit essentially consists of one employee with the periodic assistance of an Assistant Attorney General, it appears that opening and entering new cases quarterly to the Foreign Corporation Investigation database is not sufficient. Case files were not formally recorded as an investigation until the case was opened and a demand letter was sent. We additionally noted that case numbers are not assigned as they are posted and filed by name only.

We noted that in the instances where reductions or withdrawals of penalties occur, case files and notes lacked support and authorization.

Based on our inquiries, there is no mechanism in place between the Office of the Secretary of the State and the Department of Revenue Services (DRS) and other contracting State agencies to verify that all foreign entities transacting business with the State have been issued a certificate of authority prior to engaging in business in Connecticut.

Effect:

The apparently unauthorized practice of forgiving the first three months of penalties, regardless of how long the entity has been operating without a certificate of authority, may have resulted in a significant amount of revenue loss. It should be noted that by pursuing corrective action for a related previous audit recommendation, approximately \$1.7 million in foreign corporation penalties revenue was collected in fiscal year 2007.

Accountability of the foreign investigation caseload is reduced when the files awaiting review are not promptly included in the monitoring process. Recording cases without a consecutive numerical identifier makes it difficult to promptly detect the omission of a file from the database.

The lack of adequate case notes made clarifying the authorization and justification for reductions and withdrawals of penalties difficult.

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

Cause: Long standing policy based on an apparent misinterpretation of State law dating back to 1998 and a lack of administrative oversight contributed to the condition.

Management did not appear to consider the use of sequential assignment of case numbers for tracking and reporting purposes. It also did not ensure that adequate documentation was on file as support for reductions and withdrawals of penalties.

We were informed that contact had been previously made with the DRS to share information with regard to foreign entities transacting business in the State; however a positive response has yet to be received. With regard to entities transacting business with the State, the Office does not regard it as their responsibility to ensure that those entities are authorized to do so.

Recommendation: The Office of the Secretary of the State should further examine the administration of foreign entity investigations; continue to pursue the availability of the Department of Revenue Services' data in order to identify foreign entities transacting business in the State without authorization; and communicate with State agencies for purposes of verifying the authority of those entities transacting business with the State. (See Recommendation 9.)

Agency Response: Restricting Application of the 90-Day Grace Period

Public Act 98-137 (effective July 1, 1998) revised the grace period provisions in Sections 33-921, 33-1211, 34-381, 34-233, 34-430, and 34-539. The revision had the effect of eliminating the grace period unless the entity filed the certificate of authority/registration within ninety (90) days of transacting business in Connecticut. Under the previous language, the grace period would apply regardless of when the entity obtained the certificate of authority/registration. The Agency's practice, in partnership with the Office of the Attorney General, was to continue extending the grace period regardless of when the entity filed its certificate of incorporation.

As of March 28, 2008, the Agency has eliminated the grace period unless the entity filed the certificate of authority/registration within ninety (90) days of transacting business in the State. The Agency will enforce this policy going forward.

The Foreign Investigations database should assign case numbers rather than file by name

Until now the Foreign Investigations Unit has not required numeric file indexing because each entity by statute must have a distinct name, making alphabetical indexing practical and efficient. The Third Phase Upgrade of CONCORD will bring the Foreign Investigations database online. This Office will reassess the relative advantages and disadvantages of indexing files by case number rather than by name during this process.

This unit has been batching work quarterly because it has proven the most efficient workflow model to date. The first entry possible on the current version of the Foreign Investigations database is when a demand is opened (either a demand for payment of penalties or a demand for information). Opening a demand involves reviewing information in the qualification document, calculating penalties, drafting demand letters or interrogatories, sending certified mailings, and creating paper files. Currently, the only method we have to enter files as received is to open demands each day as the files are received. This is not practical given our current database and resources. Therefore, with our current technology and staffing resources, it is not possible to enter files on a daily, as-received basis. Again, we will reassess as we move ahead with the Third Phase Upgrade of CONCORD.

Case files lack support and authorization where reductions or withdrawals of penalties occur

First, the Agency works closely on settlements with the Office of the Attorney General and reductions are only offered with the express approval of Office of the Attorney General. The Assistant Attorney General assigned to the Agency makes determinations based on many criteria, including quite often the practical consideration that the costs involved in protracted litigation will often overrun the compromised amount collected in a given case. The Assistant Attorney General makes notations concerning the reductions on the demand letter or file jacket. In many cases, the phone log in the foreign investigations database will contain additional justification for negotiated amounts, as will the file correspondence (letters, affidavits & interrogatories). The current system has allowed the Foreign Investigations Unit to maximize its collections while minimally staffed. Formalizing the reporting mechanism will negatively impact the collection rate with little or no benefit. Nevertheless, going forward, the unit will summarize the disposition of the case on the file jacket, to include a description of the justification for compromising the penalty, where appropriate.

Partnering with Other State Agencies to Determine if Entities are Transacting Business Without Authority

Connecticut's qualification statutes set forth a number of activities that do not constitute transacting business. Generally, an entity must consider the activities it conducts in Connecticut and determine whether those activities fit within one or several of the exceptions set forth in the qualification statute. When an analysis of the statute is inconclusive, case law must be consulted. Due to the fact-specific nature of the analysis, the Secretary of the State's Office will only determine whether an entity is "transacting business" that requires state registration/certification once the Office has the benefit of sworn statements (provided in affidavits and interrogatories). In the absence of a complete factual picture and experience in applying the complex qualification statutes, other state agencies may not be equipped to make such a determination, thereby rendering such enforcement problematic. For example, in 2005 the Department of Consumer Protection ("DCP") sent letters to their drug wholesaler registrants advising that "in order to properly conduct business in the State of Connecticut, a foreign corporation must obtain a Certificate of Authority from the Secretary of the State's Office." Some of the applications for authority resulted in penalty assessments, which later had to be withdrawn because the drug wholesaler's activities fit entirely within one of the exceptions in Section 33-920 of the Connecticut General Statutes. This Agency then had to notify DCP that the statement in its letter was overly broad. As a result of the foregoing, it is the position of this Agency that any partnership efforts extend only to those partner agencies: (1) notifying foreign entities of the existence of the qualifying statutes; and (2) notifying this Agency of applicants for licensure/authority before those agencies.

As for State contractors, the Agency will contact the Department of Administrative Services ("DAS") to offer assistance regarding entities looking to do business with the State of Connecticut. This Office will notify DAS that there is the potential for some State contractors to be conducting business in Connecticut without proper authority to conduct business in the State, and will offer to share information with DAS, as needed, for their efforts."

Directory Assistance Usage:

Criteria: 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 order to test compliance with the Governor’s directive, we examined the Office’s use of directory assistance for the last quarter of fiscal year 2007. During that period, 59 calls were made to directory assistance. The majority of such calls were attributable to one employee.
- Effect:* The consistent use of directory assistance increases operating costs and conflicts with the Governor’s directive.
- Cause:* We were unable to determine the cause of the apparently excessive usage of directory assistance.
- Recommendation:* The Office should consider attempting to further minimize the use of directory assistance. (See Recommendation 10.)
- Agency Response:* “The Agency would point out that any Press Release issued by the Governor should not be viewed as official statewide policy (see ethics discussion above). However, the Agency is committed to reducing any unnecessary costs and to taking advantage of online resources. A new report has been designed to track monthly Directory Assistance Calls by unit and extension. The Management and Support Services Division will share that information with Managers and the Deputy Secretary of the State, as appropriate. Additionally, the HR Director has provided all SOTS staff with the approved links to use for Directory Assistance.”

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 30th.
- The State Property Control Manual provides guidance to State agencies in reporting and maintaining accountability of its assets.
- Condition:* Upon our review, we noted numerous issues with regard to the Office’s accountability of its assets as follows:
- Ending inventory balances from the CO-59 Asset Management Inventory Report did not appear to be supported by Core-CT Asset Management Inventory reports. For Fiscal Year 2007, we noted that a significant variance appeared to exist between the reported ending inventory value on the CO-59 and a report run off of Core-CT’s Asset Management module.

- Additions and Deletions on the CO-59 Asset Management Inventory reports did not appear to be adequately supported.
- The CO-59 Asset Management Inventory Report for fiscal year 2007 identified incorrect beginning value totals.
- We noted that a significant amount of “controllable” property was identified as capitalized on an Asset Management Report produced by Core-CT.
- It was also noted that records had shown a significant amount of assets identifying a cost value of zero or one dollar.
- Physical inventory documentation did not appear complete. For Fiscal Year 2007, a report of exceptions in the performance of the physical inventory with bar code reading technology was deleted from the records and thus not retained.
- We tested 49 items identified as surplused or lost during fiscal year 2007 and noted that nine remained on the inventory records.
- We noted that the same employee who maintains the Asset Management System was also responsible for performing the physical inventory during the audited period.

Effect: The Office’s inventory appeared to be significantly misreported to the State Comptroller. Accountability over assets appears to be weak which, in turn, increases the risk of undetected losses at the Office.

Cause: The Office’s apparent complications in working with Core-CT’s Asset Management module and a lack of administrative oversight seems to have contributed to the conditions noted.

Recommendation: The Office should abide by the policies and procedures within the State Property Control Manual and continue to take steps to improve the internal controls and accuracy of its property control records and reporting. (See Recommendation 11.)

Agency Response: “The Business Office has amended the 2007 CO-59 report that was submitted to the Comptroller’s Office to reflect the correct totals. A procedures manual with the following information has been compiled in the business office and all staff have received a copy of the documentation, including: controllable items; updated list of SOTS assets; agency memos; and agency inventory schedule. Applicable SOTS staff have been to DOIT for training on asset management and new procedures have been established to ensure that staff are using proper segregation of duties for asset management.”

Statutory Compliance with Elections Requirements:

Criteria: Section 9-192a of the General Statutes identifies the criteria for a committee to be established, an elections training unit to be established, and requires the creation of certain training programs and guides to be approved by the Secretary of the State.

Section 1-225 of the General Statutes indicates that the meetings of all public agencies, except executive sessions, shall be open to the public. The votes of each member of any such public agency upon any issue before such public agency shall be reduced to writing and made available for public inspection within forty-eight hours and shall also be recorded in the minutes of the session at which taken, which minutes shall be available for public inspection within seven days of the session to which they refer. Each public agency of the State shall file not later than January thirty-first of each year in the office of the Secretary of the State the schedule of the regular meetings of such public agency for the ensuing year.

Condition: Upon inquiry with Office staff and documentation available, we noted that appointments made to the Committee did not identify membership terms. Meeting schedules were not submitted in accordance with Statute and minutes were not available.

We were informed that the criteria for training, examining and certifying registrars, deputy registrars and assistants were drafted, but not yet approved by the Secretary of the State. A training program in election procedures for poll workers and an election law and procedures program and guide for registrars, deputy registrars, and assistants existed only in draft form at the time of our review. The implementation of new voting technology prompted the need for these documents. While we noted that there is no timeframe established by statute for completing these program procedures and guides, it appears that the timeliness of such approved training materials for use is imperative since the new voting technology was used in the Fall of 2007.

We were also informed that an elections training unit does not exist since adequate funding was not provided with the corresponding legislation.

Effect: It appears that in the absence of specifying member terms upon appointment, there is a risk that the opportunity to replace such members upon the completion of their respective terms will be missed.

The successful implementation of training, examining, and certifying registrars, deputy registrars and assistants is not likely to occur without approved training programs and election procedures.

The lack of an elections training unit further reduces the effectiveness of registrars, deputy registrars and assistants.

Cause: The Office did not believe that the committee established met the definition of “public agency”, as defined in Section 1-200 of the General Statutes, which would require compliance with Freedom of Information (FOI) statutes.

The Office claims that due to the new voting technology, the draft material for training prepared by the committee required revision.

Recommendation: The Office should take the necessary action to comply with Sections 9-192a and 1-225 of the General Statutes. (See Recommendation 12.)

Agency Response: “The Agency is committed to openness and transparency in its work and involves elected officials, advocates and citizens to the greatest extent possible in its decision-making and operations. The initial work of this committee has been completed and training of poll workers and elected officials was implemented with the active participation of committee members. The implementation of a new program for certification of registrars was intentionally deferred so that the committee and the Agency could tailor that program to the new technology that was not in place when initial recommendations were submitted. With regard to any future work, the Agency will clarify members’ terms and follow Freedom of Information requirements.”

Lack of Compliance with Foundation Requirements:

Background: The Connecticut Citizenship Fund, Inc. is defined 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.

Each audit shall be conducted by an independent certified public accountant, or if requested by the State agency with the consent of the foundation, the Auditors of Public Accounts and in accordance with generally accepted auditing standards.

Criteria: Subdivision (8) of Section 4-37f of the General Statutes indicates that the audit report shall include financial statements, a management letter and an audit opinion which address the conformance of the operating procedures of the foundation with

the provisions of Sections 4-37e to 4-37i, inclusive, and recommend any corrective actions needed to ensure such conformance. Each audit report shall disclose the receipt or use by the foundation of any public funds in violation of said sections or any other provision of the General Statutes.

Section 4-37j of the General Statutes indicates that each foundation shall develop, in conjunction with the Auditors of Public Accounts, and implement a written policy for the investigation of any matter involving corruption, unethical practices, violation of State laws or regulations, mismanagement, gross waste of funds, abuse of authority or danger to the public safety occurring in such foundation.

Condition: An audit report issued for the foundation for the fiscal year ended June 30, 2007, did not include an audit opinion addressing the conformance of the operating procedures of the foundation with the provisions of Section 4-37e to 4-37i of the General Statutes.

We were informed that the foundation did not have a whistleblower policy.

Effect: There is reduced assurance that the relevant statutes are being complied with.

In the absence of a whistleblower policy, serious issues may arise involving the Foundation and not be communicated.

Cause: The audit requirement within the State agreement with the foundation was not specific as to the statutory reference and thus the required scope of the audit may have been less clear.

We were informed by the Office that since the Foundation does not have employees, they did not feel that Section 4-37j of the General Statutes was applicable.

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 13.)

Agency Response: “The Citizenship Fund has no employees. Any staff assistance is provided through state employees who are already covered by the state’s whistleblower policy. However, a whistleblower policy will be adopted by the Board of Directors of the Citizenship Fund. A letter specifically addressing the conformance of the operating procedures of the foundation with the provisions of Section 4-37e to 4-37i of the General Statutes has been drafted.”

Small and Minority Business Services Unit:

Background: The Office of the Secretary of the State established the Small and Minority Business Services Unit as a subdivision of the Commercial Recording Division (CRD). The Office designed the Unit to take a proactive role in the development of small, minority and woman-owned businesses through the creation and promotion of a series of showcases held throughout Connecticut. These showcases are held to provide a suitable and affordable environment for the average small business to display and market its goods and services. The Unit also holds development seminars to benefit these small businesses.

Criteria: Section 3-77 of the General Statutes identifies the general duties of the Secretary of the State.

State Comptroller's Memorandum 2007-29 – Handling of Non-State Funds for Seminars, Conferences and Symposiums indicates that when State agencies are sponsoring seminars, conferences and symposiums, the monies held in trust must be accounted for through the State accounting system.

Condition: In our review of the Small and Minority Business Services Unit function, we noted that while such services may prove beneficial, it does not appear that the development of small, minority and woman-owned businesses is one of the legislatively authorized duties of the Secretary of the State.

We noted that the Small and Minority Business Services Unit maintains an arrangement with an outside non-profit entity to account for the revenue and expenditures for showcase events. We were informed that there is no formal agreement or contract for this arrangement.

Effect: Although well-intended, the Office appears to be performing functions that go beyond what it is legislatively authorized to.

The ability of the State to provide accountability of funds that are raised under its name is reduced.

Cause: Office management felt the Unit's mission is to be a customer-service based extension of the Office's legislative responsibility for processing filings of business entities.

The Office did not seem to be aware of the Comptroller's Memorandum regarding the accountability of funds for events.

Recommendation: The Office should consider proposing legislation to specifically

include the function of the Small and Minority Business Services Unit as part of the Secretary's duties and comply with the State Comptroller's Memorandum 2007-29. (See Recommendation 14.)

Agency Response: "The Agency agrees to research this matter to determine whether legislation is required. The Agency will also review its financial procedures related to its support of small businesses and will make changes accordingly."

Management of the Help America Vote Act (HAVA) Equipment:

Criteria: 41 CFR 105-71.132 (part of the "Common Rule" for the administration of Federal grant programs) addresses equipment purchased with Federal funds and states how property records and the machines themselves are to be maintained.

Condition: We noted that the approximate \$9.75 million in voting equipment purchased under the Help America Vote Act (HAVA) program was delivered to municipalities throughout the State and deemed by the Office to be municipally-owned by virtue of the provisions within the vendor contract award and evidence of receipt. Despite this, we noted that there was no documentation from the municipalities formally recognizing title transfer from the State nor was there an agreement to comply with Federal requirements regarding recording and maintenance of such equipment.

Effect: The responsibility over HAVA equipment becomes less certain without formal recognition by both the State and the municipalities of title transfer and the need for compliance with Federal requirements regarding recordkeeping and maintenance of such.

Cause: The Office deemed the HAVA equipment to be officially transferred to the municipalities by virtue of the contract award provisions for the purchase of the voting technology. They did not feel that agreements with the municipalities were necessary.

Recommendation: The Office should consider formally authorizing executed agreements with municipalities identifying that transfer of title for the voting technology has occurred and that the municipalities are required to comply with Federal requirements regarding the recording and maintenance of such equipment. (See Recommendation 15.)

Agency Response: "The Agency has researched the auditors' observations and acknowledges that based upon communications received from the federal government in 2003, the Agency had a different interpretation of the requirements."

As noted by the Auditors, the Voting Machine Contract, Section 1.37 “Payment – Transfer of Title” provides that the Contractor shall deliver Equipment to each of the polling places of the Municipality that has responsibility for such polling place listed in the purchase order” and further that “[w]hen the delivery of Equipment is complete and all delivered Equipment passes the acceptance test, the SOTS shall initiate payment for the delivery as a single payment to the Contractor, in accordance with the Payment Schedule contained in Exhibit A. Upon payment by the SOTS, title to each piece of Equipment delivered and accepted by the Municipalities shall pass to the Municipalities and the Warranty and maintenance and support for such Equipment shall be coordinated by the Municipalities.” The following language was stated in multiple official communications from the Office of the Secretary of the State to the municipalities contemporaneous with equipment delivery: The contracted vendor “will coordinate delivery dates/times directly with each town and conduct an acceptance test with you to show the machines are in working order. Upon observing that the machines function correctly, please sign the Acceptance Form from” the contracted vendor. “This form acknowledges formal acceptance and serves as the necessary evidence for transfer of property title.” Completed forms were received from each municipality.

The Agency is in the process of revising its acceptance forms to be more explicit about requirements for municipalities set to receive new machines within the next 30-45 days and the Agency will provide additional written guidance to municipalities so their responsibilities are clearer based upon advice received from the Election Assistance Commission (EAC).”

RECOMMENDATIONS

Our prior audit contained eight recommendations. Seven of these have been restated to reflect current conditions and one was resolved. Eight additional recommendations have been presented as a result of our current review.

Status of Prior Audit Recommendations:

- **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.** This recommendation has been modified to reflect current conditions. (See Recommendation 3.)
- **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.** This recommendation has

been adequately addressed.

- **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.** This recommendation has been modified to reflect current conditions. (See Recommendation 6.)
- **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.** This recommendation has been modified to reflect current conditions. (See Recommendation 9.)
- **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.** This recommendation has been modified to reflect current conditions. (See Recommendation 5.)
- **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.** This recommendation has been modified to reflect current conditions. (See Recommendation 10.)
- **The Office should take steps to improve the accuracy of its property control records.** This recommendation has been modified to reflect current conditions. (See Recommendation 11.)
- **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.** This recommendation has been modified to reflect current conditions. (See Recommendation 13.)

Current Audit Recommendations:

1. **The Office should comply with the State Comptroller's Accountability Directive Number 1 by annually completing the Internal Control Questionnaire.**

Comment:

The Annual Internal Control Questionnaire had not been completed since January 2006.

- 2. The Office should comply with Section 5-237-1 of the State Regulations by ensuring that all employee service ratings are conducted and filed within the employee's personnel record in a timely manner.**

Comment:

We were informed that as a result of an institutional grievance filed by the A&R union, a number of service ratings were removed from employee personnel files and thus lacked management consideration since they were not filed within the period identified within State Regulations.

- 3. The Office should ensure its administration of compensatory time complies with DAS' Management Personnel Policy 06-02 and the Connecticut Handbook for Appointed Officials.**

Comment:

We noted one instance of an employee earning and using compensatory time in which she was unauthorized to receive by virtue of her position and additionally noted three instances in which compensatory time earned lacked a record of approval on file with the Human Resources Unit.

- 4. The Office should promptly disable all access to data processing systems upon an employee's separation.**

Comment:

We noted several separated employees with active ACF2 logon IDs.

- 5. The Office should comply with Section 4-98 of the General Statutes.**

Comment:

We noted numerous instances where goods and services were ordered by Office staff prior the issuance of an approved purchase order.

- 6. The Office should implement procedures that would ensure the proper accountability of transaction activity with recorded revenue and receipts; properly design the report on open work orders to eliminate errors, and examine credit balances to eliminate erroneous records; and continue its efforts to reduce its backlog in processing filings.**

Comment:

Transactions processed by the Office's individual units were not routinely reconciled to control totals from the Office's Revenue Section. The Commercial Recording Division

maintains a six to seven day backlog in processing filings and depositing applicable revenue. A number of pending work orders and customer credit balances appeared to be erroneous or invalid.

- 7. The Office should give consideration to evaluating incompatible functions to determine where duties should be segregated. Employee access rights to financial systems and the applicable levels of access should be evaluated for propriety as well.**

Comment:

We were informed that Commercial Recording Division staff have system ability to waive fees for transactions on CONCORD without management approval. Two other employees within the Management and Support Services Division were noted to have conflicting duties or access rights.

- 8. The Office should continue in its mission to establish formal written policies and procedures for all of its functions.**

Comment:

During the audited period, no current formal written policies or procedures existed in the areas of revenue receipts processing within the Management and Support Services Division or the revenue receipt and filing process with the Commercial Recording Division.

- 9. The Office of the Secretary of the State should further examine the administration of foreign entity investigations; continue to pursue the availability of the Department of Revenue Services' data in order to identify foreign entities transacting business in the State without authorization; and communicate with State agencies for purposes of verifying the authority of those entities transacting business with the State.**

Comment:

Among other miscellaneous administrative issues, we noted that the Office was improperly forgiving three months of penalties for foreign corporations which had transacted business in the State for over three months without a certificate of authority to do so.

- 10. The Office should consider attempting to further minimize the use of directory assistance.**

Comment:

Although significantly reduced from prior years, we still noted some excessive use of directory assistance.

- 11. The Office should abide by the policies and procedures within the State Property Control Manual and continue to take steps to improve the internal controls and accuracy of its property control records and reporting.**

Comment:

We noted numerous issues with regard to the reporting, recording and monitoring of State property, as well as improper segregation of duties.

- 12. The Office should take the necessary action to comply with Sections 9-192a and 1-225 of the General Statutes.**

Comment:

Appointments made to the committee established under Section 9-192a of the General Statutes lacked mention of membership terms on respective appointment letters. Meeting schedules were not submitted and minutes were not available as required by Section 1-225 of the General Statutes. Also, the statutorily required program material for training registrars, deputy registrars, and assistants was in draft form.

- 13. 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:

The audit performed on the foundation did not appear to comply with statute since it did not include addressing the conformance of the operating procedures of the foundation with the provisions of Section 4-37e to 4-37i of the General Statutes. We also noted that the foundation did not have a whistleblower policy in place as required by Section 4-37j of the General Statutes.

- 14. The Office should consider proposing legislation to specifically include the function of the Small and Minority Business Services Unit as part of the Secretary's duties and comply with the State Comptroller's Memorandum 2007-29.**

Comment:

We noted that while the Unit's services may prove beneficial to the State, the development of small, minority and woman-owned businesses does not appear to be one of the legislatively authorized duties of the Office.

- 15. The Office should consider formally authorizing executed agreements with municipalities identifying that transfer of title for the voting technology has occurred and that the municipalities are required to comply with Federal requirements regarding the recording and maintenance of such equipment.**

Comment:

We noted that agreements did not exist between the State and the municipalities formally recognizing title transfer of the voting technology, as well as, the responsibility to comply with Federal requirements for the recording and maintenance of such equipment.

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, 2006 and 2007. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, 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, 2006, and 2007, 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

In planning and performing our audit, we considered the Office of the Secretary of the State's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with

management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 7 – Lack of Proper Accountability of Revenue Transaction Activity.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider the following items to be a material weakness: Recommendation 7 – Lack of Proper Accountability of Revenue Transaction Activity.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Office of the Secretary of the State complied with laws, regulations, contracts and grant agreements, 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Agency management in the accompanying "Condition of Records" and "Recommendations" sections of this report.

The Office of the Secretary of the State's response to the findings identified in our audit is described in the accompanying "Condition of Records" section of this report. We did not audit the Office of the Secretary of the State's response and, accordingly, we express no opinion on it.

The report is intended for the information and use of Agency management, 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.

Dennis Collins
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts