

STATE OF CONNECTICUT



*AUDITORS' REPORT
SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009*

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

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February 25, 2011

**AUDITORS' REPORT
SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009**

We have made an examination of the financial records of the Secretary of the State for the fiscal years ended June 30, 2008 and 2009. 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.

- 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.

Susan Bysiewicz was elected Secretary of the State in November 1998 and served continuously from January 6, 1999 through the audited period. Lesley D. Mara served as Deputy Secretary of the State during the audited period.

RÉSUMÉ OF OPERATIONS:

General Fund:

A comparison of General Fund receipts for the fiscal years under review and the preceding year follows:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Commercial recording fees	\$8,820,420	\$6,751,137	\$5,972,511
Penalties- Corporations	1,717,404	1,073,916	1,224,514
Other fees- certificates/copies	453,217	536,726	477,446
Franchise taxes	333,620	46,661	210,194
Notary public registrations	667,090	650,335	635,247
Sales of documents and publications	289,515	117,455	236,594
All other receipts	<u>249,106</u>	<u>147,185</u>	<u>242,736</u>
Total General Fund Receipts	<u>\$12,530,372</u>	<u>\$9,323,415</u>	<u>\$8,999,242</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 (CRD). 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 commercial recording fees during the audited period can be attributed to the decrease in business activity due to the overall economic downturn.

A comparison of General Fund expenditures for the fiscal years under review and the preceding year follows:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Personal Services and Employee Benefits	\$1,632,795	\$1,712,747	1,494,942
Purchases and Contracted Services	<u>1,151,514</u>	<u>1,808,062</u>	<u>1,114,113</u>
Total General Fund Expenditures	<u>\$2,784,309</u>	<u>\$3,520,809</u>	<u>\$2,609,055</u>

As of June 30, 2009, there were 87 full-time employees, 19 of which were paid through the General Fund and 68 that were paid through a Special Revenue Fund as described below.

The significant categories of expenditures for “Purchased and Contracted Services” were for information technology services and the printing of materials related to elections. The increase in expenditures for the 2007-2008 fiscal year was for reimbursements, totaling approximately \$806,000, to the towns for election forms, storage cabinets and other necessary supplies for a non-Federal election year. Federal funds for reimbursing towns for election costs from the Help America Vote Act (HAVA) are only available during a Federal election year. Such funds are accounted for in a Special Revenue Fund as described below.

Special Revenue Fund - Federal and Restricted Accounts:

A comparison of Special Revenue Fund revenues and expenditures for the fiscal years under review and the preceding year follows:

	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Revenue:			
Commercial recording account	\$8,027,341	9,926,759	9,768,491
Interest income	1,470,902	586,454	126,327
HAVA grant	-	-	1,362,107
Other	-	<u>17,948</u>	-
Total Revenue	<u>\$9,498,243</u>	<u>\$10,531,161</u>	<u>\$11,256,925</u>
Expenditures:			
Personal Services and Employee Benefits	<u>\$5,901,065</u>	<u>\$6,293,718</u>	<u>\$7,012,552</u>
Purchases and Contracted Services:			
Management consultant services	2,959,923	592,325	339,924
Postage	445,428	489,270	465,864
Information technology	2,444,749	2,379,471	3,898,202
Equipment	9,688,657	2,716,425	2,193,065
All other	<u>2,047,366</u>	<u>2,508,824</u>	<u>2,688,189</u>
Total Purchases and Contracted Services	<u>\$17,586,123</u>	<u>\$8,686,315</u>	<u>\$9,585,244</u>
Total Expenditures	<u>\$23,487,188</u>	<u>\$14,980,033</u>	<u>\$16,597,796</u>

The decrease in investment income corresponded to the steady decline of the STIF rate of return from over five percent during the 2006-2007 fiscal year to approximately one-half of one

percent as of June 2009. There was also a significant decrease under the expenditure category “Equipment” as most of the voting machines were purchased with HAVA funds prior to the 2007-2008 fiscal year.

The major reason for the increase under the expenditure category “Information technology” for the 2008-2009 fiscal year was the increased use of HAVA funds, instead of the General Fund, for voter registration expenses.

In addition to the above Special Revenue Fund expenditures, capital equipment purchases totaling \$70,234 were paid from the Capital Equipment Purchases Fund during the audited period.

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. The Fund's level of revenue required an audit every three years. Thus, there was no audit covering either the 2007-2008 or 2008-2009 fiscal year. The last audit was performed for the 2006-2007 fiscal year.

CONDITION OF RECORDS

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

Payroll/Personnel Matters:

Criteria: The Department of Administrative Services' State Personnel Regulations Sections 5-247-2 and 5-205-2 require a prorating of sick and vacation leave accruals for employees on unpaid leave. Proper internal control would include a periodic monitoring of employees taking unpaid leave to ensure their accumulated leave balances are accurate.

Proper internal control over payroll operations would require a separation of duties between recording attendance records into the Core-CT system and authorizing any subsequent changes in such records. Also, employees involved in attendance recordkeeping should not be involved in personnel functions like verifying employment histories.

Those employees taking leaves of absence under the Family Medical Leave Act (FMLA) are required to submit a request for leave that is approved by the agency along with notifying when they intend to return to work.

Condition: 1. Lack of monitoring leave balances and use of unpaid leave-Leave balances of five of 20 employees were not correctly accrued as of June 30, 2009, in accordance with the collective bargaining contracts. Three of the five took sporadic unpaid leaves but continued to receive full-time leave accruals. The other two were paid for their vacation balances upon separation from State service, however, the leave balances remained on their Core-CT attendance records.

In addition, the Office did not prorate leave accruals of 30 full-time employees who took unpaid leave of absences from July 1, 2007 to June 30, 2010. As a result, these employees received more sick and vacation leave accruals than they were entitled to.

2. Lapses in segregation of duties-

a. Validation of work history- There was a lack of segregation of duties allowing a payroll employee to perform a personnel function. An Unemployment Claim Verification form was completed and signed by an employee responsible for posting time and attendance records without any evidence of supervisory review

and approval.

b. Unauthorized changes in timesheets- An employee responsible for posting time and attendance records occasionally made unauthorized changes to employees' timesheets when the employees did not have any sick or vacation leave available. The timesheet submitted to the payroll office, approved by the supervisor, would indicate a sick or vacation leave day which was actually unauthorized time since the employee had a zero leave balance. The payroll employee recorded the leave time as unpaid leave without notifying the employees' supervisor to prevent subsequent occurrences.

We also noted three instances where the payroll employee overrode the Core-CT leave accrual process by using the "LILA" paid leave code to grant employees paid leave hours without supervisory approval. As a result, the employees were overpaid a total of 20 hours. The proper use of the "LILA" code is essentially for an overlapping pay period when an employee takes time not yet earned until the end of a pay period.

3. FMLA sick leave documentation- Our review showed three out of four employees absent on FMLA sick leave did not have the required FMLA leave requests, the agency's approval of their leave request, and the "intent to return to work" form on file.

Effect: The lack of monitoring leave balances and use of unpaid leave could result in undetected overpayments. The lapses in segregation of duties could lead to unauthorized transactions. The lack of FMLA sick leave documentation prevented verification as to whether sick leave was used appropriately.

Cause: There appeared to be a lack of oversight and procedures in the Human Resources Office to ensure leave balances and the use of unpaid leave were adequately monitored. We were unable to determine whether the lack of FMLA documentation was because it was never originally obtained or that it was just misfiled.

Recommendation: The Office should improve ~~the~~ its monitoring of the leave balances and unpaid absences, ensure a segregation of duties between payroll and personnel functions, and retain proper documentation for FMLA sick leave usage. (See Recommendation 1.)

Agency Response: "Segregation of Duties:

The following steps were taken and corrective measures implemented.

A re-organization meeting was held with Human Resources, Payroll and the Business Manager. The separation of duties was completely outlined, along with a direct line and level of supervision over the payroll functions. An analysis of the job specification of the staff person responsible for payroll was conducted, and it was determined that this individual was not working within his job classification. Primary payroll responsibility was transferred to another more appropriately classified staff that had been providing back-up and that person is supervised directly by the Fiscal Administrative Manager, rather than the Human Resources Associate. The Agency now has clear lines of responsibility and supervision established for payroll and human resources to ensure that there is proper segregation of duties.

Finally, we have requested a payroll position in the next biennial budget to provide the Agency with a “confidential” person skilled in payroll and trained in the Core-CT applications associated with the payroll functions.

Verification of Salary and Accruals for Payroll and Human Resources:

Information regarding individual employees compiled by the Auditors was reviewed and changes to accruals, over-payment or under-payment were corrected upon notice from the Auditor. In addition, the Agency promulgated clear policy and upgraded its Employee Handbook accordingly.

Review of Medical Certificates:

The Agency has set up a monitoring file system in Human Resources for employees on FMLA. This system requires that a Medical Certificate be received on every employee who applies for FMLA status. In addition, supervisors are monitoring sick leave, in accordance with union contracts, and notifying HR if an employee is out on sick leave more than five (5) consecutive days so that a medical certificate can be requested and obtained from the employee.

Each employee who requests FMLA status receives a complete package of information and required forms necessary for completion of the FMLA process. This process is now closely monitored by Human Resources. Additionally, an FMLA checklist has been developed to track the receipt of all relevant documents, including the Medical Certificate. Once the employee has satisfied the FMLA requirements, the package is filed in the employee's

respective medical personnel file. In addition, a follow-up monthly card file is maintained for required updates on Medical Certificates as needed.

Review of payroll unauthorized changes to timesheets:

See Response under Segregation of Duties section above. We have requested, through the budget process, authorization to create an exclusive payroll clerk position. In addition, we have set up a process where any change to a timesheet that has been previously approved by a manager or supervisor cannot be changed or altered by the employee without approval of the manager or supervisor. Again, as described above, the Agency has already implemented a policy forbidding any changes to a timesheet without the approval of the manager or supervisor. All supervisors and managers received detailed direction with regard to this policy. This mandate resolved many of the inaccuracies that were uncovered both internally and by the Auditors.

Finally, with the exception of three employees that we are currently researching and working on, all other employee timesheet adjustments raised by the Auditors have been corrected.”

Customer Account Balances:

Background:

The Office of the Secretary of the State utilizes the CONCORD system to process the commercial recording transactions. Upon the receipt of documents, a uniquely numbered “work order” is generated and the fee submitted with the work order is recorded and deposited. If it is later determined that the work order can not be processed due to incomplete information or insufficient fee, the work order will be changed to rejected status and the associated payment is credited to the customer account.

Credit balances are eligible to be refunded or used to pay for subsequent filings upon the customer’s request. Frequent filers may also pay in advance and keep credit balances in order to cut down the need for multiple payments.

Criteria:

Sound business practice would dictate a regular review of customer balances. Accounts that have been inactive for a lengthy period or contain significant continuing balances should be reviewed to ensure their validity.

Condition:

The Commercial Recording Division’s (CRD) records for customer balances showed a total of 113,029 accounts with a balance of \$12,530,517 as of August 2010. This balance had

increased by \$7,121,166 from February 2008, when the balance was \$5,409,350. We reviewed 20 customer accounts with the highest balances to verify their accuracy. Our review showed that none of the 20 account balances, totaling \$5,293,710, were accurate which had the effect of overstating the total customer account balances by \$5,269,195. We also noted that as of August 2010, the 20 account balances had errors that existed for up to ten years without correction.

In addition, there was no effective reconciliation report for the frequent filers' account balances. The available reconciliation report did not identify the increases and decreases affecting the customers' account balances.

Effect: The existence of invalid credit balances increases the risk of losses since these amounts could be refunded in error or be used to pay for future filings.

Cause: It appears that periodic review of CRD customer account balances was not part of the Office's procedures. We note that CRD employees did not have the ability to run the customer account balance report since the report must be requested from the contracted IT consultant.

Recommendation: The Office needs to improve recordkeeping for its customer account balances. (See Recommendation 2.)

Agency Response: "The Agency currently runs two separate data systems: CONCORD and FinSys. As part of its current automation upgrade, the Agency has developed a new check entry module for CONCORD that will interface completely with FinSys and provide adequate reporting and reconciliation functions going forward. This should completely address the issue. Implementation of this module is anticipated to occur by the end of the present calendar year. In the interim, the Commercial Recording Division and the Financial Unit of the Management and Support Services Division has developed and used ad hoc reports until the new reports are available.

The agency has reviewed each of the 20 accounts referenced by the auditors. In 19 out of 20 cases, there were data entry errors (e.g., entering the check number instead of the check amount in the "Amount" field, double-entering check amounts) that accounted for the amount, rather than actual balances on accounts. In the final instance, the balance relates to a frequent filer account subject to continuing use. The agency froze that account, researched and identified errors, and is working with the customer to address

accurate reimbursement and/or crediting of the remaining balance. The overstated balance issue identified by the audit has already been resolved and the Agency has proposed additional safeguards for that particular customer to avoid that situation from occurring again.”

Revenues and Receipts:

Background:

The Office’s Financial Unit uses an in-house system called Financial Systems or FinSys, to record all receipts and revenues. Receipts for public records, business filings and foreign corporation fees are first received by the Commercial Recording Division and entered into the CONCORD system. The receipts are then sent to the Financial Unit to be recorded in FinSys. All other receipts are initially received by the Financial Unit and recorded into FinSys. All receipts are subsequently entered into Core-CT.

Criteria:

1. Separation of duties- Sound internal control procedures dictates that certain duties should not be performed by the same staff.
2. Reconciliation of receipts- Receipts recorded by an agency’s in-house accounting system should be regularly reconciled to the State’s Core-CT accounting system.
3. Recording of receipts- According to the State Accounting Manual, internal control over cash receipts shall be established to minimize the risk of loss. A sound business practice and important internal control would be to record the date of receipt, name of remitter, amount of receipt, type of receipt, and purpose of the remittance in the receipts journal when cash receipts are involved. When receipts are delivered, the person receiving them should verify the amounts and acknowledge delivery of receipts.
4. Timely deposits- Section 4-32 of the General Statutes requires deposit of receipts amounting to more than \$500 within 24 hours of receipt. The State Treasurer has granted the Office a one business-day waiver to the 24 hour deposit requirement.

Conditions:

1. Separation of duties- We continue to note a lack of separation of duties within the Financial Unit; a Financial Unit employee has the ability to receive and record receipts, modify customer account balances and authorize refunds to filers.

2. Reconciliations-

We note that reconciliations of revenue between the Office’s in-house system, FinSys, and Core-CT are only done daily, not

monthly, and without any supervisory review. The daily reconciliations do not address certain revenue adjustments to Core-CT. These adjustments would be identified if the monthly reconciliations were performed.

There was also a lack of reconciliation between payments received and recorded in CONCORD to the deposits recorded in FinSys and Core-CT.

3. Recording of receipts- The majority of the Agency's receipts are generated by the Commercial Recording Division. However, the Division does not prepare any summary or report to show total daily cash receipts received and subsequently forwarded to the Financial Unit for deposit. Thus, we are unable to determine whether all daily cash receipts were completely recorded and deposited.

4. Timely deposits- We tested 20 checks received by the Commercial Recording Division, and deposited on August 5, 2010, and noted 19 of the checks, totaling \$3,820, were deposited between one to three days late.

We also noted that the Commercial Recording Division does not kept a receipts record for settlement checks resulting from foreign corporation investigations. Therefore, we could not verify whether the checks were transferred to the Financial Unit and deposited on a timely basis.

Effect: Current internal controls over revenues and other receipts do not provide management with reasonable assurance that all receipts are properly accounted for. The lack of segregation of duties, late deposits and, lack of monthly reconciliations increases the risk of undetected losses.

Cause: The lack of segregation of duties can be attributed to a lack of available staffing. As for reconciliations, the Office may have considered its existing efforts sufficient. In addition, there were no procedures to account for the eventual disposition of daily receipts recorded in the CONCORD system by the Commercial Recording Division.

Although the Office has a one day waiver for deposits from the State Treasurer, it appears the Office's method of operations and workload prevents receipts from being deposited in a timely manner.

Recommendation: The Office should improve its segregation of duties over receipts

and revenue, ensure that deposits are performed in a timely manner in accordance with Section 4-32 of the General Statutes, and completely reconcile its in-house receipts and revenue records to Core-CT. (See Recommendation 3.)

Agency response:

“As described above, the Agency has developed a new check entry module for CONCORD that will interface with FinSys and provide adequate reporting and reconciliation functions going forward. This new module should be available by year-end. It should be noted that the implementation of the new check processing module will also address the audit issue concerning a lack of documentation regarding the number, amount and total of the checks passed from the Commercial Recording Division to the Financial Unit. The new software module is designed to document these categories and to tally the amounts received, which will provide reconciliation capacity. When the new module is implemented, all check processing will occur before document processing (currently the checks are typically entered alongside each document or order as each separate filing transaction occurs). Processing checks first should also address improve the timeliness of check entry.

In the interim, there is a report available on demand in CONCORD which will provide a summary of each SSC user’s data entered for the day. This report will be run by each SSC user and compared to a calculator tape of the corresponding checks entered. As long as the totals are equal, the checks can be forwarded to the Financial Unit along with the report and calculator tape as supporting evidence of reconciliation. If the totals are not equal, a more detailed report can be run and compared to the actual checks to identify the data entry error and make any necessary corrections prior to presentation to the Financial Unit. When the SSC user’s checks and report are presented to the Financial Unit, additional comparison will be performed to ensure validity of the data.

Additionally, there is another way to bring the check processing condition within the mandated window if the new software module does not resolve it completely. The Agency has proposed legislation that would mandate online Annual Report filing (with some hardship exemption). Although it did not pass last session, it had bi-partisan support and the Agency plans to re-introduce the bill in the 2011 session. If passed, paper volume will decrease dramatically, thereby allowing checks to be entered on a timelier basis.

On October 14, 2010, a letter was sent to the Treasurer to extend the check processing window from 48 hours to 72 hours (the first

24 hours are by statute and the additional time is authorized by leave granted by the Treasurer).

With regard to the Foreign Investigations penalty forfeiture checks, the Foreign Investigations Unit currently operates using an automated application that is separate from CONCORD. There are plans in the near term to overhaul the application and to add it as a module to CONCORD. From that time forward, all penalty forfeiture checks will be entered on the system in the same reconcilable manner as the filing fee checks. In the interim, the unit has adopted enhanced paperwork reconciliation for penalty forfeiture checks.”

Lack of Written Policies and Procedures:

- Criteria:* Proper internal control procedures dictate that formal written policies and procedures should be established and disseminated to provide guidance to employees in the performance of their related duties.
- Condition:* We continue to find the lack of formal comprehensive written policies and procedures manuals for (1) the filing and receipt process within the Commercial Recording Division and (2) revenue and receipts processing within the Management and Support Services Division. We note that improvements have been recently made in revising forms and using standardized formats but that step still falls short of the goal of a comprehensive manual.
- Effect:* The ability to effectively train staff, as well as the effectiveness and efficiency of the functions within the Office of the Secretary, may both be diminished.
- Cause:* Since the processing systems have been without complete procedure manuals since inception, the substantial workload of the Commercial Recording Division along with ongoing modifications have continued to make it difficult for the Office to formally document all of its functions.
- Recommendation:* The Office should continue its efforts to establish formal written policies and procedures for all of its functions. (See Recommendation 4.)
- Agency Response:* “Since the previous audit when the formal written policies and procedures condition was raised, the CRD has developed a policy manual containing specific work rule adaptations and protocols adopted by the management and by the staff Workflow Committee. Moreover, the new check processing module for CONCORD has

been designed to guide staff through transactions in a certain functional order that cannot be altered. Training takes place in a staged CONCORD application environment, followed by hands-on training with an experienced staff member. Once trained, staff cannot deviate from the protocols established by CONCORD or else transactions will not advance. The design of the check processing module ensures that accounting standards are met by leading the staff through the financial part of the transaction in only the accepted method. As the automation project is developed and implemented, additional policies and procedures will be added. In the meantime, However, the division has developed a comprehensive manual for Authentications and Apostille workflow.

With regard to the Management and Support Services Division, implementation of the FinSys upgrade is now complete and the Agency is working with the vendor to create complete and accurate documentation in order to be able to compile all of the daily operational procedures and policies into a single manual. The manual is expected to be complete by January 31, 2011.”

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.

Criteria: When a business entity claims circumstances merit a reduction in fees or penalties, the reason(s) for granting such waivers should be clearly established and documented in the foreign corporation case files. In addition, the authority of the official approving the waiver should be clearly established and documented.

Condition: Our review of 20 closed investigations showed that 13 cases were settled for a reduced fee or penalty. In these cases, the business entities claimed good faith oversight, financial difficulty and/or being a small business. In nine of the 13 cases, there was no documentation showing the entity’s financial condition or whether they were in compliance with other State licensing laws. In these nine cases, the reduced fee or penalty ranged from 50 to 82 percent of the assessed amounts. Our review also showed none of the 13 reduced settlements were signed by an Assistant Attorney General. There were notes on the file covers or in the related

database to indicate whether the claims were negotiated by the Assistant Attorney General or the Office's staff attorney. However, the Assistant Attorney General did not sign any of the claim documentation to verify it was properly approved.

Effect: The lack of documentation and evidence of approval for foreign corporation settlements prevents verification that the reduction in fees and penalties was appropriate.

Cause: We were informed that tax returns and/or licensing information were only requested when the entity claims financial difficulty as a basis for a dramatic reduction in a penalty assessment or in cases where there was reason to doubt assertions made by the entity concerning their compliance status or financial condition. In addition, the Office indicated the lack of documentation allowed for a maximization of collection effort with limited staffing.

Recommendation: The Office should improve documentation for settlements of foreign entity investigations. (See Recommendation 5.)

Agency Response: "The Foreign Investigations Unit processes a high volume of cases utilizing only three part-time staff. Over the past year, the Unit has undergone major changes, including the early retirement of the previously assigned Assistant Attorney General, the training of a new Assistant Attorney General, the addition of a part-time paralegal and the addition of a new agency partnership with the Department of Revenue Services that provides leads regarding foreign entities that might be transacting business illegally in the State. We expect these changes to improve the overall efficiency and effectiveness of the Unit. The Unit has reviewed and revamped its documentation practices to address all of the concerns raised by the auditor, while the audit was still underway. Note the audit comment, which states: "We noted that the Office was sufficiently documenting settlements of foreign entity investigations." The Unit will continue to monitor its record-keeping to ensure that the new, satisfactory methods are maintained. Also, the Agency plans to integrate the Foreign Investigations software into CONCORD. The Agency will work to ensure that the application will be designed to include check reconciliation report capacity, as well as the capacity to document the items of concern raised by this audit."

Inventory Control – Software and Merchandise for Sale

Criteria: The State Comptroller's Property Control Manual establishes the guidelines for maintaining a software inventory. This includes the inventory format, and the procedures for conducting an annual

physical inventory and preparing an annual inventory report (which should agree with the physical inventory).

Sound internal control would require an accurate perpetual inventory for merchandise on sales.

Condition:

1. Software Inventory-

While the Office keeps a software library for software, media, licenses and other related items, they do not maintain a software inventory. They also did not prepare a software inventory report for the 2007-2008 and 2008-2009 fiscal years nor did they conduct an annual physical inventory for the same period. Instead, they use a software management system which allows the Office to continuously scan and monitor each device, as well as produce several reports that act as a physical inventory of the software installed on the Office's computer system.

We would note that the software management system does not appear sufficient because it merely reports the software that is currently installed and does not report on the Office's total software inventory.

2. Merchandise for Sale-

The Office is responsible for selling the Connecticut General Statutes, Supplement to the General Statutes, Public and Special Acts, and the State Register and Manual.

Our review of the Office's perpetual inventory during July 2010 found that it was not accurate. The Office provided a perpetual inventory report listing 207 types of publications. We found that only 22 types of publications were actually on hand; the other 185 had been disposed of. A physical count of the 22 types of publications on hand showed 10 of the counts were not accurate. As of July 28, 2010, the perpetual inventory report misstated the actual inventory by 1,681 publications, valued at \$156,328.

Effect:

The Office is not in compliance with the State Property Control Manual for software inventory. Inaccuracies in merchandise for sale inventory can result in undetected losses.

Cause:

The Office believes that their software management application is sufficient and meets the requirements of the State Property Control Manual. As for merchandise for sale, there appeared to be a lack of oversight.

Recommendation: The Office should abide by the policies and procedures within the State Property Control Manual for software inventory, and ensure that perpetual inventory records for of merchandise for sale are accurate. (See Recommendation 6.)

Agency Response: “The agency has submitted our CO-59 for FY 2010 along with our Software report. Our IT division will continue to use our current Track-It inventory system as well as using Core-CT to track our software. This will allow the Business Office to run reports in Core-CT as well as IT running reports in Track-It to cross check our data.

The agency IT manager is in the process of reviewing new software packages for our publications unit to use to produce packing slips and inventory reports. We will look for a software package that can maintain accurate inventory and produce the necessary reporting mechanisms.

The agency will conduct quarterly audits on our publications to maintain accurate information.”

RECOMMENDATIONS

Our prior audit contained 15 recommendations. Five of these have been restated to reflect current conditions and ten were resolved. One additional recommendation has been presented as a result of our current review.

Status of Prior Audit Recommendations:

- The Office should comply with the State Comptroller's Accountability Directive Number 1 by annually completing the Internal Control Questionnaire. The Office has complied with this 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. The Office has complied with this recommendation.
- The Office should ensure that its administration of compensatory time complies with DAS Management Personnel Policy 06-02 and the Connecticut Handbook for Appointed Officials. The Office has complied with this recommendation.
- The Office should promptly disable all access to data processing systems upon an employee's separation. The Office has complied with recommendation.
- The Office should comply with Section 4-98 of the General Statutes. The Office has complied with this 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, examine credit balances to eliminate erroneous records, and continue its efforts to reduce its backlog in processing filings. This recommendation has been modified to remove prior findings that were corrected. (See Recommendation 2.)
- 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. This recommendation has been modified to remove prior findings that were corrected. (See Recommendation 3.)
- The Office should continue its efforts to establish formal written policies and procedures for all of its functions. This recommendation has been repeated. (see Recommendation 4.)
- 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. This recommendation has been modified to remove prior findings that were corrected. (See Recommendation 5.)

- The Office should consider attempting to further minimize the use of directory assistance. The Office has complied with this 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. We still noted deficiencies concerning software inventory in addition to findings regarding inventory for publications available for sale which resulted in the repeat of this recommendation in a modified form. (See Recommendation 6.)

- The Office should take the necessary action to comply with Sections 9-192a and 1-225 of the General Statutes. This recommendation has been satisfactorily resolved.

- 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 satisfactorily resolved.

- 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. This recommendation has been satisfactorily resolved.

- 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. This recommendation has been resolved.

Current Audit Recommendations:

- 1. The Office should improve its monitoring of leave balances and unpaid absences, ensure a segregation of duties between payroll and personnel functions, and retain proper documentation for FMLA sick leave usage.**

Comment:

Our review found a lack of monitoring of leave balances and unpaid leave, an employee maintaining attendance records was also making subsequent changes without management authorization and documentation was lacking for several employees on FMLA sick leave.

2. The Office needs to improve recordkeeping for its customer account balances.

Comment:

Our review showed records maintained by the Office's Commercial Recording Division for customer account balances continued to be inaccurate.

3. The Office should improve its segregation of duties over receipts and revenue, ensure that deposits are performed in a timely manner in accordance with Section 4-32 of the General Statutes, and completely reconcile its in-house receipts and revenue records to Core-CT.

Comment:

An employee in Financial Unit was performing several functions regarding receipts that should be segregated, there was lack of monthly reconciliations between the Financial Units revenue and receipts records and Core-CT, deposits were not timely and the Commercial Recording Division does not prepare reports to document that cash receipts were received and forwarded to the Financial Unit for deposit.

4. The Office should continue its efforts 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 within the Commercial Recording Division.

5. The Office should improve documentation for settlements of foreign entity investigations.

Comment:

We noted that the Office was not sufficiently documenting settlements of foreign entity investigations.

- 6. The Office should abide by the policies and procedures within the State Property Control Manual for software inventory and ensure that perpetual inventory records of merchandise for sale are accurate.**

Comment:

We note that the Office does not maintain its software inventory records or conduct annual physical inventories as required by the State Property Control Manual. We also found dated and inaccurate perpetual inventory records for State publications available for sale to the public

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, 2008 and 2009. 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, 2008, and 2009, 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 deficiency, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be a significant deficiency in internal control over financial operations, safeguarding of assets and compliance with requirements: Recommendation 3 – Revenues and Receipts.

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, we consider the significant deficiency described above to be a material weakness.

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.

Donald Purchla
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 22, 2011
State Capitol
Hartford, Connecticut