

STATE OF CONNECTICUT



*AUDITORS' REPORT
OFFICE OF THE SECRETARY OF THE STATE
FISCAL YEARS ENDED JUNE 30, 2015 AND 2016*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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JOHN C. GERAGOSIAN

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April 26, 2019

INTRODUCTION

AUDITORS' REPORT OFFICE OF THE SECRETARY OF THE STATE FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2016

We have audited certain operations of the Office of the Secretary of the State in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2015 and 2016. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United

States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the office's management and was not subjected to the procedures applied in our audit of the office. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Office of the Secretary of the State.

COMMENTS

FOREWORD

The Secretary of the State is an elected constitutional state officer whose duties are set forth in Title 3, Chapter 33, of the Connecticut General Statutes. The Secretary of the State serves as the chief election and business registrar and is the official keeper of public records and documents. Denise W. Merrill served as the Secretary of the State and James F. Spallone served as Deputy Secretary of the State during the audited period. Subsequent to the audited period, Scott Bates was appointed as Deputy Secretary of the State in January 2017.

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 board and commission meetings, town ordinances 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 collecting applicable fees in accordance with the Uniform Commercial Code (UCC).
- Appointments of Notaries' Public.
- Publishing the State Register and Manual and other publications.

During the audited period, the State Board of Accountancy, per Section 20-280 (e) of the General Statutes, was within the Office of the Secretary of the State. Effective July 1, 2016, the board was transferred to the Department of Consumer Protection. The board is responsible for licensing and regulating the public accounting profession in Connecticut. Members of the board are appointed by the Governor, and their appointments are coterminous with the Governor's term of office. As of June 30, 2016, the members of the board were:

John H. Schuyler, CPA, Chairman
Marcia L. Marien, CPA
Dannell R. Lyne, CPA, MST
Timothy F. Egan, CPA
Mark Aronowitz
Martha S. Triplett, Esq.
Karla H. Fox, Esq.
Peter J. Niedermeyer, CPA
There was 1 vacancy

During the audited period, the Office of the Secretary of the State was organized into 5 divisions to address its duties and responsibilities: State Board of Accountancy, Commercial Recording, Legislation and Election Administration, Information Technology, and Management and Support Services.

Significant Legislation

- Public Act 15-5 – Section 442 of this act created regional election monitors for 9 districts in the state, effective January 1, 2016. The individuals contracted to be election monitors are considered representatives of the Office of the Secretary of State and can act on its behalf regarding election matters. The act requires that the election monitors be certified by the Secretary of the State.
- Public Act 16-3 – Section 76 of this act transferred the State Board of Accountancy and its functions from the Office of the Secretary of the State to the Department of Consumer Protection, effective July 1, 2016.

RÉSUMÉ OF OPERATIONS

Revenues

Revenues for the Office of the Secretary of the State, by fund, for the fiscal years under review and the preceding year follows:

	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
General Fund	\$32,715,784	\$31,146,342	\$31,074,537
Federal and Other Restricted Account Fund	8	-	-
Total Revenues Listed by Fund	<u>32,715,792</u>	<u>31,146,342</u>	<u>31,074,537</u>

Revenues were very consistent throughout the audit period. The funds collected by the office during the normal course of business are deposited in the General Fund.

Revenues for the Office of the Secretary of the State, by revenue account, for the fiscal years under review and the preceding year follows:

	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
Commercial Recording	\$26,837,599	\$24,920,910	\$25,526,882
State Board of Accountancy	2,668,695	2,743,540	2,777,140
Certificate Fees	891,031	918,149	1,019,825
Penalties - Corp	1,554,545	1,751,059	934,618
Notary Registrations	789,700	752,060	764,020
Service Fees	326,266	243,880	267,815
Franchise Taxes	43,968	36,945	164,750
Sales of Documents & Publications	116,965	113,140	83,082
Other Receipts	49,133	69,270	75,127
Federal and Other Restricted Funds	8	-	-
Grants	-	125,000	-
Refund of Receipts	(562,118)	(527,611)	(538,722)
Total Revenue by Category	<u>32,715,792</u>	<u>31,146,342</u>	<u>31,074,537</u>

Receipts consisted primarily of business filing fees and penalties collected by the Division of Commercial Recording, and licensing fees collected by the State Board of Accountancy during the audited period. Fluctuations were considered normal as revenue depends primarily on the number of new and existing businesses operating in the state.

Expenditures

Expenditures by fund for the Office of the Secretary of the State are presented below:

	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
General Fund	\$ 9,308,025	\$ 9,578,361	\$ 9,701,475
Capital Improvement and Other Purpose Funds	1,842,076	120,072	1,264,918
Capital Equipment Fund	37,247	41,614	58,846
Federal and Other Restricted Account Fund	48,493	125,000	-
Total Expenditures Listed by Fund	<u>11,235,841</u>	<u>9,865,047</u>	<u>11,025,239</u>

General Fund expenditures, remained stable from the 2013-2014 fiscal year to the 2015-2016 fiscal year. Computer system upgrades in fiscal years 2013-2014 and 2015-2016 led to increases in expenditures out of the Capital Improvement and Other Purpose Funds. The expenditures of the Federal and Other Restricted Account Fund were related to a Pew Research Fund Grant.

General Fund Expenditures

General Fund expenditures for the Office of the Secretary of the State are presented below:

	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
General Fund			
Personal Services & Employee Benefits	\$ 5,803,297	\$ 6,148,078	\$ 6,263,766
Employee Expenses, Allowance and Fees	22,481	42,033	45,065
Purchased & Contracts Services	496,120	576,474	693,435
Motor Vehicles Cost	10,653	11,067	10,462
Premises and Property Expenses	17,936	9,536	39,160
Information Technology	2,206,392	2,405,952	2,468,873
Purchased Commodities	588,582	119,908	133,225
Equipment	162,564	265,313	47,489
Total General Fund Expenditures by Account	<u>9,308,025</u>	<u>9,578,361</u>	<u>9,701,475</u>

General Fund expenditures primarily consisted of personal services and information technology expenses. Personal services expenditures increased by 7.9% from the 2013-2014 fiscal year to the 2015-2016 fiscal year due to pay rate increases. The information technology expenses are related primarily to the maintenance of system databases such as Concord for business filings as well as the Election Management System.

Capital Improvement and Other Purpose Fund Expenditures

Capital Improvements and Other Purpose Fund expenditures increased by approximately \$1.1 million between the 2014-2015 and 2015-2016 fiscal years primarily due to the purchase of a new voting system. In the 2013-2014 fiscal year, the office was conducting extensive computer system upgrades which led to increased payments to a consulting company.

Other Examinations

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; increase and improve citizen participation in elections; stimulate more education and involvement of Connecticut's school-aged children concerning government; and engage in any lawful act or activity for which corporations may be formed under said act.

Due to the fund's limited revenues during the audited period, the financial records were subject to an audit by independent public accountants every 3 years per state statute. The last audit performed was for the 2010-2011 fiscal year and, per the auditor's opinion, the financial statements were presented fairly in accordance with Generally Accepted Accounting Principles.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our review of the Office of the Secretary of the State's records identified the following reportable matters.

Property Control Reporting

Criteria: The State Property Control Manual requires the Office of the Secretary of State to submit a property control report (CO-59) annually to the Office of the State Comptroller. The CO-59 instructions require that the report balances agree with the balances in Core-CT. Any property that is no longer in service should be removed from the Core-CT balances in a timely manner.

Condition: Our review of the CO-59 property control report for the fiscal year ended June 30, 2016 disclosed the following errors:

- The capital equipment balance was overstated by \$440,665
- The licensed software balance was overstated by \$34,615
- The capitalized software balance was understated by \$19,093

Effect: Asset balances were not accurately reported to the Comptroller at fiscal year-end. There is an increased risk of loss of state property when inventory records are not maintained accurately or completely.

Cause: It appears that there was a lack of oversight regarding the preparation of the CO-59 report which resulted in errors in the compilation of the report. In addition, the office did not remove items it no longer has from the records in a timely manner.

Recommendation: The Office of the Secretary of State should abide by the policies and procedures within the State Property Control Manual and strengthen internal controls to ensure that balances presented on the CO-59 reports are accurate and complete. (See Recommendation 1.)

Agency Response: "The agency agrees with the findings of conditions stated above. The agency has a new full-time material storage specialist that is being trained to assist with the inventory of our supplies and assets in the agency. The addition to the agency will reduce the errors in the accounting of our agency assets that will allow for accurate accounting of our equipment and software."

Software Inventory

- Criteria:* Section 4-36 of the General Statutes requires each state agency to maintain property inventory records in the manner prescribed by the State Comptroller. The State Property Control Manual provides further guidance by establishing agency responsibilities for accounting and reporting of state assets, including maintaining a software control system.
- Condition:* The office's software inventory does not contain the minimum requirements prescribed by the Comptroller such as the cost of the software.
- Effect:* Deficiencies in the controls over software inventory reduce the office's ability to safeguard and accurately report state assets.
- Cause:* The office is not following requirements established by the State Property Control Manual.
- Recommendation:* The Office of the Secretary of the State should report software amounts accurately and be sure its software inventory records conform to the requirements set forth by the State Comptroller. (See Recommendation 2.)
- Agency Response:* "The agency agrees with the finding of conditions stated above. The Information Technology department will update its Track-it inventory system to collect financial data. This will allow the Management & Support Service [division] the ability to reconcile with Core-CT."

Merchandise for Sale

- Criteria:* The State Property Control Manual establishes the guidelines for maintaining an inventory of merchandise for sale. This includes the inventory format, procedures for conducting an annual physical inventory, and preparing an annual inventory report.
- Condition:* Merchandise for sale inventory records were inaccurate and incomplete. We reviewed 20 sales of inventory items and found, that in 13 instances, the inventory tracking module was not updated to reflect the removal of inventory. We reviewed inventory counts for 5 different publications for sale, totaling 799 items per the records, and found that for 3 publications, the inventory counts were not accurate. The total count for the 5 publications reflected just 284 items.
- Effect:* The office was not in compliance with the Property Control Manual's merchandise inventory requirements, which could result in undetected losses.

Cause: There appears to be lack of managerial oversight over the tracking of merchandise for sale inventory.

Recommendation: The Office of the Secretary of State should improve management oversight to ensure that inventory records of merchandise for sale are accurate and complete. (See Recommendation 3.)

Agency Response: “The agency agrees with the findings of conditions stated above. As stated above, with the addition of a new full-time material storage specialist, inventory is conducted on a monthly basis and reviewed with the sales in Core-CT. The agency is able to monitor inventory more effectively.”

Overtime Requests

Criteria: The Office of the Secretary of State policy authorizes the preapproval of overtime by the employee’s supervisor through the use of an employee request form. Employees working more than 40 hours in a week receive compensation at the standard rate of time and a half for the excess hours.

Condition: In 6 of 10 instances of overtime hours worked, an approved employee request form could not be located.

Effect: The office was not in compliance with its policy regarding the preapproval of overtime hours. The lack of preapproved overtime adversely impacts the office’s monitoring of its personal services budget.

Cause: It appears that inadequate management oversight led to the lack of preapproved overtime requests.

Recommendation: The Office of the Secretary of the State should improve managerial oversight by monitoring the use of overtime and periodically reviewing for the presence of preapproved employee request forms. (See Recommendation 4.)

Agency Response: “The agency agrees with the finding of conditions stated above. Since the time of this audit, the Human Resources department has undergone a change of management. In response to these findings, going forward the agency’s Principal Human Resources Specialist will perform a monthly audit of approved overtime request forms in the employee’s personnel file.”

Medical Certifications

Criteria: Section 5-247-11 of the State Regulations requires the submission of an

acceptable medical certificate signed by a licensed physician or other practitioner whose method of healing is recognized by the state to substantiate the use of sick leave for more than 5 consecutive working days.

Condition: In 4 out of 10 instances of sick leave tested, we noted that the office did not have a medical certificate on file supporting the employee's use of more than 5 consecutive days of sick leave.

Effect: There is a lack of compliance with the state personnel regulation 5-247-11 and an increased risk that sick leave abuse may go undetected.

Cause: It appears there was a lack of managerial oversight within the Human Resources Department.

Recommendation: The Office of the Secretary of State should take steps to ensure compliance with Section 5-247-11 of the State Regulations by monitoring sick leave usage on a biweekly basis and obtaining medical certificates as applicable. (See Recommendation 5.)

Agency Response: "The agency agrees with the finding of conditions stated above. Since the time of this audit, the Human Resources department has undergone a change of management. Human Resources now works in concert with all members of the management team at the Office of the Secretary of the State to ensure that proper notification is provided to Human Resources of absences consisting of more than five (5) consecutive work days. In addition, and in response to these findings, the agency's Principal Human Resources Specialist will perform a monthly sick leave usage audit by running the TRC usage report for all employees within the agency."

Petty Cash Account Reconciliations

Criteria: The State Accounting Manual promulgated by the State Comptroller requires agencies to monthly reconcile their petty cash fund checking account bank statements to their check register.

Condition: During our review of the petty cash fund, we noted that the agency did not perform monthly reconciliations of the petty cash fund during the 2014-2015 and 2015-2016 fiscal years.

Effect: When reconciliations are not performed regularly, errors in the recording of cash may not be detected and could increase the risk of loss.

Cause: There appears to be a lack of managerial oversight. In addition, the office informed us that there were accounting staff shortages that could have caused the lack of reconciliations.

Recommendation: The Office of the Secretary of the State should improve internal controls over the petty cash fund by preparing monthly reconciliations of the check register to the checking account bank statements. (See Recommendation 6.)

Agency Response: “The agency agrees with the finding of conditions stated above. Since the audit, the Business Office has hired a new fiscal position to reconcile petty cash on a monthly basis due to proper segregation of duties. The petty cash account has been reconciled to date and will continue to be reconciled.”

Accounts Receivable Record Keeping

Background: In accordance with Section 33-920 of the General Statutes, an out of state entity may not transact business in Connecticut without filing with the Secretary of the State. Section 33-921 of the General Statutes allows the office to assess penalties against these out-of-state companies for each month in which they have not been in compliance with Section 33-920. The total amount of fees and penalties assessed is determined and tracked by the office’s investigations unit in conjunction with the Office of the Attorney General.

The Office of the Secretary of State reports accounts receivables when unregistered out of state companies owe penalties and fees to the state for conducting business within Connecticut without properly filing with the office.

Criteria: Per the State Accounting Manual, accounts receivable records should be accurate, complete and maintained in a manner to indicate the length of time of the outstanding debt.

State agencies are required to submit an annual accounts receivable report to the Office of the State Comptroller at the end of each fiscal year. The report should indicate the cumulative outstanding balance of accounts receivable as of June 30th and the total of collections that have occurred between June 30th and August 31st of the succeeding fiscal year.

Condition: Our review of accounts receivable records as of June 30, 2016 disclosed the following exceptions:

- We reviewed 10 cases with an open status in the case management system with a total value of \$152,655, from a universe of 306 cases

with a value of \$3,882,743, to determine the status of collection efforts. We determined that in 8 cases, with a value of \$114,690, there was no information on file for at least 2 years to indicate that the office made collection efforts. In 2 of 10 cases reviewed, the outstanding case amounts in the system were overstated by \$22,974.

- The Office of the Secretary of State reported total receivables of \$2,797,103 to the Comptroller as of June 30, 2016. This amount only included receivables originating in the 2015-2016 fiscal year rather than a cumulative balance of outstanding accounts receivable. The office reported \$1,235,135 as the amount collected through August 31, 2016. This amount was overstated by \$1,089,152 since it included all amounts collected between July 1, 2015 and August 31, 2016.
- The office could not provide us with an aging schedule since accounts receivable data is maintained separately in 2 different systems depending on the age of the case.

Effect:

The accounts receivable records were not accurate, complete, or maintained in a manner to indicate length of time outstanding.

The actual balance of outstanding accounts receivable and the aging of the receivable balance is unknown because the office has not identified uncollectible receivables. There is a potential loss of revenue to the state when the office does not follow up on past due amounts in a timely manner.

Inaccuracies in reporting to the Office of the State Comptroller result in misstatements in the state's financial statements.

Cause:

The accounting unit did not properly monitor the recordkeeping of accounts receivable since that tracking is currently a function of the investigations unit.

The office relies on 2 case management systems that are inadequate for generating the necessary reporting required by the Office of the State Comptroller.

Recommendation:

The Office of the Secretary of the State should improve accounts receivable record keeping to ensure that records are accurate, complete, and maintained in a manner to indicate length of time outstanding.

The office should periodically evaluate uncollectible accounts and should write-off uncollectible accounts to enhance the accuracy of reporting.

The office should consider whether the task of accounts receivable record keeping should be the responsibility of the accounting unit rather than the investigations unit. (See Recommendation 7.)

Agency Response: “The agency agrees with the findings of conditions stated above. We have recently finished an upgrade to the CONCORD system to better track this data and identify foreign registrants that may be in violation of Section 33-920. We have also increased the amount of attorney and paralegal resources devoted to sending demands, negotiating settlements, and closing cases. We believe these changes will effectively address the conditions stated above.”

Revenue and Receipts Reconciliation

Background: As the keeper of public records for the state, the Office of the Secretary of the State collects most of its revenue from various business filings. The office’s financial unit uses an in-house cash receipts software called FinSys to record revenue. These receipts are subsequently entered into Core-CT, the official accounting system of record.

State agencies are required to submit a report of unearned revenue annually to the Office of the State Comptroller. The office often receives funds in advance from businesses that file on behalf of multiple companies, referred to as “frequent filers”. In addition, the office receives funds that cannot be applied due to error.

Criteria: Receipts recorded by an agency’s in-house accounting system should be regularly reconciled to Core-CT.

Section 3-99a subsection (c) of the General Statutes establishes a 1-year limit for refunds of any overpayments related to filing fees. Business filing fees that create a positive customer account balance should be considered earned revenue 1 year after receipt.

Condition: We noted that the office did not perform reconciliations of its revenue between FinSys and Core-CT. Our reconciliation of deposits for the month of June 2016 showed that FinSys reports presented receipts that were approximately \$32,000 lower than Core-CT. There were differences between multiple accounts for unknown reasons.

We noted that the office reports the total customer balance as unearned revenue. The office does not have a separate account for tracking and reporting unearned income that is less than 1-year-old.

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

The reporting of deferred revenue is likely overstated as the reported balance likely includes amounts no longer eligible for refund.

Cause: Management has not established internal controls that would require regular reconciliations between FinSys and Core-CT.

The current recordkeeping system does not provide the aging of balances which is required in order to determine whether revenues are available for refund.

Recommendation: The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes. (See Recommendation 8.)

Agency Response: “The agency agrees with the finding of conditions stated above. Since the audit the agency has begun to run revenue reports in Core-CT on a weekly basis to monitor discrepancies between Core-CT and Finsys. The new reconciliation process allows the division to research and rectify and discrepancies in a timely manner.”

RECOMMENDATIONS

The prior audit for the fiscal years ended June 30, 2014 and 2015 contained 9 recommendations. Of those recommendations, 4 have been implemented or otherwise resolved and 5 have been repeated or restated with modifications during the current audit. The status of recommendations contained in the prior report is presented below.

Status of Prior Audit Recommendations:

- **The Office of the Secretary of the State should improve administrative controls over the processing of time and attendance records.** This condition has been resolved and the recommendation is not repeated.
- **The Office of the Secretary of the State should abide by the policies and procedures within the State Property Control Manual and strengthen internal controls to ensure that balances disclosed on the CO-59 reports are accurate and reconciled to the Core-CT Cost Activity Report.** We found that this condition has not been resolved and is repeated in a modified form. (See Recommendation 1.)
- **The Office of the Secretary of the State should abide by procedures within the State Property Control Manual for software inventory and strengthen internal controls to ensure the perpetual inventory records of merchandise for sale are accurate and complete.** We found that each of these conditions has not been resolved and is repeated in a modified form. (See Recommendations 2 and 3.)
- **The Office of the Secretary of the State should improve internal controls over the petty cash fund by preparing reconciliations and submitting the annual petty cash reports to the State Comptroller in a timely manner.** We found that this recommendation was partially resolved, and is repeated in a modified form. (See Recommendation 6.)
- **The Office of the Secretary of the State should implement changes to the Foreign Corporation Investigations Unit's information system so that users can effectively monitor investigations in their various stages and generate essential receivable reports. In addition, the Office of the Secretary of the State should analyze the cost and benefits of allocating additional resources to the unit so that potential revenue-generating events can be promptly reviewed.** We found that this condition has not been resolved and is repeated in a modified form. (See Recommendation 7.)
- **The Office of the Secretary of the State should implement proper segregation of duties between payroll and personnel functions.** This condition has been resolved and the recommendation is not repeated.

- **The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes.** We found that this condition was partially resolved, and the recommendation is repeated in a modified form. (See Recommendation 8.)
- **The Office of the Secretary of the State should strengthen internal controls to ensure that the Connecticut Citizen Foundation complies with the statutory requirements regarding audits of its books and accounts and the submission of financial statements in each year that an audit is not required.** This condition has been resolved and the recommendation is not repeated.
- **The Office of the Secretary of the State should strengthen internal controls to ensure that all statutorily required reports are submitted in a timely manner.** This condition has been resolved and the recommendation is not repeated.

Current Audit Recommendations:

- 1. The Office of the Secretary of State should abide by the policies and procedures within the State Property Control Manual and strengthen internal controls to ensure that balances presented on the CO-59 reports are accurate and complete.**

Comment:

Our review disclosed errors in the compilation of the CO-59 property control report.

- 2. The Office of the Secretary of the State should report property control amounts accurately and be sure its property control records conform to the requirements set forth by the State Comptroller.**

Comment:

Our review disclosed that software inventory records were incomplete.

- 3. The Office of the Secretary of State should improve management oversight to ensure that inventory records of merchandise for sale are accurate and complete.**

Comment:

Our review disclosed that inventory records of merchandise for sale contained significant errors.

- 4. The Office of the Secretary of the State should improve management oversight by monitoring the use of overtime and periodically reviewing for the presence of preapproved employee request forms.**

Comment:

Our review noted several instances in which there was no approval on file for the use of overtime

- 5. The Office of the Secretary of State should take steps to ensure compliance with Section 5-247-11 of the State Regulations by monitoring sick leave usage on a biweekly basis and obtaining medical certificates as applicable.**

Comment:

Our review noted several instances in which employees were out on sick leave for extended periods of time without medical certificates on file.

- 6. The Office of the Secretary of the State should improve internal controls over the petty cash fund by preparing monthly reconciliations of the check register to the checking account bank statements.**

Comment:

Our review noted that the office did not perform periodic reconciliations of the petty cash account during the audited period.

- 7. The Office of the Secretary of the State should improve accounts receivable record keeping to ensure that records are accurate, complete, and maintained in a manner to indicate length of time outstanding.**

The office should periodically evaluate uncollectible accounts and should write-off uncollectible accounts to enhance the accuracy of reporting.

The office should consider whether the task of accounts receivable record keeping should be the responsibility of the accounting unit rather than the investigations unit.

Comment:

Our review noted inadequacies in the accounting and reporting of accounts receivable related to fees imposed on unregistered out of state businesses.

- 8. The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes.**

Comment:

Our review noted that reconciliations were not performed between the cash receipts journal and Core-CT. We also noted that the office could not identify the amount of unearned revenue.

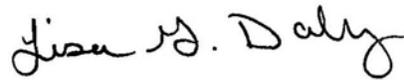
ACKNOWLEDGEMENT

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Edna L. Maldonado
Matthew B. Wood

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the Secretary of the State during the course of our examination.



Lisa G. Daly
Administrative Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor