STATE OF CONNECTICUT

AUDITORS' REPORT
SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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January 10, 2003

AUDITORS' REPORT
SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

We have made an examination of the financial records of the Secretary of the State for the fiscal years ended June 30, 2000 and 2001. This report on that examination consists of the Comments, Recommendations and Certification which follow.

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

In addition, the State Board of Accountancy, per Section 20-280, subsection (e), of the General Statutes is within the Office of the Secretary of the State. That Board operates, generally, under the provisions of Title 20, Chapter 389 of the General Statutes and is responsible for licensing and regulating the public accounting profession in this State. Members of the Board are appointed by the Governor and their appointments are coterminous with the Governor's term of office. As of June 30, 2001, the members of the Board were:

Bernard Blum, CPA, Chairman, West Hartford
Donald S. Brodeur, Sr., CPA, Old Lyme
James S. Ciarcia, Rocky Hill
Philip J. DeCaprio, Jr., CPA, Chaplin
James E. Quinn, Middle Haddam
Sandra M. Schork, Stamford
George G. Veily, CPA, Avon

The Office has organized itself into six divisions in order to address its duties and responsibilities: Commercial Recording, Election Services, Information Technology, Management and Support Services, Records and Legislative Services, and the State Board of Accountancy.

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 has served as Deputy Secretary of the State from January 6, 1999, through the audited period.

RÉSUMÉ OF OPERATIONS:

General Fund:

General Fund receipts totalled $18,700,968 and $19,619,684 during the fiscal years ended June 30, 2000 and 2001, respectively, as follows:

	1999-2000	2000-2001
Commercial recording fees	$ 7,299,513	$ 10,613,410
Franchise taxes	578,688	117,925
Other corporate fees and penalties	731,432	200,050
Accountants licensing and examinations	1,931,332	1,872,614
Notary public registrations	629,016	615,761
Sale of documents and publications	146,955	341,454
Miscellaneous	264,203	253,652
Refunds of expenditures	90,637	81,171
Restricted contributions:		
Commercial recording account	7,029,192	5,523,647
Total	$18,700,968	$19,619,684

General Fund revenue and receipts totalled $18,116,387 during the fiscal year ended June 30, 1999. Revenues and receipts increased 3.2 percent during the fiscal year ended June 30, 2000, and increased 4.9 percent during the fiscal year ended June 30, 2001. The significant increase in commercial recording fees was generally due to increases in business volume; this increase was offset by a decrease in the restricted commercial recording account. 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. In the fiscal year ended June 30, 2001, the Office reduced its budget for the restricted contributions to more closely reflect its operational requirements for the period.

The increase in "Sale of documents and publications" during the 2000-2001 fiscal year was due to the fact that an update of the General Statutes of Connecticut is produced every other year. The most recent update was issued for sale during the 2000-2001 fiscal year.

A summary of expenditures by major object from both budgeted and restricted accounts for the fiscal years ended June 30, 2000 and 2001, is presented below:

	1999-2000	2000-2001
Personal services	$ 4,646,950	$ 5,097,676
Contractual service	2,111,962	2,165,409
Commodities	201,867	217,622
Sundry charges	1,047,281	1,101,499
Equipment	109,131	55,227
Total Expenditures	$ 8,117,191	$ 8,637,433

Personal services costs accounted for approximately 58 percent of expenditures during the audited period. Such costs increased 5.9 and 9.7 percent during the fiscal years ended June 30, 2000 and 2001, respectively. Permanent filled positions totaled 96, 94 and 97, at June 30, 1999, 2000 and 2001, respectively. Most of the increase in personal services expenditures for the two fiscal years under review were caused by collective bargaining wage increases. The personal services expenditures for fiscal year 2001 included $132,000 in retroactive adjustments, of which approximately $112,000 was for the settlement of a collective bargaining grievance on behalf of 34 former employees and approximately $17,000 was for the payment of retroactive salary and related fringe benefits on behalf of one employee, who was promoted to a managerial position. In addition, the personal services expenditures for the audited period included approximately $31,000 in merit bonuses.

Expenditures for contractual services accounted for 26.0 percent and 25.1 percent of expenditures for the fiscal years ended June 30, 2000 and 2001, respectively. Significant categories of expenditure included outside consulting services, EDP services, printing and postage.

Expenditures for commodities accounted for approximately 2.5 percent of expenditures in each of the two fiscal years. Principal categories of commodities expenditures were office supplies and data processing supplies.

Expenditures for sundry charges accounted for approximately 12.9 percent and 12.8 percent of expenditures for the fiscal years ended June 30, 2000 and 2001, respectively. The only significant category of such costs was for employee fringe benefits.

Expenditures for equipment charges accounted for approximately 1.3 percent and 0.7 percent of expenditures for the fiscal years ended June 30, 2000 and 2001, respectively.

Included in the expenditures presented above, are expenditures from the "Commercial Recording Administrative Account." Expenditures from this restricted contribution account were $4,396,936 and $4,946,440, for the fiscal years ended June 30, 2000 and 2001, respectively. The "Commercial Recording Administrative Account" has been established in accordance with Section 3-99c of the General Statutes to provide funding for the costs of operating the Commercial Recording Division. Certain fees received by the Office are deposited in this account until sufficient funds are available to provide for the costs of operating the Division.

As presented by the following schedule, receipts credited to the account have consistently exceeded expenditures charged to it. As a result, a significant balance has accumulated. This matter was the subject of a prior audit finding.

	1999-2000	2000-2001
Unexpended Balance, beginning of year	$ 6,034,863	$ 8,667,119
Receipts	7,029,192	5,523,647
Total Available	13,064,055	14,190,766
Expenditures	4,396,936	4,946,440
Unexpended Balance, end of year	$ 8,667,119	$ 9,244,326

It was noted that for the fiscal year ended June 30, 2002, the Office reduced its budgetary request for the "Commercial Recording Administrative Account" to $4,500,000. That amount was below the actual expenditures for the period. The same budgetary request was made for the fiscal year ended June 30, 2003. In addition, the Office has issued a $6,000,000 Request For Proposals for system enhancements to the Concord System (Connecticut On-line Commercial Recording Division). Those reductions and planned expenditures will substantially reduce the carryover balance in the "Commercial Recording Administrative Account".

Capital Project Funds:

During the fiscal years ended June 30, 2000 and 2001, expenditures from Capital Project Funds totalled $614,898 and $194,212, respectively. These expenditures consisted of payments relating to the automation of the Voter Registration System and outside consulting services.

Special Revenue Funds:

During the audited period, expenditures from Special Revenue Funds were as follows:

		Fiscal Year Ended June 30,	
Description	Fund	2000	2001
Capital equipment purchase fund	1872-005	$ 46,077	$ 69,947

Connecticut Citizenship Fund (Foundation):

The Connecticut Citizenship Fund was established as a foundation, as provided by 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 Statute sets forth the requirement that any foundation, as defined in Section 4-37e of the General Statutes, must have a full audit of its books and accounts. Our review has disclosed that the Office of the Secretary of the State has an agreement with an Independent Public Accounting firm to have the required audit of the Connecticut Citizenship Fund's books and accounts for the fiscal year ended June 30, 2001. It should be noted that, as of November 1, 2002, the agreed upon audit of the Foundation's records remains pending completion.

CONDITION OF RECORDS

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

Expenditures - Personal Services:

Background: In our prior review we noted that allocations of personal service costs were not charged equitably to the Commercial Recording Division.

Criteria: Maintaining records to document the time and effort that employees devote to certain activities, insures that personnel charges are equitable when such employees are funded by separate sources.

Condition: As allowed by Section 3-99c of the General Statutes, the Office may charge costs incurred to administer the "Commercial Recording Division", to a restricted non-lapsing account within the General Fund. Personal service and fringe benefit charges constitute a majority of such expenditures, and a number of staff that do not work directly for the Commercial Recording Division, have portions of their positions allocated to the Division account. During the audited period such allocations were based on a fixed percentage, without a record of the time and effort devoted to Division activity.

Effect: Certain reported personal services expenditures were not classified based on actual efforts. Net amounts that would have remained unexpended in the General Fund "budgeted" account, if any, would have lapsed at each fiscal year's end. Conversely, net amounts that would have remained in the "restricted" appropriation account would not have lapsed, and would have increased the balance on hand for the "Commercial Recording Division" account. The amounts in question could not be readily determined.

Cause: A system to monitor personal service charges and related actual efforts of employees so charged was not in place during the audited period. However, subsequent to the fiscal year ended June 30, 2001, a system to determine actual efforts of employees was developed and a process to adjust charges based on that system was implemented.

Conclusion: The Office has implemented procedures to ensure that personal service and fringe benefit charges are allocated to the appropriate accounts based upon the actual efforts of employees.

Accountability - Revenues and Receipts:

Background: Individual units within the Office generate revenues for services rendered to business entities and other organizations. Those revenues are received in the mailroom. Depending on the type of services requested, the receipts are either forwarded directly to the Revenue Section for processing and deposit or are sent to the unit prior to being forwarded to the Revenue Section. A new automated receipt system was established to replace the cash register system that had previously been used. That change was made in January 2000.

Criteria: Good business practices and proper internal control procedures prescribe that revenue should be properly accounted for. Verifying the deposit of receipts may be enhanced with the preparation of reconciliations that compare deposits made by the Revenue Section, with the receipts processed by the various individual units.

Condition: Our review of internal controls over revenues and receipts disclosed that receipt records of the individual units of the Office that collect such receipts were not readily reconcilable to control totals per the Office's Revenue Section.

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

Cause: A new receipting system became operational in January 2000. However, as of the last day of field work, August 31, 2002, that system does not include methods and procedures to reconcile receipts of the individual units to the control totals per the Office's Revenue Section. The Office has recently issued an RFP for enhancements to the Commercial Recording System. Those enhancements will also improve the accountability of transaction activity to revenue and receipts.

Recommendation: The Office should continue its efforts to implement procedures that would ensure the proper accountability of transaction activity with recorded revenue and receipts. (See Recommendation 1.)

Agency Response: "We are in the process of reviewing the responses to the RFP for the enhancement to the **CONCORD** system. It is our understanding that this enhancement will provide for a reconciliation method that will satisfy the criteria for proper internal control procedures for Commercial Recording Transactions.

Additionally, we have a completion date for the implementation of the second phase of the Financial System Application (FINSYS) receipting system of December 31, 2002. This second phase will also provide a reconciliation method that will satisfy the criteria for proper internal control procedures for the balance of the agency."

Use of Telephones - Lack of Oversight:

Criteria: Good business practice requires that an entity's expenditures should be for valid and reasonable business purposes.

The Office's employee handbook requires that Agency telephones be used for official purposes only. It also requires employees to reimburse the Agency for charges resulting from the personal use of business telephones.

Condition: The current office network phone bills report all calls as if they were made from one of the Office's two main telephone numbers, not by the actual telephone numbers from which they were made.

Our examination noted a monthly average of over 930 out-of-state phone calls with a monthly duration in excess of 45 hours made from the office's phone network. This number included numerous calls to private residence numbers. Because of the nature of the services provided by the Office of the Secretary of the State, out of State calls, including calls to private residences would be anticipated. In light of the high volume of such calls, some degree of assurance is required that any personal use of the Agency's phones is identified and that related costs are reimbursed. However, such costs were not monitored, reported or reimbursed. In the case of non-work related calls made during working hours, the cost of the employees' time is often greater than the cost of the calls.

Effect: Telephone costs may have been incurred that were not for valid and reasonable business purposes. Such occurrences would have lead to unnecessary expenditures. When an employee is using a telephone for non-state purposes neither the employee nor the telephone is available for state business.

Cause: There are no current procedures for monitoring the use of the Office's network of telephones or for reporting and reimbursing for non-business related phone calls.

Recommendation: Procedures should be established to ensure that the Office's telephone usage is adequately monitored and that employees reimburse the Office if there is any personal use of its telephones. (See Recommendation 2.)

Agency Response: "The report correctly notes that the nature of the work performed in the agency necessitates a high volume of out-of-state telephone calls, with many of these calls to personal residences. Regardless of the volume, whether high or low, of out-of-state telephone calls placed, this agency remains committed to providing the assurance that any personal use of the Agency's telephones is monitored, identified and reimbursed.

The Agency's first line of assurance is notification to all employees of the Agency's clear and unambiguous policy that the Agency's telephone lines are for official purposes only. The second line of assurance is the close supervision and monitoring of employee job performance and conduct, including telephone and other state equipment use.

Until August 21, 2002 it had been this Agency's understanding that our telephone system by Altura, formally Fujitsu, a Department of Information Technology approved vender, was incapable of providing the detailed reports required to determine the employees phone or unit, which made a specific call. With our new ability to determine the origin of all calls made from within the Agency, we are putting in place policies and procedures that will adequately monitor telephone usage and provide for reimbursement by employees for any personal use of the Agency's telephones."

Property Control – Records and Reports:

Background: The Office has an inventory of personal property that costs in excess of two million dollars. Our review disclosed conditions that limited the usefulness of the Office's inventory database of personal property and questioned the accuracy of the Office's annual inventory reports.

Criteria: Chapter six of the *Property Control Manual* issued by the State Comptroller requires that "A complete physical inventory of all property must be taken at the end of the fiscal year (June) to insure that property control records accurately reflect the actual inventory on hand within the current fiscal year."

Chapter five of the *Property Control Manual* requires that all items of personal property be tagged with a unique identification number to aid in the location and identification of fixed assets.

Section 4-36 of the General Statutes requires that each State agency shall establish and keep an inventory account in the form prescribed by the State Comptroller.

In response to this statute the Comptroller requires all agencies to submit an annual "CO-59 Fixed Assets Property Inventory Report".

Condition: The Office had not taken a complete physical inventory at any time during the period under review.

The Office's inventory data base records ("records") were not accurate. The "records" included more than 150 items of data processing equipment bought in the mid-nineties for the elections division and several personal computers bought for other divisions in the mid-eighties that had in fact been previously disposed of by the Office. We also noted that the "records" did not include inventory tag numbers for most of these items.

Our random inspection of five inventory items in the immediate vicinity of our audit location revealed that two items lacked inventory tags.

In addition, our test of 15 items from the Office's "records" revealed the following:

- Three items could not be located; one of the three items was eventually found to have been scrapped but the "records" were not updated to reflect this event;
- There were no tag numbers recorded in the "records" for eight of the 15 items;
- One item, which had a recorded inventory tag number per the "records", was not tagged.

Finally, we learned that the Office's "records" have not been updated to reflect any equipment purchases or deletions that have occurred during the period from July 1, 2001, through May 1, 2002.

Effect: The Office is not in compliance with Section 4-36 of the General Statutes or the State of Connecticut's *Property Control Manual*. Losses from inventory could occur and go undetected. In addition, the Office's inventory "records" and annual "CO-59 Fixed Assets Property Inventory Report" are neither accurate nor reliable.

Cause: Available information has not been entered into the Office's inventory database in a timely manner. In addition there are procedural weaknesses limiting the availability of the data required to maintain regularly updated inventory database records.

Recommendation: The Office should implement internal control procedures to ensure its compliance with Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual*. (See Recommendation 3.)

Agency Response: "The Agency has, as of August 2002, conducted a new complete inventory of all Agency personal property, with all items checked for a tag and identification number. Corrections are being accomplished to insure that property control records accurately reflect the actual inventory on hand. Duties have been reassigned and reprioritized. More comprehensive procedures and over-sight control to ensure timely and accurate performance of this function are being instituted. An accurate and reliable CO-59 Fixed Assets Property Inventory Report will be filed with the Comptroller."

Electronic Data Processing Disaster Recovery Planning:

Background: The Office's most sensitive and mission-critical applications (i.e. election and commercial recording systems) reside on the Department of Information Technology's mainframe and, therefore, are subject to that agency's security and back up procedures. However, the Office has a number of other important applications and databases (i.e. Board of Accountancy, Records and Legislative Services, etc.) that reside on its own computer system. If those applications or databases were impaired or destroyed, the Office would experience a serious effect on its operations. The following pertains to the Office's "in house" applications, databases and related processing transactions.

Criteria: The Connecticut State Library has established a "Records Retention Schedule" for State agencies that includes requirements for electronic data processing records. The Connecticut State Library requires that the agency's Data Processing Manager certify that Electronic Data Processing (EDP) retention requirements have been met.

Under the EDP retention requirements, a Disaster Plan should be retained until superseded and the records that document any disaster recovery activity should be retained permanently. The disaster recovery plan should enable critical operations to resume within a reasonable time after an interruption in operations.

Condition: The Office had not certified that the EDP records retention requirements had been met. A current, written disaster recovery plan was not in existence.

Backup tapes for databases and related transactions on the Office's computer system were not being rotated off site; the backup tapes were stored in a fireproof file cabinet located in the computer room.

Effect: The lack of a disaster recovery plan increases the risk that the duration of an interruption in service due to a disaster will not be minimized to the shortest interruption possible.

Cause: The Office had not completed the certification for the EDP records retention schedule or a current, written disaster recovery plan.

Conclusion: Prior to the completion of our review, the Office completed the required certification and related disaster recovery plan. Database and transaction files are now rotated off-site each week.

Security Over Credit Card Information:

Background: The Office has a central services unit where all correspondence is received. Much of the mail received contains payments for requested services or fees. Several thousand payments each fiscal year are made by credit card numbers recorded on transaction forms submitted by customers. The mail is sorted and machine opened. The opened transaction forms are distributed for payment and service processing throughout the Office to the employees responsible for processing the service requests. On occasion, the Office also receives requests for services via the facsimile machine that include credit card numbers. The transaction forms are then filed and retained. Also, the Office has initially voiced concerns that the transaction forms information may potentially be subject to Freedom of Information Requests.

Criteria: Good business practice requires that credit card numbers and related personal information should be restricted to the fewest number of employees required to process the payment and, if retained, should be stored in a central location and strictly controlled.

Condition: As a result of these processing procedures described in the background section above, a significant but indeterminate number of employees have direct and indirect access to credit card numbers and related personal information.

Effect: The Office has not reduced the exposure of sensitive customer information to the fewest employees required to process the payment. Those employees without responsibility for payment processing are not protected from suspicion in the event that credit card numbers are diverted. Unless done on a frequent basis such diversions would be difficult to trace to the Office.

Cause: The cost of the changes needed to address the condition was considered by the Office to exceed the benefit gained by reducing the perceived level of risk exposure.

Recommendation: The Office should take the necessary steps to ensure that customers' credit card numbers and related personal information are restricted to the fewest number of employees required to process the payment. (See Recommendation 4.)

Agency Response: "A comprehensive risk assessment of receipt and storage of credit card information was conducted during July and August of 2002. Based upon a cost benefit analysis, the acceptance of credit card transactions cannot be eliminated without severely damaging the agency's ability to efficiently and conveniently conduct statutorily mandated transactions. The office is taking immediate steps to ensure access to the information is restricted to the fewest number of employees. The agency personnel director will maintain a list of those employees, restricted to the lowest possible number, with primary access to the information, defined, as individuals required to process the transaction and store or retrieve the information. Processing procedures are being amended and documented to ensure the processing is more strictly controlled. No documents containing credit card information will be removed or handled outside of the controlled environment. The office is taking steps to better control the physical environment with limited and secure access areas, warning signs, secure storage and extensive and specific training in the secure handling and storage of credit card information is being developed. In house Counsel indicates that the credit card information is not subject to FOI disclosure requirements."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Office should take steps to ensure that travel expense reports and supporting documentation are submitted within five business days, as required by the State Comptroller. Such expenditure documents should be processed and unused funds returned, in a timely manner.** Our current review disclosed that this condition no longer exists.

- **The Office should request a budget for the Commercial Recording Administrative Account that approximates the anticipated needs for the account each fiscal year.** The budget for the Commercial Recording Administrative Account for the period ending June 30, 2002 was substantially less than actual expenditures. The planned budget for June 30, 2003 is also below projected expenditures. In addition, an RFP for enhancements to the Concord system is currently in process and will be funded from the account. These actions have substantially addressed our prior audit finding and will have the effect of significantly reducing the unexpended balance in the Commercial Recording Administrative Account.

- **The Office should continue to develop a system to monitor the efforts of employees to ensure a proper allocation of personal service costs to appropriate accounts.** Subsequent to the end of our audited period, the Office established and implemented procedures for directly measuring and allocating personal service costs to appropriate accounts. This condition has been concluded in our "Condition of Records" section of this report.

- **The Secretary of the State should revise its procedures so that cash receipts can be deposited within the period required by Section 4-32 of the General Statutes.** We noted no exceptions during our current review. This recommendation will not be repeated.

- **Steps should be taken to maintain accurate inventory records, to physically safeguard items, and to perform required physical inventories of such items.** Our review of property control records and reports disclosed that the condition has not improved from the prior audit. This recommendation will be repeated in modified form. (See Recommendation 3.)

- **As part of the required audit of the Connecticut Citizenship Fund, an audit opinion, regarding compliance with Sections 4-37e through 4-37i, should be provided.** This finding refers to the last required audit of the Foundation for the period ended June 30, 1998. That audit was performed pro bono. The Independent Public Accountant declined the Office's subsequent request for an opinion regarding compliance. Based upon the time lapse, the size of the Foundation and the cost involved to repeat the audit, no further action is recommended on the prior recommendation. The Office was made aware of the audit requirements for Foundations.
  They are in the planning stage with their new IPA for the required audit of the period

ended June 30, 2001. The Office will seek to ensure that the audit satisfies the requirements of Sections 4-37e through 4-37i.

- **The Connecticut Consortium for Law & Citizenship Education, Inc., should be considered a "Foundation", as defined by Section 4-37e, subsection (2), of the General Statutes. Audit requirements, which are prescribed in Section 4-37f, subsection 8, should be monitored by the Office.** Our current review determined that the Consortium should not be considered a Foundation. The recommendation is not repeated.

Current Audit Recommendations:

1. **The Office should continue its efforts to implement procedures that would ensure the proper accountability of transaction activity with recorded revenue and receipts.**

   Comment:

   The Office initiated a process to enhance its Commercial Recording System and to complete the second phase of the Financial System Application (FINSYS) receipting system. However, as of the last day of field work, August 31, 2002, those new systems have not been fully implemented and the Office did not have methods and procedures to reconcile receipts of the individual units to the control totals per the Office's Revenue Section.

2. **Procedures should be established to ensure that the Office's telephone usage is adequately monitored and that employees reimburse the Office if there is any personal use of its telephones.**

   Comment:

   The Office did not have the means or current procedures for monitoring the use of the Office's network of telephones or for reporting and reimbursing for non-business related phone calls.

3. **The Office should implement internal control procedures to ensure its compliance with Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual*.**

   Comment:

   Deficiencies were noted in the Office's inventory database of personal property. The Office had not taken a complete physical inventory at any time during the period under review. No data had been entered into the Agency's "records" for assets purchased or deleted during the State Financial Year 2002.

4. **The Office should take the necessary steps to ensure that customers' credit card**

numbers and related personal information are restricted to the fewest number of employees required to process the payment.

Comment:

The Office had not reduced the exposure of sensitive customer information to the fewest possible employees required to process the payment. Those employees without responsibility for payment processing are not protected from suspicion in the event that credit card numbers are diverted.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Secretary of the State for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants and to understanding, and evaluating the effectiveness of, the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Secretary of the State for the fiscal years ended June 30, 2000 and 2001, 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 generally accepted auditing standards and the standards applicable to financial-related 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 Secretary of the State complied in all material or significant respects with the provisions of the certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

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

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of the laws, regulations, contracts and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

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

Inadequate property control records and procedures
Lack of controls over access to credit card and personal information

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that neither of the reportable conditions described above is a material or significant weakness.

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

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

CONCLUSION

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

Robert G. Koch
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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