

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
OFFICE OF THE SECRETARY OF THE STATE  
FISCAL YEARS ENDED JUNE 30, 2019 AND 2020*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ CLARK J. CHAPIN

## Table of Contents

---

EXECUTIVE SUMMARY .....	i
AUDITORS' REPORT.....	1
COMMENTS .....	2
FOREWORD .....	2
Significant Legislation .....	3
RÉSUMÉ OF OPERATIONS .....	3
Revenues.....	3
Expenditures .....	4
STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....	6
Accounts Receivable Recordkeeping .....	6
Reconciliation of Revenue .....	8
Unearned Revenue Reporting.....	9
Merchandise for Sale.....	11
Property Control Reporting .....	12
Ineffective Controls over Inventory .....	13
Annual Report of Budgeted Agencies.....	14
RECOMMENDATIONS .....	16
Status of Prior Audit Recommendations: .....	16
Current Audit Recommendations:.....	18
Acknowledgements.....	20

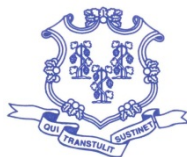
September 16, 2021

**EXECUTIVE SUMMARY**

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes, we have audited certain operations of the Office of the Secretary of the State for the fiscal years ended June 30, 2019 and 2020. Our audit identified internal control deficiencies, instances of noncompliance with laws, regulations, and policies, and a need for improvement in practices and procedures that warrant the attention of management. The significant findings and recommendations are presented below:

<b>Page 6</b>	We noted inadequacies in the accounting and reporting of accounts receivable related to fees imposed on unregistered out-of-state businesses. The Office of the Secretary of the State should improve its accounts receivable recordkeeping to ensure that records are accurate, complete, and maintained in a manner to indicate how long receivables were outstanding. The office should periodically evaluate outstanding accounts and seek approval from the Office of Policy and Management to write off accounts deemed uncollectable to enhance the accuracy of reporting. (Recommendation 1.)
<b>Page 8</b>	We noted a lack of reconciliations between the cash receipts journal, the public records database and the state’s accounting system. The Office of the Secretary of the State should strengthen internal controls over receipts and ensure that there are regular reconciliations between the three financial recordkeeping systems. (Recommendation 2.)
<b>Page 9</b>	We noted that the office reported many customer overpayments as unearned revenue even though they are over 10 years old and no longer eligible for refund. The Office of the Secretary of the State should determine which accounts are no longer eligible for refund and discontinue reporting the balances as unearned revenue. The office should ensure that it accurately reports and supports deferred revenue to the Office of the State Comptroller. (Recommendation 3.)
<b>Page 11</b>	Our review resulted in several exceptions regarding the reporting of merchandise for sale records. The Office of the Secretary of the State should strengthen internal controls to ensure that inventory records of merchandise for sale are accurate, complete and comply with the State Property Control Manual. (Recommendation 4.)

# STATE OF CONNECTICUT



## AUDITORS OF PUBLIC ACCOUNTS

State Capitol  
210 Capitol Avenue  
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

CLARK J. CHAPIN

September 16, 2021

### **AUDITORS' REPORT OFFICE OF THE SECRETARY OF THE STATE FISCAL YEARS ENDED JUNE 30, 2019 and 2020**

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 years ended June 30, 2019 and 2020. 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 office or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, 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 office, 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 various available sources including, but not limited to, the office's

management and the state's information systems, 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 policies and procedures or 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 during the audited period and Scott D. Bates served as Deputy Secretary of the State.

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, compiling voter registration statistics, interpreting election laws and training local officials in election administration.
- 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.
- Administering the eRegulations system for the State of Connecticut.

The Office of the Secretary of the State is organized into five divisions: Business Services, Legislation Elections and Administration, Information Technology, Management and Support Services and Publication.

**SIGNIFICANT LEGISLATION**

There were no notable legislative changes identified that affected the office during the audited period.

**RÉSUMÉ OF OPERATIONS**

**Revenues**

Revenues for the Office of the Secretary of the State, by fund and account, for the fiscal years under review and the preceding fiscal year are presented below:

**Revenues by Fund**

	2017-2018	2018-2019	2019-2020
General Fund	\$ 30,638,328	\$ 32,547,707	\$ 31,339,555
Federal & Other Restricted Accounts Funds	-	5,198,682	11,179,780
<b>Total Revenues by Fund</b>	<b>\$ 30,638,328</b>	<b>\$ 37,746,389</b>	<b>\$ 42,519,335</b>

**Revenues by Account**

	2017-2018	2018-2019	2019-2020
Commercial Recording	\$ 27,865,593	\$ 29,531,958	\$ 28,518,075
Grants	-	5,120,554	11,117,472
Penalties – Corp	1,303,410	1,583,634	1,699,485
Certificate Fees	999,215	984,105	774,030
Notary Registrations	745,106	756,315	670,045
Service Fees	195,080	214,935	153,625
Sales of Documents & Publications	104,762	138,470	71,620
Federal & Restricted	-	78,128	62,308
Taxes	12,150	22,740	28,075
Other Receipts	45,839	34,307	17,928
Refund of Receipts	(632,767)	(718,757)	(593,328)
<b>Total Revenues by Account</b>	<b>\$ 30,638,388</b>	<b>\$ 37,746,389</b>	<b>\$ 42,519,335</b>

General fund receipts consist primarily of business filing fees and penalties collected by the Division of Business Services. In the 2018-2019 fiscal year, the office received a federal Help America Vote Act (HAVA) grant to enhance election security. The office received additional HAVA grant funds in the 2019-2020 fiscal year as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in March 2020. The grant funds were received in advance

of the associated expenditures. Certificate fees from the formation of new businesses and notary registration revenue decreased in 2020. This was likely due to the economic uncertainty caused by the coronavirus pandemic.

### **Expenditures**

Expenditures for the Office of the Secretary of the State, by fund and account, for the fiscal years under review and the preceding fiscal year are presented below:

#### **Expenditures by Fund**

	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>
General Fund	\$ 8,107,967	\$ 8,468,499	\$ 8,626,301
Capital Improvements & Other Purpose Funds	209,281	311,811	520,066
Capital Equipment Fund	14,456	10,849	8,635
Federal & Other Restricted Accounts Funds	-	261,400	1,917,187
<b>Total Expenditures by Fund</b>	<b>\$ 8,331,704</b>	<b>\$ 9,052,559</b>	<b>\$ 11,072,189</b>

The increase in General Fund expenditures from fiscal year 2017-2018 to fiscal year 2019-2020 was predominately attributed to salary increases. The increase to federal and other restricted funds was caused by the expenditure of the two HAVA grants received during the audited period as well as emergency coronavirus relief funds in fiscal year 2020. The increase to the Capital Improvements & Other Purpose Funds was due to enhancements made to the Connecticut eRegulations online database.

#### **Expenditures by Account**

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

	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>
Personal Services & Employee Benefits	\$ 4,924,438	\$ 5,185,267	\$ 5,287,884
Employee Expenses, Allowance and Fees	30,146	47,722	22,998
Purchased & Contracts Services	442,356	748,881	1,395,389
Motor Vehicle Costs	12,814	11,929	11,992
Premises & Property Expenses	11,683	3,687	9,204
Information Technology	3,461,170	2,855,063	3,973,084
Purchased Commodities	118,651	163,010	366,638
Grant Transfer – State Agencies	-	37,000	5,000
Equipment	(669,554)	-	-
<b>Total Expenditures by Account</b>	<b>\$ 8,331,704</b>	<b>\$ 9,052,559</b>	<b>\$ 11,072,189</b>

General Fund expenditures primarily consisted of personal services and information technology expenses. Personal services expenditures increased by 7% between the 2017-2018 fiscal year and the 2019-2020 fiscal year due to salary increases as the number of filled positions remained consistent over that period. The information technology expenses primarily related to

the maintenance of system databases such as CONCORD for business filings and the Election Management System. The office spent HAVA grants on election security upgrades during the 2019-2020 fiscal year.



## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of the Secretary of the State disclosed the following seven findings and recommendations, of which six have been repeated from the previous audit:

### **Accounts Receivable Recordkeeping**

*Background:*

In accordance with Sections 33-920, 33-1210, 34-38g, 34-275a, 34-429 and 34-531 of the General Statutes, out of state business corporations, nonstock corporations, limited partnerships, limited liability companies, limited liability partnerships, and statutory trusts may not transact business in Connecticut without filing with the Secretary of the State.

Sections 33-921, 33-1211, 34-38l, 34-275a, 34-430 and 34-539 of the General Statutes allow the office to levy fees and penalties against out-of-state entities for each month they have not complied with the filing requirements. The office, in conjunction with the Office of the Attorney General, assesses and tracks the total amount of fees and penalties due. The Office of the Secretary of the State issues demand letters to out-of-state entities assessed fees and penalties.

*Criteria:*

The State Accounting Manual requires that accounts receivable records be accurate, complete, and maintained in a form to indicate how long the debt has been outstanding.

The office's policy is to send a demand letter to any business that was not operating in the state of Connecticut in accordance with state statutes. Initial demand letters are to be sent within 30 days of this information becoming available. If the business does not respond after a second demand letter, the case should be referred to the Office of the Attorney General for follow-up investigation.

State agencies are required to submit an accounts receivable report to the Office of the State Comptroller at the end of each fiscal year, which includes the cumulative outstanding balance of accounts receivable as of June 30 of the reported fiscal year. The report should also include the amounts estimated to be uncollectible, and the amounts that were collected between July 1 and August 31 of the subsequent fiscal year.

*Condition:*

Our review found that the office could not provide a comprehensive listing of all outstanding accounts receivable in the form required by the State Accounting Manual.

Our test of 20 accounts receivable balances, totaling \$218,835 as of June 30, 2020, disclosed the following issues:

- In 11 of 20 open cases reviewed, the office did not make sufficient collection efforts on balances totaling \$76,740. The last documented communication ranged from five months to three years prior to the time of our review.
- In eight of 18 cases reviewed, the office sent initial demand letters five to ten months after the entities filed with the office for cases with assessed values totaling \$94,140.
- In five of 20 cases reviewed, the office did not provide evidence that it referred the cases to the Office of the Attorney General after the office did not receive responses to the second demand letters.

As in prior audit reports, we continue to note that the office could not provide an aging schedule. Our analysis found that approximately 46% of the total receivable balance has been outstanding for more than one year. Furthermore, the office does not have a process to estimate uncollectible amounts or write off stale balances.

The office reported total receivables of \$3,644,250 to the Comptroller as of June 30, 2020. This amount inaccurately included receivables that were collected or resolved in the 2019-2020 fiscal year, rather than a cumulative balance of outstanding accounts receivable. The cumulative balance of outstanding accounts receivable appeared to be \$4,791,964. The office also reported \$2,082,333 in receivables collected through August 31, 2020. The amount was actually \$295,050.

*Context:*

The office's accounts receivable databases included 492 cases with a total value of \$4,791,964. During the period of fiscal year 2017 through fiscal year 2020, the office wrote off 66% of the demand amounts on settled cases.

*Effect:*

The accounts receivable records were not accurate, complete, or maintained in a manner to reflect how long receivables were outstanding. Additionally, there is a potential loss of revenue to the state when the office does not promptly follow up on past due amounts.

Our analysis found that the office likely underreported its receivables to the Comptroller by \$1,147,714. However, we do not know the actual value of net receivables, because the office has not identified an allowance for uncollectible amounts. Inaccuracies in reporting to the Comptroller would result in misstatements in the state's financial statements.

*Cause:* There is inadequate management oversight regarding the tracking and reporting of accounts receivable as well as limited reporting within the receivables management system.

*Prior Audit Finding:* The finding has been reported in the last four audit reports covering the fiscal years ended June 30, 2010 through 2018.

*Recommendation:* The Office of the Secretary of the State should improve its accounts receivable recordkeeping to ensure that records are accurate, complete, and maintained in a form to indicate how long receivables were outstanding.

The office should periodically evaluate outstanding accounts and seek approval from the Office of Policy and Management to write off accounts deemed uncollectable to enhance the accuracy of reporting. (See Recommendation 1.)

*Agency Response:* “The agency agrees with the finding. Our foreign investigations function was transferred into a new system effective July 23, 2021. In the new system, we intend to issue a demand letter within 30 days of a penalty accruing. If no response is received, we will issue a demand letter at 60 days and another at 90 days. If the customer has not made contact with us after three attempts, we will begin the revocation process to revoke that business’s authority to transact business in Connecticut and refer the matter to the Office of the Attorney General for further collection efforts that they deem appropriate.”

## **Reconciliation of Revenue**

*Background:* The financial unit utilizes cash receipts software called FinSys to record all payments from filers. During the audited period, the office also tracked business filing fees in a public database called CONCORD where businesses could pay their fees online and track their filing history. The financial unit entered receipts into CONCORD for any payments submitted to the office. All revenue is also entered each day into Core-CT, the state’s official accounting system.

*Criteria:* The State Accounting Manual requires that each state agency is responsible for reconciling its own records with those in Core-CT.

*Condition:* The office did not perform reconciliations of its revenue between FinSys, CONCORD, and Core-CT. Our comparison of the June 2020 deposits showed that FinSys receipts were approximately \$43,000 lower than Core-CT, and CONCORD receipts were approximately \$88,000 lower than Core-CT.

- Context:* The office collected total cash receipts of \$33,856,012 and \$31,932,882 from business filings during the fiscal years ended June 30, 2019 and 2020, respectively.
- Effect:* Current internal controls over receipts do not provide management with reasonable assurance that the office is properly accounting for all receipts.
- Cause:* Management has not established internal controls that require regular reconciliations between FinSys, CONCORD and Core-CT. FinSys and CONCORD have historically had reporting limitations which have hindered the reconciliation process.
- Prior Audit Finding:* The findings related to the lack of reconciliations between FinSys and Core-CT has been reported in the last nine audit reports covering the fiscal years ended June 30, 2000 through 2018.
- Recommendation:* The Office of the Secretary of the State should strengthen internal controls over receipts and ensure that there are routine reconciliations between the three financial recordkeeping systems. (See Recommendation 2.)
- Agency Response:* “The Agency agrees with the findings. For years the agency has been using CONCORD in the Commercial Record Division as a means for processing transactions. The software couldn’t run reports to reconcile with the Business Office. As of June 15, 2021 CONCORD, was replaced with a new software product called BRS. Foreign Investigation and Trademarks was integrated in the BRS system on July 23<sup>rd</sup>. BRS allows appropriate reconciliation between the Finsys and CORE. The system could run reconciliation reports at the end of each day to balance against CORE and Finsys on a daily basis.”

### **Unearned Revenue Reporting**

- Background:* Many customer accounts have positive balances in CONCORD due to rejected filings, advanced payments, or overpayments. These balances are considered unearned revenue by the office and may be used as credits against future filings or may be reimbursed to the customer if a timely request is made.
- Criteria:* Section 3-99a(c) of the General Statutes establishes a one-year limit for refunds of any overpayments related to filing fees. Positive customer account balances should be considered earned revenue a year after

receipt if the account has had no subsequent filings or the customer has not requested reimbursement.

State agencies are required to submit an annual report of unearned revenue to the Comptroller if the amount is greater than \$300,000.

*Condition:* We reviewed 35 of the largest customer account balances, totaling \$381,600, and found that 20, totaling \$62,256, had no activity in over 10 years.

The office reported \$9,346,460 in unearned revenue to the Comptroller as of June 30, 2020. The amount was \$484,612 less than the balance per the supporting documentation.

*Context:* The office performed a customer account balance analysis in 2019, and estimated that more than 50% of the total account balances are more than 10 years old and approximately 23% are more than 20 years old.

*Effect:* The office has maintained active account balances that are no longer eligible for refund and reporting the balances as unearned revenue. The office did not provide support in its 2020 reporting of deferred revenue to the Comptroller.

*Cause:* The office has hesitated to fully write off balances over one year if they could be used as credits against future filings. CONCORD is also not set up to provide an aging report for customer account balances to determine whether revenues are available for refund.

In reporting the unearned revenue to the Comptroller, the office used the prior year's amounts.

*Prior Audit Finding:* The findings related to the improper reporting of unearned revenue have been reported in the last three audit reports covering fiscal years ended June 30, 2013 through 2018.

*Recommendation:* The Office of the Secretary of the State should determine which accounts are no longer eligible for refund and discontinue reporting the balances as unearned revenue. The office should ensure that it accurately reports and supports deferred revenue to the Office of the State Comptroller. (See Recommendation 3.)

*Agency Response:* "The agency agrees with the finding. Most business services were transferred to our new system as of June 20, 2021, and the remaining services came online on July 23, 2021. Account balances from CONCORD have been transferred to our new system as a voucher. If a customer requests to have CONCORD balances transferred to the new

system, we issue the voucher code to them and they are required to use the voucher balance prior to paying us by credit card. We anticipate that most vouchers will remain unredeemed after one year and at that time, we will cancel all unredeemed voucher and they will no longer show as unearned revenue.”

## **Merchandise for Sale**

- Background:* The Office of the Secretary of the State sells and ships various publications (e.g., Connecticut General Statutes, the Supplement to the General Statutes, Connecticut Public and Special Acts and the Connecticut Register and Manual) to state agencies and the public. The public can order a copy of any of these publications via phone, mail, or in person. The office utilizes an order form to assure proper processing and retains these forms in accordance with state record retention policies.
- Criteria:* The State Property Control Manual establishes guidelines for maintaining an inventory of merchandise for sale. This includes the inventory format, procedures for conducting an annual physical inventory, and the preparation of an annual inventory report.
- Condition:* The office’s inventory records of merchandise for sale were inaccurate and incomplete. We reviewed 20 sales, totaling \$48,221. Our review revealed that the office did not have supporting documentation available for 12 sales, totaling \$35,934.
- We reviewed inventory counts for all 20 publications for sale. Per records in Core-CT, the office’s merchandise for sale count was 4,977 items with a total retail value of \$116,775. The actual inventory was 1,823 items with a value of \$66,674.
- Our review also found that the office did not perform adequate physical inventories of merchandise for sale during the audited period. We note that the office recently performed a physical inspection of inventory but did not update the records in Core-CT.
- Context:* Sales of publications totaled approximately \$48,000 during the audited period.
- Effect:* The office did not comply with the State Property Control Manual’s merchandise inventory requirements. This could result in undetected losses.
- Cause:* Lack of managerial oversight over the tracking of merchandise for sale inventory contributed to the findings. Additionally, the office indicated

that it could not locate some records because the employee overseeing this area was out on administrative leave.

*Prior Audit Finding:* The finding has been reported in the last three audit reports covering the fiscal years ended June 30, 2013 through 2018.

*Recommendation:* The Office of the Secretary of the State should strengthen internal controls to ensure that inventory records of merchandise for sale are accurate, complete and comply with the State Property Control Manual. (See Recommendation 4.)

*Agency Response:* “The agency agrees with the finding. Since moving to 165 Capitol Ave., the agency has worked diligently with DAS to organize our inventory. We have used the surplus system to sell/scrap unwanted assets and inventory. We now have proper controls over receiving inventory, properly adding in CORE and using appropriate paperwork to remove or retire an Asset or inventory.”

### **Property Control Reporting**

*Criteria:* The State Property Control Manual requires the Office of the Secretary of the 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. The office should promptly remove any property that is no longer in service from Core-CT records.

*Condition:* We noted the following exceptions on the CO-59 property control report for the fiscal year ended June 30, 2020:

- The office recorded \$678,682 in additions to the licensed software balance that were not supported by Core-CT records.
- The office overstated its capital equipment balance by \$64,029 due to items that were no longer in service.
- The office’s reporting of stores and supplies was not supported and appeared to be overstated due to a clerical error.

*Context:* The office reported \$1,716,726 in personal property on its June 30, 2020 CO-59 property control report, which consisted of \$770,439 in equipment, \$927,194 in licensed software, and \$19,093 in capitalized software.

- Effect:* The office did not comply with the State Property Control Manual. The state's accounting records were not accurate.
- 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.
- Prior Audit Finding:* The finding has been reported in the last five audit reports covering the fiscal years ended June 30, 2010 through 2020.
- Recommendation:* The Office of the Secretary of the State should abide by the State Property Control Manual policies and procedures and strengthen internal controls to ensure that the balances the office discloses on its property control reports are accurate and supported. (See Recommendation 5.)
- Agency Response:* "Due to lack of staff the inventory was properly received but not removed from inventory. The Agency has proper controls in the Business Office to make sure, when inventory is received and signed off by our Mail handler, the paperwork is given to our FAS to enter to tag when required and given to the FAS to enter in CORE. When the item(s) are removed the process will be for our Processing Tech to remove from inventory to allow for proper controls in the division. We will coordinate with IT to make sure proper controls are followed for our Software. We have submitted a CO-856 to update our FY 2020 inventory figure to show proper controls on our 2021 submission of our CO-59."

### **Ineffective Controls over Inventory**

- Criteria:* The Office of the State Comptroller State Property Control Manual sets forth the standards and procedures for recording and maintaining inventory records. The manual states that a complete physical inventory of all property must be taken by the end of each fiscal year to ensure that property control records accurately reflect the actual inventory on hand. Agencies should retain evidence that they completed their annual inventory. The manual also provides guidelines on how to account for surplus and scrap equipment.
- Condition:* Our review found that only 30% of the equipment balance for the Office of the Secretary of the State had been inventoried since 2016. In addition, we noted that seven of 30 items could not be located during our inventory walkthrough and the office did not provide a record of disposal. We performed a cursory review of provided disposal records



and found an additional 23 items that had not been removed from the inventory records.

*Context:* The office reported a total of 531 items in Core-CT as of 2021 with a total cost of \$1,179,274.

*Effect:* The office's property inventory records were not accurate in Core-CT. It is unclear which inventory items are currently in service. Errors in inventory records could result in undetected losses.

*Cause:* The office began maintaining separate records of inventory items outside of Core-CT in 2016, when the capitalization threshold for reporting items to the Office of the State Comptroller was increased from \$1,000 to \$5,000. New tag numbers for items were printed for existing property and records in Core-CT were no longer actively maintained.

*Prior Audit Finding:* The finding was reported in the last audit report covering the fiscal years ended June 30, 2017 and 2018.

*Recommendation:* The Office of the Secretary of the State should perform a complete physical inventory and update its records in Core-CT to reflect an accurate equipment balance. (See Recommendation 6.)

*Agency Response:* "The agency agrees with the finding. The agency has taken the proper steps to inventory all assets in a timely manner this year. Various unused items have been sold or scrapped as required by DAS in the surplus system to reduce our in- house inventory. Proper documentation has been filed and or uploaded in CORE. We have worked diligently with DAS to clear up this finding."

### **Annual Report of Budgeted Agencies**

*Criteria:* Section 4-60 of the General Statutes requires that budgeted agencies submit an annual report to the Office of the Governor each year on or before September 1st.

*Condition:* The Office of the Secretary of the State did not submit the annual report of budgeted agencies as required by Section 4-60 of the General Statutes for 2020.

*Effect:* Reports not being completed and submitted in accordance with the General Statutes may prevent the distribution of information that management and the General Assembly need to make informed

decisions. The office did not comply with reporting requirements established by Section 4-60 of the General Statutes.

*Cause:* The office does not have adequate procedures in place for the proper preparation, submission and tracking of its required reports.

*Prior Audit Finding:* This finding has not been previously reported.

*Recommendation:* The Office of the Secretary of the State should strengthen internal controls to ensure that it completes and submits all required reports on time. Management should implement procedures to ensure that it tracks mandated reports and maintains evidence of their submission. (See Recommendation 7.)

*Agency Response:* “The agency agrees with the finding. The agency submitted the 2018 and 2019 report but didn’t submit the 2020 report in a timely manner. The 2020 and 2021 administrative reports were submitted on August 4, 2021. ”

## RECOMMENDATIONS

### Status of Prior Audit Recommendations:

Our prior audit report on the Office of the Secretary of the State contained eight recommendations. three have been implemented or otherwise resolved and have been repeated or restated with modifications during the current audit. The following is a summary of the action taken on the prior recommendations.

- The Office of the Secretary of the State should improve its accounts receivable recordkeeping to ensure that records are accurate, complete, and maintained in a manner to indicate how long receivables were outstanding. The office should periodically evaluate outstanding accounts and should write-off accounts deemed uncollectable to enhance the accuracy of reporting. **This recommendation is being restated with modifications. (See Recommendation 1.)**
- The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes. The office should also seek guidance from the Office of Policy and Management concerning stale customer account balances. **This recommendation is being restated with modifications. (See Recommendation 2 and 3.)**
- The Office of the Secretary of the State should abide by the State Property Control Manual policies and procedures and strengthen internal controls to ensure that the balances the office discloses on its property control reports are accurate and complete. **This recommendation is being restated with modifications. (See Recommendation 4.)**
- The Office of the Secretary of the State should develop and maintain property records in accordance with the State Property Control Manual. The office should perform a complete physical inventory with supporting documentation and implement effective controls over the recordkeeping of scrapped equipment. **This recommendation is being restated with modifications. (See Recommendation 5.)**
- The Office of the Secretary of the State should ensure that inventory records of merchandise for sale are accurate, complete and in compliance with the State Property Control Manual. **This recommendation is being repeated. (See Recommendation 6.)**
- The Office of the Secretary of the State should accurately report software inventory amounts and ensure that its software inventory records conform to Office of the State Comptroller requirements. **This recommendation is not being repeated.**
- The Office of the Secretary of the State should strengthen controls over purchasing card transactions to ensure compliance with established procedures. **This recommendation is not being repeated.**

- The Office of the Secretary of the State should implement controls to appropriately use the state holiday time reporting code and strengthen internal controls to ensure employees are enrolled in the correct compensatory time plan. Additionally, supervisors and payroll personnel should be more diligent when reviewing and approving employee time and attendance records. **This recommendation is not being repeated.**

**Current Audit Recommendations:**

- 1. The Office of the Secretary of the State should improve its accounts receivable recordkeeping to ensure that records are accurate, complete, and maintained in a form to indicate how long receivables were outstanding.**

**The office should periodically evaluate outstanding accounts and seek approval from the Office of Policy and Management to write off accounts deemed uncollectable to enhance the accuracy of reporting.**

Comment:

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

- 2. The Office of the Secretary of the State should strengthen internal controls over receipts and ensure that there are routine reconciliations between the three financial recordkeeping systems.**

Comment:

Our review noted unreconciled variances between revenue recorded in the Finsys, CONCORD, and Core-CT.

- 3. The Office of the Secretary of the State should determine which accounts are no longer eligible for refund and discontinue reporting the balances as unearned revenue. The office should ensure that it accurately reports and supports deferred revenue to the Office of the State Comptroller.**

Comment:

Our review noted that there were unsupported unearned revenue amounts reported to the Office of the State Comptroller for fiscal year 2020. It also appears that approximately half of the unearned revenue balance is more than ten years old and may no longer be eligible for refund.

- 4. The Office of the Secretary of the State should strengthen internal controls to ensure that inventory records of merchandise for sale are accurate, complete and comply with the State Property Control Manual.**

Comment:

The office's inventory records of merchandise for sale were inaccurate and incomplete. Our review also found that the office did not perform adequate physical inventories of merchandise for sale during the audited period.

- 5. The Office of the Secretary of the State should abide by the State Property Control Manual policies and procedures and strengthen internal controls to ensure that the balances the office discloses on its property control reports are accurate and supported.**

Comment:

Our review noted that the office did not support all of the amounts it reported on its property control report.

- 6. The Office of the Secretary of the State should perform a complete physical inventory and update its records in Core-CT to reflect an accurate equipment balance.**

Comment:

Our review noted that the office reported several items as part of its equipment balance in Core-CT that were no longer in its possession.

- 7. The Office of the Secretary of the State should strengthen internal controls to ensure that it completes and submits all required reports on time. Management should implement procedures to ensure that it tracks mandated reports and maintains evidence of their submission.**

Comment:

The office did not file its annual report to the Office of the Governor in accordance with Section 4-60 of the General Statutes for the fiscal year ended June 30, 2020.

**ACKNOWLEDGEMENTS**

The Auditors of Public Accounts 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.

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

Thomas Caruso  
Matthew Wood

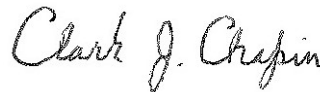


Matthew Wood  
Associate Auditor

Approved:



John C. Geragosian  
State Auditor



Clark J. Chapin  
State Auditor