
OFFICE OF THE SECRETARY OF STATE
MANAGEMENT COMMENTS

November 2001

Ernest A. Almonte, CPA, CFE
Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

November 1, 2001

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood

Senator William V. Irons
Senator Dennis L. Algieri
Representative Gerard M. Martineau
Representative Robert A. Watson

We audited the Statement of Appropriations, Expenditures Paid and Available Appropriations for the period July 1, 2000 to January 10, 2001 and issued our report thereon dated May 4, 2001. During our audit we noted certain matters involving compliance, internal controls and other operational matters that are presented herein. These comments and recommendations are intended to enhance compliance with laws, regulations and contracts, improve internal control, or result in other operational efficiencies.

We obtained the views of both the current Office of the Secretary of State and the prior administration (prior to January 10, 2001). A summary of their views is presented after each recommendation.

Sincerely,

Ernest A. Almonte, CPA, CFE
Auditor General

FINDINGS AND RECOMMENDATIONS

SOLE SOURCE PROCUREMENTS

The Office of the Secretary of State lacks adequate internal controls to ensure compliance with the sole source provision of the state purchasing statute.

Two sole source procurements were made without obtaining the Division of Purchasing's approval prior to ordering the goods or services as required by state law. Section 37-2-21 of the General Laws in essence stipulates that noncompetitive procurements be authorized by the chief purchasing officer or purchasing agent prior to ordering the goods or services.

One purchase involved an \$18,360 payment to a computer consultant for programming related services and the other purchase involved a \$2,541 for custom-made file folders. In the case of the computer consultant, the consultant was paid in prior fiscal years as a contact employee with terms defined through a master purchase agreement. When the master purchase agreement expired, the consultant was deemed a sole source vendor. In each instance, state purchase requisitions should have been submitted to the Division of Purchasing for pre-approval before entering into agreements with the vendors to provide goods or services.

RECOMMENDATION

1. Implement control procedures to ensure compliance with the sole source provision of section 37-2-21 of the General Laws.

Auditee Views:

The Office of Secretary of State concurs with this recommendation.

CASH RECEIPTS

The Office of the Secretary of State does not have adequate internal control procedures to ensure that all receipts are properly recorded and deposited in the bank. The Secretary of State needs to develop a strong system of receipt processing controls, because it handles a high volume of different fees, yielding revenues in excess of \$4 million annually.

Cash registers are not used to record transactions upon receipt, nor are receipts balanced to source documents to ensure all receipts are accounted for. Manual pre-numbered receipt books are used for many types of transactions, but not for the high volume fees, such as, corporation annual report fees. Even when used, receipt books do not provide adequate control for the volume and amount of receipts processed by the Office of the Secretary of State.

Too many individuals handle these cash receipts. Approximately nineteen individuals are involved, which further weakens internal control. Processing controls should be strengthened by reducing the number of individuals with access to cash receipts. We believe this could be accomplished by streamlining and centralizing the cash receipt collection function.

RECOMMENDATIONS

2. Utilize a cash register to provide improved control over receipt processing.
3. Centralize and streamline the receipt collection functions and significantly reduce the number of individuals with access to cash receipts.

Auditee Views:

The prior Secretary of State requested funding for implementation of a cash management system for the Corporation's Division without success. The current Office of the Secretary of State has begun to reorganize the cash receipt function and acquire additional equipment to automate cash handling within the Division. Additional funding will be sought in the current year's supplemental budget process.

The internal receipt accounting database does not contain receipt adjustment activity and is not adequately reconciled to the bank records and to the state accounting system. The receipt accounting database is also not reconciled to cashier transmittals and receipts books by someone without access to cash receipts.

Responsibilities for certain receipt handling and accounting functions are not properly segregated. The same individual who prepares deposits also records transactions in the receipt accounting database, prepares receipt vouchers and handles the accounting and collection activities for checks returned by the bank because of insufficient funds.

RECOMMENDATIONS

4. Include all receipt activity in the receipt accounting database and perform proper reconciliations between the database, bank records and state accounting system.
5. Segregate cash receipts functions properly.

Auditee Views:

The prior Secretary of State requested funding for implementation of a cash management system for the Corporation's Division without success. The current Office of the Secretary of State has begun to reorganize the cash receipt function and acquire additional equipment to automate cash handling within the Division. Additional funding will be sought in the current year's supplemental budget process.

Controls are not adequate to ensure that all corporate annual report receipts received are recorded and deposited. Corporate annual report fees are batched for deposit. The corresponding annual reports are not batched; instead they are filed alphabetically. Receipt batch totals are not verified to the total due per the corresponding annual reports to ensure that all receipts collected are properly recorded and deposited. Since annual reports are not filed by batch there is no audit trail to allow subsequent verification.

In addition, we were informed that during the annual filing season, corporate annual report receipts may be not be processed and deposited in the bank for weeks after being received at the corporations division. Personnel explained that the volume is too high during filing season with current assigned staff to process these receipts timely.

Section 11-28-1 of the General Laws requires that all state funds be deposited in the bank within seven business days of receipt. The division should take the necessary steps to comply with state law.

RECOMMENDATIONS

6. Improve control procedures to ensure that all receipts received are properly recorded and deposited.
7. Deposit all cash receipts timely in accordance with state law.

Auditee Views:

The prior Secretary of State requested funding for implementation of a cash management system for the Corporation's Division without success. The current Office of the Secretary of State has begun to reorganize the cash receipt function and acquire additional equipment to automate cash handling within the Division. Additional funding will be sought in the current year's supplemental budget process.

PENALTIES

Corporations are required to file an annual report with the Secretary of State by March 1 of each year. Corporations failing to submit annual reports by the due date are subject to a penalty, assessed by the Tax Administrator, equal to 10% of the corporation's franchise tax. We found that penalties are not assessed as required by Section 7-1.1-128 of the General Laws. We were informed that the thirty two-year-old law was never implemented, because it was not practical or cost effective for the State to enforce. Given those limitations, the Secretary of State in conjunction with the Tax Administrator should seek to revise the law such that it can be implemented and enforced.

RECOMMENDATION

8. Seek to revise the statute requiring, in conjunction with the Tax Administrator, the assessment of penalties for failure to file an annual report by March 1 such that it can be implemented and enforced.

Auditee Views:

The Office of the Secretary of State concurs with this recommendation. The current administration believes that a flat rate penalty may be easier to administer rather than a percentage of the corporation's franchise tax.

EMPLOYEE TIMESHEETS

The Secretary of State needs to ensure that all employees submit timesheets on a bi-weekly basis to provide adequate support for payroll and to allow timely adjustments to payroll and employee leave when applicable. Although the majority of employees did submit their timesheets as required, we did find a few exceptions.

RECOMMENDATION

9. Implement control procedures to ensure that all employees submit timesheets as required.

Auditee Views:

The Office of the Secretary of State concurs with this recommendation.

EMPLOYEE SALARY CHARGES

We found some inconsistencies between where employee salaries were budgeted, and/or charged and where employees were actually working. Costs should be charged to the appropriate division or account based on the actual work performed. When this differs from where positions were budgeted, the Budget Office should be requested to make budget reallocations as required.

RECOMMENDATION

10. Charge employee salaries to the appropriate division or account based on the actual work performed. Request budget reallocations when budget positions differ from the actual assignment of personnel.

Auditee Views:

The Office of the Secretary of State concurs with this recommendation.

CELL PHONE USE

Internal controls over employee use of state-owned cell phones require improvement. We noted numerous instances where usage appeared either inappropriate or excessive. For instance, department records indicate a former employee was inappropriately allowed to continue using a department cell phone at State expense for several months after leaving State employment. In several instances we noted actual monthly charges for some individuals in excess of \$100 in some months. For one user charges reached as high as \$630 in one month with many calls made outside normal business hours.

The Secretary of State has no written policies and procedures identifying the prerequisites for authorizing assignment of cell phones to employees and specifying acceptable employee use of assigned cell phones. We believe these policies and procedures should be immediately developed and incorporated into written statements for employees to agree to and sign upon receiving authorization to use a state-owned cell phone.

RECOMMENDATIONS

11. Establish written administrative policies and procedures for assignment and acceptable employee use of state-owned cell phones.
12. Monitor compliance with policies and procedures established by the Secretary of State for cell phones assigned to employees.

Auditee Views:

The Office of the Secretary of State concurs with this recommendation.

PROMOTIONAL FLAGS AND PINS

We found the Secretary of State purchased certain promotional materials through the State House gift shop rather than purchasing them directly from other retailers at a potentially lesser cost. The Secretary of State provides these complimentary state rooster flags to non-profit organizations and state rooster pins to tourists upon request. The practice of purchasing these promotional materials through the gift shop should be re-examined to ensure that state purchasing laws are followed and the lowest possible pricing is obtained.

RECOMMENDATION

13. Re-examine promotional material purchasing practices to ensure compliance with state purchasing laws.

Auditee Views:

The Office of the Secretary of State concurs with this recommendation but notes that this type of purchase may be entitled to the procurement preference cited in General Law section 37-2.2-3 “Preference for products and services produced by persons with disability”.