

GA 2/100.2/ST2/1976-77

c.1

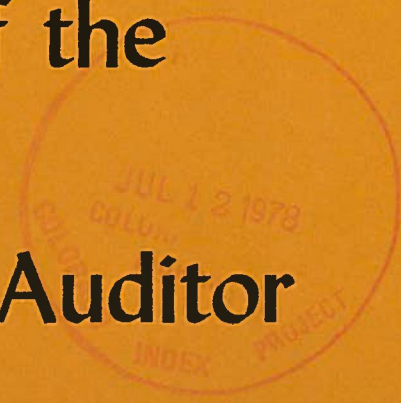
COLORADO STATE PUBLICATIONS LIBRARY local
GA2/100.2/ST2/1976-77
Colorado. Office of Department of State,



3 1799 00033 4805

Report of the

State Auditor



DEPARTMENT OF STATE
REPORT OF STATE AUDITOR
YEARS ENDED JUNE 30, 1977 and 1976

STATE of COLORADO
Denver

STATE OF COLORADO
DEPARTMENT OF STATE
REPORT OF STATE AUDITOR
YEARS ENDED JUNE 30, 1977 AND 1976

Copies of this report have been distributed to:

Legislative Audit Committee (10)

Joint Budget Committee (3)

Honorable Richard D. Lamm, Governor

Honorable Mary Estill Buchanan (3)
Secretary of State

Office of State Planning and Budgeting (2)

Department of Administration
State Controller (2)
Management Services
Division of ADP

State Archivist (permanent copy)

State Library, Department of Education

STATE OF COLORADO
DEPARTMENT OF STATE
REPORT OF STATE AUDITOR
YEARS ENDED JUNE 30, 1977 AND 1976

TABLE OF CONTENTS

	<u>PAGE</u>
Audit Report Digest.....	1
Transmittal Letter.....	3
Auditor's Comments:	
Purpose and Scope of Audit.....	4
Current Comments and Recommendations.....	6
Disposition of Prior Recommendations.....	13
Organization and Functions of the Department.....	16
Department Response.....	19

STATE OF COLORADO
DEPARTMENT OF STATE
YEARS ENDED JUNE 30, 1977 AND 1976
AUDIT REPORT DIGEST

PURPOSE AND SCOPE OF AUDIT

The purpose of this audit was to:

- . review and evaluate internal controls and observe certain operating and administrative procedures;
- . audit financial transactions and related activities on a test basis;
- . evaluate compliance with state statutes and fiscal rules of a financial nature;
- . review implementation of the recommendations included in the prior audit report.

SUMMARY OF CURRENT YEAR COMMENTS

The review of accounting and administrative controls and procedures in effect at the Department of State for fiscal years 1977 and 1976 disclosed instances in which accounting and administrative controls should be improved.

This report includes 15 recommendations for improvement in the following areas:

Receipts - Internal controls over revenue and related cash collections were inadequate to ensure that all receipts were deposited and recorded.

Merchandise Inventory - Accounting and physical controls need to be improved. Certain accounting policies should be clarified with the State Controller.

Expenditures - Personnel and payroll functions were not adequately separated, security over employee personnel data was weak, temporary employees were improperly classified, and certain expenditures were made without proper review and compliance with State Controller and Division of Purchasing directives.

Accounting Policies and Procedures - The Department needs an accounting manual, as required by State Fiscal Rules.

SUMMARY OF PROGRESS IN IMPLEMENTING
PRIOR AUDIT RECOMMENDATIONS

The disposition of prior audit recommendations at April 20, 1978 was as follows:

Implemented	15
Not Implemented	7
Partially Implemented	<u>3</u>
	<u>25</u>



STATE OF COLORADO
OFFICE OF STATE AUDITOR

ROBERT J. SCOTT, C. P. A.
State Auditor

ROOM 601, 1200 LINCOLN STREET
DENVER, COLORADO 80203

April 20, 1978

Legislative Audit Committee
1200 Lincoln Street, Suite 601
Denver, Colorado 80203

Members of the Legislative Audit Committee:

Attached is our report on the examination of the Department of State's financial records for the years ended June 30, 1977 and 1976. Financial statements and auditor's opinion are not included as the Department's financial transactions are included as a part of the financial statements of the State General Fund. This report presents findings and recommendations for improving the Department's financial operations.

Respectfully submitted,

ROBERT J. SCOTT, CPA
State Auditor

STATE OF COLORADO
DEPARTMENT OF STATE
YEARS ENDED JUNE 30, 1977 AND 1976
AUDITOR'S COMMENTS AND RECOMMENDATIONS

PURPOSE AND SCOPE OF AUDIT

The scope of this audit included a review of the agency's control and management of the following:

	Year Ended June 30 <u>1977</u>	<u>1976</u>
Revenue Earned	\$2,430,255	\$2,412,767
Less: Deductions	(17,206)	-0-
Net Realized Revenue	<u>\$2,413,049</u>	<u>\$2,412,767</u>
Revised General Fund Appropriations	<u>\$1,144,564</u>	<u>\$ 933,688</u>
Expenditures	\$1,130,416	\$ 894,262
Roll Forwards	<u>12,855</u>	<u>24,913</u>
Total Expenditures and Roll Forwards	<u>\$1,143,271</u>	<u>\$ 919,175</u>
Total Assets	\$227,180	\$231,480
(including property, plant and equipment of)	<u>\$175,930</u>	<u>\$175,735</u>

Our examination included:

1. Reviewing and evaluating internal controls and observing certain operating and administrative procedures.
2. Auditing financial transactions and related activities on a test basis.
3. Evaluating compliance with state statutes and fiscal rules of a financial nature.
4. Reviewing implementation of recommendations included in the prior audit report.

Our study and evaluation was not designed for the purpose of expressing an opinion on internal accounting controls, and it would not necessarily disclose all weaknesses in the systems. However, the study and evaluation did disclose conditions that are discussed in the following sections of this report.

STATE OF COLORADO
DEPARTMENT OF STATE
YEARS ENDED JUNE 30, 1977 AND 1976
AUDITOR'S COMMENTS AND RECOMMENDATIONS

I. RECEIPTS

Weaknesses in the Department's receipting and cash control system were discussed in our prior audit report. Beginning January 1, 1977, corporate annual report fees were received and deposited by the United Bank of Denver (UBD) in accordance with a lock box arrangement.

A. Annual report fees transferred between the Department and UBD were not recorded to ensure that remittances were ultimately deposited with the State Treasurer.

B. Timely deposits of recorded receipts were not made as required by a directive issued by the State Controller August 23, 1976.

C. Receipts issued were not reviewed centrally and some were undated and/or unsigned. A recommendation is not included as these receipt forms were discontinued July 1, 1977.

D. Receipts and validation tapes were changed without an explanation of who made the change, authorized the change, or why the change was made.

E. Reservation of Corporate Name reports were destroyed 120 days after they were filed and were not available to document the related receipts.

Recommendations

1. Implement a control mechanism to ensure the initial recording of all receipts.

DEPARTMENT'S RESPONSE: To be implemented July 1, 1978.

2. Process deposits in accordance with the State Controller's directive of August 23, 1976.

DEPARTMENT'S RESPONSE: To be implemented July 1, 1978.

3. Require authorized signatures and explanations for all changes to receipt documents and validating machine tapes.

DEPARTMENT'S RESPONSE: To be implemented July 1, 1978.

4. Comply with section 24-80-103, C.R.S. 1973 by retaining Reservation of Corporate Name reports.

DEPARTMENT'S RESPONSE: Implemented March 7, 1978.

II. MERCHANDISE INVENTORY

The Department assigns a low priority to accounting for resale inventories.

A. Perpetual inventory records were not maintained. The recorded inventory balance at June 30, 1976, did not reconcile to the inventory balance at July 1, 1976, by \$19,360.

B. Access to the storeroom and storekeeper counts were not controlled.

C. A physical inventory summary was not submitted to the State Controller as required by year-end closing instructions.

D. Accounting for cost of sales requires clarification. The current policy for charging cost of sales directly against revenue accounts is at variance with generally accepted accounting principles and the State Controller's year-end closing instructions.

Recommendations

5. Maintain adequate perpetual records for material resale inventory items.

DEPARTMENT'S RESPONSE: To be implemented June 30, 1978.

6. Improve accounting and physical controls over resale inventory.

DEPARTMENT'S RESPONSE: To be implemented June 30, 1978.

7. Comply with State Controller's year-end closing instructions.

DEPARTMENT'S RESPONSE: Implemented May 1, 1978.

8. Clarify the current method for reporting cost of sales with the State Controller.

DEPARTMENT'S RESPONSE: Implemented May 1, 1978.

III. EXPENDITURES

Internal controls over expenditures should be improved to ensure that errors and unauthorized payments do not occur.

A. The same individual prepared the payroll vouchers, received and distributed payroll warrants and handled employee complaints.

B. Personnel history files and employee data sheets were not secured to prevent misuse or unauthorized alteration.

C. Employee data sheets, used to initiate changes to the state payroll master file, did not appear to have been reviewed.

D. The Department did not review Personnel to Payroll Variance Reports which show variances between pay rates and amounts paid to employees.

E. The Department classified "emergency" employees as independent contractors and paid their wages on non-payroll vouchers in violation of State Fiscal Rules. Work performed was not under contract, wages were not entered into the State payroll system, and payroll taxes were not withheld.

III. (Continued)

F. Vouchers totalling over \$271,000, primarily for election expense, were paid in fiscal year 1976/77 without a contract in violation of State Fiscal Rules. State Purchasing approval for the recurring election advertising expense of \$269,800 could not be documented.

G. Fiscal year 1975/76 capital expenditures for the purchase of office furniture were reported as rent expense of fiscal year 1974/75. Charging these expenditures to the proper account would have resulted in a line item overexpenditure of \$1,600 in fiscal year 1975/76.

Recommendations

9. Improve internal control over payroll by separating warrant distribution duties and payroll related duties.

DEPARTMENT'S RESPONSE: To be implemented July 1, 1978.

10. Control employee personnel history files and data sheets.

DEPARTMENT'S RESPONSE: Rejected. See page 19.

11. Investigate and clear variances on the Personnel to Payroll Variance reports.

DEPARTMENT'S RESPONSE: Implemented March 1, 1978.

12. Process all employee pay through the state payroll system and clarify the Department's responsibility for withholding tax from emergency employees' wages.

DEPARTMENT'S RESPONSE: Implemented May 1, 1978.

13. Obtain Division of Purchasing approval for payment of recurring election advertising expenditures.

DEPARTMENT'S RESPONSE: To be implemented July 1, 1978.

14. Support all expenditures with adequate documentation.

DEPARTMENT'S RESPONSE: Implemented July 1, 1977.

IV. ACCOUNTING POLICIES AND PROCEDURES

A. The Department did not have written procedures for recording accruals at fiscal year end to ensure that significant amounts were not overlooked.

B. The Department did not have written accounting policies and procedures as required by State Fiscal Rules. The Department had difficulty in furnishing data related to the audit period. A policy and procedures manual would provide a useful tool to determine if functions were performed as prescribed and to assist in training new employees.

The Department started compiling a procedures manual in November, 1977.

15. Complete the accounting procedures manual required by State Fiscal Rules.

DEPARTMENT'S RESPONSE: To be implemented July 1, 1978.

STATE OF COLORADO

DEPARTMENT OF STATE

JUNE 30, 1977

PRIOR YEAR RECOMMENDATIONS AND THEIR DISPOSITION

AT APRIL 20, 1978

Following is a summary of prior year recommendations and their disposition at April 20, 1978:

<u>Recommendations</u>	<u>Disposition</u>
1. Establish an adequate accounting system to control both cash and non cash transactions. This will require a heightened concern by the Secretary of State to establish adequate controls including implementation of audit recommendations.	Partially implemented.
2. Deposit remittances related to rejected corporate annual reports on a current basis and make any subsequent refunds by the issuance of a regular State voucher or obtain written approval from the State Controller for an alternative special procedure.	Not implemented. See current year comments page 6 .
3. Centralize the cash receipting function for all divisions with the Department's cashier. All payments and documents should go directly from the mail clerk to the cashier and payments made in person should be made directly to the cashier.	Implemented.
4. Deposit all payments daily and intact as required by the State Fiscal Rules.	Not implemented. See current year comments page 6 .
5. Implement a standard policy for receipting the many different types of payments received by the Department.	Implemented.

- | | | |
|-----|---|--|
| 6. | Require authorizing signatures and explanations for all changes on receipts prepared for payments received, and on validating machine tapes. | Not implemented. See current year comments page 6. |
| 7. | Document preparation and reconciliation of the daily deposit with the State Treasurer. | Implemented. |
| 8. | Obtain proper validation on all deposits with the State Treasurer. | Implemented. |
| 9. | The Department should attempt to have the above statute amended to allow credit extension or cease doing work on a credit basis. | Implemented. |
| 10. | If the Department continues to have accounts receivables, they should be properly maintained and recorded in the accounting records. | Implemented. |
| 11. | Returned checks should be handled by someone not having access to cash remittances. | Not implemented. |
| 12. | Reconcile the inventory audit listing, physical count, capital outlay expenditures and additions and disposal actions annually to insure an accurate valuation of fixed assets. | Not implemented. |
| 13. | Update the inventory listings to accurately reflect locations and users of fixed assets. | Not implemented. |
| 14. | Determine, with the help of the Division of Purchasing, the amount of property insurance coverage needed. | Implemented. |
| 15. | Delete the cost of recovering the sofa from the inventory audit listing. | Implemented. |
| 16. | Take a physical merchandise inventory at June 30 and record it in accordance with the State Fiscal Rules. | Implemented. |

- | | |
|---|--|
| 17. Adequate records of sales and give-aways should be kept. | Not implemented. See current year comments page 8. |
| 18. Count and record cash at June 30 in accordance with the State Fiscal Rules. | Partially implemented. |
| 19. Separate the custodial and cash receipting functions. | Implemented. |
| 20. Stamp the receiving date on annual reports for use in penalty assessments. | Implemented by alternative procedure. |
| 21. Improve procedures for the collection of penalties and fees. | Implemented. |
| 22. Use receiving reports for goods received or obtain approval from the State Controller to use a receiving stamp. | Implemented. |
| 23. Improve procedures for documenting the date of receipt and the identity of the employee receiving goods. | Implemented. |
| 24. Maintain a log of all long distance telephone calls for comparison to the monthly billing. | Implemented. |
| 25. Obtain approval of any future record destruction from the Division of State Archives and Public Records. | Partially implemented. |

STATE OF COLORADO
DEPARTMENT OF STATE
JUNE 30, 1977
ORGANIZATION AND FUNCTIONS

The Department of State, headed by the Secretary of State, is defined by the Administrative Organization Act of 1968, section 24-1-111, C.R.S. 1973. Major Departmental functions include supervision, administration, interpretation, and enforcement of the Colorado Corporations Code, the Colorado Election Code, the Voter Registration Law, the Campaign Reform Act, the Sunshine Law, the Uniform Commercial Code, the Bingo and Raffles Law, and the filing of bonds and/or licensing of Notaries Public, Dance Schools, and Fireworks Manufacturers and Wholesalers; in addition to these functions, the Department serves as the depository for many official records and documents of State government.

Report Page Ref.	No.	DEPARTMENT OF STATE	See Comments	Requires Legislative Action **	Implemented*	To Be Implemented*	Deferred **	Rejected **
7	1.	Implement a control mechanism to ensure the initial recording of all receipts.				7-01-78		
7	2.	Process deposits in accordance with the State Controller's directive of August 23, 1976.				7-01-78		
7	3.	Require authorized signatures and explanations for all changes to receipt documents and validating machine tapes.				7-01-78		
7	4.	Comply with section 24-80-103, CRS 1973 by retaining Reservation of Corporate Name reports.			3-07-78			
8	5.	Maintain adequate perpetual records for material resale inventory items.				6-30-78		
8	6.	Improve accounting and physical controls over resale inventory.				6-30-78		
8	7.	Comply with State Controller's year-end closing instructions.			5-01-78			
9	8.	Clarify the current method for reporting cost of sales with the State Controller.			5-01-78			
10	9.	Improve internal control over payroll by separating warrant distribution duties and payroll related duties.				7-01-78		
10	10.	Control employee personnel history files and data sheets.						XX See page 1'
10	11.	Investigate and clear variances on the Personnel to Payroll Variance reports.				3-01-78		

Report Page Ref.	No.	DEPARTMENT OF STATE	See Comments	Requires Legislative Action **	Implemented*	To Be Implemented*	Deferred **	Rejected **
11	12.	Process all employee pay through the state payroll system and clarify the Department's responsibility for withholding tax from emergency employees' wages.			5-01-78			
11	13.	Obtain Division of Purchasing approval for payment of recurring election advertising expenditures.				7-01-78		
11	14.	Support all expenditures with adequate documentation.			7-01-77			
12	15.	Complete the accounting procedures manual required by State Fiscal Rules.				7-01-78		

MARY ESTILL BUCHANAN
Secretary of State
State Capitol Building



DEPARTMENT OF STATE
1575 Sherman Street - Second Floor
Denver 80203

June 28, 1978

ADMINISTRATION	892-2761
CORPORATIONS	892-2361
ELECTIONS	892-2041
LICENSING	892-2461
LOBBYIST REGISTRATION	892-2021
NOTARIES PUBLIC	892-2355
UNIFORM COMMERCIAL CODE	892-2563
SECRETARY OF STATE	892-2762
DEPUTY	892-3301

Area Code 303

Recommendations answer by Department

10. All employee data sheets with changes have been and are reviewed by the Administrative Officer prior to signing the payroll authorization. The computer printout of the payroll was also, reviewed prior to release of any payroll warrants. In the future we will initial all data sheets to prove review.