

# REPORT DIGEST

## OFFICE OF THE SECRETARY OF STATE

### FINANCIAL AUDIT For the Year Ended: June 30, 2009 and COMPLIANCE EXAMINATION For the Two Years Ended: June 30, 2009

#### Summary of Findings:

Total this audit: 8

Total last audit: 6

Repeated from last audit: 4

Release Date:  
May 13, 2010



State of Illinois  
Office of the Auditor General  
**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## SYNOPSIS

- The Secretary of State did not have adequate review procedures in place to ensure the Office's annual financial statements were accurately prepared.
- The Secretary of State did not have adequate internal controls to ensure accounts receivable were accurately reported.
- The Secretary of State did not require its employees to timely attest to the accuracy of their attendance records in compliance with the State Officials and Employee Ethics Act.
- The Secretary of State had not assured adequate Office-wide procedures existed for disposal of confidential information.

{Receipts, Expenditures and Activity Measures are summarized on the reverse page.}

**SECRETARY OF STATE**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**For The Two Years Ended June 30, 2009**

| RECEIPT/EXPENDITURE STATISTICS                       | FY 2009         | FY 2008         | FY 2007         |
|--|-----------------|-----------------|-----------------|
| • Total Cash Receipts (All Funds) .....              | \$2,005,512,181 | \$2,071,706,322 | \$2,039,119,437 |
| • Total Expenditures (All Funds) .....               | \$530,808,857   | \$527,039,127   | \$520,355,963   |
| <b><u>OPERATIONS</u></b>                             |                 |                 |                 |
| Personal Services.....                               | \$169,683,445   | \$174,764,272   | \$168,797,954   |
| % of Total Expenditures .....                        | 32.0%           | 33.2%           | 32.4%           |
| Average No. of Employees                             |                 |                 |                 |
| Regular Positions .....                              | 3,559           | 3,698           | 3,593           |
| Extra Help.....                                      | 437             | 400             | 416             |
| Average Salary per Regular Position .....            | \$49,309        | \$47,671        | \$46,150        |
| Other Payroll Costs (FICA, Retirement) .....         | \$49,158,610    | \$43,187,198    | \$32,816,636    |
| % of Total Expenditures .....                        | 9.3%            | 8.2%            | 6.3%            |
| Contractual Services .....                           | \$32,004,011    | \$32,335,126    | \$32,165,422    |
| % of Total Expenditures .....                        | 6.0%            | 6.1%            | 6.2%            |
| Lump Sum Payments .....                              | \$43,042,644    | \$28,644,124    | \$29,912,297    |
| % of .....   | 8.1%            | 5.4%            | 5.7%            |
| All Other Operations Items.....                      | \$19,027,955    | \$23,962,622    | \$23,239,829    |
| % of Total Expenditures .....                        | 3.6%            | 4.6%            | 4.5%            |
| <b><u>AWARDS AND GRANTS TOTAL</u></b> .....          | \$211,986,146   | \$216,000,753   | \$225,183,881   |
| % of <b>Total</b> Expenditures .....                 | 39.9%           | 41.0%           | 43.3%           |
| <b><u>REFUNDS &amp; PERMANENT IMPROVEMENTS -</u></b> |                 |                 |                 |
| <b><u>TOTAL</u></b> .....                            | \$5,906,046     | \$8,145,035     | \$8,239,944     |
| % of <b>Total</b> Expenditures .....                 | 1.1%            | 1.5%            | 1.6%            |
| • Cost of Property and Equipment (Cash basis) .....  | \$499,505,500   | \$488,248,107   | \$476,245,342   |

| SELECTED ACTIVITY MEASURES (unaudited)         | FISCAL YEAR |           |           |
|--|-------------|-----------|-----------|
|  | 2009        | 2008      | 2007      |
| • Passenger Car Plates .....                   | 7,986,764   | 8,060,926 | 8,023,508 |
| • Truck and Bus Plates.....                    | 1,836,208   | 1,877,417 | 1,884,152 |
| • Driver's Licenses .....                      | 3,320,510   | 3,409,710 | 3,259,258 |
| • Driver's Histories.....                      | 5,412,886   | 5,718,973 | 5,628,565 |
| • Registered Corporations .....                | 385,948     | 382,413   | 374,096   |
| • Equity Securities Registered (billions)..... | \$ 71.0     | \$87.0    | \$127.0   |

**AGENCY HEAD**

During Audit Period: Honorable Jesse White  
Currently: Honorable Jesse White

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**LACK OF FINANCIAL REPORTING REVIEW PROCEDURES**

The Office of the Secretary of State (Office) did not have adequate review procedures in place to ensure the Office's annual financial statements were accurately prepared.

The Office's financial statements were adjusted for the following reporting errors identified by our audit:

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**Adjustment to financial statement to record a federal grant receivable of \$1 million**

- An adjustment was made to record revenues receivable from the federal government at June 30, 2009, related to a federal grant program. The amount of the adjustment was \$1.086 million.

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**Reclassification of fund balance of \$64 million**

- A classification error was identified requiring an adjustment to report the fund balance totaling \$64.275 million, of the State Construction Account, Fund #0902, as unreserved fund balance rather than unrestricted net assets.

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**Internal controls did not detect errors**

The errors identified above were an oversight by the Office. Although the Office's records accurately accounted for the above noted items, its internal controls did not provide for detection of the errors by management in its preparation of the Office's financial statements. (Finding #1, page 12)

We recommended the Office continue in its efforts to implement internal control procedures to assess the risk of material misstatements of the Office's financial statements and to identify such misstatements during the financial statement preparation process.

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**Recommendation to implement controls accepted**

Secretary of State's Office officials accepted the auditor's recommendation and stated that it would continue to look for ways to improve internal control procedures over the preparation and review of its financial statements.

## **CONTROLS OVER REPORTING ACCOUNTS RECEIVABLE NEED IMPROVEMENT**

The Office of the Secretary of State (Office) did not have adequate internal controls to ensure accounts receivable were accurately reported. Also, the Office lacked effective methods of estimating the uncollectible portion of its accounts receivable.

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**Balance collected of \$2.1 million erroneously reported as receivable**

The Office's accounts receivable listing from its Securities Division erroneously reported a balance of approximately \$2.1 million at June 30, 2009 that had actually been received. In addition, the method used by the Office to estimate the portion of its accounts receivable that are not collectible was not adequate to provide for a reasonable estimate.

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**Methodology to estimate uncollectible receivables had not been reviewed**

Office management stated that the error in its accounts receivable reporting was due to the oversight of the individual preparing the information and that controls to identify the error were not adequate. With regard to the failure to reasonably estimate its uncollectible accounts receivable, Office management stated that the method applied had been recommended to them by a consultant several years ago. However, this methodology had not been reviewed on an annual basis to determine whether it remained valid and appropriate for the circumstances. (Finding 2, page 13)

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**The Office accepted our recommendation**

We recommended the Office implement procedures to ensure the accuracy of its accounts receivable reporting and annually assess its method of estimation of uncollectible accounts to provide for reasonable estimates.

Secretary of State officials accepted the recommendation and stated they would train fiscal staff responsible for accounts receivable reporting and develop procedures to ensure the accuracy of its reporting.

## **NONCOMPLIANCE WITH STATE OFFICIALS AND EMPLOYEE ETHICS ACT**

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**Employees not required to timely attest to their attendance records**

The Office of the Secretary of State (Office) did not require its employees to timely attest to the accuracy of their attendance records in compliance with the State Officials and Employees Ethics Act (Act).

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**Employee attestation to time required only annually**

During the current examination period, the Office implemented an automated timekeeping system whereby each department assigns the responsibility of recording attendance, for each employee in the department, to one timekeeper. However, employees were required to attest to the accuracy of the attendance records only on an annual basis.

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**The Office thought changes made had put it in compliance with the Act**

Office personnel stated that they had believed the changes implemented during the current examination period had placed the Office in compliance with the Act. (Finding #3, page 14) **This finding was first reported in 2005.**

We recommended the Secretary of State continue its efforts to comply with the State Officials and Employees Ethics Act and develop procedures that require timely attestation from its employees as to the accuracy of their record of time spent each day on official State business.

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**The Office accepted our recommendation**

Secretary of State officials accepted our recommendation and stated they have made many changes to the attendance system to meet the requirements under the Act. (For the previous Office response, see Digest Footnote #1)

## **INADEQUATE PROCEDURES FOR DISPOSAL OF CONFIDENTIAL INFORMATION**

The Secretary of State (Office) had not assured adequate Office-wide procedures existed for disposal of confidential information.

Although the Office had established some policies relating to the security of confidential information, the Office failed to establish and implement Office-wide procedures for adequately disposing of confidential information.

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**Procedures were informal for shredding confidential documents**

We found informal procedures existed for shredding confidential documentation and confidential documentation was not always secured prior to disposal. While performing walkthroughs at the Office we noted the following:

- At least 8 boxes of driver's license fee remittance forms containing personal and confidential

information were maintained within a hallway accessible by the public until they could be removed and disposed.

- Remittances and unendorsed checks received by the Office, which included persons name, address, bank routing numbers, etc. were not adequately secured when personnel left at the close of business.
- A room containing an incinerator used for disposing some confidential information was not secured.

Office personnel stated the rooms are left open for janitorial reasons and are secured by Office police once the janitors are completed. In addition, personnel believed the boxes placed in the hallway for disposal would be picked up and shredded within a reasonable time. (Finding #7, page 19)

We recommended the Office assess its procedures for safeguarding and subsequent disposal of all confidential information. Office-wide procedures for properly disposing confidential information should be established.

Secretary of State officials partially accepted this finding. Officials stated they have policies and procedures for disposal of confidential information. Also, there is a process in place to monitor compliance of these policies. Further, the Office has reviewed its access to the buildings and to areas containing confidential information and has made changes to limit access to confidential information where possible.

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**The office partially accepted  
our recommendation**

## **OTHER FINDINGS**

The remaining findings are reportedly being given attention by the Office of the Secretary of State. We will review progress toward implementing all recommendations in our next compliance examination.

## **AUDITORS' OPINION**

Our auditors stated the financial statements of the Office of the Secretary of State as of June 30, 2009, and for the year then ended are fairly presented in all material respects.

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WILLIAM G. HOLLAND, Auditor General

WGH:JAF:pp

## **SPECIAL ASSISTANT AUDITORS**

Sikich LLP were our special assistant auditors for this audit.

## **DIGEST FOOTNOTES**

### **#1 NONCOMPLIANCE WITH STATE OFFICIALS AND EMPLOYEE ETHICS ACT - Previous Office Response**

The Secretary of State office has accepted and has implemented the auditor's recommendation. The audit period for this finding ended June 30, 2007 at which time the Office of Secretary of State was in the process of revising the attendance system to reflect the presence of employees at work. The attendance system, which is computerized, was revised to require a code of "ED" to be entered on the system to reflect the presence of the employee on that particular day for the hours the employee was scheduled to work. If for some reason the employee took time off, the "ED" time would be altered to reflect the actual time worked plus identify the type of time the employee took for his or her absence. The change was made in direct relation to the audit finding requiring time to be kept in a positive manner.

In addition, it should be noted that for some time the Office of the Secretary of State has had employees keep their time, reporting his or her attendance on any given day. Specifically, almost two-thirds of Secretary of State employees are subject to an attendance mechanism in addition to the computerized attendance process that all employees use. Such mechanisms are varied and include but are not limited to time clocks, to signing in and out on computer programs and paper signed in and out sheets. The information is then stored by the employee's specific SOS department. These mechanisms were in place during the relevant audit period.

Therefore, the Secretary of State through the particular department processes and through the revisions to the computerized attendance system now meets the reporting requirements of the Act.