



Mary Taylor, CPA  
Auditor of State



OFFICE OF OHIO SECRETARY OF STATE

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report .....	1
Supplement to the Special Audit Report	
Background Information.....	3
Summary of Results	
Issue No. 1: Payroll Disbursements .....	4
Issue No. 2: Inventory .....	10
Issue No. 3: Non-Payroll Disbursements .....	12
Issue No. 4: Revenue.....	14

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Jennifer Brunner  
Ohio Secretary of State  
180 East Broad Street, 15<sup>th</sup> Floor  
Columbus, Ohio 43215-3726

Based on your request for an audit, we conducted a special audit of the Office of Ohio Secretary of State (Office) by performing the procedures enumerated in the attached *Supplement to the Special Audit Report* for the period July 1, 2006 through January 7, 2007 (the period), solely to document and evaluate processes and procedures, test internal controls, and select individual transactions for testing as determined necessary for the following financial cycles:

- Payroll disbursements, with an emphasis on the additional payments made to certain employees of former Secretary Blackwell's administration
- Inventory
- Non-payroll disbursements, with an emphasis on personal service contracts
- Revenue

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (January 2005). The procedures and associated findings are detailed in the attached *Supplement to the Special Audit Report*. A summary of our procedures and significant results follows.

We documented and evaluated the related processes and procedures, tested internal controls, and selected individual transactions for testing as determined necessary for each of the four financial cycles listed above. We expanded our testing of the payroll disbursements cycle to determine if terminated employees were removed from the payroll system on an approved effective date and on a timely basis, as well as to perform a more in-depth investigation of the additional payments made to certain employees of former Secretary Blackwell's administration. We expanded our testing of the non-payroll disbursements cycle to determine if disbursements for personal service contracts were supported by a contract agreement, the agreements contained all the required elements, and disbursements did not exceed the total amount for the award.

#### 1. Payroll disbursements cycle

We noted that one control procedure was not performed consistently during the period as indicated by the lack of evidence that reconciliation was performed between the time reports and leave/overtime forms. From the substantive test, we noted leave hours recorded in the payroll system did not agree with leave forms, current annual evaluations were not performed for all employees, and leave balance payouts or transfers to other agencies for terminating employees were not accurate.

We noted that former Secretary Blackwell approved additional payments in excess of regular salary to 19 unclassified employees exempt from collective bargaining. The Ohio Attorney General determined in Opinion No. 2007-010, issued May 23, 2007, that former Secretary Blackwell was without legal authority to award the additional payments, also described as "bonuses" and/or "severance" payments, in the manner in which they were awarded.

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We noted that, because of the manner in which the additional payments were processed, the employee and employer shares of contributions made to the Ohio Public Employees Retirement System (OPERS) were calculated on the employee's total gross earnings, including both the regular salary amount and the additional payment. This caused the employee and employer contribution shares to be higher than required. When this fact was later discovered, refunds were made to 13 of the 19 employees who received the additional payments for the employee share of contributions and to the Office for the employer share. However, the refunds were equal to the total OPERS contributions paid for that pay period, rather than just the portion of the contribution related to the additional payment. As a result, the refunds did not resolve the original excess contribution problem and, in some cases, further compounded the problem.

We issued findings for recovery, totaling \$80,534, against 17 former employees for public monies illegally expended, consisting of the net amount of each employee's respective additional payments, improper leave balance payouts, and incorrect OPERS contributions. We also issued related findings for recovery against former Secretary J. Kenneth Blackwell, former Chief Financial Officer Dilip Mehta, and their bonding company Travelers/St. Paul Fire and Marine Insurance Company, jointly and severally, for this same amount.

2. Inventory cycle

We did not note any deficiencies during the control test; however, we noted several exceptions during the substantive test we performed, including the same assets being recorded on both the active inventory list and the salvaged list. We also noted the Office had not complied with Ohio Revised Code section 117.17 by the departing head of the agency preparing the required letter of representations on agency belongings for the successor.

3. Non-payroll disbursements cycle

We noted that control procedures were not performed consistently during the period as indicated by purchase order, invoice, and payment request documents not being signed or approved. We did not note any errors during the substantive test for non-payroll disbursements; however, we noted that two of the 20 personal service contracts tested were missing the contract request forms.

4. Revenue cycle

We did not note any deficiencies or errors while performing the control or substantive tests.

On January 23, 2008, we held an exit conference with the following individuals representing the Office of the Secretary of State: Veronica Sherman, Chief Fiscal Officer; G. Thomas Worley, Chief of Staff; Gretchen Green, Director of Human Resources; and Eleanor Speelman, General Counsel.

The attendees were informed that they had five business days to respond to this Special Audit Report. A response was received from Veronica Sherman on February 1, 2008. The responses were evaluated and modifications were made to this report as we deemed appropriate.



**Mary Taylor, CPA**  
Auditor of State

March 10, 2008

## **Background Information**

As Ohio's chief election officer, the Secretary of State oversees the elections process and appoints the members of boards of elections in each of Ohio's 88 counties. All laws passed by the Ohio General Assembly, municipal charters, administrative rules adopted by agencies, and all executive orders issued by the Governor are filed with this office, as well. Jennifer Brunner was sworn in as Secretary of State on January 8, 2007. She succeeded J. Kenneth Blackwell in this elected position.

By letter dated February 5, 2007, Secretary Brunner requested the Auditor's Office perform a special financial audit of the Secretary of State's Office for the period July 1, 2006 through January 7, 2007. This period corresponds approximately to the last six months in office of J. Kenneth Blackwell, the previous Secretary of State. The letter stated that one of the reasons prompting this request was the discovery that former Secretary of State Blackwell had paid in excess of \$80,000 in additional payments to outgoing employees.

The auditors met with senior management of the Office of Secretary of State on May 21, 2007 to discuss the special audit and the areas to be examined. Both parties agreed the auditors would examine the following financial cycles:

- Payroll disbursements, with an emphasis on the additional payments made to outgoing employees
- Inventory
- Non-payroll disbursements, with an emphasis on personal service contracts
- Revenue

**Issue No. 1 – Document and evaluate processes and procedures, test internal controls, and select transactions for testing as determined necessary for the payroll disbursements financial cycle, with an emphasis on the additional payments made to certain employees of former Secretary Blackwell’s administration.**

**Procedures**

We documented the procedures the Secretary of State used over its payroll disbursements transaction processing cycle for the first half of fiscal year 2007. We identified and tested internal controls from the documented procedures.

We selected a number of payroll disbursements and tested them to determine if the disbursement was charged to the proper object code and fund; hours worked per the time sheet were posted to the payroll disbursement journal (PDJ) or payroll register; vacation, sick, and personal leaves used agreed to approved leave forms; the employee’s balance was properly adjusted for compensatory time or overtime earned or used; gross and net pay were properly calculated; net pay per the PDJ agreed to the warrant journal; Personnel Action (PA) classification agreed to the PDJ; a current annual evaluation was prepared for the employee; and no payroll costs were used for political party activity.

We selected a number of employees who terminated or separated from state employment during the audit period. For each employee tested, we located the PA form related to the separation and compared the separation date on the PA form to the PDJ. We also determined if the employee’s name was deleted from the subsequent payroll records, and the proper payout for accumulated leave balances was paid to the employee.

We selected all of the employees identified by the current administration and alleged to have received an additional payment referred to as a “bonus” or “severance pay”. We performed the following procedures:

- Reviewed the Secretary of State’s letter regarding bonuses (dated May 31, 2007), sent to the Auditor, and the related Ohio Attorney General Opinion No. 2007-010.
- Inquired with the payroll officer, human resources officer, and other appropriate Office employees and documented the Office’s general practice related to bonus payments (does the Office have a written policy, were bonuses paid previously, how frequently, to whom, etc.) and to these specific “bonuses”.
- Traced the employees who received a payment as listed in the letter with the related PDJ or Ohio Administrative Knowledge System (OAKS) Payroll Register to determine the accuracy of the names, amounts, and dates. Scanned the related and subsequent PDJ and Payroll Register for payments to other employees who were not included in the letter.
- Recalculated the amount of the payments paid based on the employee’s pay rate and number of hours paid. Verified the accuracy of the payment total by summing the amounts of the individual payments.
- Traced the payments to the warrant journal or download of expenditure transactions from CAS.
- Included all of the employees who received a payment within the terminated employees test to determine the correct amount of final payment due to leave balances and hours worked/paid.
- Verified the accuracy of assertions made in the Secretary of State’s letter or Attorney General opinion, including:
  1. Ohio Public Employees Retirement System (OPERS) determined the payments did not constitute earnable salary.
  2. An employee of the former administration completed forms indicating the payments constituted severance payments.
  3. “Bonuses” ranged in amount from one week to one month of the employee’s usual salary.



## Supplement to the Special Audit Report

4. All but one employee receiving a “bonus” terminated employment.
5. “Bonuses” were made to some but not all of the unclassified employees.
6. These employees were exempt from collective bargaining.
7. The employees provided nothing in return for the “bonus”, except the past performance of their duties.
8. Some employees receiving severance payments agreed not to accept unemployment benefits.

### Results

We noted one exception for one of the control procedures tested. For 1 of 20 (5%) items tested, the Payroll Manager did not reconcile the time reports to the leave/overtime forms to ensure completeness and accuracy prior to updating the on-line payroll system through DAS, as evidenced by checkmarks beside the hours on the bi-weekly/weekly payroll reports. Hours were check marked for only four of five days in one week; there wasn't a checkmark for the fifth day indicating review and reconciliation to the employee's sick leave.

We noted exceptions for two attributes tested in the payroll disbursements substantive test.

- For 1 of 13 (8%) items tested, the leave used per the employee's time sheet did not agree to the leave forms used to document the leave. The timesheets, as well as the payroll register, indicated the employee used 49 hours of vacation leave, while the leave forms requesting the leave indicated only 41 hours of vacation leave. This condition does not relate to an employee who received an additional payment.
- For 3 of 16 (19%) items tested, there was not a current annual evaluation located in the employee's personnel file. The last evaluation for one employee was from February 2005; the second from May 2005, and the third did not have any evaluations. For the two employees whose evaluations were found, they did not have an evaluation completed in over a year's time.

We noted the following exceptions related to our testing of either leave balance payouts to employees who separated from the Office during the audit period or leave balances for those individuals who received additional payments:

- For 17 of 21 (81%) employees tested, the employee's payout of leave balances was not accurate based upon records viewed on the PDJ and/or within the OAKS payroll system. Various inaccuracies were noted for vacation leave, sick leave and personal leave. Some errors were a direct result of the additional payments, which caused the employee's vacation leave, and some sick leave balances to increase improperly. Although we did not determine the related dollar amount, ORC section 145.01 (R)(2)(e) provides that part of the leave balance payouts (the part from current year accruals) is considered earnable salary and subject to OPERS payments as well.
- For 1 of 21 (5%) employees tested, the employee transferred agencies at the time of her separation from Office employment; thus, her leave balances carried forward and she did not receive a payout. However, we determined that her vacation leave balance at the time of transfer was 7.7 hours higher than she had earned due to the additional payment she received.
- There was one employee who received an additional payment but did not separate from the Office during the period. We determined that her vacation leave balance per the Office was 3.85 hours higher than the correct balance as of January 6, 2007, which was the last pay period during the period. This employee terminated employment with the Office on August 31, 2007.

We were able to confirm the assertions contained within Secretary Brunner's letter to the Auditor. We learned that these additional payments were handled differently than other “bonuses” previously paid during the Blackwell administration. In this case, the employee had a part in deriving the amount of the additional payment they received and the payments were disbursed through the regular payroll process rather than as a separate payment. We determined that the employees and amounts listed in the letter were accurate with one exception. One employee received an additional payment for \$40 instead of the intended 40 hours times his regular pay rate. We also learned that OPERS determined that the additional payments or “bonuses” were not

earnable salary and thus not subject to OPERS pension contributions. Contributions had been paid on the total payment, including both regular salary and additional payment amounts. When this was identified, the Brunner administration issued refunds to some of the recipients.

**Finding for Recovery – Employees Overpaid**

The current Secretary of State, Jennifer Brunner, requested a formal legal opinion from the Ohio Attorney General regarding expenditures made by former Ohio Secretary of State, J. Kenneth Blackwell, at the end of his administration. Secretary Blackwell approved payments in excess of regular salary for several unclassified employees exempt from collective bargaining. Described as “bonuses” or “severance” payments, the additional money was received by employees in the pay periods ended December 9, 2006 or December 23, 2006. The Ohio Attorney General determined in Opinion No. 2007-010, issued May 23, 2007, that former Secretary Blackwell was without legal authority to award the “bonus” and/or “severance” payments in the manner in which they were awarded. Based on this opinion, the payments must be returned.

In addition, because the payments were posted to the payroll system as additional regular hours worked, the payroll system improperly credited the employees with additional leave balance accruals for that pay period. Other circumstances were also identified where leave balances were not reported correctly. These factors resulted in the employees being paid more or less than what they had actually earned when leave balances were paid out at the time of an employee’s termination from the Ohio Secretary of State.

Finally, state employees who are members of the Ohio Public Employees Retirement System are required to make member contributions to OPERS each pay period. For the pay period when the additional payments were made, OPERS contributions were calculated on the employee’s total gross earnings, including both the regular salary amount and the additional payment. However, section 145.01 of the Ohio Revised Code provides that certain payments made at termination of employment, including severance payments, are not earnable salary and not subject to OPERS contributions. Thus, all employees who received the additional payment contributed excess OPERS contributions. Later, the excess contributions were identified and the Office made refunds to some (but not all) of the employees who received the additional payments. However, the refund was equal to the total OPERS contributions paid for that pay period, rather than just the portion of the contribution related to the additional payment. These two factors (original overpayment of OPERS contributions and related refunds) resulted in the employee’s retirement account being overstated or understated. In order to provide the correct amount of OPERS contributions for the pay period with the additional payment, the employee needs to either pay any remaining deficit or receive a refund for any remaining excess contributions.

As a result of the above occurrences, overpayments were made to the employees for the listed amounts as shown in the table which follows:

Item	Employee Name	Additional Payment	Leave Payouts	OPERS Contribution	Total
1	Deborah Burnstion-Donbraye	\$ 5,705.60	\$ (31.35)	\$ (454.20)	\$ 5,220.05
2	Sherri Dembinski	7,844.80	359.42	(706.04)	7,498.18
3	Mitziken Dunn	2,456.00	96.11	199.56	2,751.67
4	Judith Grady	5,942.40	(32.65)	198.36	6,108.11
5	Cassandra Hicks	7,449.60	387.41	(86.81)	7,750.20
6	James Hocker	3,684.80	(185.58)	331.63	3,830.85
7	Ray A. Jones	2,436.00	125.78	219.24	2,781.02
8	James F. Lee	4,411.20	177.29	42.06	4,630.55
9	Christopher Lobb	7,923.20	476.91	(348.23)	8,051.88
10	Dilip Mehta	7,764.80	1,633.00	306.70	9,704.57
11	Marty Nowell	3,411.84	(15.63)	(307.07)	3,089.14
12	Heidi F. Riggs	5,625.60	387.84	86.27	6,099.71
13	Rosemarie Smitherman	1,043.60	0.00	(93.92)	949.68
14	Mary C. Sparks	1,137.28	63.97	(102.36)	1,098.89

Supplement to the Special Audit Report

Item	Employee Name	Additional Payment	Leave Payouts	OPERS Contribution	Total
15	Carol A. Taylor	2,927.20	0.00	8.52	2,935.72
16	James H. Walker	4,924.80	444.18	(414.42)	4,954.56
17	Richard D. Weghorst	2,496.80	806.79	(224.71)	3,078.88
	Total	\$ 77,185.52	\$ 4,693.56	\$ (1,345.42)	\$ 80,533.66

In accordance with Ohio Revised Code section 117.28, we are issuing individual findings for recovery for public monies illegally expended against the 17 employees listed in the table above for the separate amount shown for each employee. The finding for recovery is also being issued against former Secretary J. Kenneth Blackwell, former Chief Financial Officer Dilip Mehta, and their bonding company Travelers/St. Paul Fire and Marine Insurance Company, jointly and severally, for the total amount listed in the table. All of these findings for recovery are against the named individuals and in favor of the Office of Ohio Secretary of State.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att’y Gen. No. 80-074.

Thus, former Secretary Blackwell and Dilip Mehta will be liable only to the extent that payments are not received from the listed 17 employees.

**Management Comments**

Employees Underpaid

Similar to the preceding finding for recovery comment, Secretary Blackwell approved payments in excess of regular salary for two additional unclassified employees exempt from collective bargaining. Also described as “bonuses” or “severance” payments, the additional money was received by the employees in the pay periods ended December 9, 2006 or December 23, 2006. The Attorney General determined in Opinion No. 2007-010, issued May 23, 2007, that former Secretary Blackwell was without legal authority to award the bonus and/or severance payments in the manner in which they were awarded. Based on this opinion, the additional payments must be returned.

In addition, similar to the preceding finding for recovery comment, both of these two employees were also affected by inaccurate leave balances at the time of the leave balance payouts and one of the employees had excess OPERS contributions paid for the pay period when the additional payment was received. Similar to the other 17 employees, the amount of the additional payment plus any variance for the improper leave balance payouts and OPERS contributions were used to determine the net amount to be repaid by the employee.

Unlike the other 17 employees, the net amount of the three factors used in the calculation produced a negative amount. This means that the employee paid more money than necessary and money is owed back to them. Two factors contributed to producing the negative amounts. One factor was that Charles LoParo received an additional payment of \$40 instead of the intended \$1,702; the second factor was that Jo-Ellyn Tucker repaid her additional money of \$1,298 in July 2007. The following table presents a more detailed analysis of the elements that produced the negative amounts.

Item	Employee Name	Additional Payment	Leave Payouts	OPERS Contribution	Total
1	Charles LoParo	\$ 40.00	\$ (214.63)	\$ 0.00	\$ (174.63)
2	Jo-Ellyn Tucker	Repaid	(155.65)	(116.82)	(272.47)

Supplement to the Special Audit Report

Item	Employee Name	Additional Payment	Leave Payouts	OPERS Contribution	Total
	Total	\$ 40.00	\$ (370.28)	\$ (116.82)	\$ (447.10)

We recommend that management investigate the underpayment for accuracy and then, if determined appropriate, pay the amounts owed to the former employees.

OPERS Contributions

State employees who are members of the Ohio Public Employees Retirement System (OPERS) are required by Ohio Revised Code section 145.47 to make member contributions to OPERS each pay period through payroll deductions. Ohio Revised Code section 145.48 requires that employers of contributing members of OPERS also pay an employer contribution each pay period to OPERS for an employee’s account.

For the pay periods when the additional payments were made to employees, both the employee and employer shares of contributions were made to OPERS. However, because of the manner in which the additional payments were processed, the employee and employer shares of contributions were calculated on the employee’s total gross earnings, including both the regular salary amount and the additional payment. As explained previously, section 145.01 of the Ohio Revised Code states that certain payments made at termination of employment, including severance payments, are not earnable salary and not subject to OPERS contributions. Thus, the employee and employer contribution shares were higher than required for the related pay periods. Later, the excess contributions were identified for some (but not all) of the employees. Refunds were made for 13 of the 19 employees who received the additional payments. Refunds were made for both the employee and employer share of contributions. However, the refunds were equal to the total OPERS contributions paid for that pay period, rather than just the portion of the contribution related to the additional payment. These two factors (original overpayment of OPERS contributions and related refunds) resulted in the employee’s retirement account being overstated or understated. In order to provide the correct amount of OPERS contributions for the pay period with the additional payment, adjustments need to be made for both the employee and employer contributions.

We recommend the Office work with OPERS to determine and process the amount of adjustments necessary so that the respective parties and agencies are credited with the appropriate amounts of refunds and contributions for each of the employees who received an additional payment.

Controls and Substantive Errors

It is management’s responsibility to implement a system of internal controls to safeguard an entity’s assets. The Office had established and implemented certain internal control procedures over its payroll process. In addition, management is held accountable for the correct and accurate recording and disbursement of payroll costs to legitimate employees for hours worked, as well as the approved earning and use of employee benefits such as vacation, sick and personal leaves.

As discussed under the results section above, we noted an instance where one of the payroll internal control procedures was not applied consistently and other instances of errors identified while performing the substantive tests, including the leave balance payouts.

Without consistent implementation of accepted control procedures, the Office increases the risk that payroll transactions will be processed inconsistently, inaccurately, without proper approval or not processed at all. As a result, the number of hours worked, credited to an employee’s balance, or subsequently used or paid may not be reflected accurately on the Office’s records and could differ from what was actually earned. This condition could lead to employees using recorded leave balances under the assumption that they are correct, which could cause employees to use leave when there is not an actual balance available to meet the amount of the leave request.

We recommend that the Office follow their payroll process internal control procedures consistently and that they consistently document the performing of the procedures in some manner. We also recommend the Office

## Supplement to the Special Audit Report

take steps to ensure that payroll data, such as hours worked and leave time, agree with approved source documents and are recorded correctly. The Office should investigate the exceptions noted and make any appropriate adjustments as determined necessary.

### Employee Evaluations

Ohio Administrative Code section 123:1-29-01 (A) requires that classified state employees be evaluated with respect to performance efficiency twice during the employee's probationary period and once during each calendar or anniversary year. Although the code is silent as to evaluations for unclassified state employees, many entities recognize the benefits of evaluating all employees regardless of the classification of the employee. Performance evaluations are intended to measure the extent to which an employee's performance meets the requirements of a particular position and to establish goals for the future, strengthen the relationship between employer and the employee, open up channels of communication, appraise past performance, recognize good performance, identify areas that might require improvement, and enable an employee to assess his own communication and supervisory skills.

As discussed under the results section above, we noted instances where annual evaluations were not performed for all employees.

Without a formal, written documentation of job performance, there is no documented evidence of the employee's progress or lack of progress and no recommendations given for improvement of job performance. This could prevent employees from reaching their full potential or prevent the Office from properly disciplining their employees, if necessary. Overall, the lack of formal performance evaluations could hinder the Office from meeting its goals and objectives.

We recommend the Office establish written criteria for measuring the performance of, and providing written evaluations to, all its employees. We also recommend the Office communicate to all supervisors the importance of performing written evaluations timely for all employees. Adhering to a defined evaluation process could help improve employee job performance and increase the effectiveness and efficiency of the operations of the Office. As with other official documents, the Office should maintain copies of the evaluations in accordance with an approved records retention schedule.

**Issue No. 2 – Document and evaluate processes and procedures, test internal controls, and select transactions for testing as determined necessary for the inventory financial cycle.**

**Procedures**

We documented the procedures the Secretary of State used over its inventory transaction processing cycle for the first half of fiscal year 2007. We identified and tested internal controls from the documented procedures.

We selected a number of assets shown on the inventory list to determine if the assets actually existed by physical inspection, were tagged when required, were located as designated, were properly safeguarded, and if the Office had complete title or ownership of the assets.

We selected a number of assets located in the Office to determine if they were properly recorded on the inventory list.

We selected a number of assets purchased during the audit period to determine if they were recorded on the inventory list at the correct location, for the accurate amount, and in a timely manner.

We selected a number of assets salvaged during the audit period to determine if they were deleted from the inventory list and the appropriate salvage forms had been completed.

We determined if the Office complied with Ohio Revised Code section 125.16(A), by submitting the required inventory certification forms to the Department of Administrative Services (DAS) in a timely manner, and Ohio Revised Code section 117.17, by the departing head of the agency preparing for his (her) successor a letter of representations that lists agency assets and submitting it to the designated entities.

**Results**

We did not note any exceptions, deficiencies, or errors in the control tests.

We noted the following exceptions in the substantive tests:

- For 1 of 20 (5%) items selected from the inventory list, we were unable to physically inspect and test the item. The purchasing manager stated the asset - a shredder - was broken and had been salvaged at some time. The salvaged asset was not deleted from the active inventory list.
- For 1 of 20 (5%) items selected from the inventory list, the asset was not properly tagged when it was eventually located. The asset was a security system with a cost of \$18,493.
- For 3 of 20 (15%) items selected from the inventory list, the items were not located as designated on the inventory list. However, all three of the items were able to be found near the stated location.
- For 2 of 11 (18%) items selected from inventory asset purchases, the items were not included on the inventory list, provided by the Office. Both items were recorded in the inventory system, but one item was incorrectly recorded as a deletion instead of a purchase; the asset was not on the deletion list. We noted an exception due to the discrepancy between the inventory system and the reports it produced.

**Noncompliance Citation**

Ohio Revised Code (ORC) section 117.17 states:

Before the head of a state agency leaves office, he shall prepare, in the form prescribed by the auditor of state, a letter of representation for his successor in office. The letter shall contain an inventory of all properties, supplies, furniture, credits, and moneys, and any other thing belonging to the state, which it is the duty of such official to turn over to his successor in office or pay into the state treasury. One copy of

## Supplement to the Special Audit Report

the letter shall be delivered to the official, one copy to his successor in office, one copy to the governor, one copy to the auditor of state, and one copy to the attorney general.

Per discussion with employees of the Secretary of State's Office, no letter of representation for inventory and other entity owned assets was prepared by the prior administration; thus, the Office did not comply with ORC section 117.17.

We recommend the Office review its responsibilities with ORC section 117.17 and implement measures to comply when the current administration leaves office.

### **Management Comment**

#### Inventory Errors

It is management's responsibility to maintain complete and accurate records of all property owned by the entity. This entails the entity being able to identify and document where and by whom the assets are held and periodically performing a physical inventory and reconciling the results with the inventory records.

As reported in the results section of this Issue, we noted several errors while performing substantive tests over specific inventory assets. Without adequate procedures over the recording of inventory items, the agency has only limited assurance that all inventory items are properly recorded in the appropriate records. In addition, the risk is increased that improper transactions may not be detected in a timely manner, items may not be located in the proper locations, and incorrect information may be submitted to the Department of Administrative Services.

We recommend that management establish inventory control procedures to provide reasonable assurance that inventory records are complete and accurate and the related assets are appropriately safe-guarded and accounted for. These procedures should be applied consistently throughout the year and be periodically monitored by management. We also recommend that management remind all employees to properly notify the purchasing department of any changes in inventory items location, information, or usage so that records can be appropriately updated. We recommend that control procedures be formally adopted in writing and be communicated to employees in order to improve the inventory recording-keeping and facilitate future transitions in administration.

**Issue No. 3 – Document and evaluate processes and procedures, test internal controls, and select transactions for testing as determined necessary for the non-payroll disbursements financial cycle, with an emphasis on personal service contracts.**

**Procedures**

We documented the procedures the Secretary of State used over its non-payroll disbursements transaction processing cycle for the first half of fiscal year 2007. We identified and tested internal controls from the documented procedures.

We selected a number of non-payroll disbursements from significant expenditures (the General Revenue Fund, fund 3AS - Help America Vote Act, and fund 599 - Corporate and Uniform Commercial Code comprised 96.7% of all disbursements) and tested them to determine if the disbursement was charged to the proper object code and fund, served a proper public purpose, was supported by appropriate documentation, the invoice indicated the receipt of goods or services, the invoice agreed with the voucher, and payment was made within 30 days per ORC section 126.30(A).

We selected a number of personal service contract disbursements from significant expenditures and tested them to determine if the related documents (contract request form, purchase order, contract, and amendments were properly signed and approved, copies of the original contracts and amendments were on file, payments were within the contracted amount, contract payments agreed to CAS or in-house record, backup documentation was contained in the contract files, payments were made within the stated contract period (not before the contract was signed), and the contracts contained the required items per the Office of Budget and management (OBM) memo at [http://obm.ohio.gov/sa/iam/i-am\\_section4.pdf](http://obm.ohio.gov/sa/iam/i-am_section4.pdf).

**Results**

We noted one exception for three different control attributes tested, as follows:

- the purchase order was missing for one of the 51 (2%) items tested,
- the invoice was not signed to indicate approval for one of the 59 (2%) items tested, and
- the payment request form was missing for one of the 59 (2%) items tested.

We did not note any exceptions, deficiencies, or errors in the substantive tests for regular disbursements.

We noted two of the 20 personal service contracts tested were missing a contract request form. This form contains the reason why a personal service contract is needed and includes the initial approval to enter into a personal service contract.

**Management Comments**

Controls and Missing Documents

It is management's responsibility to implement policies and internal controls which provide management with assurance that transactions are processed accurately, completely, are indicative of actual activity, and to safeguard an entity's resources. Typically, control procedures related to non-payroll disbursements include the approval of contracts, vouchers, invoices, and purchase orders. A strong control system would also include supervisory reviews to evaluate the accuracy and completeness of work performed by staff. It is imperative that control procedures be adequately documented to evidence they are performed timely; consistently; as intended and by appropriate level of management, enabling management to place reliance on them.

As reported in the results section of this Issue, we noted instances where internal control procedures over non-payroll disbursements were not applied consistently and where documents could not be located.



## Supplement to the Special Audit Report

Without control procedures being consistently performed, the agency has only limited assurance that all disbursements were approved and properly recorded in the appropriate records. This condition could result in management making operational decisions on faulty data and making decisions that they may not otherwise make.

We recommend the Office consistently apply its current policies and procedures to provide reasonable assurance that disbursements are complete and accurate. This would include the Chief Financial Officer or Purchasing Manager ensuring that all contracts, vouchers, invoices, purchase orders, and payment request forms have gone through the appropriate levels of approval and are accurate and complete. We also recommend that related documents be maintained and filed in an easily accessible manner and be retained in accordance with an approved records retention policy.

**Issue No. 4 – Document and evaluate processes and procedures, test internal controls, and select transactions for testing as determined necessary for the revenue financial cycle.**

**Procedures**

We documented the procedures the Secretary of State used over its revenue transaction processing cycle for the first half of fiscal year 2007. We identified and tested internal controls from the documented procedures.

We selected a number of revenue receipts from significant revenue sources (2841 – Domestic Corporation Franchise Filing Fees, 2969 – Uniform Commercial Code Fee, and 2992 – Sales Various Other comprised 87% of all revenue) and tested them to determine if the revenue was recorded to the proper fund at the correct amount, was deposited timely, and agreed to a billing statement or other originating source document. We also determined if the sum of the individual receipts agreed to the Revenue Receipt deposit document and that transactions were recorded in the proper period.

**Results**

We did not note any exceptions, deficiencies, or errors in the control or substantive tests.



Mary Taylor, CPA  
Auditor of State

OFFICE OF OHIO SECRETARY OF STATE

FRANKLIN COUNTY

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 25, 2008