

State of Rhode Island and Providence Plantations  
Office of Management and Budget  
OFFICE OF INTERNAL AUDIT  
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November 10, 2017

Ms. Nellie Gorbea  
Secretary of State  
Department of State  
148 West River Street  
Providence, Rhode Island 02904

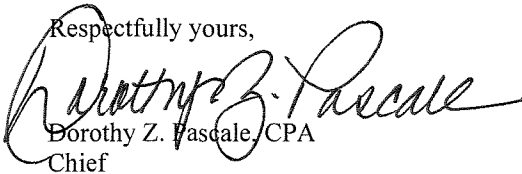
Dear Secretary Gorbea:

At your request, the Office of Internal Audit has completed its limited scope audit of the Secretary of State cash controls in place over revenues collected during fiscal year 2017. The audit was conducted in accordance with Rhode Island General Laws (RIGL) §35-7.1-1 – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

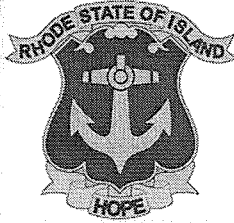
RIGL §35-7.1-10 (d), entitled Annual and interim reports, states that, “Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report.” Accordingly, management submitted its response to the audit findings and recommendations on November 9, 2017, and such response is included in this report. Pursuant to this statute, the OIA may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the Secretary of State staff for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,

  
Dorothy Z. Pascale, CPA  
Chief

c—Jonathan Womer, Director, Office of Management and Budget, DOA  
Peter Keenan, State Controller, Office of Accounts and Control, DOA  
Honorable William J. Conley, Chairperson, Senate Committee on Finance  
Honorable Marvin Abney, Chairperson, House Finance Committee



## **Executive Summary**

### **Why the OIA Did This Review**

The purpose of this limited scope engagement was to determine if adequate cash controls are in place at the Secretary of State to ensure safeguarding of assets and accurate reporting in accordance with applicable statutes.

### **Background Information**

Article IX, §12 of the Constitution of Rhode Island and Providence Plantations establishes the powers and duties of the Secretary of State, who heads the Department of State. Section 42-8-1 of the Rhode Island General Law further prescribes the duties of the Secretary of State and the Department. The Department has four divisions that are responsible for cash collections: Business Services, Archives, Library & Public Information, Elections & Civics, and Finance & Personnel.

### ***The OIA Recommends:***

- Ensure assets are safeguarded
- Enhance review of journal entries
- Reconcile filing fees and other transactions processed to RIFANS

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## Introduction

The Constitution of the State of Rhode Island and Providence Plantations establishes the Secretary of State as one of five general offices subject to voter election. As the custodian of state records, the Secretary of State (SoS) has a vital role in providing the public with basic information about the workings of state government. The SoS is comprised of four divisions that are responsible for cash collections: Business Services, Archives, Library & Public Information, Elections & Civics, and Finance & Personnel. The following summarizes the responsibilities of each division and the sources of revenue which they collect:

- **Business Services** provides a user-friendly, customer-service centric environment for business filings, uniform commercial code, trademark & service mark, notary public, certification or authentication and the first stop business information center.
- **Archives, Library & Public Information** provides user access to information about government records and publications, State laws, legislative sessions, agency regulations and the structures of state government. Receipts are primarily for historical records trust and other fees collected from researchers.
- **Elections & Civics** is responsible for the preparation of federal, state and local elections and maintains the statewide central voter registration system. Receipts are for purchases of voter files.
- **Finance & Personnel** is primarily responsible for monitoring accounts payable and accounts receivable, prepares the budget, maintains personnel records and provides administrative support for payroll and personnel matters. Finance & Personnel also oversees the Rhode Island State House Visitor Center.

## Recommendations for Improved Controls

### Safeguarding of Assets

Cash, by nature is subject to error and mishandling and, therefore, effective control of cash should begin at the time of receipt and continue through deposit, custody and disbursement. The safeguarding of cash received at the front counter of the Business Services division could be enhanced. The clerks receive cash, process the transaction and place the cash in a bank bag which is stored in a filing cabinet drawer until the end of the day.

Access to the bank bags are not restricted; and during high volume periods, the bank bags or cash might be left on the desk until all customers have been assisted. The clerks share a cash change bag which contains \$50 to provide correct change to customers; the cash change bag is not counted on a regular basis. At the end of the day, one of the two fiscal managers/administrative assistants verify the cash in the bank bags to the amount reported in the cashier post receipt reports from the point-of-sale system (POS); the two fiscal managers/administrative assistants treat overages differently, one notes the overage on the cashier post receipt while the other returns the overage to the clerk.

Additionally, our sample of 40 journal entries revealed 12 journal entries where the supporting cashier post receipt reports from the POS lacked documented evidence that the cash amounts were verified by a fiscal manager/administrative assistant. If differences were identified while preparing the deposit the next day, management would be unable to determine if the difference existed prior to or subsequent to the fiscal manager/administrative assistant taking possession of cash.

**Recommendations:**

- 1) Develop, document and implement procedures to:
  - a. Perform cash counts of the cash change bag on a regular basis and document the results of the count;
  - b. Review the end of day cashier post receipt reports and counts of the cash change bag to ensure the counts are being performed and results are being documented. Results of review should also be documented; and
  - c. Consistently report overages identified during the cash verification process.
  
- 2) Enhance physical safeguarding of cash at the front counter through:
  - a. Installation of cash registers;
  - b. Installation of security cameras; or
  - c. Performance of random cash verification counts during the day in addition to the cash verification performed at the end of the day. Results of random cash verifications should be documented to serve as evidence that the random cash count was performed.

**Management's Response:**

1 - Our Finance & Personnel Office has developed and implemented a form to document the cash count of the cash change bag; as well as, a SWIS (Standard Work Instruction Sheet) outlining our policy to perform cash counts and report cash overages.

2 - Our Finance & Personnel Office is currently conducting daily random cash verifications in addition to the cash verification performed at the end of the day. We are engaging a vendor to provide a cash register control system which will be completed and installed by the close of FY 2018. We have also contacted the property landlord regarding the installation of security cameras as an enhancement to our current security system.

**Responsible Party:**

Director of Finance & Personnel

**Anticipated Completion Date:**

June 30, 2018

## **Enhance Review of Journal Entries**

In order for a review control to be effective, the review needs to be performed in enough detail to detect and correct misstatements. At the Secretary of State's office, this review was not performed at a sufficient level to detect differences between the journal entry and the related supporting documentation. As a result, transactions were not properly recorded in the state accounting system. Our sample of 71 journal entries revealed one journal entry where the amount did not agree to the supporting documentation and 20 journal entries where the general ledger account distribution did not agree to the supporting documentation.

### **Recommendation:**

- 3) Enhance review and approval of journal entries to include examining the supporting documentation and comparing such details to the proposed journal entry and evaluating the adequacy of the dollar value, general ledger account code, and financial reporting period of the proposed journal entry.

### **Management's Response:**

3 - This recommendation was implemented by our Finance & Personnel Office prior to the issuance of the report.

### **Responsible Party:**

Director of Finance & Personnel

### **Anticipated Completion Date:**

Completed

## **Reconcile Transactions Processed to State Accounting Software**

The current process and controls of the Secretary of State does not include a reconciliation of transactions processed to amounts recorded in RIFANS. Adequate processing procedures include the reconciliation of transactions processed (i.e. business filings, fees for uniform commercial code, fees for issuance of civil commissions, etc.) to payments received and recorded in RIFANS by an employee independent of the cash receipts and processing functions. The reconciliation process ensures that unauthorized transactional changes have not occurred during processing. It also ensures the accuracy and validity of the financial information. There are currently no reconciliations being performed. As a result, there is an overall risk that not all revenue will be collected and a transaction may be processed without payment.

### **Recommendation:**

- 4) Develop a procedure to have an employee(s), independent of the cash receipts and transaction processing functions reconcile transactions processed to payments received and recorded in RIFANS. The reconciliation process should be performed on at least a monthly basis if not weekly. Employee(s) involved in the process should be knowledgeable and clear about their

responsibilities and expectations. The reconciliation should be reviewed and evidence of review should be documented.

**Management's Response:**

4 - Our Finance & Personnel Office is working with our Division of Business Services and eGov/IT to develop query reports for monthly reconciliation of cash receipts and recorded filing transactions.

Appropriate reporting documentation and a SWIS (Standard Work Instruction Sheet) will be created to implement the Division of Business Services' policy to reconcile cash receipts and recorded filing transactions.

**Responsible Party:**

Director of Finance & Personnel

Director of Business Services

Director of eGov/IT

**Anticipated Completion Date:**

March 2018

## **Objective and Scope**

At the request of Secretary of State Gorbea, the Office of Internal Audit conducted a limited scope audit of the Rhode Island Secretary of State's processes and controls over cash during the fiscal year 2017. The purpose of this engagement was to determine if adequate cash controls are in place to ensure safeguarding of assets and accurate reporting.

## **Methodology**

As part of our work, we gained an understanding of existing cash controls and reviewed the receipt and recording procedures utilized by SOS. To address our audit objective, we performed the following:

- Interviewed SOS management and staff
- Gained an understanding of departmental policies and procedures governing the processing and recording of cash receipts
- Tested a selection of transactions from various revenue accounts

The Office of Internal Audit used an external audit firm, Citrin Cooperman, LLP, to supplement its staff during the performance of this audit. Citrin Cooperman performed the detailed audit work and was selected using a competitive bidding process.