

LBA Financial Audit Report Summary:

Department Of State Revenues Deposited and Expenditures Paid - Financial and Compliance Audit Report For The 10 Months Ended April 30, 2007

Reporting Entity And Scope

The reporting entity and scope of this audit and audit report are the revenues deposited and expenditures paid of the New Hampshire Department of State (Department) for the ten months ended April 30, 2007. Not included in the reporting entity are the State boards and commissions that are related to the Department by statute.

The report describes certain financial activity of the Department of State, as it existed during the period under audit. The Department prepared the auditee responses included in the constructive service comments section of this report.

Organization

The Department of State was established under the executive direction of the Secretary of State by Chapter 5, of the Revised Statutes Annotated. Part 2, Articles 67 and 69, of the New Hampshire Constitution, requires the Secretary of State to be chosen by joint ballot of the senators and representatives, and to appoint a deputy secretary to perform the duties of the office, if the Secretary of State is unable.

The Department of State is organized into the six Divisions of Administration, Elections, Corporate, Uniform Commercial Code, Archives and Records Management, Vital Records Administration, and a Bureau of Securities Regulation.

At April 30, 2007, the Department of State employed 98 full-time and 18 part-time employees.

Responsibilities

The major duties and responsibilities of the Department are as follows.

The Division of Administration is responsible for keeping the great seal, attesting to the governor's signature and affixing the great seal on all official documents, engrossing public acts, attending Governor and Council meetings, performing clerical duties for the Board of Claims and the Ballot Law Commission, and for preparing and issuing all notary public and justice of the peace commissions.

The Elections Division is responsible for administering State elections, printing ballots and election forms, and instructing local election officials. The Division also publishes the manual for the general court (the Redbook), the New Hampshire election laws, and, with the approval of the attorney general, the political calendar and the elections procedure manual.

The Corporate Division oversees the receipt of corporate returns and related fees, tracks delinquent corporations for dissolution purposes and records all statutory filings of business entities, trademarks and trade names, and miscellaneous filings.

The Uniform Commercial Code Division serves the commercial lending/banking community by acting as a repository for filed documents which perfect security interests in certain personal property used as collateral for loans. These filings help a secured creditor establish priority claims on assets in the event of debtor bankruptcy, insolvency, or default. The Division is responsible for providing a universally accessible, secured transaction registry for users and beneficiaries of the Uniform Commercial Code process.

The Division of Archives and Records Management, established by RSA 5:27, is responsible for establishing and maintaining programs for the storage, retention, and ultimate disposal of agency records, and for accepting, arranging, describing, and making available the public archives of permanent historical value.

The Division of Vital Records Administration, established by RSA 5-C:2, is responsible for providing access to vital records and vital records data while assuring the privacy of all New Hampshire citizens.

In accordance with RSA 421-B:21, the Secretary of State is responsible for administering the State laws related to the sale of securities in the State. The Bureau of Securities Regulation handles the annual licensing of agents, broker dealers, and investment advisors as well as the licensing of securities sold in the State. The Bureau is responsible for examining each domestic broker-dealer as well as the New Hampshire branches of any foreign broker-dealers.

Funding

The financial activity of the Department of State is accounted for in the General Fund and the Capital Projects Fund of the State of New Hampshire.

The following table summarizes the revenues deposited and expenditures paid during the ten months ended April 30, 2007 for the Department of State.

**Department Of State
Summary Of Revenues Deposited And Expenditures Paid
For The Ten Months Ended April 30, 2007**

	General Fund	Capital Projects Fund	Total
Total Revenues Deposited	\$ 42,891,963	\$ -0-	\$ 42,891,963
Total Expenditures Paid	<u>8,117,825</u>	<u>519,436</u>	<u>8,637,261</u>
Excess (Deficiency) Of Revenues Deposited Over (Under) Expenditures Paid	<u>\$ 34,774,138</u>	<u>\$(519,436)</u>	<u>\$ 34,254,702</u>

The auditor's report on the Department of State's financial statement was qualified, as the financial statement does not constitute a complete financial presentation of the Department.

The audit report includes the auditor's report on internal control over financial reporting and on compliance and other matters. The following is a list of the comments in the report.

Internal Control Comments

Significant Deficiencies (Material Weaknesses In Bold)

Administration

- **Internal Controls Must Be Improved**
- **All Significant Aspects Of The Department's Control Structure Should Be Documented**
- **Appropriate IT Controls Must Be Adopted**
- **Formal Risk Assessment Policies And Procedures Should Be Established**
- Formal Fraud Reporting Policy Should Be Established

Revenue

- **Controls Must Be Improved Over Revenue Processing**
- **Controls Over Processing Mutual Fund Registrations Must Be Improved**
- **Controls Over The Operation Of The New Hampshire Vital Records Information Network System Must Be Improved**
- Revenues Should Be Deposited Into Statutorily Designated Accounts
- Federal Participation In Program Expenditures Should Be Collected Timely
- Controls Should Be Improved Over Collection Of Miscellaneous Fee Revenues
- Effective Reconciliation Procedures Should Be Incorporated Into Online Returns Filing System
- Input Edit Controls Should Be Improved In The Secretary Of State Knowledge Base System

General Expenditures

- **Effective Controls Over The Expenditure Process Must Be Established**
- The Corporate Administration Account Should Only Be Used For The Statutory Purpose Of The Account

Help America Vote Act/Election Fund

- The General Fund Should Not Be Used To Supplant The Election Fund In The Funding Of Help America Vote Act Expenditures
- **Effective Accounting Procedures For The Help America Vote Act Programs Should Be Established**
- Only Allowable Costs Should Be Charged To Help America Vote Act Program
- Written Procurement Policies And Procedures Should Be Established For Federal Program Expenditures

Payroll And Contractor Expenditures

- **Controls Over Payroll Must Be Improved**
- Risk To Operations Resulting From Employing Relatives Should Be Addressed
- Controls For Documenting Leave Accounting For Other Than Classified Workers Should Be Improved
- Relationship With Independent Contractors Should Be Documented
- Controls Over Contracts, Including Changes To Contract Provisions, Should Be Improved

Other

- Equipment Accountability And Reporting Controls Should Be Established

Compliance Comments

Federal Compliance

- **Federal Approval Should Be Requested Prior To The Expenditure Of Help America Vote Act Funds For Capital Assets**
- Federal Program Reports Should Be Completed And Filed

State Compliance

- Capital Budget Status Reports Should Be Filed
- Archive Inventory And Procedures Manual Should Be Prepared
- Resolution Of Inconsistency In Statutes For The Director Of Vital Records Position Should Be Requested