



STATE OF NORTH CAROLINA

DEPARTMENT OF THE SECRETARY OF STATE

FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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AUDITOR'S TRANSMITTAL

September 2, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
The Honorable Elaine F. Marshall, Secretary of State
Department of the Secretary of State

This report presents the results of our fiscal control audit at the Department of the Secretary of State. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES, SCOPE, AND METHODOLOGY

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the Department of the Secretary of State. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this fiscal control audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Our audit scope covered the period July 1, 2008 through April 30, 2009, and included selected internal controls in the following divisions:

Administration Division

The Administration Division includes the Human Resources section and the Budget Office. Employee training and development, facilities management, employee safety, and security responsibilities are also assigned to the Administration Division.

The Human Resources section coordinates all personnel and staffing related services, programs, and activities for the Department. The Budget Office performs the general accounting and financial reporting for the Department. The Budget Office also accounts for and issues financial reports covering all Department operations.

Corporations Division

This Division receives, files and maintains legal documents for more than 600,000 corporations, limited partnerships, limited liability partnerships, and limited liability companies as well as trademark registration applications, authentication requests, and Service of Process documents. The fees charged for filing documents and for providing copies are set by the General Statutes and may be paid by check, cash, credit card, or bank transfer.

During our audit, we considered internal controls related to the following control objective:

Collection of Fees by the Corporations Division – The Corporations Division (Division) charges fees for filing legal documents for corporations and other business organizations and for providing copies of these documents. During our audit period, the Division collected fees totaling \$30,571,170.18. We examined internal controls designed to ensure the Department properly accounts for and safeguards these revenues. We also reviewed the collections to ensure the Division collected the fees at the rates established by the General Statutes and verified funds were deposited in accordance with the Daily Deposit Act, *North Carolina General Statute 147-77*.

RESULTS

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards.

ORDERING INFORMATION

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