



# Joint Legislative Audit Committee

Office of the Auditor General



---

## **FINANCIAL AUDIT REPORT SECRETARY OF STATE YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE  
CALIFORNIA LEGISLATURE

REPORT OF THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

096

FINANCIAL AUDIT REPORT  
SECRETARY OF STATE  
YEAR ENDED JUNE 30, 1978

SEPTEMBER 1979



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

SENATORS  
ALBERT RODDA  
PAUL CARPENTER  
JOHN NEJEDLY  
ROBERT PRESLEY

ASSEMBLYMEN  
RICHARD ROBINSON  
DANIEL BOATWRIGHT  
LEROY GREENE  
BRUCE NESTANDE

STATE CAPITOL  
SACRAMENTO 95814  
(916) 323-1168

925 L STREET  
SUITE 750  
SACRAMENTO 95814  
(916) 445-0255

RICHARD ROBINSON  
CHAIRMAN

September 19, 1979

096

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Secretary of State, year ended June 30, 1978.

The auditors are Curt Davis, CPA; Michael C. Dendorfer, CPA; and Patricia Nishi.

Respectfully submitted,

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman, Joint Legislative  
Audit Committee

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	3
FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET	4
GENERAL FUND	
BALLOT PAPER REVOLVING FUND	
SPECIAL DEPOSIT FUND	
GENERAL FIXED ASSETS	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN OPERATING CLEARING - BUDGET AND ACTUAL	5
GENERAL FUND	
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE	6
BALLOT PAPER REVOLVING FUND	
NOTES TO FINANCIAL STATEMENTS	7
OTHER INFORMATION	10

## INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Secretary of State. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

These are the principal objectives of the Secretary of State's Office:

- To examine various legal documents for statutory compliance;
- To file such documents as a matter of public record;
- To administer and enforce election laws and procedures;
- To appoint notaries public and to enforce the laws relating to the conduct of notaries public;
- To access and preserve records having historical significance; and
- To make such records available for public use.

The Secretary of State serves as secretary for both the Commission on Voting Machines and Vote Tabulating Devices and the Heritage Preservation Commission. The Commission on Voting Machines and Vote Tabulating Devices studies and adopts regulations governing the use of voting machines, voting devices, and vote tabulating devices. The Heritage Preservation Commission is charged with planning for the restoration, preservation, and display of the State's historic documents which are deposited with the Secretary of State. The commission displays these documents in the State Capitol and throughout the State.

Budget appropriations and various registration and filing fees finance the activities of the Secretary of State.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Secretary of State as of June 30, 1978 and the related statements of revenues, expenditures, and changes in fund balance and operating clearing for the year then ended. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not observe the taking of the physical inventories as of June 30, 1977 (stated at \$102,684) and June 30, 1978 (stated at \$155,662) for the Ballot Paper Revolving Fund, since those dates were prior to the time of our audit engagement at the Secretary of State's Office. Due to the nature of the inventory records, we were unable to satisfy ourselves as to the inventory quantities by means of other auditing procedures. Because the amount of the inventory is a material part of the financial statements of the Ballot Paper Revolving Fund, we do not express an opinion on the financial statements of the Ballot Paper Revolving Fund.

In our opinion, the financial statements described above, except for statements of the Ballot Paper Revolving Fund, present fairly the financial position of the Secretary of State as of June 30, 1978 and results of operations and changes in fund balance and operating clearing for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1978 are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, except for the effect of any adjustments relating to inventory quantities, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statement of revenues, expenditures, and changes in fund balance and operating clearing for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

  
\_\_\_\_\_  
WESLEY E. VOSS  
Assistant Auditor General

Date: June 15, 1979

Staff: Curt Davis, CPA  
Michael Dendorfer, CPA  
Patricia Nishi

SECRETARY OF STATE  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978  
 (With Unaudited Amounts for 1977)

	Governmental Fund Type	Proprietary Fund Type	Fiduciary Fund Type	Account Group	Totals	
					June 30, 1978	June 30, 1977
					(Memorandum Only)	
		Ballot Paper Revolving Fund	Special Deposit	General Fixed Assets		
<u>ASSETS</u>	<u>General</u>					
Cash	\$1,986,995	\$145,244	\$11,565	\$ --	\$2,143,804	\$1,186,635
Accounts Receivable	274,699	24,417	--	--	299,116	205,743
Allowance for Deferred Accounts Receivable and Uncollectibles	(47,841)	--	--	--	(47,841)	(55,318)
Prepayments to Other Funds	--	--	--	--	--	5,010
Expense Advances to Employees	3,533	--	--	--	3,533	8,407
Other Deferred Charges	7,282	--	--	--	7,282	15,317
Ballot Paper Stock	--	155,662	--	--	155,662	102,684
Equipment	--	--	--	214,564	214,564	167,678
Total Assets	<u>\$2,224,668</u>	<u>\$325,323</u>	<u>\$11,565</u>	<u>\$214,564</u>	<u>\$2,776,120</u>	<u>\$1,636,156</u>
<u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>						
Liabilities:						
Accounts Payable	\$1,429,869	\$ 35,532	\$ --	\$ --	\$1,465,401	\$ 422,584
Due to Other Funds (Note 3)	1,205,575	150,000	--	--	1,355,575	22,600
Uncleared Collections	6,132	--	--	--	6,132	705,554
Total Liabilities	<u>2,641,576</u>	<u>185,532</u>	<u>--</u>	<u>--</u>	<u>2,827,108</u>	<u>1,150,738</u>
Encumbrances Outstanding	<u>147,452</u>	<u>6,800</u>	<u>--</u>	<u>--</u>	<u>154,252</u>	<u>--</u>
Fund Equity:						
Investment in General Fixed Assets	--	--	--	214,564	214,564	167,678
Retained Earnings:						
Reserved for Working Capital Advance	--	110,000	--	--	110,000	110,000
Unreserved	--	22,991	--	--	22,991	20,378
Operating Clearing (Note 4)	(564,360)	--	11,565	--	(552,795)	187,362
Total Fund Equity	<u>(564,360)</u>	<u>132,991</u>	<u>11,565</u>	<u>214,564</u>	<u>(205,240)</u>	<u>485,418</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$2,224,668</u>	<u>\$325,323</u>	<u>\$11,565</u>	<u>\$214,564</u>	<u>\$2,776,120</u>	<u>\$1,636,156</u>

The notes to the financial statements are an integral part of this statement.



SECRETARY OF STATE  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
GOVERNMENTAL FUND TYPE  
GENERAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	1978		Variance- Favorable (Unfavorable)	1977
	Budget as Adjusted	Actual		Actual
Revenues: (Note 2)				
Corporation Fees	\$ 3,641,419	\$ 4,203,664	\$ 562,245	\$ 3,310,381
Notary Fees	469,924	319,643	(150,281)	239,896
Filing and Certification Fees	1,814,863	1,873,458	58,595	1,411,255
General Fees	1,593,931	1,542,382	(51,549)	990,089
Miscellaneous	<u>2,000</u>	<u>15,283</u>	<u>13,283</u>	<u>5,106</u>
Total Revenues	7,522,137	7,954,430	432,293	5,956,727
Other Sources:				
Support Appropriation	7,582,397	5,184,415	(2,397,982)	7,098,385
Reimbursements	935,756	938,342	2,586	367,983
Prior Year Adjustments	<u>--</u>	<u>11,981</u>	<u>11,981</u>	<u>117,216</u>
Total Sources	<u>16,040,290</u>	<u>14,089,168</u>	<u>(1,951,122)</u>	<u>13,540,311</u>
Expenditures: (Note 2)				
Current:				
Secretary of State:				
Personal Services	3,652,206	3,561,253	90,953	2,974,052
Operating Expense and Equipment	2,518,022	2,052,117	465,905	1,817,937
Consolidated Data Center	437,369	396,192	41,177	384,436
Minor Capital Outlay	85,880	85,880	--	--
Printing Ballot Measures	1,742,200	1,012,686	729,514	1,233,542
Travel Expense for Presidential Electors	--	--	--	1,671
Commission on Voting Machines and Tabulating Devices	44,475	2,855	41,620	--
California Heritage Preservation Commission	<u>32,407</u>	<u>29,922</u>	<u>2,485</u>	<u>46,807</u>
Total Expenditures	<u>8,512,559</u>	<u>7,140,905</u>	<u>1,371,654</u>	<u>6,458,445</u>
Excess of Sources Over (Under) Expenditures	7,527,731	6,948,263	(579,468)	7,081,866
Other Uses:				
Transfer of Accountability to the State Controller	<u>(7,522,137)</u>	<u>(7,687,159)</u>	<u>(165,022)</u>	<u>(5,991,906)</u>
Excess of Sources Over (Under) Expenditures and Other Uses	<u>\$ 5,594</u>	(738,896)	<u>\$ (744,490)</u>	1,089,960
Operating Clearing - July 1		<u>174,536</u>		<u>(915,424)</u>
Operating Clearing - June 30		<u>\$ (564,360)</u>		<u>\$ 174,536</u>

The notes to the financial statements are an integral part of this statement.

SECRETARY OF STATE

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND BALANCE  
PROPRIETARY FUND TYPE  
BALLOT PAPER REVOLVING FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	<u>1978</u>	<u>1977</u>
<u>Revenues</u>		
Ballot Paper Sales	\$ <u>621,424</u>	\$ <u>548,448</u>
<u>Expenses</u>		
Cost of Sales	593,844	531,822
Operating Expense	<u>24,967</u>	<u>20,949</u>
Total Expenses	<u>618,811</u>	<u>552,771</u>
Net Income	2,613	(4,323)
Retained Earnings - July 1	<u>130,378</u>	<u>134,701</u>
Retained Earnings - June 30	<u>\$132,991</u>	<u>\$130,378</u>

The notes to the financial statements are an integral part of this statement.

SECRETARY OF STATE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the Secretary of State. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local government as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into a Governmental Fund Type, a Proprietary Fund Type, a Fiduciary Fund Type and an Account Group. The Secretary of State accounts for only its portion of the Governmental and Fiduciary Fund Types. The State Controller maintains central accounts for all state funds and annually publishes consolidated fund statements.

GOVERNMENTAL FUND TYPE

General Fund

This fund includes all financial resources not accounted for in another fund and is maintained on the modified accrual basis of accounting. Some of the more significant elements include:

Income

Throughout the fiscal year all income including revenues, transfers, and reimbursements is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures including encumbrances outstanding against budget appropriations for which no goods or services have been received.

## Liabilities

Retirement Plan - Regular employees are members of the Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan. The amount the agency and the employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The Secretary of State's share of retirement contributions for the year totalled \$399,680.

Vacation and Sick Leave - Costs of vacation and sick leave are charged at the time the benefits are used rather than when they are earned.

## PROPRIETARY FUND TYPE

This fund is used to account for operations that are conducted in a manner similar to those in private enterprise; that is, those in which the intent is to recover costs of providing goods or services through user charges. The proprietary fund type for the Secretary of State is the Ballot Paper Revolving Fund.

### Ballot Paper Revolving Fund

This fund is used to account for the purchase and the sale of specially water-marked paper and punch cards for election ballots. The paper is sold to local governments at prices adequate to recover its cost and the costs of storage, cartage, and incidental expenses. The fund is maintained on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

## FIDUCIARY FUND TYPE

This fund type is used to account for assets held in a trustee capacity. The fiduciary fund type for the Secretary of State is the Special Deposit Fund.

### Special Deposit Fund

This fund is used by the Secretary of State to account for unclaimed checks and warrants outstanding for more than two years.

## ACCOUNT GROUP

This group is used to account for General Fixed Assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance.

### 2. BUDGETED REVENUES AND EXPENDITURES

Neither revenues nor the detail composition of expenditures are included in the legislative budget act. The dollars included in the first column are agency amounts as reflected in the Governor's Budget after allowing for any subsequent adjustments.

### 3. DUE TO OTHER FUNDS

The amount shown in this account for the General Fund is owed to the Bank and Corporation Tax Fund administered by the Franchise Tax Board. Under current procedures, newly organized corporations pay their initial \$200 franchise tax, along with other corporate filing fees, to the Secretary of State. The franchise tax portion is subsequently transmitted to the Bank and Corporation Tax Fund.

### 4. OPERATING CLEARING

This account is the connecting link between the books of the Secretary of State and the central fund accounts of the State Controller for the General Fund.

## OTHER INFORMATION

As an integral part of our examination, we reviewed the Secretary of State's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the Secretary of State's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the Secretary of State in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The Secretary of State fully concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps