STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

August 24, 2015

Shantel Krebs
Secretary of State
500 E. Capitol Ave
Pierre, SD 57501

Dear Secretary Krebs:

Enclosed is our Independent Accountant's Report on Applying Agreed-Upon Procedures.

If we can be of further service to you, please contact us.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:TPF:sld

Enclosure

cc: Jason Gant
47157 S. Clubhouse Road
Sioux Falls, SD 57108

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Shantel Krebs
Secretary of State
500 E. Capitol Ave
Pierre, SD 57501

Dear Secretary Krebs:

We have performed the procedures enumerated below, which were agreed to by you in your capacity as Secretary of State, solely to assist you in determining the completeness and accuracy of certain accounting records and processes at the Secretary of State's Office at December 31, 2014. This agreed-upon procedures engagement was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the management of the Secretary of State's Office. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. We confirmed balances of any State bank accounts controlled by the Secretary of State and compared them to Secretary of State records at December 31, 2014. We reviewed the bank statements for unusual items from July 1, 2013 through December 31, 2014.

   The Secretary of State's Office uses a mainframe computer receipting system and a web-based receipting system to record all permit and fee revenues collected. Entities which frequently use the services of the Secretary of State's Office establish prepaid account deposit (PAD) accounts. All permit and fee receipts and PAD account deposits are first deposited in a local bank account. The Secretary of State's Office receipting systems reported $298,278.47 in PAD accounts at December 31, 2014. The receipting systems revenue for PAD accounts should be reconciled to the cash balance in the local bank account and the PAD accounts reported on the State's accounting system. The cash balance in the local bank account totaled $171,042.66 and the PAD accounts reported on the State's accounting system totaled $83,927.97, for a total of $254,970.63 at December 31, 2014. There was no evidence of a reconciliation explaining the $43,307.84 difference.

We found no unusual items as a result of our review of recent bank statements for the period from July 1, 2013 through December 31, 2014.

2. We verified the existence of capital assets of the Secretary of State's Office recorded on the State's fixed asset system as of January 2, 2015.

   We determined all capital assets recorded on the State's fixed asset system were in existence on January 2, 2015.

   As part of our review of capital assets, we discovered that an original State flag that had previously been displayed at the office was unable to be located. Although the flag is not a capital asset, it does have historical value. We conducted several interviews and physically inspected several areas in the Secretary of State's Office to try to locate the flag. We were unable to locate the flag or determine when it went missing.

3. We observed computer hardware and software in existence at the Secretary of State's Office at November 26, 2014 and compared it with what existed at January 2, 2015.

   We noted three iPad minis out of thirty purchased could not be located at the time of our review, however, an asset maintenance form was completed by the Secretary of State's Office to declare the iPad minis lost before January 2, 2015.

4. We performed a review of the status of the remaining Secretary of State's Office budget at December 31, 2014 to determine that the budget is sufficient for the remainder of fiscal year (FY) 2015.

   We found the Secretary of State's Office General Fund budget for Personal Services has unspent appropriations of approximately 53%, while the General Fund disbursements for Operating Expenditures has approximately 50% of the appropriations available with 50% of the year remaining.

   Upon further review of FY2015 expenditures, we noted the following items had an impact on the FY2015 budget:

   a. SDCL 2-7-1 requires the Secretary of State to compile and print a legislative manual (Blue Book) every odd-numbered year. The print version of the 2013 Blue Book would normally be available in July 2013, but it was not made available until December 2014. The Secretary of State's Office notified the original publisher of breach of contract and termination of the contract in October 2014 and an agreement to print the 2013 Blue Book was made with another printing company. The expenditure for publishing the 2013 Blue Book should have been incurred in FY2013 or FY2014, but the contract with the other publisher resulted in a cost of $16,360 to the FY2015 budget. The original printing company filed a claim of $28,512.93 plus accrued interest in damages in April 2015.

   b. An election history book set was contracted for publication during FY2014 at a total cost of $59,957.83, with $49,957.83 of that expenditure occurring in FY2015, of which $15,000 was paid from the prior year's budget carryover funds for a cost of $34,957.83 out of the FY2015 budget. An expenditure of $9,957.83 was paid after December 31, 2014.

c. Corporate documents on the Secretary of State's website were removed in 2014 after the South Dakota Bureau of Information and Technology identified that the documents may contain personally identifiable information. A portion of these documents still need to have personally identifiable information redacted from them before being returned to the website. Completing the redaction will take additional personal services efforts that were not included in the budget.

5. We reviewed the operating and payroll expenditure transactions for unusual items for FY2015 through December 31, 2014.

   We found no exceptions as a result of this procedure.

6. We performed a review of a sample of Help America Vote Act (HAVA) grant and Electronic Absentee Systems for Elections – Federal Voting Assistance Program (FVAP) expenditures for the period FY2011 through FY2015 to determine compliance with state and federal laws and regulations.

   a. Our sample included twelve HAVA subgrants to South Dakota counties totaling $110,495 and we determined the payments were in agreement with the reimbursement requested by the county, but no invoices to support the reimbursement request were available. Although the normal process by the Secretary of State's Office HAVA Coordinator was to review the invoices supporting the reimbursement request, no invoices were retained and thus were unavailable for our review.

   b. A cloud storage service was utilized for both the HAVA grant and for the Division of Business Services purposes. All expenditures were billed to the HAVA grant. The Business Services purposes are not eligible under the HAVA grant. Documentation was not retained to support amounts charged to the HAVA grant.

   c. Our review of FVAP expenditures found that a portion of a contract for services to provide oversight to the FVAP grant was paid for with HAVA, Title II, Section 251 funds. We believe the $12,000 charged to the HAVA grant for this purpose is unallowable.

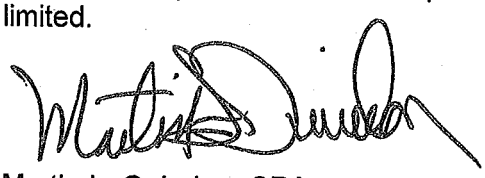
   A key aspect of grant management is documentation of policies and procedures. Without having documented policies, there is an increased risk of lack of consistency, awareness and support for the decisions that were made, which could result in noncompliance with grant regulations. The Secretary of State's Office did not have adequate internal control policies or procedures with regards to HAVA and FVAP management.

7. We reviewed records to determine whether they adequately supported remaining allocated balances of HAVA funds available to South Dakota counties.

   We found no exceptions as a result of this procedure.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the Secretary of State's Office and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

July 15, 2015