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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

Financial Audit

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**Office of the Secretary of State**  
**Two Calendar Years Ended December 31, 2000**



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**MAY 17, 2001**

**01-25**

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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



**OFFICE OF THE LEGISLATIVE AUDITOR**  
**State of Minnesota • James Nobles, Legislative Auditor**

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Mary Kiffmeyer  
Secretary of State

We have audited the financial activities of the Office of the Secretary of State for the period January 1, 1999, through December 31, 2000. Our audit scope included revenues, refunds, payroll, and other administrative expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Office of the Secretary of State complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Office of the Secretary of State is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of the Secretary of State. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 17, 2001.

/s/ James R. Nobles

James R. Nobles  
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 9, 2001

Report Signed On: May 11, 2001

## Office of the Secretary of State

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Sonya Johnson, CPA	Auditor-in-Charge
Susan Mady	Auditor
Teresa Anderson	Auditor

### Exit Conference

We discussed the audit report conclusions with the following representatives of the Office of the Secretary of State at the exit conference held on April 11, 2001:

Bob Schroeder	Deputy Secretary of State
Sheila Reger	Operations Director
Kathy Hjelm	Accounting Director
Bonita Harvieux	Business Services Supervisor

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## Report Summary

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### **Overall Conclusion:**

The Office of the Secretary of State properly safeguarded assets and accurately recorded receipts and expenditures in the state's accounting and payroll systems. The office was in compliance with applicable finance-related legal provisions and policies.

### **Agency Background:**

The Office of the Secretary of State operates pursuant to Minn. Stat. Chapter 5. The Secretary of State serves in several capacities: the chief election official of the State of Minnesota, the keeper of the state seal, and administrator of the open appointments process.

**Financial Audit Reports** address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit work at the Office of the Secretary of State included revenues, refunds, payroll, and other administrative expenditures for the period from January 1, 1999, through December 31, 2000.

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## Chapter 1. Introduction

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Article V of the State Constitution established the Office of the Secretary of State, which operates under Minn. Stat. Chapter 5. The Secretary of State is elected for a four-year term. The Secretary of State serves in several capacities: the chief election official of the State of Minnesota, the keeper of the state seal, and administrator of the open appointments process. The current Secretary of State is Mary Kiffmeyer.

The office receives an appropriation from the Legislature to fund the majority of its activities. In addition, the office also receives direct access fees. Customers pay a fee for on-line access to the computerized Uniform Commercial Code network located at the county recorders offices throughout the state. The office uses these fees to maintain the network.

The office collects non-dedicated fee revenue for business filings, records processing, farm liens, and surcharges. Revenues totaled \$10.5 million in fiscal year 2000. The revenue system is discussed further in Chapter 2.

The office's administrative expenditures totaled \$8.7 million in fiscal year 2000. Administrative costs are discussed further in Chapter 3.

Table 1-1 provides a summary of the Office of the Secretary of State's financial activities for fiscal year 2000.

# Office of the Secretary of State

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**Table 1-1**  
**Sources and Uses of Funds**  
**Fiscal Year 2000**

Sources:	
State Appropriation	\$15,844,000
Direct Access Revenue	418,499
Other Receipts	2,000
Balance Forward In	<u>285,771</u>
Total Sources	<u>\$16,550,270</u>
Uses: <sup>(1)</sup>	
Payroll	\$ 3,714,853
Consultant	1,604,641
Equipment	1,023,217
Communications	587,655
Space Rental	317,038
Printing and Advertising	292,999
Other	<u>1,121,974</u>
Total Expenditures	<u>\$ 8,662,377</u>
Balance forward out	<u>7,887,893</u>
Total Uses	<u>\$16,550,270</u>

<sup>(1)</sup> Amounts include encumbrances.

Source: Minnesota Accounting and Procurement System (MAPS).

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## Chapter 2. Revenues and Refunds

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### *Chapter Conclusions*

*The Office of the Secretary of State's internal controls provided reasonable assurance that filing fee and surcharge revenues were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. The office received filing fee and surcharge revenues in the proper amounts as outlined in statute. In addition, the Office of the Secretary of State properly authorized and recorded revenue refunds issued.*

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The Office of the Secretary of State collects fees for business services and records processing filings from companies that conduct business in Minnesota. The office also collects Uniform Commercial Code (UCC) fees for filings, searches, and certifications of UCC information. In addition, the office administers the statewide computer network for UCC activities and sends a quarterly billing assessing a surcharge to the 87 counties in the state that access the network. The office collects other miscellaneous service fees that are set in statute. The office deposits these receipts into a special revenue account as non-dedicated revenue. The office and the Department of Finance review fees annually. Table 2-1 summarizes non-dedicated fee revenue by source for fiscal year 2000.

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**Table 2-1**  
**Nondedicated Revenue by Source**  
**Fiscal Year 2000**

Business Services and Records Processing	\$ 8,014,017
Uniform Commercial Code	1,166,837
Surcharge	1,098,120
Other	1,224,437
Less: Revenue Refunds	<u>(1,027,169)</u>
Net Revenue	<u>\$10,476,242</u>

Source: Minnesota Accounting and Procurement System (MAPS).

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The office also collects direct access fees. Counties can electronically access certain public records the office maintains. Customers prepay the office for fees associated with accessing the data. Minnesota statutes authorize the office to deposit these fees as dedicated revenue in the direct access account. The office uses this revenue to maintain the computerized network. These receipts, net of refunds, totaled \$418,499 in fiscal year 2000.



## **Office of the Secretary of State**

During the audit period, the fiscal services division of the Office of the Secretary of State centrally received all mail and counter receipts. The division deposited all receipts on a daily basis. The fiscal services division attached a receipt voucher to the documents that accompany the individual receipt and forwarded these documents to the specific divisions for processing. Beginning in January 2001, the fiscal services division relocated to a separate location in the capitol complex. The area that handled the counter receipts remained within the State Office Building.

The fiscal services division also issues refunds. A refund is issued when an overpayment of fees is made. A refund is also issued when a filing or search is rejected, either due to the customer failing to pay the correct fee or not including all required information. During fiscal year 2000, the office issued approximately \$1,000,000 in refunds.

### **Audit Objectives and Methodology**

We focused our review of revenues and refunds on the following objectives:

- Did the office's internal controls provide reasonable assurance that filing fee and surcharge revenues were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- Did the office receive filing fee and surcharge revenues in the amounts outlined in statute?
- Did the office properly authorize and record refunds issued?

To address these objectives, we interviewed office staff to gain an understanding of the controls in place over the processing and recording of receipts and refunds. We also performed detailed transaction testing and analytical procedures.

### **Conclusions**

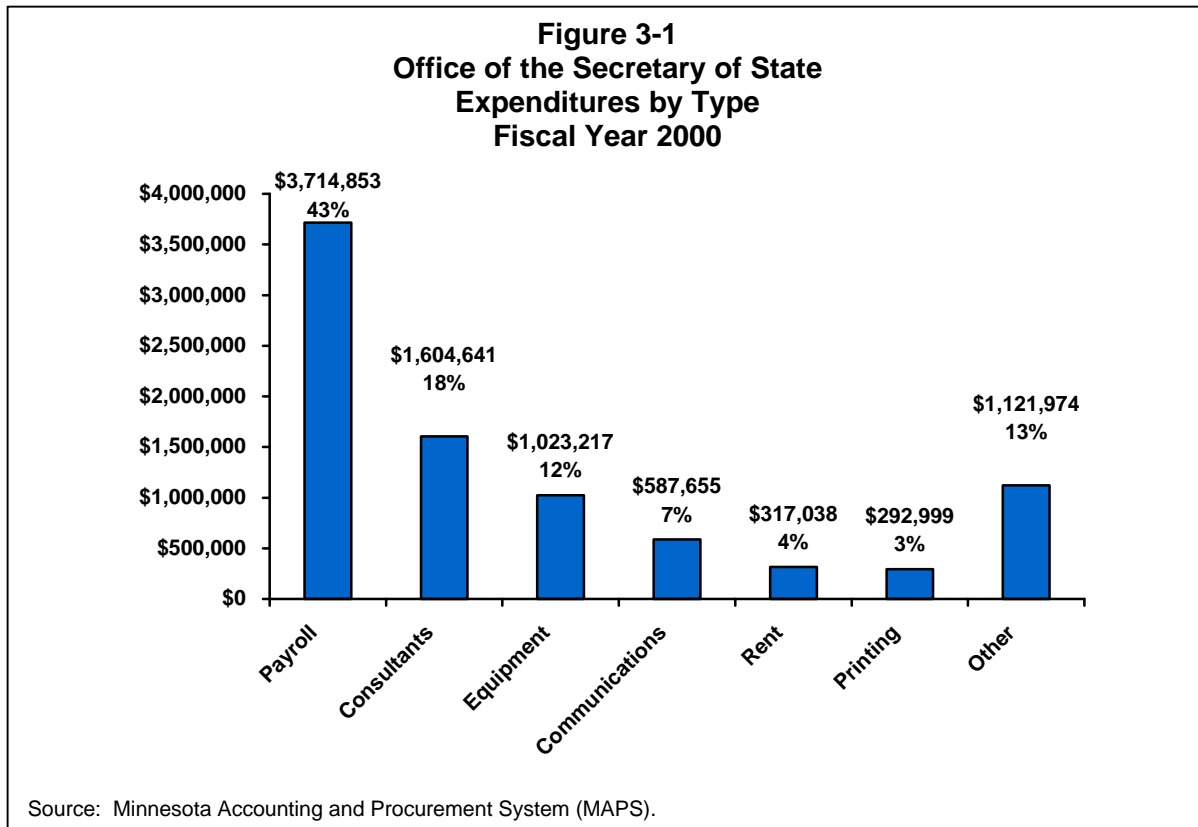
The Office of the Secretary of State's internal controls provided reasonable assurance that filing fee and surcharge revenues were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. The office received filing fee and surcharge revenues in the proper amounts as outlined in statute. In addition, the Office of the Secretary of State properly authorized and recorded refunds.

## Chapter 3. Payroll and Other Administrative Expenditures

### Chapter Conclusions

*The Office of the Secretary of State's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable bargaining unit agreements, applicable legal provisions, and management's authorization. The office accurately paid and recorded rent payments based on authorized lease agreements in effect.*

Payroll was the Office of the Secretary of State's largest expenditure. In addition to payroll, the agency incurred other administrative costs for rent, printing and advertising, equipment, communications, and consultants' services. Figure 3-1 shows the amount of expenditures by type for fiscal year 2000.



## **Office of the Secretary of State**

### **Payroll**

Payroll was the office's largest expenditure, totaling approximately \$3.7 million in fiscal year 2000. The Office of the Secretary of State employed 70 people during the audit period. Staff in the fiscal services division input the biweekly payroll into SEMA4, with a separate individual performing a review of the input. The personnel representative handles personnel functions for the agency. Her security clearance for human resource functions allowed her to enter her own personnel transactions. However, this risk is mitigated by the fact that she referred any monetary transactions that impacted her to the Department of Employee Relations for input. There were no improper transactions recorded for this individual, and she has no clearances to any payroll functions.

### **Consultants**

In fiscal year 2000, the office expended \$1,604,641 for consultant services. The majority of the expenditures were for the consultants retained for the design and implementation of the office's new computer system, targeted for an implementation date of July 2001. The office published requests for proposal in the State Register and selected a vendor following appropriate procedures.

### **Equipment**

The Office of the Secretary of State incurred \$1,023,217 in equipment expenditures in fiscal year 2000. The majority of these expenditures were for the purchase of computer hardware and software for the 87 counties of Minnesota to enable them to access the office's new computer system. The office followed proper state policies and procedures for procurement, authorization, and payment of these expenditures.

### **Communications**

The Office of the Secretary of State expended \$587,655 for communications in fiscal year 2000. These expenditures were for the office's Mnet and device connects costs. The office bears the costs of the wide area network that connects the 87 counties to the office's computer system.

### **Rent**

The Secretary of State had two office space leases and a lease for storage space. Expenditures for these leases totaled \$317,038 for fiscal year 2000. One of the leases was for the main office space in the State Office Building and the other for an off-site location. The Department of Administration's Real Estate Management Division negotiated all of the leases for office space.

### **Printing**

In fiscal year 2000, the office expended \$292,999 for printing costs. The majority of these expenditures were to the State Printer.

# **Office of the Secretary of State**

## **Audit Objectives and Methodology**

Our audit of payroll and other administrative expenditures focused on the following objectives:

- Did the office's internal controls provide reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable bargaining unit agreements, applicable legal provisions, and management's authorization?
- For the items tested, did the office comply, in all material respects, with significant finance-related legal provisions concerning payroll and other administrative expenditures?
- Did the Office of the Secretary of State pay lease payments according to the terms of the lease agreements in effect?

To answer these questions, we obtained an understanding of the internal control structure over payroll and other administrative expenditures. We analyzed employee compensation and tested hours worked and payrate increases to ensure compliance with the terms of the applicable bargaining unit agreements. We performed detailed transaction testing and determined whether payments were properly documented, authorized by management, and in compliance with applicable state policies and procedures. We reviewed lease payments and compared these to the leases in effect.

## **Conclusions**

The Office of the Secretary of State's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately recorded in the accounting records and in compliance with applicable bargaining unit agreements, applicable legal provisions, and management's authorization. The office accurately paid rent payments based on authorized lease agreements in effect.

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**Status of Prior Audit Issues**  
**As of April 10, 2001**

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**Most Recent Audit**

**Legislative Audit Report 99-23**, issued in April 1999, examined the agency's activities and programs for the two years ended December 31, 1998. The scope included revenues and refunds, payroll, and administrative expenditures. There were no findings cited in this report.