OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Office of the Secretary of State
January 1, 2001, through December 31, 2002

JULY 24, 2003 **03-40**

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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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

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Mary Kiffmeyer
Secretary of State

We have audited the Office of the Secretary of State for the period January 1, 2001, through December 31, 2002. Our audit scope included revenue and revenue refunds, payroll expenditures, and 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 also 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. The 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 July 24, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 29, 2003

Report Signed On: July 21, 2003

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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
David Poliseno, CPA, CISA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
George Deden, CPA	Auditor
Rob Litchke	Auditor
Jillian Baldys	Audit Intern

Exit Conference

We discussed the results of the audit with the following staff of the Office of the Secretary of State at an exit conference held on July 10, 2003.

Mary Kiffmeyer	Secretary of State
Alberto Quintela Jr.	Chief Deputy Secretary of State
Sheila Reger	Deputy Secretary of State – Operations
Kathy Hjelm	Accounting Director

Report Summary

Overall Conclusions:

The Office of the Secretary of State properly safeguarded assets and accurately recorded receipt and expenditure transactions in the state's accounting and payroll systems. The office was in compliance with applicable finance-related legal provisions and policies. However, as noted in Finding 1, the office needs to expand its controls over comparisons between its business systems and the state's accounting system.

Key Finding and Recommendation:

- The Secretary of State's Office needs to expand its controls over comparisons between its business systems and the state's accounting system (MAPS). The office did not identify and detail differences such as errors, adjustments, corrections, and timing differences when periodically comparing cumulative information between its internal business systems and MAPS. The office monitored collections and ensured the accuracy of the daily entry of receipt transactions into MAPS. In combination with the existing controls, such detailed review and documentation would provide greater assurance about the integrity of the state's accounting system by detecting any erroneous or inappropriate transactions. The Secretary of State's Office should expand controls over comparisons performed between its business systems and the state's accounting system.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Office of the Secretary of State included revenue and revenue refunds, payroll expenditures, and other administrative expenditures for the period from January 1, 2001, through December 31, 2002. The Office of the Secretary of State's response to our recommendation is included in the report.

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Chapter 1. Introduction

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 and Mary Kiffmeyer currently serves in this position. The main functions of the office are administering elections, recording business documents and financing statements for business loans, and filing and preserving the official documents of the state. The office operates a statewide network connecting all counties and allowing access to databases containing loan financing statements and voter registration information.

The office receives a General Fund appropriation from the Legislature to fund the majority of its activities. In addition, the office collects fees from customers who pay for on-line access to the computerized Uniform Commercial Code Network. The office retains these fees and uses them to maintain the network. During fiscal year 2002, the office collected about $474,000 in direct access fees. The office also collects receipts for business filings, records processing, farm liens, and surcharges. It records these receipts in the General Fund as nondedicated receipts.

Table 1-1 provides a summary of the Office of the Secretary of State's financial activities for fiscal year 2002.

Table 1-1
Sources and Uses of Funds
Fiscal Year 2002

Sources:	
State Appropriation	$7,410,000
Direct Access Receipts	473,989
Other Receipts	950
Balance Forward In	270,637
Total Sources	$8,155,576
Uses:	
Payroll	$ 4,970,149
Professional and Technical Services	743,866
Communications	696,624
Space Rental	409,201
Supplies and Equipment	333,966
Printing and Advertising	266,262
Computer and System Services	120,846
Repairs and Alterations	86,755
Other	164,557
Total Expenditures	$7,792,226
Balance Forward Out	363,350
Total Uses	$8,155,576

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2002 as of March 31, 2003.

Chapter 2. Revenue and Revenue Refunds

Chapter Conclusions

The Office of the Secretary of State's internal controls provided reasonable assurance that it accurately recorded revenue and revenue refunds in the accounting records, safeguarded receipts, and complied with significant finance-related legal provisions and management's authorization. However, the office needs to expand its controls over comparisons between its business systems and the state's accounting system.

For the items tested, the office complied with the significant finance-related legal provisions concerning revenue and revenue refunds.

The Secretary of State's Office collects revenue from three main business cycles: annual registrations, business services, and Uniform Commercial Code (UCC) filings. The office collects registration fees for corporate registrations, reinstatements, nonprofit amendments, legal newspaper registrations, renewal of assumed names, and filing annual and biennial reports. It also charges fees for business services, the primary purpose of which is to provide a central depository for the general public to register and obtain information related to businesses operating in Minnesota. The office collects UCC and related fees to support its function as an information clearinghouse for liens recorded against businesses across the state. In addition, the office collects a small number of other fees for special registrations and services, as provided in statute. The office deposits these receipts into the state's General Fund as nondedicated revenue. Table 2-1 summarizes nondedicated fee revenue by source for fiscal year 2002.

Table 2-1
Nondedicated Revenue by Source
Fiscal Year 2002

Business Services and Annual Registrations	$ 9,054,331
Uniform Commercial Code and Related Fees	2,473,047
Other	21,388
Less: Revenue Refunds	(1,032,637)
Net Revenue	$10,516,129

Source: Minnesota Accounting and Procurement System (MAPS).

The office also collects direct access fees. Business entities can electronically access certain public records maintained by the office. 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 nearly $474,000 in fiscal year 2002.

The office receives filings and money both at its walk-in counter and through the mail. Office employees record these receipts in a computerized system and deposit all receipts into the state treasury on a daily basis. The fiscal services division attaches a receipt voucher to the documents that accompany the individual receipt and forwards these documents to the appropriate business divisions for processing. During part of the audit period, we identified a control weakness in this area. At the end of the business day, counter staff counted their own tills and forwarded the receipts and supporting documentation to another employee who closed out the tills and performed key cash reconciliations. However, this employee also served as backup to the counter staff. The office later reassigned duties to achieve adequate separation of crucial duties.

The office used the MAPPER (Maintaining, Preparing and Producing Executive Reports) computerized system for recording and processing its receipts through June 30, 2001. During our audit period, the office began converting its receipt operations to a new computer system. In July 2001, the office started using the PROfile (Professional Filing System) computerized system for recording and processing UCC receipts. In February 2003, the office converted other business processes to PROfile and will eventually convert all of its business systems to PROfile. The office reconciled transactions recorded in MAPPER and PROfile to the funds collected each day. The office used data from the computerized systems to record the daily deposit into the state's accounting system.

Revenue Refunds

The office issued refunds to customers when customers overpaid a fee or when the office rejected a filing or search. An employee in the processing division determined that the office owed a customer a refund and entered the refund request into MAPPER. The employee then forwarded all paperwork, including the receipt showing how much the customer paid, to a lead worker or supervisor for approval. After approving the refund, the employee entered the authorization into MAPPER and forwarded the paperwork to the fiscal services division. Fiscal services employees verified the customer information in MAPPER and posted the refund in MAPPER. The office sent an electronic file with the refund information to the Department of Finance, which issued the refund to the customer.

In December 2002, the office began using the PROfile system to process refunds, and it revised its procedures. The office established individual customer accounts in PROfile and posted all receipt and fee transactions to the respective accounts. PROfile identified customer account balances that were inactive for 60 days. The office created an electronic file of these accounts and sent it to the Department of Finance to issue the refund. The office also issued refunds to customers when they closed an account with an outstanding balance.

During fiscal year 2002, the office issued approximately $1,000,000 in refunds. The amount of refunds will decrease as the office converts more business processes to PROfile. Customers have 60 days to submit the correct fee and complete the required paperwork before the office issues a refund for the incomplete transaction.

Audit Objectives and Methodology

Our review of revenue and revenue refunds focused on the following questions:

- Did the Office of the Secretary of State's internal controls provide reasonable assurance that it accurately recorded revenue and revenue refunds in the accounting records, safeguarded receipts, and complied with significant finance-related legal provisions?

- For the items tested, did the office comply with the significant finance-related legal provisions concerning revenue and revenue refunds?

To address these objectives, we interviewed office staff to gain an understanding of the processing and recording of receipts and refunds. We analyzed transactions to determine if there were any unusual trends. We also performed testing of detail revenue and refund transactions to determine if the office accurately recorded them in the state's accounting system and complied with significant finance-related legal provisions.

Conclusions

The Office of the Secretary of State's internal controls provided reasonable assurance that it accurately recorded revenue and revenue refunds in the accounting records, safeguarded receipts, and complied with significant finance-related legal provisions and management's authorization. However, the office needs to expand its controls over comparisons between its business systems and the state's accounting system, as discussed in Finding 1.

For the items tested, the office complied with the significant finance-related legal provisions concerning revenue and revenue refunds.

1. The office needs to expand its controls over comparisons between its business systems and the state's accounting system.

The office did not identify and detail differences when periodically comparing the cumulative receipts processed on its MAPPER and PROfile systems to the revenue recorded in the state's accounting system (MAPS) over the same timeframe. The business systems accumulated the transactions processed by office employees. Employees used the summary information from these systems to enter the daily receipt transactions in the state's accounting system. The office followed adequate processes to ensure the accuracy of the daily entry of receipt transactions into the state's accounting system. In addition, the office monitored collections by comparing actual receipts to projected revenue. However, when periodically comparing cumulative information between the internal systems and MAPS, the office did not identify and detail differences such as errors, adjustments, corrections, and timing differences. In combination with the existing controls, such detailed review and documentation would provide greater assurance about the integrity of the state’s accounting system by detecting any erroneous or inappropriate transactions.

Recommendation

- *The Secretary of State’s Office should expand controls by performing periodic comparisons between its business systems and the state’s accounting system.*

Chapter 3. Payroll Expenditures

Chapter Conclusions

The Office of the Secretary of State's internal controls provided reasonable assurance that it accurately compensated employees in compliance with the applicable bargaining agreements and management's authorization and properly recorded payroll expenditures in the accounting and payroll systems.

For the items tested, the office complied with the significant finance-related legal provisions and related employee bargaining agreements and compensation plans.

The Secretary of State's Office expended approximately $5 million on payroll during fiscal year 2002. Payroll was the largest expenditure category for the office. Payroll expenditures consisted of regular, part-time, overtime, and premium pay plus other benefits. The Secretary of State's Office currently employs about 70 employees. These employees are covered by the following compensation plans:

- The Secretary of State Compensation Plan
- American Federal of State, County, and Municipal Employees
- Minnesota Association of Professional Employees
- Middle Management Association

Employees complete bi-weekly timesheets and submit them to their supervisors, who review them for accuracy. The supervisors approve the timesheets and forward them to the fiscal services division, where an employee enters the data into SEMA4, the state's payroll and personnel system. An independent employee reviews the transactions entered into the system. A personnel representative enters personnel transactions into SEMA4 and works with employees on human resource matters.

Audit Objectives and Methodology

Our review of payroll expenditures focused on the following questions:

- Did the office's internal controls provide reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization?

- Did the office comply with significant finance-related legal provisions including bargaining agreements and compensation plans?

To answer these questions, we analyzed personnel and payroll transactions. We interviewed office employees to gain an understanding of the personnel and payroll processes. We reviewed employees' access to the SEMA4 system to determine if there was a proper separation of duties. We tested a sample of payroll transactions to determine if they were properly authorized, adequately supported, and accurately recorded. We also tested a sample of pay rate changes to determine if they complied with the bargaining unit provisions.

Conclusions

The Office of the Secretary of State's internal controls provided reasonable assurance that it accurately compensated employees in compliance with the applicable bargaining agreements and management's authorization and properly recorded payroll expenditures in the accounting and payroll systems. For the items tested, the office complied with the significant finance-related legal provisions and related employee bargaining agreements and compensation plans.

Chapter 4. Administrative Expenditures

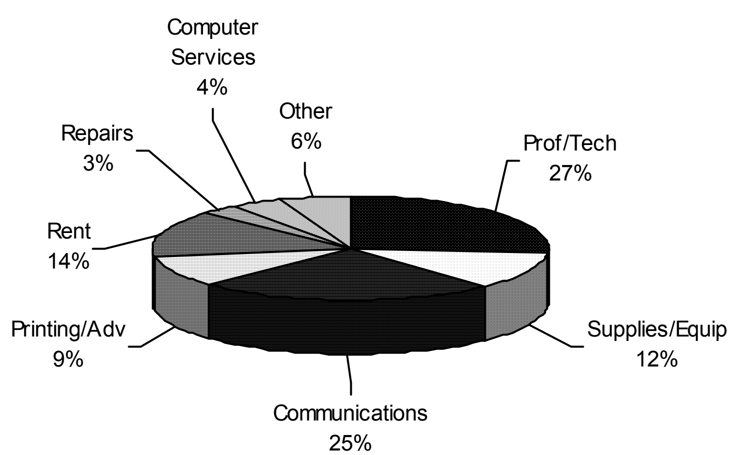
Chapter Conclusions

The Office of the Secretary of State's internal controls provided reasonable assurance that it safeguarded assets, properly recorded the administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization.

For the items tested, the office complied with the significant finance-related legal provisions concerning administrative expenditures.

The Secretary of State's Office incurred administrative costs for repairs, printing, advertising, supplies, equipment, communications, rent, and various services. Figure 4-1 shows expenditures by type for fiscal year 2002.

Figure 4-1
Expenditures by Type
Fiscal Year 2002



Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2002 as of March 31, 2003.

Office of the Secretary of State

Professional and Technical Services

In fiscal year 2002, the office expended over $740,000 for professional and technical services. The office hired consultants to develop and implement the voter registration system and the office's new computer system (PROfile). PROfile became operational in July 2001. The office has withheld payments of nearly $68,000 to a particular vendor due to disputes arising from work performed.

Communications

The Secretary of State's Office expended over $696,000 for communications in fiscal year 2002. These expenditures were for the office's telephone and device connection costs as well as mailing and shipping costs.

Rent

The office leases space in several buildings in the St. Paul area, including the State Office Building, the retirement systems building, and a storage area on Grove Street. During the audit period, the office also leased space at 555 Park Street. The Department of Administration's Real Estate Management Division is responsible for entering into lease agreements on behalf of the Secretary of State. Fiscal year 2002 rent payments totaled over $409,000.

Supplies and Equipment

The Secretary of State's Office spent nearly $334,000 on supplies and equipment in fiscal year 2002. Over $236,000 of this was for general office and computer supplies. The office also purchased computers and leased office machines.

Printing and Advertising

In fiscal year 2002, the office spent over $266,000 on micrographing, printing, and advertising costs. The office obtained micrographing and printing services from state-run operations.

Computer and Systems Services

The Secretary of State's Office spent over $120,000 on computer system production and maintenance in fiscal year 2002.

Repairs and Alterations

The office spent nearly $87,000 in fiscal year 2002 on repairs to equipment and buildings.

Audit Objectives and Methodology

Our review of administrative expenditures focused on the following questions:

Office of the Secretary of State

- Did the office's internal controls provide reasonable assurance that it adequately safeguarded assets, properly recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization?

- For the items tested, did the office comply with significant finance-related legal provisions concerning administrative expenditures?

To answer these questions, we analyzed administrative expenditures. We interviewed employees to gain an understanding of the process used to purchase goods and services, including the process to ensure receipt of goods and services before payment. We tested a sample of expenditure transactions to determine if they were properly authorized, adequately supported, and accurately recorded. We determined if a sample of purchases complied with purchasing and prompt payment requirements. In addition, we determined if the office adequately safeguarded assets.

Conclusions

The Office of the Secretary of State's internal controls provided reasonable assurance that it adequately safeguarded assets, properly recorded the administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization.

For the items tested, the office complied with the significant finance-related legal provisions concerning administrative expenditures.

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Status of Prior Audit Issues
As of May 29, 2003

Most Recent Audit

Legislative Audit Report 01-25, issued in May 2001, examined certain activities of the Office of the Secretary of State for the two years ended December 31, 2000. The scope included revenue and refunds, payroll, and other administrative expenditures. There were no findings cited in this report.

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Mary Kiffmeyer

MINNESOTA SECRETARY OF STATE

July 17, 2003

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55115

Dear Mr. Nobles:

This is in response to the audit report of the Secretary of State's Office for the period January 2, 2001, through December 31, 2002.

I am pleased to receive your audit report validating that the office properly safeguarded assets, accurately recorded receipt and expenditure transactions in the state's accounting and payroll systems, and was in compliance with finance-related legal provisions and policies.

The OSS office performs periodic comparisons between our business systems and the state's accounting system and has done so in the same manner for the past 20 years. No deficiency in this process has been noted in past audits. Never-the-less, in response to the recommendation you have provided, we will immediately implement the new, additional step suggested to provide even further assurance that data reconciles between these two systems. Our Fiscal and Administrative Services Manager, Kathy Hjelm, will be responsible for implementing this recommendation.

My office is fortunate to employ long-term, dedicated employees who take great care and responsibility to ensure good fiscal practices are in place. We will continue to do so and want to express our thanks for the fine service your staff provides to offices such as ours.

Sincerely,

/s/ Mary Kiffmeyer

Mary Kiffmeyer
Secretary of State

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