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

**FINANCIAL AUDIT DIVISION REPORT**

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# **Office of the Secretary of State**

**Internal Controls and Compliance Audit**

**January 1, 2009, through December 31, 2010**

**July 14, 2011**

**Report 11-19**

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FINANCIAL AUDIT DIVISION

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

July 14, 2011

Representative Michael Beard, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Mark Ritchie, Secretary of State  
Office of the Secretary of State

This report presents the results of our internal controls and compliance audit of the Office of the Secretary of State for the period January 1, 2009, through December 31, 2010.

The audit was conducted by Jim Riebe, CPA (Audit Manager), Kathy Rootham, (Auditor-in-Charge), and assisted by auditors Reidar Gullicksrud and Kelsey Nistler.

This report is intended for the information and use 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 14, 2011.

We received the full cooperation of the Office of the Secretary of State's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles  
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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# Report Summary

## Conclusion

The Office of the Secretary of State had adequate internal controls to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal requirements, and created reliable financial data. For the items tested, the Office of the Secretary of State complied with finance-related legal provisions.

The office implemented our prior audit recommendations.<sup>1</sup> It improved security controls over the receipts process and strengthened controls to ensure compliance with employee travel expense reimbursement policies and procedures.

## Audit Objectives and Scope

### Objectives

- Internal Controls
- Legal Compliance

### Period Audited

January 1, 2009, through December 31, 2010

### Programs Audited

- Payroll Expenditures
- Travel Expenditures
- Administrative Expenditures
- Business Services Receipts

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<sup>1</sup> Office of the Legislative Auditor, Financial Audit Division Report 09-28, *Office of the Secretary of State*, issued August 27, 2009.

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# Office of the Secretary of State

## Agency Overview

Article V of the Minnesota Constitution established the Office of the Secretary of State. The Secretary of State is elected for a four-year term. Mark Ritchie was elected as the Secretary of State in November 2006 and was re-elected in November 2010.

The main functions of the office, which operates under *Minnesota Statutes 2010*, Chapter 5, include administering elections; filing and preserving the official documents of the state; registering a variety of businesses; and processing notary public applications, renewals, and changes. The office operates a statewide computer network connecting all counties and allowing access to databases containing business registrations, certain business loan financing statements, and voter registration information. As authorized by statute, the office also administers the Safe at Home Program to protect the location of domestic violence survivors or others who fear for their safety.<sup>2</sup>

The office receives a General Fund appropriation to finance the majority of its operating activities, including the Safe at Home Program. In addition, the office collects fees from customers who pay for on-line access to the computerized Uniform Commercial Code Network and collects receipts for business filings, records processing, farm liens, and surcharges. It records these collections in the General Fund as nondedicated receipts.<sup>3</sup>

The office records technology surcharges on certain business services in the Special Revenue Fund, as allowed by state statute.<sup>4</sup> These surcharges, which expired on June 30, 2011, funded the upgrade to the office's receipts computer system.

The office received grants from the PEW Charitable Trust during the audit period for voter education. The office accounts for this activity in the Gift Fund.

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<sup>2</sup> *Minnesota Statutes 2010*, Chapter 5B.

<sup>3</sup> Nondedicated receipts revert to the General Fund and are not available to fund the office's operations.

<sup>4</sup> *Minnesota Statutes 2010*, 5.32.

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Table 1 summarizes the office's financial activity for the period July 1, 2009, through June 30, 2010.

**Table 1**  
**Summary of Financial Activity**  
**Fiscal Year 2010<sup>1</sup>**

<u>Sources</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Federal Fund<sup>2</sup></u>	<u>Gift Fund<sup>3</sup></u>
Operating Appropriation	\$5,910,000	\$ 0	\$ 0	\$ 0
Reverted <sup>4</sup>	(104,000)	0	0	0
Balance Forward In	0	1,419,481	6,183,870	57,063
Receipts <sup>5</sup>	0	2,661,629	2,902,119	46
Transfers In:				
Help America Vote Act	0	0	61,560	0
<b>Total Sources</b>	<u>\$5,806,000</u>	<u>\$4,081,110</u>	<u>\$9,147,549</u>	<u>\$57,109</u>
<u>Uses</u>				
Payroll	\$3,967,702	\$1,699,307	\$592,492	\$4,975
Other Administrative Costs	954,059	310,901	406,817	3,819
Rent	416,455	105,362	7,213	0
IT Professional/Technical Services	39,811	1,911,788	1,301,037	48,315
Travel	24,497	197	567	0
Balance Forward Out	341,916	53,555	6,839,423	0
Transfers Out	61,560	0	0	0
<b>Total Uses</b>	<u>\$5,806,000</u>	<u>\$4,081,110</u>	<u>\$9,147,549</u>	<u>\$57,109</u>

<sup>1</sup>Our audit scope was January 1, 2009, through December 31, 2010. This scope included the last half of fiscal year 2009, all of fiscal year 2010, and the first six months of fiscal year 2011. This table presents activity from the only full fiscal year in our audit scope and not the full scope of financial activity subjected to our audit.

<sup>2</sup>The Office of the Legislative Auditor annually examines federal grants considered to be major for the State of Minnesota's statewide single audit. None of the office's federal grants are major federal programs, defined for fiscal year 2010 as programs with expenditures exceeding \$30 million. The office received federal funds primarily for the Help America Vote Act. Because of our annual audit of the state's federal grant compliance, we did not examine the office's use of its federal grants as a part of this audit.

<sup>3</sup>The office accounted for the voter education grant from the PEW Foundation in the state's Gift Fund.

<sup>4</sup>*Laws of Minnesota* 2010, chapter 215, article 12, section 7.

<sup>5</sup>Special Revenue Fund receipts are initially deposited into the General Fund and then transferred to the Special Revenue Fund.

Source: Minnesota Accounting and Procurement System.

## Objective, Scope, and Methodology

The objective of our audit of the Office of the Secretary of State for the period of January 1, 2009, through December 31, 2010, was to answer the following questions:

- Were the entity's internal controls adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal requirements, and created reliable financial data?
- Did the entity comply with significant finance-related legal requirements?
- Did the entity resolve prior audit findings?

To answer these questions, we gained an understanding of the office's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of transactions and evidence supporting the office's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the 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 used various criteria to evaluate internal controls and compliance. As our criteria to evaluate agency controls, we used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.<sup>5</sup> We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the office's internal policies and procedures as evaluation criteria over compliance.

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<sup>5</sup> The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal controls that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

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## Conclusion

The Office of the Secretary of State's internal controls were adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal requirements and produced reliable financial information. For the items tested, the Office of the Secretary of State complied with finance-related legal requirements over its financial activities.

The office implemented our three audit recommendations from the prior audit report.<sup>6</sup> It improved security controls over the receipts process and strengthened controls to ensure compliance with employee travel expense reimbursement policies and procedures.

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<sup>6</sup> Office of the Legislative Auditor, Financial Audit Division Report 09-28, *Office of the Secretary of State*, issued August 27, 2009.

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