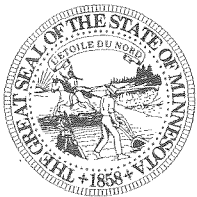


**OFFICE OF THE SECRETARY OF STATE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FISCAL YEARS ENDED JUNE 30, 1985 AND 1986
AND FOR THE SIX MONTHS ENDING DECEMBER 31, 1986**

JULY 1987

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Joan Anderson Growe
Secretary of State

Audit Scope

We have completed a financial and compliance audit of the Office of the Secretary of State for the fiscal years ending June 30, 1985 and 1986, and for the six months ending December 31, 1986. Section I provides a brief description of the Secretary of State's Office activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on June 12, 1987.

The objectives of the audit were to:

- study and evaluate internal control systems within the Office of the Secretary of State, including a review of payroll, fixed assets, administrative expenditures;
- verify that financial transactions were properly recorded in the statewide accounting system;
- verify that financial transactions were made in accordance with the State Constitution, Article V, applicable laws, regulations, and policies, including Minn. Stat. Chapter 5, and other finance-related laws and regulations; and
- determine the status of the prior audit recommendation included in our audit report for the period January 1 to June 30, 1983, and the year ended June 30, 1984.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administration practices of the six elected state constitutional officers as follows:

- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and

- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

Management Responsibilities

The management of the Office of the Secretary of State is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Office of the Secretary of State is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Office of the Secretary of State. The purpose of our testing of transactions was to obtain reasonable assurance that the Office of the Secretary of State had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

In the course of our audit, we employed a variety of audit techniques. These included, but were not limited to, auditor observation, interviews with agency staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Statistical sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of statistical sampling did not prohibit us from reviewing additional transactions which may come to our attention during the audit.

Conclusions

In our opinion, the system of internal accounting control in the Office of the Secretary of State in effect as of June 12, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute

Representative Phillip J. Riveness, Chairman
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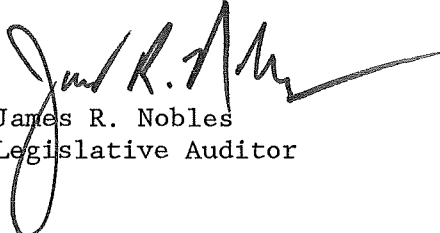
assurance, that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the period July 1, 1984 to December 31, 1986, the Office of the Secretary of State properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, for the period July 1, 1984 to December 31, 1986, the Office of the Secretary of State administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Our audit disclosed no weaknesses in accounting procedures or controls. A summary of the progress made on the audit recommendations discussed in our last audit report covering the six months ending June 30, 1983 and the year ended June 30, 1984, dated August 1985, is shown in Section II entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Secretary of State's staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

July 6, 1987

OFFICE OF THE SECRETARY OF STATE

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Carl Otto, CPA	Auditor-in-Charge
Mary Annala	Staff Auditor

EXIT CONFERENCE

This report was discussed with the following staff of the Office of the Secretary of State on June 25, 1987:

Joan Growe	Secretary of State
Tom Durand	Office Director
Kathy Hjelm	Fiscal Supervisor

OFFICE OF THE SECRETARY OF STATE

I. INTRODUCTION

The Office of the Secretary of State was established by Article V of the State Constitution and operates under Minn. Stat. Chapter 5. The Secretary of State is elected for a four year term. The duties of the Secretary of State include:

- maintaining custody of the state seal, official and corporate records and documents;
- certifying the authenticity of official records, documents, proclamations and executive orders of the Governor, and acts of the Legislature;
- conducting training for local election officials and administering other functions for elections;
- compiling the Minnesota Legislative Manual; and
- administering the open appointment process.

The responsibilities of the Secretary of State are administered by the Business Services, Elections/Publications, Fiscal Operations, and Uniform Commercial Code Divisions.

Shown below is a summary of expenditures for fiscal years 1985, 1986 and the period ending December 31, 1986.

	<u>Year Ended June 30, 1985</u>	<u>Year Ended June 30, 1986</u>	<u>Six Months Ended December 31, 1986</u>
Personal Services	\$ 887,528	\$1,097,305	\$524,160
Travel and Subsistence	7,919	4,526	3,294
Supplies and Equipment	269,103	43,615	11,452
Other Administrative Expenses	300,441	362,616	121,064
Aid to Counties	190,771	0	109,367
Revenue Refunds	<u>62,416</u>	<u>79,239</u>	<u>40,745</u>
TOTAL	<u>\$1,718,178</u>	<u>\$1,587,301</u>	<u>\$810,082</u>

OFFICE OF THE SECRETARY OF STATE

II. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The procedures used in collecting accounts receivable balances need to be revised.

1. In collecting outstanding accounts receivable, the Secretary of State should initiate procedures to :
 - periodically analyze all past due accounts and send appropriate collection letters;
 - use the provisions of the Revenue Recapture Act whenever possible; and
 - write off any uncollectible accounts receivable balances with the approval of the Executive Council or the Attorney General.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED: The Secretary of State periodically sends collection letters for past due accounts and has submitted uncollectible accounts receivable to the Executive Council and the Attorney General. The provisions of the Revenue Recapture Act have not been used, however, the Secretary of State intends to use this Act in the future.

Fixed assets purchased by the Office of the Secretary of State need to be properly accounted for.

2. The Secretary of State should conduct a complete physical inventory of all fixed assets. Office staff should work with the Inventory Management Division to properly account for all assets attributed to this office as is documented on the State Property Inventory Listing.

RECOMMENDATION IMPLEMENTED. The Secretary of State has conducted complete physical inventories and compared the results to the Fixed Asset Inventory System.