

OFFICE OF THE SECRETARY OF STATE

FINANCIAL AUDIT

FOR THE PERIOD JULY 1, 1988 - DECEMBER 31, 1990

JUNE 1991

Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

91-33



**OFFICE OF THE SECRETARY OF STATE**  
**FINANCIAL AUDIT**  
**FOR THE PERIOD JULY 1, 1988 - DECEMBER 31, 1990**

Public Release Date: June 7, 1991

No. 91-33

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**OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** General fund and revolving fund revenues, other financing sources – loan proceeds, personnel services, statewide computer network, loan repayments, and professional and technical services..
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

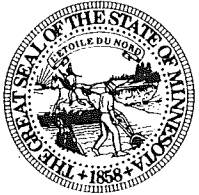
**CONCLUSIONS:**

We found the internal control structure to be effective.

We found the Office of the Secretary of State had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Joan Anderson Growe  
Secretary of State

**Audit Scope**

We have conducted a financial related audit of the Office of the Secretary of State as of and for the two years ended June 30, 1990 and the six months ended December 31, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Office of the Secretary of State, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Office of the Secretary of State in effect during December 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Office of the Secretary of State are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Office of the Secretary of State's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

**Management Responsibilities**

The management of the Office of the Secretary of State is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- revenues - General Fund and revolving fund,
- other financing sources - loan proceeds,
- personnel services,
- computer systems (statewide computer network),
- loan repayments, and
- professional and technical services.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

#### Conclusions

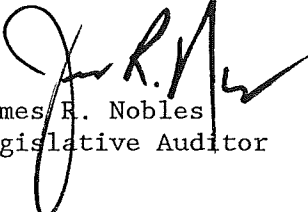
In our opinion, the internal control structure of the Office of the Secretary of State, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to the transactions of the Office of the Secretary of State.

We noted certain matters involving the internal control structure and its operation that we discussed with the management of the Office of the Secretary of State at the exit conference held on April 22, 1991. However, we did not consider these matters to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

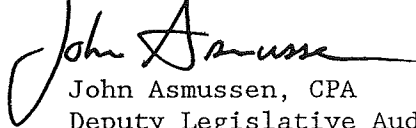
The results of our tests indicate that, with respect to the items tested, the Office of the Secretary of State complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Office of the Secretary of State had not complied, in all material respects, with those provisions.

Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
The Honorable Joan Anderson Growe  
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This report is intended for the information of the Legislative Audit Commission and 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 June 7, 1991.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: April 9, 1991

REPORT SIGNED ON: May 28, 1991





# OFFICE OF THE SECRETARY OF STATE

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## AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Kari Irber, CPA	Auditor-In-Charge
Steve Pyan, CPA	Staff Auditor
Sonya Hill	Staff Auditor

## EXIT CONFERENCE

An exit conference was held with the following staff from the Office of the Secretary of State on April 22, 1991:

Joan Anderson Growe	Secretary of State
Elaine Voss	Deputy Secretary of State
Tom Durand	Operations Director
Kathy Hjelm	Fiscal Services Supervisor



# OFFICE OF THE SECRETARY OF STATE

## INTRODUCTION

Joan Anderson Growe, the Secretary of State, is an elected official. The Secretary is the Chief Election Judge for the State of Minnesota. As Election Judge, the Secretary ensures that elections are fair and comply with state rules and statutes. The Secretary of State's office is responsible for the filing of new business entities and for the maintenance of accurate financing records under the state's uniform commercial code. The Secretary is the keeper of the great seal of Minnesota. As keeper, the Secretary files and certifies the authenticity of official records, documents, proclamations, and executive orders by the Governor, acts of the Legislature, and appointments made by the Governor. The office also maintains the official records of the state on a wide variety of subjects so they can be retrieved and the authenticity certified. The office oversees a statewide computer network of the 87 county courthouses. The network links the records of all registered voters, all uniform commercial code transactions, and all state and county election results.

The Office of the Secretary of State finances its activities primarily through General Fund appropriations and revolving fund receipts. The office collects fees for business services, uniform commercial code filings, various reports, copies, and renewals. These receipts are deposited into the General Fund as nondedicated receipts. The office receives fees from the counties for the use of the statewide computer and fees for voter registration lists. These fees are deposited into the revolving fund. As of July 1, 1991, these fees will be deposited into the General Fund.

The Department of Finance and the Secretary of State entered into a loan agreement with outside financing sources to purchase the statewide computer network. The loan originated in 1988 and will be repaid in seven years. The financial activities related to the Secretary of State's Office, including the loan transactions for the period of this audit, are shown below:

	Fiscal Year 1989	Fiscal Year 1990	Fiscal Year 1991 Through 12/31/90
<u>Revenues and Other Financing Sources:</u>			
General Fund	\$4,583,512	\$5,334,446	\$2,339,384
Revolving fund	520,783	829,636	439,029
Miscellaneous	5,349	700	200
Loan proceeds (Note 1)		<u>3,483,735</u>	
Total Revenue and Other Financing Sources	<u>\$5,109,644</u>	<u>\$9,648,517</u>	<u>\$2,778,613</u>

OFFICE OF THE SECRETARY OF STATE

	Fiscal Year <u>1989</u>	Fiscal Year <u>1990</u>	Fiscal Year 1991 Through <u>12/31/90</u>
<u>Expenditures:</u>			
Personnel services	\$1,932,310	\$2,003,177	\$1,012,349
Statewide computer network	1,095,000	3,483,735	-0-
Loan repayments (principal and interest)	261,275	1,712,101	517,186
Professional/technical services	32,354	10,874	740
Other expenditures	<u>1,775,868</u>	<u>1,417,356</u>	<u>680,559</u>
Total Expenditures	<u>\$5,096,807</u>	<u>\$8,627,243</u>	<u>\$2,210,834</u>

Source: Estimated/Actual Receipts Report as of September 1989 and 1990, fiscal year 1991 through December 31, 1990. Managers Financial Report for September 1989 and 1990 for fiscal year 1988 and 1990 and fiscal year 1991 through December 31, 1990.

Note 1: The statewide computer network was purchased in two phases. The loan proceeds of \$3,483,735 represent the net of the new loan made in 1990 for \$4,853,372 less the loan purchase option of \$1,369,637. The loan purchase option is the buyout of the first loan of \$1,095,000 made in fiscal year 1988 for the computer purchases made in fiscal year 1989.