
Office of the Secretary of State

**Financial Related Audit
For the Two Years Ended December 31, 1998**

April 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-23

SUMMARY

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Office of the Secretary of State

Financial Related Audit For the Two Years Ended December 31, 1998

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No. 99-23

Background Information

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. Joan Anderson Growe served as the Secretary of State during the audit period. Mary Kiffmeyer began her term as Secretary of State in January 1999. The Secretary of State serves as the state's chief election official and is the custodian of the state seal. The office is the official repository for various public documents of the state. The office also maintains a statewide computer network connecting the 87 county courthouses. This network allows users to access the records of registered voters, uniform commercial code filings, and state and county election results.

Audit Areas and Conclusions

Our audit scope included a review of fee and surcharge revenues, payroll, and other administrative expenditures for the period January 1, 1997, through December 31, 1998.

We reviewed fee and surcharge revenue collected by the Office of the Secretary of State, including revenue refunds. The office properly collected and recorded fee revenue, safeguarded receipts, and deposited collections in a timely manner.

We also audited payroll and other selected administrative expenditures. The office accurately recorded payroll and other administrative expenditures. The office complied with applicable finance-related legal provisions and applicable bargaining unit agreements.



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, 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, 1997, through December 31, 1998, as further explained in Chapter 1. Our audit scope included receipts, refunds, payroll, and other administrative expenditures.

We conducted our audit in accordance with generally accepted auditing standards and *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, and contracts 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 for compliance with applicable laws, regulations, and contracts.

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 issued as a public document on April 30, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: March 31, 1999

Report Signed On: April 26, 1999

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
Mike Byzewski	Auditor

Exit Conference

This report was discussed with the following staff of the Office of the Secretary of State at an exit conference held on April 26, 1999:

Mary Kiffmeyer	Secretary of State
Eric Lipman	Deputy Secretary of State
Sheila Reger	Operations Director
Kathy Hjelm	Accounting Director

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. Joan Anderson Growe served as Secretary of State during the audit period. The current Secretary of State, Mary Kiffmeyer, began her term in January 1999. The Secretary of State serves as the chief election official of the State of Minnesota and ensures that elections are conducted in compliance with state rules and statutes. The Secretary of State is also the custodian of the state seal.

The office serves as the official repository for various public documents of the state. The office accepts filing information on all businesses operating in Minnesota and disseminates this information to a wide client group. The office also maintains a statewide computer network connecting the 87 county courthouses. This network allows users to access the records of registered voters, uniform commercial code filings, and state and county election results.

The office receives an appropriation from the Legislature to fund the majority of its activities. The office also receives direct access fees. Customers pay a fee for on-line access to the computerized uniform commercial code network. 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. Revenue from these fees totaled approximately \$9.4 million in fiscal year 1998. The revenue system is discussed in Chapter 2.

The office's administrative expenditures are mainly for payroll and other costs which totaled \$5.8 million in fiscal year 1998. Administrative costs are discussed in Chapter 3.

Table 1-1 provides a summary of the Office of the Secretary of State's financial activities for fiscal year 1998.

Office of the Secretary of State

Table 1-1
Summary of Financial Activity
Fiscal Year 1998

	<u>Amount</u>
Resources Available:	
State Appropriation	\$5,937,000
Direct Access Revenue	416,089
Other Receipts	2,750
Balance Forward In	322,300
Transfers Out	<u>(4,074)</u>
Total Resources Available	<u>\$6,674,065</u>
Expenditures:	
Payroll	\$3,086,711
Other	<u>2,765,597</u>
Total Expenditures	<u>\$5,852,308</u>
Balance Forward Out	<u>\$ 821,757</u>

Sources: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998. Laws of Minnesota for 1997, Chapter 202, Article 1, Section 7

Chapter 2. Revenue

Chapter Conclusions

The Office of the Secretary of State properly collected and recorded fee revenue. The office safeguarded receipts and deposited collections in a timely manner. In addition, the office properly authorized and recorded refund payments.

The Office of the Secretary of State collects fees for business services and records processing filings, uniform commercial code transactions, surcharges, and other programs. The office and the Department of Finance review the fees annually. The Legislature establishes the required fees in Minnesota Statutes. The office deposits these receipts into a special revenue account as non-dedicated revenue.

The office collects business service 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.

Table 2-1 summarizes non-dedicated revenue by source for fiscal year 1998.

Table 2-1
Nondedicated Revenue by Source
Fiscal Year 1998

Business Services and Records Processing	\$6,810,687
Uniform Commercial Code	1,425,958
Surcharge	1,103,232
Other	824,008
Less: Revenue Refunds	<u>(732,708)</u>
Net Revenue	<u>\$9,431,177</u>

Source: Revenue recorded on the Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

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 \$415,000 in fiscal year 1998.

Office of the Secretary of State

The fiscal services division of the Office of the Secretary of State centrally receives all mail and counter receipts. The division deposits all receipts on a daily basis. Fiscal services attaches a receipt voucher to the documents that accompany the individual receipt and forwards these documents to the specific divisions for processing.

The fiscal services division also issues refunds. A refund is issued when an overpayment of fees is made or a filing or search is rejected. A filing or search is rejected when a customer fails to pay the correct fee or fails to include all required information. During fiscal year 1998, the division issued approximately \$733,000 in refunds.

Audit Objectives and Methodology

We focused our review of revenues on the following objectives:

- Did the Office of the Secretary of State collect the proper fees and properly record them?
- Did the Office of the Secretary of State adequately safeguard and deposit receipts in a timely manner?
- Did the Office of the Secretary of State properly authorize and record refunds issued?

To address these objectives, we performed inquiries and analytical procedures. We interviewed fiscal service division personnel to gain an understanding of the process of collecting and depositing receipts and processing refunds. In addition, we selected a random sample of receipts and verified whether the office properly deposited and recorded the amounts collected. We also verified that the amounts billed to counties were accurate. We completed detailed transaction testing and analytical reviews of refunds to determine whether refund payments were properly authorized, supported, and submitted to the correct remitter. In addition, we ensured that only authorized refunds were posted and overriding of authorizations did not occur.

Conclusions

The Office of the Secretary of State properly collected and recorded fee revenue. The office safeguarded receipts and deposited collections in a timely manner. In addition, the office properly authorized and recorded refund payments.

Chapter 3. Administrative Expenditures

Chapter Conclusions

The Office of the Secretary of State accurately recorded payroll and other administrative expenditures in MAPS and SEMA4. The office complied with applicable finance-related legal provisions and provisions of applicable bargaining unit agreements for the items tested.

Payroll

The Office of the Secretary of State employed approximately 60 full-time employees who were primarily in the classified service. The majority of these employees are members of the following compensation plans: American Federation of State, County, and Municipal Employees (AFSCME), Minnesota Association of Professional Employees (MAPE), and Middle Management Association (MMA).

The Secretary of State Plan, authorized by Minnesota Statute 43A.18, covers 11 employees who are not covered by other collective bargaining agreements. Per Minn. Stat. Section 15A.082, Constitutional Officer salaries are enacted by the legislature in session law with assistance and recommendation from the Compensation Council.

Bi-weekly payroll transactions and pay rate changes were processed through the Department of Employee Relation's State Employee Management System (SEMA4). These transactions are interfaced with the Minnesota Accounting and Procurement System (MAPS). For fiscal year 1998, the office disbursed approximately \$3 million in payroll expenditures.

Audit Objectives and Methodology

We focused our review of payroll on the following objectives:

- Did the Office of the Secretary of State accurately record payroll expenditures in SEMA4 and MAPS?
- Did the Secretary of State's Office comply with applicable bargaining unit agreements?

The audit methodology used to evaluate these audit objectives included inquiries and analytical procedures. We reviewed bargaining unit agreements and interviewed payroll and personnel staff to gain an understanding of the internal control structure over payroll and personnel functions. In addition, we analyzed transactions to determine unusual trends in total compensation, performance increases, achievement awards, and retroactive adjustments.

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Other Administrative Expenditures

The Office of the Secretary of State also had other operating expenditures during fiscal year 1998. The most significant of these included rent, repairs and maintenance, consultants, network services, and supplies and equipment. The office has a lease for space in the State Office Building as well as an off-site location that houses additional staff. The office also rents a storage facility.

Other significant expenditures included consultant costs to reconfigure the different computer system operating platforms and the costs associated with an imaging project. The annual maintenance agreement for the operating system is another major office expenditure. The office also incurred significant costs when purchasing new computers and software for the imaging project. The office also pays their portion of wide area network costs. These costs are associated with operating the statewide network, which connects all 87 counties in the state.

Table 3-1 identifies fiscal year 1998 administrative expenditures.

Table 3-1
Other Administrative Expenditures
Fiscal Year 1998

Consultants	\$1,207,577
Repairs and Maintenance	347,065
Network Services	295,833
Rent	240,256
Supplies and Equipment	172,939
Other	<u>501,927</u>
Total	<u>\$2,765,597</u>

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

Audit Objectives and Methodology

We focused our review of administrative expenditures on the following objectives:

- Did the Office of the Secretary of State accurately record administrative expenditures in MAPS?
- Did the Office of the Secretary of State comply with procurement procedures and agency policies?

To address these objectives, we interviewed agency staff to gain an understanding of the purchasing and payment processes. We selected a sample of expenditures and verified that they were properly documented, approved, and recorded.

Conclusions

The Office of the Secretary of State accurately recorded payroll and other administrative expenditures in SEMA4 and MAPS. In addition, the Office of the Secretary of State complied with applicable bargaining unit agreements and applicable finance-related legal provisions.

**Status of Prior Audit Issues
As of March 31, 1999**

May 1997 Legislative Audit Report 97-27 examined the agency's activities and programs for the two years ended December 31, 1996. The scope included revenues and refunds, payroll and capital equipment expenditures.

There were no findings cited in this report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.