

Audit Highlights



Highlights of Legislative Auditor report on the Secretary of State issued on December 8, 2010. Report # LA10-23.

Background

The Secretary of State is a constitutional officer elected to a 4-year term. The agency's main office is in Carson City. The agency also maintains a Las Vegas office.

The mission of the Office of Secretary of State is to effectively and efficiently serve the public by performing its statutory duties to ensure the integrity of elections, facilitate business filings, protect consumers against securities fraud, preserve public records, and to promote public awareness and education in these and related areas. To help accomplish its mission the Office is organized into five divisions: Commercial Recordings, Securities, Elections, Notary, and Operations.

In fiscal year 2010, the Office had 131 positions with total revenues of about \$132.7 million and expenditures of \$15.4 million. Most revenues are deposited directly to the general fund. For example, in fiscal year 2010 the Office deposited over \$128.5 million into the general fund. The Office generates revenue through fees including various corporate and business filings and licenses. The Office also issues fines for violations of securities and notary laws and regulations.

Purpose of Audit

The purpose of this audit was to (1) determine if cash handling practices result in timely deposits, adequately safeguard revenues, and protect customer information, (2) evaluate performance measures including the reliability of reported results, and (3) determine if policies, procedures, and computer access controls are adequate. Our audit focused on practices and controls for handling incoming revenues and securing customer information, policies and procedures, and computer access for fiscal year 2010. The audit also focused on performance measures and reported results for fiscal years 2007 – 2010.

Audit Recommendations

This report contains 12 recommendations to improve controls for handling incoming revenues and securing customer information, performance measures, policies and procedures, and computer passwords. Three recommendations address ensuring deposits are timely and customer information is adequately safeguarded. Four recommendations address improving the reliability and effectiveness of performance measures. In addition, three recommendations address strengthening policies and procedures, and two address computer password controls.

The Office accepted the 12 recommendations.

Status of Recommendations

The Office's 60-day plan for corrective action is due on March 8, 2011. In addition, the six-month report on the status of audit recommendations is due on September 8, 2011.

Secretary of State

Results in Brief

Improvements are needed to reduce delays in depositing checks and ensure adequate safeguarding of checks and customer information. For example, we examined 120 deposits made during fiscal years 2009 and 2010 and found all 120 were not deposited timely as required by state law. On average, the 120 deposits were made 6 working days late. Additionally, checks were not restrictively endorsed when received as a safeguard against misuse. Furthermore, paper copies of customer information including credit card and bank account numbers were stored for up to two years, increasing the opportunity for loss or misuse. During our audit the Office addressed these issues. Deposits are now made more timely, and some customer information was shredded and remaining records are better secured.

The Office can take steps to improve the reliability and effectiveness of its performance measures. Most Office goals lack corresponding performance measures to help determine progress towards achieving goals or address all key programs. Additionally, reported results were not always reliable, accurate, or adequately documented. Finally, revising some measures to address the outcome or the impact on customers and citizens would provide more meaningful information to evaluate program effectiveness.

Policies and procedures can be strengthened by ensuring procedures are in place for all functions, that they are up-to-date, and clearly identify staff responsibilities. In addition, two key Office information systems lack adequate password controls.

Principal Findings

The Office did not deposit cash and checks timely. We reviewed 120 bank deposits from July 2008 to June 2010 and found all 120 deposits were not made timely. On average, bank deposits were made from 2 to 15 working days late. NRS 353.250 requires if on any day the money accumulated for deposit is \$10,000 or more, the deposit must be made the next working day. The Office receives about \$100,000 in cash and checks daily. In September 2010, the Office reported bank deposit timeliness had improved to 1 – 5 working days late.

The Office's process for handling and receipting checks does not ensure checks are endorsed timely. State policy requires agencies endorse checks as soon as possible, but no later than at the end of the working day. These checks were at greater risk of misuse.

The Office stores records including customer credit card and bank account numbers for up to two years. These records were not adequately secured. During our audit some records were shredded and a locked door is now in place to better secure these documents. However, policies and procedures have not been established addressing the storage and retention of customer information.

Most Office performance measures are not aligned with agency goals. Three of four Office goals did not have corresponding performance measures. Without corresponding performance measures the Office cannot effectively measure progress toward achieving goals.

The Office's reported results for five of its six performance measures were not always reliable. Results were not reliable because inconsistent information was reported from one year to the next, inaccurate information was reported, and math errors were made. Additionally, supporting documentation was not always retained to verify the reliability of reported results. As a result, decisions affecting Office programs could be made based on incorrect information.

The Office can take steps to strengthen policies and procedures. The Office needs to develop additional policies and procedures in some areas, update existing procedures, and ensure procedures are made available to staff. In addition, policies and procedures should include effective dates and clearly identify staff positions responsible for performing specific functions.

Two key information systems maintained by the Office lack adequate password controls. The Commercial Recording system does not require a password. In addition, the accounting system does not require users to periodically change their passwords, passwords are not required to be complex, and passwords are seven characters instead of the state standard of eight. With weak password controls, there is a greater risk that employees can access the information under another employee's account. However, employees are required to log into the network before accessing these systems. Although this provides some control over employee access, additional controls are needed.