

LEGISLATIVE AUDIT COMMISSION



Review of
Office of the Secretary of State
Two Years Ended June 30, 2011

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REVIEW: 4400
OFFICE OF THE SECRETARY OF STATE
TWO YEARS ENDED JUNE 30, 2011
FINDINGS/RECOMMENDATIONS - 9
ACCEPTED - 6
IMPLEMENTED - 3
REPEATED RECOMMENDATIONS - 3
PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 8

This review summarizes an audit of the Office of the Secretary of State for the two years ended June 30, 2011, filed with the Legislative Audit Commission June 19, 2012. The auditors performed a financial audit and compliance examination in accordance with State law and *Government Auditing Standards*. The auditors stated that the financial statements of the Office were fairly presented.

The Office of the Secretary of State has diverse responsibilities including the registering and titling of motor vehicles, issuing drivers' licenses, scheduling and conducting formal and informal hearings on driving privileges and registration matters; administering Safety and Financial Responsibility laws; maintaining a vast data processing system which also assists law enforcement with immediate driver and motor vehicle information, and maintaining a Department of Police to enforce compliance with the provisions of the Illinois Vehicle Code, investigate code violations and maintain security at the Capitol Complex area in Springfield.

The Office's other responsibilities include issuing corporate charters and certificates; registering dealers, brokers, agents and investment advisors for securities; regulating the issuance of securities and enforcement of the Illinois Securities Law; retaining Uniform Commercial Code filings reflecting security interests of creditors financing businesses on the basis of secured transactions; and maintaining the organ donation registry.

The Office is responsible for filing a significant number of legal and statutory documents, including Public Acts passed by the General Assembly, gubernatorial and amendatory vetoes, and registering trademarks, copyrights, notaries public and lobbyists. The Secretary of State serves as the Illinois State Librarian, State Archivist, and Ex-Officio Clerk of the Court of Claims. The Office publishes the Rules of the Road, the Handbook of Illinois Government, the Illinois Blue Book, the Illinois Administrative Code, as well as other general educational materials for public distribution.

The Honorable Jesse White, who took office January 11, 1999, was Secretary of State for the period under review.

Appendix A contains a summary of some of the transactions in the Office's vehicle and driver services departments and the number of corporations registered with the Office of the Secretary of State. During FY11 over 11 million passenger car plates were issued.

The average number of employees was:

	FY11		FY10		FY09	
Operating Groups	Regular Positions	Extra Help	Regular Positions	Extra Help	Regular Positions	Extra Help
Executive	3,348	359	3,543	388	84	3
General Admin.	135	1	3	1	1,085	58
Motor Vehicles	67	3	21	1	2,442	376
TOTAL	3,550	343	3,567	390	3,591	437
Average Salary	\$55,000		\$52,931		\$48,757	

Expenditures From Appropriations

The General Assembly appropriated a total of \$447,919,450 to the Office in FY11, from 48 different funds. The Office expended \$98,858,032 from non-appropriated funds in FY11. Expenditures for FY11 from appropriated funds were \$348,829,271, which represents an increase of \$13.7 million, or 4.1%, over FY10 expenditures. Overall expenditures, including from non-appropriated funds, were \$447.6 million in FY11 compared to \$439 million in FY10. The largest nonappropriated fund is the International Registration Plan Fund which reflects payments from states in which truck owners, residing in other states, pay for Illinois truck registration through their home state.

General Revenue Funds accounted for 74.2%% of the Office's appropriated expenditures. The Road Fund, which in FY09 accounted for 33.5% of expenditures, accounted for only 0.6% of expenditures in FY11 and no expenditures in FY10. In FY09 the Office received an appropriation in the Road Fund of \$130 million to pay for operations and refunds. The Office did not receive an appropriation in the Road Fund for FY10 and received an appropriation of \$2.3 million for refunds only in FY11. The GRF appropriation was increased to offset this lost appropriation. Another major change was the majority of the FY10 and FY11 appropriations was received in a lump sum format.

Appendix B is a summary of appropriations and expenditures by fund and summarizes expenditures from nonappropriated funds. Lapse period expenses were \$24.4 million, or 5.4%.

Appendix C summarizes the expenditures by major object code during FY09-FY11. In addition to the significant changes in expenditures explained above, there was a \$7 million increase in operational expenses due to reallocation of resources between FY10 and FY11.

Cash Receipts

Appendix D is a summary of the Office's cash receipts for FY11 and FY10 by Fund. Also listed are total receipts remitted to the Comptroller according to service and department. Receipts were \$2.24 billion in FY11 compared to \$2.09 billion in FY10. The vast majority of the Office's cash receipts are from vehicle services—\$1.7 billion. Some changes are due to inconsistent and unpredictable receipt sources like fines. Significant changes in receipts occurred as follows:

- \$3 million decrease in Library services due to decrease in federal government grant;
- \$1.9 million increase in Index Department was due to a lawsuit which enjoined the Office from collecting lobbyist fees. When the suit was resolved, fees were collected for FY10 and FY11;
- \$13 million increase in Driver Services due to a license fee increase passed by the Legislature;
- \$140 million increase in Vehicle Services due to the increase in title, license and registration fees.

Property and Equipment

Appendix E is a schedule of changes in property and equipment for FY11 and FY10. Total property and equipment increased from \$499.5 million as of July 1, 2009 to \$510.2 million as of June 30, 2011.

Accountants' Findings and Recommendations

Condensed below are the nine findings and recommendations presented in the audit report. There were three repeated recommendations. The following recommendations are classified on the basis of updated information provided by Joe McDonald, Department of Budget and Fiscal Management, via electronic mail received August 1, 2013.

Accepted or Implemented

- 1. Ensure that each employee utilizes an individual cash drawer and is not permitted to access the drawer of other employees until such time as alternative controls are achieved through the new technology equipment that the Office has obtained. (Repeated-2005)**

Finding: The Office of the Secretary of State (Office) permitted multiple employees to have access to the same cash drawers at the Drivers License Facilities.

During fieldwork, auditors visited six of the Office's 138 facilities. At four of the facilities visited, auditors noted that multiple employees could access the same cash drawer.

Office personnel indicated the excessive access to the cash drawers is a byproduct of the emphasis placed on prompt service and minimal customer wait time.

Updated Response: Accepted and partially implemented. The Office has completed the installation of security cameras in 119 facilities throughout the State. The Office continues to review and improve our processes in order to achieve the appropriate control over our receipts processing.

2. Implement procedures to ensure the accuracy of quarterly property reporting to the Comptroller.

Finding: The Office submitted inaccurate quarterly reports of State property to the Comptroller during fiscal years 2010 and 2011.

The Office timely filed its Agency Report of State Property (form C-15) with the Comptroller. However, auditors noted various errors on the C-15 reports that were not identified until the auditors' review. The report for the quarter ended December 31, 2010 understated Office assets by \$19,969. The report for the quarter ended March 31, 2011 overstated Office property by approximately \$622,000.

Office personnel stated that the errors noted above were an oversight, and that the reporting to the Comptroller was not reviewed prior to submission.

Updated Response: Implemented. Quarterly property reports are being reviewed prior to submission to the Comptroller.

3. Prepare and submit an annual report on the operations of the filing-office as required by the Uniform Commercial Code.

Finding: The Office did not prepare or submit an annual report required by the Uniform Commercial Code. The Office has been designated as a "filing office" in which to file a financing statement to perfect a security interest and the Office must report annually to the Governor and the Legislature on the operation of the filing office and the extent to which its rules are not in harmony with rules of filing offices in other jurisdictions and the Model Rules promulgated by the International Association of Corporate Administrators.

Office personnel stated they were previously unaware of this annual reporting requirement.

Updated Response: Implemented. The Office has added procedures to ensure annual reports are filed with the appropriate parties.

Accepted or Implemented – continued

4. Implement procedures to ensure timely information concerning the custodians of change funds and that change funds be maintained in a locked safe at all times.

Finding: The Office did not maintain an accurate listing of custodians of its change funds, and not all safes containing change funds were kept locked at all times. During testing of the Office's change funds, auditors noted the following:

- 29 of the 323 employees listed as a change fund custodian were no longer employed by the Office or were at a different facility.
- At two of 138 facilities, the safes used to store the change funds and daily work were left unlocked during business hours.

When a change in custodian occurs, both the former and successor custodian should promptly complete form C-85, and the Office should provide such copy to the Comptroller.

Updated Response: Implemented. The Office has implemented procedures to facilitate the timely exchange of information concerning changes to custodians of change funds. The Office has also replaced all inoperable safes.

5. Ensure representatives are appointed to task forces as required and that procedures exist to timely identify such mandated duties.

Finding: The Office did not appoint a representative to serve on a task force as directed by the Civil Administration Code, which required that the Department of Public Health, in collaboration with the State Police, establish a task force to examine the process used by State and local governmental agencies to conduct criminal history record checks as a condition of employment or approval to render provider services to such an agency.

Office personnel indicated that it was an oversight that a representative was not appointed to serve on the task force.

Response: Accepted. The Office maintains that it was willing to participate in this task force. Representatives from the State Police and the Department of Public Health did not notify the Office that a task force had been established nor was the Office notified of meeting times and places. The Office has taken a proactive role by identifying all legislation that requires the Secretary to participate in and/or designate members of task forces or similar organizations and making first contact when and where necessary.

6. Implement procedures to ensure the Agency Workforce Report is prepared and submitted annually to the Office of the Governor as required by the State Employment Records Act.

Finding: The Office did not submit its 2010 Agency Workforce Report to the Office of Governor. Office personnel stated that the failure to file the report was an oversight.

Updated Response: Implemented. The Office properly and timely completed the report, but inadvertently failed to file the report with the Office of the Governor. The Office will ensure the Agency Workforce Report is submitted to both the Office of the Governor and the Secretary of State Index Department on a timely basis in the future. The FY11 and FY12 reports were filed timely.

7. Continue assessing physical security over computer operations and assure physical access to computer equipment and data resources is adequately secured. Restrict access to the computer room and server areas to operational personnel requiring access for fulfilling their routine job requirements. (Repeated-2007)

Finding: The Office continued to have physical security weaknesses over its computer systems.

Auditors noted that 121 persons were authorized access to the Office's main computer facility at its Dirksen Parkway location. This access capability allows these individuals physical access to the Office's mainframe computer, control consoles, servers, and output devices. Some of these individuals did not have operations responsibilities; however, they maintained office space within the computer room.

Office personnel stated that as space required for the computer equipment decreased, the excess space became utilized for other purposes.

Response: Accepted. The number of employees with access to the room has been reduced from a high of over 400 people just a few years ago to the 121 noted above. The Office will continue to review the list of persons with access to the computer room and remove access rights where possible. In addition, the Office will review reports to understand who is accessing the computer room and when, in order to identify any potential breach of protocol and further understand who truly needs access codes to the room.

The Office accepts that it is not an ideal situation that non-operational personnel have offices within the computer room, but it is cost prohibitive at this time to make the required changes to the design of the room and the office space is needed for personnel. The non-operational staff located within the computer room is limited to System Administrators who already have our highest system security clearance and Information Technology Help Desk personnel who have daily interaction with the operators located in the computer room.

Accepted or Implemented – concluded

Updated Response: Partially Implemented. The Office has further reduced the number of employees with access to the room to 100. Both the Director of Information Technology and the Security Administrator are periodically reviewing a report on who has access to the computer room to ensure the only employees that have access are personnel whose routine job requirements require such access. The remainder of the response regarding Help Desk personnel has not changed.

- 8. Assure all confidential information is adequately safeguarded and promptly disposed when no longer needed. Establish Office-wide procedures for properly disposing confidential information. Once established, effectively communicate the procedures to all Office personnel, and enforce compliance with procedures ensuring all confidential information is kept secured until no longer needed, and then properly disposed.**

In addition, perform a comprehensive risk assessment to identify all confidential information in electronic and hardcopy form and ensure it is adequately safeguarded. (Repeated-2009)

Finding: The Office had not assured adequate Office-wide procedures existed for disposal of confidential information.

Although the Office had established policies relating to the security of confidential information, the Office failed to establish and implement Office-wide procedures for adequately disposing of confidential information. Auditors found informal procedures existed for shredding confidential documentation and confidential information was not always secured prior to disposal. While performing walkthroughs at the Office auditors noted the following:

- At least 12 boxes of vehicle applications, vehicle titles, and processed International Registration Plan (IRP) forms containing personal and confidential information were found in hallways accessible to the public.
- Rooms containing an incinerator and an industrial shredder used for disposing confidential information were not secured. Within the rooms were several pallets of boxes containing personal and confidential information such as death certificates, tax return information, and driver's license information.
- Lockable bins were not always used to store personal and confidential information prior to disposal.

Office management stated they believed the security concerns were corrected by restricting access to areas within the Vehicle Services Department and the placement of some bins in certain areas for the disposal of confidential information.

Updated Response: Accepted and partially implemented. The Office has clearly defined procedures in place regarding the handling and disposal of confidential information which are included in the Office's Policy Manual. These policies and procedures are routinely communicated to employees of the Office and any known violations of the policy are enforced according to the remedies outlined in the policy. Steps are being taken to remedy the specific deficiencies noted.

A working group has begun the comprehensive risk assessment of confidential information but it is not yet completed. When this is completed, the Office will make appropriate changes to help ensure confidential information is adequately safeguarded.

9. Adhere to the standards and procedures manual. Adequately document and appropriately approve all system developments prior to being implemented.

Finding: The Office did not comply with its development standards and procedures, including obtaining required signoffs, before placing its new Office-wide Payroll System, Paycheque, into production. The Office's IT Standards and Procedures Systems Development Methodology uses a document called a Project Implementation Request (PIR) to control and document the development of computer applications through the various phases of the systems development process. During the review, auditors found:

- The PIR had not been signed off.
- The project had not been reviewed by Internal Audit as required by the Office's development standards;
- A post-implementation review had not been performed as required.
- Required system documentation was not completed. For example, user manuals for the data entry and system administration were not complete.

Office management stated a tight deadline to complete the Paycheque System contributed to the development process not being completely adhered to.

Response: Accepted. Office management and internal audit were involved in the development of the Paycheque system. Verbal approvals were given to proceed throughout the development of the system. The Office failed to follow up these verbal approvals with the required documentation. In the future, the Office will adhere to its standards and procedures manual regarding documentation of systems developed as required.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate

expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY10 and FY11, the Office filed no affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The Office of the Secretary of State indicated as of July 14, 2011 that it had 262 employees who spent more than 50% of their working time at locations other than their official headquarters.