

State of Nevada
Governor's Finance Office
Division of Internal Audits

Audit Report

**Office of the Secretary of State
Commercial Recordings Division**

Report No. 16-06
June 2016

EXECUTIVE SUMMARY
Office of the Secretary of State,
Commercial Recordings Division

Introduction.....page 1

**Objective: Can the Secretary of State’s Commercial Recordings Division
Improve Effectiveness of Operations?**

Improve Controls over Cash/Check Receipts Procedures.....page 5

Improving controls over cash/check receipts will help ensure funds are not misappropriated. The division’s southern office is not following division procedures over mail-in and customer service window cash/check receipts to ensure segregation of duties. Consequently, the office is exposed to greater risk of misappropriation of funds. However, we found no evidence of misappropriation during our review. The state’s uniform system of internal accounting and administrative control developed pursuant to NRS 353A.020 requires key duties be segregated among individuals. These duties include receiving funds, processing and logging funds, and reconciling funds for deposit.

Establish Centralized Complaint Tracking Systempage 6

Establishing a centralized tracking system for complaints will ensure constituent concerns are handled in a timely and effective manner and help management monitor issues of concern by the public. Currently, the office receives complaints via multiple avenues. Complaints are forwarded to the appropriate supervisor and/or other staff who, in some cases, can resolve the complaint without forwarding it. Management is not aware of all the complaints received because there is no centralized complaint tracking system. Consequently, the division cannot ensure all complaints are resolved in a timely and effective manner.

Evaluate Performance Standardspage 7

Evaluating performance standards to ensure they reflect what staff is expected to achieve will more accurately measure staff productivity and help the division allocate resources more efficiently. Moreover, accurate staff productivity measurements will help management effectively evaluate individual performance and make other staff decisions. We found, on average, division staff is not meeting performance standards. Some individual staff members exceed the performance standards, while others fall short; however, there is no processing backlog. The average performance rate staff is achieving is sufficient to assure there is no backlog and processing is accomplished in a timely manner. However, that rate is below the division’s stated performance standard. The division is achieving processing goals with an actual performance rate that is lower than the stated standard; therefore, the stated standard may be too high.

Complete Staff Performance Evaluations in a Timely Manner.....page 8

Completing staff evaluations in a timely manner will ensure the division is in compliance with NRS and staff is performing to standard. We noted more than half of required staff evaluations were not completed in a timely manner. Thirty percent of staff evaluations had not been completed since 2009.

Appendix A page 9

Office of Secretary of State Response and Implementation Plan

Appendix B.....page 11

Timetable for Implementing Audit Recommendations

INTRODUCTION

At the request of the Secretary of State, we conducted an audit of the Office of the Secretary of State (office), Commercial Recordings (division). Our audit focused on the division's budget process, controls over cash receipts, complaint process, and performance standards.

Office's Role and Public Purpose

The Secretary of State, elected to a four-year term, is responsible for maintaining the official records of the acts of the Nevada Legislature and of the executive branch of state government, as prescribed by law. The office is organized into five divisions: Commercial Recordings, Elections, Notary, Operations, and Securities.

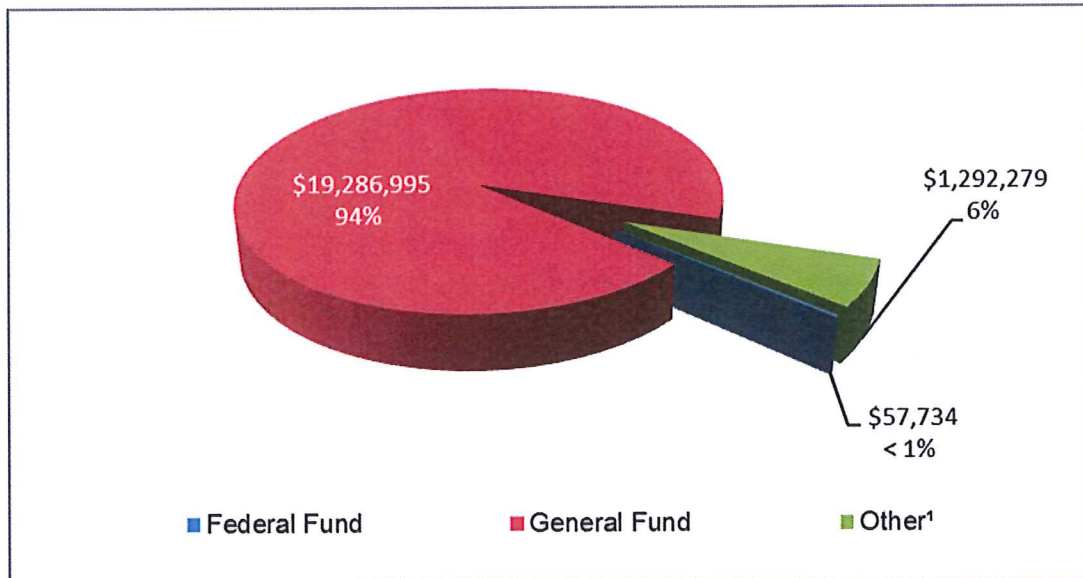
- **Commercial Recordings** – responsible for accepting, filing, maintaining, and providing public access to the organizational and amendatory documents of business entities organized under the laws of Nevada. The division also registers trade names, trademarks, services marks and rights of publicity.
- **Elections** – certifies candidates, registers and files Candidate Contribution and Expenditure Reports, certifies ballot questions, supervises elections, and reports and certifies the results of state primary and general elections. The division also administers the state's Confidential Address Program for victims of domestic violence.
- **Notary** – responsible for appointing, training and, when necessary, disciplining the approximately 34,000 notaries public currently serving the residents of Nevada. The division is also charged with administering the state's digital signature laws and with notarizing apostilles.
- **Operations** – manages important internal functions of the office, including: accounting, budget, and information technology (IT). This division is responsible for the office's \$20 million budget and more than \$100 million in annual revenues received by the office. The IT component oversees the development and maintenance of the electronic Secretary of State (eSoS) application, statewide voter database, the agency's website, and other important applications and tools.

- **Securities** – regulates the state's securities industry. The division licenses individuals who sell securities, registers securities offerings, and enforces the civil and criminal provisions of the state's securities laws. The division is also tasked with licensing agents representing athletes, pursuant to the Athletes Agent Act of 2001.

The office's budget for fiscal year 2016 was approximately \$20.6 million. Exhibit I summarizes the office's budget.

Exhibit I

**Office of the Secretary of State Funding Sources
Fiscal Year 2016**



Source: 2016 Legislatively Approved Budget

Table Note:

¹Other includes balance forward from prior year

Objective and Scope

Our audit focused on the following objective:

- ✓ Can the Secretary of State's Commercial Recordings division improve effectiveness of operations?

We began the audit in July 2015. In the course of our work, we interviewed office staff and discussed processes inherent to the division's responsibilities. We reviewed division records for fiscal years 2013 through 2016, applicable Nevada Revised Statutes (NRS), and other state guidelines. We also surveyed other agencies, comparing state oversight requirements. We concluded field work and testing in May 2016.

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing*.

We express appreciation to the Secretary of State, Deputy Secretaries of State, and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Warren Lowman
Executive Branch Audit Manager

Ashwini Prasad, CPA, CIA, CGMA
Executive Branch Auditor

Office of the Secretary of State Response and Implementation Plan

We provided draft copies of this report to the Office of the Secretary of State for their review and comments. Their comments have been considered in the preparation of this report and are included in Appendix A. In its response, the division accepted our recommendations. Appendix B includes a timetable to implement our recommendations.

NRS 353A.090 specifies within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the division has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and division officials.

The following report contains our findings, conclusions, and recommendations.

Can the Secretary of State's Commercial Recordings Division Improve Effectiveness of Operations?

The Secretary of State's Commercial Recordings Division (division) can improve the effectiveness of operations by:

- Improving controls over cash/check receipts;
- Establishing a centralized complaint tracking system;
- Evaluating current performance standards and determining if they accurately reflect what staff is expected to achieve; and
- Completing staff evaluations in a timely manner.

Improving the effectiveness of the division's operations will benefit the Secretary of State by enhancing accountability and responsiveness to the public.

Improve Controls over Cash/Check Receipts Procedures

The division should follow cash/check receipt procedures in the southern office, located in Las Vegas, to ensure segregation of duties when receiving mail-in payments and preparing the daily deposit. This will help ensure funds are not misappropriated.

Mail-In Payment Procedures are not Segregated

The division's southern office receives mail-in payments for business licenses and other business related fees. An administrative assistant opens the mail-in payments and enters them into the division's database (eSOS). The eSOS database functions as a log of the payments. The administrative assistant then issues business licenses and updates customers' accounts for other business related fees. The same person should not both receive payments and issue business licenses and update customers' accounts for other business related fees in eSOS. Lack of segregation of duties allows for the administrative assistant to misappropriate payments and falsify records and/or customer accounts.

Deposit Procedures are not Segregated

The southern office supervisor reconciles cash/checks on-hand from daily mail-in payments and the office customer window payments with the eSOS report. At times, the supervisor will receive mail-in payments and cover the customer service window. The supervisor then prepares the daily deposit to be turned into the Treasurer's office. The supervisor should not prepare the daily deposit at

times when she covers the staff and receives payments. Lack of segregation of duties allows for the supervisor to misappropriate the payments and falsify records.

The state's uniform system of internal accounting and administrative control developed pursuant to NRS 353A.020 requires key duties be segregated among individuals. These duties include receiving funds, processing and logging funds, and reconciling funds for deposit.

The southern office is not following division procedures over mail-in and customer service window cash/check receipts to ensure segregation of duties. Consequently, the office is exposed to greater risk of misappropriation of funds. However, we found no evidence of misappropriation during our review. Improving controls over cash/check receipts will help ensure funds are not misappropriated.

Establish Centralized Complaint Tracking System

The division should establish a centralized tracking system for Commercial Recordings complaints. Establishing a centralized tracking system for complaints will ensure constituent concerns are handled in a timely and effective manner and help management monitor issues of concern by the public.

Currently, the office receives complaints via multiple avenues. The division's customer service section receives the majority of complaints through the office's general email address. Other sections of the division also receive complaints via phone calls, emails, fax, or mail-ins. Complaints are forwarded to the appropriate supervisor and/or other staff. In some cases staff can resolve the complaint without forwarding it. However, there is no centralized system for receiving and managing complaints.

We tested a sample of complaints to ensure they were handled in a timely and efficient manner. Most complaints were resolved at the supervisory level within a day of receiving the complaint. However, we saw instances when complaints were not resolved in either a timely manner or at all because the supervisor did not have a record of the outstanding complaint and did not know action was still necessary.

A centralized tracking system for complaints would allow division managers to monitor the timeliness and effectiveness of the entire complaint process. Management is not aware of all the complaints received because there is no centralized complaint tracking system. Consequently, the division cannot ensure all complaints are resolved in a timely and effective manner.

Establishing a centralized complaint system will help the division better serve the public. Management will be better able to monitor specific issues of concern by the public and trends in complaints received by the division.

Evaluate Performance Standards

The division should evaluate current performance standards and determine if they accurately reflect what staff is expected to achieve. Achievable performance standards will more accurately reflect staff productivity.

We found, on average, division staff is not meeting performance standards. Some individual staff members exceed the performance standards, while others fall short. However, staff is achieving approximately 70 percent of the standard, on average. Our review found job category processing rates do not meet those noted in the performance standards as described below in Exhibit II.

Exhibit II

Job Category Processing Rates

Job Category	Performance Standard Individual Requirement (per day)	Actual Staff Average (per day)
Amendments	40-45 per day	31
New Filings	45-50 per day	35
Status	100-120 per day	78

Table Note:

We reviewed Amendments, New Filings and Status as they comprise the majority of job categories. Other job categories include mailroom functions and notary functions.

Discussions with agency representatives noted processing rates are difficult to assess as job categories involve multiple tasks, which are not tracked individually. We were unable to determine how much time was allocated to each task as staff time is not tracked by task. Moreover, it may not be cost beneficial to track individual job category tasks, considering the additional time and resources that may be required.

The division reports there is no processing backlog. We reviewed division records and found the backlog was, in general, a day or less of processing. The average performance rate that staff is achieving is sufficient to assure there is no backlog and processing is accomplished in a timely manner. However, that rate is below the division's stated performance standard. In effect, the division is

achieving processing goals with an actual performance rate that is lower than the stated standard. As such, the stated standard may be too high.

Evaluating performance standards to ensure they accurately measure staff productivity will help the division allocate resources more efficiently. Moreover, accurate staff productivity measurements will help management effectively evaluate individual performance and make other staff decisions.

Complete Performance Evaluations

The division should complete performance evaluations in a timely manner. This will help ensure the division complies with Nevada Revised Statutes as well as document employees are performing at expected performance levels.

We reviewed performance evaluations prepared by the division's supervisors and noted more than half of required staff evaluations were not completed in a timely manner. Thirty percent of staff evaluations had not been completed since 2009.

Per NRS 284.340 and the State Administrative Manual, performance evaluations are to be conducted annually or as otherwise noted in statute. The division should conduct staff performance evaluations immediately to comply with state guidelines.

Completing staff evaluations in a timely manner will ensure the division is in compliance with NRS and document staff is performing to standard.

Recommendations

1. Improve controls over cash/check receipts procedures.
2. Establish centralized complaint tracking system.
3. Evaluate performance standards.
4. Complete staff performance evaluations in a timely manner.

Appendix A

Office of the Secretary of State Response and Implementation Plan

BARBARA K. CEGAVSKE
Secretary of State

STATE OF NEVADA



OFFICE OF THE
SECRETARY OF STATE

JEFFERY LANDERFELT
*Deputy Secretary
for Commercial Recordings*

RECEIVED

MAY 26 2016

DIVISION OF INTERNAL AUDITS

May 25, 2016

Steve Weinberger
Administrator, Division of Internal Audits
209 East Musser Street, Suite 300
Carson City, Nevada 89701

Re: Response to Commercial Recordings Division Audit Report

Dear Mr. Weinberger:

Thank you for your team's work relating to the Secretary of State's Commercial Recordings Division. We have reviewed the draft report and accept your recommendations. The Division has already started the process to implement the recommendations, as specified below.

Recommendation 1 - Improve controls over cash/check receipts procedures.

We accept this recommendation. We are transferring a position to the Las Vegas office to assist with customer service and processing during peak filing periods. This additional position will also allow additional capacity to ensure segregation of duties in the cash/checks receipts procedures. This recommendation will be implemented by December 2016.

Recommendation 2 - Establish centralized complaint tracking system.

We accept this recommendation. We are considering utilizing an existing tracking system for another division within the agency that can be modified for tracking complaints, which will allow us to follow the complaint throughout the entire lifecycle and ensure proper management oversight. This recommendation will be implemented by December 2016.

Recommendation 3 - Evaluate performance standards.

We accept this recommendation. We have already begun the process of reviewing performance standards to ensure the standards reflect current processes and expectations. This recommendation will be implemented by December 2016.

NEVADA STATE CAPITOL
101 N. Carson Street, Suite 3
Carson City, Nevada 89701-3714
Telephone: (775) 684-5708
Fax: (775) 684-5725

COMMERCIAL RECORDINGS
MEYER'S ANNEX OFFICE
202 N. Carson Street
Carson City, Nevada 89701-4201
Telephone: (775) 684-5708
Fax: (775) 684-5725

LAS VEGAS OFFICE
555 E. Washington Avenue Ste. 5200
Las Vegas, Nevada 89101-1090
SECURITIES
Telephone: (702) 486-2440
Fax: (702) 486-2452
CORPORATIONS
Telephone: (702) 486-2880
Fax: (702) 486-2888

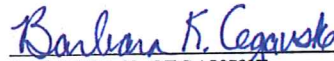
RENO OFFICE
500 Damonte Ranch Pkwy, Suite 657-A
Reno, Nevada 89521
Telephone: (775) 687-9950
Fax: (775) 853-7961

Recommendation 4 – Complete staff performance evaluations in a timely manner.

We accept this recommendation. We have already begun the process of performing those staff evaluations that are not current and ensuring that staff evaluations are prepared in a timely manner. This recommendation will be implemented by December 2106.

Please feel free to contact Chief Deputy Scott Anderson at 775-684-5711 if you have any questions or should require additional information.

Respectfully,



BARBARA K. CEGAVSKI
Secretary of State

Appendix B

Timetable for Implementing Audit Recommendations

In consultation with the Office of the Secretary of State, the Division of Internal Audits categorized the four recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The office should begin taking steps to implement all recommendations as soon as possible. The office's target completion dates are incorporated from Appendix A.

Category 1: Recommendations with an anticipated implementation period of less than six months.

<u>Recommendations</u>	<u>Time Frame</u>
1. Improve controls over cash/check receipts procedures. (page 8)	Dec 2016
2. Establish centralized complaint tracking procedures. (page 8)	Dec 2016
3. Evaluate performance standards. (page 8)	Dec 2016
4. Complete staff evaluations in a timely manner. (page 8)	Dec 2016

The Division of Internal Audits shall evaluate the action taken by the division concerning report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the committee and office.