

D16A06
Secretary of State

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$1,897	\$1,945	\$2,050	\$105	5.4%
Deficiencies and Reductions	0	-39	-121	-82	
Adjusted General Fund	\$1,897	\$1,906	\$1,929	\$23	1.2%
Special Fund	408	458	520	62	13.6%
Deficiencies and Reductions	0	0	-4	-4	
Adjusted Special Fund	\$408	\$458	\$516	\$58	12.7%
Adjusted Grand Total	\$2,305	\$2,364	\$2,445	\$81	3.4%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 allowance after adjustments is \$81,092, or 3.4%, higher than the 2015 working appropriation. Adding 1 regular position primarily drives the 12.7% increase in special funds.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	24.00	24.00	25.00	1.00
Contractual FTEs	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
Total Personnel	25.00	25.00	26.00	1.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.74	3.10%
Positions and Percentage Vacant as of 12/31/14	n/a	n/a

- The fiscal 2016 allowance adds 1.0 regular position. The addition is an Address Confidentiality Program (ACP) coordinator.
- The fiscal 2016 turnover rate is 3.58%, which requires 0.9 vacancies. As of November 30, 2014, the agency reports a 1.0 vacancy.

Analysis in Brief

Major Trends

Address Confidentiality Program for Victims of Domestic Violence Continues to Grow: ACP has grown rapidly since its inception in fiscal 2007, enrolling about 20 times more participants in fiscal 2014 than in fiscal 2007. The number of participants grew by 23.7% in fiscal 2014, and the amount of mail forwarded through the program grew 20.7%. The fiscal 2016 allowance adds another coordinator position to focus on human trafficking victims.

Ensuring Delinquent Charities Comply with State Law: In fiscal 2012, the agency introduced a new measure to track the annual number of delinquent charities, delinquent charities that the agency contacted, and delinquencies that the agency resolved. In fiscal 2014, the agency contacted 8.0% more charities and resolved 7.8% more delinquencies, than in fiscal 2013.

Issues

Charitable Enforcement: Chapter 654 of 2014 increased the Attorney General’s role in enforcing laws related to charitable organizations. The Secretary of State and the Attorney General reviewed the issues associated with charitable enforcement and found that the Secretary of State’s current enforcement system is insufficient. An interim report dated December 1, 2014, suggests creating an online electronic filing system for charitable registrants and hiring an Assistant Attorney General (AAG) dedicated to enforcement. **The agency should comment on its progress since the interim report on the electronic filing system and hiring an AAG.**

Recommended Actions

1. Add budget bill language to abolish 1 position due to cost containment.

Updates

Change in Notary Application Review: Chapter 450 of 2013, which went into effect on October 1, 2013, allows State senators to opt out of reviewing notary public applications. If a senator opts out, then the responsibility shifts to the Secretary of State’s office. In fiscal 2015, the agency was appropriated an additional 0.5 contractual employee to handle the increased responsibility.

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Operating Budget Analysis

Program Description

The Maryland Constitution and applicable statutes charge the Secretary of State with a wide variety of responsibilities. The Secretary of State attests to the Governor's signature on all public papers and documents; certifies documents for international use; registers trademarks, service marks, and insignia; administers the Notary Public laws; processes extraditions; assists in the commissioning of the special police and railroad police; administers the Sister States Program; represents the State of Maryland and the Executive Department in intergovernmental and international affairs; and administers the Address Confidentiality Program (ACP) for domestic violence victims in Maryland.

The Charitable and Legal Services Division registers, regulates, investigates, and informs the public about charitable organizations and professional solicitors.

The Division of State Documents (DSD) compiles and publishes all of the State's administrative regulations in the *Maryland Register* and *Code of Maryland Regulations* (COMAR).

The key goals of the Secretary of State are to:

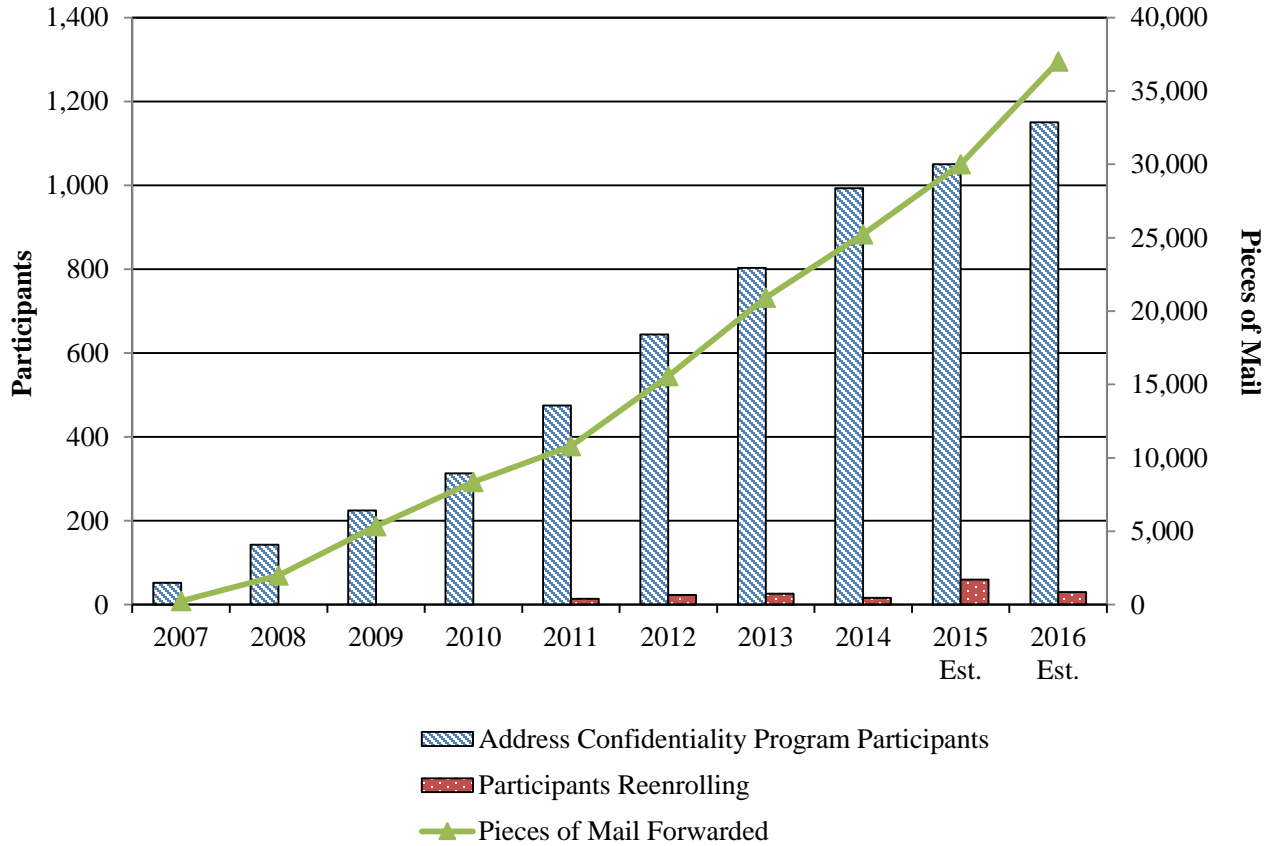
- implement a document management plan to manage documents related to DSD operations;
- strengthen and enhance Maryland's role and influence in international affairs;
- obtain updated information from delinquent charitable organizations required to register with the Secretary of State;
- help Maryland residents make informed decisions when contributing to a charitable organization; and
- maintain and expand ACP for victims of domestic violence who have relocated to avoid further abuse.

Performance Analysis: Managing for Results

1. Address Confidentiality Program for Victims of Domestic Violence Continues to Grow

Participation in ACP has grown rapidly since its inception in fiscal 2007, as shown in **Exhibit 1**. The number of participants grew by 23.7% in fiscal 2014, and the agency projects continued but relatively slow future growth. The agency anticipates a conservative 5.7% growth to 1,050 participants

**Exhibit 1
Address Confidentiality Program Participants and Mail Forwarding
Fiscal 2007-2016 Est.**



Source: Governor’s Budget Books

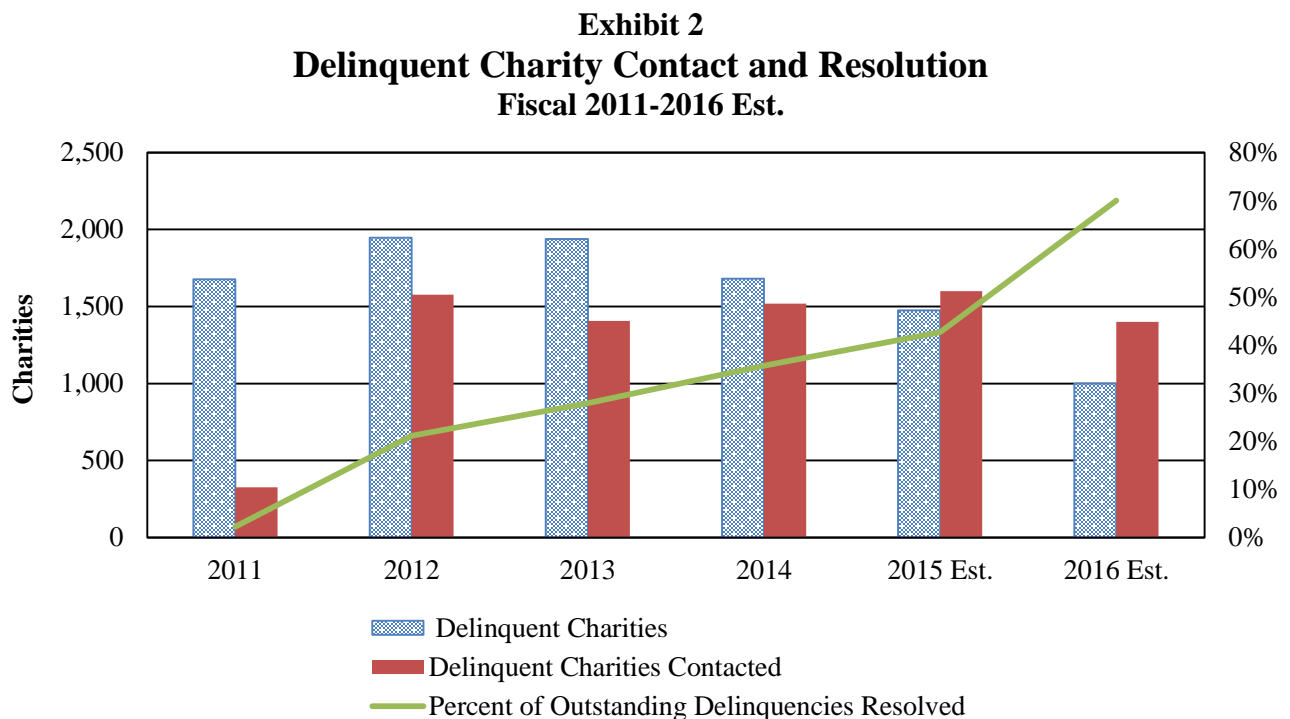
in fiscal 2015 because in mid-fiscal 2015, the agency hired a new ACP coordinator. The agency expects to likely surpass its estimated fiscal 2016 enrollment and reach 2,000 participants. The fiscal 2016 allowance adds a position for a human trafficking coordinator. The coordinator will develop and support outreach services of the Human Trafficking Program, which will allow ACP to expand to human trafficking victims.

Once a participant enrolls in ACP, membership lasts for four years unless the participant cancels. The first reenrollments occurred in fiscal 2011, and the agency anticipates an increase in reenrollments from only 16 in fiscal 2014 to 60 in fiscal 2015. The amount of mail forwarded through the program also continues to steadily increase, growing by 20.7% in fiscal 2014 and with projected growth of 18.9% and 23.3% in fiscal 2015 and 2016, respectively.

2. Ensuring Delinquent Charities Comply with State Law

Sections 6-407 and 6-408 of the Business Regulation Article require charities, with some exceptions, to submit to the Secretary of State an annual fee and an annual report. Charities often submit their filings late or not at all. The agency follows up on the delinquencies by sending letters to the organizations or referring the organizations to an investigator. In 2011, the Office of Legislative Audits (OLA) conducted a fiscal compliance audit of the Secretary of State that included a finding that the agency did not always follow up with charities that did not submit a required annual report or fee. In the 2012 session, the Secretary of State introduced new Managing for Results measures to track its resolution of this audit finding. Beginning with fiscal 2011, the agency began tracking the number of delinquent charities, delinquent charities that the agency contacted, and delinquencies the agency resolved.

As shown in **Exhibit 2**, after contacting fewer delinquent charities in fiscal 2013, compared to fiscal 2012, the agency increased the number contacted in fiscal 2014 by 8.0%. The number of delinquencies resolved has continued to increase slowly; however, the number of delinquencies resolved compared to total outstanding delinquencies has risen more significantly. In fiscal 2013, the agency resolved 27.9% of total outstanding delinquencies, and in fiscal 2014 resolved 35.7%. The agency’s future projections are aggressive with the percent of resolved delinquencies rising to 42.7% in fiscal 2015 and 70.0% in fiscal 2016.



Source: Governor’s Budget Books

Fiscal 2015 Actions

Cost Containment

A 2% across-the-board reduction decreased general funds by \$39,000.

Proposed Budget

As shown in **Exhibit 3**, after adjusting for cost containment and contingent reductions, the fiscal 2016 budget grows by \$81,092, which is 3.4% over the current fiscal year budget. The increase is mainly driven by the addition of 1 regular full-time position and other personnel cost increases. The increase is partly countered by the \$26,000 reduction in special funds of items for resale. The agency sells physical copies of COMAR. Sales have leveled off, and the agency has enough copies in stock to last through the end of fiscal 2016.

**Exhibit 3
Proposed Budget
Secretary of State
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Fiscal 2014 Actual	\$1,897	\$408	\$2,305
Fiscal 2015 Working Appropriation	1,906	458	2,364
Fiscal 2016 Allowance	<u>1,929</u>	<u>516</u>	<u>2,445</u>
Fiscal 2015-2016 Amt. Change	\$23	\$58	\$81
Fiscal 2015-2016 Percent Change	1.2%	12.7%	3.4%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$47
New position	45
Increments and annualized general salary increase (prior to cost containment)	40
Retirement contributions.....	28
Other fringe benefits	2
Section 20: abolition of prior year 2% general salary increase.....	-32
Section 21: abolition of employee increments	-52

Other Changes

Purchase new vehicle for Secretary	20
Postage adjusted to align with fiscal 2014	13
Supplies, materials, and office equipment	8
Contractual notary and certification officer	5
Other	2
2% across-the-board general fund reduction, net fiscal 2015-2016.....	-2
Software licenses	-4
Reduction in employee training	-13
Supplies needed for sale of COMAR.....	-26

Total **\$81**

COMAR: *Code of Maryland Regulations*

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

Cost containment measures reduce the fiscal 2016 allowance by \$86,000. The allowance retracts the fiscal 2015 cost-of-living increase which reduces total funds by \$32,000. Funding for increments are eliminated, cutting \$52,000. There is also a 2% across-the-board reduction, decreasing general funds by \$41,000, \$2,000 more than the 2% fiscal 2015 cost containment cut. The agency anticipates holding a vacancy open to meet the reduction. **The Department of Legislative Services recommends that the agency comment on the impact that the vacancy will have on operations.**

Human Trafficking Address Confidentiality Coordinator

Chapter 344 of 2014 requires the Secretary of State to establish a Human Trafficking Address Confidentiality Program (HTACP) for human trafficking victims. The purpose of HTACP is to enable State and local agencies to respond to requests for public records without disclosing the location of a human trafficking victim. The fiscal 2016 allowance includes special funds for adding a Human Trafficking Coordinator position to the agency's Maryland Safe at Home program. Specifically, the coordinator will be targeting victims of human trafficking to expand the existing ACP. The total cost of the position is \$44,574. The position will be funded with special funds that the agency no longer needs for the publication and sale of COMAR.

Issues

1. Charitable Enforcement

The Secretary of State registers and regulates charities that solicit in Maryland. Currently, there are more than 9,000 charities registered in the State. Once a charity initially registers with the agency, the charity is required to submit an annual report and an annual fee. The agency monitors charities for compliance. In 2011, OLA conducted a fiscal compliance audit of the Secretary of State and found that the agency did not always follow up with charities that did not comply with the reporting and payment requirements. A second OLA audit, dated January 2014, repeated this finding.

While the agency has steadily attempted to contact an increased number of delinquent charities, a law was passed in the 2014 session that authorizes the Attorney General to investigate and enforce laws relating to charitable organizations in the same manner as the Secretary of State. The law increases specified fees that charities are required to pay, establishes a Charitable Enforcement Fund, and requires the Secretary of State and the Attorney General to establish a workgroup to study and report on information related to charitable organizations, registration, and enforcement.

The agency requires an annual fee that gets progressively larger with the size of the charity. A total of \$100 of each charity's annual fee goes to the Charitable Enforcement Fund. The agency will give a delinquent charity a six-month grace period after the end of the charity's fiscal year to make the annual payment. Unless the agency grants an extension, the charity will be assessed \$25 for each month that the annual payment is late.

The Charitable Enforcement Fund is a special, nonlapsing fund to support the Secretary of State and the Attorney General in administering and enforcing laws relating to charitable organizations. The fund consists of revenue from fees, appropriated money, investment earnings, and any money from other sources. One of the Charitable Enforcement Fund's significant purposes is to provide funds to hire an Assistant Attorney General (AAG) assigned specifically to enforce charitable laws.

On December 1, 2014, the Secretary of State and the Attorney General submitted an interim report that reviewed the charity registration and regulation process. The report determined that, as of November 24, 2014, there were 9,669 charitable organizations registered with the Secretary of State. Of those organizations, 2,311, or 23.9%, had a delinquent registration, and another 957 had an incomplete registration.

The Secretary of State and the Attorney General determined that once there are monies in the Charitable Enforcement Fund, both agencies will be able to more efficiently bring charitable organizations into compliance. The agencies will utilize an electronic filing system and a dedicated AAG. The current filing system requires staff to individually scan paper filings and then review individual submissions for incomplete filings. An electronic filing system would give Secretary of State staff more time to review filings, follow up on delinquent registrants, allow for online credit card payments, and decrease the number of follow ups. The agency has had a preliminary meeting with an information technology contractor and has taken steps to revamp the Charity Database. Additionally,

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the report suggests hiring an AAG dedicated to enforcing the applicable laws. A dedicated AAG would provide more effective enforcement and additional avenues to pursue delinquent filers. **The agency should comment on its progress since the interim report on the electronic filing system and hiring an AAG.**

Recommended Actions

1. Add the following language:

Provided that 1 regular position (002079) is abolished to reflect the loss of funds for the position due to cost containment.

Explanation: The fiscal 2016 allowance includes a 2% across-the-board reduction in general funds. The agency has indicated that it intends to leave a vacancy open in order to meet the reduction. The position should be abolished in order to reflect the Administration's goal of ongoing, structural reductions.

Updates

1. Change in Notary Application Review

Chapter 450 of 2013 allows State senators to opt out of reviewing references for notary public applications. If a senator chooses to opt out, the responsibility shifts to the Secretary of State.

To process a single application, Secretary of State staff must enter application data into a database daily, as application fees must be included in daily bank deposits. Depending on which legislative district the applicant resides in, staff then performs a cursory background check by either contacting applicant references or sending the qualifying application to the appropriate senator's office for reference verification. In fiscal 2014, the agency processed 19,181 new and renewing notary applications, a 6% decrease from fiscal 2013. By December 13, 2013, there were 477 applications awaiting reference checks. One reason for the backlog was that senators' staff had been holding on to applications in anticipation of turning them over to the Secretary of State, so the agency received a large lump sum of applications when the law took effect. Additionally, the agency did not add any extra staff to handle the additional responsibilities; the existing notary staff absorbed the extra work with the help of staff elsewhere in the agency.

The agency anticipates processing 23,600 applications in fiscal 2015, a 23% increase over 2014. The Secretary of State has 2.0 full-time employees who carry the full responsibility of processing a daily average of 50 to 80 new and renewing notary applications, answering phone and email inquiries, and performing other tasks related to the application process. The fiscal 2015 allowance increased the agency's contractual workforce by 0.5 full-time equivalent (FTE) to aid in processing the new and renewing notary commissions. That employee is responsible for managing the reference checks for the new notary applications from senators who have opted out. The increase has provided the agency the necessary resources it needs to meet the current notary application responsibilities and to completely clear the application backlog.

Current and Prior Year Budgets

Current and Prior Year Budgets Secretary of State (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative Appropriation	\$1,925	\$366	\$0	\$0	\$2,291
Deficiency Appropriation	-59	0	0	0	-59
Budget Amendments	33	44	0	0	76
Reversions and Cancellations	-2	-1	0	0	-4
Actual Expenditures	\$1,897	\$408	\$0	\$0	\$2,305
Fiscal 2015					
Legislative Appropriation	\$1,931	\$455	\$0	\$0	\$2,386
Cost Containment	0	0	0	0	0
Budget Amendments	14	3	0	0	17
Working Appropriation	\$1,945	\$458	\$0	\$0	\$2,403

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

The Secretary of State finished fiscal 2014 approximately \$14,000 over its legislative appropriation. Deficiency appropriations reduced retirement contributions by \$27,371 and health care contributions by \$45,893 but added \$14,000 for a net reduction of \$59,264.

Budget amendments for the fiscal 2014 cost-of-living adjustment (COLA) and salary increment increased the appropriation by \$34,297. Two budget amendments added \$42,000 to the special fund for contractual services.

Fiscal 2015

One budget amendment added \$16,809 to the legislative appropriation for the fiscal 2015 COLA.

Audit Findings

Audit Period for Last Audit:	March 2, 2011 – June 3, 2014
Issue Date:	January 2015
Number of Findings:	3
Number of Repeat Findings:	1
% of Repeat Findings:	33%
Rating: (if applicable)	n/a

Finding 1: **Procedures and controls for processing and monitoring information from charitable organizations were not sufficient.**

Finding 2: The office had not established adequate controls over cash receipts.

Finding 3: Agreements for funds provided to charitable organizations were not prepared, and accounting for the use of funds was not obtained.

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Secretary of State**

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	24.00	24.00	25.00	1.00	4.2%
02 Contractual	1.00	1.00	1.00	0.00	0%
Total Positions	25.00	25.00	26.00	1.00	4.0%
Objects					
01 Salaries and Wages	\$ 1,934,103	\$ 1,976,960	\$ 2,139,381	\$ 162,421	8.2%
02 Technical and Spec. Fees	22,331	39,927	46,274	6,347	15.9%
03 Communication	108,381	94,498	107,593	13,095	13.9%
04 Travel	26,146	21,000	19,500	-1,500	-7.1%
07 Motor Vehicles	5,930	5,110	24,110	19,000	371.8%
08 Contractual Services	147,957	179,708	163,476	-16,232	-9.0%
09 Supplies and Materials	37,197	60,650	37,300	-23,350	-38.5%
10 Equipment – Replacement	6,551	10,000	10,000	0	0%
11 Equipment – Additional	2,131	3,000	7,370	4,370	145.7%
13 Fixed Charges	13,887	12,080	15,150	3,070	25.4%
Total Objects	\$ 2,304,614	\$ 2,402,933	\$ 2,570,154	\$ 167,221	7.0%
Funds					
01 General Fund	\$ 1,896,609	\$ 1,945,051	\$ 2,050,000	\$ 104,949	5.4%
03 Special Fund	408,005	457,882	520,154	62,272	13.6%
Total Funds	\$ 2,304,614	\$ 2,402,933	\$ 2,570,154	\$ 167,221	7.0%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

**Fiscal Summary
Secretary of State**

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 Office of the Secretary of State	\$ 2,304,614	\$ 2,402,933	\$ 2,570,154	\$ 167,221	7.0%
Total Expenditures	\$ 2,304,614	\$ 2,402,933	\$ 2,570,154	\$ 167,221	7.0%
General Fund	\$ 1,896,609	\$ 1,945,051	\$ 2,050,000	\$ 104,949	5.4%
Special Fund	408,005	457,882	520,154	62,272	13.6%
Total Appropriations	\$ 2,304,614	\$ 2,402,933	\$ 2,570,154	\$ 167,221	7.0%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.