

**D16A06**  
**Secretary of State**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$1,893	\$1,869	\$1,908	\$40	2.1%
<b>Adjusted General Fund</b>	<b>\$1,893</b>	<b>\$1,869</b>	<b>\$1,908</b>	<b>\$40</b>	<b>2.1%</b>
Special Fund	308	400	345	-55	-13.7%
<b>Adjusted Special Fund</b>	<b>\$308</b>	<b>\$400</b>	<b>\$345</b>	<b>-\$55</b>	<b>-13.7%</b>
<b>Adjusted Grand Total</b>	<b>\$2,201</b>	<b>\$2,268</b>	<b>\$2,253</b>	<b>-\$15</b>	<b>-0.7%</b>

- The fiscal 2013 allowance of the Secretary of State decreases by \$14,812, or 0.7%. A general fund increase of \$39,743, or 2.1%, is more than offset by a special fund decrease of \$54,555, or 13.7%.
- The largest changes occur as a result of efforts to contain costs through changes to part-time contractual positions and savings from printing in-house or through the Department of General Services.

***Personnel Data***

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>
Regular Positions	24.00	24.00	24.00	0.00
Contractual FTEs	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>26.00</b>	<b>25.00</b>	<b>25.00</b>	<b>0.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	0.72	3.00%
Positions and Percentage Vacant as of 12/31/11	n/a	n/a

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

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- There are no changes in the number of regular or contractual positions in the fiscal 2013 allowance. However, the Secretary of State has realigned its part-time contractual positions to reflect anticipated needs in fiscal 2013.
- As of December 31, 2011, the office had no vacant positions. To meet its turnover expectancy, the Secretary of State needs to maintain 0.72 vacancies in fiscal 2013. At the current level of vacancies, the office may have difficulty meeting the turnover expectancy.

## ***Analysis in Brief***

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### **Major Trends**

***Address Confidentiality Program Continues to Grow:*** Fiscal 2011 continued the trend of growth in the number of participants in the Address Confidentiality Program and in pieces of mail forwarded, with increases of 51.8 and 29.3%, respectively, compared to fiscal 2010. For the first time in 2011, participants in the program were eligible to re-enroll in the program for an additional period of time.

***Performance Measures Altered to Focus on Resolving Audit Finding:*** A fiscal compliance audit released by the Office of Legislative Audits in October 2011 included a finding related to the Secretary of State's review of charitable organizations. As a result, the office has revised the performance measures contained in its Managing for Results submission to focus on the office's contacts with and resolution of delinquent charities.

### **Issues**

***Division of State Documents Fund Balance Transfer:*** The Budget Reconciliation and Financing Act of 2012 includes language to transfer \$50,000 of the special fund balance from the Division of State Documents to the general fund. The estimated fund balance at the close of fiscal 2013 after the transfer would be \$56,229.

### **Recommended Actions**

1. Concur with Governor's allowance.

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***Operating Budget Analysis***

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**Program Description**

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; assists in the commissioning of the special police and railroad police; administers the Sister States Program; and represents the State of Maryland and the Executive Department in intergovernmental and international affairs. The office also processes extraditions and maintains a docket on pardons. The Address Confidentiality Program (ACP) for victims of domestic violence in Maryland is also administered by the office.

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).

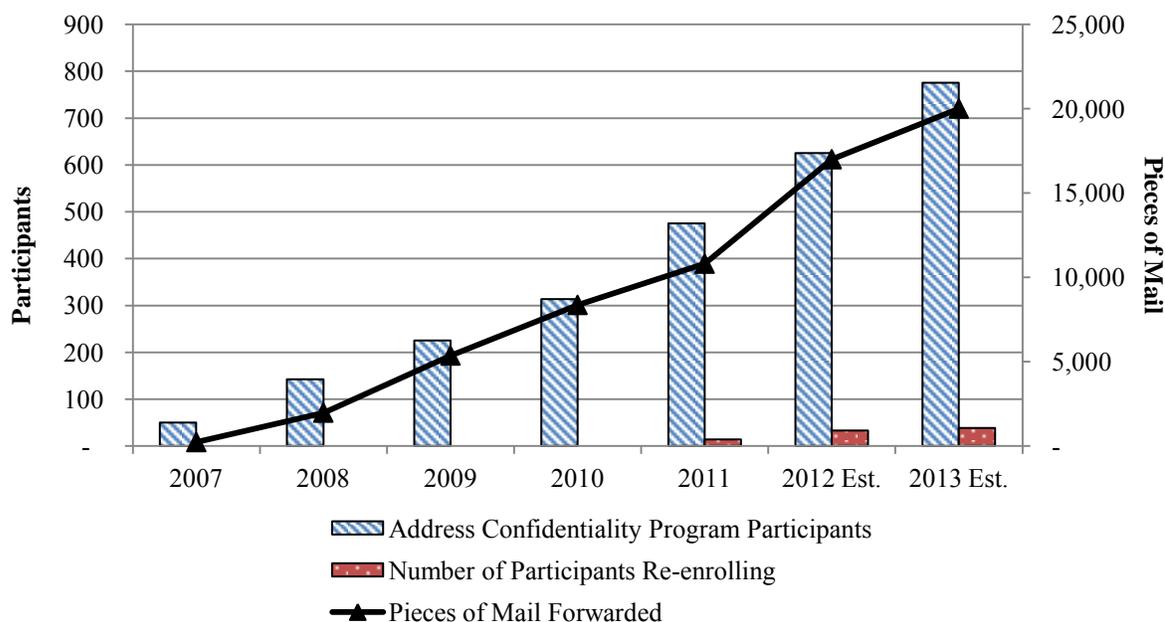
The key goals of the Secretary of State are:

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

**Performance Analysis: Managing for Results**

The ACP began operations in fiscal 2007. Participation in the program has grown rapidly in all years since the program began, as shown in **Exhibit 1**. Fiscal 2011 continued that trend with an increase of 51.8% in the number of program participants and 29.3% in the number of pieces of mail forwarded.

**Exhibit 1  
Address Confidentiality Program  
Fiscal 2007-2013**



Source: Secretary of State; Governor’s Budget Books

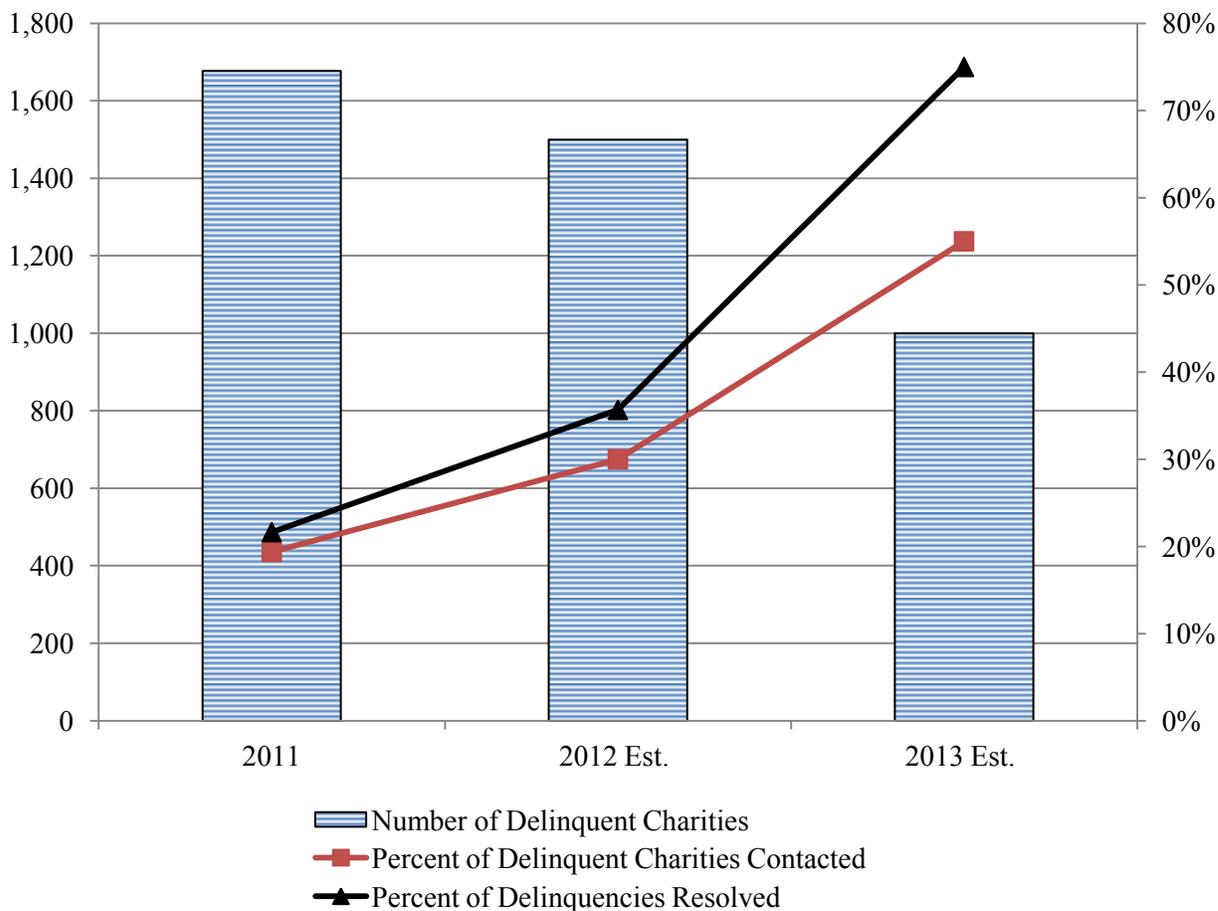
After four years, program participants wishing to remain in the program must re-enroll. Fiscal 2011 was the first year participants were eligible to re-enroll. The Managing for Results (MFR) measures were revised to include the number of participants re-enrolling.

A fiscal compliance audit of the Secretary of State released in October 2011 included a finding that the office did not have adequate procedures to ensure that charities’ exempt status were proper or that charities were in compliance with annual reporting requirements. Annual reports are required to be filed within six months after the close of the organization’s fiscal year. To track progress in resolving this audit finding, the Secretary of State has revised its MFR submission related to following up with delinquent charitable organizations, (*i.e.*, organizations that did not comply with timeframes for submitting required reports). New measures for 2012 include:

- the number of delinquent charities;
- the number of delinquent charities contacted; and
- the number of delinquencies resolved (in addition to overall contacts).

The office treats all contacted delinquent charities as resolved. **Exhibit 2** presents information on the agency’s performance. Only one year of actual data is currently available.

**Exhibit 2**  
**Delinquent Charities**  
**Fiscal 2011-2013**



Note: Percent of delinquencies resolved includes delinquent charities contacted and delinquencies resolved in addition to overall contacts.

Source: Secretary of State; Governor’s Budget Books; Department of Legislative Services

**The Secretary of State should comment on how the office intends to improve performance in ensuring charitable organizations comply with reporting requirements.**

### *D16A06 – Secretary of State*

The audit contained one repeat finding, which appeared in the two previous audits, related to the agency's tracking of foundations affiliated with State agencies. Foundations with this affiliation are required to submit audited financial statements and an agreed-upon procedures report that, among other information, discloses the relationship of the foundation with the agency. The audit explained that the Secretary of State had revised its registration and annual renewal forms following the prior audit finding, but the revised forms were not always used by the foundations. The Secretary of State reports that the outdated forms are no longer in use. In addition, the Charitable and Legal Services Division has begun a planned annual process of sending letters to State agencies requesting a list of private foundations with which they are affiliated. The agency is also preparing a document to track agency responses. For those agencies that have not yet been sent a letter, the Charitable and Legal Services Division is in the process of obtaining contact information for each agency so that letters may be sent.

## **Proposed Budget**

As shown in **Exhibit 3**, the fiscal 2013 allowance decreases by \$14,812, or 0.7%. A general fund increase of \$39,743 (2.1%) is partially offset by a special fund decrease of \$54,555 (13.7%).

Personnel expenditures increase by \$10,393 (0.6%), primarily due to increased costs for employee retirement (\$30,478) that are partially offset by the removal of the one-time bonus for employees (\$18,561).

Outside of personnel, many of the changes in the fiscal 2013 allowance are driven by efforts to constrain spending. One of these efforts is to reduce printing by outside sources and print in-house when possible or through the Department of General Services. This is expected to reduce printing expenditures by an additional \$40,561 in the fiscal 2013 allowance beyond reductions that occurred in fiscal 2011 and 2012. However, the office will incur additional expenses in fiscal 2013 to implement more in-house printing. For example, the office has a lease for a new printer that is expected to allow for the in-house production of certain titles of the COMAR, an increase of \$3,500.

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

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Total</u></b>
2012 Working Appropriation	\$1,869	\$400	\$2,268
2013 Allowance	<u>1,908</u>	<u>345</u>	<u>2,253</u>
Amount Change	\$40	-\$55	-\$15
Percent Change	2.1%	-13.7%	-0.7%
Contingent Reductions	\$0	\$0	\$0
Adjusted Change	\$40	-\$55	-\$15
Adjusted Percent Change	2.1%	-13.7%	-0.7%

**Where It Goes:**

**Personnel Expenses**

Employee retirement .....	\$30
Turnover adjustments and other salary and fringe benefit adjustments .....	-2
Removal of one-time bonus .....	-19

**Cost Allocations**

Statewide personnel system allocation.....	11
Department of Information Technology Services allocation .....	3
Retirement administrative fee .....	3
DBM paid telecommunications.....	-6

**Other Changes**

Items such as binders included as part of COMAR sales to reflect recent experience .....	20
Tri-annual Windows software license upgrade.....	16
Lease for a new printer and cost of paper and other supplies for in-house production of certain COMAR title purchases .....	5
Completion of software upgrades .....	-1
Agency cost containment efforts in the areas of contractual services and subscriptions .....	-3
Postage partially offset by telephone and cell phone expenditures primarily to reflect recent experience .....	-4

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**Where It Goes:**

Equipment purchases reduced by extending replacement cycle and minimizing purchases.....	-7
Contractual position costs .....	-22
Cost of printing through in-house printing and use of DGS' printing .....	-41
Other.....	-1
<b>Total</b>	<b>-\$15</b>

COMAR: *Code of Maryland Regulations*  
DBM: Department of Budget and Management  
DGS: Department of General Services

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

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## *Issues*

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### **1. Division of State Documents Fund Balance Transfer**

The Budget Reconciliation and Financing Act of 2012 proposes to transfer \$50,000 of the special fund balance from the DSD to the general fund. The fund is used for expenditures in the DSD. Revenue for the fund is generated through subscriptions and sales of the *Maryland Register* and COMAR. Prices for COMAR vary based on the titles that are purchased and whether it is printed or electronic. As of January 2012, a complete set of COMAR titles can be purchased for \$1,000 or \$500 for a subscription for an electronic version. As of January 2012, the *Maryland Register* has two options for a subscription:

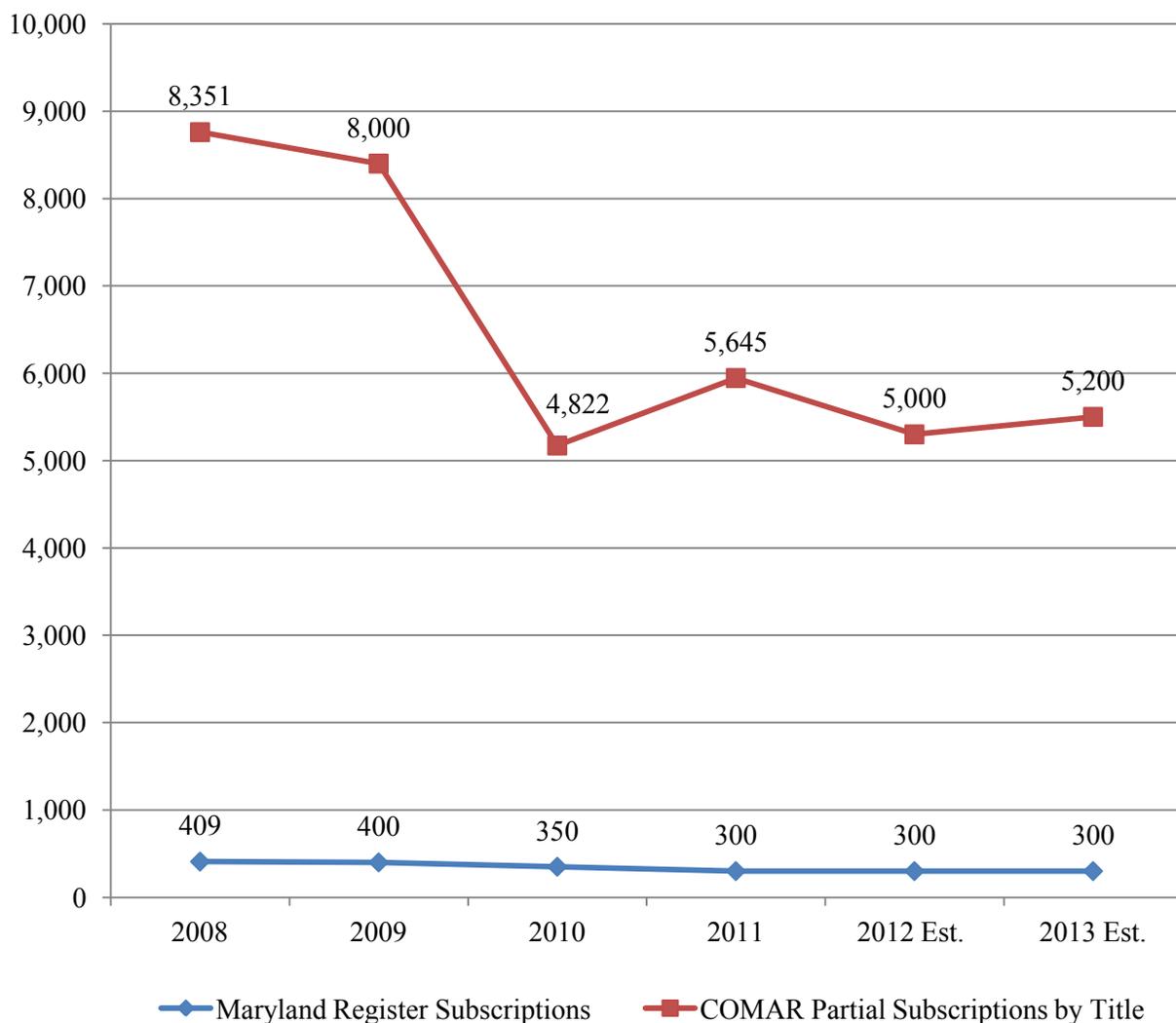
- a single year print subscription \$225; and
- an annual eSubscription with a \$190 cost for a single user and \$130 for each additional user.

As shown in **Exhibit 4**, the number of *Maryland Register* subscriptions has steadily declined in recent years, dipping to 300 in fiscal 2011. COMAR subscriptions decreased dramatically in fiscal 2010, a decrease of nearly 40%, but rebounded in fiscal 2011, an increase of 17.1%. However, the fiscal 2010 actual COMAR subscriptions information has been revised from the number previously reported due to data cleanup activities. Revised numbers for fiscal 2008 and 2009 were not available and as a result the change in subscriptions may be overstated.

As shown in **Exhibit 5**, the revenue received declined from fiscal 2006 to 2008, and after an increase in fiscal 2009, fell below \$300,000 for the second time in fiscal 2010. In fiscal 2011, revenue approached \$325,000 and is expected to stay at that level through fiscal 2013. The revenue decline has impacted the expenditures of the DSD. Although the division receives general funds to support some expenditures, the DSD has relied on its special fund balance to support its special fund expenditures in each year beginning in fiscal 2006, except fiscal 2011. The result of the ongoing use of special fund balance to support division expenditures has been a declining fund balance.

To address the declining fund balance, the Secretary of State reorganized the DSD in fiscal 2010. As a result of the reorganization, the DSD prints fewer *Maryland Register* publications and to the extent possible completes printing through the Department of General Services or in-house rather than a separate contract. The division also no longer outsources the development of the Table of Contents for COMAR. In addition, 3.5 positions were abolished from the division in fiscal 2010 and 2011. These changes reduced expenditures; however, the division expects to again require use of its fund balance to support expenditures in fiscal 2012 and 2013.

**Exhibit 4**  
**Maryland Register and COMAR Subscriptions**  
**Fiscal 2008-2013**



COMAR: Code of Maryland Regulations

Source: Secretary of State; Governor's Budget Books

**Exhibit 5**  
**Division of State Documents Special Fund Balance**  
**Fiscal 2006-2013**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Beginning Fund Balance	\$775,669	\$769,596	\$691,305	\$598,635	\$410,150	\$185,222	\$200,796	\$126,235
Revenues	381,406	337,024	295,020	359,887	290,870	323,563	325,000	325,000
<b>Use of Fund Balance</b>	<b>6,073</b>	<b>78,561</b>	<b>92,400</b>	<b>188,485</b>	<b>224,928</b>	<b>-15,574</b>	<b>74,561</b>	<b>20,006</b>
Total Special Fund Expenditures	\$387,479	\$415,585	\$387,420	\$548,372	\$515,798	\$307,989	\$399,561	\$345,006
<b>Ending Fund Balance</b>	<b>\$769,596</b>	<b>\$691,035</b>	<b>\$598,905</b>	<b>\$410,150</b>	<b>\$185,222</b>	<b>\$200,796</b>	<b>\$126,235</b>	<b>\$106,229</b>
Proposed Transfer								-\$50,000
<b>Fund Balance after Transfer</b>								<b>\$56,229</b>

Source: Secretary of State

At the close of fiscal 2011, the special fund balance was \$200,796. The fund balance is expected to decrease to \$106,229 at the close of fiscal 2013. The proposed special fund balance transfer would further reduce that fund balance to only \$56,229. Without additional support or a reduction in special fund expenditures, as evidenced by the use of fund balance in previous years, the fund balance could be exhausted in fiscal 2014 or 2015. The office indicates that it intends to begin using only the revenue received each year to support its special fund expenditures beginning in fiscal 2014.

**The Secretary of State should address the actions that may be required to continue to support the Division of State Documents with the revenue it receives each year, such as changes in fees for purchase of materials, reductions in expenditures, or additional general fund support.**

## ***Recommended Actions***

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1. Concur with Governor's allowance.

## *Current and Prior Year Budgets*

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### 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>
<b>Fiscal 2011</b>					
Legislative Appropriation	\$1,894	\$350	\$0	\$0	\$2,243
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-42	0	0	-42
<b>Actual Expenditures</b>	<b>\$1,893</b>	<b>\$308</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,201</b>
<b>Fiscal 2012</b>					
Legislative Appropriation	\$1,850	\$400	\$0	\$0	\$2,250
Budget Amendments	19	0	0	0	19
<b>Working Appropriation</b>	<b>\$1,869</b>	<b>\$400</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,268</b>

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

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## **Fiscal 2011**

The fiscal 2011 expenditures of the Secretary of State were \$41,829 lower than the legislative appropriation, as a result of a special fund cancellation of \$41,518 and a general fund reversion of \$311. The special fund cancellation is largely due to cost containment efforts and program efficiencies implemented by the office in the DSD.

## **Fiscal 2012**

The fiscal 2012 appropriation of the Secretary of State has increased by \$18,561 due to the distribution of funds centrally budgeted to support the \$750 bonus provided to employees.

## ***Audit Findings***

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Audit Period for Last Audit:	March 6, 2008 – March 1, 2011
Issue Date:	October 2011
Number of Findings:	5
Number of Repeat Findings:	1
% of Repeat Findings:	20%
Rating: (if applicable)	n/a

**Finding 1:** Adequate procedures were not in place to ensure licensing fees were received.

**Finding 2:** The Office of the Secretary of State had not established adequate controls over cash receipts.

**Finding 3:** Charitable organizations were not properly monitored for compliance with reporting requirements.

**Finding 4:** Adequate controls were not established over equipment.

**Finding 5:** **The Office of the Secretary of State had not implemented procedures to identify foundations affiliated with State agencies.**

\*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 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	24.00	24.00	24.00	0.00	0%
02 Contractual	1.00	1.00	1.00	0.00	0%
<b>Total Positions</b>	<b>26.00</b>	<b>25.00</b>	<b>25.00</b>	<b>0.00</b>	<b>0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 1,733,456	\$ 1,829,961	\$ 1,840,354	\$ 10,393	0.6%
02 Technical and Spec. Fees	59,981	68,954	47,373	-21,581	-31.3%
03 Communication	101,753	86,828	77,135	-9,693	-11.2%
04 Travel	12,127	2,700	2,500	-200	-7.4%
07 Motor Vehicles	4,372	5,340	5,140	-200	-3.7%
08 Contractual Services	147,822	221,311	215,115	-6,196	-2.8%
09 Supplies and Materials	42,503	21,700	41,703	20,003	92.2%
10 Equipment – Replacement	29,322	19,500	14,000	-5,500	-28.2%
11 Equipment – Additional	50,289	2,000	1,000	-1,000	-50.0%
13 Fixed Charges	19,833	9,938	9,100	-838	-8.4%
<b>Total Objects</b>	<b>\$ 2,201,458</b>	<b>\$ 2,268,232</b>	<b>\$ 2,253,420</b>	<b>-\$ 14,812</b>	<b>-0.7%</b>
<b>Funds</b>					
01 General Fund	\$ 1,893,469	\$ 1,868,671	\$ 1,908,414	\$ 39,743	2.1%
03 Special Fund	307,989	399,561	345,006	-54,555	-13.7%
<b>Total Funds</b>	<b>\$ 2,201,458</b>	<b>\$ 2,268,232</b>	<b>\$ 2,253,420</b>	<b>-\$ 14,812</b>	<b>-0.7%</b>

Note: The fiscal 2012 appropriation does not include deficiencies.