

# Office of the Secretary of State

## Financial Audit

For the Two Calendar Years Ended December 31, 1994

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June 1995

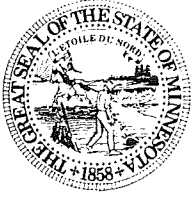
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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

95-28





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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**Members of the Legislative Audit Commission**

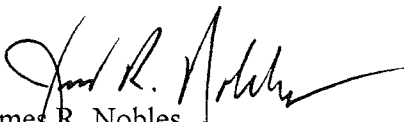
The Honorable Joan Anderson Growe  
Secretary of State

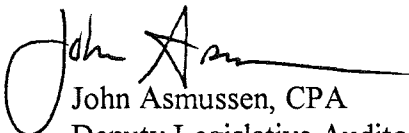
We have audited the Office of the Secretary of State for the period January 1, 1993 through December 31, 1994, as further explained in Chapter 1. Our audit scope included receipts, refunds, payroll, and capital lease expenditures. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Office of the Secretary of State complied with provisions of laws, regulations and contracts that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of the Secretary of State. This restriction is not intended to limit the distribution of this report, which was issued as a public document on June 23, 1995.

We thank the Office of the Secretary of State staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: May 18, 1995

Report Signed On: June 15, 1995



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

## Office of the Secretary of State

### Financial Audit

For the Two Calendar Years Ended December 31, 1994

Public Release Date: June 23, 1995

No. 95-28

### Agency Background

Article V of the state constitution established the Office of the Secretary of State which operates under Minnesota Statute Chapter 5. The Secretary of State is elected for a four-year term. Joan Anderson Growe has served successive terms as the Secretary since January 1975. The Secretary serves as the chief election official of the state. In addition, the Secretary is the custodian of the state seal. The Office of the Secretary of State serves as the official repository for public documents of the state.

### Audit Areas and Conclusions

Our audit scope included a review of fee and surcharge revenues, refunds, payroll, and capital equipment lease payments for the period from January 1, 1993 through December 31, 1994.

We audited fee and surcharge revenue collected by the Office of the Secretary of State. We concluded the office appropriately accounted for and deposited fee and surcharge revenues. However, we found that the office questionably retained approximately \$184,000 in its direct access dedicated account based on its interpretation of state law. In addition, we found that the office did not require reinstated foreign corporations to pay an annual license fee. We also found a programming error in the county surcharge billing process.

We also audited refund payments made by the Office of the Secretary of State. We found that the office does not have an adequate separation of duties over refunds. In addition, we found that the office does not have a sufficient tracking system to determine whether it issued refunds to the appropriate customers.

Finally, we audited payroll and capital equipment lease payments made by the Office of the Secretary of State. We concluded that the office accurately authorized, paid, and accounted for payroll and capital equipment lease payments.

Contact the Financial Audit Division for additional information.

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## Office of the Secretary of State

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Beth Hammer, CPA	Auditor-in-Charge
Margie Caneff	Auditor

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Office of the Secretary of State on June 5, 1995:

Joan Anderson Growe	Secretary of State
Elaine Voss	Deputy Secretary of State
Jayne Khalifa	Operations Director
Kathy Hjelm	Fiscal Supervisor
Terry Elizondo	Human Resources Director





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## Chapter 1. Introduction

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Article V of the state constitution established the Office of the Secretary of State which operates under Minnesota Statute Chapter 5. The Secretary of State is elected for a four year term. Joan Anderson Growe has served successive terms as Secretary of State since January 1975. The Secretary of State serves as the chief election official of the State of Minnesota. As election official, the Secretary ensures that elections are fair and comply with state rules and statutes. In addition, the Secretary of State is the custodian of the state seal.

The Office of the Secretary of State serves as the official repository for all public documents of the state. The office accepts filing information on all businesses operating in Minnesota. The office is responsible for disseminating this information to a wide client group that includes the general public. The office is also responsible for maintaining a statewide computer network connecting all 87 county courthouses. The network links the records of registered voters, uniform commercial code filings, and state and county election results. In addition, the office became responsible for a central notification system for farm product liens on July 1, 1993. This system contains information on loans from lenders to farmers.

The Office of the Secretary of State receives an appropriation from the legislature to fund the majority of its activities. The appropriation law provides the office with funds for three activities: administration, operations, and election administration. The office has authority to transfer balances between these activities upon notifying specific committees within the legislature. The office also has an open appropriation to fund revenue refunds.

In addition to the General Fund appropriations, the Secretary's office charges customers for on-line access to the uniform commercial code network. The office deposits these receipts into the direct access dedicated account. The office uses dedicated account receipts to maintain the computerized uniform commercial code filing system and to provide electronic-view-only access to other computerized records.

Table 1-1 provides a summary of the Secretary's office financial resources and expenditures from January 1, 1993 through December 31, 1994. Table 1-2 provides a summary of nondedicated revenues for the audit period. The individual financial areas are discussed in more detail in the remaining chapters of this report.

# Office of the Secretary of State

**Table 1-1**  
**Office of the Secretary of State**  
**Financial Resources and Expenditures**

	<u>Year Ended December 31</u>		
	<u>1993</u>	<u>1994</u>	<u>Total</u>
<u>Resources</u>			
General Fund Appropriations	\$5,752,847	\$5,399,386	\$11,152,233
Direct Access Revenues (1)	328,304	374,796	703,100
Total Resources	<u>\$6,081,151</u>	<u>\$5,774,182</u>	<u>\$11,855,333</u>
<u>Expenditures</u>			
Payroll	\$2,272,167	\$2,269,040	\$ 4,541,207
Revenue Refunds (2)	609,667	871,672	1,481,339
Capital Equipment Lease	1,034,372	1,034,372	2,068,744
Other Expenditures	<u>2,157,459</u>	<u>1,467,346</u>	<u>3,624,805</u>
Total Expenditures	<u>\$6,073,665</u>	<u>\$5,642,430</u>	<u>\$11,716,095</u>

(1) See finding 1.

(2) Of the total, Direct Access Revenue Refunds were \$1,194 in 1993 and \$3,100 in 1994.

Sources: Revenues and expenditures recorded on the Statewide Accounting System from January 1, 1993 through December 31, 1994.

**Table 1-2**  
**Office of the Secretary of State**  
**Nondedicated Revenues**

	<u>Year Ended December 31</u>		
	<u>1993</u>	<u>1994</u>	<u>Total</u>
<u>Nondedicated Revenues:</u>			
Service Charges	\$6,365,867	\$7,231,407	\$13,597,274
Surcharge	1,104,961	1,167,174	2,272,135
Other Revenues	807	924	1,731
Less Revenue Refunds	<u>(608,472)</u>	<u>(868,572)</u>	<u>(1,477,044)</u>
Net Nondedicated Revenues	<u>\$6,863,163</u>	<u>\$7,530,933</u>	<u>\$14,394,096</u>

Source: Revenues and revenue refunds recorded on the Statewide Accounting System from January 1, 1993 through December 31, 1994.

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## Chapter 2. Revenues and Refunds

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### *Chapter Conclusion*

*We found that the office appropriately accounted for and deposited fee and surcharge revenues. However, we found that the office questionably retained approximately \$184,000 of fee receipts in the direct access dedicated account based on its interpretation of state law. In addition, we found that the office did not require reinstated foreign corporations to pay an annual registration fee. Finally, we found a programming error in the county surcharge billing process.*

*We were unable to determine whether the office accurately authorized, paid, and accounted for refund payments. The office does not maintain sufficient documentation for tracking purposes. In addition, the office does not have an adequate separation of duties over refunds.*

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### Revenues

The Office of the Secretary of State collects fees for business service filings, records processing filings which includes foreign corporation registrations, uniform commercial code transactions, and other fees. The office also collects a surcharge on uniform commercial code and farm lien filings and searches. Minnesota statutes require the office to deposit these receipts in the General Fund as nondedicated revenues. The Department of Finance and the Secretary of State review the fees annually. However, the legislature ultimately establishes the individual fees in law.

In addition to the above receipts, the Office of the Secretary of State collects fees from customers who have on-line access to the uniform commercial code system. The office deposits these receipts into a direct access revolving fund as dedicated revenues.

Table 2-1 summarizes nondedicated and dedicated revenues by source for the audit period.

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Table 2-1  
Office of the Secretary of State  
Revenue by Source

	Year Ended December 31		Total
	1993	1994	
<u>Revenues:</u>			
Uniform Commercial Code	\$1,068,426	\$1,241,555	\$2,309,981
Business Services	3,097,607	3,344,062	6,441,669
Records Processing	1,456,940	1,576,516	3,033,456
Surcharge	1,198,090	1,174,019	2,372,109
Direct Access	328,304	374,796	703,100
Other	650,574	1,063,353	1,713,927
Less Revenue Refunds	(609,667)	(871,672)	(1,481,339)
Net Revenues	<u>\$7,190,274</u>	<u>\$7,902,629</u>	<u>\$15,092,903</u>

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Sources: Revenues recorded on the Statewide Accounting System from January 1, 1993 through December 31, 1994.

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## Office of the Secretary of State

The Office of the Secretary of State has a fiscal services division that centrally receives receipts through the mail or directly from customers at a counter window. The fiscal services division deposits receipts and attaches a receipt voucher to documents accompanying the individual receipts. Fiscal forwards these documents to other office divisions for processing.

We focused our review of receipts on the following objectives:

- Has the Office of the Secretary of State established policies and procedures to ensure that the collection of receipts are appropriately accounted for and deposited to the appropriate fund account?
- Did the Office of the Secretary of State charge appropriate fees and surcharges for services provided in accordance with applicable legal provisions?

The methodology used to evaluate the audit objectives included gaining an understanding of the process of collecting and depositing receipts. In addition, we selected a random sample of receipts and verified whether the office properly accounted for, deposited, and charged the appropriate fees. Finally, we performed additional tests and analytical reviews on specific revenue sources to determine whether the office appropriately charged and deposited the receipts into appropriate accounts. We discuss these specific tests in the remaining part of this chapter.

### Direct Access Revenues

The Office of the Secretary of State offers electronic access to certain public records it maintains. Customers prepay the office for fees associated with accessing the data. Minnesota statutes authorize the office to deposit these receipts as dedicated revenues in its direct access revolving account. Office staff maintain account balances for each customer.

In addition to the electronic access, the office allows these customers to phone or fax in orders for copies of UCC files and business records, certificates of business records, and certified searches. Once the office performs the service, it deducts the required statutory fee from the customer's account. At the end of each month, the office generates a computerized report showing the total fees, by type, deducted for services from customer accounts. A fiscal service employee transfers the total surcharge and expedited fee revenues from the direct access dedicated account to the General Fund. However, the office does not transfer other fee revenues associated with the phone and fax service to the General Fund.

#### **1. The Office of the Secretary of State questionably retained approximately \$184,000 in its direct access dedicated account based on its interpretation of state law.**

The Office of the Secretary of State questionably retained some funds in its direct access dedicated account. The office offers electronic access to certain public records it maintains. The office requires customers to prepay accounts for fees associated with viewing the data. Minnesota Statutes allow the office to deposit these receipts in its direct access dedicated account. However, the office is depositing other fee revenue into this account which we believe it should deposit as nondedicated revenues to the General Fund.

## Office of the Secretary of State

The office allows the electronic access customers to fax or phone requests to the office for certain other services it provides. Office staff deduct the fees associated with these services from the customers' accounts. Monthly, staff transfer surcharge and expedited fee revenues from the direct access dedicated account to the General Fund. However, any remaining fee revenues associated with these additional services has remained in the direct access dedicated account.

The Office of the Secretary of State cites Minn. Stat. Section 5.24 as its basis for retaining these revenues. The statute states:

The secretary of state may offer services to the public that supplement filing and information services already authorized by law. The secretary of state may discontinue the supplemental service at any time. The services must be designed to provide the public with a benefit by improving the manner of providing, or by providing an alternative manner of payment for, existing services provided by the secretary of state.

The cost of providing the supplemental services to the public, as determined by the secretary of state, must be recovered from the recipients of the services. The funds collected for the services must be deposited in the uniform commercial code account (direct access account) and are continuously available to the secretary of state for payment of the cost of providing the supplemental services.

The office believes this statute allows it to keep fees associated with supplemental services such as the phone and fax service. However, we do not believe this statute allows the office to retain these funds. Furthermore, we question the reasonableness of building up reserves to provide additional resources to maintain the office's computer systems.

Clearly, the office has the ability to offer the phone and fax service. However, Minn. Stat. Section 16A.72 requires the office to deposit all fees in the General Fund unless designated by law for a specific purpose. We believe that Minn. Stat. 5.24 gives the office the authority to establish an additional fee to cover incremental expenses associated with providing a supplemental service. The office could retain the additional fee to cover incremental expenses. However, the office did not charge an additional fee to the customers. Furthermore, the office has not identified or documented that the phone and fax service has caused any increase in operating expenses that could justify an additional fee.

We are concerned the office is building excess funds to supplement its operating budget. Our analysis showed the office had accumulated approximately \$184,000 in fee revenues in its direct access dedicated account as of December 31, 1994. This balance continues to accumulate at approximately \$10,000 per month. The office intends to use the accumulated funds to update its computer systems.

In addition, the office is currently looking at alternative payment methods for fees from mail and counter customers. Under the office's interpretation of Minn. Stat. 5.24, it could retain these revenues in its dedicated account. However, management stated it does not intend to keep these revenues. We are concerned with the inconsistent practice of transferring revenues to the General Fund.

## Office of the Secretary of State

We believe the office should reconsider its interpretation of Minn. Stat. Section 5.24. Furthermore, it would be helpful to have an explicit legal provision to recognize the accumulation of funds within the direct access dedicated account. Such a legal provision should identify the source of funds the office can retain and specify how it can use the accumulated funds.

### *Recommendations*

- *The Office of the Secretary of State should reconsider its interpretation of Minn. Stat. Section 5.24. The office should seek legislation to clarify the language for retaining these revenues.*

## Foreign Corporation Annual Registration

Minnesota Statute 303.07 requires the Office of the Secretary of State to collect an annual license fee from each foreign corporation conducting business in Minnesota. The minimum fee is \$60. This amount includes a \$40 license fee, based on Minnesota taxable income for the last taxable year ending of up to \$200,000, plus a \$20 filing fee. If a foreign corporation's annual income exceeds \$200,000, then it owes an additional \$20 for each \$100,000 of income or fraction of that amount. Annual license fees are due from foreign corporations by May 15 or October 15 if an extension is filed. Failing to file by the deadline may result in the office revoking the corporation's certificate to operate in the state.

Foreign corporations complete an annual registration form and calculate the license fee owed. The corporations send the form and fee to the Secretary's office. The office's records processing division verify the extensions on the form to the payment received. During our last audit of the office, we found that the office did not verify whether the Minnesota taxable income figure reported by the foreign corporations was accurate. Currently, the office is working with the Minnesota Department of Revenue to verify, on a sample basis, whether taxable income figures are accurate. However, the office is in the initial phases of the process.

On a test basis, we verified whether foreign corporations paid appropriate fees by reviewing the annual registration forms. We found that the Office of the Secretary of State collects and deposits the appropriate fees. However, the Secretary's office does not require reinstated foreign corporations to pay an annual license fee in the year of reinstatement.

### **2. The office did not require reinstated foreign corporations to pay an annual license fee.**

The Office of the Secretary of State did not require reinstated foreign corporations to pay an annual license fee in the year of reinstatement. Minnesota law allows foreign corporations, with a revoked or cancelled certificate of authority, to file an application for reinstatement. Along with the application, the corporation must pay a \$300 fee and any previously unpaid fees.

Our review noted a corporation in which the office revoked its certificate of authority in 1993 for failing to file by the May 15 deadline. This corporation attempted to file its 1993 annual license fee in October 1993. However, the office rejected the annual fee since it revoked the corporation's certificate of authority. The office refunded the 1993 fee of \$7,260 to the

## Office of the Secretary of State

corporation. The corporation filed and paid the required reinstatement fees in January 1994. Since the corporation did not reinstate until 1994, the office did not require the corporation to pay an annual license fee for 1994. State law requires every foreign corporation holding a certificate of authority to pay an annual license fee.

During our audit scope the office reinstated 537 foreign corporations. With a minimum annual license fee of \$60 the General Fund lost fee revenues of, at least, \$32,000. Since bringing this issue to the office's attention, it is currently requiring foreign corporations to pay an annual license fee in the year of reinstatement.

### *Recommendation*

- *The Office of the Secretary of State should ensure that foreign corporations operating in Minnesota pay the appropriate license fees, in accordance with applicable legal provisions.*

## Uniform Commercial Code (UCC) Surcharge

The Office of the Secretary of State administers the statewide computer network for UCC activities. The 87 counties in Minnesota and the office use the system to record UCC filings and access this information. Currently, county recorders and the office are to access a \$5 surcharge on each UCC filing or search transaction. Minnesota law requires the office to collect and deposit surcharge revenues from the counties. The office maintains a computerized transaction log that tracks the total surcharge owed by the counties based on UCC transaction activity. Using this log, the office generates invoices for each county on a quarterly basis.

We completed an analysis, on a test basis, to determine if amounts billed to counties were accurate using a computerized download of the UCC transaction activity. Our review found an error in the program used by the office for billing the counties.

### **3. The Office of the Secretary of State's county surcharge billing program did not invoice counties for unauthorized voids.**

The office's computerized billing program contained an error that resulted in counties not being billed for unauthorized voids. The office maintains a computerized transaction log that documents individual transactions. The office bills counties based on the activity in this log. When county employees make transaction errors a process is in place to void the transactions. The office does not consider voids valid until authorized. Our review found that there were \$4,810 of unauthorized voids within the transaction log. The billing program did not include the unauthorized voids in the county invoices. Since we brought this issue to the office's attention, it has corrected the billing program. In addition, office employees are currently resolving the unauthorized voids with the individual counties.

## Office of the Secretary of State

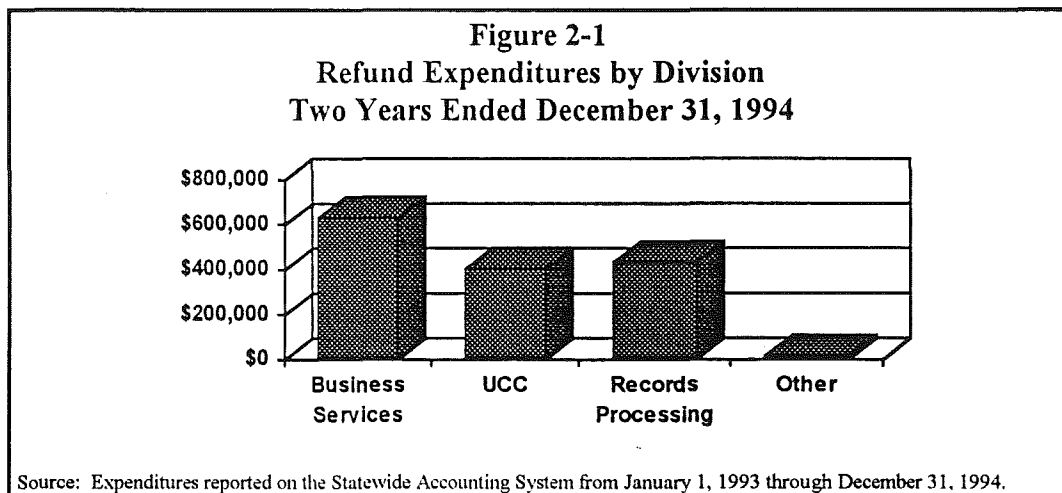
### *Recommendation*

- *The Office of the Secretary of State should ensure the county surcharge billing program only excludes authorized voids from invoices.*

## Refund Expenditures

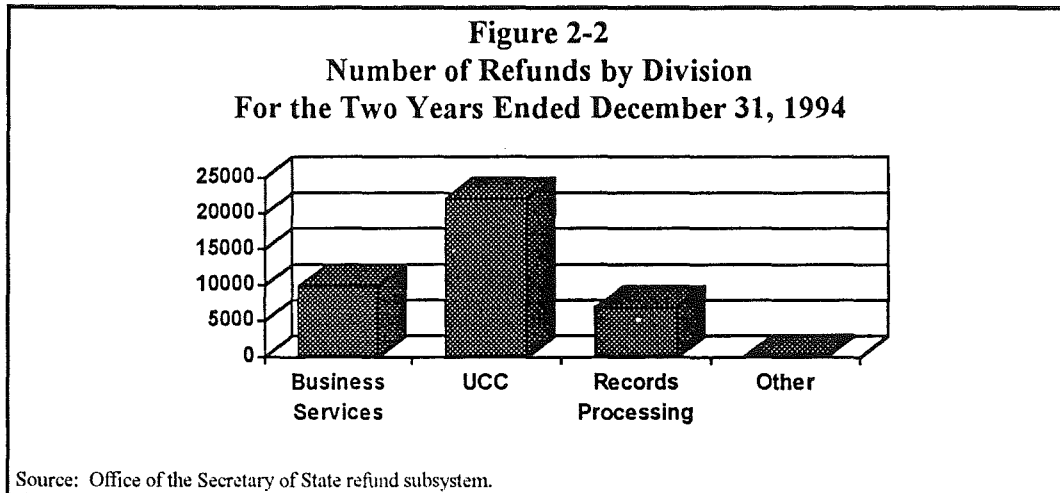
The Office of the Secretary of State issues revenue refunds primarily for rejected filing and search requests. In addition, the office generates some refunds due to fee overpayments. During our audit scope, the office issued approximately \$1.5 million in refund payments. Figure 2-1 shows a breakdown of these refund expenditures by division. The amount of refunds has increased substantially since June 1993. This is due to a processing change. Prior to June 1993, when the office rejected a filing or search request it sent the customer's check back with the rejected documents. Currently, the office deposits all checks received. If a division later rejects a filing or search request the office generates a refund payment.

As seen in figure 2-2, the UCC division has the greatest number of refunds. However, the business services division generates the largest dollar amount of refunds. Office staff stated they reject filings and search requests due to customers failing to pay the correct fee or failing to include all required information within the document. Currently, the office is looking at alternative payment and filing methods to reduce the number of refunds it generates.





## Office of the Secretary of State



We focused our review of refunds on the following objective: Has the Secretary of State established policies and procedures to ensure that refunds are properly authorized, adequately supported and accurately processed?

The methodology used to evaluate refunds included inquiries of agency staff to gain an understanding of the refund process. We also performed an analysis to determine if refund amounts exceeded receipt amounts. This review found that individual refund amounts did not exceed the individual receipt amount.

We were unable to complete detail tests of refund transactions. We found that the office does not maintain a sufficient tracking system for refund payments. In addition, we determined that the office does not have an adequate separation of duties over the refund process.

#### **4. The Office of the Secretary of State has inadequate controls over refund processing.**

The Office of the Secretary of State has inadequate controls over its refund process. First, the office does not have an adequate separation of duties over the refund payment process. In addition, the office does not have an internal system in place to track whether it issues refunds to the appropriate customers.

Fiscal Service employees distribute service requests to the appropriate program division, after attaching receipt vouchers to the requests. Division employees determine whether a service request contains the appropriate fee and/or the document contains the correct information. If not, the employee rejects the request and initiates a refund to the customer. The division employee enters the customer's name and address into a refund subsystem. The employee also enters the refund amount on the receipt voucher and returns the voucher to the fiscal service division. In addition, the division employee returns the rejected request and associated documents to the customer. Finally, a fiscal service employee posts the refund amount to the subsystem that generates the refund warrant. An edit is in place to ensure that the refund amount posted does not exceed the amount on the receipt voucher.

## Office of the Secretary of State

However, the process gives individual division employees complete control of initiating refund payments. There is no independent review of the name and address that the employees enter into the refund subsystem. Without an independent review errors or irregularities could occur and remain undetected. In addition, the office does not retain copies of the rejected documents. As a result, it does not have an adequate method to determine whether it issued a refund payment to the appropriate customer.

Currently, the office is redesigning the fiscal service depositing process. The planned process includes scanning all documents onto computerized files. The planned process will eliminate the refund tracking issue. In the interim, the office could strengthen controls by having an independent person review and authorize all refunds.

### *Recommendation*

- *The office should complete an independent review of all refund payments. In addition, the office should retain sufficient documentation to track refund payments.*

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## Chapter 3. Administrative Expenditures

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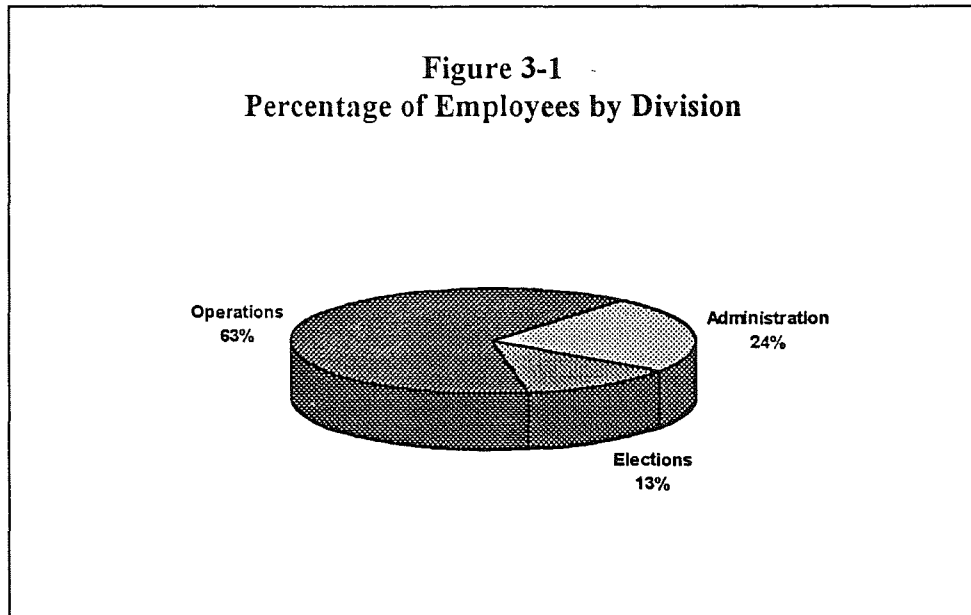
### *Chapter Conclusion*

*The Office of the Secretary of State accurately paid, recorded, and reported payroll expenditures and capital equipment lease payments.*

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### **Payroll**

The Office of the Secretary of State has approximately 60 full-time employees; most employees serve in a classified status. Minnesota Statutes authorize a separate compensation plan for the office's four unclassified employees. The office allocates and monitors personnel costs in three divisions. Figure 3-1 shows the percentage of employees in each division.



Employees process payroll, biweekly, using the statewide payroll system. For the two years ended December 31, 1994, the office disbursed \$4,541,206 in personnel expenditures.

We focused our review of payroll on the following objective: Has the Secretary of State's Office established policies and procedures to ensure that payroll is properly authorized, adequately supported and accurately processed?

The audit methodology used to evaluate this audit objective included inquiries and sampling. We interviewed payroll staff to gain an understanding of the payroll system. In addition, we selected

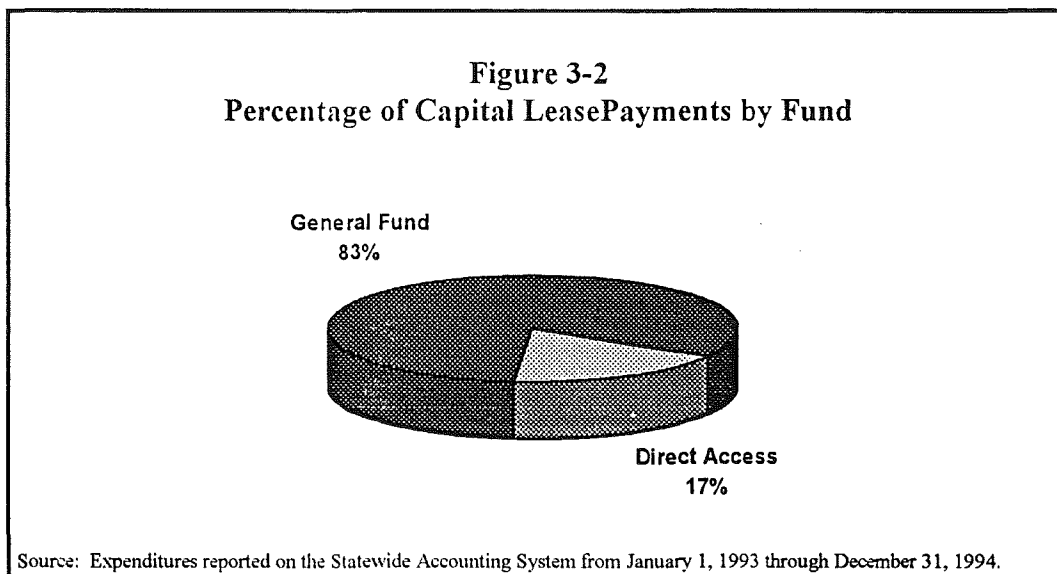
## Office of the Secretary of State

a random sample of time sheets and payroll reports to ensure the office properly authorized, adequately supported, and accurately processed payroll.

Our review of payroll found that the Office of the Secretary of State properly authorized, adequately supported and accurately processed payroll expenditures.

### Capital Equipment Lease Payments

The Office of the Secretary of State entered into a leasing agreement in 1989 to purchase a computer system to link the 87 counties to the office. The lease requires principle and interest payments semi-annually of \$517,186 for a total of seven years. The office funds these payments primarily with its General Fund appropriation. However, the office funds a small portion with its direct access dedicated account. Figure 3-2 shows the percentage of payments by fund over the audit scope.



We focused our review on the following objective: Is the Secretary of State following the financial provisions of the lease agreement? Specifically, are the payments for principle and interest accurate?

The audit methodology used to evaluate the audit objective included inquiries and reviews of lease payments. First, we interviewed agency staff to gain an understanding of the process. Then, we reviewed the lease payments to ensure the office paid the correct amount.

We concluded that the Office of the Secretary of State had complied with financial provisions of the lease agreement.



# Office of the Secretary of State State of Minnesota

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**Joan Anderson Growe**

*Secretary of State*

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June 9, 1995

James Nobles  
Legislative Auditor  
First Floor Centennial Office Building  
St. Paul, MN 55155

Dear Mr. Nobles:

The purpose of this letter is to respond to the findings of the legislative audit on the Office of Secretary of State for the two year period ending December 31, 1994.

**1. Finding:** The Office of Secretary of State questionably retained approximately \$184,000 in its direct access dedicated account based on its interpretation of state law.

**Recommendation:** The Office of Secretary of State should reconsider its interpretation of Minn. Stat. Section 5.24. The office should seek legislation to clarify the language for retaining these revenues.

**Response:** The office believed that it operated within Minn. Statutes Section 5.24 when it retained the revenues in its authorized dedicated account from direct access customers who telephoned and faxed requests for copies of UCC files and business records, certificates of business records and certified searches.

The office wrote the language which led to this legislation with the sole intent of using it to allow for the introduction of new supplemental services such as the faxing option which would improve its delivery of service and benefit the public. The use of funds retained in this account are restricted to maintaining and improving the computerized system on which the direct access program is housed. All funds retained in this account are used for the intended purpose.

In light of issues raised by this audit, the Secretary has directed her staff to revisit this issue in order to re-examine and clarify what constitutes "the cost of providing the service" and therefore what amount is appropriate to retain in the dedicated account. To be implemented by: Jayne Khalifa. Date: 07/01/95.

**2. Finding:** The office did not require reinstated foreign corporations to pay an annual license fee.

**Recommendation:** The Office of Secretary of State should ensure that foreign corporations operating in Minnesota pay the appropriate license fees, in accordance with applicable legal provisions.

**Response:** The office will immediately implement the policy that foreign corporations pay the annual license fee in the year of reinstatement. Implemented by: Ann Datko. Date: 06/02/95.

**3. Finding:** The Office of Secretary of State's county surcharge billing program did not invoice counties for unauthorized voids.

**Recommendation:** The Office of Secretary of State should ensure the county surcharge billing program only excludes authorized voids from invoices.

**Response:** The office developed a computer program that allowed UCC filing officers to void UCC searches that had been processed incorrectly, so that a corrected search could be processed without tracking a surcharge fee for the incorrect search. This program also contained an authorization feature which required the county recorder or UCC Division Director to authorize all voided searches. The program contained an error which removed voided searches from the surcharge billing program before they were properly authorized.

All 46 county recorders who had voided searches, but did not follow through with the authorization process were contacted and instructed to review those outstanding voids. All of the voided searches identified by the auditor's report were proper and have now been authorized by the county recorder or their delegated representative.

The program will be corrected before the end of the next quarter, June 30, so that all voided searches which are not authorized will appear on the quarterly invoice as a surcharge payment due. The UCC Director will review the system monthly for all unauthorized voided searches to be sure the filing offices are following the void and authorization procedure thoroughly. To be implemented by: Cheri Smith. Date: 06/30/95.

June 9, 1995  
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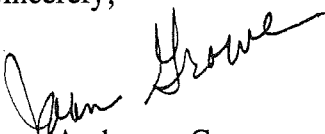
**4. Finding:** The Office of the Secretary of State has inadequate controls over refund processing.

**Recommendation:** The office should complete an independent review of all refund payments. In addition, the office should retain sufficient documentation to track refund payments.

**Response:** Currently, the office is redesigning the fiscal service depositing process. The planned process will eliminate the refund tracking issue. In the interim, the office will strengthen controls by having an independent person within each division review and authorize the refunds. The review will include signing off on the refund in the computer which shows the remitter's name and address to whom the refund is being issued. Programming changes will be required. To be implemented by: Kathy Hjelm. Date 10/01/95.

Finally, please extend to your staff my sincere thanks for their objectivity, assistance and professionalism in conducting their audit of this office.

Sincerely,



Joan Anderson Growe  
Secretary of State