

Audit Report

Office of the Secretary of State

June 2022



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

June 1, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Office of the Secretary of State for the period beginning December 5, 2017 and ending November 15, 2021. Under the Maryland Constitution and State statutes, the Office performs a variety of duties including attesting to the Governor's signature on all public papers, registering and regulating charitable organizations, administering the Notary Public laws, and compiling and publishing the State's administrative regulations.

Our audit disclosed that the Office's Charities and Legal Services Division did not perform independent reviews to ensure that critical information received from charitable organizations was accurately recorded in the State's charities database and that proper registration fees were paid. This reported information is used to monitor each organization's compliance with registration and reporting requirements and appears in the charities database on the Office's public website. In addition, the Office did not investigate charitable organizations that failed to comply with the annual registration requirements of State law, and did not monitor late registration filing fees owed by these organizations and refer accounts with delinquent unpaid fees to the State's Central Collection Unit for additional collection actions. According to the Office's records, 5,755 organizations out of over 18,000 included on the database were delinquent as of January 2022. We estimated that the outstanding fees owed by the aforementioned 5,755 delinquent organizations could total up to \$1.8 million.

Our audit also disclosed that the Office did not establish adequate controls over its

cash receipts to provide assurance that all collections were subsequently deposited.

Finally, our audit also included a review to determine the status of the two findings contained in our preceding audit report dated June 4, 2018. We determined that the Office did not satisfactorily address those findings; consequently, both findings are repeated in this report.

The Office's response to this audit is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while the Office generally agrees with the recommendations in this report, we identified certain instances in which statements in the response conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included an "auditor's comment" within the Office's response to explain our position. Finally, there are other aspects of the Office's response which will require further clarification, but we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by the Office. We also wish to acknowledge the Office's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities

The Office of the Secretary of State attests to the Governor's signature on all public papers and documents, and is the repository for the Governor's Executive Orders. The Office's many other duties and responsibilities include the following:

- The Charities and Legal Services Division registers, regulates, and informs the public about charitable organizations (including foundations affiliated with State agencies) and professional solicitors; administers the Notary Public laws and issues Notary Public commissions; prepares and processes extraditions and requisitions issued by the Governor; and registers public offering statements for condominiums and timeshares.
- The Division of State Documents compiles and publishes all of the State's administrative regulations in the Maryland Register and the Code of Maryland Regulations (COMAR).
- The Safety and Support Services Division administers the Maryland Safe at Home Address Confidentiality Program, which is designed to protect victims of domestic violence by providing them with an alternate mailing address to prevent offenders from locating them.

According to the State's records, the Office's expenditures during fiscal year 2021 totaled approximately \$3.8 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the two findings contained in our preceding audit report dated June 4, 2018. As disclosed in Figure 1 below, we determined that these findings were not satisfactorily addressed and are repeated in this report.

Figure 1
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Procedures and controls were not sufficient to ensure that the Office of the Secretary of State accurately recorded critical data reported by charitable organizations, and that these organizations remitted the proper fees.	Repeated (Current Finding 1)
Finding 2	Adequate controls were not established over cash receipts.	Repeated (Current Finding 3)

Findings and Recommendations

Charitable Organizations

Finding 1

The Office of the Secretary of State did not conduct independent reviews since August 2020 to ensure that critical data obtained from charitable organizations was accurately recorded, and that these organizations submitted the proper amount of fees.

Analysis

The Office's Charities and Legal Services Division did not conduct independent reviews to ensure that critical information (for example, annual contributions) received from charitable organizations was accurately recorded in the Office's charitable organization database, and that the proper registration fees were paid. In response to our prior report, the Office advised that it established an independent review process. However, as of March 2022, no reviews had been conducted since August 2020. Accurate recordation is critical since this information is used to determine each organization's registration status and reporting requirements (including the amount of the annual registration fee), and appears on the Office's public website.

Our test of 10 judgmentally selected charitable organizations disclosed one organization had not submitted a required review by an independent certified public accountant even though the database reflected that this review was received, and a second organization overpaid its annual registration fee (by a small amount). Since a formal review of activity posted to the database was not performed, the Office was not aware of these discrepancies prior to us bringing them to its attention.

As of January 18, 2022, the Office's records showed 18,372 active charitable organizations. The Office recorded revenue from registration fees, renewal fees, and fines from charitable organizations totaling approximately \$2.5 million during fiscal year 2021. A similar condition was commented upon in our preceding audit report.

Recommendation 1

We recommend that the Office perform independent verifications, at least on a test basis, to ensure that information reported by charitable organizations is accurately recorded in the Office's database and that the proper fees are collected from each organization (repeat).

Finding 2

The Office did not investigate charitable organizations that failed to comply with the annual registration requirements of State law. In addition, the Office did not monitor related fees incurred by delinquent organizations and refer accounts to the State's Central Collection Unit.

Analysis

The Office's Charities and Legal Services Division (Division) did not investigate charitable organizations that failed to comply with the annual registration requirements of State law. In addition, the Division did not monitor the related late registration fees incurred by these organizations, and refer delinquent accounts to the State's Central Collection Unit (CCU) as required.

State law requires organizations that solicit charitable contributions within Maryland to submit an annual registration statement (which includes certain financial information) to the Office within six months after the end of their fiscal year. State law also requires an organization to pay an annual registration fee (up to a maximum of \$300) depending on the total contributions received for the reporting year, and imposes a \$25 fee for each month that an organization is late in meeting the registration requirements. According to the Office's records, 5,755 charitable organizations were delinquent as of January 18, 2022.

Delinquent Charitable Organizations Were Not Investigated

The Division did not investigate delinquent charitable organizations to determine whether the organizations were still operating and whether to refer the organizations for additional enforcement action. Rather, the Division's efforts were generally limited to sending periodic reminder notices to delinquent organizations.

Based on our review of available tax filings made to the Internal Revenue Service (IRS) by 20 organizations that we judgmentally selected from the aforementioned 5,755 delinquent organizations, additional investigative efforts appeared to be warranted. Specifically, we determined that 13 of the 20 organizations submitted filings to the IRS since becoming delinquent in Maryland, including 9 organizations that reported receiving charitable contributions between \$1,340 and \$17.5 million in their most recently available filings. For example, one organization that had been delinquent since 2007 reported that it received \$1.1 million in charitable contributions during its fiscal year 2020. While there could be reasons why organizations would not be required to register in Maryland (such as the reported contributions occurred in another State), we believe that the Division should establish a process to determine the reason why the organizations did not register. State law provides that the Office may refer organizations that do

not comply with annual registration requirements to the Office of the Attorney General for civil enforcement (for example, issuing a cease and desist order) or the appropriate State's Attorney for prosecution.

Registration Fees Were Not Monitored and Referred to CCU

The Division did not monitor fees incurred by charitable organizations for late registration statements and refer organizations with delinquent registration fees to CCU as required. Although the Division periodically recorded late fees in its charitable organizations database, it did not generate aging reports to help monitor delinquent accounts and, consequently, could not readily determine the amounts due from delinquent organizations. Furthermore, the Division advised that it had not referred such accounts to CCU for further collection activity.

Based on our analysis of the Office's records, we estimated that as of January 1, 2022, late fees due from the aforementioned 5,755 delinquent organizations could total approximately \$1.8 million, including \$1 million owed by 524 organizations that had been delinquent for between 5 to 21 years. The Office agreed that our analysis methodology and estimate were reasonable.

CCU regulations generally require that three written demands for payment be made at 30-day intervals after which the account is to be sent to CCU for collection assistance. We consulted with CCU staff, who advised us that charitable organizations were subject to these regulations. The failure to pursue outstanding debts may decrease the likelihood of collecting the funds.

Recommendation 2

We recommend that the Office

- a. investigate charitable organizations that fail to comply with the annual registration requirements of State law to determine whether the organizations are still operating and whether to refer the organizations for additional enforcement action as permitted by law;**
- b. generate periodic aging reports to assist in monitoring the late registration fees owed by charitable organizations; and**
- c. refer delinquent accounts to CCU for collection assistance, as required by State regulations.**

Cash Receipts

Finding 3

Adequate controls were not established over cash receipts.

Analysis

The Office had not established adequate controls over its cash receipts.

According to State records, the Office deposited approximately \$11.5 million during the period from December 5, 2017 through October 31, 2021, including \$1.5 million in payments received via credit card or wire transfer (after reviewing Office records, we were unable to readily determine the breakdown between these two sources). These collections primarily included fees for charitable organization registrations and notary commissions.

- One employee had excessive control over the Office's collections. Specifically, the employee who verified that recorded collections were deposited was not independent, because this employee also prepared the deposit and had access to the cash receipts. Furthermore, this employee had the capability to modify the initial record of collections and void transactions without subsequent independent approval. According to the Office's records, this employee processed 88 percent (\$329,270) of the total voided transactions during our audit period (\$373,781). Our test of 15 transactions totaling \$62,978 voided by this employee disclosed 3 voids totaling \$980 were not adequately supported.
- The Office did not verify that all credit card receipts processed by its third-party credit card vendor were properly credited to the State's bank account. Our test of 10 days of credit card transactions totaling \$10,486 disclosed discrepancies between the collections processed by the credit card vendor and the amounts deposited in the State's bank account for 3 days totaling \$410. For example, the credit card collections processed on one day (\$1,861) exceeded the total amount deposited in the State's bank account by \$328. While the Office advised that these variances were likely due to delays between when the transactions occurred and when they were posted, it could not provide support for this explanation and we could not determine whether the collections were ultimately deposited.

Under these conditions, errors or other discrepancies could occur without timely detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires that the reconciliation of the initial record of all collections to the amount deposited be performed by an employee independent of the cash receipts function.

Additionally, the *Manual* requires independent supervisory review and approval of voids.

A similar condition regarding the verification of recorded collections to deposit was commented upon in our three preceding audit reports, dating back to October 2011. In addition, similar conditions regarding the failure to independently review voided transactions and verify that credit card receipts were properly credited to the State's bank account were commented upon in our two preceding audit reports.

Recommendation 3

We recommend that the Office

- a. ensure that an employee independent of the cash receipts process verifies that all collections, including credit card transactions, are subsequently deposited and credited to the State's bank account (repeat);**
- b. establish an independent supervisory review and approval of voids to verify that voided transactions are proper (repeat) and adequately supported; and**
- c. take investigative action to resolve any instances of recorded collections not deposited to the State's bank account.**

We advised the Office on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Office of the Secretary of State for the period beginning December 5, 2017 and ending November 15, 2021. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Office's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included charitable organizations, cash receipts, equipment, and disbursements. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to the Office by the Executive Department – Governor. These support services (such as, maintenance of accounting records and related fiscal functions) are included within the scope of our audit of the Executive Department – Governor.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of December 5, 2017 to November 15, 2021, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, test of transactions, and to the extent practicable, observations of the Office's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the

transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from the Office's automated system used to record information relating to charitable organizations for the purpose of testing the Office's procedures for ensuring compliance with certain requirements in the law applicable to such organizations. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

The Office's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Office, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Office's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, and regulations. Other less significant findings were communicated to the Office that did not warrant inclusion in this report.

The Office's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Office regarding the results of our review of its response.

APPENDIX

STATE OF MARYLAND

EXECUTIVE DEPARTMENT

LARRY HOGAN

GOVERNOR

BOYD K. RUTHERFORD

LT. GOVERNOR



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JOHN C. WOBENSMITH

SECRETARY OF STATE

May 17, 2022

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
351 West Camden Street
Suite 400
Baltimore, MD 21201

Dear Mr. Hooks,

Thank you for providing the draft Audit Report dated May 2022 regarding the audit of the Office of the Secretary of State for the period beginning December 5, 2017 and ending November 15, 2021. We appreciate the thoroughness of your audit to clarify internal procedures, communicate ideas, and suggest reasonable measures to enhance internal controls. Your draft Audit Report has been reviewed and the responses from the Office of the Secretary of State are provided herein.

A handwritten signature in black ink, appearing to read "John C. Wobensmith".

John C. Wobensmith
Secretary of State

Office of the Secretary of State

Agency Response Form

Charitable Organizations

Finding 1

The Office of the Secretary of State did not conduct independent reviews to ensure that critical data obtained from charitable organizations was accurately recorded, and that these organizations submitted the proper amount of fees.

We recommend that the Office perform independent verifications, at least on a test basis, to ensure that information reported by charitable organizations is accurately recorded in the Office's database and that the proper fees are collected from each organization (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	We agree with Finding 1. Independent reviews were conducted for ¾ of the audit period until the pandemic hit and required reallocation of staff resulting in the temporary suspension of the review of files on July 31, 2020.		
Recommendation 1	Agree	Estimated Completion Date:	Spring 2022
Please provide details of corrective action or explain disagreement.	<p>The new charities database is expected to produce accurate submissions by charities resulting in fewer errors. The new database will eliminate manual data entry and is expected to be fully operational by Dec 2022. The improved functionality of the new database will also help to streamline what is currently a labor intensive, manual process. In addition, cross training of staff has been implemented to assist with processing backlogs. However, until the new database is installed, a strategy has been implemented to address the processing backlog allowing the internal auditor to resume her duties. The resumption of duties will identify errors and provide timely feedback to avoid repeat errors.</p> <p>Internal audits were consistently performed between 2017 and July 1, 2020 with an error rate of 1% or less for critical errors, such as collecting the correct fee(s) or requiring the audit/financial review. Clerical errors (typos, etc.) occur on occasion that do not impact the charity's registration status. The previous legislative audit recommended we review 20-30 files monthly. In our commitment to excellence, 100 files were randomly selected and reviewed monthly as were files processed by each charity officer. This standard exceeded the audit requirement by 233-400%.</p>		

Office of the Secretary of State

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	<p>Monthly internal file reviews were temporarily suspended for files processed after July 31, 2020 due to a temporary staff realignment during the height of the pandemic. A mounting number of charity registrations necessitated temporarily shifting our internal auditor to support processing charity registrations. As a result, the internal file reviews were a casualty of the pandemic</p> <p>A sample of the file review is attached.</p>
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Office of the Secretary of State

Agency Response Form

Finding 2

The Office did not investigate charitable organizations that failed to comply with the annual registration requirements of State law. In addition, the Office did not monitor related fees incurred by delinquent organizations and refer accounts to the State's Central Collection Unit.

We recommend that the Office

- a. investigate charitable organizations that fail to comply with the annual registration requirements of State law to determine whether the organizations are still operating and whether to refer the organizations for additional enforcement action as permitted by law;**
- b. generate periodic aging reports to assist in monitoring the late registration fees owed by charitable organizations; and**
- c. refer delinquent accounts to CCU for collection assistance, as required by State regulations.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	We agree with parts of Finding 2. The finding conflates charitable organizations who appear to be late, or delinquent, in filing requirements under the Maryland Solicitations Act with delinquent debts owed to the State.		
Recommendation 2a	Agree	Estimated Completion Date:	May 2022
Please provide details of corrective action or explain disagreement.	<p>We resumed these activities in the May of 2022. Further, once the new database is operational these reviews will be automated; relieving the current labor intensive, manual process by which we must contact charities that appear to be late, or delinquent with annual registration requirements.</p> <p>In addition to the above actions, we are cross training staff to provide additional support to facilitate compliance.</p> <p>Emergency orders issued during the pandemic excluded charities in good standing, who met the criteria, from being identified as delinquent. The emergency orders resulting from the pandemic caused a temporary extension of charity registrations beginning March 20, 2020 and ending June 30, 2021. Of the 5,755 charitable organizations reported as delinquent on 1/18/2022, 2,784, or 48%, became delinquent just three (3) days earlier on 1/15/2022 (one of our 2 major filing deadlines).</p>		

Office of the Secretary of State

Agency Response Form

All charities in good standing, with a current registration at the time of the emergency order, **were not eligible** to be categorized as late until 30 days after the termination of the emergency order. **It was premature to contact delinquent charitable organizations prior to June 30, 2021 when the Emergency Orders were terminated. Delinquent charitable organizations that met this criteria were granted extensions in the Emergency Orders.** As anticipated, the termination of the extension granted through the emergency orders, resulted in an overwhelming increase in charity registration applications for more than 3 months after the order was rescinded on June 30, 2021. At the end of the extension order, 1,475 charitable organizations that were covered by the pandemic extension became delinquent, therefore adding an additional 1,475 to the existing 1,412 delinquents, more than doubling our delinquent count.

Prior to the pandemic, the internal auditor routinely contacted delinquent charitable organizations, or those charities that appeared to be late, or not compliant with their annual registration requirements. We lowered the number of delinquent charity registrations. The **2,909 delinquent registrations on file in July 2016 were reduced by 60% to 1,168 in December 2018.** Delinquent charities were contacted by letter, email, and phone.

Registration is cyclical, based on the organization's fiscal year end. Many charities become delinquent and regain compliance during the course of a year (during this time frame, 2,764 became delinquent and 4,505 delinquencies were resolved). The internal auditor was temporarily reassigned to relieve backlogs of processing of charity registrations during the height of the pandemic.

Some outstanding annual registration fees and late fees have been received but not yet processed due to the processing backlog, caused by the pandemic. Therefore, many charitable organizations in our database that are displayed as delinquent would be reported as current if the application was processed the day it was received. We are working to resolve this backlog.

We are making good progress in processing the backlog. **The delinquent count decreased 40% to 3,471 as of May 25, 2022.** The actual count is lower, and will continue to decrease as we work through the backlog of charity registrations received but not yet processed. It's estimated that the actual number of delinquent charitable organizations is 3,200 to 3,400 (~2,000 became delinquent since the emergency order expired).

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Recommendation 2b	Agree	Estimated Completion Date:	Spring 2022
Please provide details of corrective action or explain disagreement.	We requested, and DoIT has already provided, the first of the periodic aging reports to assist in monitoring. Further, the new charity database will generate these reports.		
Recommendation 2c	Disagree	Estimated Completion Date:	Winter 2022
Please provide details of corrective action or explain disagreement.	<p>We question whether the law obligates us to refer the collection of late fees from charitable organizations to the State's Central Collection Unit, and for the following reasons believe additional review is required. We are seeking advice from the Office of the Attorney General on our legal obligations, whether there are existing debts owed by charitable organizations that can be referred to CCU, and if so, at what stage.</p> <p>There is no definition of a delinquent charity or delinquent account in the Maryland Solicitations Act or regulations used to administer the Act. Rather, SOS refers to delinquent charities internally as those who do not appear to be in compliance with SOS annual filing and registration requirements. Research needs to be done to determine how the SOS may identify a charity as a delinquent account that should be referred to CCU, whether such accounts may fall under CCU's regulation definition of delinquent accounts, and whether special considerations are extended regarding charities since there are a wide range and varying degrees of delinquent filings. A formal practice would still need to be established before referrals, if any, can be made to CCU and if they meet the definition established by CCU.</p> <p>The draft report estimates \$1.8 million in late fees could be due from charities who failed to file timely annual reports. This amount, as framed in the report, is misleading. We take this amount seriously, and as indicated in the previous explanation, we will begin a process to collect and monitor this data point. However, this figure, as reported, is not a fair representation of outstanding debt due to the State as it fails to take into consideration the discretion that the Secretary of State has when assessing late fees. The Secretary of State has the authority to extend the time period for filing annual reports without limitation. Section 6-407(c) provides the Secretary of State shall assess late fees 60 days after the end of the organization's fiscal year or after the period of extension that may be granted by the Secretary of State. This law does not place any limitation on the period of time the Secretary of State may allow for such filings and for good reason. Charities experience high turnover, oftentimes rely on volunteers and slim budgets that consist of restricted charitable assets to operate. Burdening some charities, and particularly those charities that are not engaged in any misconduct, with added fees</p>		

Office of the Secretary of State

Agency Response Form

	<p>and interest penalties requires careful consideration and an established administrative framework as it implicates the State's interest in ensuring charitable assets are used for their intended charitable purpose. Additional legal review is required to determine how to lawfully and properly refer charitable organizations to the State's Central Collection Unit for failing to maintain annual filing requirements.</p> <p>Although the Secretary of State's Office agrees that the methodology analysis used to reach its figure was reasonable, the Secretary of State's Office cannot agree that the information presented in the draft report is an accurate or reliable estimate of how much in late fees could be referred to the CCU for collection assistance. This is because the SOS has not established an internal process or procedure to identify delinquent debt that may be collected by CCU. As there is not yet an established definition of a delinquent account, the Secretary of State's Office questions whether there can be an estimate at this time as to how much in late fees must be referred to CCU. We will work to understand our legal obligations relating to the assessment and collection of late fees and to establish a definition in consultation with legal counsel, CCU and DBM.</p>
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Auditor's Comment: Although the Office's response disagreed with finding 2c, we believe that the subsequent comments agree with the recommendation in principle. Specifically, the Office acknowledged the need to establish a process to identify and refer delinquent charitable organizations to CCU and agreed with our methodology for estimating amounts owed by delinquent charitable organizations. However, the Office believes the amount we included in the report was misleading because State law authorizes the Office to extend indefinitely the time period for charitable organizations to file their annual reports. Since the Office did not provide evidence that such extensions were granted to the 5,755 delinquent organizations noted in our finding, we were prevented from estimating the extent to which the amount to be collected from these organizations might increase or decrease as a result of additional investigation efforts. Therefore, we believe that the amount presented in our report is a fair and appropriate estimate based on the information available at the time of our review.

Office of the Secretary of State

Agency Response Form

Cash Receipts

Finding 3

Adequate controls were not established over cash receipts.

We recommend that the Office

- a. ensure that an employee independent of the cash receipts process verifies that all collections, including credit card transactions, are subsequently deposited and credited to the State's bank account (repeat);**
- b. establish an independent supervisory review and approval of voids to verify that voided transactions are proper (repeat) and adequately supported; and**
- c. take investigative action to resolve any instances of recorded collections not deposited to the State's bank account.**

We advised the Office on accomplishing the necessary separation of duties using existing personnel.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	No additional comments.		
Recommendation 3a	Agree	Estimated Completion Date:	4/15/2022
Please provide details of corrective action or explain disagreement.	To meet recommendation 3a the supervisor has expanded the duties of two staff members to include reconciling daily revenue collections including credit cards against the daily receipt reports, external transaction reports and monthly bank statements. This process will be reviewed by the supervisor for accuracy and modified as appropriate. Additionally, tasks such as scanning and entering checks in our finance database have also been assigned to a different staff member. The division has had initial discussions with DoIT to modernize our databases to eliminate manual processing of systems such as the Receipts and Daily Finance.		
Recommendation 3b	Agree	Estimated Completion Date:	6/30/2022
Please provide details of corrective action or explain disagreement.	The division has implemented procedures and processes to address this recommendation. DoIT has updated the Receipt database to allow the "Void Reason" field to be printed on the receipt. With this update, the Assistant Secretary for Admin & Finance (supervisor) can review the reason for the void and initial each voided receipt. The supervisor can		

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	review and initial each void that is listed on the Daily Receipt Report – Void/Non-Void. Voids are initialed and dated by the supervisor to ensure they are proper and correct. All voided records are retained by the division as backup.		
Recommendation 3c	Agree	Estimated Completion Date:	4/15/2022
Please provide details of corrective action or explain disagreement.	The division confirmed that the revenue of \$410 was from credit card transactions charged to the wrong bank. When the State Treasurer's Office awarded a new banking and merchant services contract all credit card companies were informed of the banking change. This office overlooked informing one of the credit card companies of the change. This resulted in a small number of transactions continuing to be deposited with that company rather than with the new contractor. This office prepared a letter to the company informing them of the change and directed them where future deposits should be made. On April 15, 2022 the State Treasurers' Office confirmed that the account officially ended.		

File Review Checklist: Charities & Legal Services Division, Office of the Secretary of State
 Month/Year of file review: July 2020

Name/Title of person conducting the file review: Internal Auditor

Date of Review	Record Checked (CID#)	Date of Case Note	Findings	Processing Employee's Name
8/26/2020	24513	7/1/2020	No Findings	E1
8/26/2020	15634	7/1/2020	No Findings	E1
8/26/2020	57	7/1/2020	No Findings	E1
8/26/2020	28247	7/1/2020	No Findings	E1
8/26/2020	24117	7/1/2020	No Findings	E2
8/26/2020	13861	7/1/2020	No Findings	E2
8/26/2020	12211	7/1/2020	No Findings	E2
8/26/2020	31392	7/1/2020	No Findings	E1

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8/26/2020	20138	7/1/2020	No Findings	E2
8/26/2020	19205	7/1/2020	No Findings	E2
8/26/2020	18728	7/1/2020	No Findings	E1
8/26/2020	12262	7/1/2020	No Findings	E1
8/26/2020	31591	7/1/2020	No Findings	E1
8/26/2020	12059	7/1/2020	No Findings	E1
8/26/2020	20207	7/1/2020	No Findings	E1
8/26/2020	26406	7/1/2020	No Findings	E1
8/26/2020	24437	7/1/2020	No Findings	E2
8/26/2020	18555	7/1/2020	No Findings	E1
8/26/2020	17982	7/1/2020	No Findings	E2
8/27/2020	4376	7/1/2020	No Findings	E1
8/27/2020	45699	7/1/2020	No Findings	E1
8/27/2020	18805	7/1/2020	No Findings	E2
8/27/2020	28210	7/1/2020	No Findings	E2
8/27/2020	21470	7/1/2020	No Findings	E1
8/27/2020	28542	7/1/2020	No Findings	E2
8/27/2020	15263	7/7/2020	No Findings	E2
8/27/2020	5023	7/7/2020	No Findings	E2
8/27/2020	1676	7/7/2020	No Findings	E2
8/27/2020	16913	7/7/2020	No Findings	E2
8/27/2020	20765	7/7/2020	No Findings	E3
8/27/2020	3605	7/7/2020	No Findings	E2
8/27/2020	2171	7/7/2020	No Findings	E2
8/27/2020	38775	7/7/2020	No Findings	E2
8/27/2020	5291	7/6/2020	No Findings	E3

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8/27/2020	24264	7/6/2020	No Findings	E3
8/27/2020	481	7/6/2020	No Findings	E3

Total Files Reviewed: 36 (15 E1, 17 E2, 4 E3)

Total Errors: 0

AUDIT TEAM

Edward A. Rubenstein, CPA
Audit Manager

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Senior Auditor