

SOUTH CAROLINA PUBLIC SERVICE COMMISSION

COLUMBIA, SOUTH CAROLINA

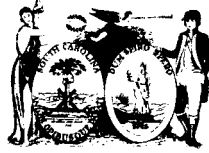
STATE AUDITOR'S REPORT

JUNE 30, 2003

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 9, 2004

The Honorable Mark Sanford, Governor
and
Commissioners
South Carolina Public Service Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Public Service Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2003, in the areas addressed. The Commission's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for all new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year recorded payroll expenditures to those of the prior year and compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.
- We inspected payroll transactions for all Teacher Employee Retirement Incentive participants to determine if internal controls over these transactions were adequate.

Unless otherwise noted, the individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries and Operating Transfers**

- We inspected selected recorded journal entries and all operating transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

Unless otherwise noted, the individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2003, and inspected all reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For all the reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS.

We found no exceptions as a result of the procedures.

7. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Commission's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2003.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2003, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Operating Leases Closing Package in the Accountant's Comments section of this report.

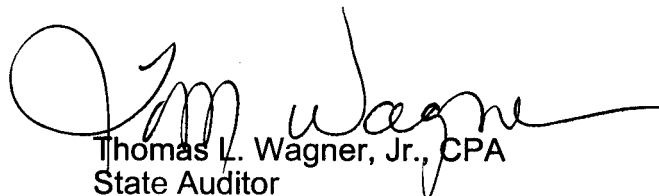
9. **Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2002, to determine if adequate corrective action has been taken.

Our finding as a result of these procedures is presented in Operating Leases Closing Package in the Accountant's Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the South Carolina Public Service Commission and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition described in this section has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

OPERATING LEASES CLOSING PACKAGE

The State's Comptroller General's Office requires agencies to submit closing packages at the end of the fiscal year in order to convert information in the State's accounting system (STARS) from the cash basis of accounting to the modified accrual or accrual basis of accounting, as appropriate, in conformity with generally accepted accounting principles (GAAP). Section 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate, complete and timely closing package forms that are completed in accordance with instructions. Section 3.19 of the GAAP Manual states, "Leases in effect at June 30 include lease agreements signed on or before June 30. Your agency's obligation begins when both parties sign the lease agreement, whether the lease payments begin before or after June 30."

The Commission signed a five-year lease extension for office space in April 2003. The lease renewal agreement was effective September 1, 2003. Total rental payments under this lease are approximately \$1,966,000. This lease was not reported on the operating leases closing package for fiscal year 2003 because Commission personnel thought it did not need to be reported, since the term of the lease was not effective until fiscal year 2004.

We recommend that the Commission assign responsibility for the preparation and review of each closing package to an employee and a supervisor who are thoroughly familiar with GAAP and with GAAP Manual instructions. Also, the Commission should implement policies and procedures to ensure that all required closing packages are completed and contain accurate and complete information and are properly supported and traced back to the accounting records in accordance with the GAAP Manual instructions.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2002, and dated August 29, 2003. We determined that the Commission had not taken adequate corrective action for the "Operating Leases Closing Package" comment. With respect to the other comments, we were told that the Commission has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 2003, we did not perform tests to determine if the new procedures are operating effectively.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA PUBLIC SERVICE COMMISSION

AGENCY'S RESPONSE

AGREED UPON PROCEDURES FOR FY ENDED JUNE 30, 2003

CLOSING PACKAGES

We agree with the findings of the Office of the State Auditor. The agency has now assigned the responsibility for the preparation and review of all closing packages to two individuals that comprehend Generally Accepted Accounting Principles (GAAP) and GAAP Closing Procedures Manual Instructions, the Administrative Manager I and the Administrative Coordinator I. A closing package for operating leases was prepared and filed with complete and accurate information in a timely manner for the 2003 – 2004 fiscal year. Information for the closing package is properly documented with copies of all applicable leases and can be traced back to the agency's accounting records.

STATUS OF PRIOR FINDINGS

We agree with the findings of the Office of the State Auditor. The agency has now assigned the responsibility for the preparation and review of all closing packages to two individuals that comprehend GAAP and GAAP Closing Procedures instructions, the Administrative Manager I and the Administrative Coordinator I. A closing package for operating leases was prepared and filed with complete and accurate information in a timely manner for the 2003 – 2004 fiscal year. Information for the closing package is properly documented with copies of all applicable leases and can be traced back to the agency's accounting records.

5 copies of this document were published at an estimated printing cost of \$1.39 each, and a total printing cost of \$6.95. The FY 2004-05 Appropriation Act requires that this information on printing costs be added to the document.