

**SOUTH CAROLINA
RESIDENTIAL BUILDERS COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 1991

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INDEPENDENT AUDITOR'S REPORT ON AGREED-UPON PROCEDURES

June 4, 1992

The Honorable Carroll A. Campbell, Jr., Governor
and
Board of Commissioners
South Carolina Residential Builders Commission
Columbia, South Carolina

We have applied certain agreed-upon procedures, as discussed below, to the accounting records of the South Carolina Residential Builders Commission for the fiscal year ended June 30, 1991. These procedures were performed solely to assist you in evaluating the performance of the Commission in the areas addressed, and our report is not to be used for any other purpose.

1. We reviewed available information relating to the system of internal controls over receipts and disbursements to gain an understanding of such controls.
2. We tested a sample of recorded receipts to determine if these receipts were properly described and classified in the accounting records, collection and retention or remittance were supported by law, and accounting procedures and internal controls over the tested cash receipt transactions were adequate to provide proper control over these transactions.
3. We tested a sample of recorded disbursements to determine if these disbursements were properly described and classified in the accounting records, represented bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations and if accounting procedures and internal controls over the tested disbursement transactions were adequate to provide proper control over these transactions.
4. We tested a sample of recorded payroll disbursements to determine if payroll and fringe benefits were properly described, classified, and distributed in the accounting records, persons on the payroll were bona fide employees, payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements, and accounting procedures and internal controls over the tested payroll transactions were adequate to provide proper control over these transactions.

The Honorable Carroll A. Campbell, Jr., Governor
and
Board of Commissioners
South Carolina Residential Builders Commission
June 4, 1992

5. We agreed the amounts on the accompanying schedule of expenditures paid - budget and actual - budgetary general fund to the accounting records of the Commission.

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the adequacy of the Commission's accounting procedures and internal controls over cash receipts and disbursements, accountability for revenues, propriety of expenditures, or the extent to which funds have been expended in compliance with prescribed laws and regulations.

Our findings regarding deficiencies noted and our recommendations for correcting such deficiencies are presented in the Auditor's Comments section of this report.

In connection with the procedures referred to above, except as set forth in the Auditor's Comments section of this report, no matters came to our attention that caused us to believe that the Commission's accounting records might require adjustment. Had we performed additional procedures or had we conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the objectives and procedures specified above and does not extend to any financial statements of the Commission, taken as a whole.

This report is intended solely for the use of the South Carolina Residential Builders Commission and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Commission, is a matter of public record.



Edgar A. Vaughn, Jr., CPA
State Auditor

SOUTH CAROLINA RESIDENTIAL BUILDERS COMMISSION
Schedule of Expenditures Paid -
Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1991

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures:			
Personal Services	\$380,916	\$380,792	\$ 124
Employer Contributions	80,534	80,533	1
Contractual Services	45,313	45,312	1
Supplies and Materials	63,574	68,518	(4,944)
Fixed Charges and Contributions	54,880	54,880	-
Travel	60,212	60,212	-
Equipment	6,746	6,694	52
Transportation	<u>50</u>	<u>16</u>	<u>34</u>
Total Expenditures	<u>\$692,225</u>	<u>\$696,957</u>	<u>\$(4,732)</u>
Lapsed to the State General Fund	<u>\$ -</u>	<u>\$ 490</u>	<u>\$(490)</u>

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA RESIDENTIAL BUILDERS COMMISSION
Notes to Schedule
June 30, 1991

NOTE 1 - BUDGET POLICY

The South Carolina Residential Builders Commission, known prior to July 1, 1990, as the South Carolina Residential Home Builders Commission, is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary component unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual component units. The General Assembly enacts the budget through passage of specific line-item (object of expenditure) appropriations by program within component unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the component entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Agencies may request transfers of appropriations among object classes and/or among programs within the same budgetary fund. Modifications to the State General Fund budget must be approved by the State Budget and Control Board. As operating conditions change, agencies may request revisions of expenditure budgets in other than State General Fund appropriation accounts. Such changes require the State Budget and Control Board's review, the Governor's approval, and the Joint Appropriation Review Committee's concurrence. However, the Commission only expends State General Fund monies.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for fiscal year 1991 to 1991 appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedule of expenditures paid - budget and actual - budgetary general fund presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on an object of expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures."

SOUTH CAROLINA RESIDENTIAL BUILDERS COMMISSION

Notes to Schedule

June 30, 1991

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the Appropriation Act as originally enacted by the General Assembly to amounts available for the Commission's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1991.

Original Appropriation	\$682,592
Allocations from the State Budget and Control Board for Operating Expenditures:	
Contractual Services	6,400
Supplies and Materials	11,091
Travel	417
Personal Services Budget Reduction Mandated by Proviso 14.90	(8,649)
State Budget and Control Board Mid-Year Budget Reduction	(6,500)
Employer Contributions Budget Allocation for Health and Dental Plans Rate Increases Pursuant to Proviso 14.10	<u>6,874</u>
Revised Legal Basis Appropriation Available for 1991 Expenditures	<u>\$692,225</u>

NOTE 3 - EXPENDITURES PAID IN SUBSEQUENT FISCAL YEAR

The Commission erroneously recorded \$5,222 of supplies and materials expenditures in the budgetary general fund pertaining to fiscal year 1991 as charges to fiscal year 1992. An adjustment to Schedule 1 to include the \$5,222 in supplies and materials expenditures of the proper fiscal year resulted in net unfavorable variances of \$4,944 for supplies and materials and \$4,732 for total expenditures for the year ended June 30, 1991.

State law requires agencies to expend State funds in strict accordance with the line-item appropriations in the Appropriation Act in the year for which appropriated.

AUDITOR'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS PER SECTION 11-9-100 OF THE 1976 SOUTH CAROLINA CODE OF LAWS, AS AMENDED

The conditions described in this section have been evaluated under the provisions of Section 11-9-100 of the 1976 South Carolina Code of Laws, as amended, and identified as material weaknesses in internal control and/or violations of State Laws, Rules or Regulations and subject to the provisions of Section 11-9-100.

These conditions, in our opinion, constitute material weaknesses as cited in Code Section 11-9-100 and, therefore, require corrective action by the South Carolina Residential Builders Commission.

PROCUREMENT CODE REGULATIONS

For 6 of the 25 disbursement vouchers tested, the Commission did not comply with the State's Consolidated Procurement Code. In one instance, the Commission did not prepare the required sole source documentation. Five vouchers lacked documentation stating that purchases less than \$500 were fair and reasonable. Therefore, the Commission could be making purchases which are not in the State's best economic interest. We reported similar violations of State procurement regulations in the State Auditor's Report on the Commission for fiscal year 1990.

The South Carolina Consolidated Procurement Code Regulations Section 19-445.2100 B.(1) states that small purchases not exceeding \$500 may be made without securing competitive quotes if the prices are considered reasonable and the purchasing officer marks and signs the purchase requisition "Price is fair and reasonable." Also, the 1976 South Carolina Code of Laws, as amended, Section 11-35-1560, states the following regarding sole source procurements:

A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the board, the chief procurement officer, the head of a purchasing agency, or a designee of either officer above the level of the procurement officer, determines in writing that there is only one source for the required supply, service, or construction item.

We again recommend that the Commission adhere to all of the State's purchasing and procurement laws and regulations to ensure that the needs of the Commission are met in the most economical and efficient manner required.

EXPENDITURES PAID IN SUBSEQUENT FISCAL YEAR

In fiscal year 1991 the Commission incurred \$5,222 for supplies and materials expenditures that were paid from fiscal year 1992 appropriations. Thus, the Commission did not meet the requirements of Section 2 of Part I of the 1991-92 Appropriation Act, which states that appropriations must be used to meet the ordinary expenses of the State government for the current fiscal year. Also, generally accepted accounting principles require that expenditures be recorded in the period in which the related liability is incurred.

We recommend that the Commission implement procedures to ensure that operating obligations are paid from monies appropriated for the year in which the obligations are incurred in compliance with State law and generally accepted accounting principles.

RECORDS RETENTION

The Commission could not locate the following supporting documentation and accounting records which we requested during our engagement:

- (1) One of 25 deposit packages selected for testing and
- (2) All of the fiscal year 1991 correcting journal entries.

Because of poor filing and record retention practices, the Commission cannot readily locate important documentation. In fact, the Commission does not have a written record retention schedule/policy in effect.

Good accounting policies and practices require that all transactions be properly supported with such documentation retained in the Commission's records. Furthermore, Section 30-1-80 of the 1976 South Carolina Code of Laws, as amended, requires that the head of each agency shall cooperate with the South Carolina Department of Archives and History "to establish and maintain an active, continuing program for the economical and efficient management of the records of the agency." Code Section 30-1-70 requires the legal custodian of public records to protect them against mutilation, destruction, or other loss and to keep them secure in readily accessible working locations.

We recommend that the Commission develop and implement proper and adequate record retention practices in adherence with State law and sound accounting practices. Supporting documentation and accounting records should be maintained in an organized manner to facilitate easy access. In designing a records retention policy the Commission should ensure that records are kept for an adequate and reasonable period of time or until audited by independent auditors.

DEPOSITS

The Commission did not deposit receipts in accordance with Section 11-5-210 of the South Carolina Code of Laws, as amended. Five of the 25 deposits tested were not made timely. The funds were deposited from 8 to 11 calendar days after they were received.

Section 11-5-210 of the Code states that all revenues and income from the Commission's licenses, examination fees, and any other source or activity "shall be remitted to the State Treasurer as collected when practicable, but at least once each week." Further, Section 1 of Part I of each Appropriation Act including the 1990-91 Act requires all agencies to remit monies as collected but at least weekly.

We recommend that the Commission establish procedures to ensure that monies are deposited as collected, when practicable, but at least once each week as required by State law.

GAAP CLOSING PACKAGES

The State Comptroller General's Office obtains GAAP (generally accepted accounting principles) data from closing packages for the State's financial statements. We noted the following errors during our review of the Commission's GAAP closing packages forms:

- (1) As described in our comment entitled "Expenditures Paid in Subsequent Fiscal Year", in fiscal year 1991 the Commission incurred \$5,222 in expenditures for supplies and materials that were paid from fiscal year 1992 appropriations and omitted these obligations from the accounts payable closing package as of June 30, 1991.
- (2) The Commission overstated its annual leave liability by approximately \$4,000 on the compensated absences closing package because for 4 of 14 employees the liability was calculated based on the actual accrued annual leave hours balance without considering the 337.5 hour limitation.
- (3) The general fixed assets closing package included at least \$141 in additions which represented items that should have been charged to supplies and not capitalized as equipment. See comment titled "Accounting for General Fixed Assets" for additional information.
- (4) Finally, the Commission reported \$1,094 as miscellaneous accounts receivable for miscellaneous revenue already received.

In order to accurately report the Commission's and the State's assets and liabilities, the GAAP closing packages forms must be accurate. Furthermore, Section 1.8 of the GAAP Closing Procedures Manual states that the agency head and finance director are responsible for submitting closing packages that are accurate, complete, and completed in accordance with instructions. Preparation and maintenance of working papers is also a primary responsibility of each agency. Section 3 of the GAAP Closing Procedures Manual for fiscal year 1991 states annual leave liability should be valued based upon the lesser of accumulated leave days at year-end or 45 days minus leave taken since January 1.

We recommend that the Commission implement procedures to ensure that all future GAAP closing packages contain accurate and complete information in accordance with the GAAP Closing Procedures Manual requirements and instructions. The Commission should have in place procedures and records to identify and accumulate the GAAP information and to retain working papers prepared to accumulate the information.

GENERAL LEDGER RECONCILIATION

The Commission began using the Basic Agency Reporting System (BARS) computer software package during fiscal year 1989 to record and process accounting information. This system was designed for use by small State agencies. During fiscal year 1991, the Commission's general ledger and books of original entry (cash receipts register and cash disbursements register) were not accurately maintained by accounting personnel on a monthly basis. During our audit of the Commission's fiscal year 1988 financial statements, we noted that the Commission did not timely update the general ledger and did not perform many of the essential monthly reconciliations between its books and the State Comptroller General's Statewide Accounting and Reporting System (STARS) reports. These deficiencies were brought to the agency's attention at that time and again during the fiscal year 1990 engagement. During the fiscal year 1991 engagement, we determined that the Commission had not reconciled its revenues and expenditures to the Comptroller General's records on a monthly basis.

The Comptroller General's Policies and Procedures Manual (STARS Manual) Section 2.1.7.20 C. states, in part, the following:

...the agency's accounting records could contain errors even if there are no errors in STARS.

The only way such errors can be detected is for agency accounting personnel to perform regular monthly reconciliations between their agency's accounting records and STARS balances shown on STARS reports. Such reconciliations provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper.

To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be:

- Performed at least monthly on a timely basis (i.e., shortly after month-end).
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

Revenues, expenditures, and ending cash balances for each subfund must be included in these monthly reconciliations.

Furthermore, the 1976 South Carolina Code of Laws, as amended, Section 11-9-125 states in part that state agencies shall "reconcile federal and other fund accounts at the end of each state fiscal year and maintain those records for audit purposes."

Commission personnel stated that they began performing the required reconciliations at the beginning of fiscal year 1992. We further recommend that the Commission continue to maintain up-to-date and accurate records, including the general ledger and supporting registers, and continue to prepare written, monthly reconciliations. The accounting records should be produced on a monthly basis with appropriate subtotals so that amounts in detail registers can be easily agreed to general ledger postings.

ACCOUNTING FOR GENERAL FIXED ASSETS

The responsibility for stewardship and safeguarding the general fixed assets of the Commission is of utmost importance to sound financial administration. This responsibility can be effectively discharged only through adequate general fixed assets accounting.

Our review of the accounting for and control of fixed assets revealed a number of problem areas that we believe require immediate attention:

1. Eleven pieces of equipment purchased during fiscal year 1991 were not capitalized. As a result, the Commission's detailed fixed assets listing was understated by approximately \$5,000 at June 30, 1991. However, all fiscal year 1991 equipment purchases were reported as additions and included in the end-of-year balance of equipment and total general fixed assets on the general fixed assets GAAP closing package completed by Commission personnel for the year ended June 30, 1991.
2. A reconciliation of equipment expenditures to acquisitions as recorded within the general fixed assets list was not prepared.
3. A complete physical inventory of equipment was not taken by the Commission since fiscal year 1988.
4. Charges relating to supplies which totalled \$141 were erroneously recorded as equipment expenditures.

Section 10-1-140 of the 1976 South Carolina Code of Laws, as amended, requires each agency to perform an annual fixed assets inventory. Also, Section 2.1.6.20 of the STARS Manual defines the expenditure object codes for supplies and materials and for equipment as follows:

SUPPLIES AND MATERIALS:

To include all expenditures for articles or substances which have specific uses and when applied to their respective uses are subject to such changes that will consume them or render them unfit for continuous and permanent use. Transportation charges and use tax paid on supplies are a part of the cost of supplies and will be charged and classified as such. Single items over \$500.00 will be charged to equipment except for stage properties...

EQUIPMENT:

All expenditures for the purchase of articles, parts, or things of permanent nature which can be used continuously. Transportation and installation charges on equipment are a part of the cost of equipment and will be charged and classified as such. Items under \$500.00 may be charged to supplies. Items not capitalized when they are replacement parts to a capitalized item may be charged to supplies.

To strengthen equipment controls and more accurately report fixed asset values in accordance with generally accepted accounting principles, we recommend the following procedures be implemented:

1. Equipment purchases should be capitalized in a timely manner.
2. Additions to the inventory list should be reconciled to the general ledger equipment expenditures at least annually.
3. A complete physical inventory should be taken annually. The fixed assets listing should be adjusted to reflect actual physical inventory with reasons for each adjustment being clearly and completely explained, documented, and approved.
4. Charges to various expenditure categories should be made in accordance with guidelines promulgated by the State Comptroller General's Office.

ANNUAL REPORT

During fiscal year 1991, the Commission collected a \$120 certification fee and a \$20 registration fee from specialty contractors. These fees were not included in the 1990-91 consolidated annual report of South Carolina Occupational and Professional Licensing Boards printed under the direction of the State Budget and Control Board.

Section 40-73-20 of the 1976 South Carolina Code of Laws, as amended, requires each occupational and professional licensing agency to file an annual report with the State Budget and Control Board from which the Board must compile information into a consolidated report of all licensing agencies. "All licensing boards shall prepare the reports in conformity with the provisions of this act." Section 40-73-30 provides that each annual report shall contain certain information including an itemized breakdown of fees.

We recommend that fees from specialty contractors and all other licensing fees be accurately included in the annual report in conformity with State law.

ANNUAL LEAVE

One of the six individuals who terminated employment during the fiscal year ended June 30, 1991, had a negative annual leave balance of 50.323 hours upon termination as a permanent full-time employee on December 31, 1990, as reported on the monthly leave report as of December 31, 1990. The value of the excess leave taken is \$(444) based on the employee's then current salary. This individual was rehired as a temporary employee from January 4, 1991 to February 15, 1991. Based on our review of the employee's personnel file and discussions with Commission personnel, it appears that the employee was improperly credited with 18.74 hours of annual leave while a temporary employee.

	<u>Hours</u>
Annual Leave Balance as of December 31, 1990, per Monthly Employee Leave Report	(50.323)
Additional Deduction Possibly to Correct the December 1990 Report	(11.737)
Adjusted Annual Leave Balance as of December 31, 1990	(62.060)
Apparent Accrual for January and February 1991	<u>18.740</u>
Adjusted Annual Leave Balance	<u>(43.320)</u>

Section 703.07 A of the State Personnel Regulations Manual covering annual leave guidelines does not include temporary employees among the categories of State employees eligible to receive annual leave benefits.

The Commission reduced the employee's regular semi-monthly check paid on January 16, 1991, thereby recovering some of the cost of the negative leave balance. However, the Commission's calculations appear to be incorrect in that the employee was actually paid \$335 but was only due \$110 resulting in an overpayment of \$225.

Pay Computed by Commission

Regular Semi-Monthly Pay	\$ 718
Less: (43.32) Annual Leave Hours @ \$8.83/hour	<u>(383)</u>
Adjusted Payment Made 01-16-91 for 12-17-90 through 01-01-91 Pay Period	\$ <u>335</u>

Pay Computed by Auditors

Regular Semi-Monthly Pay	\$ 718
Less: One Day Not Worked in 12-Day Pay Period @1/12 of \$718	(60)
Less: (62.06) Annual Leave Hours @ \$8.83/hour	<u>(548)</u>
Adjusted final Pay Due	\$ <u>110</u>
Overpayment	\$ <u>225</u>

We recommend that the Commission implement procedures to ensure that only eligible classes of employees accrue annual leave hours and then monitor annual leave balances to ensure that no employee is allowed to take leave in excess of his accrued balance. The Commission should put into effect procedures for computing payments for unused annual leave and pay for partial pay periods worked and for independent verification of those computations. In addition, we recommend that the Commission establish policies and procedures to ensure compliance with all State rules and regulations applicable to employee compensation and benefits.

SECTION B - STATUS OF PRIOR FINDINGS

During our agreed-upon-procedures engagement for the fiscal year ended June 30, 1991, we reviewed the status of each finding reported in the Auditor's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 1990, and dated June 13, 1991. Because the Commission had not taken adequate corrective action on the prior reported weaknesses similar comments are included in Section A herein.

MANAGEMENT'S RESPONSE



DIRECTOR

JOHN T. WATKINS

CHAIRMAN

GERALD E. MOORE, JR.

VICE-CHAIRMAN

M. STEWART MUNGO

OFFICE OF THE DIRECTOR

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November 5, 1992

Ms. Margaret C. Stilwell, CPA
Office Of The State Auditor
P. O. Box 11333
Columbia, S. C. 29211

Dear Ms. Stilwell:

We have your letter of October 7, 1992 in which you enclosed a preliminary draft copy of the results of the audit for the fiscal year ending June 30, 1991. We have reviewed the draft and are authorizing the release of the report.

In response to the auditor's comments and recommendations, we are listing recommendations that are in place for the fiscal year 1992-1993.

PROCUREMENT CODE REGULATIONS:

All disbursement vouchers are supported with proper documentation which complies with the State's Consolidated Procurement Code.

EXPENDITURES PAID IN SUBSEQUENT FISCAL YEAR:

We are presently paying invoices in the proper fiscal year in which the expenses have occurred.

RECORD RETENTION:

We are maintaining accounting records along with supporting documentation in an organized manner to facilitate easy access.

DEPOSITS:

Deposits are being made within week of receipt as required by State law.

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Ms. Margaret C. Stilwell, CPA
November 5, 1992

GAAP CLOSING PACKAGES:

An understanding has been made as to the correct reporting procedures on all GAAP Closing Packages.

GENERAL LEDGER RECONCILIATION:

The Commission's general ledger and books of original entry (cash receipts register and cash disbursements register) are being reconciled with the State Comptroller General's Stars reports monthly.

ACCOUNTING FOR GENERAL FIXED ASSETS:

All equipment purchased are being capitalized. A complete fiscal inventory has been taken for 1991-1992 and will be taken annually in the future.

ANNUAL REPORT:

As an occupational and professional licensing agency all fees will be included in consolidated annual report.

ANNUAL LEAVE:

Procedures have been implemented to insure that only eligible classes of employees accrue annual leave hours, then we will monitor annual leave balances to insure that no employee is allowed to take leave in excess of his accrued balance.

I have reviewed the comments and recommendations and at this time we feel that we have these all in place.

We are enclosing current names and addresses of Board Members.

Sincerely,



John T. Watkins,
Director

JTW/mm

Enclosure

33 copies of this document were published at an estimated printing cost of \$2.08 each, and a total printing cost of \$68.64. The FY 1991-92 Appropriation Act requires that this information on printing costs be added to the document.