

**SOUTH CAROLINA  
PUBLIC SERVICE COMMISSION  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 1998**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 17, 1999

The Honorable James H. Hodges, Governor  
and  
Members of the Commission  
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, solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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 revenues from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses, and other documents issued for money. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Revenues and Receipts in the Accountant's Comments section of this report.

2. We tested 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, were paid in conformity with State laws and regulations, and if internal controls over the tested disbursement transactions were adequate. We also tested 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 various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We tested selected payroll vouchers to determine that the vouchers were properly approved and that the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year and comparing the percentage change in personal service expenditures to the percentage change in employer contributions to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries to determine if these transactions were properly described and classified in the accounting records; the internal controls over these transactions were adequate; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested 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 tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 1998, and tested selected 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 the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Commission's accounting records and/or STARS. We found no exceptions as a result of the procedures.
7. We tested 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 1998. Our finding as a result of these procedures is presented in Indirect Costs in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Auditor's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 1996, to determine if adequate corrective action has been taken. (We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 1997.) Our findings as a result of these procedures are presented in Revenues and Receipts and in Reconciliations in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 1998, prepared by the Commission and submitted to the State Comptroller General. We reviewed 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 GAAP Closing Packages in the Accountant's Comments section of this report.

The Honorable James H. Hodges, Governor  
and  
Members of the Commission  
South Carolina Public Service Commission  
March 17, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Commission's financial statements or any part thereof, 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 the commissioners and management of the 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 WEAKNESSES AND/OR VIOLATIONS 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 conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.



## **GAAP CLOSING PACKAGES**

The Comptroller General's Office requires agencies to submit closing packages at the end of each fiscal year. These closing packages are used to convert 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).

### **Cash and Investments Closing Package**

The Commission is required by section 3.1 of the GAAP Closing Procedures Manual (GAAP Manual) to complete a Cash and Investments Closing Package because it has a petty cash fund. The Commission did not complete and submit this closing package to the Comptroller General's Office as required.

### **Accounts Payable Closing Package**

The Commission reported \$121,432 of expenditures recorded in fiscal month (FM) 13 of fiscal year (FY) 1998 on its FY 1998 Accounts Payable Closing Package. Because these expenditures were already recorded in FY 1998 in STARS, including them on the closing package overstated expenditures at the state level. Section 3.12 of the GAAP Manual explains that the Comptroller General automatically translates STARS FM13 transactions to accounts payable and requires agencies to report only expenditures recorded in fiscal months 01 and 02 of the new fiscal year (FY 1999) for which goods and services were received by June 30, 1998. Further, the Commission reported \$4,193 of these expenditures as general fund payables, which is incorrect additionally because the Commission did not expend State General Fund appropriations.

### Fixed Asset Additions Closing Package

The Commission reported \$117,234 for telephone services on its Fixed Asset Additions Closing Package. This closing package is used to report information regarding fixed asset acquisitions. Fixed assets, as defined by section 3.10 of the GAAP Manual, are significant long-term assets, such as equipment; consequently, they do not include telephone services. Fixed asset expenditures, as reported to the State's Comptroller General's Office, were not overstated, however, because the Commission subtracted the cost of the services for not meeting the Commission's capitalization criteria.

We recommend that the Commission complete closing packages according to the instructions contained in the GAAP Manual. The Commission also needs to ensure that its personnel are properly trained to prepare closing packages and knowledgeable of GAAP.

## **REVENUES AND RECEIPTS**

### Recording of Receipts

The Commission recorded \$2,311 in fees collected for copies of documents requested by outside entities erroneously as expenditure reimbursements, rather than properly as revenues. GAAP define expenditure reimbursements as repayments of amounts initially remitted on behalf of and properly applicable to another party. Whereas, revenues from other than taxes and grants generally arise from delivering or producing goods or services.

### Controls over Receipts and Deposits

Motor transport decal receipts are processed in the research and transportation departments at the Commission and forwarded to the Controller for deposit. Receipts from dual party relay and interim local exchange charges (LEC) are processed by the Controller's office. From the initial listing of receipts, an employee in the Controller's office prepares

a daily receipts form with the object code breakdown of the items in the deposit. Both the listing and form are dated with what appears to be the preparation date. We determined that neither the listing nor the form consistently documents the receipt date and the period covered by the receipt.

We selected the decal applications for three payees from a July 30 deposit for 28 payees and found that one application was stamped July 11 and the other two were not stamped. We also selected a decal application and related check recently received by the Commission and found that they had been held by one of the departments for ten days before depositing. Based on our review, decal receipts are not being submitted promptly to the Controller's office for deposit. Commission procedures require that dual party receipts and LEC receipts be deposited weekly. However, because receipt dates were not documented for these items, we were not able to determine that selected receipts were deposited in a timely manner. Section 1 of Part IB of the 1998 Appropriation Act requires that receipts be remitted to the State Treasurer at least once each week, when practical.

We reported similar findings regarding controls over receipts and deposits in our fiscal year 1996 report. (We performed no procedures to the Commission's FY97 records.)

We recommend that the Commission properly document, correctly classify, and timely deposit receipts. Employees responsible for the receipt processing and deposit functions should be properly trained in Commission policies and procedures and State and GAAP requirements for documenting, processing, and recording receipts.

## **PAYROLL**

We tested the final pay transactions for all employees who terminated employment and the initial pay for all employees hired during fiscal year 1998. The Commission underpaid one of the eleven terminated employees \$645 and overpaid one of the six new hires \$184.

For the terminated employee, the Commission failed to increase the employee's salary for an across the board raise which became effective while the employee was in leave without pay (LWOP) status. After returning from LWOP, the employee was underpaid for ten pay periods and his final pay. For the new hire, the Commission calculated the employee's first pay using the wrong start date. The employee's personnel file shows that the employee began work three days after the date used in the calculation.

The Office of Human Resources manual Section 19-702.03 E. states that an employee who has returned from an authorized leave of absence without pay shall be paid at the same rate being paid at the time leave was granted, except that the employee shall be granted any legislative general increases and salary increases resulting from adjustments made in the pay range during the employee's leave of absence.

Section 8-11-30 of the South Carolina Code of Laws states that it is unlawful for a person to receive a salary from the State or any of its departments which is not due or for a person employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees.

We recommend that the Commission pay the terminated employee the additional \$645 and collect the \$184 overpayment. We also recommend that the Commission establish procedures to identify unusual personnel/payroll actions, research them regarding applicable laws and regulations, and accumulate information relevant to the proper calculation of pay. Furthermore, the Commission should require that calculations for payroll changes, additions, and terminations are independently verified and compared to supporting documentation for pay rate, effective date, annual leave balance, etc.

## **RECONCILIATIONS**

We requested monthly reconciliations of the Commission's accounting system (BARS) to the Statewide Accounting and Reporting System (STARS) for revenues, expenditures, and ending cash balances. However, the Commission was not able to provide us with reconciliations for May, June, and year-end for revenues and ending cash balances. We attempted to agree the year-end amounts between BARS and STARS and noted several reconciling items outstanding since April 1998 that had not been corrected by fiscal year-end. A similar comment was included in our reports for fiscal years 1994 through 1996. (We applied no procedures to the Commission's records for fiscal year 1997).

Section 2.1.7.20 of the STARS Manual requires monthly reconciliations to be timely prepared, adequately documented, and independently reviewed; all reconciling items to be explained; and errors detected through the reconciliation process to be promptly corrected in the Commission's accounting records and/or in STARS, as appropriate.

We recommend that the Commission implement procedures to ensure that reconciliations are performed monthly on a timely basis in accordance with the STARS Manual requirements. The Commission needs to ensure that reconciliations are retained for audit and review purposes.

## **INDIRECT COSTS**

To fund operating costs, the Commission assesses utility companies, railway companies, household goods carriers, and hazardous waste disposal carriers for operating in South Carolina. In determining each company's assessment, the Commission failed to include an allocation for indirect costs for fiscal year 1998. (We were told that indirect costs were omitted from fiscal year 1997 assessments also.)

Proviso 54.2 of the 1998 Appropriation Act states, "The assessment certification prepared by the Department of Revenue and Taxation shall include an allocation of indirect cost as approved by the Budget and Control Board representing the Public Service Commission's proportionate share of the cost of central State government."

We recommend that the Commission routinely include in each company's assessment an allocation of indirect costs for the Commission's proportionate share of central state government costs.

## **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 Auditor's Comments section of the State Auditor's Report on the South Carolina Public Service Commission for the fiscal year ended June 30, 1996, and dated October 28, 1996. (We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 1997.) We determined that the Commission has taken adequate corrective action on each of the findings except we have repeated similar findings in Revenues and Receipts and in Reconciliations.

## **MANAGEMENT'S RESPONSE**



## GAAP CLOSING PACKAGES

### Cash and Investments Closing Package

When the master closing package was received, this particular package was discussed with the Comptroller General's office and it was determined that it was not necessary to complete since the Commission does not have investments.

However, the auditors believe that we should have completed this package by simply stating that we have a petty cash fund of \$200 (which is used solely for making change)

In the future we will complete this package by making the suggested statement.

### Accounts Payable Closing Package

We agree that this package was incorrectly submitted.

According to the accounts payable checklist, this closing package should not have been submitted at all.

If the checklist remains the same this closing package will not be submitted in the future.

### Fixed Asset Additions Closing Package

The amount reported in this closing package represented a combination of costs for telephone services and equipment which are provided by Sprint in conjunction with the Dual party Relay system. Since there was no breakdown between services and equipment, the entire amount was shown as fixed assets. Evidently, this was an incorrect method of reporting. However, it was noted by the auditors that there was no overstatement of fixed assets, as the entire amount was subtracted from fixed assets because they did not meet the Commission's capitalization criteria.

This was an attempt to report activity in fixed assets and did not meet GAAP requirements.

This procedure will no longer be undertaken.

## REVENUES AND RECEIPTS

### Recording of Receipts

The fees represented collections made for copies, etc. and were improperly recorded as expenditure reimbursements.

Corrective action has been taken to show these fees as miscellaneous revenues.

### Controls over Receipts and Deposits

Written procedures have been developed and distributed to the personnel who process decal receipts which will correct the deficiencies noted.

### PAYROLL

The two items listed have been addressed and proper action taken.  
The terminated employee who was underpaid had been properly paid and attempts are being made to recover the overpayment to the current employee.

### RECONCILIATIONS

Reconciliations are now being done utilizing the Commission's computer system and done in accordance with the STARS manual.

### INDIRECT COSTS

The Commission has taken steps to insure that the utilities companies are assessed the allocation for indirect costs.

In the future this will be a line item in the PSC's budget.