

**SOUTH CAROLINA
PUBLIC SERVICE COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 14, 2007

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, 2006, 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 in accordance with the agency's policies and procedures and State regulations.
- We inspected all fiscal month 12 and 13, fiscal year 2006 and fiscal month 01, fiscal year 2007 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 at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$33,800 – earmarked fund, \$0 – restricted fund, and \$0 – federal fund) and ± 10 percent.

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 in accordance with the agency's policies and procedures and State regulations, 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.
- 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 at the subfund and major object code level to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$31,000 – earmarked fund, \$0 – restricted fund, and \$0 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Classification of Expenditures in the Accountant's Comments section of this report.

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 processed in accordance with the agency's policies and procedures and State regulations.
- 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 the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- 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 payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$31,000 – earmarked fund, \$0 – restricted fund, and \$0 – federal fund) and ± 10 percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The journal entries 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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, 2006, and inspected 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 accounts reconciled. For the selected 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.

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

7. **Appropriation Act**

- We inspected agency documents, and made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

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, 2006, 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 and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

9. **Status of Prior Finding**

- We inquired about the status of the finding 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, 2005, to determine if the Agency had taken corrective action.

We found no exceptions as a result of the procedures.

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 elements, 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.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

CLASSIFICATION OF EXPENDITURES

We tested 25 expenditure transactions. We found that the Commission posted one transaction to an incorrect STARS object code. The Commission posted an employer dental insurance contribution to object code 1361 - employer health insurance contributions instead of object code 1367.

Internal controls over disbursement transactions are strengthened when voucher packages are checked for clerical accuracy. Also, the Comptroller General's Policies and Procedures Manual provides object code definitions for proper account classification.

We recommend that the Commission implement policies and procedures to ensure that personnel perform a careful review of the disbursement voucher and support documentation and are knowledgeable about the proper classification of expenditures.

CAPITAL ASSETS CLOSING PACKAGE

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared closing packages because the State's accounting system (STARS) is on a budgetary basis.

We reviewed the Commission's worksheet used to calculate depreciation expense and determined that the Commission depreciated eight assets in excess of the original acquisition cost. It appears that the preparer did not realize that the assets were fully depreciated and therefore did not change the current year depreciation for each of these items to \$0. This error overstated current year depreciation expense and the June 30, 2006 balance of accumulated depreciation by \$10,236.

To accurately report the Commission's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual)

states that “The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even “small” errors tends to cast doubt on the State internal control structure’s ability to detect and correct errors. All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. An adequate internal control system includes safeguards to ensure that your agency detects and corrects its own closing package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's system of internal control could be stronger”. Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. In addition, Reference 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form.

We recommend that the Commission revise its procedures to ensure that current year additions to accumulated depreciation are shown as \$0 on the worksheet for assets that are fully depreciated. We also recommend that an appropriate individual, other than the preparer, carefully determine the accuracy and adequacy of documentation prepared, retained, and cross-referenced to support each closing package entry.

SECTION B - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2005, and dated April 7, 2006. We determined that the Commission has taken adequate corrective action.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA PUBLIC SERVICE COMMISSION

AGENCY'S RESPONSE

AGREED UPON PROCEDURES FOR FY ENDED JUNE 30, 2006

CLASSIFICATION OF EXPENDITURES

We agree with the findings of the Office of the State Auditor. The \$34.18 overstatement of object code #1361 and understatement of object code #1367 was a result of a miscommunication between the PSC and the Budget and Control Board. We will re-enforce the agency's policies and procedures to ensure that a careful review is made of the disbursement voucher, support documentation, and the proper classification of expenditures.

CLOSING PACKAGES

We agree with the findings of the Office of the State Auditor. The Commission has revised its procedures and inventory database to ensure that current year additions to accumulated depreciation are shown as \$0 on the worksheet for assets that are fully depreciated. Also, a reviewer other than the preparer will carefully determine the accuracy of documentation for the closing package.

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