

**SOUTH CAROLINA
OFFICE OF REGULATORY STAFF
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 24, 2009

The Honorable Mark Sanford, Governor
and
Mr. C. Dukes Scott, Executive Director
South Carolina Office of Regulatory Staff
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of Regulatory Staff (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2008, in the areas addressed. The Office'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 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 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 (\$263,200 – earmarked fund, \$30,300 – restricted fund, and \$400 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Deposits and Assignment of Document Numbers in the Accountant's Comments section of this report.

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 Office, 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 (\$263,500 – earmarked fund, \$29,400 – restricted fund, and \$400 – federal fund) and ± 10 percent.

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 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 (\$263,500 – earmarked fund, \$29,400 – restricted fund, and \$400 – 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 Office 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.

Our finding as a result of these procedures is presented in Assignment of Document Numbers in the Accountant's Comments section of this report.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Office'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 Office'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 Office'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, observed processes, and/or 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, 2008, prepared by the Office 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 Operating Lease Closing Package in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2008, prepared by the Office and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the agency had taken corrective action.

Our finding as a result of these procedures is presented in Assignment of Document Numbers in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Mr. C. Dukes Scott, Executive Director
South Carolina Office of Regulatory Staff
September 24, 2009

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 management of the South Carolina Office of Regulatory Staff and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

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.

DEPOSITS

During our test of cash receipts, we determined that one of the twenty-five receipts tested was not deposited timely. Receipt number CC00095 was initiated to record money received from employees for the reimbursement of parking. The Office postponed depositing the employee checks until all reimbursements were received. As a result the Office did not deposit the funds timely. The Office changed its practice in January 2008 and began depositing the reimbursement checks with its daily deposits.

South Carolina Code of Laws section 11-13-120 requires that all State departments, boards, bureaus, commissions or other State agencies charged with the collection of any taxes, licenses, fees, interest, or any income to the State Shall, with ordinary business promptness, deposit the same when collected with or to the credit of the State Treasurer, either at his office in the State Capitol or in such bank or banking institution within the State as shall be designated by the State Treasurer. In addition, Section 72.1. of the fiscal year 2008 Appropriations Act requires that all general State revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

We recommend that the Office deposit all receipts as soon as practicable to ensure that receipts are deposited in accordance with State law.

OPERATING LEASE CLOSING PACKAGE

The Office understated future minimum lease payments by \$4,025 for one lease on the operating lease closing package. The error occurred because the Office computed future minimum lease payments based on the lease year rather than on the State fiscal year. The GAAP Manual, section 3.19 states: "The minimum lease payment is the minimum payment that the lessee must pay to the lessor during the fiscal year as specified in the lease agreement, excluding contingent rental payments."

We recommend that the Office implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Manual requirements and instructions. The Office should design and implement procedures requiring an independent review of each closing package by an individual knowledgeable of closing package instructions to ensure the accuracy of the closing package and adequacy of documentation supporting the closing package.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

ASSIGNMENT OF DOCUMENT NUMBERS

During our testing of receipts, we noted that two cash receipts were assigned transaction numbers that were not within the Office's cash receipts numbering sequence. We determined that the Office's accounting system automatically assigned "C" to each of the receipts because of input errors.

Lack of internal controls over the document numbering process could lead to the possibility of recording incorrect and/or unauthorized adjustments to the data in the accounting system. Also, when documents are assigned numbers outside the prescribed sequence, such documents are more difficult to track and retrieve.

The Office's policies and procedures over cash receipts require that these transactions be recorded in the accounting system with assigned transaction numbers that conform to the Office's prescribed sequence.

We recommend that the Office strengthen its control policies and procedures over the assignment of document numbers to ensure that input errors are prevented or detected in a timely manner so that the numerical sequence of documents is properly maintained.

SECTION C - 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 Office for the fiscal year ended June 30, 2007, and dated August 2, 2008. We determined that the Office has taken adequate corrective action on each of the findings except we have repeated a portion of the finding Accounting Documentation and Assignment of Document Numbers in the Accountant's Comments section.

MANAGEMENT'S RESPONSE

C. DUKES SCOTT
EXECUTIVE DIRECTOR

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November 16, 2009

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

The Office of Regulatory Staff (ORS) has completed its review of the report on the performance of the Agreed-Upon Procedures for the fiscal year ending June 30, 2008.

Each of the findings noted in your report has been reviewed. Corrections to procedures have been implemented and ORS procedures have been modified, accordingly.

ORS will continue to work diligently to ensure compliance with all State laws, rules, and regulations.

We appreciate your assistance and we authorize the release of the report.

Sincerely,

C. Dukes Scott
Executive Director

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