

**SOUTH CAROLINA  
PUBLIC SERVICE COMMISSION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 1999**

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	4
PAYROLL	5
RECONCILIATIONS	5
SECTION B - STATUS OF PRIOR FINDINGS	7
MANAGEMENT'S RESPONSE	8

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

July 12, 2000

The Honorable James H. Hodges, Governor  
and  
Public Service 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, solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 1999, 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 recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations 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, and 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 those on 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 for testing were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
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 if the vouchers were properly approved and if 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 those on 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; 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. 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.

The Honorable James H. Hodges, Governor  
and  
Public Service Commissioners  
South Carolina Public Service Commission  
July 12, 2000

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 1999, 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 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. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
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 1999. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
8. We reviewed 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, 1998, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Payroll and 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, 1999, 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. We found no exceptions as a result of the procedures.

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 of the commissioners 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 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.

## **PAYROLL**

We tested the final pay transactions for all nine employees who terminated employment with the Commission during fiscal year (FY)1999. We found that one employee was underpaid \$271 because the Commission failed to include the employee's longevity pay in the final pay. Another employee was underpaid \$347 because the Commission calculated the employee's final pay using the wrong annual salary amount. A similar finding was presented in the prior State Auditor's Report on the Commission.

An effective accounting system includes adequate documentation and control procedures (e.g., independent reviews of pay computations and independent verification of termination dates, annual leave balances, pay rates, etc.) to help ensure that errors will be detected and corrected in a timely manner and that payroll checks will be processed for the proper amounts.

We recommend the Commission implement procedures to ensure that final pay calculations are independently checked for mathematical accuracy and all information used in those computations is independently verified with source records. We further recommend that the Commission pay to the employees the salary amounts that were underpaid.

## **RECONCILIATIONS**

We obtained all fiscal year 1999 Commission-prepared monthly reconciliations of balances in the Commission's accounting system (BARS) to those in the Statewide Accounting and Reporting System (STARS) for revenues, expenditures, and ending cash balances. We found that the Commission identified numerous reconciling items each month but failed to make necessary adjusting journal entries to correct differences between BARS and/or STARS. [Similar comments were included in our reports for fiscal years 1994 through 1998.

We applied no procedures to the Commission's accounting records and internal controls for fiscal year 1997.] For FY 1998, we reported that differences between BARS and STARS balances outstanding since April 1998 had not been corrected by fiscal year-end. Using the FY 1999 final BARS and STARS reports and the Commission's reconciliations, we determined that for cash accounts the agency had not made necessary adjusting entries for differences identified in reconciliations for April 1998 through year-end 1999. In addition, the agency failed to make correcting entries in STARS and/or BARS for all reconciling items identified in FY 1999 reconciliations for revenue and expenditure accounts.

Section 2.1.7.20 of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires monthly reconciliations to be performed at the appropriate level of detail, timely prepared, adequately documented, and independently reviewed; all reconciling items to be identified and 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 continue to recommend that the Commission implement procedures to ensure that monthly reconciliations are performed in accordance with the STARS Manual requirements.

## **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 South Carolina Public Service Commission for the fiscal year ended June 30, 1998, and dated March 17, 1999. We determined that the Commission has taken adequate corrective action on each of the findings regarding GAAP Closing Packages, Revenues and Receipts, and Indirect Cost but we have reported similar deficiencies in Payroll and Reconciliations in Section A of the Accountant's Comments section of this report.

**MANAGEMENT'S RESPONSE**

COMMISSIONERS  
PHILIP T. BRADLEY, 4TH DISTRICT  
CHAIRMAN  
WILLIAM "BILL" SAUNDERS, 1ST DISTRICT  
VICE CHAIRMAN



COMMISSIONERS  
JAMES BLAKE ATKINS, Ph.D., 2ND DISTRICT  
RANDY MITCHELL, 3RD DISTRICT  
H. CLAY CARRUTH, JR., 5TH DISTRICT  
MIGNON L. CLYBURN, 6TH DISTRICT  
C. ROBERT MOSELEY, AT LARGE

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## The Public Service Commission State of South Carolina

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September 14, 2000

Mr. Thomas L. Wagner, Jr., CPA  
State of South Carolina  
Office of the State Auditor  
1401 Main Street Suite 1200  
Columbia, SC 29201

Dear Mr. Wagner:

We have reviewed the preliminary draft copy of the report resulting from your performance of agreed-upon procedures to the accounting records of the South Carolina Public Service Commission for the fiscal year ended June 30, 1999. We are now authorizing the release of the report and its findings.

Respectfully,

A handwritten signature in black ink, appearing to read "Gary E. Walsh".

Gary E. Walsh  
Executive Director

GEW/rgl