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State of South Carolina

Office of the State Auditor

INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 2, 2007

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, 2006, 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 ($261,900 – earmarked fund, $30,200 – restricted fund, and $900 – federal fund) and ± 10 percent.
We made inquiries of management pertaining to the agency's policies for accountability and security over licenses 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 Revenue Cutoff and Deposits 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 ($260,800 – earmarked fund, $28,000 – restricted fund, and $400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Procurement Card Approval, Classification of Expenditures, Verification Stamp, Travel Regulations, and Payment 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.
The Honorable Mark Sanford, Governor  
and  
Mr. C. Dukes Scott, Executive Director  
South Carolina Office of Regulatory Staff  
August 2, 2007

- 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 an agreed upon materiality level ($260,800 – earmarked fund, $28,000 – 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; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. 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. Our findings as a result of these procedures are presented in Payroll And Personnel in the Accountant’s Comments section of this report.

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. Our finding as a result of these procedures is presented in Journal Entries in the Accountant’s Comments section of this report.

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.

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 Office for the year ended June 30, 2006, 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. Our findings as a result of these procedures are presented in Reconciliations in the Accountant’s Comments section of this report.

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.

   Our findings as a result of these procedures are presented in Inspector Bond Approval, Interviewee Travel Reimbursement, and Employee Moving Expenses in the Accountant’s Comments section of this report.

8. **Closing Packages**
   - We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 findings as a result of these procedures are presented in GAAP Closing Packages 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, 2006, 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.

   Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant’s Comments section of this report.
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.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
ACCOUNTANT’S COMMENTS
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.
REVENUE CUTOFF

During our test of receipts, we determined that the Office recorded a cash receipt totaling $14,959 in the wrong fiscal year. The receipt, dated June 27, 2005, was deposited on July 5, 2005 and recorded as fiscal month 01, fiscal year 2006 revenue. The Office should have recorded the receipt as fiscal month 12, fiscal year 2005 revenue.

The State Treasurer’s letter of fiscal year end requirements for each agency stated that agencies had until July 6, 2005 to deposit all cash on hand at June 30, 2005 as fiscal month 12, fiscal year 2005 revenue.

We recommend that the Office establish procedures to ensure that receipts are deposited in the proper fiscal year in accordance with the State Treasurer’s letter of fiscal year end requirements.

DEPOSITS

During our tests of cash receipts and revenue cutoff we determined that seven of the fifty receipts tested were not deposited in a timely manner. The receipts, which pertained to taxi license applications, were held between eight and forty days before being deposited because the Office had not received all of the required application documents.

General Proviso 72.1. of the fiscal year 2006 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 the Office develop and implement procedures to ensure compliance with State law while maintaining proper accountability over pending applications. The Office should deposit the cash receipt as soon as practicable and establish a deferred revenue account to record the proceeds until such time as all missing information is received. When all outstanding information is received and the fee has been earned a journal entry should be recorded to recognize the license revenue and reduce deferred revenue.
PROCUREMENT CARD APPROVAL

The Office did not document approval for a procurement card purchase of $140 for a refrigerator warranty charged to other contractual services. We were told that a verbal approval for this purchase was made but the approval was not documented.

The Office’s procurement card policy requires that the Chief of Staff and/or Director of Internal Operations approve all purchases not related to supplies.

We recommend that the Office follow its policy for approving procurement card purchases.

CLASSIFICATION OF EXPENDITURES

During our tests of disbursement transactions we determined that the Office recorded two procurement card purchase vouchers to the following object codes:

- Voucher one included three charges for $610 which were recorded to object code 0413, Non-State Owned Real Property. Two of these charges totaling $155 were for Association membership fees which should have been recorded to object code 0417, Dues and Membership Fees. The remaining $455 charge was for employee training conferences and should have been recorded to object code 0507, In-State – Registration Fees. In addition, any related meals associated with the conferences should have been recorded to either object code 0501, In-State Meals (Non-Reportable) or object code 0520, Reportable Meals.

- Voucher two included one charge totaling $530 for two employees to attend a professional spring conference. Office staff recorded $498 of the charge to object code 0517, Out-of-State Registration Fees and the remaining $32 to object code 0511, Out-of-State Meals (Non-Reportable) for a dinner provided by the conference for each employee. The voucher supporting documentation showed that the conference provided two dinners to each attendee. The Office should have charged $466 to object code 0517 for registration fees and $64 to object code 0511 for two dinners for each attendee.

We recommend that the Office establish appropriate policies and procedures to ensure that personnel responsible for preparing and approving disbursement vouchers and assigning object codes perform a careful review of the supporting documentation to ensure proper coding of all types of disbursements.

**VERIFICATION STAMP**

The Office’s procedures require that certain stamps be applied to the voucher packages during processing. One stamp is a reviewer’s checklist that is used to document that a voucher and its supporting documents have been reviewed for clerical accuracy. Each step shown on this checklist stamp is to be annotated to demonstrate that the step has been completed and the stamp is to be initialed to identify the person who completed the step. A second stamp denotes that use tax has been paid when applicable. A third stamp, showing “paid”, is used to cancel the voucher package to prevent reuse. We noted several errors in the Office’s use of its stamps as follows:

- Three procurement card purchase vouchers included five invoices where the Office had not documented that use tax had been paid. We determined that the Office had properly paid the use tax on all but one of these invoices. The amount of use tax owed is $51.

- One procurement card purchase voucher included an invoice stamped “use tax paid”, but we determined that the Office had not paid the use tax. The amount of use tax owed is $154.

- Two vouchers included the reviewer checklist stamp, but the reviewer did not mark the review steps listed or initial the stamp where required.

- Four vouchers were not stamped “paid” to cancel them.

South Carolina Code of Laws section 12-36-1310 (A) states “A use tax is imposed on the storage, use, or other consumption in this State of tangible personal property purchased at retail for storage, use, or other consumption in this State, at the rate of five percent of the sales price of the property, regardless of whether the retailer is or is not engaged in business in this State.”
We recommend that the Office follow its procedures to ensure that voucher packages are reviewed for clerical accuracy, to ensure the payment of use taxes, and to ensure that documents are cancelled to prevent reuse. Further, we recommend that the Office remit $205 to the Department of Revenue for use tax owed.

**TRAVEL REGULATIONS**

The Office reimbursed an employee $19 for meal expenses incurred during in-state travel, one dollar more than allowed by law. The error seems to have occurred because Office staff used the out-of-state breakfast reimbursement rate of $7 instead of the in-state rate of $6.


We recommend that the Office ensure that staff preparing and approving travel reimbursement vouchers are knowledgeable of STARS Manual travel regulations.

**PAYMENT OF EXPENDITURES**

We determined that the Office paid the following expenditures in the wrong fiscal year:

1. The Office charged $49 to fiscal year 2007 appropriations for services received on June 30, 2006. The Office received the invoice on July 6, 2006, but did not process the payment until August 17, 2006. This condition also resulted in the untimely submission of the voucher for payment to the Office of the Comptroller General.

2. An invoice received in June 2006 for services provided to the Office in the same month was paid on July 10, 2006 as a fiscal year 2007 expenditure. We were told that the Office held this invoice until the new fiscal year because it did not have sufficient budget to pay the bill.

Section 72.2 of the fiscal year 2006 Appropriation Act states, “Subject to the terms and conditions of this act, the sums of money set forth in this part, if so much is necessary, are appropriated from the General Fund of the State, the Education Improvement Act Fund, the Highways and Public Transportation Fund, and other applicable funds, to meet the ordinary expenses of the state government for Fiscal Year 2005-06…” (A similar proviso is in the fiscal year 2005 and 2007 Appropriations Acts). Further, Section 11-35-45 (A) of the South Carolina Code of Laws states “All vouchers for payment of purchases of services, supplies, or information technology must be delivered to the Comptroller General's office within thirty work days from acceptance of the goods or services and proper invoice.”

We recommend that the Office establish procedures to ensure that invoices are paid timely and in the proper fiscal year as required by law.

**PAYROLL AND PERSONNEL**

**Termination Documentation**

The Office was unable to provide us with documentation to support the termination date for three employees.

Human Resources Regulations 19-719.02 A. states “An employee may resign orally or in writing. Such notification of resignation should be accepted by the agency in the same manner as provided, whether written or oral, and an oral acceptance of a resignation should be generally confirmed in writing.”

We recommend that the Office obtain a written resignation letter from a terminating employee. If an employee provides a notification of resignation orally, the Office should document the resignation in writing. This written documentation should include the effective date of the termination and be maintained by the Office for audit purposes.
**Termination Pay**

Two of the seventeen termination pay transactions tested contained errors that resulted in overpayments to employees of $272 and $144. The overpayment to the first employee occurred because the Office paid the employee for a full pay period (11 days) instead of the ten days the employee actually worked. The second overpayment occurred because an employee was inappropriately paid for a holiday worked. The employee in question was classified as exempt under the Fair Labor Standards Act; therefore, the Office should not have paid the employee for holiday compensatory time earned. In addition, this employee was credited with 8.5 hours of holiday leave instead of 7.5 hours as allowed by law.

Human Resources Regulation 19-708.03 D. states, “The length of an employee’s holiday is computed based on the number of hours in the employee’s average workday. To determine the number of hours in a holiday, divide the total number of hours an employee is regularly scheduled to work during a week by five (regardless of the number of days the employee actually reports to work).” Also, Human Resources Regulation 19-708.04 D. states, “Exempt employees shall not be paid for unused holiday compensatory time.” Further, South Carolina Code of Laws section 8-11-30 (A) states “It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees…”

We recommend the Office carefully follow its established policies and procedures regarding the review of payroll related calculations to ensure that information used is accurate. The Office should also ensure that staff who credit employee leave and who make final pay calculations are knowledgeable of State regulations regarding leave earnings and payouts. Finally, we recommend that the Office attempt to recoup the overpayments from the former employees if practicable.
**Employment Documentation**

We tested 29 permanent employee personnel files and found nine did not contain a college transcript or other certifications to support data provided on employment applications. The Office requested this information in its employment offer letters but did not follow-up to ensure the information was received. The Office does not have written policies and procedures that include its requirement for this information. In addition, we found that employment files for nine temporary employees tested did not contain all required employment documentation. For one of these employees, we were not able to confirm the employee’s hire date.

Human Resources Regulation 19-720.02 A. states, “Each agency shall establish and maintain an official human resources file for each employee which shall include, but not necessarily be limited to, the following:

1. A copy of the employment application;
2. Copies of all human resources actions reflecting the employee’s work history with the agency;
3. Documentation directly related to the employee’s work record; and
4. Copies of all performance evaluations.”

We recommend that the Office develop written policies and procedures to describe all documents required by the Office and Human Resources regulations. In addition, the Office should design and use a checklist to ensure that all required documents are received and properly filed.

**Leave Records**

We requested leave records supporting the final pay transactions for thirteen employees who terminated employment. The Office was unable to provide us with these records. Based on other payroll documentation, we were able to determine that the leave payments were correctly calculated.
Human Resources Regulation 19-709.06 A. states, “The agency shall maintain all annual leave records for each employee eligible for annual leave. Such records must include at least the following:

1. The annual leave accrual rate for each employee;
2. The number of annual leave hours earned and used during the current calendar year;
3. The number of annual leave hours carried forward from the previous calendar year, but not exceeding the maximum accrual authorized;
4. The number of hours in the employee's workweek and workday; and
5. The number of hours paid out upon separation.”

We recommend that the Office comply with Human Resources Regulation 19-709.06 by establishing procedures to ensure that leave records are properly maintained.

**JOURNAL ENTRIES**

We tested 18 journal entries and found that two did not include explanations documenting the purpose of the entries. In addition, one journal entry did not include the required approval.

The Comptroller General’s Policies and Procedures Manual (STARS Manual) states “Documentation of a Correction of an Error (COE) must include the following:

- Clearly state that the purpose of the entry is to correct an error or errors.
- Clearly indicate what was recorded incorrectly.
  - Indicate what data elements you are correcting (e.g., subfund, mini code, object code, project number, etc.)
  - It is best to attach a copy of the original (incorrect) document(s). If you are correcting several original documents with one aggregate COE, however, it is sufficient to identify the original documents. In instances where you have numerous entries and all the data elements (e.g., subfund, mini code, object code, project number, etc.) are the same, the amounts can be totaled and entered as one line. In this case, list the agency voucher numbers of the original documents or state something such as, "To reverse and correct all amounts posted to Subfund XXXX, Revenue Object YYY, during this fiscal year to date."
It is not sufficient to create a COE document by striking through some items and adding others to a copy of the original (incorrect) document. Most COE’s produced in this manner are confusing and fail to include sufficient documentation.”

We recommend that Office staff follow STARS Manual requirements and prepare formalized journal entries that are adequately supported and properly approved.

**RECONCILIATIONS**

The Comptroller General’s Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency’s accounting records and those in the State’s accounting system (STARS) as reflected on the Comptroller General reports 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. Agencies are required to perform monthly reconciliations for revenues, expenditures, and ending cash balances at the level of detail in the Appropriation Act and promptly correct errors discovered in the accounting records of the agency or the Comptroller General as appropriate. Agencies with federal subfunds are required to perform monthly reconciliations between the CSA 467CM report (Trial Balance By Subfund, Project, and GLA) and the agency’s records for each project and phase code. Further, reconciliations must be reviewed and approved in writing by an appropriate agency official other than the preparer. The Office’s policy requires the Director of Internal Operations sign and date reconciliations to document that a review was performed. The policy further states that reconciliations are to be performed prior to the end of the month following the month to be reconciled.
Our review of fiscal year 2006 reconciliations disclosed the following:

1. Fiscal month 13 reconciliations were not signed and dated by the reviewer.
2. Fiscal month 10 and 11 reconciliations were not performed timely.
3. The Office did not reconcile federal projects from its records to the Comptroller General’s CSA 467CM report.

We recommend the Office follow its policies to ensure that reconciliations are performed timely (i.e. prior to the end of the month following the month to be reconciled) and that the reviewer of reconciliations sign and date each reconciliation performed. In addition, the Office should reconcile federal projects from its records to the Comptroller General’s CSA 467CM report.

**INSPECTOR BOND APPROVAL**

The South Carolina Code of Laws section 58-3-320 states: “Each inspector shall execute a bond with a licensed surety company in the amount of not less than ten thousand dollars. The bond shall be filed with the Office of Regulatory Staff and shall be conditioned for the faithful performance of his duties, for the prompt and proper accounting of funds coming into his hands and for the payment of any judgment rendered against him in any court of competent jurisdiction upon a cause of action arising out of breach or abuse of official duty or power and damages sustained by any member of the public from any unlawful act of the inspector. The coverage under the bond shall not include damage to persons or property arising out of the negligent operation of a motor vehicle. The bond may be individual, schedule, or blanket, and shall be approved by the Attorney General. The premiums on the bonds shall be paid by the Office of Regulatory Staff from appropriated funds.”

In our review of the Office’s compliance with this law, we noted that the Office did not obtain Attorney General approval for its inspector bond.
We recommend that the Office comply with the South Carolina Code of Laws section 58-3-320 and obtain Attorney General approval for its bond.

**INTERVIEWEE TRAVEL REIMBURSEMENT**

The South Carolina Code of Laws Section 8-11-200 states “Reimbursement of travel expenses to persons interviewing for state employment, whether paid from state-appropriated, federal, or other funds, is allowed in accordance with the following provisions:

1) Travel expenses, within the limitations applicable to state employees, may be paid to individuals being considered for employment by a state government agency if the head of the interviewing agency makes a specific, formal determination in each case that all of the following apply:

   (a) The significance of the position to be filled is such that it warrants incurring the costs.

   (b) The costs do not exceed the expense of conducting the interview at the interviewee's home area or elsewhere.

   (c) Qualified candidates residing within South Carolina are considered before candidates from other states are sought.”

The Office reimbursed the travel expenses of a person interviewing for a position with the Office; however, the Office could not provide documentation that the agency head made a formal determination regarding items (a) through (c) noted above.

We recommend that the Office comply with State law by formally documenting the agency head’s determination regarding reimbursement of interviewee travel expenses.
EMPLOYEE MOVING EXPENSES

The South Carolina Code of Laws section 8-11-135 states “A state agency may pay the cost of moving the personal and household effects for newly-employed personnel if all of the following conditions are met:

(a) The new employee's place of residence is outside of the State of South Carolina at the time of employment by the agency.

(b) The agency can demonstrate that paying these costs is necessary to fill the position.

(c) The maximum payment in any instance to any new employee may not exceed five thousand dollars.

(d) The payment is certified by the agency head (or the board or commission chairman if the new employee is the agency head) as the total paid by the agency toward the total moving cost incurred by the new employee.”

The Office reimbursed the moving expenses of an employee hired during fiscal year 2006; however, the payment was certified by the Office’s chief of staff rather than the agency head as required by law.

We recommend that the Office comply with State law by formally documenting the agency head’s certification regarding payment of employee moving expenses.

GAAP CLOSING PACKAGES

Introduction

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 determined that the Office submitted to the CG certain fiscal year 2006 closing packages that were incorrectly prepared and/or misstated. To accurately report the Office’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. The following describes the errors noted on certain fiscal year 2006 closing packages:

**Taxes Receivable**

The Office reported taxes receivable of $6,086,084 for fiscal year 2006 but did not report an allowance for uncollectible taxes associated with the receivable. The Office provided us with a report on taxes receivable as of July 2, 2007. The receivable balance as of that date was $117,018 with some receivables dating back to fiscal year 1997. The Office had not performed an analysis to determine whether any accounts were uncollectible nor whether an allowance account should be reported on its taxes receivable closing package.

The GAAP Manual, section 3.2 states, “GAAP requires that the State report an Allowance for Uncollectible Taxes if applicable. The financial statements show gross Taxes Receivable less the allowance amount. Your agency must estimate the amount of the allowance. To do this:

- Gather historical data on revenue collectibility.
- Evaluate the collectibility of Taxes Receivable at June 30.”
**GAAP Fund**

The Office reported on its Taxes Receivable Summary Form an incorrect GAAP fund code and name.

GAAP Manual section 3.2 requires that the four-digit GAAP fund code and the name of the GAAP fund from Appendix A be listed on the Taxes Receivable Closing Package.

**Operating Lease Registers**

The Office did not retain a complete lease register for all of the leases included in the Operating Leases Closing Package. Specifically, Section 11 of the lease register was not completed for either the office space or mail machine leases. This section includes the GAAP criteria used to determine whether the leases are operating or capital leases.

The GAAP Manual, Section 1.19 states: “With the exception of copiers leased under the 1999 contract, your agency is responsible for completing Lease Register forms for all leases in accordance with the State Treasurer's Lease Reporting Package. Note that for audit purposes, you must retain a completed Lease Register, including Item 11, for each lease your agency has entered into. The State Treasurer requires that you complete a Lease Register at the beginning of the lease term, before making the first lease payment. This helps to ensure that you properly classify each lease as a capital lease or an operating lease in accordance with generally accepted accounting principles.”

**Recommendations**

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. The Office should analyze its taxes receivable account to determine what amount, if any, should be reported as an allowance for uncollectible taxes receivable. Finally, we recommend that the Office retain all supporting documents and working papers with the closing package copies in accordance with GAAP Manual requirements.
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.
We tested the Office’s fiscal year 2006 schedule of federal financial assistance (SFFA) and noted several errors affecting the Office’s 2005 and 2006 One Call Grants:

1. The beginning balance for the 2005 grant was incorrectly reported as $7,826; it should have been reported as $7,286.

2. The program title and federal grantor for both grants were omitted.

3. The grant titles for both grants were incorrect.

4. Beginning and ending fund balances, receipts, and expenditures for the 2005 grant did not agree to the CSA 467CM Report.

5. The grant number for the 2005 grant did not agree to grant award documents.

In addition, a project shown on the CSA 467CM report was not included on the SFFA and does not appear to be a project of the Office.

The State Auditor’s Office provides a letter of instructions to each State agency for the proper completion of the SFFA.

We recommend that the Office ensure that the SFFA is prepared and independently reviewed by staff that is knowledgeable of the requirements of the State Auditor’s letter of instructions and federal reporting requirements. Further, the Office should reconcile its accounting records and its SFFA with the CSA 467CM report and make appropriate adjusting entries for amounts determined to be in error.
MANAGEMENT’S RESPONSE
December 4, 2007

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 draft copy of the Audit of Agreed-Upon Procedures for the fiscal year ending June 30, 2006.

The passage of Act 175 created the ORS as a new state agency on July 1, 2004. During these initial years, the ORS made conscientious efforts to ensure compliance with state laws, rules, regulations, and reporting requirements and developed internal controls for our processes. Undergoing this audit provided us an opportunity to see the effectiveness of our efforts.

Each of the findings noted in your report will be reviewed, and our procedures will be modified accordingly. In addition, the ORS will continue to work diligently to improve, to implement the needed adjustments, and to ensure that all state laws, rules, and regulations are followed.

We appreciate your efforts to assist us. We authorize the release of the report.

Sincerely,

C. Dukes Scott
Executive Director
4 copies of this document were published at an estimated printing cost of $1.87 each, and a total printing cost of $7.48. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.