

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

STATE AUDITOR'S REPORT

JUNE 30, 2007

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	6
TERMINATION PAY	7
OBJECT CODES	7
GAAP FUND	8
SECTION B - OTHER WEAKNESSES	10
ACCOUNTING DOCUMENTATION AND ASSIGNMENT OF DOCUMENT NUMBERS	11
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	12
SECTION C - STATUS OF PRIOR FINDINGS	13
MANAGEMENT'S RESPONSE	14

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 11, 2008

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, 2007, 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 (\$260,800 – earmarked fund, \$30,700 – restricted fund, and \$100 – 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.

Our finding as a result of these procedures is presented in Accounting Documentation 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 (\$260,100 – earmarked fund, \$28,900 – restricted fund, and \$600 – federal fund) and ± 10 percent.

Our findings as a result of these procedures are presented in Accounting Documentation and Assignment of Document Numbers and Object Codes 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 (\$260,100 – earmarked fund, \$28,900 – restricted fund, and \$600 – 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 finding as a result of these procedures is presented in Termination Pay in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected all recorded journal entries, operating transfers, and appropriation 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.

Our findings as a result of these procedures are presented in Accounting Documentation and Assignment of Document Numbers and Object Codes 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.

Our finding as a result of these procedures is presented in Accounting Documentation and 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, 2007, 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, 2007, 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 GAAP Fund 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, 2007, 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.

The Honorable Mark Sanford, Governor
and
Mr. C. Dukes Scott, Executive Director
South Carolina Office of Regulatory Staff
June 11, 2008

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, 2006, to determine if the agency had taken corrective action.

Our findings as a result of these procedures are presented in Termination Pay, Object Codes, GAAP Fund, and 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

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.

TERMINATION PAY

We determined that the Office did not promptly remove an employee from the payroll system. This exception was noted in one of fourteen termination pay transactions tested and resulted in an overpayment of \$1,675. A similar finding was noted in the agency's 2006 report.

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 ensure that payroll personnel adhere to agency policies and procedures regarding employee terminations to ensure that employees are promptly removed from the payroll system. We also recommend that the Office attempt to recover the overpayment from the former employee.

OBJECT CODES

We noted an error in one out of the twenty-five vouchers tested. We determined that the Office processed voucher DV167 using an incorrect object code. The Office processed a refund of revenue transaction as an expenditure and recorded it using object code 1783 (Allocation Universal Service Fund). The correct object code for the transaction was object code 7508 (Universal Service Fund Contributions). In addition, we noted that one out of the twenty-five journal entries tested was also recorded to an incorrect object code. This entry related to a fiscal year 2004 transfer of Local Exchange Carrier (LEC) contributions that was erroneously recorded in the wrong subfund. The Office subsequently discovered this error and made a correcting journal entry during fiscal year 2007. The entry was made to credit

revenue object code 7504 (LEC Contributions) and debit revenue object code 7508 (USF Contributions). The Office should have recorded the correction using object code 7222 (Miscellaneous Transfer Other Fund) which would have corrected the beginning fund balance in both subfunds rather than misstating current year revenues. A similar finding was noted in our prior report.

The Comptroller General's Policies and Procedures Manual (STARS Manual) provides object code definitions. The definitions provide guidance to users to enable them to properly record accounting transactions. In accordance with generally accepted accounting principles (GAAP) revenue refunds occurring in the same accounting period should be accounted for as a reduction in revenue. Adjustments that affect more than one accounting period should be made to the beginning fund balance rather than the current year revenue object codes.

We recommend that the Office ensure that its staff who assign account codes as well as those who review transaction input forms be knowledgeable of STARS requirements (including object code definitions) and GAAP.

GAAP FUND

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. The Office's Taxes Receivable Summary Form contained an incorrect GAAP fund code and name. The CG's GAAP Closing Procedures Manual (GAAP Manual) Reference 3.2 requires the preparers to assign a four-digit GAAP fund code and the name of the GAAP fund from Appendix A when preparing the Taxes Receivable Closing Package. This finding is repeated from the prior year.

We again 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 WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

ACCOUNTING DOCUMENTATION AND ASSIGNMENT OF DOCUMENT NUMBERS

During our testing of journal entries, we noted that the Office posted a correcting entry without preparing a formal journal entry document. As a result the Office had no documentation to demonstrate that the journal entry was valid, independently reviewed and approved, posted to the proper accounts, and timely recorded. In addition, the transaction number assigned to the correcting entry was not within the prescribed numerical sequence of journal entry numbers.

We also found that four cash receipts (three from fiscal year 2007 and one from fiscal year 2008) and one disbursement voucher were assigned document numbers that were not within the Office's cash receipts and disbursement voucher numbering sequences.

Lack of internal controls over the creation of journal entry documents and the assignment of document numbers could result in the recording of unauthorized and/or incorrect adjustments to the agency's 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 accounting documents require that transactions be supported by appropriate source documents and be properly approved. The policy also requires that documents be assigned transaction numbers in numerical sequence.

We recommend that the Office follow its policies and procedures to ensure that all transactions, including adjusting entries, are documented on appropriate input forms, be assigned transaction numbers in numerical sequence, and be properly approved.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We tested the Office's fiscal year 2007 schedule of federal financial assistance (SFFA) and noted several errors affecting the Office's 2005 and 2006 One Call Grants. This is a repeat finding.

1. The beginning balance for the 2005 grant was incorrectly reported as \$7,286; it should have been reported as \$7.
2. The grant number for the 2005 grant did not agree to grant award documents.
3. Beginning and ending fund balances, receipts and expenditures for the 2005 grant did not agree to the CSA 467CM report.
4. Amounts were not totaled by CFDA number.
5. A project shown on the CSA 467 CM 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.

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, 2006, and dated August 2, 2007. We determined that the Office has taken adequate corrective action on each of the findings except we have repeated the following:

2006 Finding

TERMINATION PAY

CLASSIFICATION OF EXPENDITURES

GAAP CLOSING PACKAGES
GAAP Fund

SCHEDULE OF FEDERAL FINANCIAL
ASSISTANCE

2007 Finding

TERMINATION PAY

OBJECT CODES

GAAP FUND

SCHEDULE OF FEDERAL FINANCIAL
ASSISTANCE

In response to our inquiries, we were told that the Office has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 2007, we did not perform tests of the new procedures.

MANAGEMENT'S RESPONSE



September 2, 2008

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 of the State Auditor's report on its Agreed-Upon Procedures for the fiscal year ending June 30, 2007.

Each of the findings noted in your report has been reviewed and our procedures have been modified accordingly. In addition, ORS has a commitment that the termination pay will be returned.

ORS will continue to work diligently to improve, to implement the needed enhancements and 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

4 copies of this document were published at an estimated printing cost of \$1.58 each, and a total printing cost of \$6.32. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.