

State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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

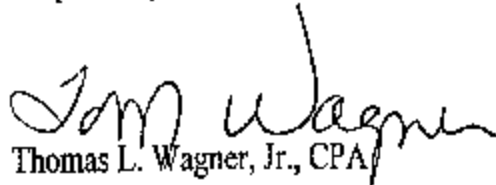
March 30, 2000

The Honorable James H. Hodges, Governor  
and  
Mr. Boykin Rose, Director  
South Carolina Department of Public Safety  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Public Safety for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sj

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY  
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL AND COMPLIANCE REPORT**

**YEAR ENDED JUNE 30, 1999**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 1999**

	Page
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS:</b>	
Combined balance sheet - all fund types and account groups	2
Combined statement of revenues, expenditures and changes in fund balances – all governmental fund types	3
Statement of expenditures – budget and actual – total budgeted funds	4
Notes to financial statements	5 - 27
<b>REQUIRED SUPPLEMENTARY INFORMATION –YEAR 2000 ISSUE (UNAUDITED)</b>	28
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	29
<b>REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <del>GOVERNMENT AUDITING STANDARDS</del></b>	30 and 31
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	32 and 33
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	34 and 35
<b>OTHER MANAGEMENT LETTER COMMENTS</b>	36 and 37
<b>STATUS OF PRIOR FINDINGS</b>	38
<b>MANAGEMENT'S RESPONSE</b>	APPENDIX A



# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Department of Public Safety (the Department) as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of the Department are intended to present the financial position and results of operations of only that portion of the funds and account groups of the State of South Carolina financial reporting entity that is attributable to the transactions of the Department, an agency of the State.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Department as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 6, management discovered that an error was made in the application of an accounting principle resulting in the over reporting of construction in progress as of June 30, 1998.

The year 2000 issue required supplementary information on page 28 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue; its effects; the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established; the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter; and, because insufficient audit evidence exists to support the disclosures. In addition, we do not provide assurance that the Department is or will become year 2000 compliant, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which it does business are or will become year 2000 compliant.



Our audit was performed for the purpose of forming an opinion on the financial statements of the South Carolina Department of Public Safety taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2000, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Logan & Loban, P.A.*

Columbia, South Carolina  
February 3, 2000

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30. 1999**

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Capital Projects	Agency	General Fixed Assets	General Long-Term Debt
<b>ASSETS AND OTHER DEBITS</b>						
Cash and cash equivalents	\$ 30,982,719	\$ 3,418,510	\$ 5,808,261	\$ 1,987,338	\$	\$
Accounts receivable	380,090					
Due from General Fund of the State	6,581,751					
Due from other State agencies	34,814					
Due from Federal Government		3,447,976				
Due from other fund	52,366					
Inventories	4,375,191					
Other assets				15,000		
Property and equipment					83,075,210	
Amount to be provided for retirement of general long-term debt						17,101,606
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u>\$ 42,406,931</u>	<u>\$ 6,866,486</u>	<u>\$ 5,808,261</u>	<u>\$ 2,002,338</u>	<u>\$ 83,075,210</u>	<u>\$ 17,101,606</u>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 3,586,054	\$ 2,598,705	\$ 221,970			
Accrued salaries and related benefits	7,392,468	115,053				
Deferred revenue		3,418,510				
Due to other State Agencies		681,852		712,427		
Due to other fund		52,366				
Retainages payable			83,686			
Amounts held for others				1,289,911		
Notes payable						4,868,904
Accrued compensated absences and related benefits						12,232,702
<b>TOTAL LIABILITIES</b>	<u>10,978,522</u>	<u>6,866,486</u>	<u>305,656</u>	<u>2,002,338</u>		<u>17,101,606</u>
<b>FUND EQUITY AND OTHER CREDITS:</b>						
Investment in general fixed assets					83,075,210	
Fund balances:						
Reserved for capital projects			5,502,605			
Reserved for inventories	4,375,191					
Reserved for court fines	4,000,543					
Reserved for confiscated funds	365,323					
Reserved for weigh stations and highway safety resources	1,802,173					
Reserved for victim assistance	567,186					
Reserved for Highway Patrol vests and vehicles	325,919					
Reserved for total quality management	3,856					
Reserved for other restricted purposes	1,078,390					
Unreserved fund balance:						
Undesignated fund balance	18,909,828					
<b>TOTAL FUND EQUITY AND OTHER CREDITS</b>	<u>31,428,409</u>		<u>5,502,605</u>		<u>83,075,210</u>	
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<u>\$ 42,406,931</u>	<u>\$ 6,866,486</u>	<u>\$ 5,808,261</u>	<u>\$ 2,002,338</u>	<u>\$ 83,075,210</u>	<u>\$ 17,101,606</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<b>REVENUES:</b>			
State appropriations	\$ 116,372,225	\$	\$
Motor vehicle licenses	83,217,982		
Federal grants		19,490,966	
Court fines and assessments	8,951,945		
Sales of goods and services	9,387,882		
Financial responsibility	3,230,691		
Sales of vehicles and equipment	1,114,623		
Vehicle size and weight violation fines	1,384,279		
Victim restitution	379,730		
Private detective and security licenses and fees	491,385		
Drug confiscations	345,912		
Motor carrier registrations and fees	3,909,712		
Interest/investment income	49,346		
Miscellaneous revenues	<u>508,796</u>		
<b>TOTAL REVENUES</b>	<u>229,344,508</u>	<u>19,490,966</u>	
<b>EXPENDITURES:</b>			
General administration	13,138,057		81,377
Bureau of Protective Services	3,476,738		
State Highway Patrol	62,946,097	18,995	270,614
State Transport Police	7,931,403	581,129	742,464
Criminal Justice Academy	6,321,296	527,170	655,841
Hall of Fame	124,759		
Department of Motor Vehicles	40,290,496		133,412
Office of Safety and Grant Programs	2,367,534	18,138,481	
Special items:			
Computer upgrade	2,607,687		
Total Quality Management	900		
Highway Patrol vests and vehicles	<u>789,021</u>		
<b>TOTAL EXPENDITURES</b>	<u>139,993,988</u>	<u>19,265,775</u>	<u>1,883,708</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>89,350,520</u>	<u>225,191</u>	<u>1,883,708</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers	(4,990,916)		4,990,916
Remitted to the State General Fund	(83,275,942)		
Indirect cost remitted to the State General Fund		<u>(225,191)</u>	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(88,266,858)</u>	<u>(225,191)</u>	<u>4,990,916</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	1,083,662		3,107,208
<b>INCREASE (DECREASE) IN RESERVE FOR INVENTORIES</b>	(679,726)		
<b>BEGINNING FUND BALANCES</b>	<u>31,024,473</u>	<u>- 0 -</u>	<u>2,395,397</u>
<b>ENDING FUND BALANCES</b>	<u>\$ 31,428,409</u>	<u>\$ - 0 -</u>	<u>\$ 5,502,605</u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - TOTAL BUDGETED FUNDS  
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Budgetary General Fund</u>			<u>Other Budgeted Funds</u>			<u>Total Budgeted Funds</u>		
	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Personal services	\$ 70,359,464	\$ 66,081,292	\$ 4,278,172	\$ 9,722,749	\$ 9,351,763	\$ 370,986	\$ 80,082,213	\$ 75,433,055	\$ 4,649,158
Employer contributions	20,020,581	19,343,339	677,242	3,138,284	2,508,651	629,633	23,158,865	21,851,990	1,306,875
Other operating expenses	29,600,603	26,933,349	2,667,254	20,560,618	16,052,544	4,508,074	50,161,221	42,985,893	7,175,328
Allocations to other entities:									
State agencies	0	0	0	6,186,104	4,581,413	1,604,691	6,186,104	4,581,413	1,604,691
Other entities	0	0	0	12,125,351	11,803,508	321,843	12,125,351	11,803,508	321,843
Permanent improvements	859,035	859,035	0	0	0	0	859,035	859,035	0
Special items:									
Total quality management	4,756	900	3,856	0	0	0	4,756	900	3,856
Computer upgrade	<u>2,137,687</u>	<u>2,137,687</u>	<u>0</u>				<u>2,137,687</u>	<u>2,137,687</u>	<u>0</u>
Totals	<u>\$122,982,126</u>	<u>\$115,355,602</u>	<u>\$ 7,626,524</u>	<u>\$51,733,106</u>	<u>\$44,297,879</u>	<u>\$ 7,435,227</u>	<u>\$174,715,232</u>	<u>\$159,653,481</u>	<u>\$15,061,751</u>

**See accompanying Notes to Financial Statements.**



## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the South Carolina Department of Public Safety (Department) conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Department's accounting principles are described below.

##### **Reporting Entity**

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Department has determined it has no component units. The primary government is the State of South Carolina. The State has determined that the Department is a part of the primary government.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary government or entity that holds one or more of these powers.

The Department was created by the Government Restructuring Act of 1993, which became effective on July 1, 1993. The cabinet level agency consists of a combination of the former South Carolina Highway Patrol and Motor Vehicle Records of the former South Carolina Department of Highways & Public Transportation, Public Service Commission Safety Enforcement, Law Enforcement Training Council, Law Enforcement Hall of Fame, and the Public Safety Office of the Governor's Office. The Department is responsible for the statewide law enforcement training, management of various statewide law enforcement agencies, educational efforts for crime, drug and safety programs, as well as administration of certain grants and agency funds directly related to the above mentioned items. In addition, pursuant to Executive Order 95-45, effective January 1, 1996, the Motor Vehicle Division of the Department of Revenue was transferred to the Department to consolidate the Motor Vehicle Division's functions under one department. The responsibilities and activities transferred include the driver and vehicle services functions of the Motor Vehicle Division. This activity is reported in the general fund under the Department of Motor Vehicles on the Department's financial statements. The Executive Director of the Department is a member of the Governor's Cabinet. The funds and account groups of the Department are included in the Comprehensive Annual Financial Report of the State of South Carolina.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Reporting Entity (Continued)**

The Department is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation, as enacted, becomes the legal operating budget for the Department. The Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditures of total funds.

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of the Department. Generally, all State departments, agencies, and colleges are included in the State's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent on the State. Although the Department operates somewhat autonomously, it lacks full corporate powers.

The accompanying financial statements present the financial position and the results of operations of only that portion of the funds and account groups of the State of South Carolina, the primary government, that are attributable to the transactions of the Department.

**Basis of Presentation and Description of Funds**

The Department uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group is a financial reporting device designed to provide financial accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The Department has two fund categories, governmental and fiduciary fund types. The Department reports its activity in three types of governmental fund types, the general fund, the special revenue fund, and the capital projects fund. The Department reports its activity in one type of fiduciary fund, an agency fund.

**Governmental Fund Types**

Governmental funds those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), and the acquisition, construction, and maintenance of general fixed assets (capital project funds). Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Governmental Fund Types (Continued)**

**General fund** – The general fund accounts for all activities except those required to be accounted for in another fund. Major revenue sources include the annual state appropriation as approved by the General Assembly, motor vehicle license fees, financial responsibility, court fines and assessments, motor carrier registrations and fees, uninsured motorist coverage, drug confiscations, victim restitution, charges for services, sales of goods, including listings and labels by the Motor Vehicle Division, and cost reimbursements for the costs of productions, purchase, handling, mailing of documents, publications, records and data sets, and sale of photography, electronically stored information or digitized images. The revenues are used for general ongoing governmental services such as administration, law enforcement, driver and motor vehicle services, crime prevention training, general public crime education, law enforcement training as well as safety program development.

Under Section 56 of the State Code of Laws, as amended, the Department collects fees and other charges for drivers licenses and motor vehicle registrations. All of these revenues are remitted to the General Fund of the State except those revenues authorized by Proviso 36.7 which are retained by the Department. Prior to fiscal year 1999, included in the fees and other charges collected by the Department and remitted to State were truck registration fees. For fiscal year 1999, fifty percent (50%) of the revenues collected for truck registration fees were remitted to the South Carolina Infrastructure Bank and for fiscal year 2000 and thereafter the percentage increases to one hundred percent (100%).

The following Provisos of the 1998-99 Appropriations Act allow the Department retain and carryover certain revenues that are earmarked for specific purposes:

**36.3 Detective/Security Fees**

The license and registration fees for private detective and security businesses including their employees for the purpose of providing additional security in the Capitol Complex area.

**36.6 Cost Recovery Fees**

The fees for the purpose of recovering the costs of the production, purchase, handling and mailing of documents, publications, records and data sets.

**36.7 License Fees**

The fees collected recover the costs of the production, purchase, handling and mailing of documents, publications, records and data sets, for the purpose of supplying and maintaining video cameras in law enforcement vehicles used for traffic enforcement and the issuance of the alcohol restricted licenses.

**36.10 New License Plate Fees**

The \$3.00 charged for postage and handling associated with the mailing of new license plates to cover the costs of postage, handling and the production of license plates.

**36.12 Fees for Photos and Digitized Images**

Fees to provide copies of photography, electronically stored information, stored photographs or digitized images for the purpose of defraying the costs.

**36.16 License Information**

The revenues generated from the sale of certain information relating to motor vehicle records for the purpose of funding computer needs and modernization/improvement of the Division of Motor Vehicles.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Governmental Fund Types (Continued)**

**36.17 Transfer of Funds for Body Armor**

The required transfer of \$250,000 from size and weight revitalization to fund body armor for all troopers.

Under Sections 14-1-206, 14-1-207, and 14-1-208 of the State Code of Laws as amended effective January 1, 1995, any person who is convicted, pleads guilty or no contest, or forfeits bond for an offense tried in general session, magistrates' court or municipal court must pay an amount equal to one hundred, one hundred, and sixty-four percent, respectively, of the fine imposed as an assessment. The Department receives a specific portion of each of these assessments for training in the fields of law enforcement and criminal justice. In addition, a specific portion of each assessment is also to be used to defray the cost of erecting and maintaining the South Carolina Law Enforcement Hall of Fame. If funds collected exceed the necessary costs and expenses of the Hall of Fame operations and maintenance, the Department may retain the surplus for use in its law enforcement training programs. As needed, certain monies from court fines are transferred to the capital projects fund to fund Hall of Fame construction and approved capital projects for facilities for training in the fields of law enforcement and criminal justice.

Under Section 44-53-530 of the State Code of Laws all real or personal property, conveyances and equipment of any value, when reduced to proceeds, any cash more than one thousand dollars, any negotiable instruments, and any securities which are seized and forfeited must be disposed of as follows:

- a) 75% to the law enforcement agency.
- b) 20% to the prosecuting agency.
- c) 5% must be remitted to the State Treasurer's Office and deposited to the credit of the General Fund of the State for law enforcement agencies. The funds must be used for drug enforcement activities and for prosecution agencies. The funds must be used in matters relating to the prosecution of drug offenses and litigation of drug-related matters. Proceeds awarded to the Department through this provision by the courts is reflected in the financial statements as "Drug confiscations" revenue.

Under Section 24-3-40 of the State Code of Laws, the Director of the South Carolina Department of Corrections shall withhold 5% of the inmate gross wages and promptly deposit these funds with the State Treasurer for credit to a special account to support victim assistance programs established pursuant to the Victims of Crime Act of 1984, Public Law 98-473, Title II, Chapter XIV, Section 1404. Inmate wages remitted to the Department are recorded in "Victim restitution" on the statement of revenues, expenditures and changes in fund balances – all governmental fund types.

Under the amendment to Section 56-5-4160(E) of the State Code of Laws effective June 5, 1996, the Department shall use the proceeds from vehicle size and weight violation fines to establish and maintain automated data bases, to upgrade and refurbish existing weigh stations, to purchase and maintain portable scales, to hire additional other funded troopers or officers, to purchase equipment,

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Governmental Fund Types (Continued)**

and to procure other safety measures that the Department deems necessary. These fines are recorded in the financial statements as "vehicle size and weight violation fines". As needed, certain monies from vehicle size and weight violation fines are transferred to the capital projects fund to fund capital projects which involve upgrading and refurbishing existing weigh stations.

**Special Revenue Fund** - The special revenue fund generally records expenditures of revenues that are restricted to specific programs or projects. Revenues are derived from federal grants. The special revenue fund includes certain federal grants from various federal agencies for safety, instructional and public education programs.

**Capital Projects Fund** – The capital projects fund accounts for the construction projects that are to be capitalized and major renovation and repair projects. These projects are currently funded through operating transfers from the general fund primarily from court fines and vehicle size and weight violation fines. The fund balance account related to these capital projects is reserved for capital projects.

**Fiduciary Funds** - Fiduciary funds account for resources the Department holds as trustee or agent for individuals. Fiduciary funds include both trust and agency funds. Currently, the Department has only an agency fund.

The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds in an agency capacity. The primary individual agency funds are financial responsibility, self-insurance, driver record deposits, the evidence fund and the international fuel tax agreement fund.

Financial responsibility accounts for bonds received by the Department that are held until court resolution of the violation necessitating the bond. The self-insurance fund consists of certificates of deposit located at the State Treasurer's Office that are in the name of the Department and the insured entity. These deposits represent amounts that are placed on hold from different companies that are basically self-insuring themselves for liability claims for certain commercial carriers.

The evidence fund includes confiscated funds held by the Department in an agency capacity until court adjudication.

Driver record deposit funds are received by the Department to establish accounts to obtain driver records. When the account is closed, the funds are returned to the applicable entity if all outstanding invoices for services have been paid.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

The international fuel tax agreement was created by Section 12-4-410 of the South Carolina Code of Laws to provide registration and related services to interstate and intrastate motor carriers and other customers. The revenue collected, less refunds made and costs of operation associated therewith from this activity, flow through this fund and the excess funds accumulated over the actual and projected costs associated with administering and enforcing this chapter are deposited into the State Highway Fund of the South Carolina Department of Transportation.

**Account Groups**

The Department uses account groups to establish control over and accountability for its general fixed assets and the unmatured portion of its general long-term debt.

**General Fixed Assets Account Group** – General fixed asset acquisitions require the use of governmental fund financial resources and are recorded as expenditures but they are not assets of any fund but of the governmental unit as an instrumentality. Equipment, construction of new facilities, and building improvements are recorded as expenditures of the applicable governmental fund providing the expendable resources upon acquisition and simultaneously capitalized at cost in the general fixed asset account group. Construction expenditures are recorded at cost when incurred and simultaneously capitalized as construction in progress in the general fixed assets account group. When a construction project is completed and is placed in service, it is then reclassified from construction in progress to the appropriate general fixed asset classification. Building improvements include additions, alterations and remodeling, to an existing structure, building, or other public improvement of any kind to any real property.

The current policy of the Commission is to capitalize items costing \$1000 or more, with a minimum expected useful life of one year. Assets contributed by another state agency are recorded at the acquisition cost to that agency. Other donated assets are recorded at fair market value at the date of the gift. In accordance with generally accepted accounting principles for governmental entities, a provision for depreciation of general fixed assets is not recorded.

Interest cost incurred, less any interest earnings on borrowed funds, on significant capital improvements is capitalized as a cost of the project during the construction period.

**General Long-Term Debt Account Group** - This account group is used to account for the outstanding balance of any unmatured general long-term liabilities that are expected to be financed from governmental funds. Currently, these liabilities include compensated absences and the principal portion owed on notes payable.

**Basis of Accounting**

All governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is utilized for governmental fund types and the Agency Funds. Under this method, revenue, including taxes, is recognized when it becomes measurable and available to finance expenditures of the current fiscal year. Federal grants for the Department are recorded as revenue when the related expenditures are incurred. Federal grant monies that are allocated to subrecipients are recognized as an expenditure when the subrecipient requests reimbursement for incurred costs. Expenditures are recognized when the related fund liability is incurred except for unmatured interest on general long-term debt, which is recognized when due. Payments for insurance

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Basis of Accounting (Continued)**

and similar services benefiting more than one period are recognized as an expenditure in the year of payment. Purchases of inventory are recorded as expenditures when purchased.

Operating transfers in and out are recognized in the accounting period in which the interfund payable and receivable arise. Operating transfers do not represent loans, reimbursements or quasi-external transactions.

**Budget Policy**

The Department is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.14 as follows: Agencies shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

Because the legally prescribed budgetary basis differs materially from generally accepted accounting principles (GAAP), actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP bases is presented in Note 2.

The Statement of Expenditures – Budget and Actual – Total Budgeted Funds presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line item expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures for each fiscal year.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Cash and Cash Equivalents**

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and cash on deposit in various banks.

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 4.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Commission records and reports its deposits in the general deposit accounts at cost and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Commission's special deposit accounts is posted to the Commission's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Commission's accumulated daily interest receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

The only account included in the internal cash management pool is the Uninsured Enforcement Fund which was established by Article 5, Section 3 of Act Number 154 of the South Carolina Code of Laws for financial responsibility. This Act became law on July 2, 1997. The fund includes one dollar of the yearly premium for uninsured motorist coverage plus interest earnings thereon less the cost of enforcing and administering the uninsured motorist provisions. Interest/investment income includes interest received, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments.

**Accounts Receivable**

Accounts receivable consist of sales of listings and labels, licenses for guns and private detectives and other miscellaneous revenues.



## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **Deferred Revenue**

Deferred revenue represents that portion of Federal grants and awards that were received and unexpended as of each year end. Revenue will be realized as the expenditures are made.

##### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave, compensatory overtime and holiday leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 1999. The Department calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

##### **Indirect Cost Recoveries**

The receipt of indirect cost recoveries on government-sponsored programs have been included in the special revenue fund as federal grants revenue and payments of these recoveries to the State's General Fund have been recorded as other financing uses. State law requires the Department to remit these recoveries to the General Fund of the State. After January 1, 1999 federal grants and awards whose annual award is \$200,000 or less are exempted from the requirement to remit recoveries to the State General Fund.

##### **Fund Balances**

The equity section of the balance sheet is comprised of three major fund balance elements: reserved; unreserved, designated; and unreserved, undesignated. Reserves either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the fund balance that is not appropriable for future discretionary expenditures. All other current resources are shown as unreserved, designated and unreserved, undesignated on the balance sheet. The reserve for inventories presented in the balance sheet is an offset to the related asset account. The reserve for court fines is restricted under Section 14-1-206, 14-1-207 and 14-1-208 of the State Code of Laws for training in the fields of law enforcement and criminal justice and to defray the cost of constructing and maintaining the South Carolina Law Enforcement Hall of Fame. The reserve for victim assistance reports funds received from the inmate work release program restricted under Section 24-3-40 of the State Code of Laws for victim assistance. The reserve for weigh stations and highway safety resources is to set aside funds received under Section 56-5-4160(E) of the State Code of Laws restricted to establish and maintain automated data bases, to upgrade and refurbish existing weigh stations, to purchase and maintain portable scales, to hire additional other funded troopers or officers, to purchase equipment, and to procure other safety measures that the Department deems necessary. The reserve for confiscated funds under Section 44-53-530 of the State Code of Laws is restricted for use in drug enforcement related activities.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Interfund Transactions**

Quasi-external transactions are accounted for as revenues or expenditures. Quasi-external transactions are those that would be treated as revenues or expenditures if they involved organizations external to the government unit. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are recorded as residual equity transfers. All other interfund transfers are reported as operating transfers. There have been no eliminations of interfund transactions in the financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2. BUDGETARY REPORTING BASIS:**

The financial statements prepared on the legally enacted basis differ from the GAAP basis statements. Not all of the Department's funds are included in the Department's total funds authorized by the General Assembly. Consequently, the Statement of Expenditures – Budget and Actual – Total Budgeted Funds presents only those funds for which a legal basis budget was enacted. Annual appropriations are legally enacted for all funds and GAAP fund types with the exception of agency funds and the capital projects fund, which are unbudgeted, and, therefore, not included in the budgetary comparison statement. Remittances to the State General Fund and most operating transfers are not budgeted. Transfers to the capital project fund from state and capital reserve funds appropriation are budgeted.

Adjustments from the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassification from financial statement fund types to budgetary fund categories, and the reversals of payroll accruals and the related fringe benefits. The following schedule reconciles the differences:

	Financial Statement Fund Type		Budgetary Fund Category	
	General	Special Revenue	General	Other
Expenditures on GAAP Basis	\$139,993,988	\$19,265,775	\$	\$
Fund reclassification:				
State appropriation	(114,916,131)		114,916,131	
Federal grants		(19,265,775)		19,265,775
Other	(25,077,857)			25,077,857
Transfers of funding reported as expenditures on budgetary basis:				
Computer equipment upgrade			530,000	
Repair and renovation project			329,035	
Net accruals:				
Personal services and employer contributions			(419,564)	(45,753)
Expenditures on legal basis	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$115,355,602</u>	<u>\$ 44,297,879</u>

## SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

#### NOTE 3. STATE APPROPRIATION:

The Department is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and made available. Amounts that are not expended by fiscal year-end are required to be returned to the General Fund of the State unless the Department receives authorization from the General Assembly to carry the funds over to the next year.

The 1998-99 original appropriation is the Department's base budget amount presented in the General Funds column of Section 36 of Part 1A of the Appropriations Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1999:

Original appropriations	\$111,708,396
State Budget and Control Board Allocation:	
Employee Pay Increases and Related Benefits (Proviso 63C.12)	2,129,325
Capital Reserve Fund Appropriations for: (June 1998, Joint Resolution R537, H4702) for:	
Computer Upgrade	1,000,000 (A)
Highway Patrol Vests and Vehicles	<u>1,114,940</u>
Revised Appropriation – Legal Basis	115,952,661
Funding for Net Payroll Accrual Adjustments	<u>419,564</u>
State Appropriation Revenue – Accrual Basis	<u>\$116,372,225</u>

(A) \$470,000 was used for the ongoing computer upgrade project and \$530,000 was transferred to the capital projects fund to be used to upfit the building in which the computer upgrade will be housed.

Proviso 72.48 of the 1998-99 Appropriations Act authorizes each agency to carry forward unspent State General Fund appropriations from the 1997-98 fiscal year into the 1998-99 fiscal year up to a maximum of 10% of its original appropriation less any appropriation reductions. Agencies which have separate carry forward authority must exclude the amount carried forward by such separate authority from their base for purposes of calculating the 10% carry forward. Pursuant to this proviso, the Department brought forward \$4,887,021 to this fiscal year. In addition, the Department brought forward \$4,756 for total quality management under Proviso 63A.2 of the 1998-99 Appropriations Act and \$2,137,687 of capital reserve fund appropriation for computer upgrade as provided by Proviso 73.1 of the 1998 Appropriations Act.

The Department carried forward \$7,296,748 of appropriations from 1998-99 to the 1999-2000 fiscal year pursuant to Proviso 72.48 of the 1999-2000 Appropriations Act. In addition, the Department carried forward \$3,856 for total quality management that was received as an allocation from the Budget and Control Board in prior years and remained unspent at June 30, 1999. Proviso 63A.2 of the 1999-2000 Act authorized these funds to be used in fiscal year 2000 for the same purpose. This amount is reported in the general fund as a reservation of fund balance. The remaining amount is reported in the general fund as unreserved, undesignated fund balance.

As authorized by Proviso 73.1 of the 1998-99 Appropriations Act, the Department carried forward unspent funds from its June 1998 Capital Reserve Fund Appropriations to fiscal year 2000 in the amounts of \$325,919 for Highway Patrol vests and vehicles (a reserved fund balance in the General Fund) and \$530,000 for computer upgrade (a portion of the reserved fund balance in the Capital Projects Fund). The \$530,000 for the computer equipment upgrade and the \$329,035 for a repair and renovation project were transferred from the General Fund to the Capital Projects Fund in the current fiscal year and is included in operating transfers in the combined statement of revenues, expenditures and changes in fund balances.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1999**

**NOTE 4. DEPOSITS:**

The following schedule reconciles the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>	
Cash and cash equivalents	<u>\$42,196,828</u>
<u>Footnotes</u>	
Cash on hand	\$ 67,730
Deposits held by State Treasurer	41,819,098
Other deposits	<u>310,000</u>
Total	<u>\$42,196,828</u>

**Deposits Held by State Treasurer**

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name.

Cash and cash equivalents reported on the balance sheet include \$1,848 in unrealized gains at June 30, 1999.

**Other Deposits**

Funds not on deposit with the State Treasurer as of June 30, 1999 are Agency Funds with a carrying amount and bank balance of \$275,000. These funds are fully insured.

**NOTE 5. INVENTORIES:**

The Department had inventories at June 30, 1999 totaling \$4,375,191. These inventories consisted primarily of Department of Motor Vehicles supplies, including license tags, manuals, etc.; Patrol Supplies, including uniforms, guns and accessories and vehicle accessories; office supplies for internal use; and building services (janitorial) supplies. Inventory is valued at cost using the weighted average basis of inventory accounting with the purchases method.

**NOTE 6. PROPERTY AND EQUIPMENT:**

A summary of changes in general fixed assets for the fiscal year ended June 30, 1999 follows:

	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Totals</u>
Beginning balances, as previously reported	\$17,676,976	\$57,482,478	\$ 5,361,448	\$ 80,520,902
Prior period adjustment (A)	<u>(1,180,913)</u>		<u>(1,265,446)</u>	<u>(2,446,359)</u>
Beginning balances, as restated	16,496,063	57,482,478	4,096,002	78,074,543
Additions		9,682,948	633,753	10,316,701
Deletions		(5,341,702)		(5,341,702)
Transfer of completed projects	4,501,728		(4,501,728)	
Transfers from South Carolina Law Enforcement Division		<u>25,668</u>		<u>25,668</u>
Total general fixed assets	<u>\$20,997,791</u>	<u>\$61,849,392</u>	<u>\$ 228,027</u>	<u>\$ 83,075,210</u>

(A) Various buildings and improvements and construction projects in progress with cumulative expended costs of \$2,446,359 were for non-capitalizable type projects and were included in property and equipment as of June 30, 1998 in error. A prior period adjustment was required to restate the investment in general fixed assets as of June 30, 1998.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 7. CONSTRUCTION COSTS AND COMMITMENTS:**

For the fiscal year ended June 30, 1999, the Department expended \$1,883,708 through its capital projects fund. \$633,753 was expended for projects meeting the Department's capitalization policy and \$1,249,955 was expended for non-capitalizable repair and renovation projects.

The Department has obtained the necessary funding for the acquisition, construction, renovation and repair of certain facilities. Management estimates that the Department has sufficient resources available in the Capital Projects Fund and available for transfer from the General Fund to the Capital Projects Fund to complete the various projects over the next two years. The estimated total costs of the projects to be capitalized were approximately \$3,755,000 of which approximately \$3,527,000 was unexpended at June 30, 1999. The projects in progress which will not be capitalized over the next two years have estimated total costs of approximately \$4,174,000 of which approximately \$2,290,000 was unexpended at June 30, 1999.

As of June 30, 1999, the Department had commitments of approximately \$945,000 for future expenditures for the projects in progress that are to be capitalized and \$439,000 for the projects in progress that are not to be capitalized.

**NOTE 8. DUE FROM THE GENERAL FUND OF THE STATE:**

The amount receivable represents funds due from the State General Fund for personal services and employer contributions of the Department consisting of salaries and the cost of related employee benefits funded by State appropriations accrued at June 30 but paid in July. By State law, these accruals are paid from funds appropriated for the next fiscal year.

**NOTE 9. INTERFUND RECEIVABLES/PAYABLES:**

The Department operates out of one pooled cash account which it reports in the general fund. At fiscal year end, entries are made to properly reflect cash balances by fund type and to report interfund liabilities for cash balances within the State's cash management pool accounts. Amounts presented as Due to/Due from Other Fund represent expenditures of the special revenue fund in excess of its share of the pooled cash on deposit at year-end, resulting in a debt from the special revenue fund to the general fund for the deficit cash balance of the special revenue fund. The deficit is temporary in nature due to the time differential between the request for reimbursement for qualified expenditures incurred in the special revenue fund and the actual receipt of cash from the federal funding sources. This liability will be liquidated upon receipt of funds from the federal source. No interest is charged on this liability.

**NOTE 10. OPERATING TRANSFERS:**

Operating transfers of \$4,990,916 were made from the general fund to the capital projects fund for the funding of capital projects. The \$4,990,916 includes \$329,035 of State General Fund appropriations, \$530,000 from the June 1998 Capital Reserve Fund Appropriation and \$4,131,881 from other Department revenue sources.

**NOTE 11. OPERATING LEASES:**

The Department has entered into various operating leases for modular buildings, office space, office equipment and motor vehicles. Payments are due on a monthly basis. Ending payment dates on noncancelable operating leases are in various fiscal years 2000 through 2004. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Department is responsible for maintenance on most leased property.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 11. OPERATING LEASES: (CONTINUED)**

Rental expenditures under all operating leases aggregated approximately \$1,639,000 for the fiscal year ended June 30, 1999.

The following is a schedule by years of future minimum rental payments at June 30, 1999 required under noncancelable operating lease agreements having a remaining lease term in excess of one year.

<u>Year Ended June 30,</u>	<u>Amount</u>
2000	\$ 529,274
2001	388,122
2002	197,134
2003	91,900
2004	<u>31,803</u>
Total	<u>\$1,238,233</u>

Certain of the operating leases are with the South Carolina State Budget and Control Board for motor vehicles. Rental expenditures made to the State for the year ended June 30, 1999 were approximately \$253,000. The Department's leases for these vehicles are renewed annually.

**NOTE 12. CHANGES IN GENERAL LONG-TERM DEBT:**

A summary of changes in general long-term debt for the year ended June 30, 1999 follows:

	<u>Balances, July 1, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances, June 30, 1999</u>
Note payable to Department of Transportation	\$ 5,567,155	\$	\$1,200,000	\$ 4,367,155
Note payable to Department of Transportation	660,196		158,447	501,749
Accrued compensated absences and related benefits	<u>11,695,455</u>	<u>537,247</u>	<u>          </u>	<u>12,232,702</u>
Total general long-term debt	<u>\$17,922,806</u>	<u>\$ 537,247</u>	<u>\$1,358,447</u>	<u>\$17,101,606</u>

The change in accrued compensated absences and related benefits is reported at net since the gross additions/retirements amounts are not available.

**NOTE 13. NOTES PAYABLE:**

On August 25, 1995, the Department reached an agreement as to amounts owed to the Department of Transportation totalling \$8,839,817 for goods and services purchased in 1994 and 1995 which were converted to a note payable due in \$100,000 monthly installments that are reported in the general fund expenditure account for the State Highway Patrol. The installment payments began in January, 1996 with the final installment being due in April, 2003. The note bears no interest. At June 30, 1999, the balance owed on this note is \$4,367,155.

Also, on July 18, 1996, the Department agreed to pay to the Department of Transportation \$897,867 for services rendered to the Department of Motor Vehicles during the fiscal years ended June 30, 1994 and 1995, while that function was part of the South Carolina Department of Revenue. These payables were converted to an installment note payable with monthly payments of \$13,204 for sixty-eight months that began January, 1997 and will end August, 2002. The monthly payments are reported in the general fund expenditure account of the Department of Motor Vehicles. No interest is to be charged on the note. At June 30, 1999, the balance owed on this note is \$501,749.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 14. AGENCY FUND TYPE – CHANGES IN ASSETS AND LIABILITIES:**

A summary of changes in the assets and liabilities of the agency fund type for the fiscal year ended June 30, 1999 follows:

	<u>Balance, July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 1999</u>
<b>TOTAL – ALL AGENCY FUNDS:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,916,594	\$19,166,029	\$19,095,285	\$ 1,987,338
Other assets	<u>0</u>	<u>15,000</u>	<u>0</u>	<u>15,000</u>
Total Assets	<u>\$ 1,916,594</u>	<u>\$19,181,029</u>	<u>\$19,095,285</u>	<u>\$ 2,002,338</u>
<b>LIABILITIES:</b>				
Due to other State Agency (SC Department of Transportation)	\$ 568,083	\$17,553,811	\$17,409,467	\$ 712,427
Due to Department's General Fund		1,300,000	1,300,000	
Amounts held for others	<u>1,348,511</u>	<u>327,218</u>	<u>385,818</u>	<u>1,289,911</u>
Total Liabilities	<u>\$ 1,916,594</u>	<u>\$19,181,029</u>	<u>\$19,095,285</u>	<u>\$ 2,002,338</u>

A summary of changes in total assets and total liabilities by each agency fund for the fiscal year ended June 30, 1999 follows:

	<u>Balance, July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 1999</u>
<b>FINANCIAL RESPONSIBILITY:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	<u>\$ 959,423</u>	<u>\$ 181,156</u>	<u>\$ 344,644</u>	<u>\$795,935</u>
<b>LIABILITIES:</b>				
Amounts held for others	<u>\$ 959,423</u>	<u>\$ 181,156</u>	<u>\$ 344,644</u>	<u>\$795,935</u>
<b>SELF-INSURANCE:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 275,000	\$ 35,000	\$ 0	\$ 310,000
Other assets	<u>0</u>	<u>15,000</u>	<u>0</u>	<u>15,000</u>
Total Assets	<u>\$ 275,000</u>	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 325,000</u>
<b>LIABILITIES:</b>				
Amounts held for others	<u>\$ 275,000</u>	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 325,000</u>
<b>EVIDENCE:</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	<u>\$ 35,960</u>	<u>\$ 64,375</u>	<u>\$ 0</u>	<u>\$100,335</u>
<b>LIABILITIES:</b>				
Amounts held for others	<u>\$ 35,960</u>	<u>\$ 64,375</u>	<u>\$ 0</u>	<u>\$100,335</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 14. AGENCY FUND TYPE – CHANGES IN ASSETS AND LIABILITIES: (CONTINUED)**

**DRIVER RECORD DEPOSITS:**

**ASSETS:**

Cash and cash equivalents	<u>\$ 66,817</u>	<u>\$ 112</u>	<u>\$ 10,409</u>	<u>\$ 56,520</u>
---------------------------	------------------	---------------	------------------	------------------

**LIABILITIES:**

Amounts held for others	<u>\$ 66,817</u>	<u>\$ 112</u>	<u>\$ 10,409</u>	<u>\$ 56,520</u>
-------------------------	------------------	---------------	------------------	------------------

**INTERNATIONAL FUEL TAX**

**AGREEMENT:**

**ASSETS:**

Cash and cash equivalents	<u>\$ 568,083</u>	<u>\$18,853,811</u>	<u>\$18,709,467</u>	<u>\$712,427</u>
---------------------------	-------------------	---------------------	---------------------	------------------

**LIABILITIES:**

Due to other State Agency (SC Department of Transportation)	568,083	17,553,811	17,409,467	712,427
---	---------	------------	------------	---------

Due to Department's General Fund	<u>0</u>	<u>1,300,000</u>	<u>1,300,000</u>	<u>0</u>
-------------------------------------	----------	------------------	------------------	----------

Total liabilities	<u>\$ 568,083</u>	<u>\$18,853,811</u>	<u>\$18,709,467</u>	<u>\$712,427</u>
-------------------	-------------------	---------------------	---------------------	------------------

**DUAL EMPLOYMENT:**

**ASSETS:**

Cash and cash equivalents	<u>\$ 11,311</u>	<u>\$ 31,575</u>	<u>\$ 30,765</u>	<u>\$ 12,121</u>
---------------------------	------------------	------------------	------------------	------------------

**LIABILITIES:**

Amounts held for others	<u>\$ 11,311</u>	<u>\$ 31,575</u>	<u>\$ 30,765</u>	<u>\$ 12,121</u>
-------------------------	------------------	------------------	------------------	------------------

**NOTE 15. TRANSACTIONS WITH OTHER STATE AGENCIES:**

The Department has significant transactions with the State of South Carolina and various State agencies.

The Department collected, as part of its mission, revenues from motor vehicle licenses and other sources. Of these, \$83,275,942 was remitted to the General Fund of the State.

Services and benefits received at no cost from the State and various State agencies include use of State-owned lands from the State, maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General, and records storage from the Department of Archives and History.

Other services received at no cost from the various divisions of the South Carolina State Budget and Control Board include insurance plans administration, procurement services, retirement plan administration, audit services, personnel management, grants services, assistance in the preparation of the State Budget, and review and approval of certain budget amendments, and other centralized functions.

The Department had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement plan contributions, insurance plans contributions, insurance coverage, telephone and interagency mail services, fees for sales of surplus property, and supplies. Significant payments were also made to other agencies for unemployment insurance and workers' compensation coverage for employees. The amounts of expenditures applicable to these related party transactions are not readily available.

The Department purchased from the South Carolina Department of Transportation approximately \$1,628,000 for gasoline and other items during fiscal year 1999. Also, see Note 14 regarding payments to the SC Department of Transportation pursuant to the International Fuel Tax Agreement.



**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 15. TRANSACTIONS WITH OTHER STATE AGENCIES: (CONTINUED)**

The Department purchased services from the Department of Corrections for approximately \$3,160,000 for printing, production of license plates, the cleaning and maintenance of the grounds and buildings.

The Department purchased services from the South Carolina Educational Television Commission for approximately \$251,000 for teleconferencing services and for public awareness of safety issues commercials.

The Department purchased services from the South Carolina Law Enforcement Division for approximately \$129,000 for physical exams for the Highway Patrol personnel and for teleconferencing.

The Department purchased services from the University of South Carolina for approximately \$453,000 for computer consulting contracts for the Criminal Justice Academy and the Phoenix project. Also the University gathers statistical information for various grant studies.

Also, the Department purchased goods and services from various other State agencies for approximately \$56,000.

The approximately \$682,000 due to other State agencies represents amounts paid subsequent to fiscal year end for expenditures under Federal grants.

The Department made no significant sales of goods and provided no significant services to other State agencies during the fiscal year ended June 30, 1999.

**NOTE 16. OTHER FUND BALANCE RESERVATIONS:**

\$1,078,390 of proceeds from the sale of vehicles and equipment less the costs of disposition was carried forward under Section 23-6-50 of the South Carolina Code of Laws, as amended for the purchase of like-items. These amounts carried forward are reported as reservations of fund balances under reserved for other restricted purposes.

**NOTE 17. CONTINGENT LIABILITIES:**

The various federal programs administered by the Department for the fiscal year 1999 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Department believes that any such amount in the aggregate would not have a material adverse effect on the financial position of the Department. Furthermore, there is no evidence that a liability should be recorded.

The Department is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including personal injury and negligence. In some cases, the remedies sought or damages claimed are substantial. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for general tort liability is remote, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the Department. Therefore, an estimated liability has not been recorded. The outcome of any litigation has an element of uncertainty.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 18. DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Department have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

**NOTE 19. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at the date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the Department for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 20,100 State retirees met these eligibility requirements at June 30, 1999.

The Department recorded employer contributions expenditures within the applicable program expenditure categories for these benefits for active employees in the amount of approximately \$6,240,000 for the year ended June 30, 1999. As discussed in Note 20, the Department paid approximately \$1,520,000 applicable to the 2.03 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to Department retirees is not available. By State law, the Department has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999**

#### **NOTE 20. PENSION PLANS:**

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Some of the employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan that is administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute six percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the three most recent years ended June 30, 1999, 1998 and 1997 were approximately \$2,650,000, \$2,500,000 and \$2,330,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid in the current fiscal year employer group-life insurance contributions of approximately \$53,000 at the rate of .15 percent of compensation.

Also, some of the Department's employees are covered by a retirement plan through the South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999**

#### **NOTE 20. PENSION PLANS: (CONTINUED)**

who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.03 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The Department's actual contributions to the PORS for the three most recent years ended June 30, 1999, 1998 and 1997 were approximately \$4,100,000, \$3,850,000 and \$3,830,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$79,000 and accidental death insurance contributions of approximately \$79,000 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the Department for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable program expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Department recognizes no contingent liability for unfunded costs associated with participation in plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

#### **NOTE 21. RISK MANAGEMENT:**

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for automobile collision. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage that was in force in the prior year. Settled claims have not exceeded any of its coverages in any of the prior three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 21. RISK MANAGEMENT: (CONTINUED)**

losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and,
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment, including data processing equipment;
3. Motor vehicles liability;
4. Torts;
5. Natural disasters; and
6. Inland marine.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. The ISF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The Department retains the risk of loss on property damage to the vehicles (automobile collision) operated by the Department because it estimates the cost of repairs will be less than the cost of insurance. Expenditures reported by the Department are recorded in the expenditure category for which the vehicle is used to support in the general fund. The liability is included in accounts payable. A summary of the claims activity for the fiscal years ended June 30, 1999 and 1998 is as follows:

<u>Fiscal Year Ended</u>	<u>Unpaid Claims, Beginning</u>	<u>Current Year Claims</u>	<u>Claims Paid</u>	<u>Unpaid Claims, Ending</u>
June 30, 1999	<u>\$ 5,478</u>	<u>\$ 339,141</u>	<u>\$ 328,565</u>	<u>\$16,054</u>
June 30, 1998	<u>\$15,231</u>	<u>\$ 280,382</u>	<u>\$ 290,135</u>	<u>\$ 5,478</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1999**

**NOTE 21. RISK MANAGEMENT: (CONTINUED)**

Employee fidelity and faithful performance bonds are purchased from commercial insurance providers. Every law enforcement officer and trooper are covered by a faithful performance bond of \$2,500 each and other personnel employed by the Department are covered by a fidelity bond of \$50,000. The bond does not cover damage to persons or property arising out of the negligent operation of a motor vehicle. The Department maintains auto liability insurance through the IRF to cover such losses, up to \$500,000 per occurrence. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The Department has recorded insurance premium expenditures in the applicable program expenditure categories of the general fund.

In management's opinion, claims losses in excess of insurance coverage for insured risks other than automobile liability are unlikely, and if incurred, would be insignificant to the Department's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end for such risks. Therefore, no loss accrual has been recorded in these financial statements.

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000 ISSUE (UNAUDITED)**

**JUNE 30, 1999**

The year 2000 issue arises because most computer software programs allocate two digits to the "year" date field on the assumption that the first two digits will be "19". Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Department's control but also the systems of other entities with which the Department transacts business, including the central state accounting systems which are used to make all payroll and other payments. Some of the Department's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the Department.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Department is or will be year 2000 ready, that the Department's remediation efforts will be successful in whole or in part, or that parties with whom the Department does business, including the central state accounting systems, will be year 2000 ready.

The Department has used internal staff to perform substantially all of the work that has been undertaken to date toward addressing the Department's year 2000 issues. In addition, the Department contracted with Complete Business Solutions, Inc., an external vendor, for \$25,000 to audit its mission critical systems for compliance and to make recommendations for any additional measures that may be needed to ensure compliance. There were no unpaid commitments associated with this contract as of year-end.

The Department has identified mission critical computer systems which affect our customer service delivery and our overall commitment to public safety. The Department is subjecting those systems and equipment to the following stages of work to address year 2000 issues:

1. Awareness stage – Establishing a budget and project plan for dealing with the year 2000 issue.
2. Assessment stage – Identifying the systems and components for which year 2000 compliance work is needed.
3. Remediation stage – Making changes to systems and equipment.
4. Validation/Testing stage – Validating and testing the changes that were made during the remediation stage.

The Department has completed the awareness, assessment, and remediation stages for all of its mission critical systems, including Centralized Data Base Operations; Agency Management System (Financial Management, Payroll and Purchasing); Law Enforcement Training Systems; Heavy Truck Data Feds; Ticket Entry and Retrieval System, Highway Safety – Accident Data; Tracking Software; Network Infrastructure Devices, telephones and office software. The validation/testing stage continues and will also be reviewed by the external vendor prior to the close of calendar year 1999.

The Department has made contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the Department's business.

At February 3, 2000, the Department had not encountered any problems related to the Y2K issue.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1999**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass- Through Expenditures to Subrecipients</u>
<b>U.S. Department of Justice</b>			
Direct Programs:			
Juvenile Accountability Incentive Block Grants	16.523	\$ 4,133	\$
Juvenile Justice and Delinquency Prevention – Allocations to States	16.540	817,652	659,394
Title V – Delinquency Prevention Program	16.548	223,989	223,989
Part E – State Challenge Activities	16.549	90,199	90,199
State Justice Statistics Program for Statistical Analysis Centers	16.550	149,868	
National Criminal History Improvement Program	16.554	19,669	
Crime Victim Assistance	16.575	4,309,041	4,145,487
Byrne Formula Grant Program	16.579	7,687,467	7,273,041
Violence Against Women Formula Grants	16.588	1,855,673	1,756,541
Grants to Encourage Arrest Policies	16.590	381,052	
Local Law Enforcement Block Grant Program	16.592	331,279	326,768
Residential Substance Abuse Treatment for State Prisoners	16.593	737,418	729,075
State Identification Systems Grant Program	16.598	<u>172,727</u>	<u>172,727</u>
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>		<u>16,780,167</u>	<u>15,377,221</u>
<b>U.S. Department of Transportation</b>			
Direct Programs:			
Motor Carrier Safety	20.217	1,320,795	
National Motor Carrier Safety	20.218	8,000	
State and Community Highway Safety	20.600	<u>1,927,884</u>	<u>1,333,291</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>		<u>3,256,679</u>	<u>1,333,291</u>
<b>U.S. Department of Energy</b>			
Direct Program:			
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: State and Tribal Concerns, Proposed Solutions	81.106	<u>17,643</u>	
<b>Federal Emergency Management Agency</b>			
Passed through SC Adjutant General's office: Public Assistance Grants	83.544	<u>44,352</u>	
<b>TOTAL FEDERAL ASSISTANCE</b>		<u>\$20,098,841</u>	<u>\$16,710,512</u>

**NOTE:** The Department used the cash basis method of accounting in preparing the above schedule.





# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the financial statements of the South Carolina Department of Public Safety (the Department) as of and for the year ended June 30, 1999, and have issued our report thereon dated February 3, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted a violation of state law as noted on page 36.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs.

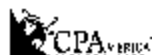
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying schedule of findings and questioned costs are material weaknesses.

We also noted other matters involving the internal control over financial reporting as described on pages 36 and 37.

1529 HAMPTON STREET, SUITE 200 • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • E-MAIL: RDGLAB@USIT.NET



Investment Advisory Services Offered  
Through: 1st Global Advisors, Inc.



Securities Offered Through: 1st Global  
Capital Corp. Member NASD, SIPC

Insurance Services Offered Through:  
1st Global Insurance Services, Inc.



8150 N. Central Expressway, Suite M-1600  
Dallas, TX 75206 • 860-959-8440

This report is intended for the information and use of the Governor, Department's management and the applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

*Robert G. Latham, P.A.*

Columbia, South Carolina  
February 3, 2000



# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

### Compliance

We have audited the compliance of the South Carolina Department of Public Safety (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1999. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.



This report is intended for the information and use of the Governor, Department's management and the applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

*Robert G. Saban, P.A.*

Columbia, South Carolina  
February 3, 2000

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 1999**

#### **SUMMARY OF AUDITOR'S RESULTS**

1. An unqualified opinion dated February 3, 2000 on the financial statements of the Department for the year ended June 30, 1999 was issued.
2. Reportable conditions that were determined to be material weaknesses in internal control over financial reporting are described below.
3. No instances of noncompliance that were material to the financial statements were noted.
4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. An unqualified opinion on compliance for major programs dated February 3, 2000 was issued.
6. There were no findings during the audit that are required to be reported under Section .510(a) of the OMB Circular A-133.
7. The major programs of the Department are as follows:

<u>CFDA #</u>	<u>Program</u>
16.540	Juvenile Justice and Delinquency Prevention – Allocations to State
16.575	Crime Victim Assistance
16.579	Byrne Formula Grant Program
16.588	Violence Against Women Formula Grants
16.593	Residential Substance Abuse Treatment for State Prisoners
20.217	Motor Carrier Safety
20.600	State and Community Highway Safety

8. The dollar threshold used to distinguish between Type A and Type B programs was \$602,965.
9. The Department was not determined to be a low-risk auditee.

#### **FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

The following reportable conditions are material weaknesses, are related to the Department's financial statements and are required to be reported in accordance with generally accepted government auditing standards.

#### **IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITAL PROJECTS**

**Condition:** The Department's construction in progress listing at June 30, 1998 and June 30, 1999 contained projects that should not have been capitalized. This deficiency appeared to occur because of a lack of communication between the accounting and construction departments. A similar finding was also cited in the prior year's report.

**Effect:** This condition resulted in an overstatement of construction in progress and the improper capitalization of repair and renovation projects.

**Criteria:** Generally accepted accounting principles require that only items which meet entity specified capitalization criteria be included in construction in progress.

**Recommendation:** We recommend that the Department follow its capitalization policy and to only include in construction in progress projects which should be capitalized.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 1999**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS (CONTINUED)**

**SUBSIDIARY LISTING NEEDED TO SUPPORT BUILDINGS AND IMPROVEMENTS**

**Condition:** The Department did not maintain a subsidiary ledger listing of buildings and improvements. Subsequent to year-end the Department reconstructed its records to support the carrying value of capitalized buildings and improvements and a prior period adjustment was made to adjust the general ledger control account to the subsidiary listing.

Also the total amounts shown on the Department's year-end closing package was \$398,475 more than the amount shown in the Department's audited financial statements at June 30, 1999.

**Criteria:** Good accounting practices require the keeping of subsidiary ledger listings to support the various fixed asset categories, including buildings and improvements.

**Effect:** Failure to maintain a subsidiary ledger listing could result in errors in the accumulating of the carrying value of the buildings and improvements.

Also, a subsidiary listing that includes each building and improvement thereto is helpful during the annual review to ensure adequate insurance coverage is maintained.

**Recommendation:** We recommend that the Department continue to maintain a subsidiary ledger listing to support the carrying value of buildings and improvements and reconcile the reported amount in closing packages prepared in the future to the general ledger control account and subsidiary listing.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None reported.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**OTHER MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 1999**

**VIOLATION OF STATE LAW**

**NO AUTHORIZATION FOR RETAINED FUNDS**

The Department retained \$5,503,885 in unspent motor carrier registration fees. The Department did not have specific authorization to carryforward these funds to fiscal year 2000. State law requires the Department to remit all revenues to the General Fund of the State unless specific legislation exists to retain the funds.

We recommend that the Department obtain the required legislation or remit the unexpended funds to the State.

**OTHER COMMENTS**

**CASH BALANCE CLOSING PACKAGE DEFICIENCY**

The combined cash balance for the bad checks accounts that was reported by the Department in its closing package as of June 30 was the cash balances that were reflected in the Department's general ledger instead of the reconciled balances. The balances are as follows:

Net overdraft balances reported in closing package and general ledger	\$332,961
Net overdraft balances per reconciliation	<u>(303,715)</u>
Difference	<u>\$ 29,246</u>

The reconciling difference resulted from: returned checks and other adjustments which were not made and posted to the Department's records as of June 30.

Section 3.1 of the GAAP Closing Procedures Manual prepared by the Comptroller General states that the closing package should include the actual cash balance under the State's control at midnight June 30.

We recommend that the Department make the necessary adjustments and post them to the general ledger to record those transactions that clear the bank account and have not been recorded in the Department's general ledger as of June 30. Also, we recommend that the Department report the reconciled balance in its closing package as of June 30 even if it is not practicable to prepare the required adjusting entries and have them recorded in the general ledger as of June 30.

**OPERATING LEASE CLOSING PACKAGE DEFICIENCY**

Our review of the Department's operating lease closing package disclosed that an operating lease was included in the schedule as of June 30, 1999 in error. A similar finding was included in the prior year's report.

This resulted in the Department overstating its lease commitments as of June 30, 1999 by approximately \$21,000.

Good accounting practices require the Department to accurately calculate future minimum lease obligations for its year-end closing package. Also, Section 3.19 of the GAAP Closing Package Manual prepared by the Comptroller General's Office defines reportable operating leases.

We recommend that procedures be implemented to properly determine whether leases should or should not be included in the operating lease package as of each year-end.

## **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

### **OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 1999**

#### **SYSTEM OF RECEIVING FUNDS INADEQUATE**

The Motor Vehicles Division of the Department has an antiquated system for receiving funds with many deficiencies related to the prevention of misappropriation and misuse of assets. These deficiencies include: passwords to override the system by the supervisors are posted on the computer screens used by the tellers; transactions can be voided by the teller and entered to the system with no audit trail; the system is frequently down, requiring the tellers to process transactions manually for later entry into the computer system; there are no checks and balances of funds received for other agencies such as the sales tax on vehicles sold, collected for the South Carolina Department of Revenue; and there is not a clear audit trail from the funds received by the tellers to the postings made by the system to the general ledger. Until the system is updated or replaced, the deficiencies will continue to exist. This finding was also cited in the prior year's report.

We recommend the Department take immediate steps to update its system of controls for the recording and processing of receipts and to enhance the reliability of its computer system.

#### **RECEIPTS NOT DEPOSITED TIMELY**

Our tests of receipts disclosed certain items included in four deposits was not deposited timely.

State law requires receipts to be deposited at least weekly.

We recommend that the Department ensure that all receipts are deposited timely.

#### **FIXED ASSETS**

Our tests of the physical existence of fixed assets resulted in two items not being located by the Department. One item was a laptop computer and the other a printer.

The Department appears to not be timely updating its movable property records to reflect changes of location and custodian.

Good accounting procedures and practices require the timely reporting of changes of location and custodian.

We recommend the procedures be followed to ensure the moveable property records are timely updated for all changes of location and custodian.

#### **MISSING DOCUMENTATION IN EMPLOYEE PERSONNEL FILE**

Our tests disclosed four employee personnel files did not include the Employment Eligibility Verification Form (I-9). This form is required by the US Department of Justice Immigration and Naturalization Service. Also, personnel files for two employees did not include their Employee Profile Forms. State Human Resource Regulations require each employee's personnel file include information reflecting a history of the employee's State service. The Employee Profile form is used for that purpose. This resulted in personnel files not including all required documentation.

We recommend that the Department's procedures regarding new hires be followed and newly hired employees not be permitted to start work until all required documentation to make their personnel files complete is received and included in employee files. Also, all employee files should include the Employee Profile Forms as required in internal procedures.



**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1999**

During our current audit, we reviewed the status of corrective action taken on the findings reported in our report on the financial statements of the Department dated January 29, 1999, resulting from the audit of the financial statements for the year ended June 30, 1998. We found that adequate corrective action has been taken regarding the following findings:

- Monitoring of subrecipients
- Documents supporting receipts not located
- Additional care needed in preparing schedules
- Accounts payable misstated

The other findings are included in the current year's schedule of findings and questioned costs and other management letter comments.

## **MANAGEMENT'S RESPONSE**

### **APPENDIX A**



# South Carolina Department of Public Safety

---

March 28, 2000

Mr. Thomas L. Wagner, CPA  
State Auditor's Office  
1401 Main Street Suite 1200  
Columbia, SC 29201

Dear Mr. Wagner:

The S. C. Department of Public Safety respectfully submits the following responses to the preliminary findings cited by Rogers & Laban, CPAs during their audit of the fiscal year ending June 30, 1999:

**Improvements Needed in Accounting for Capital Projects:**

**RECOMMENDATION:** We recommend that the Department follow its capitalization policy and to only include in construction in progress projects which should be capitalized.

**RESPONSE:** In response to the recommendation of the prior year's audit reports, we analyzed all projects and disclosed the prior period adjustments required to properly record the current values based on the new capitalization policy. No problems or inconsistencies occurred during the current fiscal year, and in the future, we will continue to analyze all projects and ensure they are closed in a timely manner.

**Subsidiary Listing Needed to Support Buildings & Improvements:**

**RECOMMENDATION:** We recommend that the Department continue to maintain a subsidiary ledger listing to support the carrying value of buildings and improvements and reconcile the reported amount in closing packages prepared in the future to the general ledger control account and subsidiary listing.

**RESPONSE:** Prior to the completion of the audit, the Department completed and furnished this information. The Department is in the process of purchasing a general ledger system that will properly maintain these types of records. In the interim, the accounting office will utilize existing spreadsheet programs they have developed to maintain these subsidiary records.

**No Authorization for Retained Funds:**

**RECOMMENDATION:** We recommend that the Department obtain the required legislation or remit the unexpended funds to the State.

**RESPONSE:** The Department relied on the intent of the existing legislation that was originally included in fiscal year 1998 in Proviso 36.9 of the State Appropriations Act. The same Proviso 36.9 is included in the 1999 Appropriation Act which enables the Department to utilize motor carrier fees for the administration and enforcement of Articles 3 and 5, of Chapter 23 of Title 58. The Department will pursue having additional wording included with this proviso to specifically add the phrase "retain and carry forward" as these funds are critical to the continuing operations of the Department.

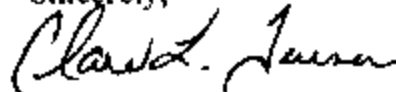
Other Management Letter Comments:

- **Cash balance closing package deficiency**  
**RESPONSE:** The Department concurs with this recommendation and all adjustments have been recorded appropriately.
- **Operating lease closing package deficiency**  
**RESPONSE:** This citing refers to a specific lease that was properly reported in all prior periods, but was purchased after June 30, 1999, which resulted in a change in the status of that one lease after that date. The Department recognizes the need to continue to comply with all reporting requirements related to this process.
- **System of receiving funds inadequate**  
**RESPONSE:** We concur with this finding and subsequent to the audit of the fiscal year ending June 30, 1999, DMV began addressing problems associated with off-line transactions and revenue collected for other agencies and/or entities. The customer services administrator has continued to work with the Department's information technology staff to eliminate the option of off-line transactions in field offices. DMV is currently working with DPS accounting to develop procedures and controls that will ensure a clear audit trail of revenue transactions from the point of collection with the tellers to the actual posting the Department's general ledger.  
  
Through Project Phoenix the Department of Motor Vehicles is taking immediate steps to update its system of controls and enhance the reliability of its computer system. Project Phoenix is an all-encompassing approach designed to provide new technology, to improve business processes, and to restructure and train personnel to adapt to a totally new business environment. Improved technology and hardware will allow DMV to process transactions with a clear audit trail and will eliminate the need for manual transactions.
- **Receipts not deposited timely**  
**RESPONSE:** The Department concurs and further recognizes the need to promptly complete the deposit of all funds collected. Additional procedures have been implemented to avoid delays in timely deposits.
- **Fixed Assets**  
**RESPONSE:** The Resource Management Office concurs and recognizes the importance of controlling all fixed assets and has reviewed existing procedures related to its property control and the timely update of all changes of locations and custodians. The Department will research the possibility of holding custodians accountable for misplaced or stolen items.
- **Missing documentation in employee personnel file**  
**RESPONSE:** The Employment Eligibility Verification Forms (I-9) could not be located for four employees. All four employees were hired after 1985 but prior to July 1, 1993. The Department of Transportation was unable to produce the I-9s in question. The procedures now in place ensure that every new employee completes an I-9.

The initial employee profile on a new employee is maintained in the Office of Human Resources. When it is replaced by an updated profile, the original is placed in the individual's respective personnel file.

We appreciate the efforts of the Rogers & Laban staff members in reviewing our records.

Sincerely,

A handwritten signature in cursive script, appearing to read "Clare L. Turner".

Clare L. Turner  
Chief Financial Officer