

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

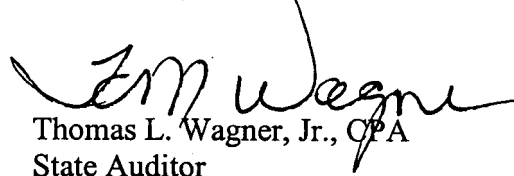
March 2, 2002

The Honorable Jim 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, 2000, 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/kss

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

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 2000

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

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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, 2000, 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 auditing standards generally accepted in the United States of America, 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. These statements are not intended to present fairly the financial position and results of operations of the State of South Carolina and/or its other agencies, institutions, departments, funds and component units in conformity with generally accepted accounting principles.

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, 2000, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23 to the financial statements, the Department discovered that certain revenues and expenditures were not recorded and that an error was made in the reporting of accrued compensated absences and related benefits. Errors were also made in the recording of certain receipts and disbursements in July 1999 attributable to the year ended June 30, 1999 resulting in the understatement of certain assets and liabilities. Prior period adjustments were made to correct these errors. Also, as discussed in Note 23, the Department determined that prior year financial statements needed to be adjusted to record certain fixed assets that were transferred from the South Carolina Department of Transportation (Transportation) pursuant to restructuring and to revise certain amounts due to Transportation that were recorded pursuant to and following restructuring.

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 December 4, 2001 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.

Rogers & Lalan, PA

December 4, 2001

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Capital Projects	Agency	General Fixed Assets	General Long-Term Debt
ASSETS AND OTHER DEBITS						
Cash and cash equivalents	\$ 50,850,330	\$ 2,440,428	\$ 8,090,465	\$ 2,422,585	\$	\$
Accounts receivable	688,559			2,968,944		
Accrued interest receivable	18,190	39,887	5,962			
Due from General Fund of the State	8,174,546					
Due from other State agencies	1,771,511			2,926,187		
Due from Federal Government		5,292,282				
Due from other funds	5,976,758			300,000		
Inventories	4,147,975					
Other assets				15,000		
Fixed assets					124,200,590	
Amount to be provided for retirement of general long-term debt						16,182,969
TOTAL ASSETS AND OTHER DEBITS	\$ 71,627,869	\$ 7,772,597	\$ 8,096,427	\$ 8,632,716	\$ 124,200,590	\$ 16,182,969
LIABILITIES, FUND EQUITY AND OTHER CREDITS						
LIABILITIES:						
Accounts payable	\$ 7,305,265	\$ 3,829,506	\$ 136,414	\$	\$	\$
Accrued salaries and related benefits	9,159,102	159,889				
Deferred revenue		2,462,385				
Due to the General Fund of the State	18,535,749	16,990				
Due to other State Agencies	13,293,320	1,303,827				
Due to other funds	300,000			5,976,758		
Retainages payable			163,179			
Amounts held for others				2,655,958		
Notes payable						2,276,227
Accrued compensated absences and related benefits						13,906,742
TOTAL LIABILITIES	48,593,436	7,772,597	299,593	8,632,716		16,182,969

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)

JUNE 30, 2000

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Capital Projects	Agency	General Fixed Assets	General Long-Term Debt
FUND EQUITY AND OTHER CREDITS:						
Investment in general fixed assets					124,200,590	
Fund balances:						
Reserved for capital projects			7,796,834			
Reserved for inventories	4,147,975					
Reserved for court fines	2,992,825					
Reserved for confiscated funds	340,177					
Reserved for weigh stations and highway safety resources	3,413,175					
Reserved for victim assistance	1,492,443					
Reserved for computer upgrade	2,801,647					
Reserved for total quality management	3,856					
Reserved for miscellaneous revenue	119,520					
Reserved for building fund	1,532,815					
Reserved for other restricted purposes	280,892					
Unreserved fund balance:						
Undesignated fund balance	5,909,108					
TOTAL FUND EQUITY AND OTHER CREDITS	<u>23,034,433</u>	<u>-</u>	<u>7,796,834</u>	<u>-</u>	<u>124,200,590</u>	<u>-</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$ 71,627,869</u>	<u>\$ 7,772,597</u>	<u>\$ 8,096,427</u>	<u>\$ 8,632,716</u>	<u>\$ 124,200,590</u>	<u>\$ 162,182,969</u>

See accompanying Notes to Financial Statements.

**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, 2000**

	General	Special Revenue	Capital Projects
REVENUES:			
State appropriations	\$ 137,688,962	\$	\$
Motor vehicle licenses	57,065,192		
Truck registration fees and penalties	59,245,768		
Federal grants		23,909,368	
Court fines and assessments	9,736,661		
Sales of goods and services	7,161,615		
Financial responsibility	3,358,922		
Sales of vehicles and equipment	777,495		
Vehicle size and weight violation fines	666,356		
Victim restitution	1,204,081		
Private detective and security licenses and fees	504,376		
Drug confiscations	1,140,809		
Motor carrier registrations and fees	4,417,006		
Building fund	1,532,815		
Interest/investment income	80,759	169,897	
Miscellaneous	612,838		
TOTAL REVENUES	285,193,655	24,079,265	
EXPENDITURES:			
General administration	18,118,840		298,464
Bureau of Protective Services	4,329,214		
State Highway Patrol	74,994,123	38,939	833,645
State Transport Police	10,530,320	1,315,536	233,952
Criminal Justice Academy	7,159,917	208,093	650,272
Hall of Fame	133,568		
Department of Motor Vehicles	42,636,176		747,567
Office of Safety and Grant Programs	1,495,354	22,355,149	
Allocations to other State Agency -South Carolina			
Transportation Infrastructure Bank	59,245,768		
Special items:			
Computer upgrade	7,198,353		
State Highway Patrol classes, vests and vehicles	5,337,635		
TOTAL EXPENDITURES	231,179,268	23,917,717	2,763,900
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	54,014,387	161,548	(2,763,900)
OTHER FINANCING SOURCES (USES):			
Operating transfers	(5,058,129)		5,058,129
Remitted to the General Fund of the State	(57,123,018)		
Indirect cost remitted to the General Fund of the State		(161,548)	
TOTAL OTHER FINANCING SOURCES (USES)	(62,181,147)	(161,548)	5,058,129
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(8,166,760)		2,294,229
INCREASE (DECREASE) IN RESERVE FOR INVENTORIES	(227,216)		
BEGINNING FUND BALANCES	31,428,409	- 0 -	5,502,605
ENDING FUND BALANCES	\$ 23,034,433	\$ - 0 -	\$ 7,796,834

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, 2000**

	Budgetary General Fund			Other Budgeted Funds			Total Budgeted Funds		
	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	\$ 72,670,672	\$ 72,301,204	\$ 369,468	\$ 11,528,583	\$ 10,397,483	\$ 1,131,100	\$ 84,199,255	\$ 82,698,687	\$ 1,500,568
Employer contributions	23,449,742	22,448,068	1,001,674	3,426,388	2,925,114	501,274	26,876,130	25,373,182	1,502,948
Other operating expenses	29,817,551	29,219,444	598,107	29,313,734	23,198,235	6,115,499	59,131,285	52,417,679	6,713,606
Permanent Improvements	2,210,605	1,994,605	216,000	8,276,933	2,686,211	5,590,722	10,487,538	4,680,816	5,806,722
Allocations to other entities:									
State agencies				4,815,767	5,429,024	(613,257)	4,815,767	5,429,024	(613,257)
Other entities				14,355,211	15,585,187	(1,229,976)	14,355,211	15,585,187	(1,229,976)
Special items:									
Total quality management	3,856		3,856				3,856		3,856
State Highway Patrol classes, vests and vehicles	325,919	325,919					325,919	325,919	
State Highway Patrol equipment	5,011,716	5,011,716					5,011,716	5,011,716	
Computer upgrade	10,000,000	7,198,353	2,801,647				10,000,000	7,198,353	2,801,647
Totals	<u>\$ 143,490,061</u>	<u>\$ 138,499,309</u>	<u>\$ 4,990,752</u>	<u>\$ 71,716,616</u>	<u>\$ 60,221,254</u>	<u>\$ 11,495,362</u>	<u>\$ 215,206,677</u>	<u>\$ 198,720,563</u>	<u>\$ 16,486,114</u>

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Carolina Department of Public Safety (Department) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America 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. An organization other than 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 is the State of South Carolina and the Department is reported as part of the State's primary government. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government entity and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The Department has determined it has no component units.

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, 2000

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 and institutions 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 reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations of only that portion of the fund and account groups of the State of South Carolina that is attributable to the transactions of the Department and do not include any other funds of the State of South Carolina.

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.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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

Governmental Fund Types

Governmental funds are 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.

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, truck registration fees and penalties, 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. Also, prior to fiscal year 1999, included in the motor vehicle registration 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 by the Department were remitted pursuant to Sections 56-3-660 and 56-3-670 of the South Carolina Code of Laws to the South Carolina Infrastructure Bank and for fiscal year 2000 and thereafter the percentage to be remitted increased to one hundred percent (100%).

The following Provisos of the 1999-00 Appropriations Act allow the Department to use, retain and carryover certain revenues that are earmarked for specific purposes:

36.2 Miscellaneous Revenue

Revenues from the sales of meals to employees, student locks and materials and legal manuals and other publications, postal reimbursements, third party commercial driver license testing, photo copying, sales of miscellaneous refuse and recyclable materials, tuition from military breathalyzer courses, coin operated telephones, fees for 911, coroner training, psychological screening, private college tuition, canteen operations and building management services, and regional and national marketing of television series shall be retained for budgeted operations for food services, expansion of the Department's educational television program, professional training, fees and dues, clothing allowances and other related services and any other programs the Director of the Department may deem necessary.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS: (CONTINUED)

JUNE 30, 2000

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

Governmental Fund Types (Continued)

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 to 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.

36.8 Motor Carrier Registration Fees

The fees collected were authorized to build and renovate weigh stations. Proviso 36.8 of the 2000-01 Appropriations Act authorize all unexpected funds from prior years collected under this proviso to be retained and carried forward by the Department.

36.13 Transfer of Funds for Fleet Rotation

The Department was authorized to transfer \$4,000,000 from earmarked funds to fund a fleet car rotation schedule. The transfer included \$3,000,000 from motor carrier registrations and fees, \$500,000 from vehicle size and weight violations fines and \$500,000 from cost recoveries from the sales of goods. The \$4,000,000 was expended as authorized.

36.14 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.

36.16 Transfer of Funds for Administrative Support

The Department was authorized to transfer \$2,000,000 from earmarked funds for administrative support. \$750,000 was transferred from motor carrier registrations fees; the remaining \$1,250,000 was not transferred.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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

Governmental Fund Types (Continued)

36.18 Transfer of Funds for Computer Needs

The Department was authorized to transfer \$2,000,000 from the earmarked funds for computer needs. \$1,700,000 was transferred from sales of goods and services and \$300,000 was transferred from vehicle size and weight violation fines.

Also, Section 56-3-840 of the South Carolina Code of Laws provides the revenues from delinquent registration and license penalties to be retained by the Department for its building fund for future construction.

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 are 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

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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

Governmental Fund Types (Continued)

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. 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. The special revenue fund includes revenues from federal grants from various federal agencies that are used 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 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.

The financial responsibility fund 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.

The 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.

The international fuel tax agreement fund 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. Also, pursuant to Section 56-11-500 of the South Carolina Code of Laws, the Department may assess the South Carolina Department of Transportation amounts necessary to cover the costs associated with administering and enforcing the laws that are not covered by the fuel tax.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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

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 – This group of accounts was established to account for all fixed assets of the Department. 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 fund type resources. Currently, these liabilities include accrued compensated absences and related benefits and the unpaid principal balances of 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. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. The Department considers revenues available if they are collected within 60 days after year-end. 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 and paid. Payments for insurance 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.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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

Operating transfers for all funds 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.

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.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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

Cash and Cash Equivalents (Continued)

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.

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 Department records and reports its deposits in the general deposit accounts at cost, and records 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 Department's special deposit accounts is posted to the Department account at the end of each month and is retained. Interest/investment earnings are allocated based on the percentage of the Departments accumulated daily interest receivable to the total income receivable of the pool. Reported 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.

For credit risk information pertaining to the State's internal cash management pool including investments held by the pool, see the deposits disclosures in Note 2.

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 at the time of acquisition. At year-end, the Department held no short-term investments.

Accounts Receivable

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

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 and Related Benefits

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

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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

Compensated Absences and Related Benefits (Continued)

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, 2000. 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 to the General Fund of the State recoveries from federal grants and awards whose annual award is in excess of \$200,000.

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.

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.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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

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 of assets, liabilities, revenues and expenditures and affect disclosure of contingent assets and liabilities at the balance sheet date of the financial statements. 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. In addition, the allocation to the South Carolina Transportation Infrastructure Bank is 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	\$ 231,179,268	\$ 23,917,717	\$ 0	\$ 0
Fund reclassification:				
State appropriation	(138,097,498)		138,097,498	
Federal grants		(23,917,717)		23,917,717
Other	(33,836,002)			33,836,002
Unbudgeted:				
Allocation to other State Agency	(59,245,768)			
Transfers of funding reported as expenditures on budgetary basis			1,994,605	2,686,211
Net accruals:				
Personal services and employer contributions			(1,592,794)	(218,676)
Expenditures on legal basis	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 138,499,309</u>	<u>\$ 60,221,254</u>

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.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 3. STATE APPROPRIATION: (CONTINUED)

The 1999-2000 original appropriation is the Department's base budget amount presented in the General Funds column of Section 36 of Part 1A of the Appropriation 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, 2000:

Original Appropriations	\$117,993,640
State Budget and Control Board Allocations:	
Employee Pay Increases and Related Benefits (Proviso 63C.10)	2,922,411
Deferred Compensation Program 401K (Proviso 72.48)	143,401
Supplemental appropriations from fiscal year surplus State General Fund revenues (Part IV of 1999-2000 Appropriations Act) designated for computer upgrade	1,000,000
Supplemental appropriations from fiscal year 1998-99 surplus State General Fund revenues designated for computer upgrade (Joint Resolution R201/H3697, Section 1)	9,000,000
Supplemental appropriations from fiscal year 1998-99 surplus State General Fund revenues designated for trooper classes, vehicles and equipment (Joint Resolution R201 H3697, Section 1)	5,011,716
Transfer In:	
From South Carolina Department of Corrections for match requirement for Federal Justice Department grant	<u>25,000</u>
Revised Appropriations – Legal Basis	136,096,168
Funding for Net Accrual Adjustments	<u>1,592,794</u>
State Appropriation Revenue – Accrual Basis	<u>\$137,688,962</u>

Proviso 72.48 of the 1999-2000 Appropriations Act authorizes each agency to carry forward unspent State General Fund appropriations from the 1998-1999 fiscal year into the 1999-2000 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 \$7,296,748 to this fiscal year. In addition, the Department brought forward \$3,856 for total quality management under proviso 63A.2 of the 1999-2000 Appropriations Act and \$325,919 of capital reserve fund appropriation for Highway Patrol vests and vehicles as provided by Proviso 73.1 of the 1999 Appropriations Act.

The Department carried forward \$2,185,249 of appropriations from 1999-2000 to the 2000-2001 fiscal year pursuant to Proviso 72.44 of the 2000-2001 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, 2000. Proviso 63A.2 of the 1999-2000 Act authorized these funds to be used in fiscal year 2001 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.

Also, authorized by Proviso 73.1 of the 1999-2000 Appropriations Act, the Department carried forward unspent funds from its Capital Reserve Fund Appropriations to fiscal year 2001 in the amounts of \$2,801,647 for the computer upgrade.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 4. DEPOSITS:

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

<u>Balance Sheet</u>	
Cash and cash equivalents	<u>\$ 63,803,808</u>
<u>Footnotes</u>	
Cash on hand	\$ 70,630
Deposits held by State Treasurer	63,498,178
Other deposits	<u>235,000</u>
Total	<u>\$ 63,803,808</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. 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. 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.

Cash and cash equivalents reported on the balance sheet include \$42,407 in unrealized depreciation as of June 30, 2000. The interest/investment income reported in the statement of revenues, expenditures and changes in fund balances for the General Fund includes an unrealized depreciation loss of \$44,255 for the year ended June 30, 2000.

Other Deposits

Funds not on deposit with the State Treasurer as of June 30, 2000 are Agency Funds with a carrying amount and bank balance of \$235,000. These funds are fully insured.

NOTE 5. INVENTORIES:

The Department had inventories at June 30, 2000 totaling \$4,147,975. 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. Inventories are valued at cost using the weighted average costs or the first in-first out method of accounting using the purchases method.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 6. PROPERTY AND EQUIPMENT:

A summary of changes in general fixed assets for the fiscal year ended June 30, 2000 follows:

	Land and <u>Improvements</u>	Buildings and <u>Improvements</u>	<u>Equipment</u>	Construction in <u>Progress</u>	<u>Totals</u>
Beginning balances, as previously reported	\$	\$ 20,997,791	\$ 61,849,392	\$ 228,027	\$ 83,075,210
Prior period adjustment (A)	<u>841,239</u>	<u>25,891,331</u>			<u>26,732,570</u>
Beginning balances, as restated	841,239	46,889,122	61,849,392	228,027	109,807,780
Additions			20,820,407	836,516	21,656,923
Deletions			(7,264,113)		(7,264,113)
Transfer of completed projects		<u>986,197</u>		<u>(986,197)</u>	
Total general fixed assets	<u>\$ 841,239</u>	<u>\$ 47,875,319</u>	<u>\$ 75,405,686</u>	<u>\$ 78,346</u>	<u>\$ 124,200,590</u>

(A) Ownership in confirmed fixed assets was confirmed pursuant to an agreement made January 19, 2001 with the South Carolina Department of Transportation to resolve various restructuring issues. A prior period adjustment was required to restate general fixed assets as of June 30, 1999. See Note 23.

NOTE 7. CONSTRUCTION COSTS AND COMMITMENTS:

For the fiscal year ended June 30, 2000, the Department expended \$2,763,900 through its capital projects fund. \$836,516 was expended for projects that meet the Department's capitalization policy and \$1,927,384 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 \$4,981,000 of which approximately \$4,903,000 was unexpended at June 30, 2000. The projects in progress which will not be capitalized over the next two years have estimated total costs of approximately \$7,366,000 of which approximately \$2,993,000 was unexpended at June 30, 2000.

As of June 30, 2000, the Department had commitments of approximately \$89,000 for future expenditures for the projects in progress that are to be capitalized and \$254,000 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.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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 \$5,058,129 were made from the general fund to the capital projects fund for the funding of capital projects. The \$5,058,129 includes \$1,994,605 of State General Fund appropriations and \$3,063,524 from other 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 2001 through 2005. 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.

Rental expenditures under all operating leases aggregated approximately \$1,630,000 for the fiscal year ended June 30, 2000.

The following is a schedule by years of future minimum rental payments at June 30, 2000 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>
2001	\$ 282,608
2002	271,807
2003	166,177
2004	106,100
2005	<u>18,269</u>
Total	<u>\$ 844,961</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, 2000 were approximately \$263,000. The Department's leases for these vehicles are renewed annually.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 12. CHANGES IN GENERAL LONG-TERM DEBT:

A summary of changes in general long-term debt for the year ended June 30, 2000 follows:

	Balances, <u>July 1, 1999</u>	<u>Increases</u>	<u>Decreases</u>	Balances, <u>June 30, 2000</u>
Notes payable to the South Carolina Department of Transportation	\$ 3,634,674 (A) \$		\$1,358,447	\$ 2,276,227
Accrued compensated absences and related benefits	<u>12,332,975</u> (B)	<u>1,573,767</u> (C)	_____	<u>13,906,742</u>
Total general long-term debt	<u>\$15,967,649</u>	<u>\$1,573,767</u>	<u>\$1,358,447</u>	<u>\$ 16,182,969</u>

(A) As restated for prior period adjustment- see Note 23.

(B) As restated for prior period adjustment- see Note 23.

(C) The change in accrued compensated absences and related benefits is reported at net since details to support the gross increases and decreases are not available.

NOTE 13. NOTES PAYABLE:

The Department entered into note agreements with the South Carolina Department of Transportation for goods and services purchased during 1994 and 1995 on August 25, 1995 for \$8,839,817 and on July 18, 1996 for \$897,867. Through June 30, 2000 \$5,672,662 and \$554,565 had been paid on the two note agreements leaving balances of \$3,167,155 and \$343,302. A settlement agreement to resolve certain restructuring issues was entered into January 19, 2001 by the two agencies wherein the balances owed on the two note agreements as of August, 2000 was reduced by \$1,234,230. The Department made the scheduled payments to the South Carolina Department of Transportation for July and August, 2000 totaling \$226,408. This resulted in the combined balances owed on the note agreements at June 30, 2000 after the \$1,234,230 adjustment of \$2,276,227 and a balance of \$2,049,819 as of August 31, 2000 after the payments of \$226,408. Payments on the \$2,049,819 are to be deferred until such time as the Department of Transportation purchases Public Safety's 35% interest in the office building and lot located at 915 Park Street, Columbia, South Carolina – See Note 22.

Installment payments made on the \$8,839,817 note agreement during the current fiscal year totaling \$1,200,000 were reported in the general fund expenditures for the State Highway Patrol.

Installment payments made on the \$897,867 note agreement during the current fiscal year totaling \$158,447 were reported in the general fund expenditure for the Division of Motor Vehicles.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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, 2000 follows:

	Balances, July 1, 1999	Additions	Deductions	Balances, June 30, 2000
TOTAL – ALL AGENCY FUNDS:				
ASSETS:				
Cash and cash equivalents	\$ 1,987,338	\$ 4,823,740	\$ 4,388,493	\$ 2,422,585
Accounts Receivable		2,968,944		2,968,944
Due from other State agency (SC Department of Transportation)		2,926,187		2,926,187
Due from Department's General Fund		300,000		300,000
Other assets	15,000			15,000
Total assets	<u>\$ 2,002,338</u>	<u>\$ 11,018,871</u>	<u>\$ 4,388,493</u>	<u>\$ 8,632,716</u>
LIABILITIES:				
Due to other State Agency (SC Department of Transportation)	\$ 712,427	\$	\$ 712,427	\$
Due to the Department's General Fund		5,976,758		5,976,758
Amounts held for others	1,289,911	2,915,926	1,549,879	2,655,958
Total liabilities	<u>\$ 2,002,338</u>	<u>\$ 8,892,684</u>	<u>\$ 2,262,306</u>	<u>\$ 8,632,716</u>

A summary of changes in total assets and total liabilities for each agency fund for the fiscal year ended June 30, 2000 follows:

	Balances, July 1, 1999	Additions	Deductions	Balances, June 30, 2000
FINANCIAL RESPONSIBILITY:				
ASSETS:				
Cash and cash equivalents	\$ 795,935	\$ 195,702	\$ 124,561	\$ 867,076
LIABILITIES:				
Amounts held for others	\$ 795,935	\$ 195,702	\$ 124,561	\$ 867,076
SELF-INSURANCE:				
ASSETS:				
Cash and cash equivalents	\$ 310,000	\$	\$ 75,000	\$ 235,000
Other assets	15,000			15,000
Total assets	<u>\$ 325,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 250,000</u>
LIABILITIES:				
Amounts held for others	\$ 325,000	\$ -	\$ 75,000	\$ 250,000
EVIDENCE:				
ASSETS:				
Cash and cash equivalents	\$ 100,335	\$ -	\$ -	\$ 100,335
LIABILITIES:				
Amounts held for others	\$ 100,335	\$ -	\$ -	\$ 100,335

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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

	<u>Balances, July 1, 1999</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances, June 30, 2000</u>
DRIVER RECORD DEPOSITS:				
ASSETS:				
Cash and cash equivalents	\$ <u>56,520</u>	\$ <u>-</u>	\$ <u>340</u>	\$ <u>56,180</u>
LIABILITIES:				
Amounts held for others	\$ <u>56,520</u>	\$ <u>-</u>	\$ <u>340</u>	\$ <u>56,180</u>
INTERNATIONAL FUEL TAX AGREEMENT:				
ASSETS:				
Cash and cash equivalents	\$ 712,427	\$ 4,602,956	\$ 4,162,709	\$ 1,152,674
Accounts Receivable		2,968,944		2,968,944
Due from other State Agency (SC Department of Transportation)		2,926,187		2,926,187
Due from Department's General Fund		<u>300,000</u>		<u>300,000</u>
Total assets	\$ <u>712,427</u>	\$ <u>10,798,087</u>	\$ <u>4,162,709</u>	\$ <u>7,347,805</u>
LIABILITIES:				
Due to other State Agency (SC Department of Transportation)	\$ 712,427	\$	\$ 712,427	\$
Due to Department's General Fund		5,976,758		5,976,758
Amounts held for others		<u>2,695,142</u>	<u>1,324,095</u>	<u>1,371,047</u>
Total liabilities	\$ <u>712,427</u>	\$ <u>8,671,900</u>	\$ <u>2,036,522</u>	\$ <u>7,347,805</u>
DUAL EMPLOYMENT:				
ASSETS:				
Cash and cash equivalents	\$ <u>12,121</u>	\$ <u>25,082</u>	\$ <u>25,883</u>	\$ <u>11,320</u>
LIABILITIES:				
Amounts held for others	\$ <u>12,121</u>	\$ <u>25,082</u>	\$ <u>25,883</u>	\$ <u>11,320</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 as part of its mission collected revenues from motor vehicle license fees and other sources totaling \$57,123,018, that were remitted to the General Fund of the State. Of the \$57,123,018, \$38,587,269 was remitted to the General Fund of the State through June 30, 2000 and \$18,535,749 was due to the General Fund of the State as of June 30, 2000 of which \$10,842,415 was remitted in July, 2000. The unremitted \$7,693,334 is comprised of revenues from motor vehicle license fees which were misclassified in the Department's records. \$5,976,758 was classified as international fuel tax and deposited into the Agency Fund (International Fund Tax) account and \$1,716,576 was classified as truck registration fees and penalties and remitted to the South Carolina Transportation Infrastructure Bank. The receivable amounts are shown in the Department's General Fund balance sheets as follows: \$5,976,758 as due from other funds (Agency Fund) and \$1,716,576 due from other State Agency (South Carolina Transportation Infrastructure Bank).

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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

The Department received and recorded revenues of \$59,245,768 from truck registration fees and penalties that were remitted to the South Carolina Transportation Infrastructure Bank in accordance with Sections 56-3-660 and 56-3-670 of the South Carolina Code of Laws for the fiscal year 2000. \$8,553,812 of the \$59,245,768 was remitted subsequent to year-end and is included in Due to Other State Agencies on the balance sheet. Also, \$1,716,576 of motor vehicle license fees were classified as truck transportation fees in error and remitted to the South Carolina Transportation Infrastructure Bank. The \$1,716,576 is shown on the Department's balance sheet as an asset Due from other State Agencies. In addition, \$54,935 is due from various state agencies for security services.

As of June 30, 2000, the Department owed the South Carolina Department of Revenue \$4,696,488 for unremitted sales tax and other fees and owed the South Carolina Department of Education \$33,742 for its share of the sale of certain license plates. These amounts are reported on the balance sheet as Due to Other State Agencies.

The Department purchased and paid for services from the South Carolina Department of Corrections approximately \$1,748,700 for printing, production of license plates, the cleaning and maintenance of the grounds and buildings, office supplies, office and modular equipment and electricity.

The Department purchased and paid for services from the South Carolina Educational Television Commission approximately \$214,300 for an educational series entitled "Crime to Court Series."

The Department purchased and paid for services from the South Carolina Law Enforcement Division approximately \$130,500 for physical exams for the Highway Patrol personnel and for teleconferencing.

The Department purchased and paid for services from the University of South Carolina approximately \$71,400 for computer consulting contracts for the Criminal Justice Academy and the Phoenix project. Also the University gathers statistical information for various grant studies.

The Department purchased and paid for goods and services from various other State agencies approximately \$244,800.

The approximately \$1,303,800 due to other State agencies in the special revenue fund represents amounts paid subsequent to fiscal year end for expenditures under Federal grants.

Payments were received from the following State Agencies for goods and services as follows:

- South Carolina Commission for the Blind of approximately \$77,800 for security services.
- South Carolina Department of Health and Environmental Control of approximately \$575,600 for security services.
- South Carolina Department of Revenue of approximately \$75,000 for the sales of listing and labels and security services.
- South Carolina Department of Labor, Licensing and Regulation of approximately \$54,400 for security services.
- South Carolina Budget and Control Board- Office of Information Resources of approximately \$96,700 for security services.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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

- South Carolina Department of Probation, Parole and Pardon of approximately \$75,000 for security services.
- South Carolina Department of Justice of approximately \$72,900 for salary and fringe for an employee on loan.
- South Carolina State Law Enforcement Division of approximately \$41,700 for the sale of goods and services, reimbursement for salaries and data processing services.
- Other state agencies of approximately \$7,000 of miscellaneous receipts.

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.

NOTE 16. OTHER FUND BALANCE RESERVATIONS:

\$280,892 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 are carried forward and are reported as reservations of fund balances under reserved for other restricted purposes.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 17. CONTINGENT LIABILITIES:

The various federal programs administered by the Department for the fiscal year 2000 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.

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. 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 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.

The State appropriated funds from unspent fiscal year 1998-1999 State General Fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriations Act required State agencies and institutions to match certain 401(k) contributions by employees whose salaries are funded from its applicable revenue sources. The appropriated 401(k) match is limited to \$300. To be eligible an employee must have met the following eligibility requirements:

1. The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999 and was an employee on the date of distribution, and
2. The employee established a 401(k) account with annual contributions equal to the match (this requirement is not required for employees earning less than \$20,000).

In April, 2000 the Department made contributions from applicable funding sources of \$118 in total to the 401(k) account of each eligible State employee for a total of \$161,306 for all of its employees. The expense is included as employer contribution expenses within each applicable operating expense category.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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 21,000 State retirees met these eligibility requirements at June 30, 2000.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$7,291,000 for the year ended June 30, 2000. As discussed in Note 20, the Department paid approximately \$1,875,000 applicable to the 1.95 percent surcharge from July 1, 1999 to December 31, 1999 and the 2.16 percent surcharge from January 1, 2000 to June 30, 2000 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.

NOTE 20. PENSION PLANS:

The majority 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.

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.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 20. PENSION PLANS: (CONTINUED)

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 6 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage. Effective January 1, 2000 the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent and the employer contribution rate became 9.71 percent to cover the cost of providing such services. The Department's actual contributions to the SCRS for the years ended June 30, 2000, 1999 and 1998 were approximately \$2,861,000 \$2,650,000 and \$2,500,000 respectively and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$58,000 in the current fiscal year 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 the 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 fireman 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 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, 1999, the employer contribution rate became 12.25 percent which, as for the SCRS, included the 1.95 percent surcharge. Effective January 1, 2000 the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent and the employer contribution rate became 12.46 percent to cover the cost of providing such services. The Department's actual contributions to the PORS for the years ended June 30, 2000, 1999 and 1998 were approximately \$4,349,000, \$4,100,000 and \$3,850,000 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 \$86,000 and accidental death insurance

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 20. PENSION PLANS: (CONTINUED)

contributions of approximately \$86,000 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

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave (at a rate of 20 days equals one month of service).

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.

An Act passed in the General Assembly session, amended Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000, with some provisions effective January 1, 2001. The amendment enacted the Teacher and Employee Retention Incentive Program, reduced from thirty to twenty-eight years the creditable service required to retire at any age without penalty and made other changes to the SCRS.

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 and 20% coinsurance on real property and its contents. 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 losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductible.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 21. RISK MANAGEMENT: (CONTINUED)

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. Reinsurance permits partial recovery of losses from reinsurance but the ISF remains primarily liable. 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, 2000 and 1999 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, 2000	<u>\$ 16,054</u>	<u>\$ 330,553</u>	<u>\$ 327,108</u>	<u>\$ 19,499</u>
June 30, 1999	<u>\$ 5,478</u>	<u>\$ 339,141</u>	<u>\$ 328,565</u>	<u>\$ 16,054</u>

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 22. SUBSEQUENT EVENT AND CONTINGENCIES:

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.

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.

The Department has recorded insurance premium expenditures in the applicable program expenditure categories of the General Fund.

The Department and the South Carolina Department of Transportation (Transportation) entered into an agreement January 19, 2001 to resolve various restructuring issues. The agreement provided for Transportation to purchase the Department's 35% interest in the office building and parking lot located at 955 Park Street, Columbia, S.C. for \$6,300,000 on or before December 31, 2003. Until sold, the Department continue to occupy the building and reimburse Transportation for 35% of the utilities and other costs related to the property beginning January 1, 2001. The utilities and other costs for the period January 1, 2000-June 30, 2001 totaled \$238,347 and are to be used as an offset against the purchase price at the time of purchase. Beginning July 1, 2001, the Department is to reimburse Transportation for these costs.

In connection with the allocation of assets pursuant to the January 19, 2001 agreement between the Department and Transportation, as surveys, legal, and other requirements are met to the satisfaction of both agencies, quit claim deeds are to be prepared and recorded on the applicable county records. Both agencies are to execute the deeds necessary to make the property transfers and to share equally in the cost of preparation and recording of such deeds and plats as may be necessary to effectuate the transfers.

NOTE 23. PRIOR PERIOD ADJUSTMENTS:

The following adjustments were required to be made to various balance sheet and operating statement accounts as of and for the year ended June 30, 1999:

1. The Department collects revenues from truck registration fees and penalties and remits these revenues to the South Carolina Transportation Infrastructure Bank. For the fiscal year ended June 30, 1999 these revenues and the related expenditure were not reflected in the Department's financial statements. There was no effect on the Department's fund balance as of June 30, 1999. The amount for the fiscal year ended June 30, 1999 was approximately \$24,000,000.
2. Certain disbursements to vendors, transfers between funds, and remittances to other state agencies and to the General Fund of the State which occurred in July, 1999 were reflected as being disbursed as of June 30, 1999 resulting in the understatement of certain assets and liabilities in the general fund.
3. The Department revised its procedures to correct a data processing error in the calculation of accrued compensated absences and related benefits. A prior period adjustment was required in the general long-term debt account group.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 23. PRIOR PERIOD ADJUSTMENTS: (CONTINUED)

4. The Department and the South Carolina Department of Transportation (Transportation) entered into an agreement on January 12, 2001 to resolve various financial and property issues resulting from restructuring which required the following adjustments:

- Various fixed assets totaling \$26,732,570 were transferred from Transportation. The adjustment was recorded in the General Fixed Assets Account Group.
- An adjustment was made to reduce notes payable to Transportation by \$1,234,230 in the Long-Term Debt Account Group

The required changes and reasons therefor as explained above were accounted as follows:

	Reason #	As Previously Reported	Increase (Decrease)	As Restated
<u>General Fund:</u>				
Assets:				
Cash	2	\$ 30,982,719	\$ 24,831,780	\$ 55,814,499
Accounts receivable	2	\$ 380,090	\$ 7,488,594	\$ 7,868,684
Liabilities:				
Accounts payable	2	\$ 3,586,054	\$ 3,118,526	\$ 6,704,580
Due to other State agencies	2	\$ -	\$ 17,398,850	\$ 17,398,850
Due to General Fund of the State	2	\$ -	\$ 11,802,998	\$ 11,802,998
Revenues:				
Truck registration fees and penalties	1	\$ -	\$ 24,006,743	\$ 24,006,743
Expenditures:				
Allocation to State Agency				
South Carolina Transportation				
Infrastructure Bank	1	\$ -	\$ 24,006,743	\$ 24,006,743
<u>General Fixed Assets Account Group:</u>				
Land and improvements	4	\$ -	\$ 841,239	\$ 841,239
Buildings and improvements	4	\$ 20,997,791	\$ 25,891,331	\$ 46,889,122
Investment in general fixed assets	4	\$ 83,075,210	\$ 26,732,570	\$ 109,807,780
<u>General Long-Term Debt Account Group:</u>				
Assets				
Amount to be provided for retirement of general long-term debt	3 and 4	\$ 17,101,606	\$ (1,133,957)	\$ 15,967,649
Liabilities:				
Note payable to the South Carolina Department of Transportation	4	\$ 4,868,904	\$ (1,234,230)	\$ 3,634,674
Accrued compensated absences and related benefits	3	\$ 12,232,702	\$ 100,273	\$ 12,332,975

NOTE 24. UNFAVORABLE BUDGET VARIANCES

The unfavorable budget variances shown on the Statement of Expenditures – Budget and Actual – Total Budgeted Funds under allocations to other entities results from additional accruals recorded by the Department subsequent to year-end.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
U.S. Department of Justice			
Direct Programs:			
Juvenile Accountability Incentive Block Grants	16.523	\$ 979,689	\$ 916,510
Juvenile Justice and Delinquency Prevention Allocations to States	16.540	1,138,212	986,769
Title V - Delinquency Prevention Program	16.548	254,814	254,814
Part E - State Challenge Activities	16.549	264,427	264,427
State Justice Program for Statistical Analysis Centers	16.550	60,320	
Crime Victim Assistance	16.575	4,249,344	4,088,455
Byrne Formula Grant Program	16.579	7,215,860	6,936,983
Violence Against Women Formula Grants	16.588	2,213,279	2,036,945
Grants to Encourage Arrest Policies	16.590	37,704	
Local Law Enforcement Block Grant Program	16.592	380,676	369,351
Residential Substance Abuse Treatment for State Prisoners	16.593	887,166	881,011
State Identification Systems Grant Program	16.598	203,187	203,187
Bullet Proof Vest Program	16.607	65,605	65,605
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>17,950,283</u>	<u>17,004,057</u>
U.S. Department of Transportation			
Direct Programs:			
Motor Carrier Safety	20.217	1,363,984	
National Motor Carrier Safety	20.218	15,825	
State and Community Highway Safety	20.600	2,298,488	1,629,399
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	146,001	137,086
Safety Incentive Grants for use of Seatbelts	20.604	54,026	546
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>3,878,324</u>	<u>1,767,031</u>
U.S. Department of Energy			
Direct Program:			
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: State and Tribal Concerns, Proposed Solutions	81.106	19,457	
Federal Emergency Management Agency			
Passed through SC Adjutant General's office:			
Public Assistance Grants	83.544	231,346	
TOTAL FEDERAL ASSISTANCE		<u>\$ 22,079,410</u>	<u>\$ 18,771,088</u>

NOTE: The Schedule of Expenditures of Federal Awards includes the Federal grant activity of South Carolina Department of Public Safety and has been prepared on the cash basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



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, 2000, and have issued our report thereon dated December 4, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 violations of state law as noted on pages 43 and 44.

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 43 and 44.



This report is intended solely for the information and use of the Governor of the State of South Carolina, the Department's management, 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.

Rogers + Lalor PA

December 4, 2001



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, 2000. 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 auditing standards generally accepted in the United States of America; 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, 2000.

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 solely for the information and use of the Governor of the State of South Carolina, the 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.

Rogers + Lalan, PA

December 4, 2001

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. An unqualified opinion dated December 4, 2001 on the financial statements of the Department for the year ended June 30, 2000 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.

Federal Award Programs:

4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. There were no findings during the audit that are required to be reported under Section .510(a) of the OMB Circular A-133.
6. The major programs of the Department are as follows:

<u>CFDA #</u>	<u>Program</u>
16.523	Juvenile Accountability Incentive Block Grants
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

7. The dollar threshold used to distinguish between Type A and Type B programs was \$662,382.
8. 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.

00-1 CASH RECEIPTS AND CASH RECONCILIATIONS

Condition: Our testing disclosed several deficiencies in the coding and recording of cash receipts and that monthly cash reconciliation's are not being timely and accurately prepared for the various accounts of the Department.

Also, the Department reported an incorrect amount of cash for the certificates of deposit in the Agency Fund on its closing package.

A finding similar finding was included in the prior year management letter.

Cause: The Department personnel assigned this responsibility are not preparing the cash reconciliation's accurately and timely. Also, there is a lack of follow-up and supervision by senior management.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2000

Effect: The deficiencies noted resulted the following:

- A \$75,000 certificate of deposit held in the Agency Funds as of the prior year end was redeemed during the current fiscal year and a letter of credit was accepted to notify the collateral requirements. The accounting personnel did not make an entry to record the withdrawal and none of them were aware the withdrawal had been made. The cash balance for the certificate of deposits that was reported in the Department's closing package was overstated \$75,000.
- A journal entry was made in July 1999 in error to record a deposit of \$64,375 to the Evidence Funds (Agency Fund). This deposit was included in fiscal year 1999 receipts from July 1999- December, the Department's records reflected \$64,375 more cash than was on deposit.

An adjusting entry was made by the Department in January, 2000 to correct the July, 1999 entry. This entry was made backwards resulting in the Department's records reflecting \$128,750 more cash than was on deposit.

Since cash reconciliation's were not prepared, the above errors were not detected until detected by the auditors.

- Revenues from motor vehicle license fees totaling \$5,976,758 were classified in error as revenues from the International Fuel Tax and credited to that account in the Agency Fund. Of this amount \$2,126,187 was remitted to the South Carolina Department of Transportation.
- Revenues from motor vehicle license fees totaling \$1,716,576 were classified in error as truck registration fees and remitted to the South Carolina Transportation Infrastructure Bank (the Bank).

Adjustments were made to correct all of the above deficiencies.

Criteria: Section 2.1.7.20 of the Statewide Accounting and Reporting System Manual (STARS Manual) and good accounting and business practices and policies require cash reconciliation's to be prepared timely and accurately. Also, 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.

Recommendation:

We recommend that the Department:

- Reconcile all cash accounts in the Department's accounting system to the Comptroller General's account balances within 30 days after each month end and adopt a reconciliation format that clearly reflects the transit items, timing difference items and items not yet recorded by the Department. No items more than 30 days old should appear on the reconciliations. Also, a designated senior management staff person should review and approve all of the cash reconciliations and follow-up to ensure timely preparation if the reconciliations are not available for review within 30 days after each month end. The review should also ensure that all reconciling items on the current month's reconciliation that are over 30 days old are cleared.
- Prepare and record required adjusting journal entries in the Department's accounting system for all unrecorded transactions and error corrections in a timely manner.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

Recommendation: (Continued)

- Report the correct cash balances in the closing package as of each year end.
- Exercise more care in the coding of revenues (primarily motor vehicle license fees) to ensure they are properly credited and timely remitted to the State General Fund.

00-2 DEFICIENCY IN CALCULATION OF LIABILITY FOR ACCRUED COMPENSATED ABSENCES AND RELATED BENEFITS

Condition: Our testing of the leave liability report that supported the accrued holiday leave amount reported in the closing package showed that the report was incorrectly prepared. The amounts calculated and reported in the year-end closing packages were misstated by \$246,875 as of June 30, 2000 and \$100,273 as of June 30, 1999.

Cause: The Department corrected the methodology for accounting for accrued holiday leave on May 31, 1999 using the 90-day rule to establish holiday leave carry over. It appears that the accounting personnel were not aware the Department was not correctly applying State regulations for calculating holiday leave.

Effect: The schedules supporting the Departments liability for accrued compensated absences and related benefits were understated \$246,875 at June 30, 2000 and \$100,273 at June 30, 1999.

Criteria: Generally accepted accounting principals and good business practices require that the calculations that support liabilities of the Department be correct and be made in accordance with state laws and regulations.

Recommendation: We recommend that the Department's accounting personnel be timely advised of all procedural changes that result from policies established internally or externally and required to be implemented.

00-3 IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITAL PROJECTS

Condition: The Department's construction in progress schedule that was prepared by the Department as of June 30, 2000 did not include budgets for the projects, did not correctly reflect expenditures from inception through June 30, 2000 for incomplete projects, had mathematical errors and outstanding commitments were not correct.

A finding that included deficiencies regarding accounting for capital projects was included in the prior year's management letter.

Cause: The Department is not maintaining adequate and complete accounting records that support year-end balances that are required for financial statement disclosures.

Effect: The accumulation of inaccurate and incomplete financial data to support capital projects could result in inaccurate and incomplete financial information being disclosed in the Department's audited financial statements.

Criteria: Generally accepted accounting principals and good business practices require the Department to accumulate and maintain accurate and complete records to support year end balances for capital projects and the financial transactions for the fiscal year.

Recommendations: We recommend that the Department maintain accurate and complete records necessary to prepare the schedule of construction projects completed and in progress. The schedule should include budget for all projects, a breakdown of closed and incomplete projects reported as to whether they are to be capitalized or not, expenditures for the current fiscal year and from inception to date for incomplete projects, and the correct amount of outstanding commitments.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

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, 2000

00-4 SYSTEM OF RECEIVING FUNDS INADEQUATE

Condition: There are deficiencies in the operation of Motor Vehicle Division of the Department which 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 that is 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.

Cause: The Motor Vehicle Division has an antiquated system for receiving and processing revenues.

Effect: The procedures being utilized are susceptible to errors being made and undetected and to possible abuse.

Criteria: Good internal controls and good business practices require an updated system with an audit trail for receiving and processing funds.

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

00-5 RECEIPTS NOT DEPOSITED TIMELY

Condition: Our tests of receipts disclosed that two of the twenty-five items tested were not deposited timely.

The same finding was included in the prior year's management letter.

Cause: There was not an apparent reason for not timely depositing its cash receipts.

Effect: The failure to record and deposit cash receipts on a timely basis results in a loss of interest income to the Department. Also, there is a potential for loss of the asset value if recovery is not successful.

Criteria: Proviso 72.1 of the 2000 Appropriation act requires all receipts received by a State agency to be deposited at least once each week.

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

00-6 FIXED ASSETS DEFICIENCY

Condition: Our tests of the physical existence of fixed assets resulted in one item not being located by the Department. The item was a digital modem.

The same finding was included in the prior year's management letter.

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

Effect: The failure to locate items included the fixed asset listing could result in shrinkage's without supporting documentation.

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

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

**OTHER MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

00-6 FIXED ASSETS DEFICIENCY (CONTINUED)

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

00-7 INSURANCE COVERAGE

Condition: The Department is not properly updating the amounts of insurance coverage for its buildings owned throughout the State based on the annual replacement cost and depreciation report issued by the South Carolina Insurance Reserve Fund the Agency's listing of historical cost of the buildings.

Cause: There was not an apparent reason the insurance coverage for the Department was not reviewed and updated.

Effect: The Department could realize losses from not having adequate coverage or by paying excess premiums if the properties are insured for more than their current value.

Criteria: Good business practices require the Department to review and update insurance coverage's in force at least annually.

Recommendation: We recommend that the Department utilize the current annual replacement cost and depreciation report issued by the South Carolina Insurance Reserve Fund and the agency listing of building cost in determining the correct amounts of insurance coverage.

00-8 FAILURE TO DISCLOSE REQUIRED INFORMATION FOR PRINTED PUBLICATION

Condition: The Department did not include the required disclosures in accordance with State law for a printed publication.

Cause: There does not appear to be an apparent reason for the disclosure omission.

Effect: The Department did comply with State law.

Criteria: Section 72.43 of the 1999-2000 Appropriations Act requires all state agencies using appropriated funds to disclose the total printing costs, the number of documents printed and costs per unit on the last page of all bound publications.

Recommendations: We recommend that the Department comply with State law and include the required disclosure for all printed publications.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY
STATUS OF PRIOR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2000

During our current audit, we reviewed the status of corrective action taken on the management letter comments reported in our report on the financial statements of the Department dated February 3, 2000, resulting from the audit of the financial statements for the year ended June 30, 1999. We found that adequate corrective action has been taken for the following management letter comments.

- Subsidiary Listing Needed to Support Buildings and Improvements
- No Authorization For Retained Funds
- Operating Lease Closing Package Deficiency
- Missing Documentation in Employee Personnel File

The other findings are repeated in the current year's management letter comments in the schedule of Findings and Questioned Costs and other management letter comments.

MANAGEMENT'S RESPONSE

APPENDIX A



South Carolina Department of Public Safety

February 15, 2002

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

Dear Mr. Wagner:

The South Carolina 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, 2000:

Cash Receipts and Cash Reconciliations

Recommendation: We recommend that the Department reconcile all cash accounts within 30 days after each month, and adopt a reconciliation format that clearly reflects the transit items, timing difference items and items not yet recorded. We recommend that the Department prepare and record required adjusting journal entries for all unrecorded transactions and error corrections in a timely manner. Report the correct cash balances in the closing package as of the end of each year and exercise more care in coding revenues.

Response: The Department concurs with these recommendations. We are reconciling all cash accounts within 30 days of the end of the month and are documenting reconciling items. We are preparing adjusting journal entries and making correcting entries in a more timely manner. We are reporting cash balances accurately on closing packages and are exercising more care in coding revenues.

Deficiency in Calculation of Liability for Accrued Compensated Absences and Related Benefits

Recommendation: We recommend that the Department timely advise all accounting personnel of all procedural changes that result from policies established internally or externally and are required to be implemented.

Response: The Department concurs with the need to accurately calculate compensated absences and related benefits. We have a sign-off sheets system in place, so all employees are made aware of all policy changes.

Improvements Needed in Accounting for Capital Projects

Recommendation: We recommend that the Department maintain accurate and complete records to prepare the schedule of construction projects completed and in progress. The schedule should include budget for all projects, a breakdown of closed and incomplete projects, reported as to whether they are to be capitalized or not, expenditures for the current fiscal year and from the inception to date for incomplete projects, and the correct amount of outstanding commitments.

Response: The Department agrees with the need to maintain more accurate accounting of the agency's Capital Projects. The Department is in the process of purchasing a new general ledger system that will properly maintain these types of records. In the interim, the accounting office is utilizing existing spreadsheet programs to maintain the necessary subsidiary records.

Other Management Letter Comments:

- System of receiving funds inadequate

RESPONSE: We concur with this finding. The Division of Motor Vehicles is taking steps to correct this situation with the development and implementation of a new computer system. The program, 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.

- Receipts not deposited timely

RESPONSE: The Department agrees with the need to make deposits in a timely manner, and to that end, has placed added emphasis on insuring all deposits are made on a daily basis prior to the 2 p.m. deposit cutoff.

- Fixed Assets Deficiency

RESPONSE: We agree with the need to maintain adequate control over moveable properties and accurate record of all movable properties. The Department will continue to stress the importance of accurate fixed assets records during yearly inventories.

- Insurance Coverage

RESPONSE: The Department concurs with the need for adequate insurance coverage for all agencies' properties. The agency has met with and will continue meeting with the Insurance Reserve Fund over the valuation of the agencies' various properties.

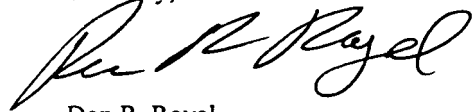
Page 3
DPS Management Response
February 15, 2000

- Failure to disclose required information for printed publication

RESPONSE: The Department agrees with the need to comply with all State laws and regulations. The agency will see to it that all printed publications will contain the required documentation and information.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Don R. Royal".

Don R. Royal
Chief Financial Officer