

April 1, 1999

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

This report on the audit of the financial statements of the South Carolina Department of Public Safety for the fiscal year ended June 30, 1998, was issued by Rogers & Laban, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sj

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

**FINANCIAL AND COMPLIANCE REPORT**

**YEAR ENDED JUNE 30, 1998**

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

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## INDEPENDENT AUDITORS' 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, 1998, 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.

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

Government Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue. The Department has included such disclosures in Note 22 to the financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Department's disclosures with respect to the year 2000 issue made in Note 22. Further, we do not provide assurance that the Department is or will be year 2000 ready, that the Department's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department does business will be year 2000 ready.

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

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina Department of Public Safety as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

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 January 29, 1999, 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.

Columbia, South Carolina  
January 29, 1999

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

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

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

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

#### **Reporting Entity**

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

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

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

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

Otherwise, the organization is fiscally dependent on the primary 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, 1998**

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

**Reporting Entity (Continued)**

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

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of this entity. The reporting entity operates somewhat autonomously, but lacks full corporate power. The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina, the primary government, that are attributable to the Department reporting entity defined above.

**Fund Accounting**

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

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

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

**Governmental Funds**

Governmental funds are used to account for the government's general government activities. 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; and the differences between the assets and liabilities is the fund balance.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

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

**Governmental Funds (Continued)**

**General fund** – The general fund accounts for all activities except those required to be accounted for in another fund. Major revenue sources include the annual state appropriation as approved by the General Assembly, motor vehicle license fees, financial responsibility, court fines and assessments, motor carrier registrations and fees, uninsured motorist coverage, drug confiscations, victim restitution, charges for services, sales of goods, including listings and labels by the Motor Vehicle Division, and cost reimbursements for the costs of productions, purchase, handling, mailing of documents, publications, records and data sets, and sale of photography, electronically stored information or digitized images. The revenues are used for general ongoing governmental services such as administration, law enforcement, driver and motor vehicle services, crime prevention training, general public crime education, law enforcement training as well as safety program development. Provisos 34.2 (miscellaneous operating revenues and cost reimbursements from sales of goods/services), 34.3 (detective/security fees), and 34.9 and 34.13 (cost recovery fees for production, handling, and mailing of documents, records, publications and license plates), and 34.15 (sales of photos and digitized images) of the 1997-98 Appropriations Act allows the Department to retain and carryover certain revenues that are earmarked for specific uses. Such restricted purpose expenditures included training, clothing allowance, Capitol Complex security, and other services and programs as determined by the agency head.

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, with the exception of fees collected to recover the costs of the production, purchase, handling and mailing of documents, publications, records and data sets which shall be retained by the Department, are remitted to the State General Fund as required by Proviso 34.10 of the 1998 Appropriations Act.

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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

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

**Governmental Funds (Continued)**

Proceeds awarded to the Department through this provision by the courts is reflected in the financial statements as "Drug confiscations" revenue.

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

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

The Department is authorized under 1997 joint resolution R137.S622 to retain motor carrier registration fees to control and police illegal transportation and promote safety on the highways.

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

**Capital Projects Fund** – The capital projects fund accounts for the construction projects 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.

**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.

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

Financial responsibility accounts for bonds received by the Department that are held until court resolution of the violation necessitating the bond.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

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

The self-insurance fund consists of certificates of deposit located at the State Treasurer's Office that are in the name of the Department and the insured entity. These deposits represent amounts that are placed on hold from different companies that are basically self-insuring themselves for liability claims for certain commercial carriers.

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

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

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

**Account Groups**

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

**General Fixed Assets Account Group** - This group of accounts is established to account for all fixed assets of the Department including construction in progress.

**General Long-Term Debt Account Group** - This account group records the outstanding balance of any unmatured general long-term obligation which is to be liquidated from governmental fund resources. Such liabilities include the compensated absences liability and the notes payable to the South Carolina Department of Transportation.

**Basis of Accounting**

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

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

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

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

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

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

##### **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 72.9 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.

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 cash management pool and cash on deposit in various banks.

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

# **SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

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

#### **Cash and Cash Equivalents (Continued)**

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. Investments in the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained by the Department. Interest/investment earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the income receivable of the pool.

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

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

#### **Accounts Receivable**

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

#### **Fixed Assets**

General fixed assets acquired or constructed are recorded as expenditures from the applicable governmental fund and are capitalized at cost in the general fixed asset account group. Major capital additions which are being constructed over several years are recorded as expenditures in the applicable governmental fund and simultaneously capitalized as construction in progress in the general fixed assets account group. When construction projects are completed, they are reclassified from construction in progress to buildings and improvements. Donated assets are valued at their fair market value when received. Fixed assets are not depreciated in accordance with generally accepted accounting principles for governmental entities. Equipment costing more than \$1,000 and having a useful life of more than one year is capitalized. Prior to July 1, 1997, the Department capitalized items costing \$500 or more. Assets transferred to the Department from another State agency are recorded at that agency's acquisition cost.

#### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 1997. 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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

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

**Indirect Cost Recoveries**

The receipt of indirect cost recoveries on government-sponsored programs have been included in the special revenue fund as federal grants revenue and payments of these recoveries to the State's General Fund have been recorded as other financing uses. State law requires the Department to remit these recoveries to the General Fund of the State.

**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 transfers in the financial statements.

**Use of Estimates**

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

**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 and operating transfers are not 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	\$129,168,710	\$19,432,162	\$	\$
Fund reclassification:				
State appropriation	(107,426,818)		107,426,818	
Federal grants		(19,432,162)		19,432,162
Other	(21,741,892)			21,741,892
Net accruals:				
Personal services and employer contributions			(204,970)	(231,488)
Expenditures on legal basis	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$107,221,848</u>	<u>\$40,942,566</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 available. Amounts that are not expended by fiscal year-end are required to be returned to the General Fund of the State unless the Department receives authorization from the General Assembly to carry the funds over to the next year.

The 1997-98 original appropriation is the Department's base budget amount presented in the General Funds column of Section 34 of Part 1A of the Appropriations Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1998:

Original appropriations	\$107,804,473
Transfer from the State Budget and Control Board for Total Quality Management Program (Proviso 17A.2)	2,916
State Budget and Control Board Allocation:	
Employee Pay Increases and Related Benefits (Proviso 17C.13)	1,393,599
Rent increase	471
Capital Reserve Fund Appropriations for:	
Computer Upgrade (June 1997, Joint Resolution R223, H3402)	3,000,000
Transfer to the State Law Enforcement Division for funding two employees	(106,299)
Transfer to the State Budget and Control Board to support printing operations (Proviso 72.69)	<u>(7,000)</u>
Revised Appropriation – Legal Basis	112,088,160
Funding for Net Payroll Accrual Adjustments	<u>204,970</u>
State Appropriation Revenue – Accrual Basis	<u>\$112,293,130</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

**NOTE 3. STATE APPROPRIATION: (CONTINUED)**

Proviso 72.44 of the 1997-98 Appropriations Act authorizes each agency to carry forward unspent State General Fund appropriations from the 1996-97 fiscal year into the 1997-98 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 \$2,158,450 to this fiscal year. In addition, the Department brought forward \$4,702 for total quality management under Proviso 17A.2 of the 1997-98 Appropriations Act. The Department carried forward \$4,887,021 of appropriations from 1997-98 to the 1998-99 fiscal year pursuant to Proviso 72.48 of the 1998-99 Appropriations Act. In addition, the Department carried forward \$4,756 that was received as an allocation from the Budget and Control Board for total quality management and remained unspent at June 30, 1998. Proviso 63A.2 of the 99 Act authorized these funds to be used in fiscal year 1999 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.

The Department also carried over \$2,137,687 of the capital reserve fund appropriation for computer upgrade as provided by Proviso 73.1 of the 1998 Appropriations Act.

**NOTE 4. DEPOSITS:**

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

<u>Balance Sheet</u>	
Cash and cash equivalents	<u>\$31,257,789</u>
<u>Footnotes</u>	
Cash on hand	\$ 69,145
Deposits held by State Treasurer	30,913,644
Other deposits	<u>275,000</u>
	<u>\$31,257,789</u>

**Deposits Held by State Treasurer**

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

Cash and cash equivalents reported on the balance sheet include \$31,782 in unrealized gains at June 30, 1998.

**Other Deposits**

Funds not on deposit with the State Treasurer as of June 30, 1998 are Agency Funds with a carrying amount and bank balance of \$275,000. These funds are fully insured.

**NOTE 5. INVENTORIES:**

The Department had inventories at June 30, 1998 totaling \$5,054,917. These inventories consisted primarily of Department of Motor Vehicles supplies, including license tags, manuals, etc.; Patrol Supplies, including uniforms, guns and accessories and vehicle accessories; office supplies for internal use; and building services (janitorial) supplies. Inventory is valued at cost using the first in-first out periodic basis of inventory accounting with the purchases method.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

**NOTE 6. PROPERTY AND EQUIPMENT:**

A summary of changes in general fixed assets for the fiscal year ended June 30, 1998 follows:

	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Totals</u>
Beginning balances	\$16,639,882	\$62,288,033	\$4,092,050	\$83,019,965
Additions		4,716,676	2,306,492	7,023,168
Deletions (A)		(9,744,213)		(9,744,213)
Transfer of completed projects	1,037,094		(1,037,094)	
Transfers from South Carolina Department of Transportation		<u>221,982</u>		<u>221,982</u>
Total general fixed assets	<u>\$17,676,976</u>	<u>\$57,482,478</u>	<u>\$5,361,448</u>	<u>\$80,520,902</u>

(A) Deletions for the fiscal year ended June 30, 1998 include \$3,357,261 for items deleted because of the change in the capitalization policy for equipment. The cost of equipment to be capitalized was increased from \$500 to \$1,000 as of July 1, 1997.

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

For the fiscal year ended June 30, 1998, the Department expended \$2,602,648 through its capital projects fund. \$2,306,492 was expended for capital projects and \$296,156 was expended for non-capitalizable project costs.

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 to complete various capital and non-capital projects over the next two years. The estimated total cost of the capital projects was approximately \$11,387,000 of which \$5,054,000 was unexpended at June 30, 1998. The projects in progress which will not be capitalized over the next two years have an estimated total cost of approximately \$1,835,000 of which approximately \$1,238,000 was unexpended at June 30, 1998.

As of June 30, 1998, the Department had commitments of approximately \$360,000 for future expenditures for the projects in progress that are to be capitalized. No commitments were outstanding as of June 30, 1998 for the projects that are not to be capitalized.

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

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

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

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

**NOTE 10. OPERATING TRANSFERS:**

Operating transfers of \$370,442 were made from the general fund to the capital projects fund for the funding of capital projects.

**NOTE 11. OPERATING LEASES:**

The Department has entered into various operating leases for modular buildings, office space, office equipment and motor vehicles. Payments are due on a monthly basis. Ending payment dates on noncancelable operating leases are in various fiscal years 2000 through 2003. 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 \$1,594,000 for the fiscal year ended June 30, 1998.

The following is a schedule by years of future minimum rental payments at June 30, 1998 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>
1999	\$ 411,130
2000	375,454
2001	214,744
2002	134,051
2003	<u>31,146</u>
Total	<u>\$1,166,525</u>

Certain of the operating leases the Department were with the South Carolina Budget and Control Board for motor vehicles. Rental expenditures made to the State for the year ended June 30, 1998 were approximately \$198,000. The Department's leases for these vehicles are renewed annually.

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

A summary of changes in general long-term debt for the year ended June 30, 1998 follows:

	<u>Balance, July 1, 1997</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance, June 30, 1998</u>
Note payable to Department of Transportation	\$ 6,767,155	\$	\$1,200,000	\$ 5,567,155
Note payable to Department of Transportation	818,643		158,447	660,196
Accrued compensated absences and related benefits	<u>11,445,725</u>	<u>249,730</u>		<u>11,695,455</u>
Total general long-term debt	<u>\$19,031,523</u>	<u>\$ 249,730</u>	<u>\$1,358,447</u>	<u>\$17,922,806</u>

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

**NOTE 13. NOTES PAYABLE:**

On August 25, 1995, the Department settled amounts owed to the Department of Transportation totalling \$8,839,817 for goods and services purchased in 1994 and 1995 which were converted to a note payable due in \$100,000 monthly installments that are reported in the general fund expenditure account for the State Highway Patrol. The payments began in January, 1996 with the final installment of \$39,817 being due in April, 2003. The note bears no interest. At June 30, 1998, the balance owed on this note is \$5,567,155.

Also, on July 18, 1996, the Department committed to pay to the Department of Transportation \$897,867 for services rendered to the Department of Motor Vehicles during the fiscal years ended June 30, 1994 and 1995, while that function was part of the South Carolina Department of Revenue. These payables were converted to an installment note payable with monthly payments of \$13,204 for sixty-eight months that began January, 1997 and end August, 2002. The monthly payments are reported in the general fund expenditure account of the Department of Motor Vehicles. No interest is to be charged on the note. The balance owed as of June 30, 1998 is \$660,196.

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

A summary of changes in the assets and liabilities of the agency fund types for the fiscal year ended June 30, 1998 follows:

	<u>Balance, July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 1998</u>
<b>TOTALS – ALL AGENCY FUNDS:</b>				
ASSETS:				
Cash and cash equivalents	<u>\$2,235,138</u>	<u>\$3,094,756</u>	<u>\$3,413,300</u>	<u>\$1,916,594</u>
LIABILITIES:				
Amounts held for others	<u>\$2,235,138</u>	<u>\$3,095,756</u>	<u>\$3,413,300</u>	<u>\$1,916,594</u>

A summary of changes in total assets and total liabilities by each agency fund for the fiscal year ended June 30, 1998 follows:

	<u>Balance, July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 1998</u>
<b>FINANCIAL RESPONSIBILITY:</b>				
ASSETS:				
Cash and cash equivalents	<u>\$ 818,254</u>	<u>\$ 141,169</u>	<u>\$ _____ 0</u>	<u>\$ 959,423</u>
LIABILITIES:				
Amounts held for others	<u>\$ 818,254</u>	<u>\$ 141,169</u>	<u>\$ _____ 0</u>	<u>\$ 959,423</u>
<b>SELF-INSURANCE:</b>				
ASSETS:				
Cash and cash equivalents	<u>\$ 275,000</u>	<u>\$ _____ 0</u>	<u>\$ _____ 0</u>	<u>\$ 275,000</u>
LIABILITIES:				
Amounts held for others	<u>\$ 275,000</u>	<u>\$ _____ 0</u>	<u>\$ _____ 0</u>	<u>\$ 275,000</u>
<b>EVIDENCE:</b>				
ASSETS:				
Cash and cash equivalents	<u>\$ 62,166</u>	<u>\$ _____ 0</u>	<u>\$ 26,206</u>	<u>\$ 35,960</u>
LIABILITIES:				
Amounts held for others	<u>\$ 62,166</u>	<u>\$ _____ 0</u>	<u>\$ 26,206</u>	<u>\$ 35,960</u>

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

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

	<u>Balance, July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 1998</u>
<b>DRIVER RECORD DEPOSITS:</b>				
ASSETS:				
Cash and cash equivalents	\$ 67,511	\$ 0	\$ 694	\$ 66,817
LIABILITIES:				
Amounts held for others	\$ 67,511	\$ 0	\$ 694	\$ 66,817
<b>INTERNATIONAL FUEL TAX AGREEMENT:</b>				
ASSETS:				
Cash and cash equivalents	\$1,000,000	\$2,912,351	\$3,344,268	\$ 568,083
LIABILITIES:				
Amounts held for others	\$1,000,000	\$2,912,351	\$3,344,268	\$ 568,083
<b>DUAL EMPLOYMENT:</b>				
ASSETS:				
Cash and cash equivalents	\$ 12,207	\$ 41,236	\$ 42,132	\$ 11,311
LIABILITIES:				
Amounts held for others	\$ 12,207	\$ 41,236	\$ 42,132	\$ 11,311

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

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

The Department collected, as part of its mission, revenues from motor vehicle licenses, and other sources totalling \$106,804,676. All of these revenues were remitted to the General Fund of the State as required by Proviso 34.10 of the 1997-98 Appropriations Act.

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, grants services from the Governor's Office and records storage from the Department of Archives and History.

Other services received at no cost from the various divisions of the South Carolina Budget and Control Board include insurance plans administration, procurement services, retirement plan administration, audit services, personnel management, assistance in the preparation of the State Budget and recordkeeping, 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, interagency mail, 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 related party transactions are not readily available.

The Department purchased from the South Carolina Department of Transportation approximately \$1,275,000 for gasoline and other items during fiscal year 1998.

The Department remitted \$100,000 to Midlands Technical College for the Motorcycle Rider Safety Education Program pursuant to Proviso 34.11. This expenditure is included in the general administration program category.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

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

The approximately \$1,711,000 due to other State agencies represents amounts paid subsequent to fiscal year end for expenditures under Federal grants.

The Department made no significant sales of goods and provided no significant services to other State agencies during the fiscal year ended June 30, 1998.

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

\$1,743,463 of proceeds from the sale of vehicles and equipment less the costs of disposition and of gasoline and insurance was carried forward under Section 23-6-50 of the South Carolina Code of Laws, as amended for the purchase of like-items. These amounts carried forward are reported as reservations of fund balances under reserved for other restricted purposes.

**NOTE 17. CONTINGENT LIABILITIES:**

The various federal programs administered by the Department for the fiscal year 1998 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 accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401 (k) and 403 (b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets to the Section 457 plan to which the State has access is disclosed in its annual financial report.

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

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

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at 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. The number of State retirees that meet these eligibility requirements is not available.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of approximately \$5,560,000 for the year ended June 30, 1998. As discussed in Note 20, the Department paid approximately \$1,370,000 applicable to the 1.916 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

**NOTE 20. PENSION PLANS:**

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

Some of the employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan 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.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

**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 six percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the three most recent years ended June 30, 1998, 1997 and 1996 were approximately \$2,500,000, \$2,330,000 and \$1,700,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid in the current fiscal year employer group-life insurance contributions of approximately \$49,000 at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is 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 the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees 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 2.14 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, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, included the 1.916 percent surcharge. The Department's actual contributions to the PORS for the three most recent years ended June 30, 1998, 1997 and 1996 were approximately 3,850,000, \$3,830,000 and \$3,800,000, 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 \$77,000 and accidental death insurance contributions of approximately \$77,000 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 current funds' functional expenditure categories to which the related salaries are charged.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

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

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

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

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

**NOTE 21. RISK MANAGEMENT:**

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

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

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

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

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1998**

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

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

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

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

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

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

Unpaid Claims <u>June 30, 1997</u>	Current Year Claims	Claims Paid	Unpaid Claims <u>June 30, 1998</u>
<u>\$15,231</u>	<u>\$280,382</u>	<u>\$290,135</u>	<u>\$5,478</u>

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

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

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

**NOTE 22. YEAR 2000 DISCLOSURES:**

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

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

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

#### **NOTE 22. YEAR 2000 DISCLOSURES: (CONTINUED)**

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

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

In response to a requirement of the South Carolina Budget and Control Board, the Department began a continuing assessment of the year 2000 issue and its affects on the operations of the Department. The Department has continued to monitor on a quarterly basis the need for and progress of, remediation efforts, and the status of contingency plans developed to address the possibility that year 2000 failures might adversely affect systems critical to the Department's operations.

Department employees have performed substantially all of the work that has been undertaken to date toward addressing the Department's year 2000 issue. The Department has recently issued a request for proposal for an external vendor to audit our mission critical systems for compliance and make recommendations for any additional measures that may be needed to ensure compliance. As this request originated subsequent to the fiscal year end, there are no unpaid commitments associated with this as of year end.

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

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

The Department has completed the awareness, assessment, and remediation stages for all of its mission-critical stages. The validation/testing stage continues and will also be reviewed by the external vendor selected through the outstanding request for proposal."

#### **NOTE 23. UNFAVORABLE BUDGET VARIANCE:**

The statement of expenditures – budget and actual – total budgeted funds reflects expenditures in excess of budget of \$845,580 in the allocations to other entities – state agencies in the other budgeted funds category. This occurred because the budget was amended based on a directive from the State Budget and Control Board in July, 1998 and year end accruals were not taken into account prior to the amendment.

SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 1998

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
<b>U.S. Department of Justice</b>			
Direct Programs:			
Juvenile Justice and Delinquency			
Prevention - Allocations to States	16.540	\$ 1,072,343	\$ 914,464
Title V - Delinquency Prevention Program	16.548	112,708	112,708
State Justice Statistics Program for			
Statistical Analysis Centers	16.550	69,042	
National Criminal History Improvement			
Program	16.554	16,915	
Crime Victim Assistance	16.575	4,354,496	4,207,222
Byrne Formula Grant Program	16.579	6,045,198	5,542,511
Violence Against Women Formula Grants	16.588	1,728,367	1,634,920
Grants to Encourage Arrest Policies	16.590	115,551	
Local Law Enforcement Block Grant Program	16.592	385,112	377,197
Residential Substance Abuse Treatment			
for State Prisoners	16.593	<u>459,137</u>	<u>447,021</u>
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>		<u>14,358,869</u>	<u>13,236,043</u>
<b>U.S. Department of Transportation</b>			
Direct Programs:			
Motor Carrier Safety Assistance Program	20.218	1,145,184	
State and Community Highway Safety	20.600	<u>1,928,751</u>	<u>1,343,455</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>		<u>3,073,935</u>	<u>1,343,455</u>
<b>U.S. Department of Energy</b>			
Direct Program:			
Transport of Transuranic Wastes to			
the Waste Isolation Pilot Plant:			
State and Tribal Concerns,	81.106	<u>16,549</u>	
Proposed Solutions			
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>		<u>16,549</u>	
<b>TOTAL FEDERAL ASSISTANCE</b>		<u>\$17,449,353</u>	<u>\$14,579,498</u>

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

**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, 1998, and have issued our report thereon dated January 29, 1999, on which our opinion was qualified because insufficient audit evidence exists to support the Department's year 2000 disclosures. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

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

**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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition is 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 condition described on the accompanying schedule of findings and questioned costs is a material weakness.

We also noted other matters as described on pages 33 and 34.

This report is intended for the information of management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Columbia, South Carolina  
January 29, 1999

**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, 1998. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

**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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned cost as item 2.

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. Our consideration of the internal control over compliance 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. We believe the reportable condition described above is a material weakness.

This report is intended for the information of management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Columbia, South Carolina  
January 29, 1999

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1998**

**SUMMARY OF AUDITORS' RESULTS**

1. A qualified opinion dated January 29, 1999 on the financial statements of the Department for the year ended June 30, 1998 was issued.
2. A reportable condition that was determined to be a material weakness relating to the audit of the financial statements was noted as described below.
3. No instances of noncompliance that were material to the financial statements were noted.
4. An unqualified opinion on compliance for major programs dated January 29, 1999 was issued.
5. A reportable condition disclosed during the audit of the major federal award programs is described below. The condition is a material weakness.
6. The major programs of the Department are as follows:

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

7. The dollar threshold used to distinguish between Type A and Type B programs was \$523,158.
8. The Department was not determined to be a low-risk auditee.

**FINDING RELATED TO THE FINANCIAL STATEMENTS**

The following reportable condition is a material weakness, is related to the Department's financial statements and is required to be reported in accordance with generally accepted government auditing standards.

**1. IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITAL PROJECTS**

**Condition:** The Department's construction in progress listing contained projects that were either completed or abandoned which were included in construction in progress as of year end. In addition, construction in progress contained renovation and repair projects which should not have been capitalized. This deficiency appeared to occur because of a lack of communication between the accounting and construction departments. A similar finding was also cited in the prior year's report.

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

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

**Recommendation:** We recommend that the Department follow its capitalization policy and to only include in construction in progress projects which should be capitalized. Also, the Department should ensure that all completed projects are closed out in a timely manner.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 1998**

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**2. MONITORING OF SUBRECIPIENTS**

**Condition:** The Department does not have a centralized tracking system to track the on-site monitoring of subrecipients. There is also no system in place to ensure that subrecipients who receive more than \$300,000 in a year have a single audit. Approximately 84% of federal expenditures are payments to subrecipients. A similar finding was also cited in the prior year's report. There are no questioned costs as a result of this condition. This finding is applicable to the following federal awards:

<u>CFDA #</u>	<u>Program</u>
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States
16.548	Title V – Delinquency Prevention Program
16.575	Crime Victim Assistance
16.579	Byrne Formula Grant Program
16.588	Violence Against Women Formula Grant
16.592	Local Law Enforcement Block Grant Program
16.593	Residential Substance Abuse Treatment for State Prisoners
20.218	Motor Carrier Safety Assistance Program
20.600	State and Community Highway Safety

**Criteria:** Section 400(d) of OMB Circular A-133 contains the responsibilities of pass-through entities regarding monitoring and single audit requirements.

**Effect:** The lack of a system makes it difficult to determine if all subrecipients are being properly monitored or having a single audit if required.

**Recommendation:** We recommend that the Department develop a database listing of all grant subrecipients showing grant amounts, dates monitored, status of prior monitoring reports, date of required follow-up for deficiencies noted and other similar data. The Department should also ensure that any subrecipient which received more than \$300,000 has a single audit and implement procedures to perform a review of the single audit report.

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

### **OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 1998**

#### **DOCUMENTS SUPPORTING RECEIPTS NOT LOCATED**

Our test of receipts disclosed that the Department was not filing receipts in numerical order. The Department was only able to locate eighteen receipts out of our sample of twenty-five requested. In addition, the Department could not locate the records on two out of ten deposits requested. A similar finding was cited in the prior year's report.

This deficiency appeared to occur because of inadequate procedures over filing and record keeping.

We recommend that the Department file all deposits in numerical order and list with each deposit the receipt numbers included in the deposit package. A log should be maintained to document the numerical sequence of the receipts. Also, procedures should be implemented to ensure that all documents are filed in a manner so that they can be located when necessary.

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

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

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

#### **OPERATING LEASE CLOSING PACKAGE INCORRECT**

Our review of the Department's operating lease closing package disclosed that some cancellable leases were included in the future minimum lease obligations and that several noncancellable leases were excluded. This finding was also cited in the prior year's report.

Generally accepted governmental accounting principles require the disclosure of future minimum lease payments for noncancellable leases having a remaining term of more than one year. The failure to properly include and exclude operating leases results in the misreporting of future minimum lease payments.

We recommend that procedures be implemented to properly determine whether leases should or should not be included in the operating lease closing package.

#### **ADDITIONAL CARE NEEDED IN PREPARING SCHEDULES**

Throughout the course of our audit, we were provided with various schedules prepared by the Department. Our review of these schedules disclosed various errors in the information which required the schedules to be reworked. This finding was also cited in the prior year's report.

We recommend that additional care be taken in preparing schedules for internal use, auditors and other internal parties to ensure that they contain accurate information and are mathematically correct.

## **ACCOUNTS PAYABLE MISSTATED**

Our audit disclosed that the accounts payable reported on the state closing package as of June 30, 1998 included approximately \$21,000 which was due to subrecipients for expenses incurred in July, 1998. In addition, the closing package omitted a payable of approximately \$14,000 which should have been included in accounts payable.

Failure to adequately and carefully review the invoices appeared to cause the error.

We recommend that the Department implement procedures to ensure that accounts payable are reported correctly in the closing package.

**SOUTH CAROLINA DEPARTMENT OF PUBLIC SAFETY**

**STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

Our audit for the year ended June 30, 1998 was performed within the same time frame as the audit for the year ended June 30, 1997. Because of this, no corrective action had been taken by the Department on the following findings reported by us for the year ended June 30, 1997 in our report dated January 22, 1999:

1. Improvements Needed in Accounting for Capital Projects
2. Monitoring of Subrecipients
3. Documents Supporting Receipts Not Located
4. System of Receiving Funds Inadequate
5. Operating Lease Closing Package Incorrect
6. Additional Care Needed in Preparing Schedules

Adequate corrective action had been taken on the findings regarding the federal cash deficit and required disclosures on risk management not available.

## South Carolina Department of Public Safety

March 19, 1999

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

Dear Mr. Wagner:

The S. C. Department of Public Safety respectfully submits the following responses to the preliminary findings cited by Rogers & Laban, CPAs during their audit of the fiscal year ending June 30, 1998:

Improvements Needed In Accounting For Capital Projects:

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

**RESPONSE:** The Department will review all existing policies related to the capitalization of items to ensure that we continue to be consistent in following the guidelines of the State Permanent Improvement Reporting System, the Statewide Accounting & Reporting System, and generally accepted accounting principles (GAAP).

Monitoring of Subrecipients:

**RECOMMENDATION:** We recommend that the Department develop a database listing of all grant subrecipients showing grant amounts, dates monitored, status of prior monitoring reports, date of required follow-up for deficiencies noted and other similar data. The Department should also ensure that any subrecipient which received more than \$300,000 has a single audit report.

**RESPONSE:** The Department recognizes the importance of maintaining the financial information necessary to comply with the federal requirements of monitoring and other compliance issues. Prior to this audit visit, the Grants Accounting Section had already developed a database for this purpose. In addition, we already have a system in place to ensure compliance with the \$300,000 rule.

Other Management Letter Comments:

- ❖ Documents supporting receipts not located

**RESPONSE:** All receipts were furnished as requested. The Department is unaware of any supporting documents that could not be found. All receipts are filed by bank deposit number; not by an individual numerical receipt number. This is the procedure outlined in the Department's procedures manual is being followed and controlled.

- ❖ System of receiving funds inadequate

**RESPONSE:** The Department is aware of the limitations of the Motor Vehicle Division system and, through a departmental initiative, known as Project Phoenix, is aggressively evaluating the necessary improvements.

- ❖ Operating lease closing package incorrect  
*RESPONSE:* The Department is fully cognizant of the generally accepted governmental accounting principles as they relate to the proper disclosure of capital and operating leases. Appropriate procedures are in place to monitor and capture this information. This "error" related to a required addendum to a particular contract rather than the lack of understanding on the reporting. Additional reviews have been implemented to ensure that this type error does not re-occur.
- ❖ Additional care in preparing schedules  
*RESPONSE:* The Department assigned a specific liaison to work with the audit team to avoid any conflict and/or misinformation or mistakes. We are confident that accurate and complete information was provided to the audit team. We are unaware of any errors made in the compilation of schedules provided by the Accounting Office; however, we will continue to strive for excellence in the future and will continue to ask that all requests for information, and all documents prepared, be released through the liaison to ensure a thorough review prior to their release.
- ❖ Accounts Payable Misstated  
*RESPONSE:* The Department has reviewed the procedures associated with the reimbursements to subrecipients and will modify these to avoid a re-occurrence of this problem.

We would like to emphasize that the records for 1997 and 1998 fiscal years were audited within the same time frame; therefore, no corrective action for findings cited for 1997 *could have* been taken prior to this report for 1998.

We appreciate the efforts of the Rogers & LaBan staff members in reviewing our accounting records. If we can be of further assistance, please call me at 896-7900.

Sincerely,

Clare L. Turner  
Chief Financial Officer