



Office of the State Treasurer

# **ANNUAL ACCOUNTABILITY REPORT**

For Fiscal Year 2008-2009

*“Moving South Carolina Forward”*

Converse A. Chellis III, CPA  
State Treasurer

## **Table of Contents**

<b>Section I</b>	<b>Executive Summary</b>	<b>1</b>
<b>Section II</b>	<b>Organizational Profile</b>	<b>3</b>
	<b>Expenditures/ Appropriations Chart</b>	<b>6</b>
	<b>Major Program Areas Chart</b>	<b>7</b>
<b>Section III</b>	<b>Elements of Malcolm Baldrige Award Criteria</b>	
	<b>Category 1 - Leadership, Governance, and Social Responsibility</b>	<b>8</b>
	<b>Category 2 - Strategic Planning</b>	<b>8</b>
	<b>Strategic Planning Chart</b>	<b>12</b>
	<b>Category 3 - Customer Focus</b>	<b>15</b>
	<b>Category 4 - Measurement, Analysis, and Knowledge Management</b>	<b>15</b>
	<b>Category 5 - Workforce Focus</b>	<b>17</b>
	<b>Category 6 - Process Management</b>	<b>20</b>
	<b>Category 7 - Results</b>	
	<b>Treasury Management (Accounting and Banking)</b>	<b>22</b>
	<b>Investments</b>	<b>28</b>
	<b>Debt Management</b>	<b>32</b>
	<b>Unclaimed Property Program</b>	<b>36</b>
	<b>College Savings Plans</b>	<b>39</b>
	<b>Glossary of Acronyms Used</b>	<b>46</b>

## **EXECUTIVE SUMMARY**

The State Treasurer's Office serves as the custodian of taxpayer dollars used to operate State Government. Our primary customers are the State's citizens, State Government, and all units of local government. We also collaborate with other elected officials in the development and implementation of public policy.

"We work for the taxpayers" is a very familiar motto among Treasurer's Office employees. Recognizing that the money we hold belongs to the taxpayers, we manage it conservatively with honesty, integrity, and the highest ethical standards until it is needed to be used for their benefit.

Our mission statement – *"Our mission is to serve the State of South Carolina by managing its financial assets in ways that maximize value and promote the best interests of its citizens. To this end, we strive to be good stewards of the public trust by performing our responsibilities under the highest standards of accountability, service, honesty and integrity."* – is indicative of the values that we uphold. We are dedicated to the preservation of both capital and public trust through efficient and conservative management of South Carolina's cash resources.

The Office includes five primary divisions: Treasury Management (Accounting & Banking); Debt Management; Investments; Unclaimed Property Program; and College Savings Programs.

During the past year, major accomplishments of the State Treasurer's Office include:

**Protecting our State's assets.** While other states have issued "IOU's" instead of checks, South Carolina continues to operate in a conservative manner so that our accounts are carefully managed and funds are available to pay our bills. In these financial chaotic times, protecting our State's assets has become a battle. The Treasurer's Office also handles the investments of many local governments, including school districts. Again, while other states around the country have not met their obligations because of risky or poor investments, South Carolina has consistently been a model of financial stability with regards to money management.

As a member of the State's Investment Commission, Treasurer Chellis announced on March 19, 2009 that South Carolina's Retirement System was named "Large Public Plan of the Year" for its sweeping reforms and leading edge design implementation over the past three years. While in an economic downturn, protecting the assets of the State and its retirees remains a top priority.

**Returning historic amount of money to rightful owners.** Our Unclaimed Property Program, Palmetto Payback, set a record for the amount of funds returned to rightful owners. A record amount of \$12,731,118 was returned by the Treasurer's Office to over 22,000 people. This number edged out last year's record amount by over \$1.3 million dollars. By maximizing our staff's efforts and more effectively promoting the program, we've surpassed our goals. We have also increased the number of holders remitting unclaimed property to the State by 16.5% over last year by using more efficient software via the internet and providing training to holders.

**Future Scholar College Savings Program accolades.** During the past year, our Future Scholar Plan has had some outstanding achievements. Plans across the country were all ranked by SavingForCollege.com, the leading authority on 529 College Savings Plans. In May 2009, South

Carolina's Plan was ranked #1 in the country for its 3-year performance and #2 in the country for its 1- and 5-year performances. Also, the Plan achieved the top overall ranking of 5-Caps. A 5-Cap ranking means that our Program "...offers outstanding flexibility, attractive investments, and additional economic benefits (such as state tax incentives) that for some people, at least, will provide a substantial boost to their savings."

Additionally, in-state accounts continued to increase with South Carolina residents' participation at 58% of total accounts.

**Local government accountability.** The Treasurer's Office proposed legislation, which was passed by the General Assembly, to help hold local governments accountable. The legislation allows the State Treasurer's Office to withhold the distribution of public funds to local governments if they do not provide a current audit of their finances. This has forced local governments to be held more accountable to their citizens. Our office has offered both general and specific training to county auditors and treasurers in the areas of banking, investing, and debt management. It is our belief that this training will assist units of local government in maintaining strong fiscal health, thereby enabling local officials to better serve their constituents.

We continue to serve our customers with the highest possible level of service. Reallocation of staff duties and responsibilities has enabled us to continue to provide first-rate uninterrupted service while adhering to deep budget cuts that have occurred during the past year. Because we are required statutorily with providing basic core services that are critical to the operation of State Government, we have particularly focused on efficiency measures in providing those services.

A key and pressing challenge is the ability to weather financial market conditions over which we have no control. Enduring fluctuating market conditions while maximizing return on the State's fiscal assets remains our highest priority.

It is imperative that the Treasurer's Office maintains a constant vigil on every dollar entrusted to the Office, especially during the current volatile financial conditions occurring nationally and globally. We pledge to work with other government officials to ensure the right policies are in place to promote economic growth and maintain revenue stability now and when the economy fully recovers.

The Accountability Report has always been a very useful tool for helping us focus our efforts on our stated goals and priorities. It will be particularly helpful over the next year as we strive to maximize performance of our staff and monetary resources.

## ORGANIZATIONAL PROFILE

### II.1. – II.2. Major Services and Key Customers of the State Treasurer’s Office are:

Major Services	Key Customers
Statewide banking and accounting services (receipt and disbursement of all funds) for all agencies and institutions	State agencies State employees and retirees State’s vendors Taxpayers Local governments Recipients of other state disbursements
Investment services for all state funds, the Local Government Investment Pool, the Tuition Prepayment Funds, and custodial services for the South Carolina Retirement System funds	State agencies and institutions Local governments and school districts Contributors to and beneficiaries of the Tuition Prepayment Program Members of the South Carolina Retirement Systems
Debt issuance and management services for general obligation, revenue, and special debt issues	State agencies and institutions Holders of the State’s GO and Revenue Bonds Holders of the State’s Mini-bonds
Administration of the State’s Unclaimed Property Program	Rightful owners of unclaimed property Holders of unclaimed property
Administration of the two College Savings Plans: South Carolina Tuition Prepayment Program and Future Scholar Program	Contributors to and beneficiaries of College Savings Plans Institutions of Higher Learning

**II.3. Key stakeholders** other than the direct customers of our services are the citizens of South Carolina and the Legislature.

**II.4. Key suppliers** are: other state agencies, banks and other financial service providers, investment advisors and custodial banks, the outside administrators of College Savings Plans, vendors of services and supplies, technology vendors, software providers and partners, holders of unclaimed property, and internet service providers.

**II.5. The State Treasurer’s Office is located** on the 1<sup>st</sup> and 2<sup>nd</sup> floors of the Wade Hampton Office Building, Capitol Complex, Columbia, SC.

**II.6. The State Treasurer’s Office has a total of 70 authorized full-time equivalents (FTEs)** of which 40 are state funded and 30 are other funded. At fiscal year end, we were operating with 60.75 positions filled and 9.25 positions vacant. We also had four temporary employees. Our FTEs include the State Treasurer, 3 unclassified and 66 classified positions.

## **II.7. Regulatory environment**

The Treasurer's Office operates under the same regulatory authority as other state agencies as far as OSHA, procurement (with certain exceptions), and personnel regulations. The office is also subject to certain banking regulations (NACHA) regarding processing of financial transactions and MSRB regulations regarding filings for bond issues and other financing transactions such as those of the College Savings Plans. The Office is responsible for compliance with CMIA requirements and arbitrage rebate calculations.

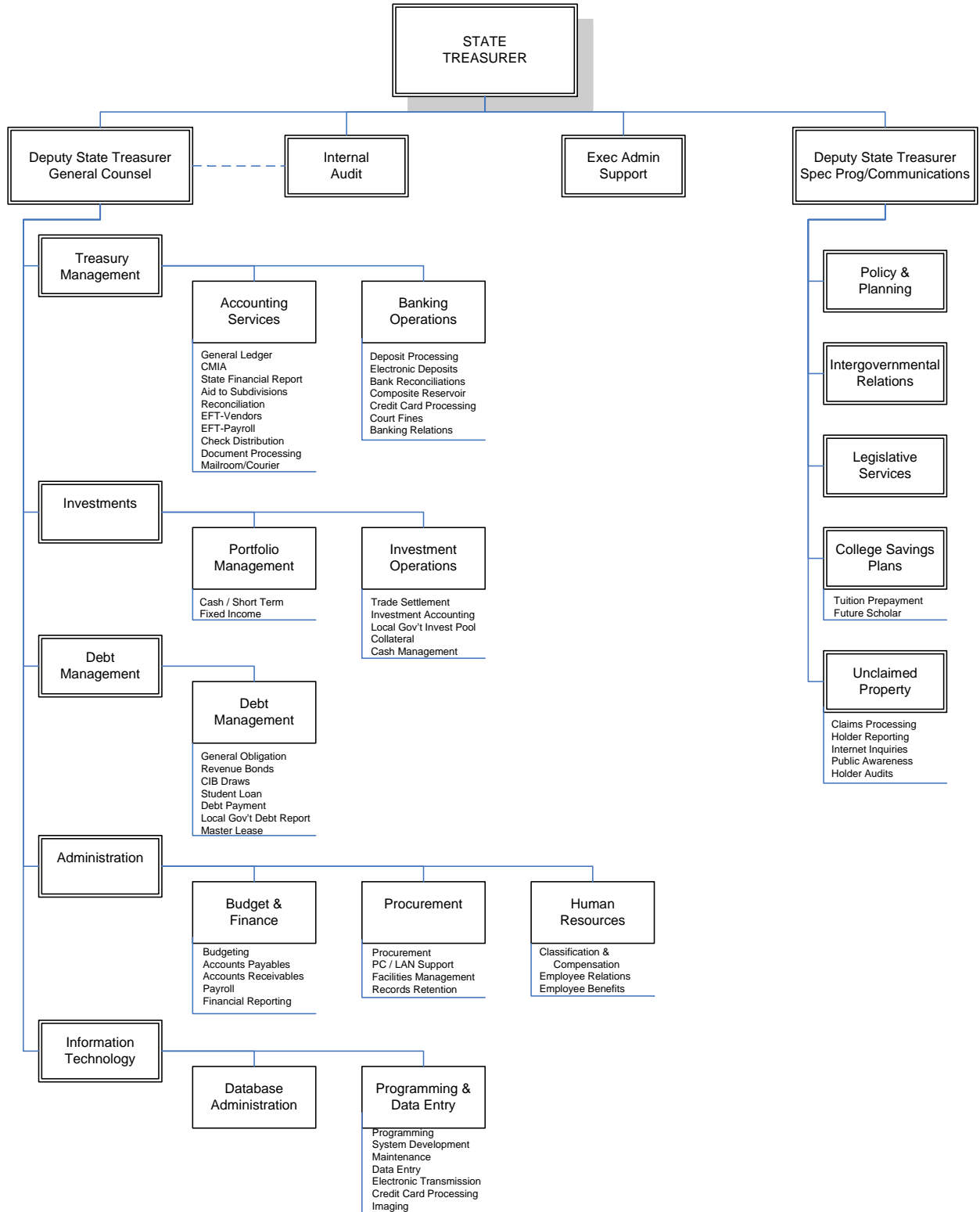
## **II.8. Performance improvement systems**

Trend analyses, as well as measurement of our results against peers and industry benchmarks, as noted in Section 7 – Results of this report, are our primary improvement systems. A watch word of the office is to find ways to do things “Better, Cheaper, Faster” and that goal is shared with our vendors and other business partners. The annual EPMS System discussed under Human Resources provides a way for each employee's goals to be tied to the Office's goals.

## **II.9. The Organizational Chart** that follows indicates the primary functions of each division.

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# SC Office of the State Treasurer



**II. 10.** The **Expenditures/Appropriations Chart** that follows outlines the major spending categories of the budget.

### Accountability Report Appropriations/Expenditures Chart

#### Base Budget Expenditures and Appropriations

Major Budget Categories	FY 07-08 Actual Expenditures		FY 08-09 Actual Expenditures		FY 09-10 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$ 3,217,809	\$ 1,895,793	\$ 3,243,616	\$ 1,727,642	\$ 2,973,198	\$ 1,331,428
Other Operating	\$ 1,427,369	\$ 319,616	\$ 1,290,168	\$ 119,895	\$ 1,405,802	\$ 280,802
Special Items	\$ 7,835,770	\$ 1,850,051	\$ 10,477,478	\$ 1,721,585	\$ 4,000,722	\$ -
Permanent Improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Case Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distributions to Subdivisions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fringe Benefits	\$ 904,450	\$ 532,833	\$ 926,853	\$ 514,768	\$ 871,880	\$ 418,900
Non-recurring	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 13,385,398</b>	<b>\$ 4,598,293</b>	<b>\$ 15,938,115</b>	<b>\$ 4,083,889</b>	<b>\$ 9,251,602</b>	<b>\$ 2,031,130</b>

#### Other Expenditures

Sources of Funds	FY 07-08 Actual Expenditures	FY 08-09 Actual Expenditures
Supplemental Bills	\$ 20,000,000	\$ -
Capital Reserve Funds	\$ -	\$ -
Bonds	\$ -	\$ -



## II. 11. The Major Program Areas Chart lists the agency's major service programs of the total budget.

Program Number and Title	Major Program Area Purpose (Brief)	FY 07-08 Budget Expenditures	FY 08-09 Budget Expenditures	Key Cross References for Financial Results*
II. Programs and Services	<b>Treasury Management</b> provides statewide services to all agencies and institutions by receipt and distribution of funds from all sources.	<b>State:</b> 840,230.00 <b>Federal:</b> 0.00 <b>Other:</b> 173,242.00 <b>Total:</b> 1,013,472.00 <b>% of Total Budget:</b> 8%	<b>State:</b> 776,460.00 <b>Federal:</b> 0.00 <b>Other:</b> 311,814.00 <b>Total:</b> 1,088,274.00 <b>% of Total Budget:</b> 7%	Figures 7.1.1, 7.1.2, 7.1.4 and 7.1.5
II. Programs and Services	<b>Investments</b> provides statewide investment services to state agencies and institutions through investment of all state funds, management of cash liquidity, cash flow, and collateral.	<b>State:</b> 0.00 <b>Federal:</b> 0.00 <b>Other:</b> 847,206.00 <b>Total:</b> 847,206.00 <b>% of Total Budget:</b> 7%	<b>State:</b> 0.00 <b>Federal:</b> 0.00 <b>Other:</b> 1,153,202.00 <b>Total:</b> 1,153,202.00 <b>% of Total Budget:</b> 7%	Figures 7.2.1 and 7.2.2
II. Programs and Services	<b>Debt Management</b> provides statewide debt management services for the State, its agencies and institutions by management of debt issues including debt structure and payments.	<b>State:</b> 179,112.00 <b>Federal:</b> 0.00 <b>Other:</b> 265,357.00 <b>Total:</b> 444,469.00 <b>% of Total Budget:</b> 3%	<b>State:</b> 120,070.00 <b>Federal:</b> 0.00 <b>Other:</b> 353,509.00 <b>Total:</b> 473,579.00 <b>% of Total Budget:</b> 3%	Figures 7.3.1, 7.3.2 and 7.3.3
II. Programs and Services	<b>Unclaimed Property Program</b> provides a statewide service to the citizens of South Carolina by returning various forms of property or money to the rightful owners.	<b>State:</b> 0.00 <b>Federal:</b> 0.00 <b>Other:</b> 757,426.00 <b>Total:</b> 757,426.00 <b>% of Total Budget:</b> 6%	<b>State:</b> 0.00 <b>Federal:</b> 0.00 <b>Other:</b> 798,852.00 <b>Total:</b> 798,852.00 <b>% of Total Budget:</b> 5%	Figures 7.4.1 and 7.4.3
II. Programs and Services	<b>SC Tuition Prepayment Program (SCTPP) / SC College Investment Program (Future Scholar)</b> are college savings plans that allow families the option of saving now at great advantage for their children's college education.	<b>State:</b> 0.00 <b>Federal:</b> 0.00 <b>Other:</b> 398,342.00 <b>Total:</b> 398,342.00 <b>% of Total Budget:</b> 3%	<b>State:</b> 0.00 <b>Federal:</b> 0.00 <b>Other:</b> 480,956.00 <b>Total:</b> 480,956.00 <b>% of Total Budget:</b> 3%	Figures 7.5.1, 7.5.2, 7.5.4 and 7.5.5
III. Special Items	<b>Student Loans-Teachers</b> are funds received and then disbursed to the Student Loan Corp pursuant to the Appropriations Act to fund student loans for teacher program.	<b>State:</b> 1,622,662.00 <b>Federal:</b> 0.00 <b>Other:</b> 5,985,719.00 <b>Total:</b> 7,608,381.00 <b>% of Total Budget:</b> 58%	<b>State:</b> 1,573,982.00 <b>Federal:</b> 0.00 <b>Other:</b> 8,755,893.00 <b>Total:</b> 10,329,875.00 <b>% of Total Budget:</b> 65%	
III. Special Items	<b>Prosecutor/Pub Defender</b> are pass through funds disbursed to the SC Student Loan Corporation to fund the Prosecutors and Defenders Public Service Incentive Program.	<b>State:</b> 227,389.00 <b>Federal:</b> 0.00 <b>Other:</b> 0.00 <b>Total:</b> 227,389.00 <b>% of Total Budget:</b> 2%	<b>State:</b> 147,603.00 <b>Federal:</b> 0.00 <b>Other:</b> 0.00 <b>Total:</b> 147,603.00 <b>% of Total Budget:</b> 1%	

**Below: List any programs not included above and show the remainder of expenditures by source of funds.**

<b>Remainder of Expenditures:</b>	<b>State:</b> 1,728,900.00	<b>State:</b> 1,465,774.00
<b>Support Systems</b> of the office include Administration, Information Technology, Legislative and Constituent Services.	<b>Federal:</b> 0.00	<b>Federal:</b> 0.00
	<b>Other:</b> 0.00	<b>Other:</b> 0.00
	<b>Total:</b> 1,728,900.00	<b>Total:</b> 1,465,774.00
	<b>% of Total Budget:</b> 13%	<b>% of Total Budget:</b> 9%

\* Key Cross-References are a link to the Category 7 - Business Results. These References provide a Chart number that is included in the 7th section of this document.

## **MALCOLM BALDRIGE AWARD CRITERIA**

### **III.1 – SENIOR LEADERSHIP, GOVERNANCE, and SOCIAL RESPONSIBILITY**

State Treasurer's Office senior staff meets weekly to discuss short-term and long-term progress on various program goals. As a team, they also use this time together to discuss any problems and challenges, and to explore solutions. Senior staff then relays this information to their staffs and seeks feedback from them.

Because of the STO's long history of instilling staff loyalty in job performance and effective public service to the State and its citizens, turnover in personnel has been below average. This has created a stable work environment where experienced professional staff can manage the State's finances in an efficient and effective manner.

The STO has an open-door policy for the benefit of its customers and the State's citizens. Access to services is also provided online. The State Treasurer promotes customer-driven excellence in the performance of all duties from answering the telephone to investing the State's monies.

The State Treasurer encourages a team approach to ensure effective and efficient service delivery. Having adopted a "we're in this together" sentiment, the STO staff approaches tasks and decision making with a cooperative spirit.

The State Treasurer's Office is particularly sensitive to the impact of its actions on the State's citizens. For this reason, we are vigilant in seeking information and communicating with experts to find the best ways of meeting the responsibilities of the Office and delivering services. The State Treasurer closely monitors the State's cash flows, banking relationships, status of the State's debt and credit rating, and investment of State funds, especially Retirement Funds.

### **III.2 - STRATEGIC PLANNING**

The priorities of the State Treasurer's Office have been largely consistent over the past five years:

- **Provide stable management of public funds**
- **Aid local government in the management of funds**
- **Promote public and higher education**
- **Bolster economic development**
- **Increase efficiency**

#### **Stable management of funds:**

The Treasurer's Office is committed first and foremost to the protection of all State dollars. Banking and accounting services, investment services, and debt service continued to be our priorities. The severe economic downturn and resultant budgetary constraints over the last year necessitated major emphasis in these areas.

Our Office is acutely aware that the proper and efficient management of funds is of paramount significance to the successful flow of dollars in and out of the State. Over the last year, while some states were issuing IOU's, South Carolina remained fiscally on track.

**Local government management of funds:**

The Treasurer's Office invests millions of dollars for local governments, school districts, and other entities. Providing the best possible return while maximizing access to funds continued to be a priority. The Treasurer's Office has also been working with county treasurers and auditors to ensure the best possible management of funds at all levels of government. From seminars to newsletters, the Treasurer's Office is working with key fiscal managers to make sure our citizens are not placed in harm's way because of improper investment or management of public funds.

**STO efforts for helping citizens attain higher education goals:**

The State Treasurer's Office continues to operate the State's Future Scholar 529 College Savings Plan. We are proud of the recent success of the program.

The number of Future Scholar accounts grew by over 5,000 since last year. The percentage of participants who are South Carolina residents continued to rise with in-state accounts opened outpacing out-of-state accounts opened.

South Carolina's Future Scholar Plan has been awarded the highest ratings by groups that rate Plans in each of the 50 states. In addition, we are proud that no tax dollars go toward the operation of this Program that benefits so many South Carolina families.

The country's leading authority on 529 College Savings Plans ([SavingForCollege.com](http://SavingForCollege.com)) has awarded South Carolina with a 5-CAP Rating. This is their very highest rating. A 5-CAP Rating means that our Plan "offers outstanding flexibility, attractive investments, and additional economic benefits (such as tax incentives) that for some people at least, will provide a substantial boost to their savings. There are few, if any, weaknesses noted in the program."

In May 2009, the Future Scholar Program was ranked #1 in 3-year performance and #2 in 1- and 5- year performances in the country.

The South Carolina Tuition Prepayment Program (SCTPP), which was transferred to the State Treasurer's Office in 2000, has been permanently closed by the General Assembly. Large tuition increases at the State's public colleges and universities have contributed greatly to a growing unfunded liability. The STO continues to provide the very best customer service to the remaining 6,200 accounts in the Program.

The Program will most likely continue to need some additional funding by the General Assembly in order to meet its obligations.

The Treasurer's Office continued successful partnerships with the South Carolina Education Assistance Authority to provide funding for student loans and the South Carolina Educational Facilities Authority to maximize borrowing opportunities for the State's private colleges.

The Treasurer's Office worked on legislation that authorizes the University of South Carolina to issue revenue bonds to provide funds for the acquisition, construction, and equipping of its new business school facility and the renovation of the Close-Hipp Building.

The Treasurer's Office works with the state's higher education institutions to provide funding for capital projects and other financing needs. The Economic Development Bond Act and Research Universities Infrastructure Bond Act have provided additional tools to fund both economic development and research initiatives.

**Strategies for bolstering economic development:**

Maintenance of a strong credit rating helps promote the State's reputation as a good investment choice. Only nine states enjoy a credit rating as high or higher than ours.

The State Treasurer urged the General Assembly to bolster financial practices to strengthen the state's credit rating by accomplishing the following goals:

- End the practice of using one-time money for recurring expenses;
- Replenish and increase the state's reserve funds;
- Enact legislation requiring a multi-year forecast of revenues and expenditures; and
- Enact legislation to eliminate future accounting (GAAP) deficits.

The STO actively sought to restore the State's AAA rating with one of the three credit rating agencies. However, South Carolina's distressed economy, particularly wealth, income, and employment levels, coupled with disappointing financial results remained challenges to our efforts to regain the rating. We will continue during the coming months in our endeavor to achieve an improved rating.

The financial good health of our State has many multiplying effects on our economy. We remain persistent in our call for fiscal restraint and a strong reserve, both important ingredients for helping South Carolina weather any future financial downturn.

The Treasurer's Office works with the Department of Commerce in providing funding for large economic development projects.

At the end of 2008, The State Treasurer announced several fiscal reform measures that, if implemented, will help the State deal with current budget and economic uncertainties.

The Treasurer's Office is working with the State Investment Commission on a plan to establish a fund that will bolster both new and existing South Carolina companies by putting assets to work in the State.

The Treasurer's Office has also bolstered the amount of funds available to local banks through our BidSC Program. The deposit auction amount was raised from \$75 million to \$100 million. This should help local banks make available more funds for loans to their local communities. The State continues to win with this Program as well because of the competitive bidding process.

**Strategies for promoting greater efficiency in government:**

From Treasurer Chellis' \$100,000 voluntary permanent cut in the Office's budget during his first three months in office, to working with another state agency in merging administrative functions, to making a significant move in going "stubless" with our State payroll checks, the Office continues to find unique ways to make our operations more efficient.

Our goal is to achieve “stubless checks” entirely by Summer 2010. Not having to provide hard copies of paystubs to those who receive their pay electronically will save the State hundreds of thousands of dollars in printing and distribution costs. The Treasurer’s Office is working with a number of State agencies on a voluntary reduction in paystubs.

We also joined the Department of Social Service to automate direct deposit with their Public Assistance checks. DSS informed us that the success rate is over 90% and it has only been running since April 1, 2009.

Internally, we have improved upon several systems. The new PC-based Legislative Reporting System has improved our data flow for tracking bills. We also have linked with several banks to improve and automate our data (Bank of New York for our investment transactions; NBSC and First Citizens for on-line account information and automated transaction).

### Strategic Planning Chart

<b>Program Number and Title</b>	<b>Supported Agency Strategic Planning Goals/Objectives</b>	<b>Related FY 08-09 and beyond Key Agency Action Plan/Initiative(s) and Timeline for Accomplishing the Plan(s)</b>	<b>Key Cross References for Performance Measures</b>
1. Treasury Management	<p>1.1 Support agency banking needs</p> <p>1.2 Reconcile bank accounts and limit unrecorded deposits</p> <p>1.3 Distribute shared revenue</p> <p>1.4 Receive and distribute court fines</p>	<p>Communicate with agencies about their specific banking needs and through partnering with banking service providers, incorporate new services and technology where available</p> <p>Add sub-accounts for additional agencies, utilize additional features of online banking services, and further automate file transfer and reconciliation to facilitate timely reconciliations</p> <p>Utilize and regularly review automated systems to assure compliance with applicable distribution laws</p> <p>Monitor legislative changes related to court fines, educate local governments on any changes, update forms and instructions, and upgrade computer systems to process new fines</p> <p>(All ongoing goals)</p>	<p>Figure 7.1.4 and Key Results – Banking 4.1</p> <p>Key Results – Accounting 3.1 and 5.1 and Banking 3.1 and 3.2</p> <p>Figure 7.1.3 and Key Results – Accounting 2.1</p> <p>Figure 7.1.5 and Key Results – Banking 6.1 to 6.6</p>
2. Investments	<p>2.1 Provide cost-effective, professional portfolio management services</p> <p>2.2 Maintain adequate collateral</p> <p>2.3 Maintain adequate liquidity</p> <p>2.4 Obtain best return within prescribed parameters</p> <p>2.5 Optimize earnings through effective cash management</p>	<p>With a highly trained, professional staff and state-of-the art portfolio management tools, manage fixed income funds internally</p> <p>Utilize automated systems for timely monitoring and adjustment of collateral</p> <p>Employ proper cash forecasting models and communication with agencies to predict cash needs and to match investments with those needs</p> <p>Utilize state of the art information and analysis systems, professional investment advisory services, and a highly trained and motivated staff to maximize investments in accordance with investment policies</p> <p>Utilize state of the art cash management tools and practices</p> <p>(All ongoing goals)</p>	<p>Figure 7.2.2</p> <p>Key Results – Investments 6.1</p> <p>Key Results – Investments 4.1</p> <p>Figure 7.2.1 and Figure 7.2.4</p> <p>Key Results – Investments 5.1</p>

3. Debt Management	3.1 Pay all debt accurately and on time	Utilize automated system for timely and accurate calculation, and execution of debt payments	Key Results – Debt 1.1 and 1.2 Figure 7.3.1, and Figure 7.3.2
	3.2 Close all new debt issues by deadline	Utilize experienced staff and outside advisors depending on the nature of the issue	Key Results – Debt 3.1, and Figure 7.3.4
	3.3 Issue debt at lowest rate possible	Maintain AAA credit rating and utilize online bid capabilities to maximize exposure of offerings	Key Results – Debt 2.1 and 2.2 and Figure 7.3.3
	3.4 Monitor state debt limit	Perform impact analyses as requested for various proposed borrowing scenarios during the budget process	Key Results – Debt 8.1
	3.5 Provide timely information to credit rating agencies as needed	Keep rating agencies apprised of issues regarding the state's financial condition and respond to requests for information in a timely manner  (All ongoing goals)	Key Results – Debt 7.1
4. Unclaimed Property	4.1 Increase amount of property returned to rightful owners	Increase public awareness of Program and continue to aggressively seek owners (Ongoing)	Key Results – UPP 1.1, 1.2, 3.1 to 3.3 Figure 7.4.1
	4.2 Promote holder compliance with unclaimed property requirements	Promote holder awareness through outreach and education efforts. Send notifications before June 30 <sup>th</sup> to remind holders of their obligations to report. Sponsor at least one holder education seminar each fiscal year (May 2009)	Key Results – UPP 4.1 to 4.4
	4.3 Increase electronic reporting of unclaimed property	Continue to provide downloadable reporting software via the internet (Ongoing) Allow for the filing of the annual report via the internet with the remittances being made via ACH (June30, 2010)	Figure 7.4.2 and Key Results - UPP 5.1 to 5.3

5. College Savings	<p>5.1 Increase the number of college savings accounts within the programs, particularly among South Carolinians</p> <p>5.2 Expand internet services for Future Scholar, meeting customer expectations and enabling participation</p> <p>5.3 Expand internet services for SCTPP account owners using online WAVE (online account services) and the SCTPP website</p>	<p>Promote college savings to South Carolinians at all income levels and throughout the State</p> <ul style="list-style-type: none"> <li>Continue marketing the Future Scholar Plan with the collaboration of STO and Columbia Management (Ongoing)</li> </ul> <p>Provide better online access to account holders of Future Scholar</p> <ul style="list-style-type: none"> <li>Form task force of representatives from STO and Columbia Management to meet weekly to discuss online issues and ways to improve online access and usability (July – August 2009)</li> <li>Form priority list of necessary changes to be addressed, improved, or corrected (August– October 2009)</li> <li>Examine budget and resources necessary for taking action on improvements and updates (November 2009- December 2010)</li> <li>Initiate implementation plan (January- December 2010)</li> <li>Implement plan for ongoing process for updating and maintaining new online access (January 2011)</li> </ul> <p>Provide better online support and services for WAVE users</p> <ul style="list-style-type: none"> <li>Enhance Benefit Information section to display invoices which have been received and are in queue to be processed (Fall implementation: September – December 2009)</li> <li>Roll out an updatable school invoice tool to be placed on the SCTPP (Planning stages through September 2009 and implementation March 2010)</li> </ul>	<p>Figure 7.5.1 and Key Results – CSP 1.1</p> <p>Key Results – CSP 1.2.1</p> <p>Key Results – CSP 1.2.2</p>
* Key Cross-References are a link to the Category 7 - Business Results. These References provide a Figure number that is included in Category 7, “Results,” of Section III of this document.			



### **III.3 - CUSTOMER FOCUS**

The State Treasurer's Office relies on direct customer feedback to improve service to its customers. Feedback is asked for and received by all divisions in the Treasurer's Office. From other State agencies to the general public, we seek input on a regular basis. The input we receive helps us in the modification and improvement of our services and or programs.

The State Treasurer's Office deals with the public on a wide range of issues. Most often we receive inquiries on retirement issues, tax refund checks, vendor checks, paychecks, and information about individual programs such as Unclaimed Property, College Savings Plans, and Mini-Bonds.

To provide further accessibility to our customers, most of our programs are detailed on the State Treasurer's Office website. We continually add links, downloadable documents, and other information online to reduce costs and response times. Throughout the year, changes are made to the Office's website in order to make it more informative and customer friendly to the people of South Carolina and to other State agencies.

Legislative inquiries are handled through a dedicated professional staff that coordinates research and provides accurate information on legislative matters.

Ongoing communication with State agencies provides feedback on how their requirements and expectations can best be fulfilled. During the fiscal year, several agencies were involved in either implementing new banking arrangements specific to them or piloting new services initiated by the State Treasurer's Office.

The STO regularly participates in special projects to improve statewide processes.

Representatives of the agency make annual presentations to the South Carolina Governmental Finance Officers Association at both the Fall and Spring Conferences and use those forums not only to disseminate information to others, but also to receive feedback from these customers and identify ways we can best meet their needs. Staff also served as presenters at the College and University Bursars Association meetings and at training for local governments on court fines and cash investments.

Our staff has answered all FOIA requests in a timely and efficient manner.

### **III.4 - MEASUREMENT, ANALYSIS, AND KNOWLEDGE MANGEMENT**

Performance measures are incorporated in all operations of the agency. The measures used are selected by management to:

- Track compliance with State and Federal laws where applicable or with externally imposed requirements like accounting standards and regulatory compliance;
- Monitor compliance with management directives, goals, or objectives;
- Measure success of efficiency measures implemented;
- Measure performance against industry benchmarks;
- Indicate trends in meeting customer expectations; and
- Set priorities for resource allocation.

An inventory of key performance indicators shows the majority of measures used are in the areas of compliance, mission accomplishment, and customer focus. This is consistent with the nature of the agency where most functions are delegated to it by statute, with few programs at the discretion of the State Treasurer.

Comparative data and information is selected and used based on an intentional search for best practices and benchmarks relevant to our mission. Participation in national organizations such as the National Association of State Auditors, Comptrollers and Treasurers (NASACT), the National Association of State Treasurers (NAST), the College Savings Plan Network (CSPN), and other professional organizations in banking, cash management, investments, unclaimed property, and college savings plans provides exposure to comparative data and “best practices,” many of which have been adopted.

Accuracy of data is assured through reconciliation and confirmation with external sources:

- Statewide accounting data is reconciled daily to the Office of the Comptroller General;
- Banking data is confirmed with the depository bank, custodian of investments, and the counterparty to transactions;
- The status of investment portfolios and performance results is measured by at least three external sources in addition to the internal process: the custodial bank, the independent investment advisor, and the Investment Commission’s consultant for Retirement portfolios;
- Local Government Investment Pool transactions are confirmed with Pool participants through daily confirmations of transactions and monthly statements;
- Information on debt issues and payments is monitored and confirmed by external parties, including bond counsel, financial advisors, independent paying agents, bond holders, and the institutions served; and
- Internal administrative data such as budget status, procurement information, and payroll and personnel transactions is confirmed with statewide reporting systems and subjected to routine audit.

Agency data is subjected to annual audit directly by at least eight audit teams, including:

- Statewide GAAP Audit Team for cash, investments, debt, and data processing control;
- Agreed Upon Procedures audit of the agency;
- Local Government Investment Pool GAAP audit;
- Independent auditors for the South Carolina Retirement Systems;
- Independent auditors for the Tobacco Settlement Revenue Management Authority;
- Independent auditors for the South Carolina Resources Authority;
- Independent auditors doing follow-up audits on Court Fine remittances; and
- Statewide single audit team for compliance with CMIA.

Indirectly, agency information is subjected to audit repeatedly through the audit confirmation process of the various agencies and institutions for which we serve as the State’s bank.

### **III. 5 – WORKFORCE FOCUS**

**1. How does management organize and measure work to enable your workforce to: 1) develop to their full potential, aligned with organization’s objectives, strategies, and action plans; and 2) promote cooperation, initiative, empowerment, teamwork, innovation and your organizational culture?**

The State Treasurer’s Office successfully completed EPMS training for supervisors and employees. This training was helpful in creating dialogue between supervisors and their employees regarding their work and performance expectations. Establishing success criteria for each employee’s job functions was beneficial in keeping the evaluation process objective. Several employees also participated in internal and external training opportunities.

**2. How do you achieve effective communication and knowledge/skill best practice sharing across departments, jobs, and locations? Give Examples.**

Because of the time sensitivity of services provided by our agency, it is imperative that employees are cross trained in their departments to fill in for coworkers to ensure all critical job functions are performed. Employees are encouraged to develop a desk reference manual of their job functions to be used by others in their absence. In many areas employees are not only trained in their own departmental duties but are trained to back up other divisions.

**3. How does management recruit, hire, place, and retain new employees? Describe any barriers that you may encounter.**

The agency continues to use the Office of Human Resources’ NEOGOV website as its primary recruiting tool. The system allows us to apply specific job training questions and filters to our vacancy announcements, thus allowing us to narrow our applicant pool to select from the most qualified candidates. The system allows applicants to submit their applications electronically, thus eliminating paper applications and the turnaround time in receiving applications. With the NEOGOV system, applicant information used to develop the agency’s Affirmative Action Plan is readily available through the reporting feature in the system. This allows for more accurate information to be reported to the State Human Affairs Commission and the General Assembly on goals attained in the agency’s Affirmative Action Plan (AA). Once hired, employees are given in-house orientations and trained on the job for agency specific duties.

**4. How do you assess your workforce capability and capacity needs, including skills, competencies, and staffing levels?**

Senior leaders and managers constantly analyze the work loads of agency staff and monitor projects that are in process as well as planning for future projects. Resource requirements are identified by agency management and action plans to accommodate present and future needs are developed.

**5. How does your workforce performance management system, including feedback to and from individual members of the workforce, support high performance work and contribute to the achievement of your action plans?**

The State Treasurer's Office actively seeks employees' input and feedback in relation to their positions and how it relates to agency functions and processes. The performance evaluation period provides supervisors and employees opportunities to discuss ways in which employees can improve their performance and be successful in their jobs. These sessions also allow supervisors an opportunity to assess employee satisfaction, workload, and well-being and gain insight and input from employees on how to improve processes. There is an ongoing emphasis on making sure goals and success criteria for individual employees are in alignment with the agency's mission and action plans.

**6. How does your development and learning system for leaders address the following: a) development of personal leadership attributes; b) development of organizational knowledge; c) ethical practices; and d) your core competencies, strategic challenges, and accomplishment of action plans?**

Positions in the Treasurer's Office require our leaders to have very specific qualifications and experience that relate to the day-to-day functions of the agency. Senior management is encouraged to participate in training for professional development and growth which improves the work effort and the work environment. Weekly senior management meetings are held to keep all departments abreast of what activities are taking place within the agency and how those activities impact other departments.

**7. How do you identify and address key developmental training needs for your workforce, including job skills training, performance excellence training, diversity training, management/leadership development, new employee orientation, and safety training?**

Through observation and one-on-one communication, managers and employees identify areas where additional job skills and training are needed. With the implementation of SCEIS, there has been and will continue to be many opportunities for learning as the State progresses toward full integration of its financial, materials management, and human resource systems. Every employee will be affected and will benefit from the training related to the use of the system as a business tool as well as for the Employee Self Service functionality. New employee orientation is a requirement for all new hires.

**8. How do you encourage on the job use of new knowledge and skills?**

The Treasurer's emphasis on a well-trained professional workforce and his support of external training, supplemented by internal learning to ensure employee growth and innovation has enabled our agency to continue to meet its mission and provide exceptional customer service.

**9. How does employee training contribute to the achievement of your action plans?**

Due to the time sensitive nature of job functions within the Treasurer's Office, it is imperative that employees are well-trained and prepared to fulfill day-to-day functions. Cross training on critical duties allow employees to not only learn different duties, but they can actually perform those additional duties when necessary, thereby meeting customer needs in a timely and professional manner. Finally, other industry specific training or technical training allows employees to bring new innovations to daily tasks and improve their core competencies.

**10. How do you evaluate the effectiveness of your workforce and leader training and development systems?**

The State Treasurer's Office prides itself on the low turnover rate of employees. Our goal is to train employees to be prepared to progress in their careers as opportunities arise. One measure of our success is the availability of qualified internal applicants for positions when posted.

**11. How do you motivate your workforce to develop and utilize their full potential?**

Recognition of staff for their accomplishments continues to be an important responsibility of Senior Management. Efforts are ongoing through our Employee Reward and Recognition Team to identify meaningful ways for that to happen. Employees were honored with a luncheon during Employee Appreciation Week. Our employees are encouraged to participate in agency and community activities. They participated in a number of fund-raising and charity activities such as the United Way, Communities Health Charities, the First Ladies' Walk for Life, United Black Fund and the Harvest Hope Food Bank. The Office sponsored a book fair and proceeds were donated to United Way.

**12. What formal and/or informal assessment methods and measures do you use to obtain information on workforce well-being, satisfaction, and motivation? How do you use other measures such as employee retention and grievances? How do you use this information?**

Employee well-being and satisfaction is informally measured through day-to-day interactions, conversations and departmental meetings. Employee motivation is more formally assessed through the division's employee planning and evaluation process. Exit interviews with employees leaving the agency are conducted to get feedback from employees on their employment experience with the agency. Data is collected and priorities for improvement are identified and implemented accordingly. The agency has not experienced any grievance complaints. Employee retention is an important focus of the agency.

**13. How do you manage effective career progression and effective succession planning for your entire workforce throughout the organization?**

During the past fiscal year, the agency has continued its efforts in developing its succession plan by identifying those employees in critical needs areas who will be eligible to retire in the next 3 to 5 years. Discussions are under way with Division Directors to determine the needs of each division and to identify those individuals who have potential to step into leadership roles with proper training and development. This process is ongoing as it relates to the agency's goals and objectives.

**14. How do you maintain a safe, secure and healthy work environment? (Include your workplace preparedness for emergencies and disasters.)**

The agency continues its commitment to its workforce by promoting employee well-being in a safe, secure and healthy work environment. Employee participation in benefits fairs, health screenings, mammograms and flu shots is encouraged and supported to ensure the health of employees. Routine reviews of office space and equipment are conducted to ensure the safety of employees. Managers and employees are encouraged to report any safety or health issues

immediately. In case of emergencies, disasters, or evacuation, an Emergency Operations Plan is in place.

### **III.6 - PROCESS MANAGEMENT**

In **Treasury Management (Accounting and Banking)**, deposits, distributions, reconciliations, and financial reporting are time sensitive processes with an external customer focus. Deadlines are imposed either by legal mandate, management policy, or customer expectations. Constant monitoring of deadlines, exception reports, and other performance requirements drives day-to-day operations. In order to meet growing demands with limited resources, managers must continually look for ways to better utilize automation for processing, verifying, and reporting information, and for identifying exceptions needing attention.

Systems tied to non-state entities are often driving forces for automation. Office systems are electronically tied to outside banks and service providers through electronic receipt and submission of data, credit card and Internet payment systems, electronic daily confirmations, and automated reconciliation systems. Likewise, the needs of the customer, primarily other state agencies and institutions, drive decisions as to how and when certain services will be delivered. Where possible, the State Treasurer's Office strives to standardize banking services to take advantage of efficiency of scale, while serving the diverse and sometimes unique needs of each customer at competitive rates.

The State Treasurer's Office continues to promote Automated Deposits System, Electronic Vendor Payments, Deposit Sweep systems for Colleges and Universities, sub-account systems for depository accounts and remote deposit capture systems. Progress toward these goals and efficiencies achieved are reported in Section III.7 Results.

In the area of **Investments**, the office is linked by the latest technology to market information, brokers, investment advisors, custodial banks, and accounting systems. To obtain the best investment opportunities within the guidelines of approved investments, the State Treasurer's Office maintains constant communication with securities professionals and uses on-line securities quotation services. The State Treasurer also receives expert advice from an independent investment advisory firm.

BidSC, the quarterly internet auction process for bidding on Certificate of Deposits continues to be an efficient and effective method of assuring the State the best rate on time deposits while allowing all financial institutions in the State an opportunity to bid for State deposits. In addition to the increase in return on the deposits, the system also provides an efficient method of communicating settlement information to the banks and financial institutions on those trades.

The STO continues to explore options for banking partners to obtain public deposits for local uses while assuring the funds are secure and comply with collateral statutes. Legislation was passed the previous year allowing banks to pool collateral for all their public funds, to be monitored by the State Treasurer's Office. Forms and procedures were developed in order for that option to be available on a voluntary basis. Also, during the past fiscal year, the pooled collateral project was implemented on the QED system.

Objectives for investment of General and Other Funds are developed in conjunction with the State's investment advisor and adopted by the State Treasurer. In addition to daily monitoring and communication with investment advisors, twice monthly investment update meetings are held with the State Treasurer and investment staff to review economic and market conditions as well as investment direction. Monthly performance reports provided by both the custodial bank and investment advisor

reviewed by staff, assure the performance requirements are reviewed regularly and processes are adjusted as market conditions dictate.

The overall objectives of the fixed portfolio for Retirement Funds are provided in the Statement of Investment Objectives adopted by the South Carolina Retirement System Investment Commission, of which the Treasurer is a member. Monthly reports provided by the custodial bank are reviewed by the STO as part of their ongoing custodial responsibilities.

In the area of **Debt Management**, the State Treasurer's Office continues to use internet-based technology in advertising bond sales and accepting bids. While this process saves printing and postage costs, it more significantly broadens the universe of potential bidders on the State's debt offerings.

The Debt Management System (DMS) provides a system of controls and automation for the Debt Management Division. This system provides mechanisms for record keeping and reporting, and provides automation for electronic debt payment through the Automated Clearing House to the State's paying agents. It also provides functionality for tracking agency payments for authorized capital projects to ensure timely and accurate payments for projects approved by the Joint Bond Review Committee and as appropriated by the General Assembly.

In administering the **Unclaimed Property Program**, and the **College Savings Plans**, two programs involving direct interaction with the general citizenry, promotion and education, customer expectations and customer-oriented delivery systems are the driving forces. Internet access to data and services continues to be the focus. Both systems are managed through outside vendor software systems designed specifically for the industry. By outsourcing these unique systems, the programs are able to take advantage of upgrades and best practices applicable to other states.

The **support systems** of the office include Administration, Information Technology, and Legislative and Constituent Services. These systems are designed to assist the production areas by providing a well-qualified work force, adequate funds to support the mission and retain valuable staff, efficient data processing systems, accurate and timely data for decision making, and information and opportunities for input on legislative matters and constituent concerns. As mentioned previously, the Administration Division has successfully completed its transition to the state's new Enterprise Information System (SCEIS).

Recognizing the importance of our **key supplier relationships**, the State Treasurer has built dedicated support systems for each of these type relationships. Through regular meetings with major suppliers of banking services, and agencies requesting new types of bank services, the office has been able to forge partnerships with these suppliers. These partnerships have allowed us to take advantage of their industry experience and knowledge of our operations to recommend and help implement state of the art solutions to specific banking processes, resulting in cost savings and more efficient, reliable and accurate systems. Category 7 – Business Results, starting on page 16) highlights specific examples of improvements.

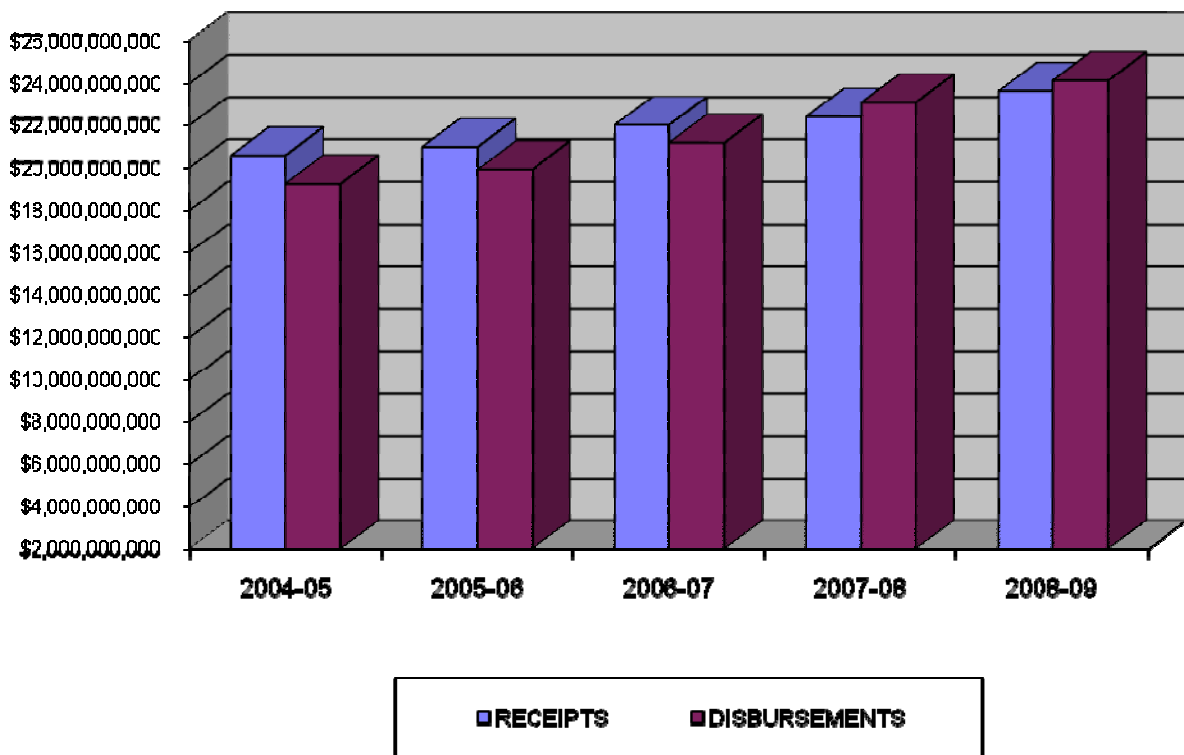
### III.7 RESULTS

#### 7.1 Treasury Management

##### Program Cost:

	2004-05	2005-06	2006-07	2007-08	2008-09
State Funds					
Accounting	\$ 444,499	\$ 512,588	\$ 562,766	\$ 611,992	\$ 517,118
Banking	\$ 226,671	\$ 234,723	\$ 264,298	\$ 228,238	\$ 259,343
Total State Funds	\$ 671,170	\$ 747,311	\$ 827,064	\$ 840,230	\$ 776,461
Other Funds - Banking	\$ 162,593	\$ 185,456	\$ 190,449	\$ 143,357	\$ 180,912
Total	\$ 833,763	\$ 932,767	\$ 1,017,513	\$ 983,587	\$ 957,373
FTE's	15.70	16.80	15.80	15.90	15.25
Temporary employees				1.00	

*Figure 7.1.1 - 5 Year Comparison of Cash Receipts and Cash Disbursements*



Note: Figure 7.1.1 represents all cash receipts and cash disbursements recorded to STARS in the State Treasury from July 1 through June 30 for the years indicated.



## Accounting Program Goals:

- Receive and disburse funds from all sources in a timely and accurate manner.
- Analyze FMS and STARS entries to reconcile account balances with the Comptroller General's Office daily.
- Provide efficient and effective financial reporting and accounting services for all state agencies and institutions as required.
- Conduct timely reconciliations of imprest bank accounts for the State, assuring accuracy of banking information and timely resolution of discrepancies.
- Distribute shared revenue to subdivisions monthly, quarterly, or annually according to statute.
- Manage the flow of direct deposit authorizations from customers assuring prompt posting of funds to customer's bank accounts.
- Analyze and provide input on budgetary and legislative matters related to statewide accounting matters.
- Continuously analyze processes to look for cost savings through efficiencies and ways to streamline duties.

## Accounting Objectives and Key Results:

### 1. Disburse all funds within 24 hours of request by increasing the number of payments made electronically (thus improving accuracy, timeliness of payment, and reducing cost to process).

- 1.1. Increased the use of Electronic Vendor Payments and EFT payments to 46% of total payments and expanded the procurement card program (which reduces the number of individual disbursements required), allowing staff to process disbursements within the goal of 24 hours from request.

*Figure 7.1.2 - Comparison of Disbursements by Type*

	<u>2004-05</u>		<u>2005-06</u>		<u>2006-07</u>		<u>2007-08</u>		<u>2008-09</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
<b>Disbursements</b>										
<b>Paper Checks</b>	2,823,083	66%	2,767,635	64%	2,672,063	61%	2,654,720	60%	2,359,721	54%
<b>Electronic Payments</b>	1,450,757	34%	1,572,541	36%	1,695,861	39%	1,779,981	40%	2,010,973	46%
<b>Total Disbursements</b>	<u>4,273,840</u>	<u>100%</u>	<u>4,340,176</u>	<u>100%</u>	<u>4,367,924</u>	<u>100%</u>	<u>4,434,701</u>	<u>100%</u>	<u>4,370,694</u>	<u>100%</u>
<b>FTE's in Process Area</b>	3.25		4.00		4.00		4.00		4.00	

### 2. Distribute Shared Revenues to subdivisions as required by law.

- 2.1. With few exceptions, most of the shared revenues were distributed according to State Treasurer's Office policy between the 20<sup>th</sup> and 25<sup>th</sup> of the month. However, all state shared revenues were distributed by the last working day of the month in which distribution is required by statute. Additional duties caused by increased participation in the SCEIS project, the

consolidation of the Accounting and Banking areas, and changes to the court fine system contributed to increased workloads of area employees.

**Figure 7.1.3 - Shared Revenues Distributed by type**

Annual	Monthly	Quarterly
Brokers Premium Taxes Fire Department Premium Taxes Excise Tax on Liquor by the Drink – Hold Harmless	Local Option Sales Tax – Property Tax Relief  Local Option Sales Tax – Education Capital Improvements Sales & Use Tax Motor Transport Fees in Lieu of Taxes	Local Government Fund Aid to Planning Districts Local Option Sales Tax- Capital Projects Local Option Sales Tax – School Districts Local Option Sales Tax – Transportation Facilities 11% Liquor by the Drink Excise Tax Accommodations Tax Accommodations Tax – Tourism Districts Solid Waste Tire Fees Aid to County Veterans Offices

3. **Reconcile all imprest bank accounts of the State within 1 day after receipt of the bank information. These high volume disbursement accounts include: Contingent, Payroll, Income Tax Refund, Public Aid, and Special Payments.**
  - 3.1. The staff has maintained imprest accounts reconciliation process at a 1 day turnaround through improved automation of reconciliation. By partnering with banks to take advantage of Positive Pay services, bank discrepancies in reconciling checks have decreased, and bank efforts in fraud prevention have benefited. All imprest bank accounts of the State incorporate this service.
4. **Process all payroll and vendor direct deposit authorizations by the following payday.**
  - 4.1. All payroll and vendor direct deposit requests were processed by the following payday. As of June 30, 2009, 5,698 vendors had signed up for Electronic Vendor Payments.
5. **Reconcile all receipts, disbursements and transfers with the Comptroller General’s Office daily as required by State law. Identify and resolve all differences.**
  - 5.1. Daily reconciliations with the Comptroller General’s Office were achieved, and all differences were identified and resolved.
6. **Review all proposed legislation related to banking and accounting matters, and provide feedback by the deadline to respond.**
  - 6.1. Multiple pieces of legislation and amendments were reviewed and analyzed during the fiscal year related to Accounting and Banking matters.
7. **Process, batch, and distribute all checks, IDT’s, and Treasurer Receipts for state agency pick up within 24 hours of printing.**
  - 7.1. All were completed within 24 hour turnaround from the morning they were received from the printer.
8. **Provide efficient customer service to state agencies when canceling checks, replacing checks, and providing paid check copies.**

- 8.1. During the year, we cancelled checks at least once a week or as requested by state agencies. Our goal was to provide check copies and replace checks within 48 hours of an agency's request. We were able to meet this goal with few exceptions.

**9. Provide timely and accurate financial information and reports as required.**

- 9.1. Prepared annual reports and furnished financial data to internal and external customers by prescribed deadlines. (GAAP Closing Packages, CMIA TSA and Annual Report, Annual Accountability Report)
- 9.2. During this fiscal year, several employees served as subject matter experts (SMEs) on the South Carolina Enterprise Information System (SCEIS) project. The project's focus was on the Go Live and Support Phase. Thirty state agencies are now using SCEIS as their books of record. Additional agencies will be brought into the system in staged groups every few months, until eventually all State agencies will conduct their business within the single statewide business system. Also, preparations began to implement the Human Resources/Payroll module of the SCEIS project.

**Banking Program Goals:**

- Receive, audit, and record funds from all sources in a timely and accurate manner.
- Provide efficient and effective financial reporting and banking services for all state agencies and institutions as required.
- Conduct timely reconciliations of depository bank accounts throughout the State, assuring accuracy of banking information and timely resolution of discrepancies.
- Receive and distribute Court Revenues according to the governing statutes.
- Analyze and provide input on budgetary and legislative matters related to statewide banking matters.
- Work with banking vendors to implement best practices and to look for cost savings through efficiencies and ways to streamline duties.

**Banking Objectives and Key Results:**

**1. Record all deposits within one business day of receipt from the agencies.**

- 1.1. Deposits were recorded within one business day of receipt from agencies.

**2. Increase the number of agencies using the electronic deposit system, focusing on the high-volume deposit agencies.**

**Figure 7.1.4 - Comparison of Receipts by Type**

	2004-05		2005-06		2006-07		2007-08		2008-09	
	Number	%	Number	%	Number	%	Number	%	Number	%
<b>Receipts:</b>										
<b>Manual Deposits</b>	48,359	29%	36,839	21%	38,293	22%	39,233	21%	34,733	18%
<b>Automated Deposits</b>	75,896	45%	90,913	53%	92,529	52%	96,841	53%	103,472	54%
<b>Credit card deposits</b>	35,232	21%	37,599	22%	41,628	23%	43,611	24%	46,979	25%
<b>ACH Deposits</b>	7,749	5%	6,967	4%	5,722	3%	4,452	2%	5,330	3%
<b>Total Deposits</b>	<u>167,236</u>	<u>100%</u>	<u>172,318</u>	<u>100%</u>	<u>178,172</u>	<u>100%</u>	<u>184,137</u>	<u>100%</u>	<u>190,514</u>	<u>100%</u>
<b>FTE's in Process Area</b>	4.00		4.00		4.00		4.00		4.00	

2.1. Automated deposits and credit card deposits both utilize the electronic deposit system. These electronic postings accounted for 79% of all deposits proceeded through the STO. Deposits continued to be processed within the one day requirement, utilizing enhancements already in place. By the end of the year, thirty state agencies had converted from their legacy accounting systems to SAP and began submitting deposits to the STO through SCEIS. As further implementation continues, the number of manual deposits should decrease.

**3. Reconcile all bank accounts of the State within 30 days of receipt of the bank information, keeping the level of unrecorded deposits at June 30 under the audit tolerance for materiality.**

3.1. Reconciliation time for all depository accounts remains at 30 days or less.

3.2. The STO continued diligent efforts to identify and process unclaimed deposits. Unrecorded deposits totaled a low \$346,450 or 0.0015% of revenues, well below the established tolerance level of 3%. This efficiency allows funds to be available for program purposes on a timely basis.

**4. Work with Banks to analyze agency use and needs of available Banking Services.**

4.1. The STO continues to meet with representatives from different banks on a regular basis to discuss current banking practices and new services available on the market. These meetings provide our office insight on possible enhancements or cost-saving practices to explore. This also presents an opportunity to discuss, first-hand with bank vendors, issues that may need attention on current services already being utilized by the STO.

**5. Provide for the reporting and disbursement of existing and new Court Revenues required by legislation.**

5.1. Two new court fines were added during the 2008 Legislative Session that had to be incorporated into our forms and distribution systems during Fiscal Year 2009. Also, one existing court fine was revised effective February 10, 2009 which caused additional modification to our forms and distribution system. The STO coordinated notifications of the changes to courts and local officials with the Judicial Department.

**6. Continue to enhance compliance with court revenue collection and reporting through redesign of reports and instructions, follow-up of delinquent reports, increase monitoring of local government audit reports and respond to requests for information or assistance.**

6.1 During FY 2009, 20 court fine audits were issued by the outside auditor contracted through the State Auditor's Office. STO staff has implemented a monitoring system for those audit findings to assure corrective actions are taken and any funds due to the state are received.

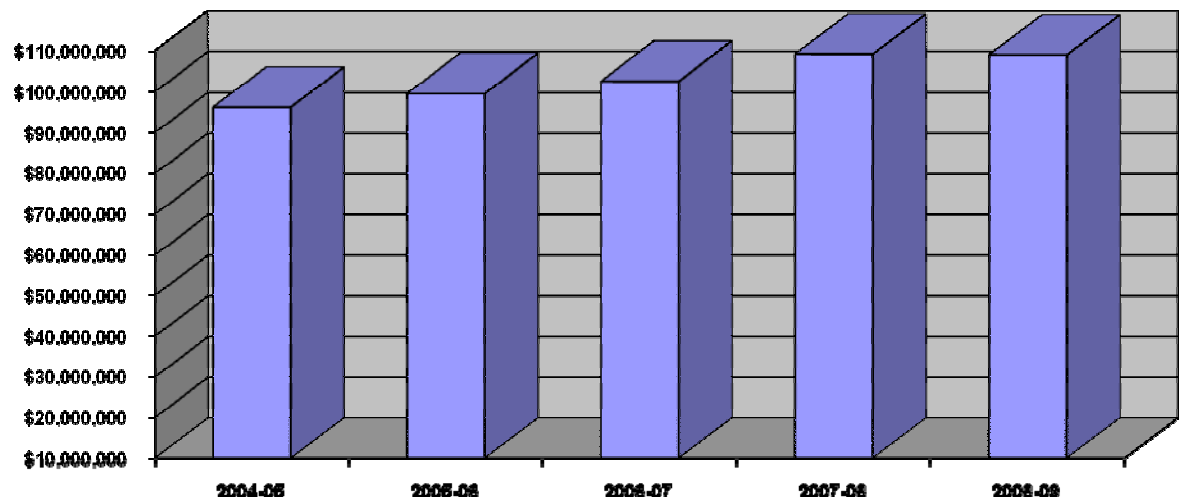
6.2 A new proviso was also added to the FY09 Appropriation Bill which gives the STO the authority to withhold some or all aid to subdivision funds to local governments in the following three situations:

6.2.1 Local government becomes 90 days delinquent in submitting court revenues to STO

6.2.2 Local government does not remedy audit findings related to court revenues within 90 days of issuance of the audit report.

6.2.3 Local government fails to provide annual audited financial statements to STO as required by law.

**Figure 7.1.5 - Fines, Fees and Assessments Collected and Remitted**



6.3 At June 30, 2009, 13 Municipal, 2 General Sessions and 1 Magistrate Court showed on our delinquent report, meaning they had not remitted any court fines to the STO in 3 months. STO staff made phone calls to all on the delinquent list and will begin sending notices to them that their state aid could be withheld according to the new proviso in the FY 09 appropriation bill.

6.4 Out of 248 entities remitting Court Fines to the Office, 11 have not submitted the required annual audit reports for FY 2007 and 4 for FY 2008. Letters have been sent to all who have not submitted the reports reminding them of the requirements and notifying them that their state aid could be withheld according to the new proviso in the FY 2009 Appropriation Act.

6.5 At their request, the STO conducted training for County Treasurers and their staffs on the Court Fines process and what the STO is doing to increase compliance. Similar training for Municipal Treasurers is planned for the near future. These training sessions provided valuable feedback from the users to address problems and common mistakes in the revenue remittance process.

6.6 The agency applied for and was approved to receive free programming through the state portal to web enable the Court Fine reporting process. Although the October 2008 implementation goal was not met, we are on track to have a web reporting solution this fiscal year. The lessons learned from the auditor in the field, feedback from the users as well as the three legislated changes will be incorporated into the new system.

**7. Reconcile the Composite Reservoir Master Bank Accounts and distribute detail account statements to state agencies by the 15th of the month.**

7.1 Composite Reservoir accounts were reconciled with detailed statements distributed to the agencies by the 15th of the month.

**8. Review all proposed legislation related to banking matters and provide timely feedback.**

8.1. Multiple pieces of legislation related to Banking, Collateral and Court Fines were reviewed during the year with feedback provided to both internal and external staff.

**7.2 - Investments**

**Program Cost:**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
State Funds					
Other Funds	\$637,791	\$756,269	\$805,213	\$847,206	\$1,153,202
Total	<u>\$637,791</u>	<u>\$756,269</u>	<u>\$805,213</u>	<u>\$847,206</u>	<u>\$1,153,202</u>
FTE's	9.00	10.00	8.00	7.55	6.75
Temps				1	

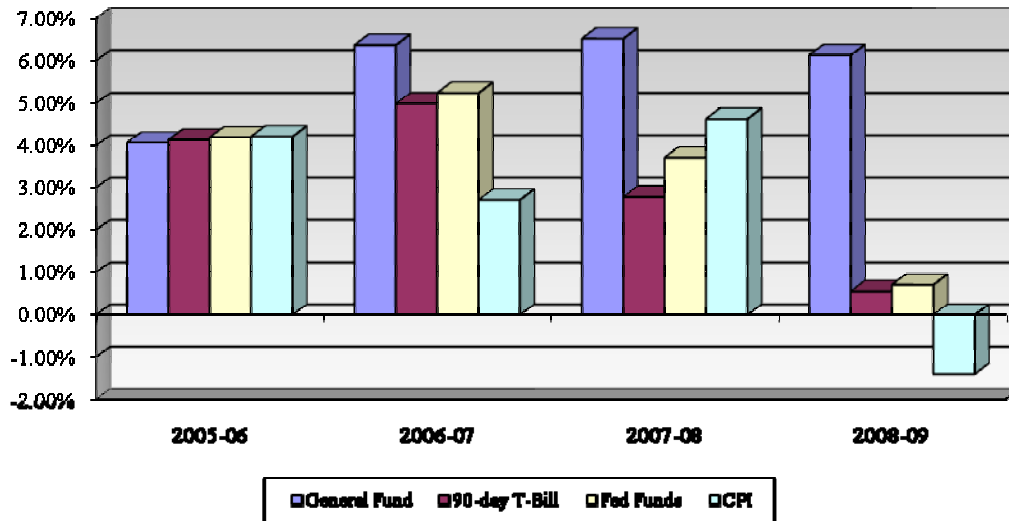
**Program Goals:**

- To manage investment programs in accordance with S. C. Code Section 11-9-660 and other statutes of the South Carolina Code of Laws, 1976, as amended, as applicable, in an effective manner.
- To invest all State funds pursuant to statutory authority and provide custodial services of the South Carolina Retirement Systems portfolios, which are structured to meet the long-term nature of pension obligations, in an effective manner.

**Objectives and Key Results for General and Other Funds:**

1. Obtain the best return within prescribed parameters on a portfolio basis, meet liquidity needs, and meet or exceed the applicable benchmarks while preserving capital.

*Figure 7.2.1 - General Funds Rate of Return compared to Benchmarks (Figure)*



- 1.1. The portfolio outperformed the benchmarks of 90-day Treasury Bills and the Federal Funds.
- 1.2. During FY09, the Federal Reserve Open Market Committee lowered short term rates from 2.0% to 0 - 0.25%. The decrease in rates along with the reduced balances is reflected in the lower income for the fiscal year compared to the prior fiscal year. The General Fund is still benefiting from the securities bought in the prior fiscal year.
- 1.3. The State's Local Government Investment Pool (LGIP) earned a rate of 1.22% as compared to the average benchmark investment rate of 0.55% (90-day Treasury Bill Rate) while allowing entities 24-hour access to their funds.

**2. Provide professional investment services for all funds under management through efficient utilization of available resources.**

- 2.1. The STO continues to provide professional portfolio services for all funds managed at a considerable cost savings to the State. The cost for investment management services was 0.0135% or 1.35 basis points, compared to the industry average portfolio management fees of .10%, or 10 basis points. (Source: Jameson Eaton & Wood, Investment Advisors)

**Figure 7.2.2 – Cost of Investment Management Services**

	FY2006	FY2007	FY2008	FY2009
General Funds Portfolio Management Fees	\$756,269	\$805,213	\$847,206	\$1,153,202
Investment Commission for Fixed Income	\$526,130	\$481,355		
SCRS for Fixed Income	\$142,282	\$190,777		
<b>Total Cost</b>	<b>\$1,424,681*</b>	<b>\$1,477,338</b>	<b>\$847,206</b>	<b>\$1,153,202</b>
<b>Funds Managed</b>	<b>\$19,834,345,888</b>	<b>\$20,327,864,034</b>	<b>\$8,595,608,732**</b>	<b>\$8,523,452,028**</b>

Cost as % of Funds Managed*	.0072%	.0073%	.0098%	.0135%
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\*Prior to FY 05/06 did not include Local Government Investment Pool.

\*\*FY 2008 onwards does not include Retirement Funds.

2.2 Assets under management continue to grow as state agencies and political subdivisions recognize the value both in enhanced returns and low expense of investing with the State Treasurer's Office when compared to private sector alternatives. We continue to deliver a high value product at a low cost in an efficient and effective manner to our many and diverse customers. See Figure 7.2.3 for specifics on funds managed and Figure 7.2.2 for cost of investment services.

**Figure 7.2.3 - General and Other Funds Managed**

	2005-06	2006-07	2007-08	2008-09
Workload - State and local				
General funds managed (average)	1,714,211,023	2,021,494,494	1,896,963,211	1,297,807,050
Restricted funds managed (average)	3,356,956,210	3,729,677,700	4,250,695,439	4,676,011,041
Tobacco funds managed	487,715,450	460,411,362	265,000	-
Total State funds managed	<u>5,558,882,683</u>	<u>6,211,583,556</u>	<u>6,147,923,650</u>	<u>5,973,818,091</u>
LGIP funds managed (average)	1,957,665,038	2,065,724,013	2,447,685,082	2,549,633,937
LGIP Accounts	519	554	553	544
Number of State and local portfolios	20	20	20	19
Total number of investment trades	4,356	3,435	2,644	2,461
<i>(FY 2005-2007 included fixed income trades for the S C Retirement System)</i>				

2.3 During the fiscal year, conversion of the LGIP portfolio to the QED system was completed. The enhancement to the system to allow participants to view their accounts online and initiate transactions through a secure website was completed. Several entities have been given access and the remaining are in the process of completion.

2.4 On January 1, 2009, S. C. Code Section 6-5-15 gave the State Treasurer's Office authority to monitor the collateral for public deposits held at various banks in a pooled method. As of June 30, 2009, one bank had signed on and two more were in the inquiry phase. During the fiscal year, a pooled collateral project was implemented on the QED system. Over the next few months, with some enhancements, local entities will be able to get their collateral reports via a secured website.



2.5 The securities lending program with the BNY/Mellon continues to surpass industry benchmarks in both utilization (percentage of holding actually loaned) and the contract spread (difference between the loan rate of assets and the reinvestment rate of proceeds) in high utilization classes. Revenue from this program covers custodial bank fees and provides additional earnings.

**Figure 7.2.4 - Security Lending Program Performance compared to Benchmarks**

	<u>RMA* Utilization</u>	<u>BNY Utilization</u>	<u>RMA Spread</u>	<u>BNY Spread</u>
Asset Class				
US Govt	27%	18%	64bp	34bp
US Agency	3%	3%	56bp	79bp
GNMA	16%	71%	12bp	73bp
Corporates	44%	4%	81bp	88bp
*Risk Management Association Security Lending Committee				

**Source: BNY/Mellon**

2.6 The BidSC Program continues to be a great success. The quarterly CD auctions resulted in increased earnings for the State of \$1,263,313 during this fiscal year.

**3. Meet or exceed the general fund budget projection for investment earnings for the year.**

Earnings on General Fund investments were \$79,559,729 which surpassed the investment earnings projection of \$77 million by \$2,559,729.

**4. Maintain adequate liquidity for cash needs.**

All portfolios maintained adequate liquidity to immediately meet cash flow needs.

**5. Manage cash flow to optimize earnings for the State.**

All funds are fully invested daily. We monitor online systems with the banks to fully utilize any funds received prior to 12:00 each day. We negotiate the best possible rates for any funds received after 12:00. Funds are transferred online between the banks to meet liquidity needs and to maximize the use of funds.

**6. Maintain adequate collateral to secure State funds deposited in financial institutions.**

All deposits were properly collateralized.

**7. Customer satisfaction and quantitative measures**

There were no complaints from LGIP participants or State agencies, and the local Government Investment Pool continued to experience growth in deposits (see Figure 7.2.3). All funds under management weathered the credit crunch problem over the year, unlike what some other states experienced.

***Retirement Funds held in Custody***

The State Treasurer remains the legal Custodian of all Retirement Assets totaling over \$19 billion. During the year, the Treasurer and his staff worked with the Commission to create a position and job description for a compliance/audit position to ensure quality control over processes. The position will report independently to the Commission, on which the Treasurer serves.

## **7.3 -Debt Management**

### **Program Cost:**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
State Funds	\$ 270,893	\$ 427,364	\$ 345,402	\$ 179,112	\$ 120,070
Other Funds	\$ 75,012	\$ 24,848	\$ 95,886	\$ 265,357	\$ 353,509
<b>Total Funds</b>	<b>\$ 345,905</b>	<b>\$ 452,212</b>	<b>\$ 441,288</b>	<b>\$ 444,469</b>	<b>\$ 473,579</b>
FTE's	5.00	5.75	5	5	5
Temporary Employees	0.60		1	2	2

### **Program Goals:**

- Manage all debt issues for the State, its agencies and institutions to optimize debt structure and assure timely debt payments.
- Coordinate communications with rating agencies to maximize the State's credit rating.
- Assure compliance with legal requirements, including Arbitrage Rebate and Constitutional Debt Limit.

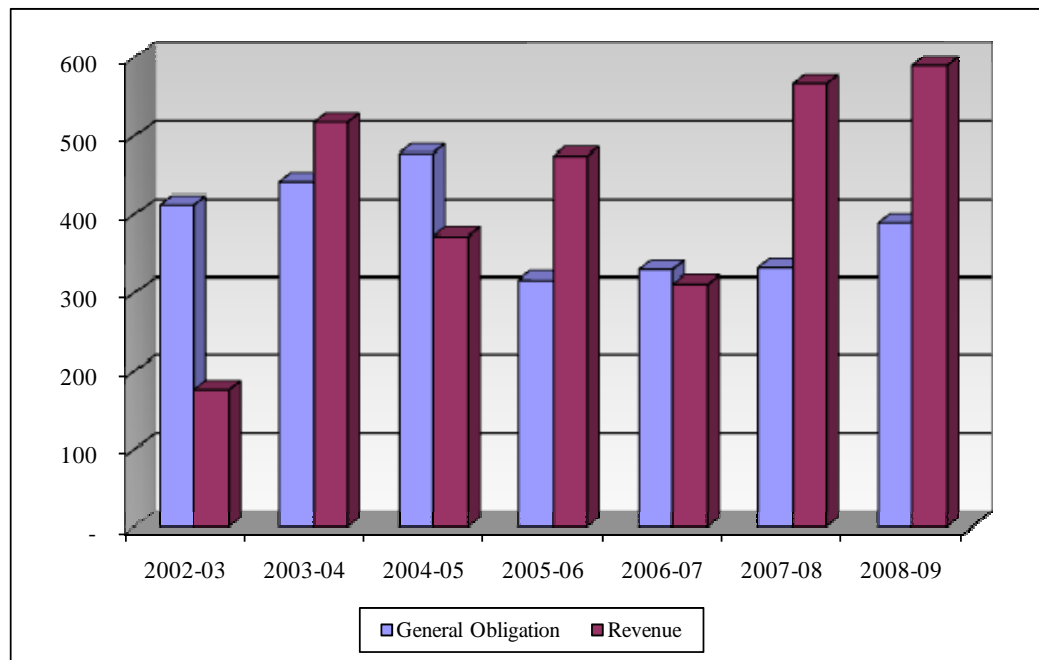
### **Program Objectives and Key Results:**

1. Make debt service payments accurately and on time.
  - 1.1. All debt payments were promptly made.
  - 1.2. Compliance with Federal arbitrage requirements was certified.

### ***Chart 7.3.1 - Debt payments (in millions)***

	<u>Fiscal Year</u>						
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Obligation	\$ 412.6	\$ 441.1	\$ 478.4	\$ 316.3	\$ 329.5	\$ 331.9	\$ 389.1
Capital Improvement	216.5	294.7	238.6	141.5	119.9	115.3	111.7
Revenue	175.7	518.9	372.1	475.1	311.2	567.8	589.5

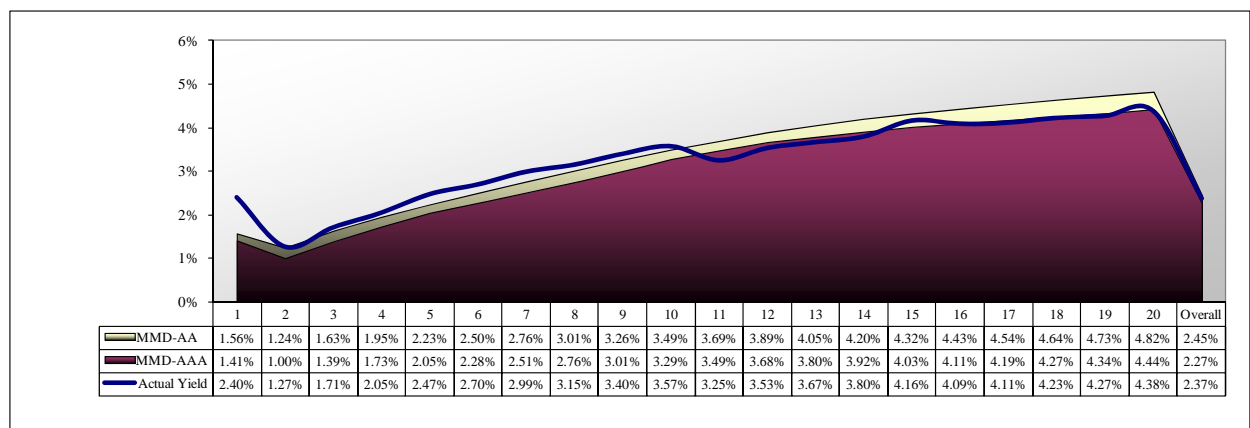
**Graph 7.3.2 - Comparison of debt payments by fiscal year (in millions)**



**2. Analyze the markets and structure the debt to assure the lowest rate of interest is paid.**

- 2.1. On a composite basis, general obligation debt was issued at yields at the Municipal Market Data (MMD) yields for comparably secured MMD-AA securities. This is partially attributable to the changing interest rate environment, the state's lower credit rating, and the fact that the majority of general obligation debt issued during the period was state institution debt, which tends to price above the MMD-AAA scale.
- 2.2. For the fiscal year, the overall yield on general obligation debt issued was 2.37%, as compared to the MMD-AAA and MMD-AA yields for the same period at 2.27% and 2.45%, respectively. The dollar significance of this difference is approximately \$1.245 million on the State's total interest cost of \$28.9 million for the \$123.0 million in general obligation debt issued during the previous fiscal year.

**Graph 7.3.3 - Comparison of bond yields**



### 3. Close all debt issues by the required deadline.

3.1. All new bond issues were closed as scheduled.

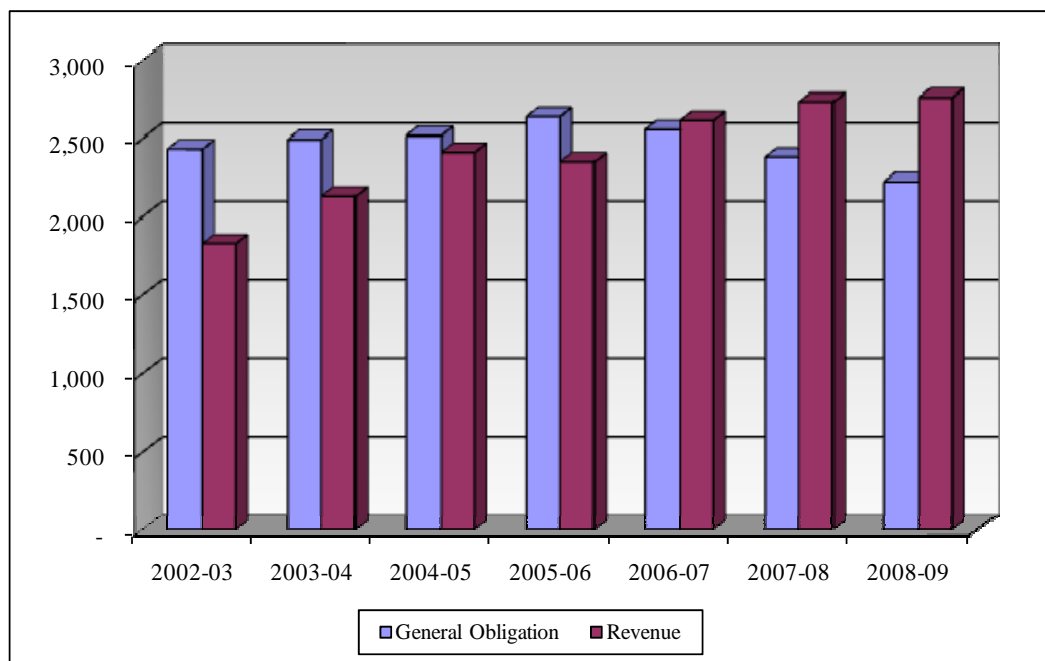
**Chart 7.3.4 - Bond issues closed**

	Fiscal Year						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
General Obligation	20	12	6	16	5	3	5
Revenue	13	11	16	8	9	14	6
Intergovernmental	2	-	-	-	-	1	1
Total	35	23	22	24	14	18	12
Bond Issues Defeased	14	6	7	-	-	3	-

**Chart 7.3.5 - Comparison of outstanding debt (in millions)**

	Fiscal Year						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
General Obligation	\$ 2,433.3	\$ 2,494.3	\$ 2,518.4	\$ 2,640.6	\$ 2,555.8	\$ 2,382.2	\$ 2,224.9
Revenue	1,829.3	2,133.5	2,412.5	2,350.1	2,614.9	2,733.5	2,762.1
Total	\$ 4,262.6	\$ 4,627.8	\$ 4,930.9	\$ 4,990.7	\$ 5,170.7	\$ 5,115.7	\$ 4,987.0
Total Issues	152	150	153	150	184	154	193

**Graph 7.3.6 - Outstanding debt (in millions)**



4. Process all Capital Improvement Project draws, South Carolina Housing Finance and Development Authority, and Education Assistance Authority transactions as requested by state agencies.
  - 4.1. All agency requests to draw bond proceeds and process South Carolina State Housing Finance and Development Authority and South Carolina Education Assistance Authority transactions were processed within 24 hours of receipt.
5. Provide state institutions and agencies with guidance in effectively managing their debt issuances and programs.
  - 5.1. The agency qualified seven firms to serve as counsel to the State for its public finance activities. Interviews were conducted with each firm, a Request for Qualifications was developed and evaluated, and a new process of selection, engagement and compensation was documented and approved by the State Budget and Control Board. The new process gives the State, its authorities, agencies and institutions more flexibility and control in the engagement and compensation of counsel.
  - 5.2. Several school districts requested that the Office provide them with the special debt analysis prescribed by SC Code Section 59-21-420(b), which permits the State Board of Education to grant a waiver of certain provisions of the statute upon certain findings and a certification from the State Treasurer that the school districts' borrowing rates are beneficial when compared to prevailing rates.
6. In January, 2009, the Office effected an additional tender offer for the Tobacco Settlement Revenue Management Authority's Series 2001 bonds. This transaction netted the State economic savings of approximately \$20.9 million, increasing the overall value of the Tobacco restructuring transaction to \$256.6 million.
7. Provide information to credit rating agencies on a timely basis.
  - 7.1. The State Treasurer is the official constitutionally mandated to maintain contact with the rating agencies and respond to all requests for information on a timely basis. Revenue data were provided on a monthly basis, as published by the Board of Economic Advisors. Legislative and budget updates were also provided as developments in these areas occurred.
8. Assure outstanding debt does not exceed debt limitations.
  - 8.1. The Debt Management Division performs ongoing analyses to determine compliance with debt limitations and performs impact analyses on debt limits in response to various borrowing proposals considered during the budget process. These analyses are generally provided within one business day of the request.
9. Provide other information and analyses as requested.
  - 9.1. During the fiscal year, the agency responded to numerous requests for fiscal impact on debt proposals, performed various special analyses for the Senate Finance and House Ways and Means Committees, and prepared several debt comparisons and savings analyses for the Governor's Office in connection with preparation of the executive budget and debt reduction proposals in connection with the Governor's position on Federal Stimulus funding. The Division

also provided comment and technical advice to the Legislature and the Budget and Control Board for legislation and special studies.

## **7.4 Unclaimed Property Program**

### **Program Cost:**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-2009</u>
State Funds					
Other Funds	\$ 815,617	\$ 583,364	\$ 567,806	\$ 757,426	\$ 798,851
FTE's	6.00	7.75	9.75	10.45	10.5
Temporary Employees	1.00	1.00	0	4	2

### **Program Goals:**

- Sustained public awareness of the Program.
- Prompt and accurate payment of funds to rightful owners.
- Efficient processing of remitted funds.
- Meet or exceed budget projections for General Fund transfer.

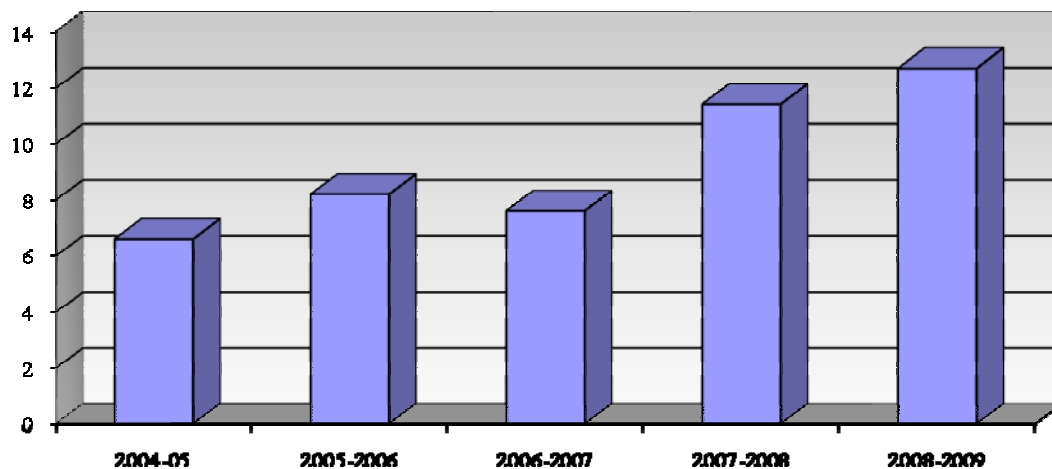
### **Program Objectives and Key Results:**

- 1. Increase public awareness of the Program utilizing the most efficient methods.**
  - 1.1. Increased the probability of money being claimed by rightful owners in the most cost-efficient manner possible through providing information to television stations and newspapers throughout the state to assist in the location of owners and to generally promote the Program.
  - 1.2. Program was promoted through numerous speaking engagements at which lists of owners were distributed and through staffing on-air phone banks through which potential owners could locate their funds.
- 2. Provide and promote services via the Internet thus making it easier for the public to submit claims while keeping the cost of services down.**
  - 2.1. In order to reduce costs and improve the search function, the Program's property search link was moved to [www.missingmoney.com](http://www.missingmoney.com); an unclaimed property search site sponsored by the National Association of Unclaimed Property Administrators. Using [www.missingmoney.com](http://www.missingmoney.com) is free to participating states and provides the Program with the ability to update the records on the site weekly and download all claim inquiries directly into the Program's unclaimed property software, thus eliminating the need to manually input the claims information. During FY09, 3,549,361 searches were performed, with 30,156 claims being generated from the website. The search site provides potential owners with a way to locate their funds at any time and allows them to print their own claim form. The site also increases Program efficiency by substantially reducing the number of research requests that would otherwise have to be performed by staff and eliminates the time and cost of printing and mailing the claim forms from the office.

**3. Increase the return of property to the rightful owners through aggressive outreach programs.**

- 3.1. Continued the targeted outreach program wherein staff did individual searches for owners of the largest amounts and easily located persons and entities. Of the \$12,731,118 paid in claims in FY 09, \$2,835,260 was paid due to these targeted research efforts.
- 3.2. The Program continues to work closely with the SC Department of Revenue to locate the owners of undeliverable tax refund checks. In FY09, DOR transferred \$1,708,681 in undeliverable tax refund checks to the Program. Of that amount, \$926,984 was returned to the rightful owners.
- 3.3. The Program continues to pay unclaimed child support to the custodial parents from funds transferred to the Program from DSS in March 2006. During FY09, unclaimed child support payments, valued at \$13,242, were paid to the rightful owners.

**Figure 7.4.1 - Amount returned to rightful owners (in millions)**



**4. Increase compliance with the Unclaimed Property Act by increasing the number of holders filing an annual report.**

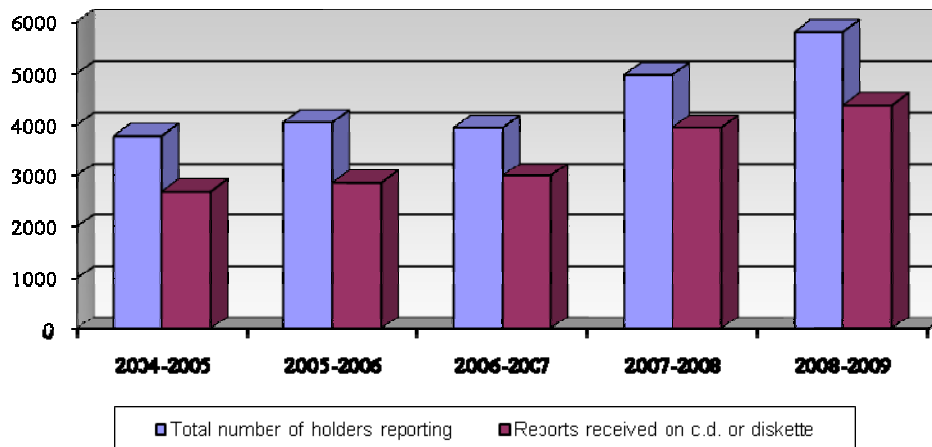
- 4.1. The number of holder reports filed during FY09 totaled 5,791, up 16.5% from FY08.
- 4.2. Postcards were sent to all holders in the Program's database, reporting and non-reporting holders, reminding them of their reporting obligations and offering staff assistance.
- 4.3. To further encourage full compliance, two full-day Holder Education Seminars were held at which 155 holders (reporting and non-reporting) were in attendance.
- 4.4. Compliance efforts were further enhanced by presentations given by key staff at various business association functions.

**5. Increase the number of holders that report electronically, thereby eliminating the risk of input errors, reducing the cost of processing reports and maintaining the report files, and making the property available to be claimed by the rightful owners sooner.**

- 5.1. As a result of a proactive outreach program, the number of holders filing reports electronically increased from 3,942 to 4,382 during the fiscal year.

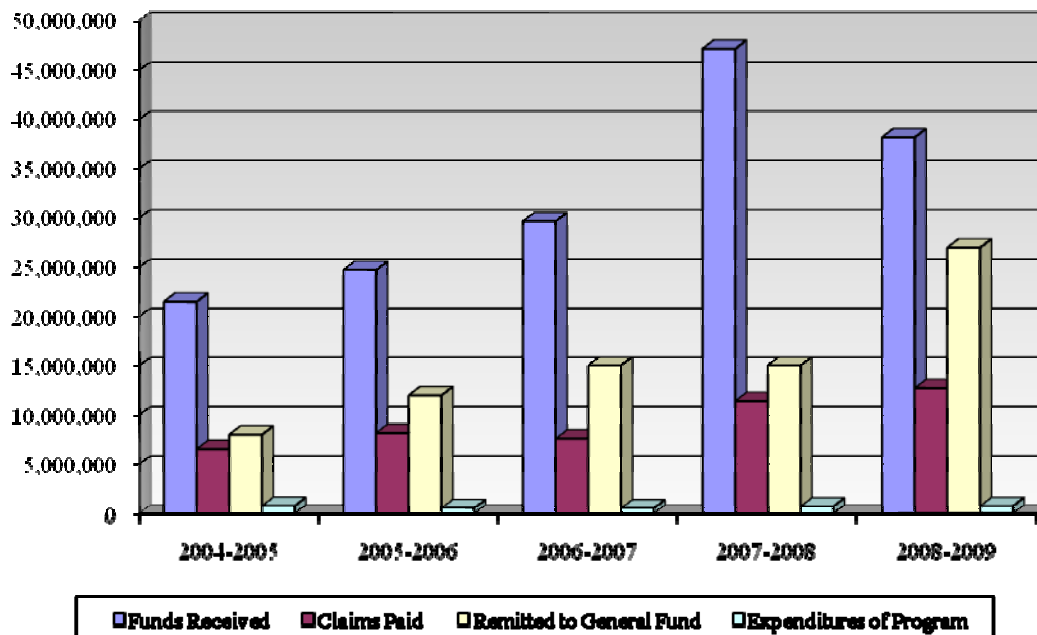
- 5.2. Electronic reporting reduces the number of reports that have to be manually keyed, thereby decreasing the staff hours needed to key the reports, while increasing the accuracy of the newly-added account information.
- 5.3. The increase in holder reporting received electronically has decreased the costs involved with securely storing paper reports, and scanning and shredding them.
- 5.4.

**Figure 7.4.2 - Number of holders reporting electronically**



6. Analyze the reserve requirements for paying expenses and claims and increase the amount of unclaimed funds turned over to the General Fund, if possible.

**Figure 7.4.3 - Comparison of sources and uses of funds**



Note: The substantial increase in funds received during FY 2007-2008 and FY 2008-2009 is due to one-time events. The proceeds from the annual stock sale in August 2007 included 278,794 shares of unclaimed Metlife stock (@ \$62.20 per share) remitted as a result of the company's demutualization. Effective April 2008, the dormancy period for securities-related property was reduced, thereby causing a one-time increase in remittance due November 1, 2008. Based on analysis of receipts, claims experience, expenditures of the Program, and reserves necessary, the STO regularly reviews the amount available for transfer to the General Fund. During FY 2009, STO transferred \$27,000,400 to the General Fund.





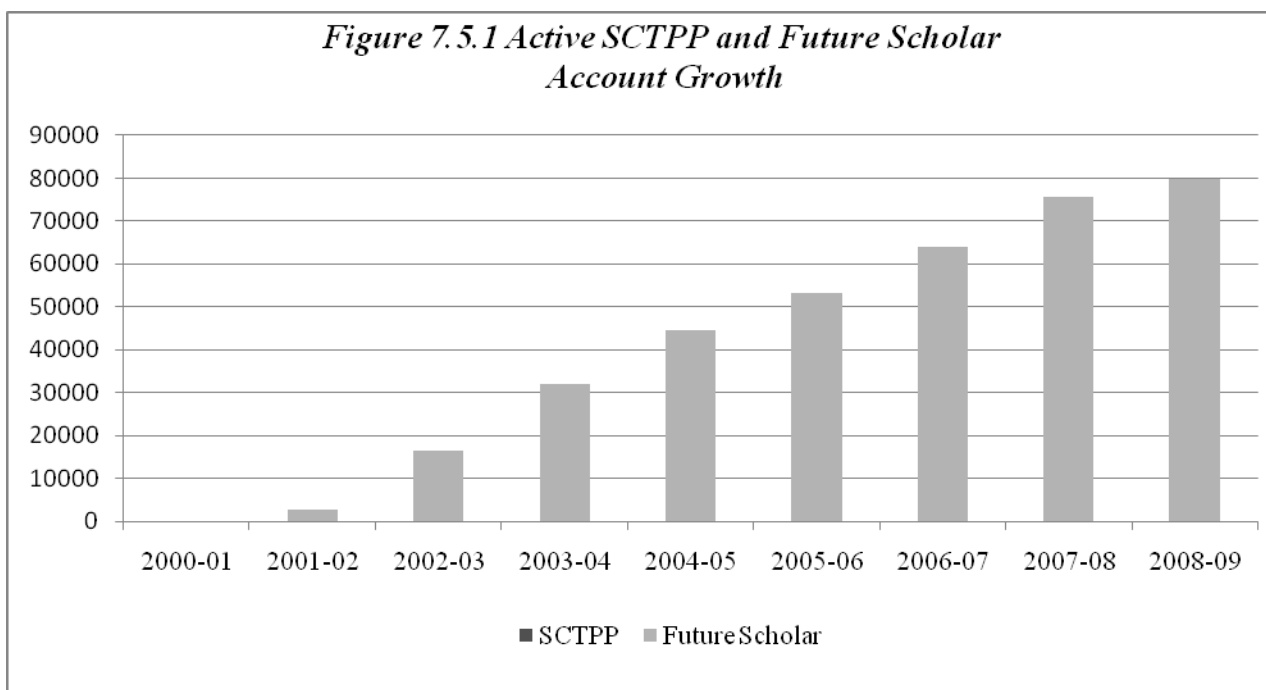
## 7.5 - College Savings Plans:

### South Carolina Tuition Prepayment Program (SCTPP) South Carolina College Investment Program (Future Scholar)

#### Program Cost:

	2004-05	2005-06	2006-07	2007-2008	2008-2009
State Funds					
Other Funds	\$ 482,394	\$ 501,653	\$ 415,101	\$ 398,342	\$ 480,956
FTE's	2.30	2.20	2.20	2.60	2.75

#### 1.1. What are your key performance levels and trends for your key measures of mission accomplishment/product and service performance that are important to your customers?



#### Future Scholar Program

- Future Scholar accounts have increased steadily since inception in 2002 in spite of a soft market and economy, testifying to the popularity of the program.
- Active Future Scholar accounts increased by 5.3% from 75,763 to 79,803. The ratio of participation in Future Scholar by South Carolina residents increased from 57% to 58% of total accounts.
  - ❖ 46,936 of the 79,803 Future Scholar accounts are owned by South Carolina residents.
- To increase program awareness, encourage existing account contributions as well as new account openings, while also educating South Carolinians about the importance of saving early and often for the cost of higher education, Future Scholar initiated three statewide advertising and grass roots promotional campaigns. Future Scholar advertising campaigns

targeted South Carolina families with children ranging from newborns to school age who might benefit from Future Scholar.

- ❖ Emphasis was placed on large and small markets in South Carolina and various methods of promotion including print, web, radio, outdoor advertising, direct mail, community events, and television were utilized.
- ❖ Highlights of these campaigns include: print advertising in *Palmetto Parent*, *Upstate Parent*, and *Lowcountry Parent* magazines; statewide outdoor, TV, and radio advertising; leveraging targeted ads on BankofAmerica.com to reach SC residents; print advertising in SC ETV's ITV booklet for SC educators.
- Future Scholar maintained dealer agreements with 237 brokerage firms across the country (up from 220 last fiscal year) allowing more financial advisors across the nation ability to discuss 529 college savings advantages with clients, including tax savings provided by the State.
- The State Treasurer is committed to administering college savings opportunities for South Carolinians that offer low-cost, high-quality investment options. By incorporating a program that allows for out-of-state participation at a higher investment cost, Future Scholar is able to minimize the cost of participation for South Carolinians.

### **Tuition Prepayment Plan**

- The number of active SCTPP accounts decreased by 1.20% to 6,239 (a result of depleted and cancelled accounts during a year in which enrollment for new accounts was closed by Proviso 76.13 in the 2008 Appropriation Act).

## **2.1 What are your performance levels and trends for your key measure on customer satisfaction and dissatisfaction?**

### **1.2.1 Enhance services available through the Internet thus making it easier for the public to submit applications, make account changes, and utilize benefits.**

### **Future Scholar**

- Future Scholar continues to promote the use and efficiency of its web-based customer service feature through Future Scholar's online Account Access to increase customer service capabilities and satisfaction.
  - ❖ Future Scholar improved its online Account Access by adding the capability for account holders to sign up for systematic investments online.
- Future Scholar also increased its customer service capabilities via its telephone service call center in order to better meet the needs of account owners and potential account owners and investors. With these updates, it is now easier for account owners and potential clients to conduct business with Future Scholar. Some of the most notable updates include:
  - ❖ Allowing Future Scholar account owners to complete two investment reallocations per year via telephone. The IRS guidelines were changed from allowing one reallocation per year to two given the volatility of today's market.
  - ❖ Another update to the telephone customer service capabilities is that account owners are now able to complete redemptions to schools via telephone. Previously, telephone redemptions could only be made to the account owner. Adding this feature

via telephone enhances efficiency and reduces paperwork as well as redemption processing time.

- Future Scholar continues to promote its partnership with Upromise Rewards online and through direct mail campaigns. As of fiscal year end, over 1,624 Future Scholar accounts have linked with Upromise accounts. That's an increase of 70% from last year.
  - ❖ Upromise account holders purchase items from participating vendors and a percentage of the cost is put into an Upromise account to use for higher education expenses. Future Scholar account owners have the option to link their Future Scholar accounts to their Upromise accounts so the accumulated Upromise money can be transferred to their Future Scholar accounts.

### **Tuition Prepayment Program**

- Forty-three percent of the SCTPP account holders view their account information on line. This is up 5.0% from June 2008. Since fiscal year end 2007, online account holder usage has increased over 10%.
- To reduce incomplete and incorrect invoices received by SCTPP from participating schools and universities, a new electronic "Invoice Tools" tab has been added to the section of the SCTPP site accessible to schools and universities. The "Invoice Tools" tab was created to increase the efficiency of schools currently preparing invoices manually. The "Invoice Tools" tab also allows for multiple beneficiaries to be added to the same invoice reducing the amount of paper and time spent on invoice processing.
- SCTPP had 100% system availability during the past year demonstrating the strength of its technology and customer support systems.
- SCTPP has promoted in the past and continues to promote increased participation for existing users and new participation for non-users of the online SCTPP customer service center, "WAVE." SCTPP will roll out a campaign to make non-users aware of the online capabilities of WAVE. Increased usability of WAVE will eliminate mass mailings of forms and will re-direct account owners to the SCTPP website for forms, information, program updates, etc.

### **1.2.2 Encourage and increase participation in automatic draft contribution options.**

#### **Future Scholar**

- The automatic draft option for Future Scholar not only promotes efficiency, but also encourages systematic savings.
- This feature is promoted to account holders throughout the year as part of an on-going "account builder" campaign that also educates parents on the rising cost of a college education and the need for increased systematic investments.
- There was a slight reduction in the percentage of Future Scholar accounts with systematic contributions, using automatic bank draft or payroll deduction. Thirty-three percent of accounts are signed up for this feature, a decrease from 36% last year. Given the continued overall weakness in the economy, as well as increased volatility in the stock market, this slight decrease is not surprising. The fact that a third of account holders still utilize this feature is encouraging.

### **Tuition Prepayment Program**

- STO maintained the percentage of SCTPP contract holders making monthly payments by automatic draft at 40.9% as part of a continuing effort to reduce bank service charges and assure payments are made in accordance with the contracts.

#### **1.2.3 Maintained high rankings for Future Scholar in nationally recognized 529 Plan rating websites.**

- Future Scholar's Direct Program (for South Carolina residents) has a 5.0 out of 5.0 rating at SavingForCollege.com. (Ratings are based on a program's flexibility, investment options, economic benefits, and add-on incentives).
- Future Scholar is ranked among the top 529 Plans for performance for Direct and Advisor sold plans by SavingForCollege.com. (Ratings are updated on a quarterly basis).

### **1.3 What are your performance levels for your key measures on financial performance, including measures of cost containment, as appropriate?**

#### **1.3.1 Increase the amount of Future Scholar investment assets**

- Future Scholar accounts' market value decreased 14% to \$ \$936,715,185.09 during the last fiscal year. We are not surprised by this given the market volatility and overall economic conditions this past fiscal year.
- In 2008, 529 assets in the industry as a whole decreased by 12%.
- Since first full year of operation, Future Scholar assets under management have grown at an annualized rate of 59%.

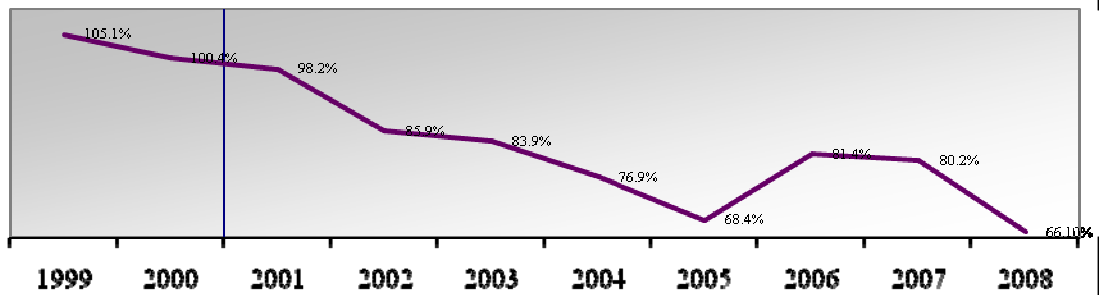
#### **1.3.2 Maintained low fees for Future Scholar Direct Plan (only offered to SC residents).**

- The Future Scholar Direct Investment Program (a no-load program available only for South Carolinians) is one of the lowest priced plans in the nation, with underlying fund expenses ranging from 0.10% to 0.39%. (Source: Proprietary information reported to us by our outside administrator).

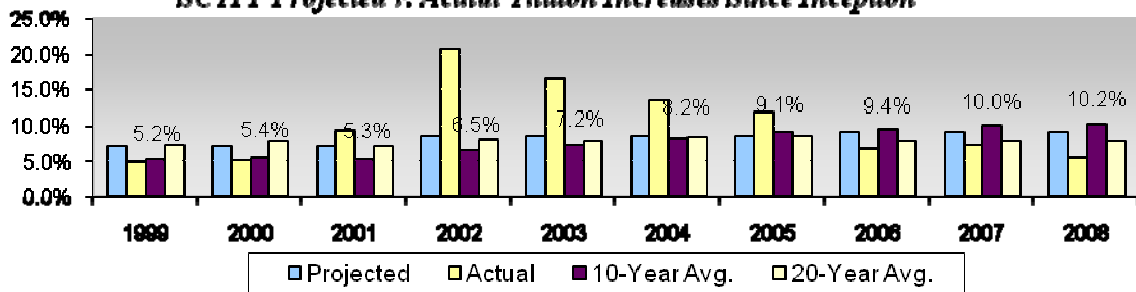
#### **1.3.3 Analyze the cash flow expectations for SCTPP and review actuarial assumptions to sustain program soundness.**

- The STO continued to work closely with SCTPP's independent actuary, the SC higher education community and members of the Senate Finance and House Ways and Means Committees to assure that actuarial assumptions used are appropriate.
- During the year, the SCTPP's investment strategy continued toward a target allocation of 60% equities (45% domestic and 15% international) and 40% fixed, which staff believed to be appropriate for the nature of the funds. As of June 30, 2009, the portfolio was at 47% equity (38.7% domestic and 8.3% EAFE funds) and 53% fixed income securities.

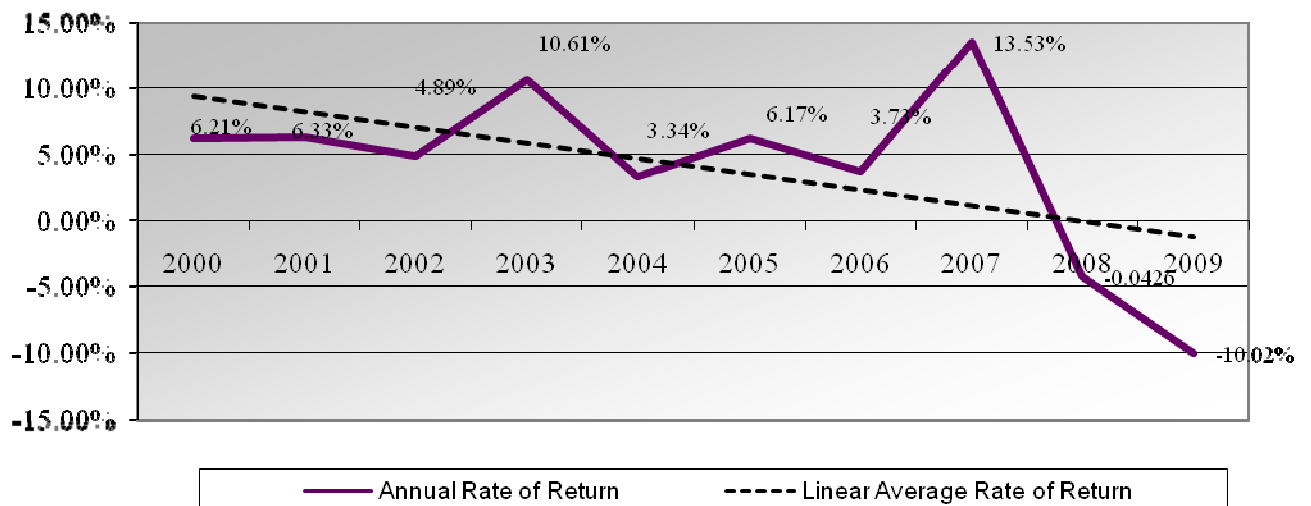
**Chart 7.5.2 SCTPP Percent Funded**



**Chart 7.5.3  
SCTPP Projected v. Actual Tuition Increases Since Inception**



**Chart 7.5.4 SCTPP Fund Annual Returns**



**Figure 7.5.5 – Factors contributing to the SCTPP actuarial unfunded liability  
Progression of Surplus**

Surplus at June 30, 2008	(\$37,637,604)
Projected Change to June 30, 2009 <sup>1</sup>	(2,728,726)
Loss due to Unfavorable Investment Experience	(22,198,552)
Change due to Additional Contract Sales	N/A
All Other Experience Items <sup>2</sup>	(1,808,966)
Surplus at June 30, 2009	(\$64,373,848)

**1.4. What are your performance levels and trends for your key measures of workforce engagement, workforce satisfaction, the development of your workforce, including leaders, workforce retention, and workforce climate including workplace health, safety, and security?**

- STO is committed to training employees on 529 Plans, best practices, and industry standards.
- Yearly national 529 conferences are held by Savingforcollege.com and the College Savings Plans Network of which the STO College Savings Plans are members. When funding is available, the STO College Savings Plans Division sends a representative to national conferences in order to maintain a workforce that is up-to-date and trained on best practices and industry standards relating to state-administered 529 Plans.
- STO maintains regular communication with Columbia Management and Intuition Systems, the program manager for Future Scholar and SCTPP respectively, to ensure industry standards and best practices are upheld and duties of the STO and obligation to the citizens of South Carolina, Future Scholar account owners, and SCTPP account owners are adequately met.

**1.5. What are your performance levels and trends for the key measures of organizational effectiveness/operational efficiency, and work system performance?**

- Maintain oversight of the Future Scholar and SCTPP through regular contact with the program administrators, review of program plans and materials, and monitoring program results and rankings, customer satisfaction, and investment performance.
- The Future Scholar Program Descriptions and marketing disclosures continue to be in line with the College Savings Plan Network (CSPN) national standards and include all MSRB required disclosure.
- STO meets regularly with members of Future Scholar's and SCTPP's program managers' senior leadership teams to ensure all aspects of each plan are performing as designed.

<sup>1</sup> The actuarial items in this valuation incorporate the time value of money. This time value adjustment changes each year. As long as assets and liabilities are not exactly equal, the surplus or deficit will change each year as the time value of money adjustment changes. If our assumptions are exactly realized for the year 2009/10, then the deficit will change from (\$64,373,848) to (\$69,040,952) due to the change in the time value of money adjustment.

<sup>2</sup> Other experience items consist principally of differences between actual and projected contract cancellations.

- STO regularly reviews plan performance, expenses and marketing to ensure the highest standard of plan quality.

**1.6. What are your performance levels and trends for the key measures of regulatory/legal compliance and community support?**

- STO participates in the College Savings Plans Network - a national network, an affiliate of the National Association of State Treasurers, serves as a network for information among state-administered college savings programs. CSPN monitors federal activities and promotes legislation that will positively affect Section 529 Plans.
- STO participates in monthly and bi-monthly CSPN conference calls to stay up to date with state and federal happenings regarding 529 industry standards, marketing, and customer service.
  - ❖ CSPN allows state program managers to openly discuss, compare, and share ideas about 529 Plan issues.



## GLOSSARY OF ACRONYMS USED

CDARS	Certificate of Deposit Account Registry Service
CMIA TSA	Cash Management Improvement Act - Treasury State Agreement
COLA	Cost of Living Adjustment
CSPN	College Savings Plan Network – a division of NAST
DMS	Debt Management System
FMS	Financial Management System
GAAP	Generally Accepted Accounting Principles
GARS	General Assembly Retirement System
IMS	Investment Management System
JSRS	Judges and Solicitors Retirement System
LGIP	Local Government Investment Pool
MMD	Municipal Market Data
MSRB	Municipal Securities Rulemaking Board
NASACT	National Association of State Auditors, Controllers, and Treasurers
NAST	National Association of State Treasurers
PORS	Police Officers Retirement System
SCEIS	South Carolina Enterprise Information System
SCRS	South Carolina Retirement System
SCTPP	South Carolina Tuition Prepayment Program
STARS	State Accounting and Reporting System
STO	State Treasurer’s Office
UPP	Unclaimed Property Program