Fiscal Year 2011-2012 Accountability Report

Office of the State Treasurer

Curtis M. Loftis, Jr.
State Treasurer

<u>Table of Contents</u>

EXECUTIVE SUMMARY

"To serve the citizens of South Carolina by providing the most transparent, accountable and efficient banking, investment and financial management services for South Carolina State Government. Our commitment is to safeguard our State's financial resources and to maximize return on our State's investments." –Mission of the South Carolina Treasurer's Office

The challenges that this economy brings each and every one of us are trying, but the citizens of South Carolina can rest assured that their Office of State Treasurer is operating in the most transparent, accountable and efficient way possible. State Treasurer Curtis M. Loftis, Jr. is now serving his second full year in office and has worked tremendously hard to reform the office, enhance services and create an environment of openness in government.

Treasurer Loftis was elected in November 2010 and took his oath of office on January 13th, 2011. The new administration is now fully in place and the first two years have been marked with great successes. This document serves as a review of the Office for the previous fiscal year.

The Office of State Treasurer is responsible for the investment, cash management, and safekeeping of the State's general and restricted funds, as well as a portion of the assets of the South Carolina Retirement Systems. The Office also provides fiscal management services, including receipt and disbursement of all funds. The Office coordinates all banking services, manages the State's debt, administers both the unclaimed property and college savings programs and works with and

communicates regularly with the three major bond rating firms to maintain high credit ratings that keep the State's borrowing cost low.

The Office continues to operate with five primary Divisions: Treasury Management; Debt Management; Investments; Unclaimed Property; and College Savings.

Over the past fiscal year, a number of new faces have joined the Office. All of the new faces have extensive financial, accounting and information technology skills. Three of the new hires are Certified Public Accountants; the new Deputy State Treasurer, the General Counsel and a fiscal analyst. Additionally, a new fiscal analyst in the Investments Division will sit for the CPA exam in November, 2012. The new employee in Unclaimed Property also possesses considerable cash reconciliation and information technology training.

One of Treasurer Loftis' primary commitments prior to his election was to have a comprehensive Generally Accepted Auditing Standards (GAAS) audit performed on the Office by an external auditing firm. The Elliot Davis accounting firm was selected through an open bid process to perform the comprehensive audit that includes both a Performance Audit and a Financial Statement Audit. The Financial Statement Audit is ongoing; however the Performance Audit was completed and submitted in December of 2011 and is available on the Office's website (www.treasurer.sc.gov). The performance audit made recommendations for possible work process changes that might enhance efficiency and improve controls.

Some of the major accomplishments and challenges of the Office are summarized below:

Unclaimed Property. The Unclaimed Property Division converted to a new internal unclaimed property computer system. The new system, UPS2000,, is not only a more secure and stable system, but it provides greater operational efficiencies for paying claims and processing holder reports and receipts than the previous system. Staff provided holder outreach through educational seminars to increase awareness and therefore compliance with the UP law.

Additionally, the Program engaged additional third-party auditors to allow South Carolina to join with other states in examining companies outside of the State for compliance with the Unclaimed Property law. Working with DSIT, the Office can now offer website users the ability to automatically request a claim form be mailed to them. Resulting from the increased visibility of the Program,8% more claims were paid than had been paid during the previous fiscal year.

Some challenges that the Division faced over the last year include encouraging compliance and enforcing the unclaimed property laws without compliance or audit staff, implementing procedures to ensure that paperless holder reports are delivered correctly to guarantee their accurate processing and continuing to learn the new system which is substantially different than the previous system.

Investment Management. The Investment Management Division manages, according to SC Code 11-9-660, approximately $12 billion in assets for both the State of South Carolina and for local governments. The current custodian, BNY Mellon, acts as a holder and record keeper of these funds. Substantial progress has been made in the bid for a new custodial contract over the past fiscal year. While the appointment of the custodian has not yet been awarded as of fiscal year-end 2012, a decision is close to being made. When a new custodial agreement is finalized, it is expected that more services will be made available to assist in the daily management of the invested assets for the State of South Carolina.

The Investment Management Division renewed its contract with the external consultant advisor Jamison, Eaton, & Wood Inc., whose job is to advise the Division on investment strategy in order to optimize potential earnings on all of the investments that the State of South Carolina holds.

Over the last fiscal year, the general funds investment portfolio outperformed the benchmarks of 90-day Treasury Bills and Federal Funds both by 1.57%., while the Local Government Investment Pool (LGIP) continued to produce above market returns for its participants, earning an average rate of .29% compared to the average 90-day T-Bill benchmark rate of .09%. The BidSC Program quarterly CD auctions generated increased earnings of $106,143 for the State.

The main hurdles for the Investment Management Division throughout the year have been maintaining yield throughout this historically low interest rate environment and volatility in the market.

The Investment Management Division added staff, as recommended in the Performance Audit conducted by Elliott Davis. The increase in staffing levels should assist in the efficiency and streamlining of the investment operations process, as well as improved processing controls.

The Investment Management Division has also played an integral role in the development of the Office's Annual Investment Plan ("AIP"). The Office's AIP was formed as a means to routinely evaluate investment objectives, practices, strategy, direction, and allocation. All changes to the Office's AIP will be evaluated and voted on by the Office's Executive Investment Committee ("EIC"), which will be formed and begin decision making processes in FY2013.

Debt Management.   The Debt Management Division issued more than $681 million in new and refinanced debt, and achieved $50 million in debt service savings

for the State, its institutions and authorities. The division continued work throughout the year to validate and improve its disclosure documents and policies, and worked continuously with the rating services to maintain its high ratings. We successfully maintained the State's stable Aaa rating from Moody's following a brief time on negative outlook following concerns Moody's had expressed over the impact of the U.S. sovereign rating on that of the State.

The challenges for debt management include maintaining the state's high ratings within an uncertain economic and political climate, along with growing sensitivity of the credit rating agencies to debt-like liabilities such as pensions, other post employment benefits, and unemployment benefits, none of which are under management of the Debt Management division.

Treasury Management.   The Treasury Management Division completed the majority of the work necessary to transition "contingent" check processing to the SCEIS, the State's new enterprise system. Contingent checks are issued daily to pay a wide variety of routine costs incurred in state government. This is the next of a number of major steps in transitioning to SCEIS for both accounting and treasury management, and this phase is expected to be completed soon.

Executive management of the State Treasurer's Office is working with the Division to develop a succession plan that will address impending retirement of several key positions including the Division Director. The Office will seek candidates with strong accounting and banking skills, preferably holding a CPA license. Certain banking functions, including deposits and the mailroom were organizationally realigned during the fiscal year. This realignment will promote more timely performance of routine duties.

Future Scholar College Savings Program. During the fiscal year, the State Treasurer's Office selected Columbia Management as the Program Manager of the

South Carolina Future Scholar 529 Savings Plan following a competitively bid procurement process.   Under the new contract, Columbia Management will also assume the role of Program Manager for the South Carolina Tuition Prepayment Program.   Columbia Management has acted as Program Manager of South Carolina's advisor-sold and direct-sold 529 college saving plans since 2001. The new contract extends the partnership into 2017. The new contract will allow for greater flexibility for plan participants, enhanced investment options, lower fees and new and innovative marketing of the program, thereby anticipated to result in greater numbers of South Carolina residents utilizing this service.

The total number of accounts administered in the program Future Scholar increased by 4% over the past fiscal year to 92,700. The Program's direct option for South Carolina residents continues to receive a top rating by Savingforcollege.com and its call center earned top ratings from National Quality Review for the fifth consecutive year. Moreover, the Future Scholar website was redesigned to be more user-friendly. Since the online Future Scholar application was launched in September 2009, a total of 12,396 accounts have been opened online.

Administration and Information Technology.   While maintaining daily operational activities, the Administrative Division staff monitored and provided budgetary and legislative information reports, increased budgetary authorization in order to meet Office mission and goals processed personnel actions and employee benefits for new hires and separations, and reviewed and revised Office contracts while preparing new solicitations and requests for proposals, updated records retention schedules and upgraded office space, equipment and furniture. Additionally, the Information Technology staff identified and implemented enhancements to the SCEIS payroll process, including the publication of regular and off-cycle payroll manuals. A new IT division director was hired who has extensive governmental and private sector IT experience. Additional IT staff will be

necessary to meet a statewide goal of retiring STARS by June 30, 2013 while supporting existing operations and systems.

Treasurer Loftis has transformed the Office of State Treasurer into one of the most transparent and accountable agencies in the nation. Over the first 2 years under his leadership and vision, the Office has achieved numerous successes and improvements, and he envisions building on those successes for the future. This accountability report serves as a key benchmark upon which the Office measures annual progress and success.

<u>ORGANIZATIONAL PROFILE</u>

II.1. – II.2. Below are the basic services provided by the Treasurer's Office along with the customers who utilize them.

Major Services	Key Customers
Treasury Management Receipt and disbursement of all funds for all agencies and State institutions	State Agencies State Employees and Retirees State's Vendors Taxpayers Local Governments Recipients of other State disbursements
Investments All State funds, the Local Government Investment Pool, Tuition Prepayment Funds, and the South Carolina Retirement System Funds	State Agencies and Institutions Local Governments and School Districts The Tuition Prepayment Program The South Carolina Retirement Systems
Debt Management General obligation, revenue, and special debt issues	State Agencies, Institutions and Authorities Holders of the State's General Obligation and Revenue Bonds
Unclaimed Property	Rightful Owners of Unclaimed Property Holders of Unclaimed Property
College Savings	Contributors to and Beneficiaries of College Savings Plans Institutions of Higher Learning

II.3. Key stakeholders for the State Treasurer's Office include not only our direct customers but also the South Carolina General Assembly, the State's General Fund, county and local government officials as well as each and every citizen of the State.

II.4. Key suppliers and partners for the State Treasurer's Office include other State agencies, banks and other financial service providers, bond attorneys, financial advisors, investment banking firms and custodial banks, the program manager of both College Savings Plans, vendors of services and supplies, technology vendors, software providers and partners, holders of unclaimed property, and internet service providers utilized by Office staff.

II.5. The State Treasurer's Office is located on the first and second floors of the Wade Hampton Office Building. The address is 1200 Senate Street, Columbia SC 29201. The telephone contact number is 803-734-2101.

II.6. The State Treasurer's Office has a total of 70 authorized full-time equivalents (FTEs) including the State Treasurer, 3 unclassified and 66 classified positions. Of those FTEs, 40 are State funded and 30 are other funded. At fiscal year end, the Office was operating with 82.5% of our authorized FTEs or 57.75 positions filled and 12.25 positions vacant. The Office employed 5 temporary employees over the past fiscal year. The Office utilized 18 interns that worked a total of 1,393 hours over the previous fiscal year.

II.7. The regulatory environment under which the Office operates is much the same as that of other State agencies, particularly with respect to Occupational Safety and Health Administration (OSHA), procurement (with certain exceptions), and personnel regulations (OHR). The Office is also subject to certain banking regulations; National Electronic Payment Association (NACHA in connection with processing of financial transactions; and the Municipal Securities Rulemaking Board (MSRB) in connection with debt disclosure, other financing transactions, and

the College Savings Plans. The Office is responsible for compliance with the Federal Cash Management Improvement Act (CMIA) and Internal Revenue Service (IRS) arbitrage requirements.

II.8. Performance improvement systems for the State Treasurer's Office include trend analyses as well as measurement of its results against peers and industry benchmarks as noted in Section 7 of this accountability report. The Treasurer's Office works to ensure that business is being done in the most "Efficient, Transparent and Accountable" way possible. That work ethic is shared with and requested of our vendors and other business partners. The annual Employee Performance Management System (EPMS) discussed under the Human Resources section provides management a way to tie each employee's job responsibilities to the goals of the Office.

II.9. The Organizational Chart that follows indicates the primary functions of each Division and where they are located within the organization.
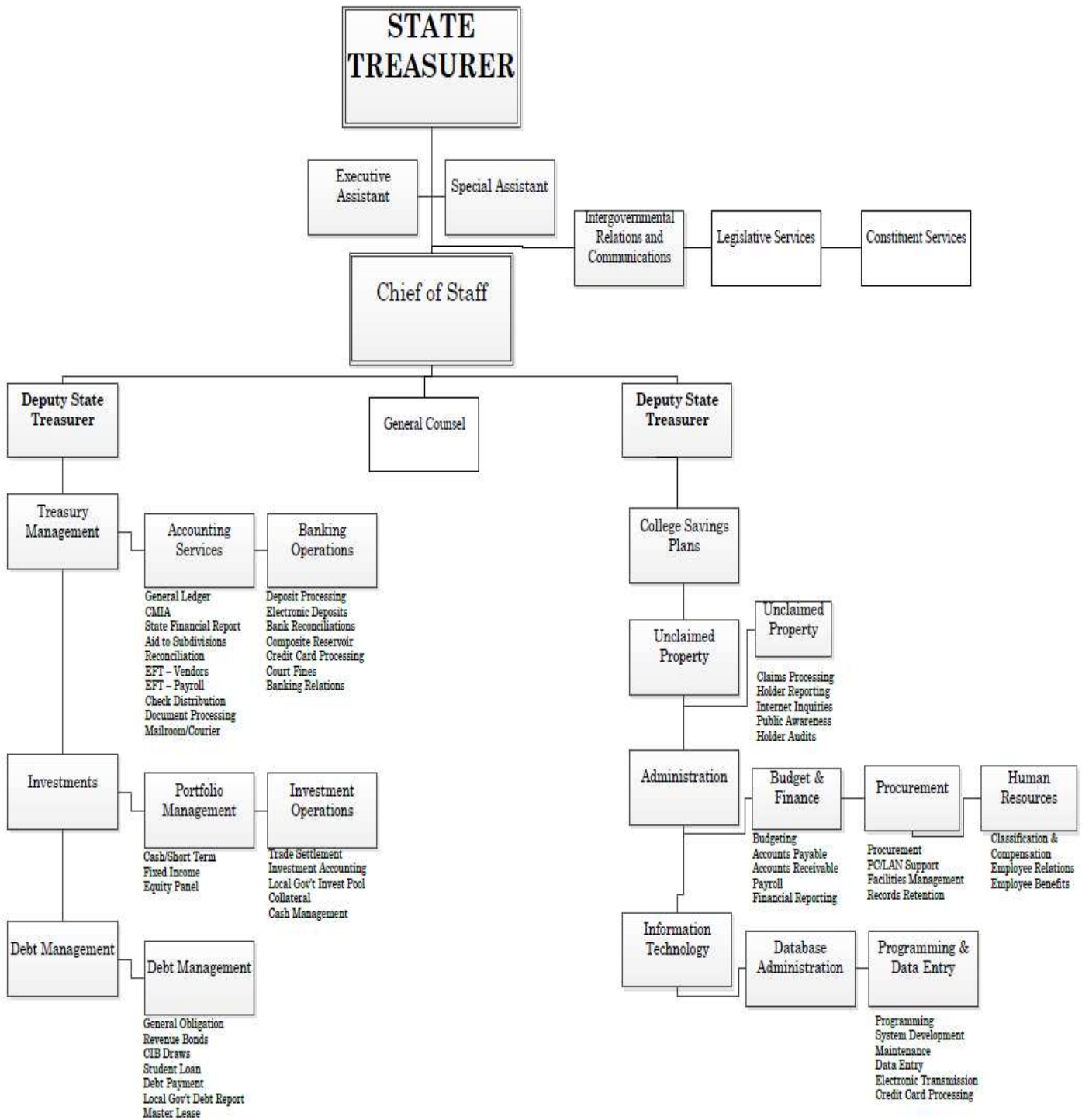
II.10. The Expenditures/Appropriations Chart that follows outlines the major spending categories of the budget.

Accountability Report Appropriations/Expenditures Chart

Base Budget Expenditures and Appropriations

Major Budget Categories	FY 10-11 Actual Expenditures		FY 11-12 Actual Expenditures		FY 12-13 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	$ 3,250,440	$ 1,203,399	$ 3,105,863	$ 1,103,101	$ 3,184,585	$ 1,134,884
Other Operating	$ 1,482,496	$ 44,174	$ 1,456,494	$ 82,121	$ 1,385,695	$ 66,756
Special Items	$ 6,067,543	$ 1,065,125	$ 4,950,722	$ 950,000	$ -	$ -
Permanent Improvements	$ -	$ -	$ -	$ -	$ -	$ -
Case Services	$ -	$ -	$ -	$ -	$ -	$ -
Distributions to Subdivisions	$ -	$ -	$ -	$ -	$ -	$ -
Fringe Benefits	$ 962,984	$ 362,631	$ 954,824	$ 347,716	$ 1,014,005	$ 394,874
Non-recurring	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 11,763,463	$ 2,675,329	$ 10,467,903	$ 2,482,938	$ 5,84,285	$ 1,596,514

Other Expenditures

Sources of Funds	FY 10-11 Actual Expenditures	FY 11-12 Actual Expenditures
Supplemental Bills		$ -
Capital Reserve Funds	$ -	$ -
Bonds	$ -	$ -

I.11. The Major Program Areas Chart lists the Office's major service programs of the total budget.

Program Number and Title	Major Program Area Purpose (Brief)	FY 10-11 Budget Expenditures		FY 11-12 Budget Expenditures		Key Cross References for Financial Results*
		Major Program Areas				
II. Programs and Services	**Treasury Management** provides statewide services to all agencies and institutions by receipt and distribution of funds from all sources.	State:	633,274.00	State:	656,279.76	
		Federal:	0.00	Federal:	0.00	
		Other:	253,628.00	Other:	164,996.95	
		Total:	886,902.00	Total:	821,276.71	
		% of Total Budget:	8%	% of Total Budget:	8%	
II. Programs and Services	**Investments** provides statewide investment services to state agencies and institutions through investment of all state funds, management of cash liquidity, cash flow, and collateral.	State:	0.00	State:	0.00	
		Federal:	0.00	Federal:	0.00	
		Other:	1,688,718.00	Other:	1,505,825.17	
		Total:	1,688,718.00	Total:	1,505,825.17	
		% of Total Budget:	14%	% of Total Budget:	14%	
II. Programs and Services	**Debt Management** provides statewide debt management services for the State, its agencies and institutions by management of debt issues including debt structure and payments.	State:	0.00	State:	0.00	
		Federal:	0.00	Federal:	0.00	
		Other:	503,667.00	Other:	622,602.44	
		Total:	503,667.00	Total:	622,602.44	
		% of Total Budget:	4%	% of Total Budget:	6%	
II. Programs and Services	**Unclaimed Property Program** provides a statewide service to the citizens of South Carolina by returning various forms of property or money to the rightful owners.	State:	0.00	State:	0.00	
		Federal:	0.00	Federal:	0.00	
		Other:	1,086,760.00	Other:	1,073,686.37	
		Total:	1,086,760.00	Total:	1,073,686.37	
		% of Total Budget:	9%	% of Total Budget:	10%	
II. Programs and Services	**SC Tuition Prepayment Program (SCTPP) / SC College Investment Program (Future Scholar)** are college savings plans that allow families the option of saving now at great advantage for their children's college education.	State:	0.00	State:	0.00	
		Federal:	0.00	Federal:	0.00	
		Other:	523,491.00	Other:	617,131.49	
		Total:	523,491.00	Total:	617,131.49	
		% of Total Budget:	4%	% of Total Budget:	6%	
III. Special Items	**Student Loans-Teachers** are funds received and then disbursed to the Student Loan Corp pursuant to the Appropriations Act to fund student loans for teacher program.	State:	1,065,125.00	State:	950,000.00	
		Federal:	0.00	Federal:	0.00	
		Other:	5,002,418.00	Other:	4,000,722.00	
		Total:	6,067,543.00	Total:	4,950,722.00	
		% of Total Budget:	52%	% of Total Budget:	47%	
	Below: List any programs not included above and show the remainder of expenditures by source of funds.					
	Remainder of Expenditures:	State:	976,931.00	State:	876,658.58	
		Federal:	0.00	Federal:	0.00	
	Support Systems of the office include Administration, Information Technology, Legislative and Constituent Services.	Other:	29,451.00	Other:	0.00	
		Total:	1,006,382.00	Total:	876,658.58	
		% of Total Budget:	9%	% of Total Budget:	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

The State Treasurer, Chief of Staff, two Deputy State Treasurers, and the seven Division heads make up the senior leadership of the State Treasurer's Office. Adherence to a chain of command ensures that working time is spent on the tasks of highest priority.

1.1. How do senior leaders set, deploy and ensure two-way communication throughout the organization and with customers and stakeholders, as appropriate for: (a) short and long term organizational direction and organizational priorities, (b) performance expectations, (c) organizational values, and (d) ethical behavior?

Senior leadership utilizes both one-on-one and group meetings to communicate organizational direction. While senior leadership advocates an adherence to the chain of command set forth in the structure of the Office, they are also very open to listening to and soliciting different opinions and viewpoints in order to arrive at the best possible decisions for the Office. The Treasurer has an open-door policy and stresses transparency and accountability with all Office functions. Senior leadership follows all state OHR policies and procedures with regard to both legal and ethical personnel matters. The Chief of Staff engages in "management by walking around" and talking with employees and directors in their work place.

1.2.   How do senior leaders establish and promote a focus on customers and other stakeholders?

The Treasurer, Chief of Staff, two Deputy State Treasurers and General Counsel met several times a week to develop and assign tasks as well as recap the accomplishments since the previous meeting. The Chief of Staff holds a weekly meeting with senior staff including the Deputy State Treasurers, general counsel and the seven Division heads to discuss short-term and long-term progress on the tasks on which their Divisions are working, as well as to receive updates regarding customer and stakeholder focus and feedback. As a team, they also use this time together to discuss any problems and challenges, and to explore solutions and opportunities for improvement. The team then relays this information to the other staff members and seeks feedback, and implements assigned tasks.

1.3.   How does the organization address the current and potential impact on the public of its programs, services, facilities and operations, including associated risks?

The State Treasurer's Office scope and reach are wide and deep. Senior leadership maintains communication with all of its customers and stakeholders to ensure that each entity is aware of the goals of the Office.   The Office's website (www.treasurer.sc.gov) serves as a central resource to assist in public awareness of the Office and provides links to other areas in government. Program managers within Office Divisions provide timely communication of Office policies, procedures and/or risks to customers, stakeholders and vendors, and customer needs drive decisions as to how and when services will be delivered.

1.4.   How do senior leaders maintain fiscal, legal, and regulatory accountability?

Senior leadership meets regularly to discuss statutory requirements and the time frames within which the Office is given to produce various mandates. A majority of the services provided by the Office are legislatively mandated and are time sensitive and, as such, have strict deadlines associated with them. Meeting deadlines and ensuring that the Office is compliant with statutory mandates ensures that the highest level of accountability is maintained. Each staff member of the Office is responsible for his or her work product. Senior leadership reinforces personal responsibility as a cornerstone principle of the Office.

1.5.   What performance measures do senior leaders regularly review to inform them on needed actions?

Senior leadership routinely reviews all feedback received from customers and stakeholders to ensure that the highest levels of satisfaction are delivered by the business operations of the Office. Division heads are required to submit monthly operational and financial accountability reports to senior leadership in an effort to monitor progress and address needs as they arise. Constant monitoring of deadlines, reports, and other performance requirements drives day-to-day operations**.**

1.6.   How do senior leaders use organizational performance review findings and employee feedback to improve their own leadership effectiveness, the effectiveness of management throughout the organization including the head of the organization, and the governance board/policy making body? How do their personal actions reflect a commitment to organizational values?

Management effectiveness is measured in a number of ways. Internally, the Office has a policy of openness and honesty with regard to feedback from employees to managers. Input is actively sought from management throughout the chain of command and adjustments are constantly made depending on the information received. Weekly senior staff meetings serve as an opportunity for management at all levels to voice concerns, give praise or work out issues that may exist. Management at every level strives to set an exemplary standard for integrity, honor, efficiency and accountability through their work. Senior leadership also integrates themselves into the workforce by spending time in the work areas and interacting with employees at all levels seeking input and giving feedback.

The Treasurer's work ethic serves as an example to everyone in the Office and state government as a whole. The Treasurer is routinely the first person in the office in the morning and the last person to leave in the evening. The Treasurer conducts himself with the highest level of professionalism and integrity as is consistent with the values and expectations of the Office.

1.7.   How do senior leaders promote and personally participate in succession planning and the development of future organizational leaders?

Historically, the Office has benefited from an employee turnover rate that is lower than the State average. The Office experienced slight shifts in overall complement two years ago when the new Administration took office. New and modernized positions were created which were offset by retirement, restructuring and elimination.

The Office is actively engaged in employee training and succession planning as key employees who possess institutional knowledge approach retirement. The Chief of

Staff and the Treasurer are made aware of any needs regarding employees retiring and take the necessary action to ensure a properly trained and able workforce.

1.8.   How do senior leaders create an environment for performance improvement and the accomplishment of strategic objectives?

Management at every level is involved in daily activities of the Office. Constant communication with employees, customers and stakeholders allows senior management to monitor the Office and react quickly to needed changes, improvements and recognize opportunities for success. The Treasurer is also very involved and has direct input and interest in making sure that the strategic objectives of the Office are not only met but exceeded. In order to meet growing customer demands with increasingly limited resources, managers must continually look for ways to better utilize automation for processing, verifying, and reporting information, and for identifying exceptions needing attention. Motivation is often fostered through the leadership of the Office by example.

1.9.   How do senior leaders create an environment for organizational and workforce learning?

Senior leadership encourages cross-training and employee assistance at every level within the Office. All managers are encouraged to include their subordinates in the decision making processes.   Management also encourages employees to seek training and counsel whenever necessary as provided by the State or non-State entities.

1.10. How do senior leaders engage, empower, and motivate the entire workforce throughout the organization? How do senior leaders take an active role in reward and recognition processes to reinforce high performance throughout the organization?

Recognition of staff for their accomplishments is both an honor and an important responsibility of management. Division Directors and Deputy State Treasurers routinely recognize staff for their hard work in an ongoing effort to motivate the workforce.   Employees are honored with and recognized at an Employees' Appreciation Luncheon annually. The Treasurer often visits with staff during the work day and is always complimentary of their work when speaking in public.

1.11. How do senior leaders actively support and strengthen the communities in which your organization operates? Include how senior leaders determine areas of emphasis for organizational involvement and support, and how senior leaders, the workforce, and the organization contribute to improving these communities.

The Office supports the community through participation in the annual United Way fundraising campaign as well as a Harvest Hope Food Bank food drive. The Office also participates in the American Red Cross blood drive semi-annually. Employees across the Office participate in various charities and civic organizations as well. The Treasurer actively participates in financial literacy outreach. Whether it is speaking to civic groups, schools or community organizations, the Treasurer takes his role as the State's banker and custodian very seriously.

III.2 – Strategic Planning

The priorities of the State Treasurer's Office are:

- **Banking Services**
- **Investment Services**
- **Debt Management**
- **Prudent Financial Management of State Funds**

- **Safeguarding and Maximizing Return on State Funds**

The strategic plan includes items to address actions within the stated mission of the Office. They include:

Stable, accurate, transparent and accountable management of funds:
As the State's banker, the first priority of the Treasurer's Office has remained the safeguarding of State dollars and financial resources while providing core banking, investment, and debt management services. With the continued and sustained economic downturn, the Treasurer's Office has worked aggressively with the three major credit rating agencies to maintain the State's coveted high credit ratings.

The management of local government funds:
During the fiscal year 2012, the Treasurer's Office managed on average $3.3 billion, a $700 million increase over the previous fiscal year, on behalf of local governments, school districts, and other entities. The Office has provided a stable and advantageous return while continuing to provide local governments almost immediate access to their funds. The Office provides training and guidance on an ongoing basis in an effort to help local governments remain financially healthy.

Provide families and students opportunity to attain higher education:
The Future Scholar program operated by the State Treasurer's Office is one of the most recognized, highly rated and successful 529 College Savings Programs in the nation. The number of Future Scholar accounts opened by South Carolina residents increases each year.

The South Carolina Tuition Prepayment Program (SCTPP), which was transferred to the State Treasurer's Office in 2000, continues to operate but remains statutorily closed to new enrollees. Large tuition increases at the State's public colleges and universities have contributed greatly to an unfunded liability for the

program. According to the most recent SCTPP actuarial report, expected value of liabilities is $158.2 million and the value of assets is $122.5 million, resulting in a deficiency of $35.7 million.

The funded ratio is 77.4% of liabilities. According to the SCTPP's most recent actuarial report, the fund could be depleted by 2019 if tuition inflation continues to outpace investment returns, unless in accordance with state law, action is taken by the Legislature. Each year, the Office of State Treasurer advises the Legislature on the status of the SCTPP and provides recommendations regarding remedial actions that will extend the life of the fund.

Strategies for promoting greater transparency, accountability and efficiency:

Efficiency: The Office has a goal to reduce and ultimately end the unnecessary printing and distribution of checks and has to date reduced the number of checks by over 75%, and expects to reduce the number further to more than a 90% reduction by July 1, 2013. Elimination of the requirement to provide printed copies of checks to those who receive their pay electronically saves money and resources in printing and distribution costs. Current and historic payroll information is available to the employee on a secure portal through the South Carolina Information Enterprise System (SCEIS).

The Investments Division continues to reduce costs of print and mail by converting LGIP participants to the Internet Participant Access System (IPAS). Participants receive their monthly reports on-line and are mailed confirmations weekly rather than daily.

Transparency and Accountability: Treasurer Loftis continuously works to promote transparency and accountability to state government. In that spirit, the

Treasurer continues to publish his entire work schedule online, posts his economic disclosure forms quarterly on the Office website (www.treasurer.sc.gov), more frequently than required by law, and has vigorously pursued increased oversight of and accountability for the State's Retirement Systems Investment Commission, which is responsible for the investments held in the various pension systems of the State.

The Treasurer frequently advocates for open government in his speeches, media contacts and other communications. The Office has initiated public interest and debate over such issues as the need for more transparency and accountability at the Department of Transportation, the Budget and Control Board, and the Retirement Systems Investment Commission.

The Office answered ten Freedom of Information Act (FOIA) requests with timely and responsive information the groups, citizens, and others that requested the information. The Office assessed charges of only $253.40 for searching for and copying of the responsive public records.

2.1.   What is your Strategic Planning process, including key participants, and how does it address: (a) your organization's strengths, weaknesses, opportunities, and threats; (b)financial, regulatory, societal, and other potential risks; (c) shifts in technology, and customer preferences; (d) workforce capabilities and needs; (e)organizational continuity in emergencies; (f) your ability to execute the strategic plan?

Led by the Treasurer, the strategic planning process is comprehensive, with involvement and input by senior leadership of the Office. Each Division establishes annual plans and goals that consider and respond to both the Agency needs and requests of customers and stakeholders. The plan includes benchmarks and other measurement criteria to document success.

2.2. How do your strategic objectives address the strategic challenges you identified in your Executive Summary?

Many of the challenges the Office faces are externally driven and therefore require competent response to changing conditions. The Agency monitors trends and capitalizes on external relationships to evaluate alternatives and make informed decisions.

2.3. How do you develop and track action plans that address your key strategic objectives, and how do you allocate resources to ensure the accomplishment of your action plans?

Senior leadership constantly monitors office progress through constant interaction and follow up throughout all levels of the Agency. Following development and implementation of action plans, senior leadership holds a debriefing meeting covering what was successful and what could have been done differently during implementation. Delegating responsibility is a key component, as well as ensuring that staff is properly trained and has resources available to successfully complete assigned action items. All of these components are taken into account when formulating action plans.

2.4. How do you communicate and deploy your strategic objectives, action plans, and related performance measures?

Division directors incorporate the strategic objectives of the Office in their daily operations and goals. Action plans are assigned to specific Divisions and employees as dictated by the objective and circumstances. The Employee Performance Management System (EPMS) is utilized to integrate Agency objectives and promote individual accountability.

2.5. How do you measure progress on your action plans?

See question 2.3.

2.6. How do you evaluate and improve your strategic planning process?

See question 2.3.

2.7. If the Office's strategic plan is available to the public through the Office's internet homepage, please provide a website address for that plan.

The Office of State Treasurer's strategic plan is not presently available on the Agency's website.

Strategic Planning Chart

Program Number and Title	Supported Office Strategic Planning Goals/Objectives	Related FY 11-12 and beyond Key Office Action Plan/Initiative(s) and Timeline for Accomplishing the Plan(s)	Key Results
II Programs and Services (Treasury Management)	1.1 Support Office banking needs	Communicate with agencies about their specific banking needs and through partnering with banking service providers, incorporate new services and technology where available	Pages 43-45
	1.2 Reconcile bank accounts and limit unrecorded deposits	Add sub-accounts for additional agencies, utilize additional features of online banking services, and further automate file transfer and reconciliation to facilitate timely reconciliations	
	1.3 Distribute shared revenue	Utilize and regularly review automated systems to assure compliance with applicable distribution laws	
II Programs and Services (Investments)	2.1 Provide cost-effective, professional portfolio management services	With a highly trained, professional staff and state-of-the-art portfolio management tools, manage fixed income funds internally and obtain the best returns within the prescribed parameters	Pages 46-47
	2.2 Maintain adequate collateral	Utilize automated systems for timely monitoring and adjustment of collateral	

	2.3 Optimize earnings through effective cash management while maintaining adequate liquidity	Utilize state-of-the-art cash management tools and practices. Employ proper cash forecasting models and communication with agencies to predict cash needs and to match investments with those needs	
II Programs and Services (Debt Management)	3.1 Pay all debt accurately and on time	Utilize automated system for timely and accurate calculation and execution of debt payments	Page 48-49
	3.2 Close all new debt issues by prescribed and agreed upon deadlines	Utilize experienced staff and outside advisors depending on the nature of the issue	
	3.3 Issue debt at lowest rate possible	Maintain high credit rating through careful management of the rating Office relationship, provide advice and guidance to policymakers when appropriate, and maximize exposure of debt offerings	
	3.4 Develop debt and finance policies that optimize value to the taxpayer and constituency	Perform impact analyses and special studies as requested or warranted by the circumstances	
II Programs and Services (Unclaimed Property)	4.1 Increase amount of property returned to rightful owners	Increase public awareness of Program and continue to aggressively seek owners	Pages 50-52
	4.2 Promote holder compliance with unclaimed property requirements	Promote holder awareness through outreach and education efforts	
	4.3 Increase electronic reporting of unclaimed property	Continue to provide downloadable reporting software via the internet	
		Require holder reports be submitted electronically	

II Programs and Services (College Savings)	5.1 Increase the number of college savings accounts within the programs, particularly among South Carolinians	Promote college savings to South Carolinians at all income levels and throughout the State	Pages 53-57
	5.2 Expand internet services for Future Scholar, meeting customer expectations and enabling online account access	Continue marketing the Future Scholar Plan with the collaboration of STO and Columbia Management	
	5.3 Expand internet services for SCTPP account owners using online WAVE account services and the SCTPP website	Provide better online access to account holders of Future Scholar accounts	
II Programs and Services (Local Government Services)	6.1 Provide guidance on reporting of court fines and assessments to local government treasurers	Conduct annual court fines training for county and municipal treasurers	Page 20
	6.2 Develop an electronic database of county and municipal audits	Request all local governments to submit mandated annual audits electronically to reduce the cost of printing and postage and to enhance data management (FY 2011)	
	6.3 Provide continuing education opportunities on services provided to local governments by the State Treasurer's Office	Continue partnering with the Dept. of Revenue to provide educational seminars for county treasurers through the South Carolina Auditors, Treasurers and Tax Collectors Association (SCATT)	

III.3 - Customer Focus

3.1. How do you determine who your customers are and what their key requirements are?

The Agency's daily work requires constant communication and interaction with our customers and stakeholders. This open and constant communication channel promotes a process of continuing identification and response to their key needs and requirements.

3.2. How do you keep your listening and learning methods current with changing customer/business needs and expectations?

The Office relies on direct customer feedback to improve services to our customers. The State Treasurer's Office deals with the public on a wide range of issues and strives to resolve questions and respond to requests as expeditiously and thoroughly as possible.

3.3. What are your key customer access mechanisms, and how do these access mechanisms enable customers to seek information, conduct business, and make complaints?

Other than by direct communication, the Office continually updates and provides additional information and downloadable documents via its website, thereby reducing 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. Both of the college savings programs have customer call centers, as does the Unclaimed Property Division. Other areas have informed staff available at all times to respond by telephone, email, and personal visits.

Legislative and FOIA inquiries are handled through a dedicated professional staff that coordinates research and provides timely and accurate information.

3.4. How do you measure customer/stakeholder satisfaction and dissatisfaction, and use this information to improve?

Representatives of the Office 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 customers and identify ways the Office can best meet their needs. Staff members often present at the South Carolina Association of Auditors, Treasurers and Tax Collectors meetings and offer training for local governments on such topics as court fines and cash investments. Feedback is generally solicited and relayed to the Office, with changes implemented accordingly. Management and staff who interact directly with customers and stakeholders not only build strong, positive relationships but also informally measure customer/stakeholder satisfaction.

3.5. How do you use information and feedback from customers/stakeholders to keep services or programs relevant and provide for continuous improvement?

Two of our Divisions, the Unclaimed Property Program and the College Savings Plans, involve direct communication and interaction with the general public. Promotion, education, customer expectations and customer-oriented delivery systems are the driving forces of these interactions. Internet access to data and Office services continues to be the focus of our outreach efforts. Public feedback from both our call centers as well as staff who field constituent calls notify Division directors of any criticism or suggestions they receive.

3.6. How do you build positive relationships with customers and stakeholders to meet and exceed their expectations? Indicate any key distinctions between different customer and stakeholder groups?

See question 3.4.

III.4 - Measurement, Analysis, And Knowledge Management

4.1. How do you decide which operations, processes and systems to measure for tracking financial and operational performance, including progress relative to strategic objectives and action plans?

The Office, with general counsel taking the lead, reviews all statutory requirements applicable to the Office of State Treasurer to ensure compliance with mandates from the General Assembly. Performance measures are incorporated into all operations of the Office. The measures used are selected by senior management in an effort to:

- Monitor compliance with directives, goals, and objectives;
- Measure success of transparency, accountability and efficiency measures implemented; and
- Measure Office performance against industry benchmarks

An inventory of key performance indicators is maintained for measures used in the areas of compliance, mission accomplishment, and customer focus. Comparative data and information is selected and used based on research for best practices and benchmarks relevant to the mission of the Office. 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.   In addition, monthly reports from all Divisions track operational and financial performance.   Separate monthly reports track expenditures and the Office's budget.

4.2. How do you select, collect, align, and integrate data/information for analysis to provide effective support for decision making and innovation throughout your organization?

Recognizing the importance of our key supplier relationships, the State Treasurer has built dedicated support systems for each of these types of relationships. Through regular meetings with key stakeholders and agencies requesting new types of services, the Office has forged significant partnerships that afford us the opportunity and ability to leverage industry experience and operational knowledge, leading to solutions that achieve cost savings, efficiency, accuracy and reliability.

4.3. What are your key measures, how do you review them, and how do you keep them current with organizational service needs and directions?

Monthly reports from all Divisions track operational and financial performance. Separate monthly reports track expenditures and the Office's budget. Objectives for investment of General and Other Funds are developed in conjunction with the State's investment advisor and adopted by the State Treasurer.   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 program manager for the college savings plans also provides monthly data to the Office to ensure proper tracking of goals and objectives. Other key measures include cost savings and avoidance, efforts promoting transparency and accountability, timeliness and

thoroughness with which we respond to requests and provide information, customer and stakeholder satisfaction and employee involvement.

4.4. How do you select and use key comparative data and information to support operational and strategic decision-making and innovation?

See question 4.1.

4.5. How do you ensure data integrity, reliability, timeliness, accuracy, security and availability for decision-making?

Accuracy of data produced by the Office is ensured through reconciliation and confirmation with external sources. Processes include among others:

- 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 counter-party to transactions.
- The status of investment portfolios and performance results is measured by at least two external sources in addition to the internal audit process: the custodial bank and the independent investment advisor.
- Local Government Investment Pool transactions are confirmed with Pool participants through daily confirmations of transactions along with monthly statements.
- 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 Office payments for authorized capital projects to ensure timely and accurate

payments for projects approved by the Joint Bond Review Committee, the Budget and Control Board and as appropriated by the General Assembly.

- 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.

- Internal administrative data such as budget status, procurement information, and payroll and personnel transactions are confirmed with statewide reporting systems and subjected to routine audit.

- Monthly reports are also required of all Divisions within the Office as well as partners and other entities with which the Office does business that track operational and financial performance as well as monitor expenditures.

Office data is subjected to review directly by at least eight areas of independence including:

- The audit process in connection with publication of the statewide Comprehensive Annual Financial Report (CAFR) for cash, investments, debt, and data processing control;

- Agreed Upon Procedures engagement;

- Independent GAAP audit of the Local Government Investment Pool;

- Independent GAAP audit of the Tobacco Settlement Revenue Management Authority;

- Independent GAAP audit of the South Carolina Resources Authority;

- Follow-up audits on Court Fine remittances;

- Statewide single audit team for compliance with CMIA; and

- The independent GAAS audit of the Office.

4.6. How do you translate organizational performance review findings into priorities for continuous improvement?

Senior management meets weekly with Division heads in an effort to ensure open lines of communication. During these meetings, feedback from various sources regarding organizational performance is discussed. Any changes Division managers implement as a result of feedback from reviewing authorities are reported and discussed during these meetings as well.

4.7. How do you collect, transfer, and maintain organizational and employee workforce knowledge (knowledge assets)? How do you identify, share and implement best practices, as appropriate?

Cross-training and succession planning are encouraged and implemented by senior management. The Office also maintains policies and procedures manuals for each division. The Office is in the study and implementation stages of automating workflow management and document imaging to standardize and promote better process management.

III. 5 - Workforce Focus

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

The State Treasurer's Office has a competent and dedicated staff that is natively service-oriented and responsive. Management encourages and promotes cooperation and teamwork through cross training and professional development. Managers are encouraged to communicate frequently about Agency and Divisional goals and objectives, and the open-door policy espoused by management promotes constant communication between management and staff to ensure staff has the proper training, instruction, and encouragement to achieve their maximum potential.

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

Office and departmental goals and objectives are discussed at regular staff meetings. Knowledge transfer is promoted through intra and interdepartmental cross training and through maintaining desk reference manuals to ensure business continuity.

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

Through short- and long-term planning, management evaluates the need to fill positions that generally become vacant through attrition.   Once a need is determined, vacant positions are posted through the State's Office of Human Resources' (OHR) State Jobs Website, our primary recruiting tool. The system allows for the application of specific job training questions and occupational work history filters, which narrows applicant pools to the most qualified candidates. Selected applicants participate in an objective interview process. Once successful candidates are hired, in-house orientations and continuous training and professional development opportunities are provided to ensure employee success.

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

Division directors and executive management routinely monitor the quality and quantity of staff workloads as well as the status of completion on short- and long-term projects to determine staffing levels and competencies. Managers and employees work together to identify resource requirements needed to accomplish present and future goals and advise executive management.

5.5. 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?

Senior leadership actively seeks employee input and feedback to evaluate and improve processes and to promote initiative and teamwork.   Measurable and objective success criteria promote high performance ensuring that Office goals and

objectives are met. The EPMS system used to evaluate employee performance also assists in maintaining high achievement levels and efficiencies in workflow.

5.6. 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;

D. Your core competencies, strategic challenges, and accomplishment of action plans?

Management positions in the Office require very specific qualifications and experience that relate to the day-to-day functions of the Office. Leaders are encouraged to participate in professional development and personal growth training opportunities. Through weekly meetings, senior management shares ideas and communicates organizational knowledge across divisional lines.

5.7. 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?

Managers and employees work together to identify areas where additional job skills and training are needed. New employees are brought into an environment of peers willing to help them adapt to their new responsibilities.

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

Implementing new technologies and improving daily processes often necessitate the development and use of new job knowledge and skills in the performance of day-to-day job functions. Transparency, accountability and efficiency are strident goals of the Office.

For example, the Debt Management Division 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 Investments Division allows account holders to view their accounts online.   BidSC also holds its auctions via the internet. The Unclaimed Property Division recently converted to new software allowing staff greater capabilities in security and customer service. Citizens may look up UPP records of unclaimed property and file claims via the internet as well as in writing.

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

Employee professional development and cross training ensures a well-trained professional workforce that continues to meet the Office's mission and provide exceptional customer service. It also enables the Office to shift responsibilities among staff members so that productivity does not stop in the event of employee absence.

5.10. 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 maintain a well-trained workforce prepared to progress in their careers as new opportunities arise.

5.11. How do you motivate your employees to develop and utilize their full potential?

Recognition of staff for their accomplishments continues to be both an honor and an important responsibility of management. Division directors and Deputy State Treasurers routinely recognize staff for their efforts in an ongoing effort to motivate the workforce.   Employees are honored with and recognized at an Employees' Appreciation Luncheon annually.   Employees are regularly encourages to think of process improvements and challenge the status quo.

5.12. 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?

Employee well-being and satisfaction are informally measured through day-to-day interactions, discussions and departmental meetings. Employee motivation is more formally assessed through the employee planning and evaluation process (EPMS). Exit interviews with employees leaving the Office are conducted to receive feedback in identifying and evaluating ways for improvement.   The Office also monitors turnover, absenteeism and grievances.   Senior management, including the Treasurer, often directly interacts with staff on both personal and professional levels.

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

The Office continues to review and update 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 ongoing with Division Directors to determine the needs of each Division, to identify individuals with potential to step into leadership roles, and to develop formal succession plans to promote an orderly transition whenever that time comes.

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

The Office continues its commitment to the 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 comfort and safety of employees. Managers and employees are encouraged to report any safety or health issues immediately. The Agency also maintains an Emergency Operations Plan in the event of emergencies, disasters, or evacuation.

III.6 - Process Management

6.1. How do you determine, and what are your organization's core competencies, and how do they relate to your mission, competitive environment, and action plans?

See Section 2, Figure II.1.

6.2. How do you determine, and what are your key work processes that produce, create or add value for your customers and your organization and how do they relate to your core competencies? How do you ensure that these processes are used?

Key processes are statewide functions mandated by the Legislature, including investments, banking and debt service, college savings plans, unclaimed property and treasury management. These processes are integral to safeguarding our State's financial resources and maximizing returns on our investments. The Performance Audit has identified both strengths in work processes and opportunities for improvement and will be utilized as a foundation and a tool for future improvement.

6.3 How do you incorporate organizational knowledge, new technology, cost controls, and other efficiency and effectiveness factors, such as cycle time, into process design and delivery?

Institutional knowledge of staff at all levels drives process design and delivery. Constant monitoring and refinement of business processes ensures that best practices are being employed.

6.4. How does your day-to-day operation of these processes ensure meeting key performance requirements?

See question 6.3.

6.5. How do you systematically evaluate and improve your key product and service related work processes?

Customer and stakeholder feedback are integral components and drive key product and service-related work processes. Staff members are engaged and encouraged to participate in business solutions. Weekly senior leadership meetings provide a forum to share challenges, concerns and resolutions.

6.6. What are your key support processes, and how do you evaluate, improve and update these processes to achieve better performance?

Key support processes include internal services provided by our administrative and information technology divisions. Division managers meet routinely to evaluate needs, progress, and other developments that affect the divisions utilizing these support services.

6.7. How does your organization determine the resources needed to meet current and projected budget and financial obligations?

Senior leadership reviews the various needs of the Office taking into account the mission, customer and stakeholder relationships, and desired outcomes. Weekly senior leadership meetings as well as budget reviews ensure that the Office's limited resources are being deployed efficiently and at their highest and best use. Division Directors also submit monthly activity reports to senior leadership in an effort to monitor progress and make adjustments if necessary.

III.7 Results

<u>**7.1 - Treasury Management**</u>

Program Goals:

- To streamline and automate banking operations to enhance efficiency.
- To further increase electronic payments to vendors and employees.
- To integrate SCEIS Treasury module into the Office's Financial Management System.
- To reduce banking costs.

Program Objectives and Key Results:

1. **Increase the number of payments processed electronically.**

   1.1 Implemented of an electronic payables program to offer an additional method of payment to vendors. This expedited vendor payments and reduces processing costs to the State.

Figure 7.1.1 - Comparison of Disbursements by Type

	2007-08		2008-09		2009-10		2010-11		2011-12	
	Number	%	Number	%	Number	%	Number	%	Number	%
Disbursements										
Paper Checks	2,654,720	60%	2,359,721	54%	2,007,508	48%	1,676,033	40%	1,298,031	31%
Electronic Payments with Paper Confirmation	1,779,981	40%	2,010,973	46%	801,099	19%	175,386	4%	29,582	1%
Electronic Payments with Electronic Confirmation					1,400,412	33%	2,379,680	56%	2,857,616	68%
Total Disbursements	4,434,701	100%	4,370,694	100%	4,209,019	100%	4,231,099	100%	4,185,229	100%
FTE's in Process Area	4.00		4.00		3.00		3.00		3.00	

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

Figure 7.1.2 - Comparison of Receipts by Type

	2007-08		2008-09		2009-10		2010-11		2011-12	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
Receipts:										
Manual Deposits	39,233	21%	34,733	18%	20,406	11%	16,336	9%	17,072	9%
Automated Deposits	**96,841**	**53%**	**103,472**	**54%**	**117,862**	**63%**	**123,305**	**67%**	**121,863**	**66%**
Credit card deposits	**43,611**	**24%**	**46,979**	**25%**	**46,636**	**25%**	**44,431**	**24%**	**45,324**	**24%**
ACH Deposits	4,452	2%	5,330	3%	2,496	1%	1,019	1%	877	0%
Total Deposits	184,137	100%	190,514	100%	187,400	100%	185,091	100%	185,136	100%
FTE's in Process Area	4.00		4.00		3.75		3.75		3.75	

2.1 Automated deposits and credit card deposits both utilize the electronic deposit system. These electronic postings accounted for 91% of all deposits processed through the Office. Deposits continued to be processed within the one-day requirement, utilizing enhancements already in place. By the end of the year, sixty-nine State agencies had converted from their legacy accounting systems to SCEIS and began submitting deposits to the STO through SCEIS. As further implementation continues, the number of manual deposits should decrease.

3. Work with banks to analyze Office use and needs of available banking services.

3.1 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 vendor issues that may need attention on current services already being utilized by the STO.

3.2 A Request for Information was submitted to financial intuitions allowing the STO to evaluate and reduce our banking service fees. This has resulted in a potential annual reduction of $900,000.

Programs for debit pay cards for payroll and benefits have been initiated to reduce costs for processing these payments.
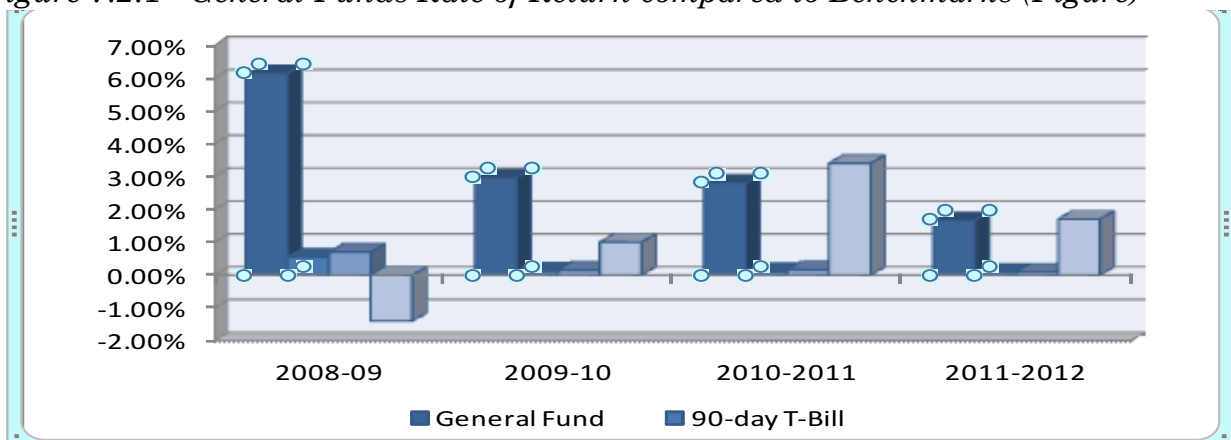
7.2 - Investments

Program Goals:

- To manage all 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 while:
    - Preserving capital;
    - Maintaining liquidity; and
    - Obtaining the best return within appropriate risk parameters.
- 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 Federal Funds by 1.57%.

1.2. The State's Local Government Investment Pool (LGIP) earned an average rate of .29% compared to the average benchmark rate of .09% (90-day T-Bill).

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

2.1. The STO provided investment services at a cost of less than .014%, compared to an industry average of .10%. (Source: Jamison Eaton & Wood, Investment Advisors)

2.2. An increasing amount of LGIP participants continue to utilize the secure online system for managing accounts and conducting transactions.

2.3. The BidSC Program CD auctions resulted in increased earnings for the State of $106,143, in spite of low demand for CD deposits by the banks.

3. **Meet or exceed the General Fund budget projection for investment earnings for the year.**

3.1. Earnings on General Fund investments were $29,414,231 which exceeded the investment earnings projection of $29 million by $414,231 due to higher balances.

Figure 7.2.2 - General and Other Funds Managed

	2008-09		2009-10		2010-11		2011-12	
Workload - State and Local								
General funds managed (average)	$	1,297,807,050	$	1,412,254,313	$	1,196,726,246	$	2,120,114,578
Restricted funds managed (average)		4,676,011,041		4,615,146,429		5,130,595,795		5,700,533,174
Tobacco funds managed		-		-		-		-
Total State funds managed	$	5,973,818,091	$	6,027,400,742	$	6,327,322,041	$	7,820,647,752
LGIP funds managed (average)	$	2,549,633,937	$	2,526,781,301	$	2,600,987,899	$	3,268,372,691
LGIP Accounts		544		565		593		606
Number of State and local portfolios		19		19		19		19
Cost as % of Funds		0.0135%		0.0126%		0.0180%		0.0126%
Total number of investment trades		2,461		1,943		2,663		3,570
(FY 2007 included fixed income trades for the S C Retirement System)								

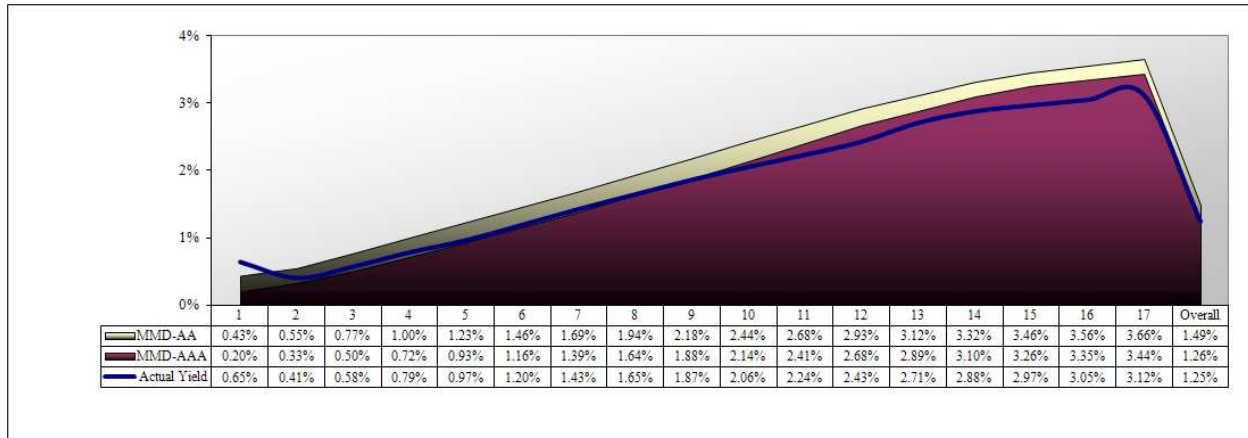<div align="center"><u>**7.3 - Debt Management**</u></div>

Program Goals:

- Manage all debt issues for the State, its agencies and institutions.
- Optimize debt structure and assure timely debt payments.
- Coordinate communications with rating agencies to maximize the State's credit rating.

Program Objectives and Key Results:

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

    1.1. On a composite basis, general obligation debt was issued at yields at or favorable to the Municipal Market Data (MMD) yields for comparably secured MMD-AAA securities.

    1.2. For the fiscal year, the overall yield on general obligation debt issued was 1.25%, as compared to the MMD-AAA and MMD-AA yields for the same period at 1.26% and 1.49%, respectively. **The State's total interest cost of $19.1 million for the $231.34 million in general obligation debt issued during the previous fiscal year was favorable to the prevailing market by $213 thousand.**

Graph 7.3.1 Comparison of bond yields

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Overall
MMD-AA	0.43%	0.55%	0.77%	1.00%	1.23%	1.46%	1.69%	1.94%	2.18%	2.44%	2.68%	2.93%	3.12%	3.32%	3.46%	3.56%	3.66%	1.49%
MMD-AAA	0.20%	0.33%	0.50%	0.72%	0.93%	1.16%	1.39%	1.64%	1.88%	2.14%	2.41%	2.68%	2.89%	3.10%	3.26%	3.35%	3.44%	1.26%
Actual Yield	0.65%	0.41%	0.58%	0.79%	0.97%	1.20%	1.43%	1.65%	1.87%	2.06%	2.24%	2.43%	2.71%	2.88%	2.97%	3.05%	3.12%	1.25%

2. **Provide State institutions and agencies with guidance in effectively managing their debt issuances and programs.**

   2.1. The Division assisted 12 institutions and agencies in financing $781 million through 25 bond and master lease transactions.

The Division refinanced portions of State debt to achieve approximately $50 million in savings.

<u>**7.4 - Unclaimed Property**</u>

Program Goals:

- Increase holder companies' compliance with reporting.
- Increase citizens' awareness of unclaimed property thereby increasing the likelihood of funds being returned to rightful owners.
- Increase efficiency through use of technology.

Program Objectives and Key Results:

1. **Increase compliance with the Unclaimed Property Act by increasing the number of holders filing annual reports.**

    1.1. Reported cash decreased by 1.8%. However, remittance of stock shares increased 22%.

    1.2. Paperless reporting procedures were enhanced making reporting easier for businesses.

*Figure 7.4.1 Amount reported as unclaimed property*
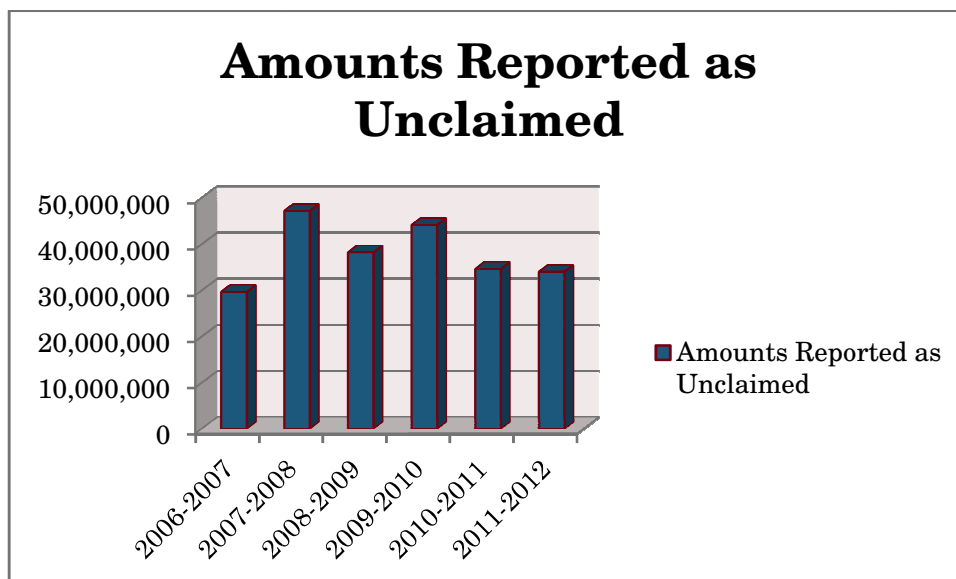
2. Increase claims paid to the rightful owners by increasing public awareness of the Program and through aggressive outreach programs.

2.1. Increased the probability of money being claimed by rightful owners through providing information to television stations and newspapers across the State to assist in the location of owners and to generally promote the Program.

2.2. Program was promoted through numerous speaking engagements at which lists of owners were distributed and through outreach programs such as on-air television phone banks during which potential owners could locate their funds.

While the total dollar amount of claims paid in 2011-2012 ($9,291,736) was down from the previous fiscal year, the number of claims paid was up by 8% from the previous fiscal year.   Therefore, more owners of unclaimed funds were reunited with their money.

3. Increase and enhance Program efficiencies through the use of technology.
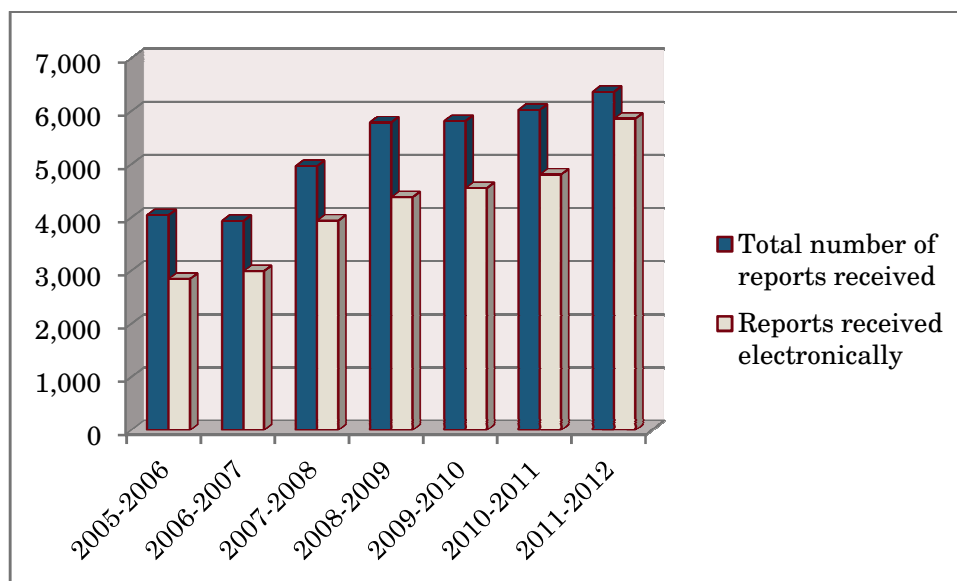
3.1. Provide and promote services with an emphasis on the internet thus making it easier for the public to submit claims while keeping the cost of processing the claims down.

3.2. The Office enhanced the paperless reporting procedure which allows holders to file their reports via e-mail and remit the funds electronically. Paperless reporting reduces the amount of paper staff has to handle, process, scan and shred.

3.3. All Program holder report files and paid claims files are routinely scanned, thereby eliminating the need to store vast amounts of paper and allowing for staff to quickly locate needed files.

The Program updated its internal software program which will provide increased security, reliability and operational efficiency.

<u>**7.5 - College Savings Plans**</u>

South Carolina Future Scholar College Investment Program

And

**Tuition Prepayment Program**

Program Goals:

- Increase overall account openings in the Future Scholar 529 Plan.

- Provide a top quality 529 College Savings Plan Investment Program to the residents of South Carolina and to residents of other States who may benefit from the advantages of investing in the Future Scholar Plan.

- Continue to operate one of the Nation's most highly rated 529 College Savings Programs **without the use of any general funds or taxpayer money**.

- Continue to run the Tuition Prepayment Program in an efficient manner as well as formulate a plan to address the unfunded liability associated with the program.

Program Objectives and Key Results:

1. **Increase participation in the Future Scholar Plan, especially among South Carolinians.**
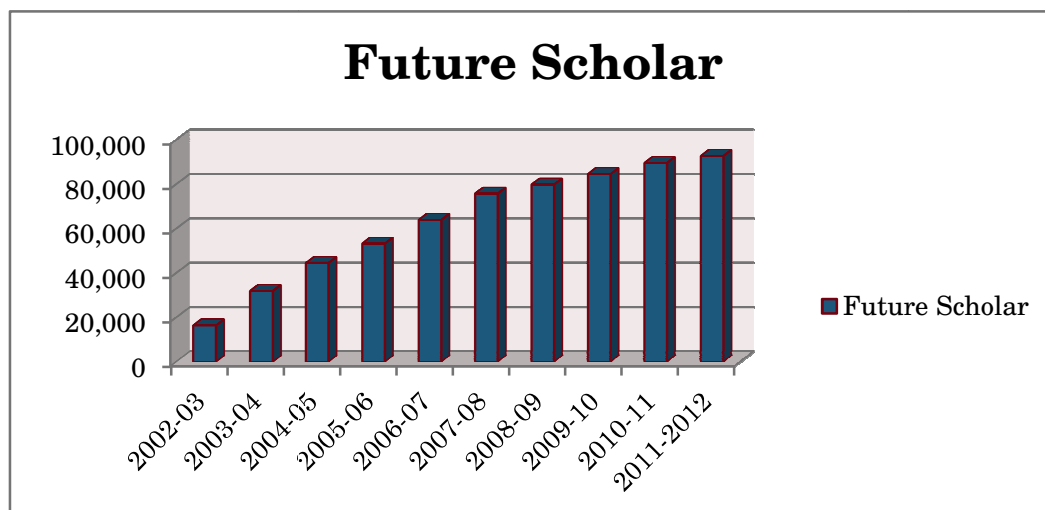
1.1.   Active Future Scholar accounts increased by 4% in the last fiscal year. Active accounts grew from 89,528 to 92,700.

1.2.   The ratio of participation in Future Scholar by South Carolina residents increased 2% from 64% to 66% of total accounts.

1.3.   Future Scholar initiated three statewide advertising and grass roots promotional campaigns to encourage families to save for college.

1.4.   Future Scholar advertising campaigns targeted South Carolina families with children ranging from newborns to high school age who might benefit from the investment and tax advantages of the Plan.
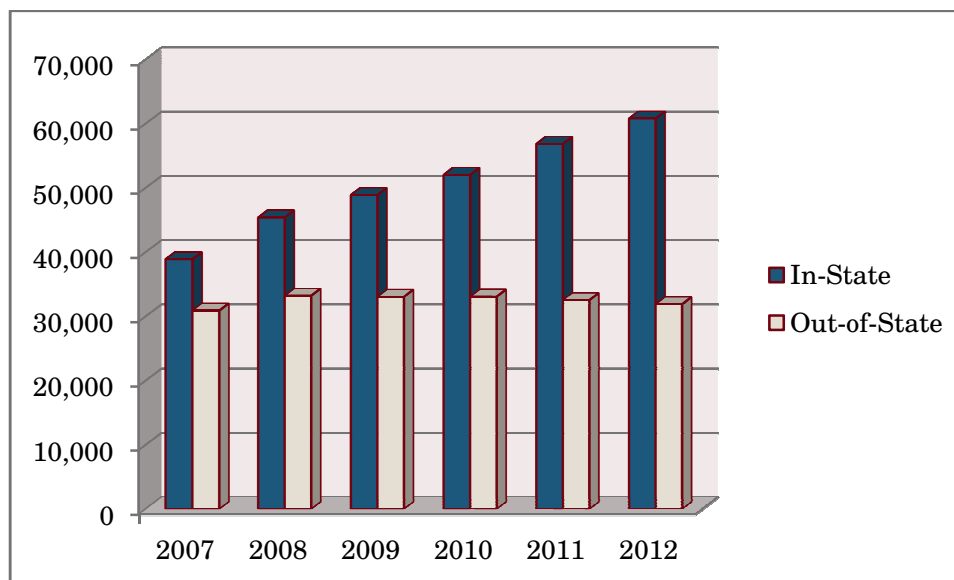
2.   Provide a top-grade 529 Investment Program.

2.1 Since 2008, The Future Scholar customer service call center responsible for fielding telephone inquiries for the Future Scholar 529 College Savings Plan has performed within the competitive NQR benchmark for service quality delivery . Beginning in 2009, Columbia achieved NQR's 5-Star Designation for superior customer service. NQR

is a third-party vendor responsible for rating the quality of shareholder calls and providing benchmarking against other firms in the financial industry.

2.2 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).

2.3 Future Scholar is ranked among the top 529 Plans for performance for Direct Sold Plans by SavingForCollege.com. (Ratings are updated on a quarterly basis).

3. **Enhance services available through the Internet making it easier for the public to submit applications, make account changes, and utilize the benefits of the Plan.**

   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 and Online Application to increase customer service capabilities and satisfaction.
     - ❖ Opened 12,396 accounts online since the service launched in September 2009.
     - ❖ The online application has simplified the account opening process and provides a great way to promote the ease of opening a plan to constituents.

1.2.2 Maintain low fees for Future Scholar Direct Plan (for SC residents).

- The Office announced the selection of Columbia Management, through a competitive bidding process, for a new contract for program management services for the Future Scholar Plan which will result in enhanced plan options and lower fees for account owners.
  - The enhanced Future Scholar plan will result in a dramatic reduction in expenses making Future Scholar the one of the lowest cost direct plan in the country.

Tuition Prepayment Program

- While new enrollment in the Tuition Prepayment Plan remains closed, the Office strives to continue to serve current clients with the best customer service.

- The Office maintained the percentage of SCTPP contract holders making monthly payments by automatic draft at 43.89% as part of a continuing effort to reduce bank service charges and assure payments are made in accordance with the contracts.

- Currently the expected value of liabilities is $158,250,795 and the value of assets is $122,473,035 for a difference of $35,777,760. The funded ratio is 77.4% of liabilities. For comparison purposes, in 2011 the deficit was $35,322,751 and the funded ratio was 79.4%.

- According to the SCTPP's most recent actuarial report, the fund could run out of money by 2019 if no action is taken by the Legislature and if tuition inflation continues to outpace investment returns. Per State law, the Legislature must decide what will be done regarding the actuarial deficit of the SCTPP.

- Each year, the Office of State Treasurer advises the Legislature on the financial status of the SCTPP and provides recommendations regarding remedial actions that will extend the life of the fund.

GLOSSARY OF ACRONYMS USED

CAFR	Comprehensive Annual Financial Report
CD	Certificate of Deposit
CMIA	Cash Management Improvement Act
CSPN	College Savings Plan Network – Division of NAST
DMS	Debt Management System
EPMS	Employee Performance Management System
FOIA	Freedom of Information Act
GAAS	Generally Accepted Auditing Standards
GAAP	Generally Accepted Accounting Principles
IPAS	Internet Participation Access System
LGIP	Local Government Investment Pool
MMD	Municipal Market Data
MSRB	Municipal Securities Rulemaking Board
NACHA	National Electronic Payment Association
NASACT	National Association of State Auditors, Controllers, and Treasurers
NAST	National Association of State Treasurers
NQR	National Quality Review
OSHA	Occupational Safety and Health Administration
SAP	Systems, Applications, and Products in Data Processing
SCATT	South Carolina Association of Auditors, Treasurers and Tax Collectors
SCEIS	South Carolina Enterprise Information System
SCTPP	South Carolina Tuition Prepayment Program
STO	State Treasurer's Office
UPP	Unclaimed Property Program
FTE	Full Time Equivalent