



THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

October 14, 2016

The Honorable Wm. Weston J. Newton
Chairman, House Legislative Oversight Committee
228 Blatt Building
Columbia, SC 29201

Dear Chairman Newton:

I am writing to provide proper context to the matters discussed in Comptroller Eckstrom's letter dated September 21, 2016. Although the letter discussed accounting issues meaningful only to those directly involved, Comptroller Eckstrom chose to widely distribute it and to ensure it would be posted on the internet. Clearly, a spirit of cooperation and a phone call would have been more helpful in resolving this issue. However, the Comptroller's wide circulation of his letter necessitates a review of the pertinent facts so that the reader might be properly informed about this commonplace event.

When the Comptroller converted his software systems, the issues that arose during his conversion required the Comptroller to grant himself the month of December and an extra 158 days to complete the 2012 CAFR (after the December 31 deadline). The Comptroller transmitted his delinquent CAFR on June 7, 2013.

Additionally, in the second year Comptroller Eckstrom granted himself the month of December and an extra 45 days to complete the 2013 CAFR (after the December 31 deadline). He transmitted his delinquent document on February 14, 2014.

During these times, the Treasurer's Office, in a spirit of cooperation and in the best interest of the State, provided assistance and support to the Comptroller's Office even though the Comptroller refused to provide the Treasurer's Office with a written reason for the delay.

Interestingly, during the Treasurer's Office current, multi-year conversion, Comptroller Eckstrom successfully lobbied to have the reporting dates moved forward by ten days, shortening the time allotted to complete this important year-end

reporting in a timely and accurate manner. The issues associated with the Treasurer's Office conversion requires approximately two weeks of additional time to complete its year-end work, but the Comptroller has refused to grant flexibility in the reporting dates and has, inexplicably, worked to publicly broadcast what should be a routine matter associated with year-end reporting.

Complications often arise from complex software system conversions, and the Comptroller's personal experience makes him well aware of this fact. We are dismayed that the Comptroller, without consulting with his office's most significant year-end reporting partners, worked to arbitrarily move forward the reporting dates and has therefore created a controversy where none should exist.

The deadline for the CAFR's publication is December 31 of each year, and it is not a date selected by the Comptroller; it is set by the Government Finance Officers Association (GFOA). Instead, the Comptroller sets the reporting and publication schedule. While timeliness is important, setting the schedule too soon after the year-end close can affect the accuracy of the reporting. Setting a schedule that allows for both timeliness and accuracy requires consultation, partnership and communication among all parties. Unfortunately, these three important components were missing from this year's efforts.

The responsibility for the State's relationship with the rating agencies, the interaction with certain federal agencies such as the Securities and Exchange Commission (SEC), Municipal Securities Rulemaking Board (MSRB) and others, and the continuing disclosure mechanism (EMMA) fall to the State Treasurer and not the Comptroller. I can assure you that, with the exception of the two CAFRs made delinquent by the Comptroller's inability to convert his software in a timely manner, those aforementioned groups are pleased and impressed with the Treasurer's Office management of these relationships and our handling of the delinquent CAFRs in particular.

Please find attached the documents submitted by the Treasurer's Office to the MSRB continuing disclosure website, EMMA. These postings detail the history of the Comptroller's inability to meet important deadlines and a sampling of the efforts made by the Treasurer's Office to soothe the anxieties of those that depend on the State's timely and accurate financial information.

Clearly, government officials should work together in a cooperative spirit as it is in the best interest of the people of South Carolina to do so. Utilizing a public venue in an effort to gain political advantage does not best serve the people of our State. I can assure you that the information supplied by the Treasurer's Office will be timely, accurate and free of political grandstanding. However, the reporting dates must be reasonable and established after consultation with the reporting partners.

I am attaching my previous letter to Comptroller Eckstrom, dated September 30, 2016. Please forward this letter and attachments to your committee and others, as

necessary. Also, please post my communications alongside the Comptroller's on the LOC website. As always, feel free to contact my office should you have any questions.

Respectfully

Signature Redacted

Curtis M. Loftis, Jr.
South Carolina State Treasurer

CML/ebf

Enclosures

cc: The Honorable Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee
The Honorable Brian W. White, House Ways and Means Committee
The Honorable Richard Eckstrom, Comptroller General
George L. Kennedy III, State Auditor
Marcia Adams, Executive Director, Department of Administration

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Issuer: State of South Carolina

Obligations: General Obligation State Capital Improvement Bonds;
General Obligation State Highway Bonds;
General Obligation State Institution Bonds
(issued on behalf of various State institutions);
General Obligation State School Facilities Bonds;
General Obligation State Transportation Infrastructure Bonds;
General Obligation State Economic Development Bonds;
General Obligation State Research University Infrastructure Bonds;
General Obligation State Air Carrier Hub Terminal Facilities Bonds;
Heritage Trust Revenue Bonds; and
Installment Purchase Revenue Bonds and Revenue Notes
All of the State of South Carolina

Date of Issuance: Various

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-referenced Obligations as required by provisions of the Resolutions pursuant to which the Obligations have been issued and Section 3 of the State's Continuing Disclosure Undertaking.

The State anticipates that the Annual Report will be filed by February 28, 2014.

STATE OF SOUTH CAROLINA

By:

Signature Redacted

F. Richard Harmon, Jr.
Senior Assistant State Treasurer, on behalf of
Curtis M. Loftis, Jr., State Treasurer

January 31, 2014

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Issuer: State of South Carolina

Obligations: General Obligation State Capital Improvement Bonds;
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The State anticipates that the Annual Report will be filed by February 18, 2013.

STATE OF SOUTH CAROLINA

Signature Redacted

By:

Curtis M. Loftis, Jr.
State Treasurer

January 31, 2013

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
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The State's Office of Comptroller General has advised that the Annual Report will be available for publication and filed by March 29, 2013.

STATE OF SOUTH CAROLINA

Signature Redacted

By:

Curtis M. Loftis, Jr.
State Treasurer

February 18, 2013

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
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The State's Office of Comptroller General has advised the Office of State Treasurer that the Annual Report will be available for publication and filed by April 30, 2013.

STATE OF SOUTH CAROLINA

Signature Redacted

Curtis M. Loftis, Jr.
State Treasurer

March 29, 2013

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
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The State's Office of Comptroller General has advised the Office of State Treasurer that the Annual Report will be available for publication and filed by May 31, 2013.

STATE OF SOUTH CAROLINA

By:

Signature Redacted

F. Richard Harmon, Jr.,
Senior Assistant State Treasurer, on behalf of
Curtis M. Loftis, Jr., State Treasurer

April 30, 2013

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
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The State's Office of Comptroller General has advised the Office of State Treasurer that the Annual Report will be available for publication and filed by June 30, 2013.

STATE OF SOUTH CAROLINA

By:

Signature Redacted

F. Richard Harmon, Jr.,
Senior Assistant State Treasurer, on behalf of
Curtis M. Loftis, Jr., State Treasurer

May 31, 2013



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

September 30, 2016

Richard Eckstrom, CPA
Comptroller General
Office of the Comptroller General
1200 Senate Street
Columbia, SC 29201

Mr. Eckstrom,

Richard,

The State Treasurer's Office (STO) is in receipt of your letter of the 21st of September and delivered to our office on the 26th.

As the State's Comptroller and the Chairman of the SCEIS Executive Oversight Committee you are aware of the ongoing conversion of the complex and antiquated legacy systems in the State Treasurer's Office. This conversion is a monumental task no other State Treasurer has chosen to undertake. The Legislature has been supportive and understanding of the process and realizes that having investment activity integrated into the SCEIS accounting system provides significant improvements in day-to-day operations, as well as greater reporting and data analysis. Your staff participated in and was instrumental in the conversion process, especially as we refined important definitions and developed both accounting and reporting deliverables. Of course, my office and the SCEIS team have devoted tremendous amounts of time and resources to both the conversion and to providing information to our partners about the conversion process. I can assure you, no one desires the timely and accurate completion of the conversion more than I.

As with any major conversions of this size and complexity, it is understandable that accounting and reporting issues will arise and must be dealt with in order to ensure timely and accurate reporting. The procedures to test for issues and analyze them are extensive and ongoing. I assure you the issue at hand is our top priority, and substantial progress is being made.

Therefore, I respectfully request flexibility regarding the reporting of certain information produced by the STO. The end users of that information have received notice that their reporting dates have been advanced by 15 days, to October 1st. This deadline has come as a surprise to many State agencies and to my office; in fact, the STO was just recently made aware of the new deadlines by a conversation with the State Auditor's Office. We believe we will meet, as planned, the original deadline of October 15; therefore, we are asking for no more time than the original deadline allowed.

The STO was not included in your requested proviso, and we were not provided advanced notice or instructions from your office. The promulgation of the State's financial statements involves and is dependent upon input, resources and cooperation of many parties in addition to the Comptroller General's Office. Had the STO been consulted, we would have strongly advised against shortening

the time allowed for year-end reporting, as such deadline changes during a complex and lengthy conversion are unlikely to be helpful to the effort of timely and accurate reporting. May I suggest a leadership team be created consisting of representatives of the Comptroller General's Office, the State Auditor's Office, the State Treasurer's Office, and other parties as you see fit, so that we might work more cooperatively in furtherance of the stated goals of a timely and accurate CAFR?

Your support of our request for more time to complete reporting delayed by this conversion of statewide systems will be appreciated just as we believe you appreciated our support for you during your SCEIS CAFR conversion. The Comptroller's Office struggled with similar burdens caused by these long over-due conversions, and the resulting complications were that the June 30, 2012 CAFR was submitted over five months after the due date, and the June 30, 2013 CAFR was submitted six weeks after the due date. During that two-year period, my office diligently worked to assist your office in an effort to resolve the impact of the late CAFRs. We adjusted the date and required work schedules for a large bond issue. We also spent significant time and energy with the rating agencies and others to assure them that the delinquent CAFRs were due to "one off" complications caused by a complicated conversion and not because of any governance or technical issues.

More than ever, in this important conversion year, I ask that we work cooperatively for the good of the State, affording the necessary time for success in this important undertaking rather than risking errors through haste. I do not ask for 5 months or 6 weeks, as your office required, but for 2 weeks (and possibly less) to supply the information requested.

I am confident additional resources are unnecessary since the existing resources of both SCEIS and my office are addressing the issue and are proving to be adequate to achieve the objective. The one essential element currently lacking that would ensure our ultimate goal of accurate, reliable reporting is additional time, which you can provide us.

We have concluded the issue in the Investment and Market Cost GAAP Basis Report (TIM814) and Yearly Premium Discount and Accrued Interest Report (TIM801) occurred during the development of a yearly report. The methodology of the report was based on an understanding of definitions acknowledged by your office, my office and SCEIS. Unfortunately, we believe the definitions, while agreed upon by all parties, should have been clearer prior to the design of the report. As a result, the calculation within the report is overstated.

We have confirmed that Cash Receipts have been accurately stated, reconciled to our trustees at the Bank of New York Mellon, and appropriately distributed to agencies. We have also engaged an independent financial reporting and systems implementation firm to validate the allocation of Investment Earnings balances with the yearly reports. These experts have also validated the calculation of accrued interest at the portfolio level. As a result of these validations, I am confirming that there was no cash impact on the general, special revenue or earmarked funds. As that work continues, we remain in touch with our sister State agencies to apprise them of our progress.

Our office has worked, and is continuing to work, to validate and release enhanced data. Please find attached a list of agencies potentially impacted by the distributed report. It is important to note some agencies have provided and continue to provide average accrued interest. It appears that this matter does not impact several agencies given that their funds are not invested by the STO, and some agencies have already been provided with a revised amount.

We remain committed to the conversion to and operation of a single Statewide Enterprise Accounting System. I also request that we be given a contact in your office that might work closely with us so our communication can be less formal and more appropriate for such technical, important and fluid activity.

Again, we thank you for your patience and we look forward to your support in extending the deadline to the original deadline of October 15. We would be pleased to meet with you and the State Auditor to arrange a reasonable extension as we work toward completing this significant statewide conversion.

Sincerely,

Signature Redacted

Curtis M. Loftis, Jr.
South Carolina State Treasurer

CML/ebf
Enclosure

Audited Agencies

E550 SFAA- Insurance Reserve Fund
F500 PEBA-Retirement/Insurance Benefits/Deferred Comp
H670 ETV
L320 State Housing Authority
P360 Patriots Point
P400 Conservation Bank
P450 Rural Infrastructure Authority
R120 State Accident Fund
R140 Medical Malpractice Patients Comp Fund-AA
U120 Department of Transportation
U150 Transportation Infrastructure Bank
Y080 Department of Commerce-Palmetto Railways
Y140 State Ports Authority

College and Universities

H090 The Citadel
H120 Clemson University
H150 College of Charleston
H170 Coastal Carolina University
H180 Francis Marion University
H210 Lander University
H240 South Carolina State University
H270 University of South Carolina
H470 Winthrop University
H510 Medical University of South Carolina
H590 SC Tech Systems