



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

October 2, 2015

The Honorable Joshua Putnam, Subcommittee Chair
South Carolina Oversight Executive Subcommittee
Post Office Box 11867
Columbia, South Carolina 29211

Dear Chairman Putnam:

Thank you for your letter of September 23, 2015, requesting confirmation or correction concerning the State Treasurer's Office SCEIS conversion dates. We were happy to meet with Jennifer Dobson and Charles Appleby on September 22, 2015, both to provide further insight regarding the conversion process and to outline our progress addressing the legislative recommendations made by the Comptroller General. We were also pleased to provide an explanation of last year's Local Government Investment Pool financial statement submission.

The purpose of this letter is to clarify further the anticipated dates for SCEIS conversions provided during the subcommittee hearings and addressed in a subsequent letter dated September 10, 2015. April 2016 is a go-live target date for phase 1 conversion projects, which include Investment Management (converted September 1, 2015), Banking Deposits, and Debt Management. It is not a definitive project completion date. All anticipated conversion dates are target dates and should be viewed as objectives or goals, not deadlines. This distinction is crucial, as the complexity of the systems involved render their conversions multi-year endeavors, which require a methodical approach and essential testing in order to ensure the confidence of the conversion. If confidence is not secured, any premature conversion would simply pose too great a risk.

We are currently in the process of creating a "roadmap" for phase 2 conversion projects, which include Capital Projects, Financial Management System, LGIP, Cash Management, Health and Human Services Banking Function and Capital Leases. The roadmap will estimate the financial and human resources necessary to complete these conversions, as well as identify key risk factors for consideration. After establishing these crucial guidelines, we will determine specific target timelines for Phase 2 conversions.

This Office continues to work diligently, with all deliberate speed and efficiency, to make positive progress towards conversion, and we assure you that no one looks forward to the

completion of the conversion more than we do. However, our first obligation must be to the accuracy and effectiveness of the conversion. As a result, I am sure you agree that we are best served by a methodical, measured approach to safeguard against risks involved in conversions of this magnitude. It is our hope that this letter reflects our efforts and proves informative to the Subcommittee as this process moves forward.

Sincerely,

Curtis M. Loftis, Jr.

CML/ebf

cc: The Honorable Laurie Slade Funderburk
The Honorable Wm. Weston J. Newton
The Honorable Robert Q. Williams

Enclosures: STO SCEIS Conversion Presentation
Statewide & STO Timeline for SAP/SCEIS Systems Conversions
Letter to/from Chairman Putnam



Executive Subcommittee of SC House
Legislative Oversight
STO SCEIS Conversion Presentation

Curtis M. Loftis, Jr.
State Treasurer

September 10, 2015



South Carolina Office of
the State Treasurer

STO Conversions

- SC STO administers statewide Debt, Investments and Treasury Management functions
- First Treasurer to commit and prioritize a multi-year conversion of statewide treasury functions to SCEIS
- Retire risk-driven 30 year old legacy systems
- **Go live by end of calendar year (Investments & Debt)**
- STO has worked with SCEIS and gone through SCEIS Change Advisory Board (CAB) and Executive Oversight Committee (EOC) processes



South Carolina Office of
the State Treasurer

Process

- STO conducted an extensive external 'Gap Analysis' and 'Proof of Concept' process for Debt and Investments to determine if SCEIS could meet business requirements of statewide functions. Process led by external contractors/SAP
- Business Blue Print for each project to establish detail level functionality
- IV&V (Independent Verification and Validation) Contractor hired to provide a critical insurance policy for these projects to ensure blue prints/deliverables are met and we are truly ready to go live from a technical and end user standpoint.
- **Next Steps in 2016:**
 - Conversion of 19 General Depository bank accounts
 - Retirement of Investments and Debt legacy systems

Statewide & STO Timeline for SAP/SCEIS Systems Conversions

- 2000 State of SC issued a Request for Proposals for an Enterprise Resource Planning System. SAP was unanimously selected by the Evaluation Panel
- 2002 SC Department of Mental Health implemented SAP as pilot agency.
- 2005 Legislature approved partial funding (25%) for statewide implementation of SAP; state agencies to provide 75% of funding with a goal of replacing approximately 200 administrative systems and eliminate associated costs of maintenance contracts/personnel across 75 state agencies
- State purchased SAP software
- Provisos issued to create the (EOC) Executive Oversight Committee (issues a progress report to Legislature annually) and to allow agencies to create special accounts to carry forward funds to pay implementation costs. Richard Eckstrom and Frank Fusco original conversion leadership and led EOC.
- 2006 IV&V contractor was hired by the State to oversee the SAP implementation
- 2007 (November) First wave of agencies (*including STO*) implemented Finance and Procurement modules of SAP
- 2010 (January) First wave of agencies (*including STO*) implemented HR and Payroll modules of SAP
- Comptroller General designated SAP as the financial 'book of record' for the State
- 2011 *Treasurer Loftis was the first Treasurer to express interest in replacing legacy investment and debt systems*
- 2013 Comptroller General developed and issued the CAFR using SAP data (multi-year process)
- STO completed an SAP software 'gap analysis' to identify feasibility of converting statewide Debt & Treasury functions and required level of customization.*
- 2014 State Budget Office implemented Public Budgeting Formulation (PBF) module of SAP
- STO completed a 'proof of concept' to provide demonstrations of the investment and debt functionality within SAP. Upon completion, Treasurer Loftis authorized the conversion of investment and debt functionality to SAP.*
- STO conversion projects have been designed, developed, tested and implemented in close cooperation with the SCEIS Team. SCEIS provides both functional and technical (development and configuration) resources to support these projects.*
- (September) STO contracted with SAP as part of a joint development project to enhance the Debt Series functionality in the SAP Treasury module.*
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Chairman Wm. Weston J. Newton

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Laurie Slade Funderburk*

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*Charles L. Appleby IV
Legal Counsel*

September 23, 2015

The Honorable Curtis M. Loftis, Jr.
State Treasurer
Post Office Box 11778
Columbia, South Carolina 29211

Dear Treasurer Loftis:

On behalf of the entire Executive Subcommittee, I would like to thank you for sharing your time and knowledge with this subcommittee, during our recent meeting.

During the September 10, 2015, meeting, your team offered to provide the following additional information:

- Responses to whether your office agrees, disagrees or has no opinion on the recommended changes to statute suggested by the Comptroller General (see email to you and other agencies referenced in Comptroller General's recommendations for law modifications); and
- Reason why the Local Government Investment Pool (State Treasurer's Office) was 43 days late in submitting audited financial statements to the Comptroller General's Office for use in the CAFR (see attached).

We appreciate your team following up on these issues and providing the information.

We also appreciate you confirming that your staff is aware of the public survey available and that SCEIS will be fully implemented at the Treasurer's office by April 2016. We received your follow up communication which provided these clarifications to your testimony under oath:

- September 1, 2015 - Investment Management system converted to SCEIS
- Fall 2015 - Debt system converted to SCEIS
- April 2016 - Treasury Management Depository system converted to SCEIS

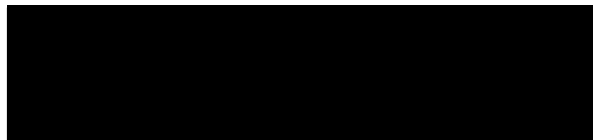
- December 2016 - Capital Projects, Financial Management System, LGIP, Cash Management, Health and Human Services Banking Function and Capital Leases converted to SCEIS. No remaining Treasurer systems on STARS.

Please inform us in writing if any of the above information is incorrect. In addition, please provide us the following information:

- Cost to have all systems at the Treasurer's Office converted to SCEIS by June 30, 2015 or before.

This subcommittee looks forward to continuing to work with you and your staff during the legislative oversight process.

Sincerely,



Joshua Putnam
Subcommittee Chair

cc: The Honorable Laurie Slade Funderburk
The Honorable Wm. Weston J. Newton
The Honorable Robert Q. Williams

Enclosures



State of South Carolina
Office of Comptroller General

1200 Senate Street
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Columbia, South Carolina 29201

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RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

WILLIAM E. GUNN
CHIEF OF STAFF

September 8, 2015

The Honorable Weston J. Newton
228 Solomon Blatt Building
Columbia, S.C. 29201

Dear Representative Newton,

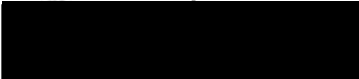
During a recent meeting with our Legislative Oversight Subcommittee, you asked about state entities that have been delinquent in providing information needed at year end for my staff to timely complete the state's Comprehensive Annual Financial Report (CAFR). Accompanying this letter is a list of state entities that during the preceding three fiscal years have been significantly late in submitting their required financial statements to us. Some of these entities have been delinquent going back even further.

By way of background, state entities that are not on the state's central accounting system (SCEIS) must nonetheless be included in the CAFR. From these "non-SCEIS" entities we get the financial information about them needed for the CAFR from financial statements they prepare, which must be audited by their external auditors before submitting the statements to us. Also, certain state entities that are on SCEIS are required to have separate stand-alone audits performed, and to avoid unnecessary cost and duplication the State Auditor's Office excludes them from the larger statewide audit of the CAFR. From these separately-audited "SCEIS" entities we also get the financial information about them needed for the CAFR from audited financial statements they provide us. For the entities described in this paragraph, the General Assembly sets crucial deadlines for the entities to deliver their audited financial statements to my staff, which then extracts from those audited financial statements the entity-specific information needed for the CAFR.

Most entities comply with the financial statement submission deadlines. Yet for the past few years we have had problems because some entities have failed to comply with their deadlines, slowing the CAFR's completion and thereby delaying our ability to provide essential information on the state's financial condition to the General Assembly, credit rating agencies, and other interested parties.

At your convenience I would like to meet with you to seek your help in encouraging state entities to comply with the General Assembly's longstanding financial statement submission deadlines.

Yours very truly,


Richard Eckstrom
Comptroller General

Attachment

**State of South Carolina
Audited Financial Statements Schedule
Fiscal Years 2012 through 2014**

Audited Entity	Days Late			3-Year	
	FY12	FY13	FY14	Avg	Late
S.C. State University	40	46	108	65	65
Palmetto Railways (Department of Commerce)	80	86	12	59	59
PEBA (Long-Term Disability Insurance Trust Fund)**	15	21	97	44	44
PEBA (insurance benefits)**	15	21	97	44	44
PEBA (Retiree Health Insurance Trust Fund)**	15	21	97	44	44
Lander University	28	51	21	33	33
First Steps	N/A*	21	37	29	29
PEBA (retirement benefits)	43	1	40	28	28
Denmark Technical College	26	49	9	28	28
Department of Employment and Workforce (unemployment compensation fund)	16	28	37	27	27
Housing Authority	21	36	2	20	20
Department of Transportation	3	37	16	19	19
Local Government Investment Pool (State Treasurer's Office)	2	9	43	18	18
State Accident Fund	2	21	28	17	17

*First Steps was part of the Department of Education in fiscal 2012

**Delayed in FY14 by issues related to Securities Lending Settlement

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THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

September 10, 2015

SC House Oversight Executive Subcommittee
Post Office Box 11867
Columbia, South Carolina 29211

Dear Chairman Putnam,

I appreciated the opportunity to speak with you this morning regarding system conversions. As you know, conversions are a tedious process. Since the State Treasurer's Office (STO) reconciles cash balances in STARS and SCEIS to validate cash balances, we very much look forward to completing the conversion and retiring the legacy STARS system.

I would like to clarify my answer to Representative Funderburk's question regarding a definitive completion date for the STO conversion to SCEIS. The anticipated April 2016 conversion date I referenced is applicable for the three STO major systems: the Investment Management System was converted September 1, 2015; the Debt system to be converted this fall; and the Treasury Management Depository system, with an anticipated conversion of the spring of 2016.


By spring of 2016, the STO does indeed plan to retire the three major systems; however, the State will still likely have reliance on STARS beyond April 2016 because some subsystems (Capital Projects, Financial Management System, LGIP, Cash Management, Health and Human Services Banking Function, and Capital Leases) will still need to be converted in the following fiscal year. A timeline for the conversion of the remaining subsystems will be confirmed after the major system completion is complete in April of 2016.

I assure you, the STO will continue to communicate with the CG's Office on matters concerning the conversion. We are all aware of both the necessity of completing the conversion and the importance of making sure all operations affected continue to function properly.

Additionally, the STO conversion process is moving forward in a timely, prudent and professional manner. While timing may be problematic, this is not a function of the present conversion process at the STO. The conversion of the STO to SCEIS could have begun as early as fiscal year 2008 instead of remaining undone until I came into office.

Thank you for your interest and your service.

Sincerely,



Curtis M. Loftis, Jr.

CML/ebf

Cc: The Honorable Wm. Weston J. Newton
The Honorable Laurie Slade Funderburk
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