FINAL REPORT OF FINDINGS AND RECOMMENDATIONS ON THE $1.8 BILLION DISCREPANCY IN TREASURY BALANCES AND CERTAIN OTHER MATTERS

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Exhibit 1

SECTION 2-2-5(2) .Declaration of public policy.

The General Assembly finds and declares the following to be the public policy of the State of South Carolina:

(2) This constitutional duty is a continuing and ongoing obligation of the General Assembly that is best addressed by periodic review of the programs of the agencies and departments and their responsiveness to the needs of the state's citizens by the standing committees of the State Senate or House of Representatives.

SECTION 2-2-30(D).Procedure for conducting oversight studies and investigations.

(D) The chairman of an investigating committee may vest the standing committee's full investigative power and authority in a subcommittee. A subcommittee conducting an oversight study and investigation of an agency: (1) must make a full report of its findings and recommendations to the standing committee at the conclusion of its oversight study and investigation; and (2) must not consist of fewer than three members.

SECTION 1-6-10.Definitions.

(1) "Agency" means an authority, board, branch, commission, committee, department, division, or other instrumentality of the executive department of state government, including administrative bodies and bodies corporate and politic established as an instrumentality of the State. For the purpose of this chapter, "Agency" also includes public schools, public school districts, public charter schools, public charter school authorizers, and any voluntary association that establishes and enforces bylaws or rules for interscholastic sports competition for public secondary schools in the State. "Agency" does not include:

(a) the judicial department of state government;

(b) quasi-judicial bodies of state government;

(c) the legislative department of state government; or

(d) political subdivisions, unless otherwise provided herein.

(2) "Business relationship" means dealings of a person with an agency seeking, obtaining, establishing, maintaining, or implementing:

(a) a pecuniary interest in a contract or purchase with the agency; or

(b) a license or permit requiring the exercise of judgment or discretion by the agency.

(3) "Employee" means an individual who is employed by an agency on a full-time, part-time, temporary, intermittent, or hourly basis. "Employee" includes an individual who contracts with an agency for personal services.

(4) "Person" means:

(a) an individual, labor union and organization, joint apprenticeship committee, partnership, association, corporation, legal representative, mutual company, joint-stock company, trust, unincorporated organization, trustee, trustee in bankruptcy, receiver, or other legal or commercial entity located in part or in whole in the State or doing business in the State;

(b) the State and any agency or local subdivision of an agency; or

(c) a political subdivision.

(5) "Political subdivision" includes a county, city, municipality, town, village, township, district, authority, special purpose district, school district, other local government entity, or other public corporation or entity whether organized and existing under charter or general law.

(6) "Special state appointee" means a person who is:

(a) not a state officer or employee; and

(b) elected or appointed to an authority, a board, a commission, a committee, a council, a task force, or other body designated by name that:

(i) is authorized by statute or Executive Order; and

(ii) functions in a policy or an advisory role in the executive, including the administrative, department of state government, including a separate body corporate and politic.

(7) "State officer" means any of the following:

(a) the Governor;

(b) the Lieutenant Governor;

(c) the Secretary of State;

(d) the State Comptroller General;

(e) the State Treasurer;

(f) the Attorney General;

(g) the Superintendent of Education;

(h) the Commissioner of Agriculture; or

(i) the Adjutant General.

(8) "Wrongdoing" means action by an agency which results in substantial abuse, misuse, destruction, or loss of substantial public funds or public resources. "Wrongdoing" also includes an allegation that a public employee has intentionally violated federal or state statutory law or regulations or other political subdivision ordinances or regulations or a code of ethics, which violation is not merely technical or of a minimum nature.

SECTION 2-15-10. Creation and membership of council.

There is created the Legislative Audit Council consisting of five members, one of whom must be a practicing certified public accountant or a licensed public accountant and one of whom must be an attorney. The council must be elected by the General Assembly in a joint session from the nominees presented by the nominating committee. The council also includes as ex officio members the following: the Chairmen of the Senate and House Judiciary Committees or a designee by either chairman from the membership of the respective committees and the Chairmen of the Senate Finance Committee and the House Ways and Means Committee or a designee by either chairman from the membership of the respective committees. The ex officio members, including their designees, are voting members on all matters except those pertaining to auditing functions and personnel matters. The council is directly responsible to the General Assembly and is independent of any other state agency, board, or department.

Exhibit 2

State of South Carolina
Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

Telephone: (803) 734-2121
Fax: (803) 734-1765
E-Mail: cgoffice@cg.sc.gov

BRIAN J. GAINES
COMPTROLLER GENERAL

CHIEF OF STAFF

October 31, 2023

<u>VIA HAND DELIVERY</u>

The Honorable Curtis M. Loftis, Jr.
State Treasurer of South Carolina
Wade Hampton Building, Suite 214

Dear Treasurer Loftis,

In accordance with South Carolina Code sections 11-3-100, 11-5-120, 11-5-180, and 11-13-40 and the 2024 Appropriations Act provisos 97.2 and 98.14, the State Treasurer's Office ("STO") is directed to:

1. Fully cooperate with the Comptroller General's Office ("CGO") to automate and provide accurate financial accounting and reporting of Cash and Investments in the custody of the STO for the State of South Carolina, including for the preparation of accurate ACFRs;

2. Certify by duly authorized signature, without qualification, each Fiscal Year's ACFR Compiled Cash and Investment Closing Package-STO Treasury and Investments Signature Page no later than the applicable Fiscal Year's closing package submission deadline to be specified by the CGO beginning with Fiscal Year 2024;

3. Provide Quarterly Reports in compliance with GAAP/GASB of Cash and Investments in the custody of the STO by Fund as of the end of each of the first quarter, second quarter and third quarter of each Fiscal Year within 60 days following the close of the relevant quarter beginning with the quarter ending December 31, 2023 and continuing each quarter thereafter; and

4. Before the end of Fiscal Year 2024, complete research of cash balances in Triple Zero Agencies and Fund 30350993 that arose due to conversion; and after completing that research, then classify (or reclassify) those amounts of money to the appropriate Fund(s) and general ledger accounts—all in accordance with notes 9 and 10 of the STO Signature Page for the Fiscal Year 2023 ACFR Closing Package.

It is my understanding your office has agreed to automate and frequently update the reports necessary for compliance with these directives. This automation should be completed to allow the STO to meet the deadlines described above.

We hope these directives achieve the cooperation necessary for accurate financial accounting and reporting for the State of South Carolina.

Most respectfully,

Brian J. Gaines

Brian J. Gaines
South Carolina Comptroller General

cc: Governor Henry D. McMaster
Senator Thomas C. Alexander, President of the Senate
Senator Harvey S. Peeler, Jr., Chair, Senate Finance Committee
Senator Lawrence K. Grooms, Chair, Senate Finance Constitutional Subcommittee
Representative G. Murrell Smith, Jr., Speaker of the House of Representatives
Representative Bruce W. Bannister, Chair, House Ways and Means Committee
Mr. George L. Kennedy, III, State Auditor

THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

November 30, 2023

The Honorable Brian J. Gaines
South Carolina Comptroller General
1200 Senate St., Suite 305
Columbia, SC 29201

VIA HAND DELIVERY AND ELECTRONIC MAIL

Dear General ~~Gaines~~: Brian

The State has certain contractual and legal responsibilities to investors related to the State's bond issuances, which responsibilities have been delegated to the State Treasurer's Office ("STO") by the State Fiscal Accountability Authority, including the responsibility to disclose information that would be relevant to investors.

As you are aware, the decision to include the SCEIS Fund 30350993 amounts in the State's General Fund, via a restatement of the July 1, 2021, balances of cash and fund equity, was made by the Comptroller General's Office ("CGO") and without consultation with the STO for the 2021-2022 Annual Comprehensive Financial Report ("ACFR"). As I understand, the CGO's decision to move the fund was audited by the State Auditor's Office and CliftonLarsonAllen during the 2021-2022 audit. Accordingly, STO believed that any concerns about the classification of SCEIS Fund 30350993 balances for ACFR purposes were resolved with the restatement made by the CGO in the 2021-2022 ACFR.

If the CGO is concerned with the correctness of any outstanding ACFR issues, including the CGO's placement in the 2021-2022 ACFR of the SCEIS Fund 30350993 balances in the State's General Fund, it is imperative that the CGO timely provide that information to the STO in order for me to fulfill my aforementioned disclosure responsibilities on behalf of the State.

Therefore, to help facilitate my responsibilities on behalf of the State regarding providing accurate and timely disclosure, within five business days and on a timely basis thereafter, please provide my office with any findings, restatements, or note disclosures related to the 2022-2023 ACFR and audit and any additional relevant information requested so that I may determine if additional disclosure on behalf of the State is warranted.

Sincerely,

Curtis

Curtis M. Loftis, Jr.
State Treasurer

CML/sk

State of South Carolina

Office of Comptroller General

1200 Senate Street
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Columbia, South Carolina 29201

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BRIAN J. GAINES
COMPTROLLER GENERAL

CHIEF OF STAFF

December 12, 2023

<u>VIA ELECTRONIC MAIL</u>

The Honorable Curtis M. Loftis, Jr.
State Treasurer of South Carolina
Wade Hampton Building, Suite 214

Dear Treasurer Loftis:

Thank you for your November 30, 2023, letter in which you emphasized the State's responsibility to provide accurate and timely disclosures to bond investors. We are fully cognizant of that responsibility and the other timely and accurate disclosures needed for the State's financial information. While I cannot speak to the consultation the former Comptroller General had with the State Treasurer's Office regarding the FY2022 ACFR, I have been in communication with you and your office for the FY2023 ACFR.

The Comptroller General's Office, the State Auditor, and the State's external auditor, CliftonLarsonAllen, are all confident to a reasonable degree of certainty that the amounts in SCEIS Fund 30350993 are part of the General Fund fund balance, and that this treatment of the money in this Fund is correct in the FY2022 ACFR and for the upcoming FY2023 ACFR.

SCEIS Fund 30350993 is a Treasury Fund with the current amount of $1,852,455,573 that has been in the possession and control of the State Treasurer's Office since its creation in October 2014. Because this amount is in a Treasury Fund, it is not currently presented to the General Assembly as moneys potentially available for appropriation. Nor has it ever been presented to the General Assembly as moneys potentially available for appropriation in the General Fund. And because of the technical specifications of this particular Fund when it was established, it was not captured for ACFR purposes. In accordance with fund accounting principles, the amounts in this Fund should have been moved within the SCEIS system—from Fund 30350993 to the appropriate SCEIS Fund or Funds, thus making it accurately reported and fully visible to the General Assembly.

As you know, the State Treasurer's Office must follow state law to identify all State cash and investments by Fund. The State Treasurer's Office would have sole and exclusive possession of the State records showing the source and history of the moneys in Fund 30350993. All the money in Fund 30350993 has accumulated during the past ten years and during the State Treasurer's Office's conversion from STARS to SCEIS which started in 2014, with most of the deposits accumulating in the seven months between March 5 and October 26, 2018.

Fund 30350993, as understood by the Comptroller General's Office, was originally established by the State Treasurer's Office to balance entries coded incorrectly between bank accounts – and it was set up as to not be presented to the General Assembly as moneys potentially available for appropriation or to be included in the ACFR. However, in 2017, the State Treasurer's Office began posting entries to this fund to balance the cash held in different banks under the General Ledger to the actual cash held at third-party institutions. It was during this latter period of the conversion process from STARS to SCEIS that the money in Fund 30350993 accumulated but remained (and continued to remain) unaccounted for in the collection of information for the ACFR until FY2022. This also makes it invisible to the General Assembly as available General Fund moneys, and it causes SCEIS, which is the State's book of record, not to agree to the ACFR.

The State Treasurer's Office has the records to determine if and how the money in Fund 30350993 has been invested over the past five years. It appears the State Treasurer's Office has been investing the balance of Fund 30350993 within the General Fund portfolio since at least 2017. This conclusion is based on the State Treasurer's Office investment reports, specifically the ZIMRQ300, and reconciling the cash and investments by fund. But only the State Treasurer's Office has the records showing how the money in Fund 30350993 has been invested over the past five years. If the money has not been invested, then a reclassification of the money should occur immediately so that the State can gain the benefit of the money.

The State Treasurer's Office is the only State entity that may move the amounts in Fund 30350993 to the appropriate SCEIS Funds and make its purpose known to the General Assembly. Unless you have reason to disagree, the appropriate SCEIS Funds to which these amounts should be moved are part of the General Fund balance. Regardless, consistent with your obligations within the State Fiscal Accountability Authority please make the General Assembly aware of Fund 30350993 and its appropriate treatment.

As requested in your letter, I am enclosing a nearly final draft of the FY2023 ACFR for your review. If you disagree with any of the treatment of the money in your office's possession, please let us know.

Most respectfully,

Brian J. Gaines

Brian J. Gaines
South Carolina Comptroller General

Enclosure
FY2023 ACFR draft

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

December 14, 2023

VIA HAND DELIVERY AND ELECTRONIC MAIL

The Honorable Brian J. Gaines
South Carolina Comptroller General
1200 Senate Street, Suite 305
Columbia, SC 29201

Dear General Gaines:

While we thank you for the first two paragraphs of your December 12, 2023 letter as it satisfies our inquiry concerning the State Treasurer's Office's disclosure responsibilities, we reject much of what was written in the additional paragraphs of that letter and will respond when possible and as needed.

Since your letter includes inaccurate information in paragraphs following paragraph two, I request that you notify me, in writing, of the names of the individuals with whom you shared this letter.

Sincerely,

Curtis Loftis

Curtis M. Loftis, Jr.
State Treasurer

cc: The Honorable Henry McMaster
South Carolina Governor
Chair, State Fiscal Accountability Authority

Exhibit 6

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
CHAIRMAN

MEMBERS
THOMAS MCELVEEN
MIKE FANNING
STEPHEN GOLDFINCH
TOM YOUNG
MARGIE BRIGHT MATTHEWS

JESSICA WIGINGTON
ANALYST
803-212-6651

MILLER A. SMOAK
ADMINISTRATIVE ASSISTANT
803-212-6677
FAX: 803-212-6690

February 1st, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

The Honorable Curtis M. Loftis
1200 Senate Street – Suite 214
Wade Hampton Building
Columbia, SC, 29201

Dear Treasurer Loftis:

Providing the people of South Carolina with complete and accurate reporting of our State's financial position requires open communication and careful collaboration between the Office of the Comptroller General and the Office of the Treasurer. The Subcommittee recalls your testimony of February 23rd, 2023, during which you said that you and your Office stand ready to cooperate with, and answer any question from, the Office of the Comptroller General. You further stated that the Office of the Comptroller General would receive from your Office "any information" that it requested relating to the State's financial operations.

Your public assurances were appreciated. The veracity of the State's financial position in general, and that of the State's Annual Comprehensive Financial Report in particular, requires a foundation of trust and open communication between the two offices.

The Subcommittee was informed that the Comptroller requested financial information from the Treasurer. The Subcommittee wants to ensure that this information has been fully provided.

Accordingly, the Subcommittee asks you to provide answers to the following questions:

1. The 2023-2024 General Appropriations Act includes Proviso 98.14. Written to ensure the integrity of future financial reporting, the Proviso stipulates that:

> For the current fiscal year, the Office of the State Treasurer shall provide the Office of the Comptroller General all cash and investment fund balances by aggregation of funds by unique disclosure entity for the purposes of cash reconciliation and annual comprehensive financial report compilation. Further, the Office of the State Treasurer shall fully comply with information requested in the form of closing packages from the Office of the Comptroller General for the same purposes.

This Proviso was reported favorably by the Senate Finance Committee on April 12th, 2023; adopted by the Senate on April 19th, 2023; adopted, and ordered enrolled for ratification by the General Assembly on June 14th, 2023; signed by the Governor on June 20th, 2023, and became effective on June 26th, 2023.

Is your office in full compliance with Proviso 98.14? If so, provide supporting documentation. If not, provide documentation explaining the reason why your office is not in compliance.

2. In a letter to you dated October 31st, 2023, the Comptroller General wrote that Fund 30350993 arose during the conversion of the Statewide Accounting and Reporting System to the South Carolina Enterprise Information System. What documentation, information, or other knowledge do you and your office have about this fund, including but not limited to, the origin and purpose of this fund?

Please respond in writing to these questions not later than noon on Thursday, February 8th, 2024. If you have questions, contact Jessica Wigington, Staff Analyst for the Subcommittee, at jessicawigington@scsenate.gov.

Thank you for your timely response.

cc: The Honorable Henry McMaster, Governor
The Honorable Brian Gaines, Comptroller General
The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews
George Kennedy, SC State Auditor

Exhibit 7

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

February 8, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

The Honorable Lawrence K. "Larry" Grooms
Chairman of the Constitutional Budget Subcommittee
of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

Re: 2023 STO Closing and Reporting File and CGO assistance

Dear Chairman Grooms:

Thank you for the opportunity to provide an update on the state fiscal year-end ("SFY") June 30, 2023, Cash and Investment Closing file preparation, submission, and assistance to the Comptroller General's Office ("CGO") provided by the State Treasurer's Office ("STO"). The purpose of this letter is to respond to the questions in your letter dated February 1, 2024.

1. *Is your office in full compliance with Proviso 98.14? If so, provide supporting documentation. If not, provide documentation explaining the reason why your office is not in compliance.*

The STO believes that it is in full compliance with the directives outlined in Proviso 98.14[1].

The STO has not received notification from the CGO, Office of the State Auditor ("OSA"), or Clifton Larsen Allen ("CLA") of any issues or non-compliance with the 2023 Cash and Investment Closing file requirements.

Attached for your convenience is the SFY June 30, 2023, STO Cash and Investment Closing file our office submitted to the CGO on September 8, 2023, which consists of the following documents:

- PDF cover letter titled "9-8-23 STO cover letter to CG"

[1] Proviso 98.14 requested that the STO provide all cash and investment fund balances for the purpose of cash reconciliation and annual comprehensive financial report ("ACFR") compilation. However, the STO does not have custody and reporting for all ACFR cash and investments. The ACFR includes the cash and investments from many component units (e.g., colleges and universities) of the State, that in accordance with state law, are not custodied or controlled by the State Treasurer.

- Excel spreadsheet for Cash related assertions titled "Closing File Response – STO Cash"
- Excel spreadsheet for Investment related assertions titled "Closing File Response – STO Investments"

The CGO provided the new Cash and Investment Closing file that included a listing of assertions for STO sign off, which the CGO populated with SCEIS data exports and information previously provided by the STO. The worksheet within the Closing file provided by the CGO titled "Pushdown" reflects the cash and investment fund balances by aggregation of funds by unique disclosure entity for the purposes of cash reconciliation and annual comprehensive financial report compilation ("ACFR").

Several iterations of this file incorporating necessary corrections were sent by the CGO to the STO after the initial request. As a result, the STO Treasury Management and Investment divisions were working from different versions. The STO submitted separate excel versions to the CGO – one detailed for STO Cash ("Closing File Response – STO Cash" file) and one for STO Investments ("Closing File Response – STO Investments" file) to avoid duplication of efforts.

The STO included the CGO's requested assertions and STO responses within all three files for ease of reference (pages 4-6 on the "9-8-23 STO cover letter to CG" and in the worksheet titled "STO Letter & Assertions" within both excel files).

To the best of our ability the STO has provided the information requested by the CGO. In the attached responses, the STO described any exceptions or necessary corrections to assist the CGO. In addition, the STO indicated which information presented in the Cash and Investments closing file was correct and supported by bank statements and other records at STO. Each respective business area (agency) ensures the SCEIS business area/fund level general ledger balances are appropriately stated and the STO reconciles the SCEIS general ledger bank balances in total.

Within the CGO assertions, the CGO requested the STO attest to the accuracy of the CGO's work within the Cash and Investment Closing file. The STO has and will attest to the accuracy of data we provide in closing files, but the STO cannot attest to the accuracy of the CGO's work. It is the CGO, as "the State's Accounting Officer," pursuant to 2023-2024 Proviso 97.2, which is charged with maintaining SCEIS so that that System "will result . . . in the preparation and issuance of the official financial reports for the State of South Carolina". The CGO's statutory obligations include the duty to provide "a complete check" upon the Treasury, rather than the reverse. See SC Code § 11-3-100.

Again, we have not received notification from the CGO of any issues or non-compliance with the 2023 Cash and Investment Closing file requirements. If the CGO has additional questions or information needed, we would appreciate notification of specific question(s) or documentation requirements.

During the SFY 2023 preparation of the Cash and Investment Closing file for the CGO ACFR team, we have implemented, and are continuing to work to implement, the following:

- Coordinated with Department of Administration ("DOA") SCEIS ("South Carolina Enterprise Information System") and the CGO on development of a new cash and investment worksheet modifying an existing SCEIS ZIMRQ300 report to provide additional data requested by the CGO.
- Added CGO ACFR team member Katherine Kip to the SFY Investment Summary report issued to State entities with SCEIS funds that retain interest.
- Originated and submitted a SCEIS Business Requirement Document to DOA SCEIS so that Investment Market Value will be updated quarterly in SCEIS. This enhancement was completed and implemented on 12/31/2023.
- Provided, and continue to provide, CGO ACFR team member Katherine Kip email notification of added or deleted bank account openings and closings.
- Developed and submitted a business requirement document to DOA SCEIS to add acquisition cost to the SFY Investment Summary report for State entities that retain interest to reflect calculation of unrealized gain and loss.
- Provided a representation letter to the OSA for the audit, which was a new request for the SFY 2023 ACFR.

2. *What documentation, information, or other knowledge do you and your office have about this fund [30350993], including but not limited to, the origin and purpose of this fund [30350993]?*

SCEIS Fund 30350993 was established in October 2014 to primarily record daily cash transfers between banks. This fund was also used to convert bank and agency cash fund balances as the State converted legacy systems into SCEIS.

The approximately $1.8B balance in SCEIS Fund 30350993 is the result of a series of "STARS to SCEIS conversion entries" resulting from cash conversion and, per the CGO, was included as part of their $3.5B ACFR restatement in 2022. Between 2016-2018 conversion entries were made in this Fund resulting in a $1.8B balance. Since the fund's inception the STO has not had any audit findings or recommendations regarding SCEIS fund placement from the OSA or CLA.

The $1.8B has ALWAYS been accounted for and fully visible in the SCEIS General Ledger. Most importantly the balance has remained in 30350993 for the 2022 ACFR and the 2023 ACFR after the 2022 restatement. The CGO and STO agreed on multiple occasions throughout the last six months, the STO would research the $1.8B by the end of fiscal year 2024. In the CGO's October

31, 2023, letter to the STO, the CGO followed up with a "directive" to the STO to "complete research of cash balances in SCEIS Fund 30350993" by June 30, 2024.

Prior to the 2022 ACFR restatement, the STO did not have requests from the CGO for the SCEIS fund to be reclassified. Staff from the STO, CGO, and SCEIS were aware of these accounting entries within SCEIS fund 30350993. This is NOT NEW cash, and it is NOT NEW revenue.

The 2022 and 2023 ACFR attests to the placement of this SCEIS fund in the General Fund. Given the CGO, CLA and OSA's confidence in their classification of the $1.8B in the ACFR, it is the expectation that the STO will receive a written directive by the CGO to make the appropriate SCEIS accounting entry to align the SCEIS General Ledger with the ACFR. The STO requests the help of this subcommittee to encourage the CGO, as the State's chief accountant, to provide the written instructions regarding the SCEIS accounting entry.

However, in relation to researching this fund, the STO has taken the following steps:

- Confirmed the STO includes this SCEIS cash fund balance in the reconciliation to the bank.
- Confirmed the STO invests this fund.
- Confirmed the STO has included the fund within STO Cash and Investment Closing file reported to the CGO every year since 2016.
- Confirmed since the fund's inception, the STO has not had any audit findings regarding SCEIS fund placement.
- Confirmed the 2016-2018 conversion entries were made in collaboration with the conversion team, including the STO, CGO, SCEIS team, and were also audited by the OSA and CLA.
- Confirmed the fund was included in the 2022 ACFR restatement.
- Reached out in the fall of 2023 to the STO's contracted internal auditor, Deloitte, to assist in this research. However, they were unable to provide the assistance needed at this time.
- Downloaded all supporting SCEIS documentation for research (pdf of over 3,500 pages).
- Repeatedly requested CGO workpapers and meetings with CGO staff to assist in research of the 16,000 lines of journal entries. The STO received documentation from the CGO the last week of January 2024 and is in process of reviewing. In the meantime, the STO also met with the State Auditor to gain an understanding of support for the CGO's conclusion to include the $1.8B in the General Fund in the SFY 2022 and 2023 ACFRs. The State Auditor shared the audit team performed inquiries and analyses to determine if the $1.8B, or portions thereof, should be reflected by a fund other than the General Fund. The State Auditor also shared based on their procedures, they could not obtain any information that refuted management's [CGO] assertion that the General Fund is the owner of the $1.8B for financial statement purposes. Beyond the State Auditor's inquiries and analyses, the State Auditor indicated that the CGO could not provide specific documentation or workpapers that the $1.8B is owned by the General Fund.

In summary, the STO complied with Proviso 98.14 by providing information requested by the CGO for the Cash and Investment Closing file, to the best of our ability, and continues to research SCEIS fund 30350993.

I credit the DOA SCEIS team and a group of the STO's best CPAs and accountants, who have spent thousands of hours over the past year supporting the CGO.

While the STO remains committed to assisting the CGO, my top priority is to ensure the STO's statutorily driven responsibilities, including the daily management of over $45B, issuance of the State's debt and other established programs, are executed as efficiently and effectively as possible for the citizens of South Carolina.

Thank you for taking the time to read this letter, and please know that I am available to discuss these issues with each of the Subcommittee members.

Sincerely,

Curtis M. Loftis, Jr.
State Treasurer

Enclosures

cc: The Honorable Henry McMaster, Governor
The Honorable Brian Gaines, Comptroller General
The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews
George Kennedy, SC State Auditor
Marcia Adams, Executive Director of the SC Department of Administration

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

September 8, 2023

Brian J. Gaines, Comptroller General
South Carolina Comptroller General
1200 Senate St., Suite 305
Columbia, SC 29201

SENT VIA HAND DELIVERY AND OFFICIAL ELECTRONIC MAIL.

Dear General Gaines:

The State Treasurer's Office (STO) welcomes this opportunity to work with the Comptroller General's Office (CGO) to provide information needed to prepare the Annual Comprehensive Financial Report (ACFR) for the State of South Carolina for Fiscal Year 2023. Specifically, attached as an Appendix is our response to the "FY2023 Compiled Cash and Investment Closing Package-STO Treasury and Investments" (Closing File) that you sent to us on August 11, 2023. For purposes of understanding and completeness, a few introductory comments are provided below.

A spirit of cooperation is particularly important this year following the restatement of the State's General Fund in the Fiscal Year 2022 ACFR, which was necessitated by past fund misclassifications related to cash transfers from the General Fund to separately audited financial statement (AFS) entities, resulting in double counting of cash in previous ACFRs. This misclassification of a fund, which was an ACFR reporting error and not an accounting error, has been referred to as a mapping error. Fortunately, the 2022 restatement had no impact on the actual cash held by the State, and the cash balances in general ledger accounts as reconciled by the STO to the respective bank statements remained correct throughout.

Moreover, based on information provided by CGO and others, either directly or indirectly, the STO understands that the mapping error that caused the 2022 restatement of the ACFR has been corrected. First, your office, in its November 29, 2022 response to the State Auditor and independent audit firm, CliftonLarsonAllen, LLP (CLA), concerning material weakness #2022-002, stated that it "has corrected the miscoded activity within the State's general ledger that had been incorrectly coded for ACFR reporting purposes since the SCEIS reporting system was set up in 2007." Second, in February 23, 2023 testimony to the Senate Finance Constitutional Subcommittee, Marcia Adams, Director of the Department of Administration (DOA), who oversees SCEIS, stated that on January 6, 2023 the CGO's staff informed a working group consisting of CGO, STO and DOA personnel that the mapping error had been fixed. Third, CLA was engaged to perform Agreed Upon Procedures (AUP) to examine support for cash and investment amounts in the closing file as of December 31, 2022. CLA performed the AUP, including inspecting the reconciliation to determine if fund 10019000 (mapped incorrectly for years) was now appropriately included within the cash and investments reconciliation. According to its July 21, 2023 report CLA reported "no exceptions were identified," indicating that the CGO had fixed the mapping error in the December 31, 2022 cash and investment closing file. Correcting the mapping error eliminated previously excluded appropriation transfers.

Historically, the STO has provided data necessary to assist the CGO in the compilation and preparation of the ACFR. The CGO compiles, prepares and issues the ACFR, which includes fund classification for all AFS entities. The bank reconciliations prepared by the STO between the bank balances and the general ledger balances have always provided a reliable starting point for the State's financial reports. However, the STO notes that, while it can and does account precisely for cash and investments within its custody and control (including but not limited to reconciling the aforesaid general ledger balances with bank statements), there are aspects of state finances which are the province and responsibility of other entities. For example, AFS entities (including, but not limited to, colleges and universities) are authorized to maintain Composite Reservoir Accounts (CRAs) which are part of an independent financial statement audit of the respective AFS entity. While the STO receives some information regarding CRAs, as provided in the Delegation of Authority executed between the AFS entity and the STO, the AFS entity is responsible for classification and management of funds within such accounts for financial reporting purposes. Further, fund 10019000 (AFS-General Fund) which was involved in the now corrected mapping error, does not represent cash held by or for AFS entities in a specific bank account but instead represents a portion of the AFS entity's claim to cash. Although the CGO uses the amount of each AFS entity's claim to cash in its AFS cash and investments balances (and in this Closing File), fund 10019000 does not reflect any individual bank account balance for any account custodied with STO. As with all funds, the STO cannot be responsible for the accounting for or an entity's claim to cash in fund 10019000. In addition, AFS entities may be authorized by South Carolina law to receive and hold cash and other assets outside both the general deposit account and CRAs. The STO has no role in the management, classification, or reporting of such assets and thus has no information about them.

Statements by the State Auditor and the Senate Finance Constitutional Subcommittee both indicate that there are two types of reconciliations regarding cash and investments: a reconciliation of cash and investments to each bank account and a reconciliation of cash and investments to the ACFR itself. In its March 9, 2023 written response to the Senate subcommittee, the State Auditor stated that the STO is responsible for bank reconciliations and the CGO is responsible for reconciling cash and investments to the ACFR. The State Auditor added that the STO shall assist the CGO on its reconciliation to the ACFR. The Senate subcommittee's Report on the Investigation of the FY2022 ACFR Restatement agreed with the State Auditor's comments regarding the two types of reconciliations. The STO is fulfilling its obligations to assist the CGO as described by the State Auditor and Senate Finance Constitutional Subcommittee by providing the attached responses to the Closing File.

Finally, we note that some information requested by the CGO in this closing process is not or may not be available through SCEIS. For example, SCEIS does not produce data that presents “bank balances by fund and agency.” Rather, SCEIS produces each agency’s total claim to cash for all bank accounts but not by individual bank account. Combining agency cash allows the State Treasurer to invest combined balances and achieve higher rates of return for the State. Moreover, bank balances broken down by fund and agency have never been and are still not required for presentation in the ACFR. Should such a breakdown be desired, it would necessitate the preparation of a SCEIS business requirement document from which the SCEIS Team could evaluate, develop, and, if still feasible and desired, produce this requested breakdown.

Subject to the general limitations described above, the STO stands ready to assist the CGO in the preparation of an accurate ACFR for FY 2023. We have carefully reviewed each iteration of the instructions and of the Closing File issued by the CGO and provide responses as shown in the attached Appendix. The Closing File will be sent electronically in accordance with CGO’s procedures. The signatures of STO personnel on this letter and the attached Appendix represent the assertions of the STO that the information contained in each response is correct and supported by the bank statements and other records maintained by the STO. The STO remains willing to meet, work and cooperate with the CGO to discuss how best to provide an accurate financial accounting and reporting for the State of South Carolina.

Sincerely,

Clarissa T. Adams

Clarissa T. Adams
Chief of Staff

CTA/cls
Enclosures:

Appendix to Letter to CGO 9/8/2023

The State Treasurer's Office (STO) has carefully reviewed the instructions and the Closing File issued by the CGO and provided responses as shown in this Appendix. The signature(s) of STO personnel on the accompanying letter represent the assertions of the STO that the information contained in each response is correct and supported by the bank statements and other records maintained by the STO.

#	CGO Assertion / STO Response
1	*CGO Assertion:* "Cash is correct at the business area/fund level (not ACFR category) and agrees to cash in banks (cash G/L'S) and is supported by signed reconciliations."
	STO Response: ✓ Provided June 30th bank account reconciliations and bank statements. ✓ Agreed G/L balances on STO bank reconciliations (provided **to** the CGO) to the Closing File, *Cash and Investments Reconciliation* tab (provided **by** the CGO). Several exceptions were noted in the Closing File returned with this package titled *Closing File Response – STO Cash*.
2	*CGO Assertion:* "Investments (purchases, FMV) tracked by the STO'S SCEIS systems (Treasury Management) at the business area/fund (not ACFR category) level are correct and agrees to: investments held at third party institutions and the G/L (Portfolio/Treasury Accounting)."
	STO Response: ✓ STO tested that the data provided in the *ZIMRQ300* tab agreed with the ZIMRQ300 provided by STO in the 4.4 Investment Reporting package. ✓ Reconciliations comparing Treasury Management to the General Ledger (see STO's *Investments – TM to FI* tab) and to BNYM (see STO's *Investments – TM to BNYM* tab) are complete. These are provided in the Closing File returned with this package titled *Closing File Response – STO Investments*. ✓ *Summary Detail* tab – Reconciled Investment Acquisition Costs and FMV Investments to the *GL Detail* tab. ✓ *Cash and Investments Reconciliation* tab - STO confirmed the figure in Cell B145 agreed to the Investment Purchase Amount in CGO's *ZIMRQ300* tab. ✓ *Cash and Investments Reconciliation* tab - STO confirmed the figure in Cell C145 agreed to the Mark-to-Market Value in CGO's *ZIMRQ300* tab. ✓ *Cash and Investments Reconciliation* tab - STO confirmed the Investment Purchases figure in Cell B146 reconciled to cash in the G/L for investment funds related to Portfolios 01, 03, EI, GF, DI, HI, SB, and CV in total. ✓ *Cash and Investment Reconciliation* tab – STO confirmed the FMV figure in Cell C146 reconciled to the Current and L/T (Long Term) Mark to Market G/L accounts (1202010000 and 1206010000 respectively) for investment funds related to Portfolios 01, 03, EI, GF, DI, HI, SB and CV in total. The Sonoco Stock (AD) was not captured in this figure. ✓ Reconciliation and explanation of variance between ZIMRQ300 and G/L for Investment Purchases provided on the *Investments – TM to FI* tab in the Closing File returned with this package titled *Closing File Response – STO Investments*. ✓ Reconciliation and explanation of variance between ZIMRQ300 and G/L for Investments at FMV provided on the *Investments – TM to FI* tab in the Closing File returned with this package titled *Closing File Response – STO Investments*. ✓ *Pushdown* tab – STO confirmed the Investment Purchase and FMV columns reconcile to the CGO GL totals.

3	*CGO Assertion:* "Investment unrealized gains/losses at the business area/fund (not ACFR category) level are correct and supported by internal STO SCEIS systems (Treasury Management) and signed reconciliations."
	STO Response: ✓ STO reconciliations of variances were completed and provided on the *Unrealized G & L - Rx Pushdown* and *Unrealized G & L - BNYM* tabs in the Closing File returned with this package titled *Closing File Response – STO Investment*. A variance was identified between CGO's unrealized gains/ losses and STO's calculated unrealized gains/losses. This variance was validated by agreeing BNYM's Asset and Accrual Detail report to STO calculations. While there is no specific function in SCEIS that tracks unrealized gains and losses, the calculations completed by the STO used amounts from reports that are directly exported from SCEIS.
4	*CGO Assertion:* "All funds and business areas in which the STO is holding cash or investments for have been captured within this package."
	STO Response: ✓ The Closing File does not include the USC Sonoco Stock in Fund 60000009.
5	*CGO Assertion:* "All Bank accounts, Investments, and any other assets held by the State Treasurer's Office that would qualify as cash and investments have been disclosed to the CGO."
	STO Response: ✓ Provided all STO prepared June 30th bank account reconciliations and bank statements. ✓ Investments were reported to the CGO via the 4.4 Investments reporting package.
6	*CGO Assertion:* "All Bank G/L accounts have been captured within the reporting package that the STO reconciles."
	STO Response: ✓ Agreed G/L balances on STO bank reconciliations to the Closing File, *Cash and Investments Reconciliation* tab. Several exceptions were noted in the Closing File returned with this package titled *Closing File Response – STO Cash*.
7	*CGO Assertion:* "Composite Reservoir Balances, along with detail of the owners of the accounts, are correct and supported by signed reconciliations."
	STO Response: ✓ Provided Composite Reservoir balances, inventory, and related signed bank reconciliations. ✓ Composite Reservoir inventory and balances within the Closing File received from the CGO (*Composite Inventory* tab, Columns A-E, lines 11-150) agreed with information provided to the CGO (as noted above).
8	*CGO Assertion:* "LGIP Participants are correct in balance and in account owner detail is sufficient for the CGO to determine which AFS entities and can be reconciled to the audited financial statement."
	STO Response: ✓ Provided the Participant Inventory as of 6/30/2023 without balances as requested by CGO. ✓ Also provided LGIP participant balances for AFS entities as requested by CGO.

	✓ *Pushdown* tab – Tested LGIP Balance within this tab to AFS Participants determined by CGO.
9	*CGO Assertion:* "STO will complete research of fund 30350993 in FY2024 to determine if FY2022 ACFR placement within the General Fund is appropriate. STO will reclassify fund to the appropriate fund(s) and general ledger accounts."
	STO Response: ✓ N/A-This is not applicable to the 2023 year-end Closing File. OSA and CLA concurred that this is not a requirement for the FY2023 ACFR. As previously discussed, STO remains committed to work with the CGO regarding this matter.
10	*CGO Assertion:* "STO will complete research in FY2024 of cash balances in Triple Zero Agencies that arose due to conversion (see screenshot of balances below). STO will reclassify fund to the appropriate fund(s) and general ledger accounts."
	STO Response: ✓ N/A-This is not applicable to the 2023 year-end Closing File. OSA and CLA concurred that this is not a requirement for the FY2023 ACFR. As previously discussed, STO remains committed to work with the CGO regarding this matter.

Role	***Signature/Name/Title***	***Date/Contact Information***
Cash preparer:	Caroline Royal	September 8, 2023
	Caroline Royal, Accounting/Fiscal Manager II	caroline.royal@sto.sc.gov 803-734-2783
Cash reviewer:	Perry Breazeale	September 8, 2023
	Perry Breazeale, Director of Treasury Management	perry.breazeale@sto.sc.gov 803-734-2654
Investment preparer:	Sydney Townsend	September 8, 2023
	Sydney Townsend, Accounting/Fiscal Manager I	sydney.townsend@sto.sc.gov 803-734-2107
Investment reviewer:	Leann S. Miller	September 8, 2023
	Leann Miller, Director of Banking	leann.miller@sto.sc.gov 803-734-2678

Referenced Selections from the Testimony of George Kennedy, State Auditor, before the Constitutional Subcommittee of the Senate Finance Committee on February 15, 2024
(complete transcript available upon request)
0:00
MR. KENNEDY
Definition is a self balancing set of accounts. In this case 30350993 retains a balance of of about $1.8 billion.

SEN. FANNING
1.8 what?

MR. KENNEDY
Billion dollars? And that activity when it first arose in approximately 2017 was understood to be conversion activity previously recognized in the financial system, which had no impact in the states statewide financial statements. And so it was basically ignored for purposes of preparing statewide financial statements. When the Office of the Comptroller General was able to or successfully prepared the the reconciliation of the pooled cash it was presented in the state by financial statements in 2022. They realized at that point that the 1.8 billion was relevant to the financial statements. It was part of the $3.5 billion correction of cash.

1:22
SEN. GOLDFINCH
Mr. Chairman, just before you move from that point. It was part of the $3.5 billion?

MR. KENNEDY
That's correct.

SEN. GOLDFINCH
Or it's in addition to $3.5 billion?

MR. KENNEDY
So it it is a it was a part of the same correction. So that correction had three pieces to it. The biggest piece was the appropriations to lump sum agencies that were ignored for act for purposes but should have been included in the act from or just the way that the accounting works within the schemes should have been included to reduce appropriately reduce cash in general fund. The second piece was I, think about 1/2 billion dollar adjustment that needed to be made to cash related to the Department of Transportation. Again, because of misunderstanding between the CG’s office and the Department of Transportation related to some funds that they received that I think the, the purpose of the entry was that the funds do not lapse and so the dot cash was being increased inappropriately as it turns out to recognize those funds that did not lapse.

2:47
The third piece was this, this conversion activity of about one $28 billion which was thought to have been previously recognized in in the financial statements. And I think to a certain extent that's true, but it also represents cash that exists in the state. So the 5 billion, 5.2 billion or so, was the appropriation adjustment adjustment reduced by the half billion for dot and the 1.8 billion for this 30350993, yes.

3:30
SEN. GOLDFINCH
Mr. Chairman, do you want to carry on where you want me, Do you mind if I carry on all that other question?

CHAIRMAN GROOMS
I do, but let let me get one in—

SEN. GOLDFINCH
Sure.

CHAIRMAN GROOMS
And at the time of the conversion, it's my understanding that that number was 1.5 billion and since the conversion that has grown by 300 million over the last seven years. I I'm trying to, I'm also trying to—

4:01
MR. KENNEDY
—I don't know that I can answer that specific question. I would agree that in 2017 it was 1.5 billion, but the conversion process was not yet completed. But I believe that additional 300 million was a result of additional conversion activity that took place after the end of fiscal year 2017.

SEN. GOLDFINCH
So Mr. Kennedy, I'm, I'm not an accountant, so I'm, you know, I have a real hard time wrapping my head around what you just said.

MR. KENNEDY
Sure.

SEN. GOLDFINCH
I want to try to make sure I restate it, at least part of it so that I can understand. So is it your understanding or is it my, am I understanding correct that the purpose of this account is to try to reconcile accounts, state accounts, It's a reconciliation account.

4:56
MR. KENNEDY
It is, I think of it more as like a clearing account for activity.

SEN. GOLDFINCH
I'm not sure I know the difference.

MR. KENNEDY
So I guess it serves both purposes in a way.So the activity, the $1.8 billion activity, yes has to be used to reconcile cash. But the purpose of the fund is just as a, as I understand it is just a clearing account for cash investments, which typically should come down to a 0.

11:30
SEN. GOLDFINCH
Why weren’t we having this discussion that we had the discussion about the the missing money last year? I I I know about missing money.

CHAIRMAN GROOMS
That's the mistake.

SEN. GOLDFINCH
The mistake. Thank you. Thank you. Mr. Chairman. Yeah. Why? Why didn't we have this discussion when we're talking about the mistake?

11:42
MR. KENNEDY
Yeah. I can’t answer that.

SEN. GOLDFINCH
What? What do you suppose—I hate to put this old burden on you. You're the auditor, right? What do you suppose went wrong?

MR. KENNEDY
Why we didn't discuss it?

SEN. GOLDFINCH
Why we didn't know about it. Why?

12:01
MR. KENNEDY
I mean, I'm not sure I can answer that.I I I changed—The focus was on—

SEN. GOLDFINCH
Should we have known about it?

MR. KENNEDY
I think the focus was on the 3.5 billion. And yes, looking back we, you know, all parties involved probably could have done a better job of breaking that down into its individual, how that $3.5 billion came about.

SEN. GOLDFINCH
I can go on and on, Mr. Chairman.

38:54
SEN GOLDFINCH
Tell me what questions I need to be asking.

MR. KENNEDY
I think the the thing that you should be concerned about now is the ownership or claim. If

your if your basic question as I think I've heard today is, is this money available to appropriate, then to me this the next step that needs to be taken by the state, whether that's the treasurer's office or treasurer and CG and a combination of others, but which needs to be taken by the state is to try to perform the research to establish ownership of that 1.8 billion claim to cash whatever you want to call it.

39:39
SEN GOLDFINCH
And so is it. I I know that it shouldn't be. Well, again, my my head just sort of hurts when I start thinking too much about this. Money's kind of fungible. I guess I'm every time I talk to you, I change my mind on whether or not I know what I'm talking about. Money's kind of fungible in a big giant pot of money called the general fund. There's $1.8 billion in there that we could or could not technically own to, you know, to be appropriated as we see fit. Or is that—Well, let me ask you, are there any liabilities in there? Is there a possibility there's any liabilities in there?

MR. KENNEDY
There shouldn't be anyliabilities.

SEN. GOLDFINCH
Wait, aren't or shouldn't?

MR. KENNEDY
There aren't. There aren't. Because the $1.8 billion net balance of that account represents cash.

SEN GOLDFINCH
One more time is it paper or is it cash?

MR. KENNEDY
It's, it is cash. It represents cash. It represents cash across multiple accounts. But I will say this, the research needs to be done. But my concern would be more that my concern and and yours may be different, but my concern would be more that the $1.8 billion was inappropriately classified as general fund funds than it remaining in the general funds. In other words, have we inadvertently taken federal funds—

SEN. GOLDFINCH
—comingled, commingled.

MR. KENNEDY
yes, comingled federal funds. Have we somehow, is there a reserve fund balance that that needs to be maintained by state law? That's a part of that

SEN. GOLDFINCH
That that's a great, that's a great question—

41:33
MR. KENNEDY
—I'd like to—

SEN. GOLDFINCH
So the the question that we should be asking is this a question for the treasurer's office that you're posing, I think is, have we improperly commingled funds via the use of this 30-whatever account?

MR. KENNEDY
And I think the question would be to establish the ownership of those funds to clearly know that those funds don't belong somewhere other other than the general fund.

SEN. GOLDFINCH
Because they could belong to the reserve fund?

MR. KENNEDY
There's a possibility that that there or they could be federal funds or funds. I think the likelihood of that is, is not great because again time has passed. here we're talking 2017/2018 And again I know that through with federal funds especially there are reporting mechanisms done on cash received cash, cash still on hand and if there were errors or problems with that, I believe those would have surfaced with the amount. So..but as an auditor I would feel, I would feel better if the research was done before the the question was answered. You know, is this available? Is this available for appropriation?

43:00

44:58
CHAIRMAN GROOMS
So I would I would ask on behalf of committee that you can take a look at this account and and prepare an auditor standpoint of this account what are the dangers or or the exposure to the state say exposure to the state explain this account to us and and and why it should or should not be at 1.8 billion. And I I think he said it should be at 0, but I I need, I need to know from an accounting standpoint is this a correct entry? Sounds like it's not.

MR. KENNEDY
Alright.

CHAIRMAN GROOMS
And what needs to be done to correct it. So do it in layman's terms please.

MR. KENNEDY
Yeah so I can do that right now. A journal entry needs to be made, basically a journal entry. It is basically a mechanism to debit and credit various accounts within the SCEIS general letter system. Right now that 30350993, if it was being used for its typical purpose, which is a clearing account should have a 0 balance. At the end of the day it it's carrying this additional balance and and it is clear and I think it's known by you know the CG and the treasurer's office because they've been talking about it that a journal entry needs to be made to move it to other accounts.

CHAIRMAN GROOMS
But can you please put that in writing.

46:45
MR. KENNEDY
I I will. But that's what the research I believe, that's what the research why the research needs to be made because that journal entry probably—

CHAIRMAN GROOMS
—I agree—

MR. KENNEDY
That probably would have been made it be cleared up. Right.

Fox Carolina Treasurer Loftis Interview 2/29/24

J. Dougherty: On Fox Carolina News tonight, state lawmakers are now trying to figure out how $1.8 billion of taxpayer money was left unaccounted for four years. A Senate Finance subcommittee was recently briefed on this discovery, the state auditor told senators they discovered the money was in an account that was used to transfer funds between state agencies, but it's not clear how or why the money was left there unnoticed for years and this is all part of a major accounting error that we covered last year when Comptroller General Richard Eckstrom announced his office discovered a $3.5 billion budget mistake. Extra later resigned he was forced to resign and now only on Fox Carolina News State Treasurer Curtis Loftis is calling for the Comptroller General's Office to be dissolved and placed under another agency, in our exclusive interview earlier today, Loftis says the Comptroller General's Office is failing South Carolina taxpayers.

00:00:51

T. Loftis: You can see what a big job it is, so we're not interested in checks and payments at that time. We're not interested in ownership, we're investing large pools of money all over the country. And in fact, some places, all over the world, and we do that very well. The one thing we don't do is worry about the individual accounts and who owns that. That's the Comptroller General's job.

J. Dougherty: So, is is there no part of your job as Treasurer where you see like, "Hey, there's $1.8 billion? I'm looking at it right here. Why is that not going anywhere?"

T. Loftis: Well, it was. It was invested. We've made $194 million off that money. It wasn't forgotten in the Treasurer's Office. It was in the right account at the right place at the right time. And it's been there for years.

J. Dougherty: I think, uh, The Post and Courier had an editorial to think phrase that a good question essentially is there too much red tape at the Statehouse right now in in regards of this 1.8 billion it it was sitting there. Yes, you were saying that it was being invested, but as far as the Comptroller General not having a tab for it, does it seem like there's maybe just too much red tape and and maybe look at and of maneuvering some of the positions?

00:02:01

T. Loftis: Well, it could be I, I, the problem is the state has to put everybody in their lane and the state Comptroller General, who stepped down last year --but to include the one that's there now --I'm having a hard time getting them to understand their statutes and do their job. I'm not the state's chief accountant. In law, he is the states chief accountant. The bank, which is this big **small hand gesture**, operates in the whole system **large hand gesture**. And see at the end of the year he has to do a big report. It includes everything my bank does, but then it includes everything the universities do. They include it includes businesses and I mean -- excuse me, buildings and land and cars, all that stuff that we have nothing to do with. So, the accounting job is a different style of job, but it's important for us. We work on the rails he sets up. We can't create our own rails. We work on his rails, but we just need the state's accountant to be the state's accountant and for some reason we're having a hard time making that happen.

J. Dougherty: I think lastly here is this something that South Carolinians should get used to for the foreseeable future to catch up because you had said 10 years that didn't balance the books? Is it one of those things where we need to expect something else to happen because the former Comptroller General was forced out after a $3.5 billion overstatement? Now we have this 1.8 billion, so should we expect something else to come up again?

T. Loftis: I would not be surprised, uh, because we have very little communication with Comptroller General's office. We send them requests for information, they don't give it to us, they send us directives, we ask them for, say, a piece of paper that tells us what something they did. They send us lines of of information that might be 10,000 lines of a spreadsheet we have to figure it out. My office is in turmoil because I can't get the Comptroller General's office to follow the law and the the problem the taxpayer has to worry about is if they don't rein in the Comptroller General's office. If they don't require him to do his job, then the whole finance system falls apart. Now I'm hoping that that's not going to happen. I'm hoping that we all can sit down and read the statues together and say, "Yeah, guess what? This has to work this way..."

00:04:16

J. Dougherty: It seems like there's, uh, some frustration and some annoyance with the Comptroller General's office. Are you going to be pushing for that to become an appointed position as opposed to being an elected position?

T. Loftis: I don't like it being an appointed position because it's too important and in some states, you say like, Florida, the Comptroller General and Treasurer are one office. But the problem with the Comptroller General's Office being appointed is that we have an appointed person now. Nobody knows who that person is. That person can do all sorts of things, and nobody knows who he is.

00:04:47

J. Dougherty: So, should we just do away with the Comptroller General’s Office? You think?

T. Loftis: Yeah. Oh yeah, you could easily do away with the Comptroller General's Office and fold it into our office or another office?

J. Dougherty: Is that what you want?

T. Loftis: Yeah. Well, I, I didn't until now. Now I do because I thought it was going to get fixed. I, I, I always assume that the General Assembly would fix this problem. It's a year and a quarter on and things are worse. That's the problem. It is not the the the problem we have is not complicated. We just need a Comptroller General to say, “I'm the state's accountant and I will run the accounting system.” The Treasurer is going to say, “I'm the state’s banker. I'm going to run the investments in the money management part of it.” And the two all work on his rails. So, when money goes missing, he's supposed to see it. But see what happened was they didn't reconcile the books for 10 years. **with emphasis** For 10 years. The Comptroller General lost his job, but the head staffers are all still there. In fact, they got raises. So there there's a problem and and I'm, I, I, thank you for your interview here and I, and you're the first person I've talked publicly about this. I've tried to work below the scenes and be quiet and make things work. It's not going to work. The people of this state have got to be told and you're the first person that I'm talking to and I'm glad it's you because y'all have are, are known for as a good and fair station to deal with. We've got to let the people know that their money is too important to have appointed people who don't answer to anybody, and that's the problem I answer to the people. I know I’m on a roll here, Jason, you see I'm agitated about this. I've been elected four times. I get more than a million votes. I mean, people love me. They can hate me all that. But they knew who I am. Nobody knows who that guy is and he's working hand in glove with special interests and lifelong bureaucrats, and they're going to do what suits them. I don't work for special interests. I don't work for rich people. I don't work for economic development. I don't work for the universities I work for working people, and I work for the middle class. That's the biggest bunch of people, special interests taking care about. And when anything, if you want to know what the State Treasurer's office is doing, whether it's unclaimed property, future scholar, college savings, or if it's the, uh, uh, the the General Fund and investments, you what suits the working and and, uh, middle-class taxpayer, that's who I serve. I don't serve rich people who can control from behind the scenes.

00:07:33

J. Dougherty: And just to be clear, you now are calling for the Comptroller's Office to be folded into the State Treasurer's office. That is something you would like to oversee.

T. Loftis: I am all in, in my office or somebody else's and until this week I would have not said that. I mean I, I just I, I tried, and I tried but I'm getting more incoming from the General Assembly. I'm getting more questions from people. It's not going to be cleared up. We got to protect the system, the Comptroller General's Office, as it is inadequately and inappropriately staffed, lacks the leadership to take itself out of its bad position. It is a systemic risk to the state of South Carolina, both the financial systems and its financial reputation.

00:08:16

J. Dougherty: Now Loftis went on to say he does plan to retire in a few years but would stay on to help the transition if his office were to take on the Comptroller's duties. Now we have reached out to the Comptroller General's Office for a response, but we have not heard back.

Exhibit 10

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
CHAIRMAN

MEMBERS
THOMAS MCELVEEN
MIKE FANNING
STEPHEN GOLDFINCH
TOM YOUNG
MARGIE BRIGHT MATTHEWS

JESSICA WIGINGTON
ANALYST
803-212-6651

MILLER A. SMOAK
ADMINISTRATIVE ASSISTANT
803-212-6677
FAX: 803-212-6690

March 7, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

The Honorable Curtis M. Loftis
1200 Senate Street – Suite 214
Wade Hampton Building
Columbia, SC, 29201

RE: Fund 30350993 and its contents of over $1,800,000,000

Dear Treasurer Loftis:

The Senate Finance Committee Constitutional Subcommittee is aware that on numerous occasions the Comptroller General has requested information from the State Treasurer regarding Fund 30350993. For example, see attached letter dated October 31, 2023.

Section 11-5-180 of the South Carolina Code of Laws stipulates that the State Treasurer shall “at all times, when required by the Comptroller General, produce to him satisfactory statements of the cash in hand and furnish him promptly with the official information, duly certified, relative to any matter connected with the revenue and finance of the State.” See attached Section 11-5-180.

Additionally, Section 11-5-120 of the South Carolina Code of Laws stipulates that “the State Treasurer shall publish quarterly, by electronic means and in a manner that allows for public review, a statement showing the amount of money on hand and in what financial institution it is deposited and the respective funds to which it belongs.” See attached Section 11-5-120.

In view of the above, please provide this Subcommittee with agency ownership, by agency, by fund regarding fund 30350993 no later than noon on March 14, 2024. If you have questions, contact Jessica Wigington, Staff Analyst for the Subcommittee, at jessicawigington@scsenate.gov.

Thank you for your timely response,

Larry Grooms

Larry K. Grooms, Chairman, Constitutional Subcommittee of the Senate Finance Committee

Enclosures

cc: The Honorable Henry McMaster, Governor
The Honorable Brian Gaines, Comptroller General
The Honorable Thomas Alexander, President of the South Carolina Senate
The Honorable Murrell Smith, Speaker of the South Carolina House of Representatives
The Honorable Harvey Peeler, Chairman of the Senate Finance Committee
The Honorable Bruce Bannister, Chairman of the House Ways & Means Committee
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews
George Kennedy, South Carolina State Auditor

State of South Carolina
Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

Telephone: (803) 734-2121
Fax: (803) 734-1765
E-Mail: cgoffice@cg.sc.gov

BRIAN J. GAINES
COMPTROLLER GENERAL

CHIEF OF STAFF

October 31, 2023

<u>VIA HAND DELIVERY</u>

The Honorable Curtis M. Loftis, Jr.
State Treasurer of South Carolina
Wade Hampton Building, Suite 214

Dear Treasurer Loftis,

In accordance with South Carolina Code sections 11-3-100, 11-5-120, 11-5-180, and 11-13-40 and the 2024 Appropriations Act provisos 97.2 and 98.14, the State Treasurer's Office ("STO") is directed to:

1. Fully cooperate with the Comptroller General's Office ("CGO") to automate and provide accurate financial accounting and reporting of Cash and Investments in the custody of the STO for the State of South Carolina, including for the preparation of accurate ACFRs;

2. Certify by duly authorized signature, without qualification, each Fiscal Year's ACFR Compiled Cash and Investment Closing Package-STO Treasury and Investments Signature Page no later than the applicable Fiscal Year's closing package submission deadline to be specified by the CGO beginning with Fiscal Year 2024;

3. Provide Quarterly Reports in compliance with GAAP/GASB of Cash and Investments in the custody of the STO by Fund as of the end of each of the first quarter, second quarter and third quarter of each Fiscal Year within 60 days following the close of the relevant quarter beginning with the quarter ending December 31, 2023 and continuing each quarter thereafter; and

4. Before the end of Fiscal Year 2024, complete research of cash balances in Triple Zero Agencies and Fund 30350993 that arose due to conversion; and after completing that research, then classify (or reclassify) those amounts of money to the appropriate Fund(s) and general ledger accounts—all in accordance with notes 9 and 10 of the STO Signature Page for the Fiscal Year 2023 ACFR Closing Package.

It is my understanding your office has agreed to automate and frequently update the reports necessary for compliance with these directives. This automation should be completed to allow the STO to meet the deadlines described above.

We hope these directives achieve the cooperation necessary for accurate financial accounting and reporting for the State of South Carolina.

Most respectfully,

Brian J. Gaines

Brian J. Gaines
South Carolina Comptroller General

cc: Governor Henry D. McMaster
Senator Thomas C. Alexander, President of the Senate
Senator Harvey S. Peeler, Jr., Chair, Senate Finance Committee
Senator Lawrence K. Grooms, Chair, Senate Finance Constitutional Subcommittee
Representative G. Murrell Smith, Jr., Speaker of the House of Representatives
Representative Bruce W. Bannister, Chair, House Ways and Means Committee
Mr. George L. Kennedy, III, State Auditor

CHAPTER 5
State Treasurer

ARTICLE 1
General Provisions

SECTION 11-5-120. Publication of quarterly statements.

The State Treasurer shall publish, quarterly, by electronic means and in a manner that allows for public review, a statement showing the amount of money on hand and in what financial institution it is deposited and the respective funds to which it belongs.

SECTION 11-5-180. Monthly reports to Comptroller General of cash transactions.

The State Treasurer shall, at the end of every month, report to the Comptroller General an accurate statement of the cash transactions of the Treasury, of every description, stating therein every sum of money received or paid away in behalf of the State, particularizing the person and his office of whom received and to whom paid, as also on what account received and for what purpose paid.

He shall, at all times, when required by the Comptroller General, produce to him satisfactory statements of the cash in hand and furnish him promptly with the official information, duly certified, relative to any matter connected with the revenue and finance of the State.

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 14, 2024

The Honorable Larry K. Grooms
Chairman of the Constitutional Budget Subcommittee
of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Dear Chairman Grooms:

I am in receipt of your recent letter dated March 7, 2024. The demand that the State Treasurer's Office (STO) "provide this Subcommittee with agency ownership, by agency, by fund regarding fund 30350993 no later than noon on March 14, 2024," is unrealistic in light of the seriousness of this issue. It is also at odds with the Senate's recent introduction of legislation calling for thorough research and resolution of this matter and even conflicts with the Comptroller General's (CG) own the October 31, 2023 request that which contemplates continuing research and reclassify by June 30, 2024.

The STO has devoted considerable staff time to this issue and is fully prepared to continue its contributions to this effort, yet I must emphasize, as I have before, that this is a task beyond our independent capability, especially with an arbitrary deadline.

Defining the Problem and Finding a Solution

The problem is straightforward, but the solution is complicated. The "ownership" of a $1.8 billion state fund is not apparent. The funds may be owned by State agencies or entities, or by the State, which may make the dollars eligible for appropriation. Resolution will take the cooperation and collaboration of multiple agencies and experts to research and review the STARS to SCEIS conversion to determine if the funds accounted for in SCEIS Fund 30350993 have agency or entity ownership, other than the state's General Fund. Yesterday I made a formal request to the SCEIS Executive Oversight Committee to establish a working group to include representatives of all agencies involved in the conversion as well as any other state agencies and offices who can lend their expertise to finding the answers. I recognized that both the House and the Senate have proposals that would allow for the research and review of this matter. This working group can serve as a resource for both the House and Senate efforts.

The conversion from STARS to SCEIS was a meticulous, multi-year process spearheaded by the Comptroller General's Office (CGO) and involving numerous agencies. To demand that the STO complete this research alone, under an artificial deadline is completely unreasonable. The Treasury Management legacy system conversions took place between 2014 and 2018 and the $1.8 billion in Fund 30350993 resulted from a netting of thousands of conversion entries and transactions by the STO, CGO, and SCEIS team.

History and Timeline

- 2005 – South Carolina Enterprise System (SCEIS) legislation adopted. The SCEIS Executive Oversight Committee is established with membership to be appointed by the Comptroller General (S.C. Code § 11-53-20). The General Assembly is invited to and does designate nominees to participate in the work of the SCEIS Executive Oversight Committee.
- 2014 - 2018 – STARS to SCEIS conversion of legacy Treasury Management Systems, a project that involved the CGO, STO, SCEIS, and two outside consultants, Grant Thornton and SAP.
- 2017 – SCEIS Fund 30350993 was used as the conversion account. In consultation by the CGO, STO, and SCEIS. After the conversion, $1.5 billion is remaining where no agency of record could be identified by the conversion team.
- The cash left in SCEIS Fund 30350993 remain protected and available in the event that a claim was made for them. The STO is unaware of any agency submitting any warrant request for the release of funds held in this SCEIS accounting fund. The cash in SCEIS Fund 30350993 was custodied by the State Treasurer and invested. Investment earnings accrued to the General Fund are appropriated by the General Assembly. All SCEIS funds are pooled and invested to maximize investment earnings as is common practice in most states. This balance is not segregated in any specific bank account—but instead is accounted for in SCEIS Fund 30350993.
- 2018 – CGO added $324 million to SCEIS Fund 30350993
- 2018 – State Auditor and CLA audited the conversion and SCEIS Fund 30350993 and found no exceptions.
- 2014 to present – SCEIS Fund 30350993 is used for STO transfers between banks. These transfers flow through the account and do not affect the balance.
- The balance in SCEIS Fund 30350993 is reported annually to the CGO as part of the STO's Cash Closing Package.
- December 2022 – the CGO issued the 2022 ACFR including a $3.5 billion downward restatement of cash in the General Fund.
- December 2022 - the CGO moved the $1.8 billion in SCEIS Fund 30350993 to the General Fund for ACFR purposes and made a $517 million DOT transfer to reduce what would have been a $5.9 billion restatement to a $3.5 billion restatement without consultation or notification to the STO.
- The CGO did not communicate with the STO prior to making this adjustment.
- October 31, 2023 - the CGO sent a letter to the State Treasurer directing the STO research cash balances of Fund 30350993 by the end of Fiscal Year 2024.
- Chairman Grooms states that the October 31, 2023 letter was the first time he heard of the $1.8 billion.

The question now facing South Carolina Is whether this $1.8 billion is "available" or "general funds"? The CGO reported the $1.8 billion in the General Fund for ACFR purposes, and the State Auditor agreed with that accounting treatment to a "reasonable degree of certainty." The STO cannot now opine on that the propriety of these decisions, since work is still on-going to identify the source of the cash represented by SCEIS Fund 30350993. ***We can, however, assure you and the taxpayers of this State that we have safeguarded that cash and invested it over these many years. SCEIS fund 30350993 is a separate and distinct fund for accounting purposes. Nevertheless, all investment earnings have accrued to the benefit of the General Fund.***

Statutory Compliance

In addition to imposing an impractical one-week deadline, the insinuation that my office has failed its statutory requirements is unfounded. The State Treasurer's Office is in full compliance with both S.C. Code §§ 11-5-180 and 11-5-120, with certain functions now executed by SCEIS, as acknowledged by the Comptroller General in official reports.

The inference that the State Treasurer's Office is neglecting its statutory duties is baseless. Section 11-5-180 requiring the Treasurer to produce "satisfactory statements of cash in hand" is "performed by SCEIS" according to the CGO's Annual Accountability Report (Exhibit 1) https://cg.sc.gov/sites/cg/files/Documents/Publications%20and%20Reports/Annual%20Accountability%20Reports/E120.pdf

Consistent with the CGO's invocation of SCEIS to report "cash in hand," the STO relies on the CGO to comply with its statutory obligation "to maintain an Enterprise Information System for State Government (SCEIS) that will result in proper authorization and control of agency expenditures" (*see* Budget Proviso 97.2, Exhibit 2) such that the CGO will be able to identify agency ownership of funds within SCEIS once the STO inputs its information regarding cash in hand. It is disingenuous to infer that the STO is not carrying out its statutory duty pursuant to Section 11-5-180 when the CGO has acknowledged for many years that that reporting function is now satisfied through SCEIS.

The reference in your letter to S.C. Code Ann. § 11-5-120 is similarly misguided. The interpretation has not changed over time. The historical roots of this statute go back to the early 1900s (see excerpt below from the 1912 Civil Code Section 794). The word "funds" referred to in 1912 is "money" not SCEIS "fund." The statutory language has remained consistent for over a century, with only a slight modification in 2008 replacing the requirement of publication "in one daily paper in the city of Columbia" with "by electronic means." State Treasurers have always interpreted this public disclosure obligation to require quarterly summary statements containing statutorily specified information.

1912 Civil Code Section 794:

§ 794. Treasurer to Publish Quarterly Statement of Money on Hand and Where Deposited. – The State Treasurer shall pubhsh, quarterly, in one daily paper in the City of Columbia, a statement showing the amount of money on hand and in what banks the same is deposited, and the respective funds to which the same belongs.
1903, XXIV, 21.

The statutory specific information is currently contained in two online reports: The Portfolio Performance Summary (https://treasurer.sc.gov/media/pnzi0hfb/investment-performance-report-93023.pdf) (Exhibit 3) provides information concerning the funds maintained by the State Treasurer with its primary custodian, the Bank of New York Mellon for investment purposes, while the Statement of the State Treasurer's Bank Deposits identifies other financial institutions wherein monies/"funds" are deposited. (*see* quarterly-statement-of-bank-balances.pdf (sc.gov).) (Exhibit 3). The information contained in the current Statement of Bank Deposits is functionally identical to that contained in historical reports published in Columbia newspapers. (See legal advertisement from The State Newspaper from April 29, 2004, (Exhibit 4). The term "fund" as used in this very old statute predates SCEIS and STARS and does not refer to a fund within SCEIS. The Comptroller General has the same ability as the STO to run a report in SCEIS that shows "cash by SCEIS fund." The CGO does not need to request this information from the STO. I have attached an excerpt from cash by SCEIS fund report for your information so you can see the level of detail included, however, please note that this report has thousands of lines of data—certainly not what is required to be published for perusal by the general public under § 11-5-120. (Exhibit 1). Additionally, publishing this much data online would provide a blueprint for mischief by internet scammers and hackers.

As part of our research, we asked outside counsel to review the statutory roles of the Comptroller General and the State Treasurer. I am providing a copy of a PowerPoint overview summarizing these statutory obligations for your information. (Exhibit 5) We note that the General Assembly itself has recognized and codified the separation of powers and responsibilities, including the oft-repeated designation of the Comptroller General as the "State Accounting Officer" in the annual budget provisos for that office. The bottom line is that the Treasurer is the state's bank and responsible for investing funds, whereas the Comptroller General is the state's accountant, responsible for the ACFR, the General Ledger, SCEIS, and compliance with GAAP.

CGO misled Senate and has now Diverted Blame for CGO's ACFR Restatement

I want to take this opportunity to clear up misunderstandings about SCEIS fund 30350993. The CGO has always been aware of 30350993 and any adjusting fund entries and balances. To believe that somehow this $1.8 billion was recently "found" by a CGO junior staff member is patently false. The truth is that the CGO used the $1.8 billion in SCEIS fund 30350993 to reduce or minimize what would have been a $5.9 billion overstatement and restatement in ACFR cash. According to Note 15 in the 2022 ACFR, the CGO failed to capture cash transfers out from the General Fund to AFS entities causing the overstatement of cash in the General Fund in the ACFR only. The CGO and others did not explain in Note 15, or in any of the sworn testimony to the Senate last year, that it used SCEIS fund 30350993 and a DOT transfer of approximately $517 million, to reduce the overstatement of cash to $3.5 billion. The CGO included the $1.8 billion in the ACFR General Fund without discussion or consultation with the STO. In fact, the STO was not made aware that the $1.8 billion was used to reduce the overstatement of ACFR cash until over six months after the CGO adjusted the funds for ACFR purposes. Again, we find it disingenuous for the Senate to look towards the STO to validate the CGO's ACFR General Fund classification. If there was any question about where these funds belong, the CGO should never have moved them for ACFR purposes.[1]

[1] CGO staffer Katherine Kip sent an email to STO staffer on October 6, 2022, asking about Fund 30350993. This email was used to try to demonstrate that the STO had knowledge of the $1.8 billion in October 2022. There was no indication in that email exchange that CGO staffer was using 30350993 to reduce the overstatement of cash. This misleading document was provided by the CGO to the SFAA.

As the restatement issue developed, there were many instances where the use of the $1.8 billion could have been, but was not disclosed by the CGO to the General Assembly.

> In a December 15, 2022, email from David Starkey to Richard Eckstrom (Exhibit 6), that is included on page 50 of the Constitutional Subcommittee of the Senate Finance Committee's *Report on the Investigation of the FY 2022 Annual Comprehensive Financial Report Restatement*, David Starkey shows the "Restatement by Entities" as $3.5 billion with no mention of the $1.8 billion reduction from $5.9 billion.
>
> At the February 9, 2023, hearing Comptroller General Eckstrom testified that the restatement was a "mapping error" – with no mention of the $1.8 billion in SCEIS fund 30350993 that the CGO included in the ACFR General Fund to help reduce the amount of the restatement. In fact, the total cash overstatement resulting from the mapping error was $5.9 billion, not $3.5 billion.
>
> On February 16, 2023, the Comptroller General again referred to agencies with Audited Financial Statements as the source of the problem. Further, the Senate report acknowledges that there was a $517 million "cash issue" that was not mentioned in Note 15 or presented by the Comptroller General in his testimony. (Senate Report p. 8). This was presumably the DOT transfer.

There is no question that CGO and others failed to inform the Senate that $1.8 billion was part of the restatement. I will not speculate as to why the CGO withheld this information from the Senate but cannot but be astonished that the Comptroller General and others testified under oath about the source of the restatement, yet failed to notify the Senate that they reduced the restatement by including $1.8 billion in the General Fund for ACFR purposes. Now the CGO is trying to shift the problem that it created onto the STO. The CGO's unilateral decision to include those funds in the General Fund created an urgency to retroactively confirm the soundness of that decision. If those funds do not belong in the General Fund, the CGO overstated – yet again – the State's cash in the ACFR. The CGO's actions may have a negative impact on our state's bond credit rating. My staff has dedicated thousands of hours in trying to research fund 30350993. We have asked the CGO for assistance and documentation. Time after time the CGO refused to provide meaningful assistance and refused to meet with my staff.[2] I had to resort to asking for assistance from the SFAA to finally get records from the CGO. The CGO provided a data dump, which my staff has culled through yet still found lacking. I reject any accusation that my staff has not been helpful to the CGO.[3]

In an attempt to conduct the research that the Comptroller General and now the Senate, has requested, the STO asked George Kennedy, State Auditor, for copies of the working papers so that the STO could understand how the CGO made its determination to include the $1.8 billion from SCEIS fund 30350993 to

[2] For example, on August 9, 2023, Comptroller General Gaines halted weekly meetings between the STO and the CGO and stated that no further meetings were necessary, and we would communicate by email. (Exhibit 8). One December 28, 2023, STO Chief of Staff Clarissa Adams, emailed Comptroller General Gaines to request meetings with Katherine Kip on January 3 and 5, 2034. The CGO never responded to these meeting requests. (Exhibit 9). On January 8, 2024, Clarissa Adams heard from a partner agency that the CG changed his mind about allowing Kip to meet with the STO.

[3] To the contrary, the STO was told that Kip had researched the $1.8 billion in fund 30350993 and got it down to 150 lines of information but the CG has not provided the STO with any documents or other information supporting this research.

off-set the cash overstatement in the 2022 ACFR. The State Auditor informed the STO astonishingly that there are no working papers (Exhibit 7).

CGO's Role in Cash Conversion and Access to the Fund

Statements by CGO staff that they have no involvement with SCEIS Fund 30350993 or the conversion are patently false. As previously stated, the conversion was a multi-agency effort including the CGO, STO, and SCEIS. As noted previously, the CGO is the only agency that can approve the creation of SCEIS fund categories or accounts. For example, on October 26, 2018, John Morrison, CPA at CGO sent an email to Martin Taylor of the STO saying "Here is a list of balances that we have identified that need to be washed through the conversion account based on our conversation." (Exhibit 10). The amount of those entries was $324 million. This also clarifies the misconception that has been stated in Senate hearings about account access. The STO is NOT the only entity that can or has made entries in 30350993. As an example, in Fiscal Year 2017 multiple agencies entered transactions to that fund. The largest number of transactions posted were in batches posted by the STO with the collaboration of the CGO and SCEIS. Period 15 must be opened by the Comptroller General's Office, so all transactions would be posted with the CGO's knowledge. Exhibit 10 contains additional records that show other agencies posted to 30350993.

Restricted Access in account

We are perplexed by the lack of cooperation and finger-pointing by the Comptroller General's Office and others since the restatement error came to light. Statements made about my office have sometimes been so off-base that I initially determined that no response was warranted. Regretfully, I seem to have underestimated the desire by some to avoid their responsibilities and to blame others. I reject much of the information that has previously been asserted by the Comptroller General as being completely false. In his December 12, 2023, letter to me, Comptroller General Gaines incorrectly asserts that the "State Treasurer's Office would have sole and exclusive possession of the State records showing the source and history of the moneys in Fund 30350993." That statement is false. The CGO, SCEIS, and others with SCEIS rights have the access to the records that support the entries in Fund 30350993, since those records are maintained in the SCEIS system and in fact the CGO and SCEIS teams may have additional documents not available to the STO.

He also wrongly implies that the fund is "invisible" to the General Assembly, that the STO is the "only" state entity that can may move the funds. Except for investment purposes, which are fully disclosed, the STO does not release or otherwise "move" funds without the knowledge and approval via statutorily mandated warrants from the CG. Any statements to the contrary are false.

Conclusion

As the elected Treasurer of the State of South Carolina I remain committed to ensuring the funds that I custody are properly managed and invested. The $1.8 billion has always been reported by the STO in its cash closing package. The STO did not "hide" this fund. The State Auditor or Clifton Larson never had a finding or recommendation regarding the fund or placement of funds since 2017.

The CGO was intimately involved with the conversion and the resulting inclusion of the $1.8 billion in 30350993. It was only when the CGO finally got around to reconciling cash after not doing so for many years that it needed the $1.8 billion to reduce the restatement required to correct its own errors. After making this unilateral treatment, the CGO is attempting to shift responsibility to clean up its mess to the Treasurer.

The CGO and not the Treasurer has the legal obligation to notify the General Assembly of remaining funds. (See S.C. Code § 11-3-90, "The Comptroller General shall report, annually, to the General Assembly his transactions in regard to unappropriated funds in the State Treasury."). The CG and not the Treasurer has the legal responsibility to "implement appropriate accounting procedures to consolidate accounts, in connection with lump sum agencies, as necessary for proper accounting and for facilitation of financial reporting in accordance with generally accepted accounting principles." S.C. Code § 11-3-175.the Treasurer has the legal responsibility for the custody and control of the moneys of the State and has "full power to invest and reinvest all funds of the State." S.C. Code § 11-9-660. My office has always met these responsibilities. The cash in SCEIS Fund 30350993 has always been safeguarded and fully invested.

Senator Grooms, the State finds itself in a precarious position. Because of the deception surrounding the actual amount of the "mapping error" ($5.9 billion, not $3.5 billion), and the continuing lack of candor about the method in which the number was reduced, there is discord between agencies and a terrific burden has been placed on the staff of the STO. The events of the last year have postponed any resolution of this issue, and have placed the State's excellent credit rating in jeopardy. I can only hope and pray that these issues are dealt with and the system can achieve a sense of harmony and cooperation.

Finally, I offer this—had the answer to this question been easy, wouldn't the conversion team – made up of highly knowledgeable professionals with the CGO, STO, and SCEIS – have handled this during the conversion process? If they didn't have the answers at the time of the conversion, I don't know how you expect my team alone to find the answers in one week's time. As such, I support the effort as proposed by the House via budget proviso to hire an auditing firm to study and make a recommendation as to whether these funds should be moved to a different fund. In addition, I asked the SCEIS Executive Oversight Committee for the establishment of a working group to research SCEIS Fund 30350993. (Exhibit 11). My office remains committed to the resolution of this important issue and stands ready to cooperate with all legitimate inquiries.

Sincerely,

Curtis M. Loftis, Jr.
State Treasurer

Enclosures

cc: The Honorable Henry McMaster, Governor
The Honorable Thomas Alexander, President of the South Carolina Senate
The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Murrell Smith, Speaker of the South Carolina House of Representatives
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young

The Honorable Margie Bright Matthews
The Honorable Brian J. Gaines, Comptroller General
Marcia S. Adams, Executive Director of the SC Department of Administration
George Kennedy, SC State Auditor

Exhibit 12

THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

March 25, 2024

The Honorable Larry K. Grooms
Chairman of the Constitutional Budget Subcommittee
of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Dear Chairman Grooms:

As you know a request was sent by your office on January 22,2024 with proposed dates for the Constitutional Subcommittee of the Senate Finance Budget hearing. My office requested February 1, 2024; however, your office unfortunately was not able to accommodate the request. The State Treasurer's Office (STO) Senate Finance Budget hearing was scheduled for February 29, 2024. The hearing was postponed by your office pending the Mauldin & Jenkins ACFR Development Assessment report. The Mauldin & Jenkins report was released March 20, 2024.

I would propose a meeting to discuss the STO FY2024-2025 budget request as well as the Mauldin & Jenkins report as soon as practical. The Mauldin & Jenkins report recommends the STO perform functions not historically performed by the STO. In order to complete these new required functions, additional staff and resources are necessary. A meeting to present the STO budget request will help the State move forward with a solution to the issue at hand.

Sincerely,

Curtis M. Loftis, Jr.
State Treasurer

cc: The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews

Wade Hampton Building, 1200 Senate Street
Columbia, SC 29201

(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov

Exhibit 13

Proviso 93.19 of the Fiscal Year 2024-2025 Appropriations Act

93.19. (DOA: State Treasury Forensic Accounting Review Audit) Of the funds appropriated pursuant to the Nonrecurring Revenue proviso for Audit Contracting, the Department of Administration must engage an independent forensic accounting firm, experienced in forensic accounting, to conduct a forensic accounting review of all cash and investments held in the State Treasury. The scope of the review, as determined by the Department of Administration, must include, but not be limited to, all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled fund managed by the relevant state agencies within the South Carolina Enterprise Information System (SCEIS) to the Statewide Accounting and Reporting System (STARS) and, to the extent possible as determined by the engaged accounting firm, to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State. In addition to the foregoing, the review must include findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future. A final report from the accounting firm must be submitted by the Department of Administration to the Governor, President of the Senate, Chairman of the Senate Finance Committee, Speaker of the House of Representatives, and Chairman of the House Ways and Means Committee by December 31, 2024, and an interim report submitted by September 30, 2024. Provided, however, upon written notice on or before December 31, 2024, the Department of Administration may in its sole discretion elect to extend the completion date of the review if necessary. The Office of State Treasurer, the Office of Comptroller General, the Office of State Auditor, and all other agencies of the State, as may be designated by the Department of Administration, must provide their full cooperation, and make available any staff, books, records, statements, and other information, including information from all financial institutions, investment firms, trustees, or any other third-parties holding cash and investments on behalf of the State, at a time that may be required and in a form that may be prescribed by the Department of Administration in effecting the purposes of this provision. The Department of Administration shall report the failure of any agency to cooperate as required to the Governor, President of the Senate, Chairman of the Senate Finance Committee, Speaker of the House of Representatives, and Chairman of the House Ways and Means Committee. The accounting firm engaged pursuant to this provision is authorized to request relevant information directly from any institution, firm, trustee, or third-party holding cash and investments on behalf of the State. Additionally, the State Auditor must provide technical assistance and advice to the Department of Administration in the development of the scope of the review, managing the accounting firm, and assisting in the preparation, review, and presentation of the interim and final reports required and shall be prohibited from disclosing, unless authorized by the Department of Administration, any information related to work conducted until such time as the final report is submitted. All working material of the accounting firm and materials created or collected by the Department of Administration and/or the State Auditor and provided to the accounting firm for purposes of this engagement will be exempt from public record request and only the interim and final reports will be available as public record. Procurements by the Department of Administration are exempt from the purchasing procedures of the South Carolina Consolidated Procurement Code in Chapter 35, Title 11.

Henry McMaster, *Governor*
Marcia S. Adams, *Executive Director*

OFFICE *of* THE EXECUTIVE DIRECTOR

admin
SOUTH CAROLINA
DEPARTMENT *of* ADMINISTRATION

September 30, 2024

Hand delivered and emailed to HarveyPeeler@scsenate.gov.

The Honorable Harvey S. Peeler, Jr.
Chairman of the Senate Finance Committee
111 Gressette Building
Columbia, SC 29201

Dear Chairman Peeler,

To fulfill its obligations under Proviso 93.19 (the "Proviso") of the FY 2024-2025 South Carolina Appropriations Act, the Department of Administration developed a solicitation, published on June 24, 2024 seeking proposals from independent forensic accounting firms to: (1) conduct a forensic accounting review of all cash and investments held in the State Treasury, (2) reconcile and balance all such cash and investments with any unreconciled funds managed by the relevant state agencies, and (3) review the amounts of cash and investments reported in historical state Annual Comprehensive Financial Reports (ACFRs). In addition, the forensic accounting firm must provide findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future.

The Department of Administration used a competitive procurement process to engage a forensic accounting firm. A request for proposal was posted on June 24, 2024, and responses from ten firms were received on July 8th & 9th. Each Firm's response was evaluated by a panel consisting of representatives from the Department of Administration, the S.C. Attorney General's Office, and the State Auditor, and five firms were chosen for interviews.

Following reviews of the proposals and interviews of the prospective firms, a notice of award to AlixPartners LLP ("AlixPartners") was published on July 17, 2024, and AlixPartners began work on July 18, 2024. AlixPartners is a large consulting firm with highly experienced forensic accounting and data analytics teams that specialize in helping clients address complex challenges. Also relevant to this matter, AlixPartners has on staff the largest team of former SEC enforcement accountants, including Susan Markel who was formerly the Chief Enforcement Accountant for the SEC. Ms. Markel is leading the AlixPartners' team assigned to this engagement.

As required by the Proviso, enclosed is the first interim report related to the forensic accounting review. The Department of Administration, with input from the Attorney General's Office, has overseen the engagement of AlixPartners facilitating and participating in numerous interviews and meetings with relevant state agencies and the compilation and review of financial (SCEIS and

STARS) data, conversion- and restatement-related documents, and other relevant information needed to ultimately produce the final report contemplated by the Proviso. Our continued combined efforts will ensure that you are provided with an informed analysis of the cash and investments held by the State Treasury with actionable recommendations to improve South Carolina's processes governing the reconciliation and reporting of cash and investments.

Should you need further clarification, please do not hesitate to contact me.

Sincerely,

Marcia S. Adams

Marcia S. Adams

Enclosure (1)

AlixPartners

State Treasury Forensic Accounting Review

Interim Report

September 30, 2024

Submitted by AlixPartners LLP

1. Introduction and context for the Forensic Accounting Review

As part of the Appropriations Act of 2024, the South Carolina General Assembly included Proviso 93.19 (“Proviso”). Among other things, the Proviso requires the Department of Administration (“Admin”) to engage an independent forensic accounting firm, experienced in forensic accounting, to conduct a forensic accounting review of all cash and investments held in the State Treasury. Admin was directed to determine the scope of review necessary for the requirements of the Proviso to be met by the engaged firm.

Through a Request for Proposals, Admin, with input from the State Auditor’s Office and the South Carolina Attorney General’s Office, established a Scope of Work for the Forensic Accounting Review consisting of four parts:

1. An analysis of all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled funds managed by the relevant state agencies within the South Carolina Enterprise Information System (“SCEIS”) to the Statewide Accounting and Reporting System (“STARS”) and, to the extent possible as determined by the Contractor, to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State of South Carolina (the “State”).
2. An investigation of the $1.8 billion in SCEIS sub-fund 30350993 and a confirmation of the accuracy and impact of the $3.5 billion restatement made in the 2022 Annual Comprehensive Financial Report (“ACFR”).
3. A determination of accuracy within the SCEIS general ledger accounts for cash and investments as well as a review of the amounts of cash and investments reported in various of the State’s historical ACFR’s to determine if the amounts of cash and investments recorded in those ACFR’s were fairly stated and categorized in the appropriate funds.
4. A list of findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future to include any presentations of such findings and recommendations to relevant parties, including the Governor, General Assembly, and other State or federal agencies.

1. Key activities and progress to date

A solicitation from Admin was issued and published on June 24, 2024, seeking proposals for services of an independent forensic accounting firm, experienced in forensic accounting, to conduct a forensic accounting review of all cash and investments held in the State Treasury. Following a review and interview process conducted by representatives of Admin, the Office of State Auditor, and the South Carolina Attorney General's Office, AlixPartners was selected for the engagement and awarded the contract. Notice of the award was posted on July 17, 2024, with AlixPartners beginning the implementation of the detailed workplan included in their proposal on July 18, 2024. AlixPartners also held a two-day kickoff workshop on July 22 and 23 for the involved agencies at no cost to the State.

Prior to the Admin's engagement with AlixPartners, the Governor established a working group comprised of employees from the State Treasurer's Office, the Office of the Comptroller General, the Office of the State Auditor, the Attorney General's Office, the Governor's Office and Admin to study the $1.8 billion in question as well as the 2022 restatement and gather information and documentation related to the issue. The group gathered information such as bank statements, information related to certain accounting entries, cash closing packages, and legacy system information as well as created a data platform to allow direct access to thousands of entries related to the funds in question. Once engaged, Admin was able to provide AlixPartners access to the data in the platform and AlixPartners was immediately able to leverage this information for analysis. Additionally, AlixPartners has participated in several working group meetings to better understand the State's financial processes.

The forensic accounting review required by the Proviso involves a comprehensive review of the State's financial reporting over an extended period. In this case, the review includes examining data and documentation related to thousands of accounting entries that were made on a daily, weekly and/or monthly basis for multiple funds and accounts over nearly a decade. To this end, AlixPartners has been specifically working to gather and review the voluminous data and supporting documentation and to understand and assess: (1) the process by which cash and investments held by the State Treasurer are recorded and reconciled, (2) the process by which the Office of the Comptroller General accounts for cash and investments, including those held by the State Treasurer, (3) the process by which the Office of the Comptroller General compiles the ACFR; and (4) the basis and process through which the Office of the Comptroller General recorded the prior period adjustments in the 2022 ACFR.

Our understanding of these processes has been developed with full cooperation and assistance from the Office of the Comptroller General and State Treasurer's Office. AlixPartners has received over 16,000 files and 27 GB of data for our review and consideration including the following:

- Documents evidencing the compilation of the historical ACFRs.
- Documents supporting the 2022 prior period adjustments.
- Relevant policies, procedures, training materials and job aids.

- Access to data from relevant State software systems, including the following:
  - SCEIS (i.e., SAP).
  - SAP Business Objects ("BOBJ").
  - SAP Business Warehouse.
  - Legacy systems including STARS, FMS, and IMS.
- Certain data from third-party sources.

In addition to the data and documents reviewed by AlixPartners, AlixPartners has conducted over 16 interviews of representatives from several agencies including the State Treasurer's Office, the Office of the Comptroller General, and the Department of Administration, which has contributed to its understanding of the State's processes governing cash and investments.

The Department of Administration has lent substantial support to AlixPartners by establishing a dedicated Project Management Office ("PMO") team to handle AlixPartners' requests, organize weekly data request status calls with the PMO, and coordinate weekly status calls with the Admin team and the Attorney General's Office.

2. High-level workplan for remainder of analysis

AlixPartners, in partnership with Admin, will continue to conduct its forensic accounting review. This review will include:

- Reconciling cash and investments by fiscal year per the general ledger to available third-party sources and to the consolidated ACFRs to determine unreconciled funds, to ascertain the existence of reported assets, and to identify any potential unusual activity.
- Determining the existence of the $1.8 billion sub-fund, noting its origination, related activity, and disclosure to resolve the original ownership of the amounts in the fund, to the extent the amounts exist, and to understand how the account was considered for purposes of reporting.
- Assessing the accuracy and reasonableness of the prior period adjustments recorded in 2022 including the underlying support of the restatement calculation and to confirm the mapping of accounts as described in Note 15.
- Conducting additional interviews and data gathering with agency leadership and staff.

- Developing recommendations related to, among other things, data management, internal controls, and financial reporting.

A final report with AlixPartners' findings and recommendations will be submitted to the Governor, President of the Senate, Chairman of the Senate Finance Committee, Speaker of the House of Representatives, and Chairman of the House Ways and Means Committee by December 31, 2024.

Exhibit 15

Proviso 117.186 of the Fiscal Year 2024-2025 Appropriations Act

117.186. (GP: Audit Support) Of the funds appropriated for Audit Support, the Office of State Treasurer shall work in conjunction with the Department of Administration to present a plan of implementation to the Joint Bond Review Committee for review and comment. The Executive Budget Office shall not approve any transfer of funds from Audit Support until the plan has been presented to the committee.

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

January 6, 2025

The Honorable Harvey S. Peeler, Jr.
Chairman, Joint Bond Review Committee
105 Gressette Building
Columbia, SC 29201

Dear Chairman Peeler:

The purpose of this letter is to request review and comment by the Joint Bond Review Commission at the January 29, 2025 meeting of a plan that the Office of State Treasurer has developed in consultation with the Department of Administration pursuant to proviso 117.186 for funding for audit related expenditures.

The Office of State Treasurer plans on using up to $450,000 of funding to for the license, implementation, and training for Workiva, an audit software product. This software will be used for financial reporting, audit, and risk. Based on the preliminary estimates we received we anticipate the costs will be $100,000 per year for the license, and up to $250,000 for implementation. We would like to budget additional funds for training. In addition, the STO reserves the right to recommend additional expenditures as needed based on recommendations in the AlixPartner audit.

Thank you for your review and comment.

Sincerely,

Curtis M. Loftis, Jr.

Curtis M. Loftis, Jr.
State Treasurer of South Carolina

Wade Hampton Building, 1200 Senate Street, Suite 214
Columbia, SC 29201
(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov

From:	Adams, Marcia
To:	Catherine Hart
Subject:	Fw: [External] FW: Joint Bond Review Committee - January 29, 2025
Date:	Sunday, January 12, 2025 1:03:49 PM
Attachments:	image004.png

Catherine,
I failed to mention that I have not actually seen the letter until you just sent it. Clarissa only mentioned it as one item in a series of items she discussed with me.

Thanks,
Marcia

Get Outlook for iOS

From: Adams, Marcia <Marcia.Adams@admin.sc.gov>
Sent: Sunday, January 12, 2025 1:00 PM
To: Catherine Hart <CatherineHart@scsenate.gov>
Subject: Re: [External] FW: Joint Bond Review Committee - January 29, 2025

Catherine,
I spoke with Clarissa Adams last Saturday, January 4 when she informed me about the letter. Admin was unaware of the plan before then and did not collaborate with the STO. Admin, in fact, does not agree with the STO's proposal. I would ask that this request be put on hold until after everyone has had a chance to review the AlixPartners' report.

Please let me know if you would like to discuss further.

Marcia

Get Outlook for iOS

From: Catherine Hart <CatherineHart@scsenate.gov>
Sent: Sunday, January 12, 2025 12:50:46 PM
To: Adams, Marcia <marcia.adams@admin.sc.gov>
Subject: [External] FW: Joint Bond Review Committee - January 29, 2025

Good afternoon, Marcia,

I received this letter from the Treasurer's Office regarding their audit support plan (Proviso 117.186). The letter is quite silent on their collaboration with the Department of Administration. Can you confirm that your office has reviewed this plan with the STO? Additionally, before the Committee reviews the plan, I would like to know if it is consistent with the AlixPartner audit recommendation. Thank you.

Catherine

From: Catherine Hart
Sent: Sunday, January 12, 2025 12:42 PM
To: [redacted]
Cc: [redacted] Jessica Wigington <JessicaWigington@scsenate.gov>; Quentin Hawkins <QHawkins@scsenate.gov>
Subject: RE: Joint Bond Review Committee - January 29, 2025

Hey [redacted]

I'm finally getting around to this agenda item.

I'm going to need to see more than what is in this letter. The letter is silent on the details of the plan and scope of services. Additionally, I think it is best and most prudent to wait on the recommendations of the AlixPartner audit to ensure that the plan is consistent those recommendations. Please get me more details as soon as you can.

Catherine

From: [redacted]
Sent: Monday, January 6, 2025 2:11 PM
To: Catherine Hart <CatherineHart@scsenate.gov>
Cc: [redacted]
Subject: RE: Joint Bond Review Committee - January 29, 2025

Good afternoon Catherine,

Thank you for taking my call earlier. As discussed, please see the attached letter.

If you will, please let me know if you need anything else for inclusion on the agenda.

Thanks,
[redacted]

[redacted] **| Legislative Liaison & Special Assistant to the State Treasurer**
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
Wade Hampton Bldg., Columbia, SC 29201
[redacted]

From: Catherine Hart <CatherineHart@scsenate.gov>

Sent: Friday, December 27, 2024 11:09 AM
[redacted] Baker

[redacted]
Subject: [External] Joint Bond Review Committee - January 29, 2025

The next meeting of the Joint Bond Review Committee is tentatively scheduled for **Wednesday, January 29, 2025, at 9:30 AM**. Please note that this is a time change from the previously published meeting date.

The deadline for agencies to submit items to be included on the agenda for this meeting is **12:00 noon on Tuesday, January 7, 2025**; however, this deadline does not supersede any deadlines published by the South Carolina Department of Administration for permanent improvement projects, leases, or other coordinated submissions.

Please note that submissions must be clear, concise, and readable in native or reduced format to fit on an ordinary letter-sized page. Scanned images must be submitted in pdf format with reasonable quality and readability. Submissions may include pages in either portrait or landscape orientation, provided they fit and are readable on a letter-sized page.

Additionally, below are the dates and times of the meetings tentatively scheduled for calendar year 2025.

Wednesday, January 29 – 9:30 AM
Wednesday, March 26 - 10:00 AM
Tuesday, June 3 - 1:00 PM
Tuesday, August 19 - 1:00 PM
Tuesday, October 7 - 1:00 PM
Tuesday, December 2 - 1:00 PM

Please note that these dates and times are subject to change.

Catherine Ortmann Hart
Joint Bond Review Committee
110 Gressette Senate Building
Columbia, SC 29201
803-212-6658

[redacted]

From: [redacted]
Sent: Monday, January 13, 2025 3:15 PM
To: [redacted]
Cc: [redacted]
Subject: RE: Joint Bond Review Committee - January 29, 2025

Hi [redacted]

I do agree on waiting until we're in receipt of the AlixPartners report. As discussed, our primary goal was to ensure we did not miss JBRC's agenda filing deadline.

I will be in-touch as soon as possible.

Thanks!

[redacted]

[redacted] **| Legislative Liaison & Special Assistant to the State Treasurer**
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
Wade Hampton Bldg., Columbia, SC 29201
[redacted]

From: [redacted]
Sent: Sunday, January 12, 2025 12:42 PM
To: [redacted]
Cc: [redacted]
Subject: [External] RE: Joint Bond Review Committee - January 29, 2025

Hey [redacted]

I'm finally getting around to this agenda item.

I'm going to need to see more than what is in this letter. The letter is silent on the details of the plan and scope of services. Additionally, I think it is best and most prudent to wait on the recommendations of the AlixPartner audit to ensure that the plan is consistent those recommendations. Please get me more details as soon as you can.

[redacted]

From: [redacted]
Sent: Monday, January 6, 2025 2:11 PM
To: [redacted]
Cc: [redacted]
Subject: RE: Joint Bond Review Committee - January 29, 2025

To: [redacted]
Cc: [redacted]
Subject: RE: Joint Bond Review Committee - January 29, 2025

Good afternoon [redacted]

Thank you for taking my call earlier. As discussed, please see the attached letter.

If you will, please let me know if you need anything else for inclusion on the agenda.

Thanks,

[redacted]

[redacted] **| Legislative Liaison & Special Assistant to the State Treasurer**
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
Wade Hampton Bldg., Columbia, SC 29201
[redacted]

From: [redacted]
Sent: Friday, December 27, 2024 11:09 AM
To: [redacted]

Exhibit 18

Referenced Selections[1] of Treasurer Curtis Loftis's Feb. 27, 2025 Sworn Testimony before the Constitutional Subcommittee

Footnote 22

00:42:02 SENATOR MATTHEWS
How much time did Infinity the people you, the crisis management people, spend with you all because that was a lot pretty, a lot of the state 's money y'all had to spend.
00:42:13 SENATOR MATTHEWS
On a crisis management team, wasn't that about that was over a six-month period?
00:42:21 TREASURER LOFTIS
Y'all gave us one point two million dollars to spend and I think we spent it.
00:42:24 SENATOR MATTHEWS
I'm just asking.
00:42:26 TREASURER LOFTIS
Yeah, I know.
00:42:26 TREASURER LOFTIS
I think we should put it in context.

Footnote 79

00:06:46 TREASURER LOFTIS
Senator, thank you for having me here today.
00:06:48 TREASURER LOFTIS
I appreciate that very much
00:06:50 TREASURER LOFTIS
We don't hear a lot of good news, but I have some good news. Proviso thirty.
00:06:55 TREASURER LOFTIS
Excuse me. Ninety three. Nineteen. Call for the hiring of forensic accounting firm to do an in depth forensic accounting review.
00:07:02 TREASURER LOFTIS
Of all the cash and investments held by the state treasury, our agency passed with flying colors.
00:07:09 TREASURER LOFTIS
The report confirms that the STO cash and investment balances were properly accounted for.
00:07:15 TREASURER LOFTIS
They're exactly what we expected and what we wanted is no mention of this STO lacking policies or, excuse me, safeguarding procedures. No mention of issues with STO documentation or entries, no mentions of issues.
00:07:32 TREASURER LOFTIS
Of STO staffing or competency.
00:07:35 TREASURER LOFTIS
This is a comprehensive ten year audit
00:07:37 TREASURER LOFTIS

[1] The Exhibits section of the report provides selections. Full transcript available upon request. To view the hearing in it's entirety, please visit: https://www.scstatehouse.gov/video/archives.php

It was the focus of this whole exercise and we passed with flying colors
00:07:43 TREASURER LOFTIS
We're proud to confirm that there is no mystery bank account that never--
00:07:47 TREASURER LOFTIS
There's no missing money, no stolen money. Fund nine, nine, three was principally appropriations, not cash.
00:07:55 TREASURER LOFTIS
We accept the AlixPartners report and are committed to implementing the recommendations it put forth in being a part of the solution. As you know, AlixPartners only had one recommendation solely attributable to the STO and that was to report cash and investments by fund.
00:08:11 TREASURER LOFTIS
We're more than happy to do that.
00:08:13 TREASURER LOFTIS
We did it manually in, 2024.
00:08:15 TREASURER LOFTIS
And we've asked ten months ago for a report from SCEIS that will allow us to do that in electronic manner. We're committed to working with independent compliance consultants, whoever they choose.
00:08:30 TREASURER LOFTIS
In making sure that all of the recommendations are followed.
00:08:37 TREASURER LOFTIS
Despite all previous claims, this is an error primarily involving appropriation.
00:08:43 TREASURER LOFTIS
The state 's banker manages states cash and investments.
00:08:48 TREASURER LOFTIS
We do not manage appropriations.
00:08:50 TREASURER LOFTIS
CHAIRMAN GROOMS
Mr. Treasurer --
TREASURER LOFTIS
---Fund Nine, nine, three was populated with one point six billion dollars of appropriations.
00:08:56 TREASURER LOFTIS
So thank you for letting me share that good news.

Footnote 80
00:09:56 CHAIRMAN GROOMS
Mr. Treasurer
00:09:57 CHAIRMAN GROOMS
Did you do anything wrong?
00:10:00 TREASURER LOFTIS
What kind of questions is that? I've been in office fifteen years and this is an eight-year old that asked me something specifically.
00:10:07 CHAIRMAN GROOMS
It's a valid question.
00:10:08 CHAIRMAN GROOMS

Did you do anything wrong?
00:10:11 TREASURER LOFTIS
I don't if you.
00:10:12 CHAIRMAN GROOMS
Don't --
00:10:13 TREASURER LOFTIS
Well, OK, let’s just go through it.
00:10:15 TREASURER LOFTIS
The appropriations were placed in the account at by the written orders of the state 's accountants.
00:10:22 TREASURER LOFTIS
Do you have that e-mail?
00:10:23 TREASURER LOFTIS
If not, I'd be more than happy to show it to you.
00:10:28 CHAIRMAN GROOMS
Did you do anything wrong?
00:10:33 TREASURER LOFTIS
I don't know how to answer that account. I'm sorry.
00:10:37 CHAIRMAN GROOMS
I find it interesting that as the state Treasurer, you don't understand right and wrong.
00:10:41 CHAIRMAN GROOMS
It’s a simple question.
00:10:41 TREASURER LOFTIS
Well, the difference being right and wrong and doing something wrong.
00:10:42 CHAIRMAN GROOMS
Did you do anything wrong?
00:10:46 TREASURER LOFTIS
I've answered the question.
00:10:49 TREASURER LOFTIS
I don't
00:10:49 TREASURER LOFTIS
I don't know what you're asking. If you have a specific question, I'd be more than happy to as the only person in the room that's under oath. I'd like to have a specific question.
00:10:56 TREASURER LOFTIS
I don't think that's hard to ask.
00:10:58 CHAIRMAN GROOMS
I think that's a specific question, but I'm, I'm. I regret that you're unable to answer.
00:11:03 TREASURER LOFTIS
I'm unable to answer that.

Footnote 81
00:03:29 CHAIRMAN GROOMS
Do you swear that the information contained in this report is the truth,
00:03:34 CHAIRMAN GROOMS
Whole truth and nothing but the truth?

00:03:39 CHAIRMAN GROOMS
You believe that it?
00:03:39 CHAIRMAN GROOMS
Is that…I'm assuming that's a yes?
00:03:58 TREASURER LOFTIS
Yes. [unintelligible; mic was not on]
00:04:06 TREASURER LOFTIS
Thank you.
00:04:07 TREASURER LOFTIS
The report issued by my office today is the end product of a comprehensive internal review overseen by my attorneys – by my agency's lawyers
00:04:15 TREASURER LOFTIS
It does not contradict any substantive finding of the AlixPartners report.
00:04:21 TREASURER LOFTIS
It is written like a legal brief and has numerous factual and legal citations.
00:04:25 TREASURER LOFTIS
Every citation or assertion of fact is supportive of evidence, as provided in three hundred pages of exhibits.
00:04:31 CHAIRMAN GROOMS
So do you swear that this document is the truth?
00:04:35 CHAIRMAN GROOMS
The whole truth and nothing but the truth?
00:04:38 TREASURER LOFTIS
I've never sworn truth to a document.
00:04:39 TREASURER LOFTIS
I don't know how that works, I apologize.
00:04:40 TREASURER LOFTIS
Just don't.
00:04:41 CHAIRMAN GROOMS
It's just a that's a yes or.
00:04:41 TREASURER LOFTIS
It is intended to do.
00:04:42 CHAIRMAN GROOMS
You either swear this to be true or it's not true.
00:04:43 TREASURER LOFTIS
Well.
00:04:44 TREASURER LOFTIS
Does that mean that?
00:04:46 TREASURER LOFTIS
I have, I yeah.
00:04:46 SHAWN EUBANKS, STO ATTORNEY
He's answered the question.

Footnote 82

00:14:45 SENATOR GOLDFINCH
Did the Treasurer 's office produce this report? That's got the treasurer 's seal. Big staff right here. That says the treasurer 's office.
00:14:54 SENATOR GOLDFINCH
State Treasurer 's office overview of issues surrounding SCEIS fund nine nine three. Did the Treasurer 's office produce this?
00:15:00 SENATOR GOLDFINCH
Not a hard question, Mr. Treasurer.
00:15:01 TREASURER LOFTIS
Not a difficult question at all.
00:15:03 SENATOR GOLDFINCH
Good. Oh, it seemed like a really difficult question for a minute. Holy moly. OK.
00:15:11 SENATOR GOLDFINCH
In producing this report.
00:15:13 SENATOR GOLDFINCH
Did you put anything in this report that you believe to be untrue?
00:15:18 SENATOR GOLDFINCH
It's a pretty simple question to answer
00:15:21 SENATOR GOLDFINCH
OK.
00:15:22 SENATOR GOLDFINCH
So.
00:15:24 SENATOR GOLDFINCH
I think the following question would be, is everything in this report true and accurate?
00:15:30 TREASURER LOFTIS
The best of my knowledge.
00:15:31 SENATOR GOLDFINCH
To the best of your knowledge, were you not involved in every intricate detail of this report?
00:15:35 TREASURER LOFTIS
I was not involved with every intricate detail.
00:15:37
SENATOR GOLDFINCH
OK.
00:15:38 SENATOR GOLDFINCH
What details were you not involved in?
00:15:41 TREASURER LOFTIS
It's almost four hundred pages long.
00:15:44 CHAIRMAN GROOMS
Could have to go through to get a little closer, so microphone we can't.
00:15:47 TREASURER LOFTIS
It's.
00:15:47 CHAIRMAN GROOMS
Not taking us.
00:15:48 TREASURER LOFTIS

Is three hundred and forty pages or something.
00:15:50 SENATOR GOLDFINCH
Or maybe you mean with exhibits.
00:15:51 SENATOR GOLDFINCH
Because I got a fifty, fifty-four page document.
00:15:52 TREASURER LOFTIS
Yeah.
00:15:57 TREASURER LOFTIS
I am familiar with the report.
00:15:59 TREASURER LOFTIS
I'm not trying to run from the report at all
00:16:01 TREASURER LOFTIS
But.
00:16:01 TREASURER LOFTIS
Want me to as if I was the author of the report?
00:16:04 TREASURER LOFTIS
I wasn't.
00:16:05 TREASURER LOFTIS
I had teams of people working on it.
00:16:07 TREASURER LOFTIS
Been working along time.
00:16:08 TREASURER LOFTIS
They hope to get it out. Earlier today was just the day we got it finished.
00:16:12 TREASURER LOFTIS
Finished. And so there we are.
00:16:14 SENATOR GOLDFINCH
OK.
00:16:15 SENATOR GOLDFINCH
I read Mr. Treasurer. It is signed by you, by the way.
00:16:20 SENATOR GOLDFINCH
I don't know
00:16:20 SENATOR GOLDFINCH
I mean, when you sign a document, do you feel like that means that you're taking responsibility for the document?
00:16:25 TREASURER LOFTIS
I don't think anybody suggested that wasn't making responsibility, OK.
00:16:28 SENATOR GOLDFINCH
So, you are taking responsibility for the document?
00:16:29 TREASURER LOFTIS
Yeah, yeah.
00:16:30 SENATOR GOLDFINCH
OK. All right.

Footnotes 83-86

00:18:28 SENATOR GOLDFINCH
I just want an explanation on a couple little things. Number one,
00:18:33 SENATOR GOLDFINCH
How is it possible that you possibly believed,
00:18:38 SENATOR GOLDFINCH
That there was an account that had real money in it,
00:18:42 SENATOR GOLDFINCH
That the General Assembly had spent interest on.
00:18:46 SENATOR GOLDFINCH
And was not in fact true?
00:18:48 TREASURER LOFTIS
You just answered the question because there wasn't an account.
00:18:53 SENATOR GOLDFINCH
You told us there was.
00:18:54 TREASURER LOFTIS
No, y'all have continually confused fund and accounts fund and accounts.
00:19:01 TREASURER LOFTIS
So, in the…it's…it matters.
00:19:03 SENATOR GOLDFINCH
OK, let me call it Fund.
00:19:04 TREASURER LOFTIS
And so.
00:19:04 TREASURER LOFTIS
So, what happened was we started just combining the two.
00:19:04 SENATOR GOLDFINCH
So what?
00:19:07 TREASURER LOFTIS
We know the total amount of cash.
00:19:10 TREASURER LOFTIS
I don't care if it's in O, nine, three, O, nine two.
00:19:13 TREASURER LOFTIS
Two thousand six. I don't care what account. It's what fund It's in.
00:19:17 TREASURER LOFTIS
It doesn't matter to me.
00:19:18 TREASURER LOFTIS
We don't deal with the funds we deal with the accounts, the balances in the bank.
00:19:23 TREASURER LOFTIS
That's what we know, and we know that when we add the one point eight billion dollars in from that fund, that matches the exact amount of money we have in the bank.
00:19:34 SENATOR GOLDFINCH
So.
00:19:34 SENATOR GOLDFINCH
What you said to us in this committee, as you recall, I know you said you don't want to see the video as you recall is what you said to us true?

00:19:48 SENATOR GOLDFINCH
It's a pretty simple question.
00:19:49 TREASURER LOFTIS
It's not a simple question.
00:19:49 SENATOR GOLDFINCH
It is.
00:19:51 TREASURER LOFTIS
It is not a simple question because a fund is not a bank account.
00:19:56 TREASURER LOFTIS
It is an accounting record.
00:19:58 SENATOR GOLDFINCH
I didn't mention anything about fund. or account.
00:19:59 TREASURER LOFTIS
Well, but that yes, but that's what we were talking.
00:19:59 SENATOR GOLDFINCH
Just said, is it true?
00:20:02 TREASURER LOFTIS
Were talking about funds and accounting.
00:20:04 TREASURER LOFTIS
Complex.
00:20:05 TREASURER LOFTIS
And so you ask the question, you get the answer that goes with that and.
00:20:09 SENATOR GOLDFINCH
What do you want to call nine nine three?
00:20:11 SENATOR GOLDFINCH
Do you want to call it a fund or an account?
00:20:14 TREASURER LOFTIS
It's electronic representation of activity.
00:20:16 TREASURER LOFTIS
An accounting fund.
00:20:18 SENATOR GOLDFINCH
I'll accept your definition of it.
00:20:20 SENATOR GOLDFINCH
Isn't it true that you testified that there was money in that fund?
00:20:26 TREASURER LOFTIS
No, it represented money. It represents cash.
00:20:28 SENATOR GOLDFINCH
You said cash, as I recall.
00:20:31 TREASURER LOFTIS
And we play the video again because you probably summons it.
00:20:34 TREASURER LOFTIS
The term account and we.
00:20:35 SENATOR GOLDFINCH
You said you said you could cash in and show it to us that you could put it into a bank account.

00:20:40 SENATOR GOLDFINCH
Is that true or not?
00:20:42 SENATOR GOLDFINCH
True or false?
00:20:47 TREASURER LOFTIS
Yes.
00:20:51 TREASURER LOFTIS
Based on the official books and records of the state of South Carolina, based on the testimony of the testimony of the state auditor, the Comptroller General and Clifton Larson, who did not testify.
00:21:01 TREASURER LOFTIS
But they put it their books.
00:21:03 TREASURER LOFTIS
Oh, nine, nine, three represented one point eight billion dollars of cash. And that matches ours.
00:21:09 TREASURER LOFTIS
That matches what the bank has.
00:21:11 TREASURER LOFTIS
So whether you call it account or a fund or whatever y'all were calling it, I knew what you were trying to get at, which was does that money exist?
00:21:19 TREASURER LOFTIS
It does exist.
00:21:21 TREASURER LOFTIS
It just doesn't exist there.
00:21:22 TREASURER LOFTIS
We didn't know it didn't exist there.
00:21:25 TREASURER LOFTIS
The Comptroller didn't know it exist there.
00:21:27 TREASURER LOFTIS
No one knew it didn't exist there.
00:21:29 TREASURER LOFTIS
There it took three million dollars to figure.
00:21:31 TREASURER LOFTIS
Out. But we know that now.
00:21:31 SENATOR GOLDFINCH
So when, when somebody says there's a billion eight in a fund.
00:21:35 TREASURER LOFTIS
There was a billion eight in the fund.
00:21:37 SENATOR GOLDFINCH
I got you when somebody says there's a billion eight in a fund that represents something, right?
00:21:43 SENATOR GOLDFINCH
It's a like a paper, a piece of paper.
00:21:46 SENATOR GOLDFINCH
Written down, it's an accounting right?
00:21:49 TREASURER LOFTIS
Is that?

00:21:50 TREASURER LOFTIS
Is a, is an accounting record, right?
00:21:52 SENATOR GOLDFINCH
And that's what represents, right?
00:21:52 TREASURER LOFTIS
They're also they're also offsets today.
00:21:55
That.
00:21:55 SENATOR GOLDFINCH
That's a big difference between represent something written down in accounting and its cash. I can give it to you tomorrow isn't there a big difference?
00:22:04 SENATOR GOLDFINCH
By the way, you spent two hundred fifty million dollars of
00:22:07 SENATOR GOLDFINCH
The interest?
00:22:08 SENATOR GOLDFINCH
There's a big difference between those two in there, Mr. Treasurer. One is true. One 's a lie.
00:22:11 TREASURER LOFTIS
All of those amounts and everything I said can be proven on a spreadsheet.
00:22:16 SENATOR GOLDFINCH
You can prove that we spent two hundred and fifty million dollars
00:22:17 TREASURER LOFTIS
--It's--
00:22:18 SENATOR GOLDFINCH
Of the interest out of that account?
00:22:20 SENATOR GOLDFINCH
I'd like to see it
00:22:21 SENATOR GOLDFINCH
If you can prove that.
00:22:21 TREASURER LOFTIS
Well, I don't manage if I don't manage that part of it, but we, we know how much money the bank invested every day.
00:22:29 TREASURER LOFTIS
That money, that fund, was represented in that.
00:22:32 SENATOR GOLDFINCH
That I know I hear you saying the word represented. Of course. If it says one point eight, there's something represented there.
00:22:33
Yeah.
00:22:38 SENATOR GOLDFINCH
Of course, that's a writing.
00:22:39 SENATOR GOLDFINCH
That's an accounting. That's a ledger.
00:22:41 SENATOR GOLDFINCH

And then there's you saying it's cash. I can give it to you.
00:22:45 SENATOR GOLDFINCH
You can hold it in your hand, tangible and you spent it.
00:22:48 SENATOR GOLDFINCH
There's a big difference. Don't you see the difference, Mr. Treasurer?
00:22:51 SENATOR GOLDFINCH
One’s true, one’s a lie you were over here on this side, weren't you, Mr. Treasurer?
00:22:58 TREASURER LOFTIS
You could.
00:22:59 TREASURER LOFTIS
You can shade that how you want.
00:23:01 SENATOR GOLDFINCH
It's not.
00:23:01 TREASURER LOFTIS
We were trying to communicate to you what the difference between funds and accounts were and the total
00:23:10 TREASURER LOFTIS
Cash and investments of the state. The state spent a bunch of money to show that we knew exactly how much cash we have.
00:23:16 TREASURER LOFTIS
The problem we have is we don't know where it's represented in the Comptroller's books and he didn't know either.

Footnote 87
01:27:24 SENATOR MATTHEWS
Can I draw your attention to page twenty-two of your report that you provided to us?
01:27:34 SENATOR MATTHEWS
Do you have that report on that report? It refers to the E one sixty fund.
01:27:44 TREASURER LOFTIS
Yes, ma'am.
01:27:45 SENATOR MATTHEWS
OK. Do you agree that that fund is the Treasurer 's office fund?
01:27:51 SENATOR MATTHEWS
Because I remember when we were talking to.
01:27:56 SENATOR MATTHEWS
Miss Adams, with your office about that.
01:27:59 TREASURER LOFTIS
Are you talking about the AlixPartners? Twenty-two.
01:28:02 SENATOR MATTHEWS
No. The report you gave to us dated the twenty sixth of February this.
01:28:09 TREASURER LOFTIS
Oh.
01:28:10 SENATOR MATTHEWS
This one that we just got.

01:28:11 TREASURER LOFTIS
We got a page problem.
01:28:13 TREASURER LOFTIS
Think you have.
01:28:14 SENATOR MATTHEWS
OK.
01:28:14 TREASURER LOFTIS
Oh yeah, no, I see.
01:28:15 TREASURER LOFTIS
Sorry, I'm sorry.
01:28:16 TREASURER LOFTIS
E160 Fund.
01:28:17 SENATOR MATTHEWS
OK. Is that correct that that is the Treasurer 's office fund?
01:28:22 TREASURER LOFTIS
It sits in the Treasury because there are some abandoned like the like The Capital Reserve Fund, the Contingent Reserve fund.
01:28:30 TREASURER LOFTIS
What's the, general reserve?
01:28:32 TREASURER LOFTIS
There's the hundred and hundreds of millions of dollars we don't have...
01:28:34 SENATOR MATTHEWS
But it's yall's fund.
01:28:35 SENATOR MATTHEWS
It's directed only to you all.
01:28:36 TREASURER LOFTIS
It's attached to us, but they're. Yeah, it's in our business area, yeah.

Footnote 88
01:38:17 SENATOR RICE
You said the fund had cash.
01:38:19 TREASURER LOFTIS
It's supposed to.
01:38:19 SENATOR RICE
It was, but I was told last week.
01:38:22
Week.
01:38:23 SENATOR RICE
In our meeting that that fund's never going to have cash in it.
01:38:26 TREASURER LOFTIS
Well, yes, that's that's an issue we have.
01:38:29 SENATOR RICE
So that's right, it's correct on both hands?
01:38:35 TREASURER LOFTIS

Couple. Hold on. Hold. This is where it gets complicated. And this is where we should be around a conference table with spreadsheets because it's almost impossible to explain this. So. So you're saying you want me to convert the nine, nine, nine accounts into the ten sixty to the extent of
01:38:48 TREASURER LOFTIS
Of five, one, three, five, two, four, eight hundred, fifteen. That's dollars. Five hundred. Thirteen million cash. The rest of the account and appropriations.
01:38:55 TREASURER LOFTIS
Should not be converted. Have we ascertained?
01:38:59 TREASURER LOFTIS
That there are no other appropriations should be eliminated, and we're.
01:39:03 TREASURER LOFTIS
Yes. Yeah, that's from us.
01:39:07 TREASURER LOFTIS
And then here's the adjustment to the ten sixty account.
01:39:09 SENATOR RICE
What is?
01:39:10 SENATOR RICE
What's the date on that?
01:39:11 TREASURER LOFTIS
I'm sorry, Sir. It's November. The second.
01:39:15 SENATOR RICE
And we you're talking. About this last this past.
01:39:17 TREASURER LOFTIS
Oh no, I.
01:39:17 TREASURER LOFTIS
No, sorry. This is two thousand seventeen.
01:39:19 TREASURER LOFTIS
Is when that fund was being
01:39:20 TREASURER LOFTIS
Created and then populated.
01:39:23 SENATOR RICE
And who? That was your that was your account, right?
01:39:27 TREASURER LOFTIS
Well, it's created by SCEIS team for.
01:39:29 TREASURER LOFTIS
Purpose of the conversion.
01:39:30 SENATOR RICE
Or is your fund whatever you want to call it.
01:39:31 SENATOR RICE
Are you?
01:39:31 TREASURER LOFTIS
Well, it's a fund attach to our office, but we don't have budgetary authority over. So it's like any other fund.
01:39:33 SENATOR RICE

OK.

Footnote 89
01:36:30 SENATOR RICE
Thank you, Mr. Chairman.
01:36:33 SENATOR RICE
Mr. Comptroller,
01:36:35 SENATOR RICE
Excuse me, Mr. Treasurer, we got going Too many that you just said something that confused me.
01:36:42 SENATOR RICE
Because you said, the fund was supposed to have cash in it.
01:36:47 SENATOR RICE
Is that what I just heard?
01:36:50 TREASURER LOFTIS
Yes, Sir.
01:36:51 SENATOR RICE
And that is true then?
01:36:53 TREASURER LOFTIS
When the.
01:36:57 SENATOR RICE
I thought I heard.
01:36:58 TREASURER LOFTIS
Yeah, I'm trying to figure out how to say this because you kind of remember we had probably there were probably forty highly trained professionals from three different agencies plus outside auditor firm plus contractors and they were going through this very complex process.

Footnote 90
01:12:01 CHAIRMAN GROOMS
If this committee could instruct you to do something, it would be to resign your position as treasurer of the state of South Carolina.
01:12:08 CHAIRMAN GROOMS
That's what, that's what we--
01:12:08 TREASURER LOFTIS
It's not gonna happen because I'm gonna let you get your fingers on fifty four billion dollars.
01:12:13 TREASURER LOFTIS
It’s my job. I swore an oath.
01:12:15 TREASURER LOFTIS
Protect this.
01:12:16 TREASURER LOFTIS
And I know what Senate Finance would do with this money y'all been fighting all been chasing me for fifteen years, and I'm not going to let it happen.
01:12:23 TREASURER LOFTIS
I stopped this stuff on a regular basis and I've been after the controller general and the state ordered to have better records and books for fifteen years.

01:12:26 SENATOR GOLDFINCH
Just like you did before.
01:12:32 TREASURER LOFTIS
Have been fighting this battle when y'all voted against me, when we when we exposed two hundred and seventy seven million dollars of hidden fees going to New York every year. You voted against me on that y'all turn me over to the SEC to SLED to.
01:12:48 TREASURER LOFTIS
The OIG about these things, every time I come up and, and report fraud, waste and abuse, I get punished.
01:12:54 TREASURER LOFTIS
This is just more of the punishment.
01:12:55 TREASURER LOFTIS
I'm not surprised. What I am surprised is the level of sophmoric
01:12:59 TREASURER LOFTIS
finger pointing.
01:13:01 TREASURER LOFTIS
This is serious business. The state 's ability.
01:13:03 CHAIRMAN GROOMS
Absolutely, Mr. Treasurer.
01:13:04 TREASURER LOFTIS
To borrow money, the state's ability to recruit. This serious business, and we're talking about an accounting entry in a contrived area.
01:13:07 CHAIRMAN GROOMS
It is very serious.

Footnote 92
01:13:52 CHAIRMAN GROOMS
Were you intending to publish information as you said in a letter on your letterhead signed with your signature, saying that you were posting information to a level that you knew would invite that you would testify? Under oath would invite cyber-attacks so that our state 's finances would be drained?
01:14:09 CHAIRMAN GROOMS
That letter, what was your intent when you sent that letter?
01:14:13 CHAIRMAN GROOMS
Did you mean to carry out what you said you were going to do?
01:14:16 CHAIRMAN GROOMS
Or were you trying to mislead us to believing that you were going to do it?
01:14:23 SHAWN EUBANKS, STO ATTORNEY
Two hours later.
01:14:29 TREASURER LOFTIS
And the General Assembly had reinterpreted these statues, imposed new and different disclosure obligations. When I stated in the hearing that the State Treasurer's Office is not in compliance with these reporting requirements, I meant that my office had not yet had the opportunity to change this reporting procedures in.
01:14:43 TREASURER LOFTIS

With the reinterpretation articulated to me at the hearing where now working toward devising
01:14:49 TREASURER LOFTIS
Complying with these obligations that was sent the same day the same day clarifying letter which this committee doesn't want producing, won't publish anything.

Footnote 95
01:52:58 SENATOR GOLDFINCH
All right, Mr. Treasurer, you recently.
01:53:02 SENATOR GOLDFINCH
Testified in a House subcommittee.
01:53:07 SENATOR GOLDFINCH
That we.
01:53:07 SENATOR GOLDFINCH
I think I've got the exact quote. We have hospitals being built with one year money not because of the entry, but because of the resulting bad display of governance.
01:53:19 SENATOR GOLDFINCH
You all you went on to say that you must borrow four hundred and eighty-seven million dollars in one year money.
01:53:25 SENATOR GOLDFINCH
So that dormitories and hospitals can be built not because of the entry, but because of what's happened in the Senate.
01:53:35 SENATOR GOLDFINCH
So, on whose authority?
01:53:39 SENATOR GOLDFINCH
Or advice, did you have to determine that the state should stop issuing long term bonds?
01:53:50 TREASURER LOFTIS
Based on the restatement in physical year twenty twenty one. Twenty two.
01:53:58 TREASURER LOFTIS
The ACFR Oh yes, the state remains under investigation by the SEC.
01:53:58
OK.
01:54:01 TREASURER LOFTIS
We've been advised by State Disclosure Council and others that states should not issue general obligation debt or bonds while the SEC investigation is ongoing to protect the state 's interests. We've been able to fund projects with short term bond anticipation notes, BANS.
01:54:19 TREASURER LOFTIS
The banks.
01:54:20 TREASURER LOFTIS
And we'll continue to utilize those.
01:54:24 SENATOR GOLDFINCH
I don't know where you're reading for you reading from.
01:54:26 SENATOR GOLDFINCH
Report something that you created.
TREASURER LOFTIS

Yeah.
01:54:29 SENATOR GOLDFINCH
OK. And So, what was the debt? You were described the debt you were describing here, was it subject review, Joint Bond Review Committee or SFAA?
01:54:29 TREASURER LOFTIS
Because.
01:54:39 SENATOR GOLDFINCH
Did you ask Joint Bond Review Committee about that?
01:54:41 TREASURER LOFTIS
Well, I'm I.
01:54:42 TREASURER LOFTIS
I have information here what you want to know the MUSC.
01:54:45 CHAIRMAN GROOMS
I don't.
01:54:45 SENATOR GOLDFINCH
Want to know anything that you've written down I’m
01:54:47 SENATOR GOLDFINCH
Asking you a question.
01:54:47 TREASURER LOFTIS
This is this is an official state report.
01:54:50 SENATOR GOLDFINCH
It's it's a specific.
01:54:51 SENATOR GOLDFINCH
Did you ask Joint Bond Review Committee or SFAA about that?
01:54:55 TREASURER LOFTIS
About what?
01:54:56 SENATOR GOLDFINCH
Whether or not you could stop issuing long term bonds. Oh yeah, you did. Because they tell us you didn't.
01:55:00
Yeah.
01:55:03 TREASURER LOFTIS
Could you let me finish?
01:55:04 SENATOR GOLDFINCH
Well, you just answered a question and I'm telling you.
01:55:07 SENATOR GOLDFINCH
Not true.
01:55:07 SENATOR GOLDFINCH
I've asked.
01:55:08 SENATOR GOLDFINCH
I've asked Joint Bond Review Commission. This committee has met with them, and they said you lied to the House and that you didn't get approval to do that.
01:55:15 TREASURER LOFTIS
I didn't say I had approval for anything.

01:55:17 TREASURER LOFTIS
All right. Who knows about the question we ask ourselves, who knows about?
01:55:22 CHAIRMAN GROOMS
Could you get a little closer to the mic?
01:55:23 CHAIRMAN GROOMS
Sorry, we we can't hear you.
01:55:24 TREASURER LOFTIS
We attempted to notify the SFAA of an agenda item but the House but the other Members declined to have a discussion.
01:55:31 TREASURER LOFTIS
However, my staff and the State Disclosure Council had discussions with the staff for the Governor's Office, the CG's Office House and State Finance.
01:55:41 TREASURER LOFTIS
House Ways & Means and the Attorney General 's office to implement these.
01:55:44 TREASURER LOFTIS
It's kind of related.
01:55:48 SENATOR GOLDFINCH
Can I make sure I understand what you're saying there?
01:55:50 SENATOR GOLDFINCH
You're saying you attempted to talk to SFAA and joint Bond Review committee about stop issuing long term bonds and they wouldn't?
01:55:55 SENATOR GOLDFINCH
To you.
01:55:56 TREASURER LOFTIS
We talked to SFAA, yeah.
01:55:59 TREASURER LOFTIS
Because they're the ones who have to approve them. Joint bond.
01:56:02 SENATOR GOLDFINCH
You tempted to talk to the other members of SFAA about stopping the issuance of long term bonds?
01:56:08 SENATOR GOLDFINCH
Knowing what that would do to our state's finances and nobody on that SFAA committee would talk to you.
01:56:15 SENATOR GOLDFINCH
I want you to remember now you are Under oath.
01:56:19 SENATOR GOLDFINCH
Be very.
01:56:20 SENATOR GOLDFINCH
About what you say here.
01:56:20 TREASURER LOFTIS
And you remember, you're not under oath.
01:56:22 SENATOR GOLDFINCH
I don't care about that, Mr. treasure.
01:56:23 SENATOR GOLDFINCH
Asking you question.

01:56:24 TREASURER LOFTIS
You care about that.
01:56:25 SENATOR GOLDFINCH
That's nice.
01:56:25 SENATOR GOLDFINCH
I'm asking you a question under oath.
01:56:27 SENATOR GOLDFINCH
Did you or did you not have a conversation with SFAA?
01:56:31 TREASURER LOFTIS
Members of SFAA about that, not the.
01:56:34 TREASURER LOFTIS
What we have to think about the exact but.
01:56:37 SENATOR GOLDFINCH
Be very careful, Mr. treasure.
01:56:40 SENATOR GOLDFINCH
Be very careful about your answer.
01:56:40 TREASURER LOFTIS
For people with immunity, you sure talk about people who are under oath and under threat that.
01:56:45 TREASURER LOFTIS
Can put me in jail.
01:56:46 SENATOR GOLDFINCH
I'm not your lawyer.
01:56:47 SENATOR GOLDFINCH
I'm just trying to help you.
01:56:48 TREASURER LOFTIS
No, you're not my lawyer.
01:56:49 TREASURER LOFTIS
Thank God I would never have that.
01:56:50 SENATOR GOLDFINCH
You wouldn't be in jail.
01:56:51 TREASURER LOFTIS
So what we?
01:56:52 TREASURER LOFTIS
What we what we have is we attempted to get the item on the agenda.
01:56:57 TREASURER LOFTIS
They said no, so we went ahead and talked to the agenda folks.
01:57:02 TREASURER LOFTIS
Who would be on who was on the committee from the center?
01:57:07 SENATOR GOLDFINCH
Doesn't look like they know that's true.
01:57:09 TREASURER LOFTIS
Quentin was on the meeting.
01:57:10 TREASURER LOFTIS
Listen to this, Quentin.

01:57:11 SENATOR GOLDFINCH
Yeah, there's Quentin right there.
01:57:14 TREASURER LOFTIS
He was there and bond.
01:57:15 TREASURER LOFTIS
They could ask all the questions they wanted and what else can you say?
01:57:21 SENATOR GOLDFINCH
What else can you?
01:57:22 SENATOR GOLDFINCH
So I think what you can say is I did or I did not talk to the members of SFAA about stopping the issuance of long term bonds.
01:57:30 TREASURER LOFTIS
They wouldn't allow to put it on the agenda.
01:57:33 SENATOR GOLDFINCH
They wouldn't allow to put it on the agenda.
01:57:40 SENATOR GOLDFINCH
Who wouldn't allow to put it on the agenda?
01:57:42 TREASURER LOFTIS
It takes a majority to go on the agenda.
01:57:44 SENATOR GOLDFINCH
Name a name for me.
01:57:46 TREASURER LOFTIS
Who?
01:57:50 SENATOR GOLDFINCH
Because I've I've talked to him, you know that I've talked to him.
01:57:52 SENATOR GOLDFINCH
Assume you know that, right?
01:57:53 TREASURER LOFTIS
I don't know who you talk to.
01:57:56 TREASURER LOFTIS
We talked to the seconds.
01:57:57 SENATOR GOLDFINCH
You think I’d be asking you that question you think I'd be asking you that question if I had not talked to him.
01:57:59 SENATOR MATTHEWS
We had.
01:58:02 TREASURER LOFTIS
Did you run?
01:58:05 TREASURER LOFTIS
Yeah, Grant Gillespie, we called Grant. Earlier, he put it on the agenda.
01:58:09 TREASURER LOFTIS
And then they took it off, OK.
01:58:12 SENATOR GOLDFINCH
You said it was not on the agenda.

01:58:14 SENATOR GOLDFINCH
They wouldn't let you put it on the agenda.
01:58:15 SENATOR GOLDFINCH
You wouldn't tell me who it was. Now you're saying they put?
01:58:17 SENATOR GOLDFINCH
On the agenda, but it took it off.
01:58:18 TREASURER LOFTIS
You understand exactly what I.
01:58:20 SENATOR GOLDFINCH
No, I don’t.
01:58:20 SENATOR GOLDFINCH
Which one is it?
01:58:21 TREASURER LOFTIS
Earlier, much earlier, when this became an issue, we said we need to be on the agenda.
01:58:26 TREASURER LOFTIS
Should we call Grant?
01:58:27 TREASURER LOFTIS
Puts it, clerically on the agenda.
01:58:30 TREASURER LOFTIS
Then, when the meeting got close, they said, hey, we don't want, we won't talk about this. Quentin’s right there. Ask Quentin.
01:58:36 TREASURER LOFTIS
I wasn't on the phone call.
01:58:37 TREASURER LOFTIS
Ask Quentin.
01:58:39 TREASURER LOFTIS
He can tell you everything you want to know?
01:58:40 SENATOR GOLDFINCH
I've heard from Quentin.
01:58:42 TREASURER LOFTIS
Well.
01:58:42 TREASURER LOFTIS
Well, then let him talk.
01:58:44 TREASURER LOFTIS
He was there. I wasn't there.
01:58:44 SENATOR GOLDFINCH
I've heard from Quentin and what I want to do is hear from you. Because what you're telling me is not exactly. What everyone else has said
01:58:50 TREASURER LOFTIS
What I was told was that it.
01:58:51 SENATOR GOLDFINCH
What everybody else is saying?
01:58:52 TREASURER LOFTIS
Not a majority.

01:58:54 TREASURER LOFTIS
Put it on the on the on the.
01:58:56 TREASURER LOFTIS
Is that not true?
01:58:58 TREASURER LOFTIS
It.
01:58:58 TREASURER LOFTIS
It takes three votes to get on to get on the agenda
01:59:00 SENATOR GOLDFINCH
Who didn't want to put it on the agenda?
01:59:01 TREASURER LOFTIS
And I didn't.
01:59:04 TREASURER LOFTIS
Well, it wasn't me.
01:59:05 SENATOR GOLDFINCH
So was this just an assumption, Mr. Treasurer? Or you heard from somebody? It's not going on the.
01:59:07 TREASURER LOFTIS
Well, we don't.
01:59:12 SENATOR GOLDFINCH
Could you provide us with any evidence to that effect or you just this is just some amorphous idea that wasn't going to go on the agenda?
01:59:19 SENATOR GOLDFINCH
Know it's not going to go on the agenda.
01:59:21 TREASURER LOFTIS
Which one?
01:59:21 SENATOR GOLDFINCH
I'm just asking a simple question.
01:59:24 SENATOR GOLDFINCH
Who told you it couldn't go on the agenda?
01:59:29 TREASURER LOFTIS
Nobody told me. I will find.
01:59:30 TREASURER LOFTIS
Right.
01:59:33 SENATOR GOLDFINCH
Out it's a big deal for our state 's finances, right?
01:59:37 SENATOR GOLDFINCH
Right. Could it?
01:59:38 SENATOR GOLDFINCH
Cost us a lot of money.
01:59:42 TREASURER LOFTIS
I'm just lost in the conversation.
01:59:45 SENATOR GOLDFINCH
Mr. Treasurer from the very beginning of this conversation you seem to be lost, but you out of all the five and a half million people in the state

01:59:51 SENATOR GOLDFINCH
Ought to be able to explain it better than anybody.
01:59:53 TREASURER LOFTIS
I did explain it.
01:59:54 SENATOR GOLDFINCH
You have not explained anything. What you have explained is that you don't know.
01:59:57
We.
02:00:01 SENATOR GOLDFINCH
You want me to go back to my original question?
02:00:03 SENATOR GOLDFINCH
Did you or did you not discuss this matter with members of SFAA and JBRC? Whether or not you could not issue long term bonds anymore?
02:00:13 TREASURER LOFTIS
I did not, as is the custom of SFAA, we have a meeting where all.
02:00:19 TREASURER LOFTIS
Of the seconds they call them meet and they decide agenda items.
02:00:23 TREASURER LOFTIS
Decide what's going to be on what's not. They consult.
02:00:25 TREASURER LOFTIS
Their principals.
02:00:26 TREASURER LOFTIS
And we were told we couldn't get it on there.
02:00:29 TREASURER LOFTIS
We had put it on there administratively.
02:00:31 TREASURER LOFTIS
And then this took it off.
02:00:33 TREASURER LOFTIS
Now I have independently talked to the governor and to.
02:00:37 TREASURER LOFTIS
Bruce Bannister.
02:00:38 TREASURER LOFTIS
But I haven't talked to Brian or.
02:00:41 SENATOR GOLDFINCH
So in distilling that you made a unilateral decision to stop issuing long term bonds for the state knowing knowing that's going to cost our state.
02:00:47 TREASURER LOFTIS
That's my.
02:00:49 TREASURER LOFTIS
That's my job.
02:00:50 SENATOR GOLDFINCH
Millions of dollars.
02:00:51
That's my.

02:00:52 SENATOR GOLDFINCH
The reason you did.
02:00:53 TREASURER LOFTIS
That, yes, it's my job.
02:00:54 SENATOR GOLDFINCH
You did that.
02:00:55 SENATOR GOLDFINCH
For maybe the same reason that you issued that letter that you were going to release our financial data.
02:00:59 SENATOR GOLDFINCH
That true?
02:01:02 SENATOR GOLDFINCH
Seems like Mr. Treasurer, every time you get boxed into a corner, you retaliate.
02:01:07 SENATOR GOLDFINCH
I'm gonna release the state 's financial data.
02:01:09 SENATOR GOLDFINCH
I'm not gonna issue long term bonds.
02:01:11 SENATOR GOLDFINCH
It's gonna cost the state millions of dollars every time people start looking at you, you seem to retaliate?
02:01:19 SENATOR GOLDFINCH
Is that what you did in this case, Mr. Treasurer?
02:01:21 TREASURER LOFTIS
That's childlike, and I'm not gonna respond to it.
02:01:23 SENATOR GOLDFINCH
You don't have to respond to. I know what the answer is.

Footnotes 97-98
00:42:59 CHAIRMAN GROOMS
When did you know
00:43:01 CHAIRMAN GROOMS
The one point eight billion did not represent real money?
00:43:16 TREASURER LOFTIS
That's that's privileged.
00:43:18 TREASURER LOFTIS
We'll be more than happy to ask the attorney general if we can
00:43:21 TREASURER LOFTIS
Provide you that information.
00:43:25 CHAIRMAN GROOMS
Did you know the one point eight billion was not real money when you testified last year?
00:43:30 TREASURER LOFTIS
No, Sir.
00:43:32 TREASURER LOFTIS
I've demonstrated with record after record after record that I was told by every source and state government. One point eight was real

00:43:40 TREASURER LOFTIS
Money.
00:43:41 CHAIRMAN GROOMS
I'm sorry. What's that last part?
00:43:41 TREASURER LOFTIS
The one point eight was real money.
00:43:43 CHAIRMAN GROOMS
So you did believe it was real money?
00:43:45 TREASURER LOFTIS
I did believe, well, it represents real money
00:43:47 TREASURER LOFTIS
It's a fund that represents real money that shows up in the banks accounts.
00:43:51 CHAIRMAN GROOMS
And and isn't it true that as evidence of that belief, you pointed to the interest that it had earned?
00:43:59 TREASURER LOFTIS
Whether it's in that fund or not, it did earn interest.
00:44:02
First.
00:44:02 TREASURER LOFTIS
Because it is
00:44:03 TREASURER LOFTIS
Somewhere in the bank and somewhere in the books.
00:44:05 CHAIRMAN GROOMS
But to me.
00:44:08 CHAIRMAN GROOMS
Sitting on the committee and I think anyone who watches the testimony, you were letting us know,
00:44:14 CHAIRMAN GROOMS
But it was real money and evidence of it being real money is that it earned?
00:44:19 CHAIRMAN GROOMS
It had earned interest?
00:44:22 TREASURER LOFTIS
It does earn---
CHAIRMAN GROOMS
--- and you believe that ---
TREASURER LOFTIS
All money in the Treasures Bank earns money, it's all in.
00:44:29 CHAIRMAN GROOMS
I I get that Sir.
00:44:29 TREASURER LOFTIS
We don't know where it sits up here.
00:44:31 CHAIRMAN GROOMS
Mr. Treasurer, I I understand that, but you pointed to a specific amount and I believe you pointed to a specific amount of interest.
00:44:42 CHAIRMAN GROOMS

As evidence that the money that the one point eight billion was real, that was my impression. And I'm just wondering what was was that your intent at that time?
00:44:51 CHAIRMAN GROOMS
So I'm not saying there's anything wrong with that.
00:44:52 TREASURER LOFTIS
Yeah. So.
00:44:56 TREASURER LOFTIS
Yeah, if you'll remember, I testified that we should have AP do sophisticated testing because I had doubts about the books in general.
00:45:05 TREASURER LOFTIS
Which turned out to be true.
00:45:06 TREASURER LOFTIS
And please remember AlixPartners says when they reverse that entry, no money goes away.
00:45:12 TREASURER LOFTIS
My bank stays the same.
00:45:14 TREASURER LOFTIS
And that's everything we've done is because we know how much cash and investments we have, we can balance that back,
00:45:21 TREASURER LOFTIS
We just spent three million dollars audit us and we came out smelling like a rose 'cause we know how much cash there is, but what we don't know is how it's accounted for in his books.
00:45:31 TREASURER LOFTIS
Cause his books.
00:45:31 TREASURER LOFTIS
Has a lot more in it than ours.
00:45:33 CHAIRMAN GROOMS
But if you know how much cash
00:45:35 CHAIRMAN GROOMS
You have.
00:45:36 CHAIRMAN GROOMS
And last year, when you testified before us, you testified that that one point eight billion was real, that to me that says that you didn't know how much cash you had.
00:45:46 TREASURER LOFTIS
I know how much cash I have. Again just.
00:45:48 CHAIRMAN GROOMS
So if the one that you put at the one point, if you believe the one point eight billion was real and it wasn't real, it didn't exist, then you had a lot less cash than you thought you did.
00:45:59 TREASURER LOFTIS
No, senator. The AlixPartners report says when they reverse those entries.
00:46:06 TREASURER LOFTIS
One point eight goes away, but the total cash does not go away.
00:46:11 TREASURER LOFTIS
The total cash in the bank is exactly the same.
00:46:14 TREASURER LOFTIS

They have not reversed the entries yet.
00:46:15 TREASURER LOFTIS
We're going to have a party the day before and the day after because it doesn't change cash.
00:46:21 TREASURER LOFTIS
It’s a problem in the Comptroller general’s books.

Footnote 135
00:41:12 SENATOR MATTHEWS
I got the impression, distinct impression from AlixPartners that they didn't necessarily meet with you.
00:41:21 SENATOR MATTHEWS
To create their evaluation, but instead,
00:41:25 SENATOR MATTHEWS
Created it by meeting with your staff.
00:41:29 TREASURER LOFTIS
They, my staff, only had thirteen or fourteen hours,
00:41:32 TREASURER LOFTIS
I believe we we've got that total someplace and in fact we had in and we took it out.
00:41:38 TREASURER LOFTIS
And almost all of those, because we requested them.
00:41:41 TREASURER LOFTIS
AlixPartners didn't need us.
00:41:44 TREASURER LOFTIS
Dirty little secret here is y'all audited the wrong agency. They spent their time with the Comptroller General 's office and of course, they spent a ton of time going through this massive amount of information.
00:41:54 TREASURER LOFTIS
You can't imagine how much information there was. It's unbelievable.

Footnote 210

00:34:19 SENATOR MATTHEWS
You've heard Marcia Adams his testimony.
00:34:23 SENATOR MATTHEWS
Miss Adams from your office testimony. What do you think, if anything, if you could sum it up in one sentence has been the problem?
00:34:34 TREASURER LOFTIS
We have, uh, I think the General Assembly has given us a fine statutory construct. I think it outlines responsibilities. Well...
00:34:43 TREASURER LOFTIS
It gives us a separation of duties.
00:34:45 TREASURER LOFTIS
It's very important. The problem we have is
00:34:49 TREASURER LOFTIS
It's not being followed.
00:34:51 TREASURER LOFTIS

There are policies and procedures, let's just say statutes on the books that can stop all this from happening. But we haven't utilized them.

Footnote 222
02:21:54 TREASURER LOFTIS
We have a conservative state government, the small city.
02:21:59 TREASURER LOFTIS
The SFAA has the ability to cut expenses mid year. A lot of states don't have that.
02:22:03 TREASURER LOFTIS
There's a lot of reasons why good governance is very, very important to us.
02:22:07 TREASURER LOFTIS
Now we've got some things in our,
02:22:09 TREASURER LOFTIS
Now we've got more cash than we usually have.

AlixPartners

EXHIBIT 19

State Treasury Forensic Accounting Review

Final Report

January 15, 2025

Submitted by AlixPartners LLP

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I. Executive Summary

Scope

In the State of South Carolina (the "State") 2022 Annual Comprehensive Financial Report (the "ACFR") that was released on November 29, 2022, the State disclosed a restatement which decreased reported cash by a total of $3.5 billion. As a result, the Subcommittee of the Senate Finance Committee conducted a public hearing over the facts surrounding the restatement. Additional hearings in 2024 followed related to a particular component of the restatement, the $1,852,455,573 balance in Fund 30350993 (while this balance rounds to $1.9 billion, it is more commonly referred to as the "$1.8 Billion").

As part of the Appropriations Act of 2024, the South Carolina General Assembly included Proviso 93.19 (the "Proviso"). [1] Among other things, the Proviso requires the Department of Administration ("Admin") to engage an independent forensic accounting firm to conduct a forensic accounting review of all cash and investments held in the State Treasury. Admin was directed to determine the scope of review necessary for the requirements of the Proviso to be met by the engaged firm.

Admin, with input from the State Auditor's Office ("OSA") and the South Carolina Attorney General's Office, established a Scope of Work for the Forensic Accounting Review[2] consisting of four parts:[3]

> 1. An analysis of all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled funds managed by the relevant State agencies within the South Carolina Enterprise Information System ("SCEIS") to the Statewide Accounting and Reporting System ("STARS") and, to the extent possible as determined by the Contractor, to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State.

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[1] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.

[2] In accordance with requirements set forth in AMENDMENT #1 of the Request for Proposal, we performed our work in accordance with the AICPA's Statement on Standards for Forensic Services (SSFS No. 1). The Forensic Accounting Review covered the period 2014-2023. As discussed in *Determination of an Anchor Year*, and due to limits in document retention, we narrowed our period of review to cover the period between fiscal years 2015 and 2023.

[3] Request for Proposal.

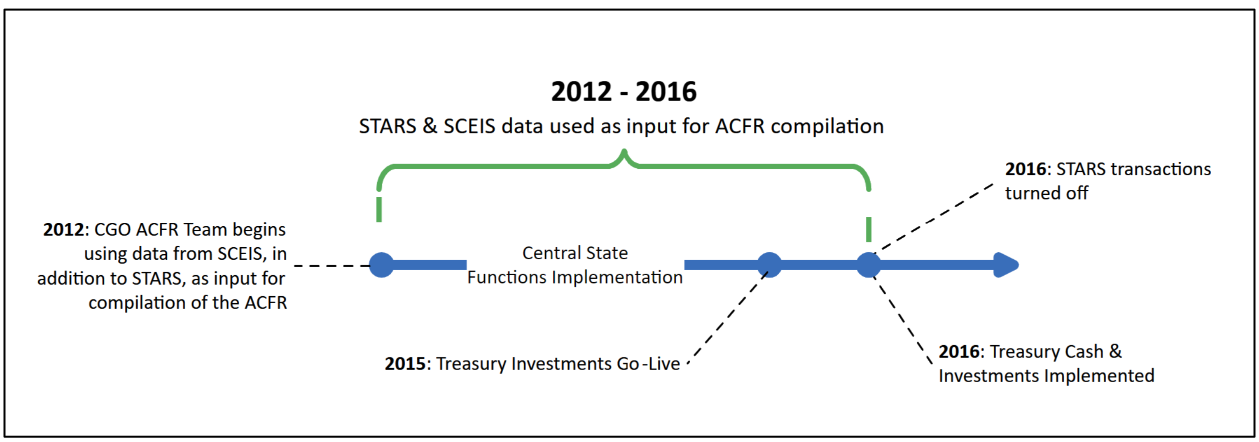
2. An investigation of the $1.8 Billion and a confirmation of the accuracy and impact of the $3.5 billion restatement made in the 2022 ACFR.

3. A determination of accuracy within the SCEIS general ledger accounts for cash and investments as well as a review of the amounts of cash and investments reported in various of the State's historical ACFRs to determine if the amounts of cash and investments recorded in ACFRs were fairly stated and categorized in the appropriate funds.

4. A list of findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future to include any presentations of such findings and recommendations to relevant parties, including the Governor, General Assembly, and other State or federal agencies.

Background

The State's conversion from its legacy accounting system, STARS, to its replacement, SCEIS, began in 2007 and took several years to complete. This conversion occurred in multiple phases with cash held in the State Treasury ("Treasury Cash") and Investments ("Treasury Investments") representing some of the last elements to convert in 2017. The following chart illustrates an overview of the conversion timeline from 2012 to 2016.



The conversion process was further complicated by the 'bank conversion' (which occurred from 2015 to 2017) during which four general ledger cash accounts in STARS (to which the transactions of multiple bank accounts were recorded, and were therefore not reconciled to bank accounts individually) were replaced by bank-specific general ledger accounts (which would be reconciled to bank accounts individually which is a more typical and better controlled practice). We determined the $1.8 Billion and the related portion of the 2022 Prior Period Adjustment ("PPA") stem from this conversion. The corresponding offset to the $1.8 Billion cash balance was initially recorded in a "Conversion Account" but was later moved to and now resides in the liability account 2400600002 (Due to Other Funds- Equity in Pooled Cash). This is the account that has prompted the question of "who owns the $1.8 Billion?".

$1.8 Billion - Background

The $1.8 Billion represents the net cash balance of thousands of journal entries, the ultimate intent of which were to allow the State Treasurer's Office ("STO") to balance the bank general ledger accounts in the SCEIS system to the cash balances maintained in individual banks. The $1.8 Billion is the result of two phases of the STO's bank conversion. During the first phase ("Phase 1"), the STO, working with SCEIS staff, recorded entries in SCEIS to Funds 30350992 and 30350993 to make the balances in SCEIS agree with the balances in the individual bank accounts. The second phase ("Phase 2") was intended to net the historical bank transactions from STARS (which had been transferred over to SCEIS) against these entries recorded to Funds 30350992 and 30350993 such that, at the end of the bank conversion, the sum of the cash balance in those funds would be zero. However, the STO's conversion did not go as intended and Fund 30350993 ultimately accumulated (and still reflects) the $1.8 Billion cash balance.[4]

The $1.8 Billion therefore represents an amalgamation of journal entries that allowed the STO to reconcile SCEIS to the individual bank accounts over which it has custody. However, as we will discuss below, approximately $1.6 billion of the $1.8 Billion is the result of incorrect journal entries recorded during Phase 2 of the bank conversion process and the remaining approximately $200 million is already included in the reported bank balances of the STO. In other words, the $1.6 billion is <u>not</u> actual cash (i.e., it cannot be spent nor appropriated) and the remaining approximately $200 million does <u>not</u> represent cash that is excess or incremental to the funds custodied by the STO. The approximately $200 million is included in the cash balance reported by the STO and belongs to the General Fund.

[4] The balance in Fund 30350992 was transferred to Fund 30350993 prior to the completion of the STO's bank conversion.

$1.8 Billion – Determination of an Anchor Year

In order to understand the origins of the $1.8 Billion, we sought to identify an 'anchor' ACFR (i.e., the most recent ACFR not affected by the conversion process that resulted in the $1.8 Billion).[5] We selected the fiscal year 2015 ACFR under the assumption that it was not misstated beyond the appropriations-related error disclosed in the fiscal year 2022 ACFR because:[6]

(1) Neither Fund 30350992 nor 30350993, from which the $1.8 Billion was derived, carried a cash balance in fiscal year 2015.

(2) The STO used STARS as the source of record for cash and investments in fiscal year 2015.

To test whether we could rely on the fiscal year 2015 ACFR as our anchor year, we replicated the process by which the fiscal year 2015 ACFR was compiled from SCEIS using the ACFR classification logic from fiscal year 2016. This confirmed that SCEIS was the source of record for the fiscal year 2015 ACFR.

We then confirmed that the combined bank balance per the Financial Management System ("FMS"), the 2015 STARS cash balance, and the 2015 STO Closing Package, which reconciled accounts as of June 30, 2015, all agreed within an insignificant difference.[7]

Having confirmed that the fiscal year 2015 STARS balance reconciled to the combined bank balance, we attempted to reconcile STARS to SCEIS, which we had confirmed was the source of record for the fiscal year 2015 ACFR.

We reconciled the two systems within a variance of $7.7 million after accounting for (1) certain 'topside' entries (i.e., topside entries, in general, relate to adjustments made directly to financial statement line items rather than being recorded as journal entries in the general ledger; in the State's case, these represent entries to adjust certain ACFR financial statement line items that were not recorded to SCEIS) and (2) the fiscal year-end balance for an agency which was part of the ACFR General Fund in STARS known as Agency '000'. This confirmed that (1) the 2015 ACFR

[5] Due to limitations in the retention of banking records, a reconciliation of banking data to the general ledger could not be performed for fiscal year 2014.

[6] All fiscal years in the scope of our review were impacted by the appropriations-related error disclosed in the fiscal year 2022 ACFR.

[7] The STO provides bank and investment account data to the Comptroller General's Office for ACFR preparation in a closing package/file. The data is reconciled to third party financial institutions and to SCEIS bank and investment general ledger accounts. Differences were less than $200,000.

was not affected by the $1.8 Billion (i.e. 2015 was an appropriate anchor year); and (2) the fiscal year-end 2015 balance of Agency '000' was excluded from the STARS to SCEIS conversion. As we will discuss, we believe this omission contributed to the $1.8 Billion.

$1.8 Billion - History

The $1.8 Billion originated in Funds 30350992 and 30350993, neither of which had been historically included in the ACFR. Fund 30350992 (which was originally used to record transfers between banks and the STO's investment custodian) and 30350993 (which was originally used to record transfers between banks) were both repurposed to record adjustments to SCEIS to balance to the bank statements. Today, the entirety of the $1.8 Billion is reflected in Fund 30350993.[8]

The Comptroller General's Office ("CGO") and the STO were both aware of the (what we now know to be an incorrect) decision to exclude Fund 30350993 from the ACFR in fiscal year 2016 and the years thereafter. In fiscal year 2016, when the CGO informed the STO that Fund 30350993 would be excluded from the ACFR, STO responded by explaining to the CGO how Fund 30350993 would be used, stating that "we at STO will need to consider [include] the activity in this fund to balance the system to the BANK." In other words, Fund 30350993 contained entries made by the STO to adjust for any differences between the State's accounting system and the bank balance such that the two would match.

The STO, working with SCEIS staff, began to adjust SCEIS (the State's accounting system) to align to the bank in fiscal year 2015 as part of Phase 1. However, it was not until fiscal year 2016 that either fund started accumulating a cash balance.[9] By the end of fiscal year 2016, Funds 30350992 and 30350993 had cash (and corresponding conversion) balances of $1.56 billion and $17.2 billion, respectively.[10] The STO did not investigate the underlying cause of the differences between the State's accounting system and the bank. Instead, they held broader theories that any variances would "wash" upon completion of the conversion such that the total cash balance in Funds 30350992 and 30509933 would net to zero. We understand a former STO employee was more focused on ensuring SCEIS balanced to the bank accounts rather than understanding the reason for any imbalance. The STO should have investigated these variances, given the bank

[8] The balance in Fund 30350992 was transferred to Fund 30350993 in fiscal year 2017.

[9] Under their original uses, neither fund carried a cash balance as transfers between banks would net to zero.

[10] The first entries which increased the fund balance of 30350992 and 30350993 were recorded on 10/31/2015 (in fiscal year 2016). Confirmed via SCEIS query of Fund 30350992 and 30350993.

conversion impacted more than one fiscal year. Additionally, the CGO should have been more involved in the STO's conversion process to determine its impact on the ACFR reported amounts.

In fiscal year 2017, the STO's efforts were focused on Phase 2 of the conversion during which any remaining cash balances from the State's legacy accounting system were cleared against the entries recorded in Phase 1. Consistent with its goal of completing the conversion, the STO transferred the balance in Fund 30350992 of $1.56 billion to Fund 30350993 on June 27, 2017, with the understanding that "all conversion activity within 30350992 represented bank conversion activity with [Bank of New York Mellon]. Inasmuch as all other banking conversion activity resides within 30350993..."[11, 12] However, contrary to the STO's expectations, when the conversion was effectively completed at the end of fiscal year 2017, a cash balance of $1.56 billion remained in Fund 30350993 and the same amount as a credit in account 9999999999 (the "Conversion Account").[13]

Recognizing the inconsistency of the remaining balance with their expectations for the conversion, a former STO employee proposed writing off the $1.56 billion balance in the Conversion Account under Fund 30350993 as a PPA to the ACFR General Fund.[14] Under this proposal, the cash portion of Fund 30350993 would remain, as the STO needed that balance to tie back to the bank account balances. The former STO employee was informed by the CGO and a representative from CliftonLarsonAllen LLP ("CLA"), the State's external auditors, that neither would accept that decision. Instead, the STO ultimately transferred the $1.56 billion balance in the Conversion Account under Fund 30350993 to a liability account in the same Fund with the explanation that the balance originated from the balance in Fund 30350992. However, no effort was made at that time to determine to whom the resulting liability was owed. As we will describe later, while the balance that originated in Fund 30350992 is numerically similar to the Conversion Account balance remaining in Fund 30350993 as of fiscal year-end 2017, this is merely coincidental as the latter contained certain incorrect entries which, if corrected, eliminates any similarity.

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[11] Bank of New York Mellon ("BONYM"). Confirmed via SCEIS query of Fund 30350993.

[12] Confirmed via SCEIS query within the Display note "Reason for AJE" annotated by a former STO employee.

[13] The Conversion Account was the offsetting account to which all entries that comprise the $1.8 Billon were recorded.

[14] A former STO employee explained that despite the file proposing the PPA to Fund 30350993, he communicated to CliftonLarsonAllen that the PPA should be recorded to the General Fund.

After this decision, additional entries were recorded to Fund 30350993 between 2018 and 2021.[15] Most of the increase occurred in fiscal year 2018, during which a $324 million entry was recorded which increased the balance within Fund 30350993 to $1.8 Billion. This entry is among the entries which we have determined were incorrect as discussed below.

To Whom Does the $1.8 Billion Belong?

We determined that approximately $1.6 billion of the $1.8 Billion did not represent real cash. It is attributed to balances in certain ACFR-Only business areas ("ACFR BAs") that were incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion. These balances represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process, and as such, the failure to recognize what these accounts represented had the unintended consequence of artificially inflating the balance in Fund 30350993. These entries were the primary reason that the Conversion Account did not net to zero upon completion of the conversion as intended.

The CGO has confirmed via tests (which we have verified), that reversing the $1.6 Billion ACFR BA entries leaves an approximately $245 million net cash balance with an offsetting liability under Fund 30350993. The $245 million is the only portion of the $1.8 Billion that was ever investable/spendable cash and is, and has been, included in the bank balances reported by the STO. It should be noted that upon reversing the $1.6B entries that the bank balances in SCEIS remain the same and continue to reconcile to the bank statements. As we will discuss in this Report, we believe the CGO should record these reversal entries as proposed.

As mentioned above, during our determination of our anchor year, we identified an agency which belonged to the ACFR General Fund in STARS known as Agency '000' which does not appear to (but should) have been converted from STARS to SCEIS. The balance of this agency, which represents a portion of the ACFR General Fund, was approximately $234 million at the end of fiscal year 2015. This balance therefore accounts for the majority of this $245 million that was ever investable/spendable cash. As this balance is already captured in the bank accounts over which the STO has custody, an adjustment to the general ledger is required such that it is properly reflected within the ACFR. We have not determined the origin of the remaining $11 million; as

[15] Five entries totaling ($197,647), which were not a focus of our investigation, were recorded to this fund between 2019 and 2021.

such, less than 1% of the $1.8 Billion could not be fully identified. However, given that no agency has made claim to this money over a period of several years, we agree with the CGO that the full $245 million should be recorded to the ACFR General Fund. Again, this does not represent cash that is excess or incremental to the funds custodied by the STO.

2022 Restatement

Through our analysis and testing, we confirmed that the cumulative net amount of the PPA (i.e., $3.5 billion) recorded in the fiscal year 2022 ACFR is accurate. We do not, however, believe that the allocation of the PPA across certain years prior to 2022 as reflected in the Statistical Tables is accurate. This conclusion is based on what we deem to be an unsupportable methodology employed by the CGO to quantify those adjustments for fiscal years 2012 through 2017, as well as a 2024 analysis performed by the CGO for fiscal year 2016 which yielded a different result than what was reflected in the Statistical Tables.

The traceability of the PPA in the 2022 ACFR was further complicated by two topside entries recorded by the CGO. After recording the PPA entries to correct for the overstatement of cash, the CGO circulated a draft version of the ACFR to the auditors reporting a cash balance of zero in the General Fund. This presentation was intended to comply with Governmental Accounting Standards Board ("GASB") standards when a fund's cash balance is negative. However, in response to a potentially misinterpreted comment from the State Auditor, the CGO then recorded two topside entries which reclassified $3.7 billion from the investments line item to the cash line item of the ACFR General Fund resulting in a reported ACFR General Fund cash balance of $3.0 billion.[16] This treatment of a negative cash position in the 2022 ACFR is inconsistent with the State's presentation in the fiscal year 2023 ACFR, in which the General Fund reported a zero balance in lieu of a negative cash balance (consistent with GASB). Other than the acknowledgement that GASB precludes the presentation of a negative cash balance, we have not received satisfactory explanation or adequate documentation to support the amount of these topside entries.

[16] The cash balance of the ACFR General Fund was approximately negative $700 million prior to these topside entries.

Tie out of Cash and Investments

Parts 1 and 3 of our Scope of Work required that we (1) corroborate Treasury Cash and Treasury Investments with external sources; and (2) assess the accuracy of the cash and investments balances in SCEIS and, by extension, the reported cash and investments balances in the State's historical ACFRs. We relied on a workpaper which the CGO referred to as the 'Crosswalk' to perform both tasks. The Crosswalk provides a detail breakdown of statewide cash and investments by fund as reported in the ACFR.[17] For each Crosswalk provided for fiscal years 2016 through 2023, we (1) independently traced the cash and investment balances by fund to the relevant ACFR exhibits and (2) independently generated the SCEIS data underlying the Crosswalk.[18]

We also conducted a historical analysis that identified any changes in the categorization or placement of cash and investments in the ACFR (i.e., the Fund under which they were reported). All changes identified were adequately explained by the CGO.

Consistent with part 1 of our Scope of Work, we reconciled (within minor variances generally attributable to timing differences) third-party bank records gathered from the STO to the portion of the Crosswalk related to cash held in the Treasury (except as noted below).

To confirm the investments held by the STO, we compared the fair market value per the SCEIS NVEST reports (which we understand are pulled from a direct feed from the STO's investment custodian) to a portion of the Crosswalk pertaining to Treasury Investments. During this tie-out, we noted some differences in various funds that upon review of documents provided were understood to be items related to non-Treasury investment categories.

To address part 3 of our scope of work, we also independently selected a sample of cash and investments reported by Audited Financial Statement ("AFS") entities[19], which are also reported in the ACFR, which we reconciled to the Crosswalk files.[20]

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[17] Please refer *ACFR Compilation Process – Crosswalk File Overview* section for more details on how the Crosswalk files were built.

[18] A Crosswalk file did not exist for fiscal year 2015, so we created our own. See discussion of Anchor Year in this Report.

[19] AFS agencies have their financial audit performed by a third-party accounting firm that then provides audited financial statements to the CGO.

[20] To reconcile the sample of AFS cash and investment balances per the AFS audited financial statements with the Crosswalk files for fiscal years 2017 through 2019, we used a summation file created by the CGO to agree the higher education cash and investment balances per the AFS entities with the Crosswalk within differences less than $1 million. The higher education cash and investment balances for these years averaged approximately $2 billion and $1 billion, respectively.

Conversely, we could not reconcile the State Treasurer's 'Composite Reservoir' Accounts ("CRA") to the Crosswalk.[21] The CGO explained that because certain AFS entities have balances in the CRA that are not reported in SCEIS, SCEIS cannot be reconciled to the CRA balance reported by the STO. While this was a limitation and we have recommended that the recording of CRA activity be standardized, we do not believe this is indicative of any error. While we could not independently reperform the CGO's process, the current process by which the CGO compiles this information from the STO, the AFS entities and SCEIS, albeit cumbersome, appears to adequately quantify these balances as reported in the ACFR.

Furthermore, the CGO's documentation was insufficient to allow us to independently corroborate the 'CGO Adjustment' components of the Crosswalk. While these amounts do not represent Treasury Cash and Treasury Investments, they are included in the cash and investments balances reported in the ACFR. Given these limitations, we could not fully assess the accuracy of the cash and investments balances in SCEIS and, by extension, the ACFRs.

Auditor Involvement

While we were not specifically tasked with assessing or opining on the State's audit function, we identified certain documents that establish the auditors' involvement in relevant events in the history of the $1.8 Billion (in addition to their involvement in the topside entries recorded to the 2022 ACFR discussed above).[22]

We observed a series of analyses that the STO and CGO shared with the auditors as part of the fiscal year 2016 audit, which we believe were intended to show how the STO's conversion (which was still underway) would ultimately resolve itself the following year. Contrary to our understanding of the expectations of the conversion, none of these analyses shared with the auditors indicated that the conversion would result in a zero balance in the Conversion Account upon completion. On November 22, 2016, the CGO shared a version of this analysis with the auditors which reflected a "$366.8 million…unconsumed conversion balance." On December 6, 2016, an updated version of this analysis was shared with the auditors reflecting a revised balance of $388 thousand. However, this balance was the result of the CGO and STO removing certain

[21] Please refer to *ACFR Compilation Process – Assessing the Accuracy of Crosswalk Files* section for a comprehensive explanation of cash tie-out.

[22] Unless otherwise noted, reference to 'Auditors' shall constitute both OSA and CLA.

‘reconciling items’ which included, among other items, the $1.56 billion balance that originated from Fund 30350992.[23] The auditors could not articulate why the $1.56 billion balance that originated in Fund 30350992, as a reconciling item, would have prevented the Conversion Account from reaching a zero balance at the end of the conversion.

As part of its fiscal year 2017 audit, when the conversion had been completed, the auditors similarly attributed the $1.56 billion balance as of fiscal year end 2017 in Fund 30350993 to the balance that originated in Fund 30350992 without an apparent understanding of how the balances were related, other than they coincidentally were similar.[24]

In addition to these apparent instances of insufficient documentation, we identified, through conversations with various stakeholders, opportunities to reevaluate both the reporting structure of the OSA (i.e., to the State Fiscal Accountability Authority of which the Comptroller General and State Treasurer are members) and the joint (i.e., 50/50 split) auditor relationship between OSA and CLA.

[23] We found no information that indicated how CLA got comfortable with this analysis.

[24] We did not identify any explanation within the fiscal year 2017 audit workpapers that described why the balance which originated in Fund 30350992 related to BONY would not have netted to zero, and we are not aware of any further work performed on the ending balance.

II. Recommendations

We have recommended that the State implement remedial measures to address certain root causes that contributed to the issues we were asked to investigate and mitigate the likelihood of reoccurrence. We have categorized our recommendations with brief summaries below. For further detail and context on each recommendation, please refer to the corresponding page number of this Report.

We recommend that compliance with all recommendations herein be assessed and overseen by an independent third party that is retained by, and reports to, the State.

#	Recommendation	Relevant Party(ies)	Page Number
1	Hire an independent third party (e.g., independent compliance consultant) to assess and oversee compliance with all recommendations in this report.	The State of South Carolina	55

We identified certain opportunities for the State to reevaluate OSA's reporting structure and for OSA to reevaluate its relationship with CLA. These recommendations seek to enhance the OSA's independence, credibility, and its ability to efficiently conduct its audits.

#	Recommendation	Relevant Party(ies)	Page Number
2	Evaluate the sufficiency of the joint audit structure between OSA and the State's external audit firm, CLA, to ensure it is operating as intended. Consider changes as needed.	OSA	65
3	To ensure that there is no appearance of an impairment of independence, the reporting structure of the OSA should be revised such that it no longer reports to the Comptroller General or the State Treasurer.	The State of South Carolina	66

We also observed a lack of cooperation between the STO and CGO. Accordingly, we have made certain recommendations to foster communication between the two agencies.

#	Recommendation	Relevant Party(ies)	Page Number
4	Develop comprehensive policies and procedures outlining the roles and responsibilities of the STO which must require that the STO report (and independently confirm, as needed) cash and investments in its custody by agency and fund at least annually.	STO	37
5	Develop comprehensive policies and procedures outlining the roles and responsibilities of the CGO which must require that the CGO reconcile cash and investments by agency and fund in SCEIS, the accounting system of record, to the information provided by the STO and AFS agencies.	CGO	37
6	Consider changes to the CGO's and STO's duties and structure to enable better cooperation between the two agencies.	The State of South Carolina	55
7	Provide training and related documentation to the STO that explains where cash and investments in the STO Treasury show up in the ACFR and how negative cash can occur. Documentation should be sufficient to allow the STO to independently quantify the ACFR General Fund cash balance using information to which it already has access.	CGO	55

Throughout our investigation, we identified opportunities for the CGO to improve its capabilities, processes and documentation. These recommendations seek to address those shortfalls.

#	Recommendation	Relevant Party(ies)	Page Number
8	Establish a checklist for determining when the ACFR can be publicly released. The ACFR should not be released until all necessary steps and audit procedures have been completed to ensure the quality and accuracy of the reported information. ACFR release date should not place undue pressure such that less work is performed, or issues are insufficiently resolved in order to achieve an unrealistic deadline.	CGO	39
9	The CGO should assess the need to hire additional CGO staff and/or outside assistance to prepare the ACFR and better distribute workloads.	CGO	40
10	Establish a formalized process by which appropriations as recorded in SCEIS are reconciled to the amounts reported in the AFS entities' financial statements and the corresponding legislative documents.	CGO	48
11	Implement a standardized procedure for tracking and documenting errors, corrected and uncorrected, to ensure they are identified, analyzed, and corrected (if needed). Procedure should establish requirements for elevation to appropriate levels within the CGO and to the auditors.	CGO	52
12	Revise the existing entry policy to enumerate the specific situations under which late entries (i.e., topside entries) are permitted. The policy must also be amended to set the minimum level of documentation required for all entries, including topside entries.	CGO	53

#	Recommendation	Relevant Party(ies)	Page Number
13	Establish a process by which non-standard adjustments to cash and investments reported by AFS entities are identified and evaluated.	CGO	61
14	Establish a minimum standard for all accounting and financial reporting workpapers such that an external party can both understand and reperform the process. Documentation should include information sufficient to understand the purpose of the workpaper and the source of the information.	CGO	61
15	Establish requirements for the level of quality review required for all ACFR-related workpapers and how such review is documented.	CGO	62
16	Establish a policy outlining the situations in which the CGO is permitted to adjust information it receives from various agencies and a process by which such adjustments must be communicated to the affected agencies.	CGO	63

Through our review of the fiscal year 2022 ACFR, we identified multiple ways in which the ACFR compilation process could be improved. These improvements include the disclosures in the ACFR, the presentation of the statistical tables, and the way in which the $1.8 Billion should have been recorded. These recommendations are intended to ensure that the CGO evaluates the 2022 ACFR (and relevant portions of prior ACFRs), takes necessary corrective actions, and develops policies to ensure compliance going forward.

#	Recommendation	Relevant Party(ies)	Page Number
17	The CGO should record two sets of entries to SCEIS to properly reflect the $1.8 billion cash balance: (1) reverse the $1.6 billion incorrectly-converted ACFR Business Area balances as proposed by the CGO; and (2) record an entry to SCEIS for $245 million as a debit to account 2400600002 (Due to Other Funds – Equity in Pooled Cash) in Fund 30350993 and a credit to account 7000001000 (Prior Period Adj – CAFR) (i.e., the restatement account) within the ACFR General Fund.	CGO	45
18	Consider whether to clarify Note 15 of the fiscal year 2022 ACFR including, but not limited to, whether to specifically identify and quantify the relevant components.	CGO	46
19	Evaluate the accuracy of the amounts in the statistical tables as reflected in the fiscal year 2022 ACFR. If materially inaccurate, determine if revisions necessitate changes in presentation and/or disclosure prior to issuing the fiscal year 2024 ACFR.	CGO	51
20	Establish a policy or procedure that outlines the CGO's position on accounting for negative cash (with relevant Generally Accepted Accounting Principles ("GAAP")/GASB citations) and the related accounting and disclosure requirements to ensure compliance and consistency in application.	CGO	54
21	Assess all prior topside entries or other adjustments and disclosures related to offsets of negative cash balances to ensure compliance with relevant accounting standards.	CGO	64

We identified certain instances in which SCEIS could be better utilized or improved. These recommendations are intended to ensure SCEIS best supports the functions of the CGO and STO.

#	Recommendation	Relevant Party(ies)	Page Number
22	Eliminate any workarounds to the standard entry workflow. Reevaluate permissions in SAP for all STO staff.	CGO and SCEIS	41
23	Evaluate the current configuration of SCEIS including, but not limited to, the configuration of the cash in the budgetary General Fund to determine whether changes are warranted.	CGO, STO, and SCEIS	45
24	Ensure that all agencies including the STO are using SCEIS for tracking cash in all CRAs. This will improve the efficiency and accuracy when developing the yearly ACFR.	CGO, STO, and SCEIS	58
25	Establish a mechanism by which the CGO is notified of any changes to the State's entity structure to ensure that all relevant AFS entities are captured in the State's ACFR.	CGO	60

III. Background

The South Carolina General Assembly included Proviso 93.19 as part of the Appropriations Act of 2024.[25] Among other things, the Proviso requires Admin to engage an independent forensic accounting firm to conduct a forensic accounting review of all Treasury Cash and Treasury Investments. Admin was directed to determine the scope of review necessary for the requirements of the Proviso to be met by the engaged firm.

Specifically, the Proviso stated,

> "[T]he Department of Administration must engage an independent forensic accounting firm, experienced in forensic accounting, to conduct a forensic accounting review of all cash and investments held in the State Treasury. The scope of the review, as determined by the Department of Administration, must include, but not be limited to, all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled fund managed by the relevant State agencies within SCEIS to STARS and, to the extent possible as determined by the engaged accounting firm to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State. In addition to the foregoing, the review must include findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future. A final report from the accounting firm must be submitted by the Department of Administration to the Governor, President of the Senate, Chairman of the Senate Finance Committee, Speaker of the House of Representatives, and Chairman of the House Ways and Means Committee by December 31, 2024, and an interim report submitted by September 30, 2024, the Department of Administration may in its sole discretion elect to extend the completion date of the review if necessary."[26]

The Proviso mandated that "The Office of State Treasurer, the Office of Comptroller General, the Office of State Auditor, and all other agencies of the State … designated by the Department of

[25] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.

[26] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.

Administration"[27] must cooperate with Admin and the independent forensic accounting firm for purposes of this engagement.

Through a Request for Proposals, Admin, with input from the State Auditor's Office and the South Carolina Attorney General's Office, established a Scope of Work for the Forensic Accounting Review[28] consisting of four parts:[29]

1. An analysis of all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled funds managed by the relevant State agencies within SCEIS to STARS and, to the extent possible as determined by the Contractor, to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State of South Carolina (the "State").
2. An investigation of the $1.8 Billion in SCEIS Fund 30350993 and a confirmation of the accuracy and impact of the $3.5 billion restatement made in the 2022 ACFR.
3. A determination of accuracy within the SCEIS general ledger accounts for cash and investments as well as a review of the amounts of cash and investments reported in various of the State's historical ACFRs to determine if the amounts of cash and investments recorded in those ACFRs were fairly stated and categorized in the appropriate funds.
4. A list of findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future to include any presentations of such findings and recommendations to relevant parties, including the Governor, General Assembly, and other State or federal agencies.

[27] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.

[28] In accordance with requirements set forth in AMENDMENT #1 of the Request for Proposal, we performed our work in accordance with the AICPA's Statement on Standards for Forensic Services (SSFS No. 1). On 12/13/2024, Admin extended the completion date of the review to 1/15/2025.

[29] Request for Proposal.

South Carolina Code of Laws Section 11-7-20 assigns responsibility for the preparation of the State's Basic Financial Statements to the Comptroller General and requires the Financial Statements be audited or cause to be audited by the State Auditor's Office. [30]

The OSA serves as the independent audit function of the state. The OSA contracts external auditors to perform annual audits of AFS agencies and to assist with the audit of the statewide ACFR. The OSA and the external audit firm it has retained, CLA, issue a joint opinion on the statewide ACFR in the Independent Auditor's Report.[31]

The CGO, through its Central State Financial Reporting Department ("ACFR preparation team")[32] began preparing an ACFR in 1988.[33] The CGO began recording entries to the new accounting system that was being developed called SCEIS in 2009. The State used SCEIS as the source of record, at least in part, as early as 2012, with full implementation completed by 2017.[34]

SCEIS is an enterprise resource management system capable of double entry accrual accounting transactions at three 'levels': account, fund, and business area.

- The account level, like most accounting systems, provides the classification for managerial evaluation of the operations of the State. The numbering of the General Ledger Accounts provides general guidance as to the financial statement reporting.
- The fund level, which exists primarily for legal accounting and reporting purposes, is required by GAAP for governmental entities. SCEIS maintains more than 2,800 funds and each fund is a self-balancing set of accounts such that the sum of all accounts across a given fund should net to zero.[35]
- The business area level is maintained by the CGO within SCEIS which correspond to the various State agencies for reporting purposes. The business area field identifies each organizational unit and fund. The business areas ultimately roll-up to nine ACFR BAs

[30] Comprehensive Annual Financial Report by the State of South Carolina CGO, June 2019.

[31] The State currently contracts CLA to conduct a joint audit of the ACFR.

[32] Beginning in 2021, in accordance with GASB Standard No. 98, South Carolina changed the title of its annual financial reports to the ACFR, switching from its historic title of CAFR. Unless referring to a specific title/document, all references to 'CAFR' have been replaced with 'ACFR'.

[33] Comprehensive Annual Financial Report by the State of South Carolina CGO, June 2019.

[34] Amendment One to RFP, p. 4.

[35] Confirmed via SCEIS query of fund key.

within SCEIS to assist in compiling the ACFR.[36] The ACFR BAs are unrelated to day-to-day accounting activity and their only purpose is for use by the ACFR preparation team to assemble the ACFR.

The ACFR breaks down cash and investments by fund as required by GASB 34.[37] The most relevant fund to the State's ACFR is the General Fund. The term, General Fund, holds a different meaning depending on the perspective of the party involved and the context in which it is being discussed. Legislators and State agencies often define the General Fund strictly in budgetary terms, referring only to appropriations authorized by the Annual Appropriations Act. The STO maintains seven State fund portfolios which hold the State's cash and investments, one of which is designated as the General Fund Portfolio. In contrast the CGO uses the GASB definition, which considers the General Fund the primary governmental fund that accounts for all financial resources not required to be reported in another fund. The General Fund in the ACFR consists of balances from funds beginning with 1, 2, 3, 4, 5, 6, 9 and HRPAY in SCEIS. The GASB definition of General Fund used by the CGO in the ACFR is not synonymous with either the General Fund defined strictly in budgetary terms nor the General Fund Portfolio as defined by the STO. The GASB definition of General Fund ("ACFR General Fund") is the one we will use in this Report except as otherwise noted.

IV. Document Collection and Review Process

a. Overview

We worked with relevant personnel at the STO, CGO, OSA, and Admin to understand responsibilities, reporting lines, and any information regarding prior investigative work. To guide our efforts, we developed a workplan to outline and prioritize our tasks and then executed it accordingly.

Our primary source of information supporting this engagement consisted of Admin-facilitated requests directed to the CGO, STO, OSA, and the SCEIS team. We submitted 175 requests and received more than 23,000 documents in response. In addition to these documents, we

[36] ACFR BA's include: A000 (General Governmental), H000 (Education), J000 (Health-Environment), L000 (Social Services), N000 (Admin of Justice), P000 (Resources-Econ Dev), U000 (Transportation), V000 (Debt Service), and X000 (Intergovernmental).

[37] GASB 34 states, "Each of the fund statements should report separate columns for the general fund and for other major governmental and enterprise funds."

supplemented our understanding with documents and information that we pulled from certain additional sources, namely electronically stored information and system data. Subject to the limitations noted at the end of this report, the combination of these sources, along with interviews and discussions, has provided a robust collection of insights for our review, which we have outlined below.

b. Documents from the Working Group

Prior to Admin's engagement with AlixPartners, the Governor established the Working Group comprised of employees from the STO, the CGO, the OSA, the Attorney General's Office, the Governor's Office and Admin to study the $1.8 Billion in question as well as the 2022 restatement and gather information and documentation related to the issue. The Working Group gathered information such as bank statements, information related to certain entries, cash and other year-end closing packages, and legacy system information. The Working Group also performed various analyses of this information. Admin created a data platform to allow direct access to thousands of entries related to the funds in question. Admin provided us access to the data in the platform and we leveraged this information for analysis. Additionally, we have participated in several Working Group meetings to better understand the State's financial processes.

c. Electronically Stored Information

As part of our historical review, we obtained documents with the help of Admin primarily from two sources:

1. Documents (emails, attachments and standalone files) collected by Admin directly from the State's servers for 15 employees (current and former); and
2. Emails extracted from archive files collected by Admin for the aforementioned individuals.

Through these sources, we collected and processed over 1.1 million documents spanning from 2015 through as recently as December 16, 2024, which we reduced to approximately 210,000 using search terms.[38] Of those, we focused our attention on the documents that coincided with key events in the conversion (i.e., 2015-2018) while also running targeted searches over the remaining

[38] The data range for documentation expanded iteratively as needed.

universe of documents. Through this two-pronged approach, we reviewed in detail approximately 11,000 documents.

In addition to these documents, we relied on two other sources for discrete sets of documents:

1. King & Spalding, the firm engaged by the SC Attorney General to represent the State in matters related to this subject, provided certain documents for our review that were identified during its investigation.
2. Admin provided file indices of certain shared folders maintained by the CGO, from which we requested certain potentially relevant documents not otherwise received.

d. System Data

We performed certain procedures to understand the State's information-technology systems and architecture, collect and prepare relevant data for processing, documents, and information, and develop analyses in response to the RFP requirements. We also performed various technical tasks along the way to support our ability to rely on the system data. In doing so, we worked closely with the Admin Technology team who set up a Microsoft Azure Cloud Analytics environment for our sole use. This included data storage in a Data Lake / Delta Lake (collectively, the "Data Lake") and data analysis performed in Microsoft Azure Synapse. Details for these procedures are described herein.

i. Legacy ERP Systems (STARS/FMS/IMS)

STARS was the State's accounting system for 30+ years, running on an IBM mainframe architecture.[39] Two versions of the STARS system ran concurrently, one for the CGO ("STARS-CGO") and the other for the STO ("STARS-STO"). Both STARS systems were synchronized through data transfer programs and staff who conducted a variety of financial reconciliations.

The STO, responsible for Treasury Cash and Treasury Investments, separately managed and operated the Financial Management System ("FMS") and the Investment Management System ("IMS"), respectively. The STO had staff responsible for cash reconciliations from STARS-STO to FMS and investment reconciliations from STARS-STO to IMS.

[39] Amendment One to RFP, p. 5.

The Admin Technology Team collaborated with a retired STARS data engineer to convert legacy general ledger data from the STARS mainframe to the Azure Data Lake for our use. The team successfully migrated key data tables covering agencies, funds, general ledger accounts, general ledger line items, sub-funds and cash control files. We also collected fiscal year-end reconciliation reports that tied-out cash and investments between STARS/FMS/IMS.

ii. Current ERP System (SCEIS)

SCEIS fully replaced STARS by fiscal year-end 2017. SCEIS runs on the SAP ERP 6.0 platform with 15+ modules performing key operational and reporting processes including those covering:[40]

Financial Accounting (FI): SAP FI module is a core component of SAP ERP systems. It is designed to record, collect, and process financial transactions in real-time. The FI module includes functionalities for managing the General Ledger, Accounts Receivable, Accounts Payable, and Asset Accounting. It ensures compliance with various accounting standards and helps generate financial statements such as balance sheets and profit and loss statements.

SAP Public Sector Management - Funds Management ("PSM-FM"): module is designed for managing budgets and funds in public sector organizations. It helps in planning, budgeting, and monitoring funds to ensure that expenditures do not exceed the allocated budget. Key functionalities include budget control, fund allocation, and financial reporting, which are essential for maintaining fiscal discipline and transparency.

SAP Business Warehouse ("BW"): Data warehousing tool that collects, stores, and manages data from various sources, making it available for analysis and reporting.

SAP Business Objects (informally referred to as "BOBJ"): A suite of business intelligence tools that allow users to create reports, perform data analysis, and visualize data, helping them make informed decisions.

The Admin Technology team set up SCEIS application access for relevant members of our team. The front-end SCEIS application was utilized by our team to run various cash and investment reports and research specific entries and supporting documents in the system.

[40] Amendment One to RFP, p. 4.

Further, we requested supplemental general ledger data tables to be extracted from SCEIS to be used for tracing and reconciling cash and investments. These included general ledger accounts, line-item details, line-item totals, accounting documents, business areas, GAAP fund codes and SAP user information.

The Admin Technology team set up BW application access for relevant members of our team. This tool is an add-in module to Excel which directly interfaces with SCEIS to run reports and write data into Excel workbooks. Specific reports such as the RF428 ("ACFR G/L Detail Report") were reviewed and tested to understand how the CGO extracted general ledger data to prepare historical ACFRs prior to 2020.

In addition, the Admin Technology team set up BOBJ application access for relevant members of our team with permissions granted to a copy of the CGO's ACFR Cash BOBJ Reports for fiscal years 2020 through 2023. These reports were reviewed and tested to understand how the CGO extracted general ledger data to prepare the ACFR for those years.

e. Banking Data

We relied on banking data to validate Treasury Cash in SCEIS (and the corresponding ACFRs), as it provides a point-in-time source of truth from an independent third party. We met with the STO early in the project, formally requesting all available banking data from 2014 through 2023.[41]

We leveraged documents provided by the STO to develop a summary report known as the "Bank Data Availability Matrix". This report listed all known banks, bank account numbers and corresponding SCEIS General Ledger Account numbers color-coded by calendar year to indicate whether bank data exists for that period.

The matrix was shared with the STO highlighting the years for which data was missing which, due to standard seven-year bank retention policies, primarily related to 2015 and earlier. In response, the STO searched their historical data records and located most of the missing fiscal year end bank statements dating back to 2015. In aggregate, we collected banking data in the form of monthly statements from fiscal year 2017 through fiscal year 2023. The STO also provided fiscal year-end statements from fiscal 2015 through fiscal year 2016 either as standalone files or included as pages

[41] Banking data was generally unavailable for fiscal year 2014 due to record retention policies at the State and the banking institutions.

in the closing packages. For fiscal year 2014, we received one bank statement from Palmetto State Bank.

The STO delivered banking data provided in three formats:

(1) **BAI2 daily files** were provided for the larger bank General Deposit Accounts such as Wells Fargo and Bank of America. BAI2 files represent a standardized format banks use to report account balance and transaction information to their clients.

(2) **CSV transaction text files** were provided for smaller banks like First National Holly Hill, which did not leverage BAI2 technology for data transfer. The data in the csv files only recorded transaction details and did not contain balance information.

(3) **PDF Statements** were provided to cover the historical periods between 2015 and 2016 when the above transaction data was unavailable.

The BAI2 (1) and CSV (2) banking data above was provided in raw form, meaning that the files needed to be processed into the Data Lake so they could be used for SCEIS data validation. Our team programmed custom data parsing routines that extracted financial transaction information such as bank account, transaction date, description, amount, starting balance and ending balance where available. Since the PDF statements (3) were mostly in image format and only covered a handful of early periods, we chose not to OCR and process into the Azure Data Lake. Instead, we manually extracted specific fiscal month/year-end balances by bank as available for various analyses.

V. $1.8 Billion Existing in Fund 30350993

a. Determination of an Anchor Year

To understand the origin of the $1.8 Billion, we sought to identify an 'anchor' ACFR (i.e., the most recent ACFR not affected by the $1.8 Billion).[42] We selected the fiscal year 2015 ACFR under the assumption that it was not misstated beyond the appropriations-related error disclosed in the fiscal year 2022 ACFR because:[43]

(1) Neither Fund 30350992 nor 30350993, from which the $1.8 Billion was derived, carried a cash balance in fiscal year 2015.

(2) Although the ACFR was prepared using data from SCEIS, the STO tracked cash and investments in STARS in fiscal year 2015.[44]

To test whether we could rely on the fiscal year 2015 ACFR as our anchor, we replicated the process by which the fiscal year 2015 ACFR was compiled from SCEIS using the ACFR classification logic from fiscal year 2016, including any topside entries recorded.[45] This confirmed that SCEIS was the source of record for the fiscal year 2015 ACFR.

We then sought to confirm whether the fiscal year 2015 cash balance per STARS, which was the STO's source of record at that time, reconciled to the combined bank balance. We confirmed that the combined bank balance per FMS and the 2015 STO Closing Package both reconcile to the corresponding STARS balance within an insignificant difference.[46]

Having confirmed that the fiscal year 2015 STARS cash balance reconciled to the combined bank balance, we attempted to reconcile STARS to SCEIS, which was the source of record for the fiscal year 2015 ACFR. We first adjusted the SCEIS balance to reflect certain topside entries recorded in the ACFR in the CGO's workpapers.[47]

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[42] Due to limitations in the retention of banking records, a reconciliation of banking data to the general ledger could not be performed fiscal year 2014. Only one bank statement was provided for Palmetto State Bank covering July 2014 – December 2014.

[43] All years in the scope of our review were impacted by the appropriations-related error disclosed in the fiscal year 2022 ACFR.

[44] STARS was the State's legacy accounting system and was fully replaced by SCEIS in fiscal year 2017. The bank conversion occurred in multiple phases with Treasury Cash and Investments being one of the last parts to convert starting in 2015 and completing in 2017.

[45] The detail logic was not maintained prior to fiscal year 2016.

[46] Differences were less than $200,000.

[47] The entries were limited to topside entries recorded to ACFR General Fund cash, which consisted of two entries: one for $203 million (which appears to be the balance of agency in Z90 in STARS) and another for $48 million.

We learned that the 2015 STARS to SCEIS reconciliation was performed by the STO with a cutoff bank statement date of June 30, 2015, and therefore did not capture any cash activity for transactions recorded in SCEIS after June 30, 2015, that related to fiscal year 2015 (e.g., checks issued on or before June 30, but not cashed until after June 30). As a result, the CGO determined, and we confirmed, that the fiscal year 2015 STARS balance reconciled by the STO did not reflect the final cash balance for STARS as of fiscal year-end 2015. We therefore relied on a more recent version of the STARS CSA404 Report (which was generally used as the source of the STARS balance for the STO's reconciliations) run as of fiscal year 2015 which indicated that the total statewide cash balance per STARS had decreased by $262 million since the date the STO's 2015 Closing Package was issued. We corrected the STARS cash balance in our analysis to reflect these updates.

After these updates, a variance of $227 million remained between the STARS and SCEIS balances. It was not until we added the balance of Agency '000' that we were able to reconcile the cash balances in the two systems within a variance of $7.7 million. This seemingly confirms that the fiscal year 2015 balance of Agency '000' was not converted from STARS to SCEIS.[48] See table below for a summary of this reconciliation:

[48] The 2015 STARS to SCEIS Reconciliation indicates that Agency '000' in STARS did not exist in SCEIS. We have found no evidence to the contrary.

SCEIS FY 2015 Cash Balances			
[A]	*[B]*	*[C]*	*[D]=[A]+[B]+[C]*
SCEIS FY 2015 Cash Balance	FY 2015 ACFR Topside Adjustments	FY 2015 CSA404 Balance (Agency 000)	FY 2015 SCEIS Calculated Total Balance
$ 9,524,935,693	$ 251,002,961	$ 234,465,654	$ 10,010,404,308

STARS FY 2015 Cash Balances		
[E]	*[F]*	*[G]=[E]+[F]*
STARS FY 2015 Cash Ending Balance (FM12 Total)	STARS FY 2015 CSA 404 Ending Balance Net Change	FY 2015 STARS Calculated Total Balance
$ 10,264,296,243	$ (261,655,694)	$ 10,002,640,550

[H]=[D]-[G]
Difference (SCEIS to STARS)
$ 7,763,758

This analysis confirmed that (1) the 2015 ACFR was not affected by the $1.8 Billion; and (2) the fiscal year 2015 STARS Agency '000' balance (without which the STO could not reconcile to the bank) was excluded from the STARS to SCEIS conversion. As we will discuss in *$1.8 Billion Existing in Fund 30350993 – Unconverted STARS Agency*, we believe that the omission of Agency '000' contributed to the $1.8 Billion. To be clear, this was an omission in SCEIS only. The cash from this agency was reflected by the STO in STARS in alignment with the bank balance.[49]

b. Background

The $1.8 Billion is the result of conversion entries posted to two funds during the STO's investment and bank conversions: 30350992 and 30350993. Fund 30350992 was originally used to account for transfers between banks and the STO's investment custodian, Bank of New York Mellon ("BONY"). Fund 30350993 was originally used by the STO to record inter-bank transfers. Starting in 2016, however, the STO began to use both funds to record adjustments in SCEIS as necessary to balance to the bank accounts.[50]

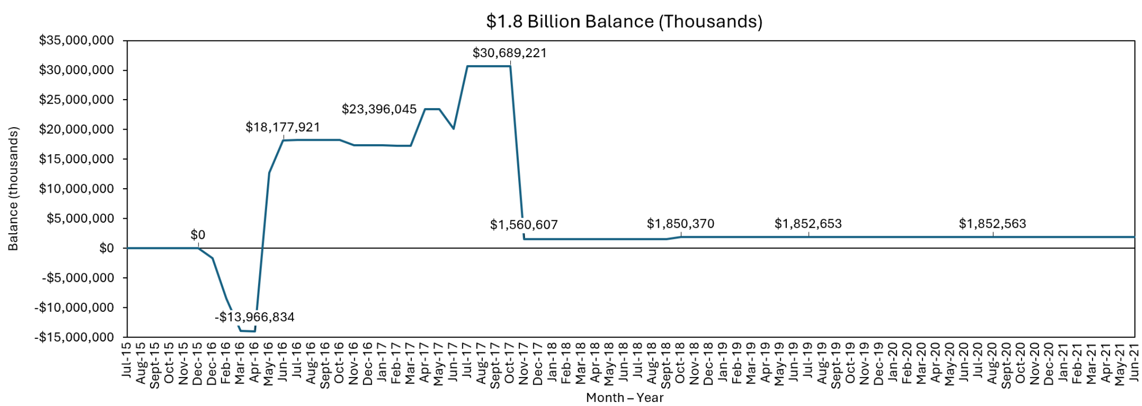
[49] The STARS system was active until transactions were turned off in 2016.

[50] The first entries which increased the fund balance of 30350992 and 30350993 were recorded on 10/31/2015. Confirmed via SCEIS query of Fund 30350992 and 30350993.

On June 27, 2017, the STO transferred the balance in Fund 30350992 of approximately $1.56 billion ("$1.56 billion") to Fund 30350993.[51] By the end of fiscal year 2017, when the STO's bank conversion was substantially complete, Fund 30350993 reflected a balance of $ 1.56 billion.[52] An additional entry was recorded which added $324 million to this fund on October 26, 2018, thus increasing the balance of the fund to approximately today's balance of $1.8 Billion.[53]

To understand how and why this balance accumulated to this level requires an understanding of the history of the State's conversion from STARS to SCEIS, and the STO's investment and bank conversions.

The $1.8 Billion accumulated over six years, comprising more than 7,000 lines of entries (which increased and decreased the balance) reflecting an absolute value of more than $350 billion of entries.[54] We therefore have summarized the relevant events and facts that we deemed most important to understand how this balance came to be. The following chart illustrates the changes in the balance of the $1.8 Billion over the six-year period.



[51] Confirmed via SCEIS query of Fund 30350993.

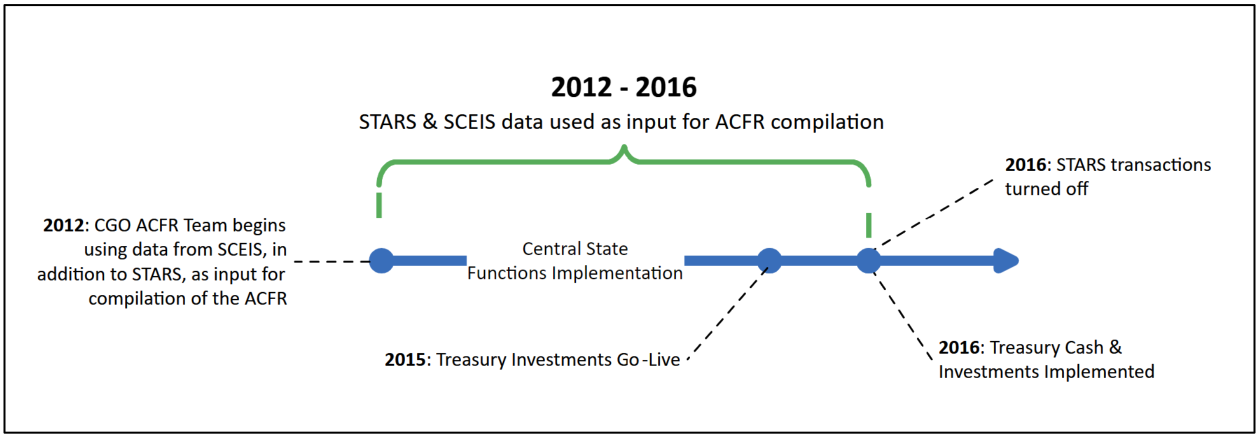
[52] While the balance in Fund 30350993 at the end of fiscal year 2017 is similar to the balance transferred from Fund 30350992, as we will discuss in the *ACFR Business Area ("BA") Entries* section, the similarity is coincidental, arising from errors which if rectified, would eliminate the resemblance.

[53] Confirmed via SCEIS query of Fund 30350993. Five additional entries totaling ($197,647), which were not a focus of our investigation, were recorded to this fund between 2019 and 2021.

[54] Confirmed via SCEIS query of Fund 30350993. The $350 billion represents the total absolute value of the debits and credits which, when summed, result in the $1.8 Billion balance. This excludes bank to bank transfers as they do not impact the cash balance.

c. STARS to SCEIS Conversion

The State began a system conversion in 2007, transitioning from its legacy system, STARS, to its new ERP system, SCEIS.[55] The phased conversion lasted ten years with the conversion of cash and investments within the STO culminating in 2017.[56] The following chart illustrates an overview of the conversion timeline from 2012 to 2016.



Despite having cash held by multiple banking institutions, the legacy STARS system had only four general ledger cash accounts: 1030, 1040, 1060, and 1061 (collectively, the "Legacy Cash Accounts") to track all cash activity. As each agency's balances were converted from STARS to SCEIS, the Legacy Cash Account balances were converted into similarly-numbered ten-digit accounts in SCEIS: 1000030000, 1000040000, 1000060000, and 1000061000.[57]

We understand from a former STO employee that the cash balance in STARS historically had not been reconciled on an individual bank basis; rather, it was reconciled in aggregate (i.e., the sum of the four Legacy Cash Accounts was reconciled to the sum of the bank balances). STARS was reconciled to a Financial Management System referred to as FMS, which was reconciled to the banks (in aggregate) daily.

STARS transactions included a 'Reference' field, which was also transferred from STARS to SCEIS. This field, which was manually populated by the STARS user, should have reflected a ledger code to identify the corresponding bank account to which the transaction related. However,

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[55] 2022 ACFR, p. 147.

[56] 2022 ACFR, p. 147.

[57] As we'll discuss in the *Bank Conversion* section, the transactions in these ten-digit accounts were subsequently transferred to bank-specific ten-digit general ledger accounts.

this field was not consistently populated and was also subject to human error since there was no bank account level reconciliation as a backstop.

As a result, certain STARS cash entries could not be tied to the bank account to which the underlying transaction related. Furthermore, STARS did not record transactions (i.e., transfers) between banks as they would not have impacted the aggregate cash balance.

While the Legacy Cash Accounts in STARS only contained bank transactions, within SCEIS, the 1000030000, 1000040000, 1000060000, and 1000061000 accounts (which contained the converted Legacy Cash Account transactions) were also used to record transactions related to appropriations, often referred to in the State as "dummy cash" or "not real cash". As we will discuss below, this complicated the bank conversion process and contributed to the \$1.8 Billion.[58]

d. Investment Conversion

The STO began the integration of the legacy IMS into SCEIS in 2015. General ledger accounts were created within SCEIS to load the associated balances from IMS with the final conversion impacts completed in the spring of fiscal year 2017.

As part of the conversion process, IMS was reconciled to BONY, and any reconciling differences were recorded to Fund 30350992. The differences resulted from "adjusting BONYM general deposit accounts to actual." Fund 30350992 was used in a similar manner to Fund 30350993 but was specific to investments and served to eliminate the discrepancies between the balances in SCEIS and IMS.[59] Following the investment conversion, a balance of \$1.56 billion remained in Fund 30350992.[60] In fiscal year 2017, this balance of \$1.56 billion was moved by the STO via a single entry to Fund 30350993.[61] We understand from a former STO employee that this movement was intended to group similar entries together and had no impact on the ACFR as both funds were excluded from the ACFR process.

e. Bank Conversion

The STO, working with SCEIS staff, began its bank conversion in 2015, starting with the smallest (and least complex) banks. The bank conversion consisted of two phases, generally split between

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[58] See *\$1.8 Billion Adjustment* for further detail.

[59] Fund 30350992 and Fund 30350993 recorded adjusting entries to eliminate reconciling differences during the conversion as detailed in the *Bank Conversion* section of the report.

[60] Confirmed via SCEIS query.

[61] Confirmed via SCEIS query. The conversion to Fund 30350993 consolidated three separate entries into one \$1.5 billion entry.

fiscal years 2016 and 2017. Phase 1 focused on identifying legacy cash transactions that could be linked (via the ledger code in the Reference field) to a specific bank and adjusting SCEIS for any unreconciled differences. Phase 2 primarily cleared the remaining legacy cash transactions that could not be linked to a specific bank.

During the early portion of Phase 1, throughout 2015, the STO, working with SCEIS staff, did not encounter any major obstacles or issues in identifying the relevant transactions. Within SCEIS, new ten-digit general ledger accounts were set up for each bank account, such that each bank had a dedicated account to which all its transactions were recorded. We understand from a former STO employee that this would allow the STO to reconcile at a bank account level, which was not possible in STARS.

As Legacy Cash Account transactions were identified in SCEIS, they were reclassified in SCEIS from the Legacy Cash Account to the corresponding bank-specific general ledger account (maintaining their original agency and fund designation). These conversion entries were generally grouped by year, starting with 2010 and continuing through the year prior to each bank's 'go-live' date. For the calendar year in which each bank-specific general ledger account went live in SCEIS, transaction-specific entries were then recorded for any transaction that occurred up to the go-live date in SCEIS.

When the STO, working with SCEIS staff, started to convert the mid-size banks in early 2016, it began to identify reconciling differences between the balances in the bank-specific general ledger accounts (that could be identified from the Legacy Cash Accounts in SCEIS) and FMS. Generally, any differences between SCEIS and FMS were resolved via an adjusting entry recorded to the bank-specific general ledger account under Fund 30350993 with an offset to the Conversion Account also under Fund 30350993.

The differences were not investigated as it was expected they would resolve themselves (i.e., net out) upon completion of the conversion. Various theories for said differences included:

1. The difference represented transactions that could not be identified due to a missing ledger code. At least one former STO employee believed these transactions related to 'interfund' transactions.
2. Since bank-to-bank transfers were not recorded in STARS, SCEIS would not reconcile to FMS (which did reflect bank-to-bank transfers).

3. When legacy agencies were retired or subsumed by another agency, detailed care was not taken to maintain the historical bank records of the predecessor agency.
4. Bank-specific general ledger bank accounts were generally established within SCEIS prior to the official "go-live" date for the bank account. During this interim period, activity recorded within these accounts was not subject to monitoring or oversight. When these general ledger accounts were reconciled to the bank (i.e., the 'go-live' date), we understand from a former STO employee that no investigation was undertaken to confirm the accuracy or validity of those transactions.

As one former employee of the STO explained, Fund 30350993 was necessary "to balance the system to the BANK, but the activity within [this fund] is AGENCY / FUND agnostic and not attributable to any specific agency."[62] It is unclear why no one from the CGO or STO objected to Fund 30350993 being excluded from the ACFR when representatives from both agencies were aware that the STO would need to include the cash entries within Fund 30350993 to reconcile to the bank. What is clear, however, is that the responsibilities for reporting and reconciling cash and investments at an agency and fund level need to be clearly delineated between the STO and CGO. We therefore recommend that policies and procedures be created to document these responsibilities.

#	Recommendation	Relevant Party(ies)
4	Develop comprehensive policies and procedures outlining the roles and responsibilities of the STO which must require that the STO report (and independently confirm, as needed) cash and investments in its custody by agency and fund at least annually.	STO
5	Develop comprehensive policies and procedures outlining the roles and responsibilities of the CGO which must require that the CGO reconcile cash and investments by agency and fund in SCEIS, the accounting system of record, to the information provided by the STO and AFS agencies.	CGO

[62] Fund 30350993 was necessary to reconcile to bank statements but the money within Fund 30350993 was not assigned to specific government agencies.

Based on these explanations and contemporaneous documents we reviewed, we understand that the STO intended for both the Conversion Account (and the offsetting sum of the cash balances under Fund 30350993) to net to zero. This understanding is further supported by communications and analyses shared with the auditors when the CGO was finalizing the fiscal year 2016 ACFR.

In November of 2016 (prior to the ACFR being released), CLA asked the CGO (and by extension, the STO) to analyze the balances in the Conversion Account in Fund 30350993 compared to the Legacy Cash Account balances in SCEIS. After receiving clarification from the CGO, the STO revised its reconciliation, which initially reflected a $366 million "unconsumed conversion balance." In the two weeks following, the figures in the analysis evolved with the "unconsumed conversion balance" increasing to $1.145 billion and again to $1.423 billion.

Only after these increases did the CGO inquire how such variances could be explained. A former employee of the CGO asked the STO whether they had "ever determine[d] if the conversion of Fund 30350992 of [$1.56 billion]…related to cash at BONY, was coming over in STARS before the conversion?" He added that "that difference is [$316 thousand] when netted against the [unconsumed conversion balance]."[63] We understand that the CGO did not fully understand the $1.56 billion amount related to BONY or how it could have explained the unconsumed conversion balance. The CGO should have obtained a clearer understanding of why the reconciling items it had proposed would have prevented the Conversion Account from balancing to zero.

In response, the STO circulated a revised version of the analysis reflecting the suggestions of the CGO as 'reconciling items', which reduced the unconsumed conversion balance to negative $388,256.[64] The CGO shared this file with the auditors, who do not appear to have rejected the analysis.[65] Despite these variances, we understand that the STO had expected there to be a "wash between the 'legacy 1030' cash accounts and the Conversion GL by GAAP Fund," thereby resolving these variances upon the completion of the conversion. The auditors could also not

[63] A current CGO employee expressed that it was neither appropriate nor logical to have 'netted' these reconciling items against the unconsumed conversion balance.

[64] We assume the difference between ($388 thousand) and ($316 thousand) is the result of minor changes in balances from the time of the earlier email.

[65] We found no information that indicated how CLA got comfortable with this analysis.

articulate why the 'reconciling items' in the State's analysis would have prevented the Conversion Account from netting to zero upon completion of the conversion.

Notably, CGO staff discussed that they could not ultimately provide the level of analysis requested by the auditors due to the high-level nature with which the conversion was conducted. As the CGO staff explained, the STO could not predict whether the conversion would unfold as intended "until the conversion [was] complete." Ultimately, the fiscal year 2016 ACFR was issued with the auditors' unmodified opinion on December 12, 2016.[66]

We understand that the former Comptroller General ("CG"), Mr. Eckstrom, insisted that the ACFR be issued in time to be considered for the Certificate of Achievement for Excellence in Financial Reporting (COA) from the Government Finance Officers Association (GFOA). However, the former CG often demanded that his team exceed the timing requirements of the GFOA, aiming to be the first state to issue its ACFR.[67] The CGO staff commented that these deadlines often placed unnecessary pressure on the team. It is unclear whether these deadlines influenced the State's analyses in this instance. Nonetheless, the CGO would benefit from establishing requirements that would mitigate any undue pressure going forward.

#	Recommendation	Relevant Party(ies)
8	Establish a checklist for determining when the ACFR can be publicly released. The ACFR should not be released until all necessary steps and audit procedures have been completed to ensure the quality and accuracy of the reported information. ACFR release date should not place undue pressure such that less work is performed, or issues are insufficiently resolved in order to achieve an unrealistic deadline.	CGO

We learned that the CGO was often understaffed, understanding that they believed they did the best they could with the limited resources they had. We therefore recommend that the CGO

[66] 2016 ACFR, p. 18-20.

[67] The deadline to submit an ACFR to the GFOA for COA is six months after the end of the fiscal year (i.e., December 31). South Carolina issued 2015-2021 ACFRs on the following dates: 2015, 11/25/2015; 2016, 12/12/2016; 2017, 11/17/2017; 2018, 11/15/2018; 2019, 11/14/2019; 2020, 11/13/2020; and 2021, 11/12/2021.

supplement its team with internal and/or outside assistance to ensure sufficient resources are available for the ACFR preparation.

#	Recommendation	Relevant Party(ies)
9	The CGO should assess the need to hire additional CGO staff and/or outside assistance to prepare the ACFR and better distribute workloads.	CGO

During Phase 2 of the conversion, which largely occurred in 2017, the STO, working with SCEIS staff, cleared all remaining balances in the Legacy Cash Accounts in SCEIS (which were recorded to various funds and business areas/agencies) to the Conversion Account under Fund 30350993. This phase culminated with an entry posted on November 7, 2017 (for fiscal year 2017), known informally as the "Big Fix entry", which moved more than $29 billion of Legacy Cash Account balances in SCEIS "to [clean] up the legacy accounts 1030 /1040 / 1060 / 1061 such that now all cash [would be recorded] either in a bank[-specific] general ledger [account] or in the splitter account."[68,69]

These Phase 2 entries had two primary effects: (1) they cleared all balances in the Legacy Cash Accounts in SCEIS (including any appropriations-related activity which we will discuss); and (2) generated a 'splitter' entry that, in the aggregate, reduced Fund 30350993 to a balance of $1.56 billion which was generally consistent with the STO's fiscal year 2016 analysis (i.e., that the $1.56 balance attributable to BONY would remain).[70]

During our investigation, we identified an email in which a member of the STO and CGO acknowledged, during the conversion process, a method by which the standard entry approval workflow in SCEIS could be circumvented.[71] We understand that the CGO is aware of this

[68] The splitter is a Cash Due To/From general ledger account. SCEIS has been configured to balance transactions so that they balance by fund and business area. If an entry is recorded to more than one fund or business area the splitter is automatically 'invoked' by the system. In other words, when the amounts recorded in an entry do not balance by fund or business area as entered, SCEIS then *automatically* generates new lines in the entry to balance the document.

[69] The STO, SCEIS staff, and the CGO were involved in posting the "Big Fix entry."

[70] Confirmed via SCEIS query.

[71] Two adjusting entries were posted "to effect the clean-up and adjustment to bank recon[ciliation]" for expenditure accounts utilizing T-Code FB50, which allowed the employees to bypass the standard approval workflow process.

apparent loophole. This workaround must be eliminated to ensure that that CGO exercises proper oversight of the entries posted by the STO.

#	Recommendation	Relevant Party(ies)
22	Eliminate any workarounds to the standard entry workflow. Reevaluate permissions in SAP for all STO staff.	CGO and SCEIS

f. Reclassification of the $1.56 Billion Conversion Account to a Liability

In March 2018, consistent with the STO's belief the Conversion Account should have had a zero balance at the end of the conversion, the STO explained it had "determined that the balance of the Conversion general ledger within 30350993 [should be] written off as a prior period adjustment in order to complete the conversion process as all of this activity took place in years 2016 and prior."[72] The STO shared its workpaper with the CGO with the proposed PPA entry.[73] The CGO reviewed the workpaper and suggested, "[i]nstead of putting it [to prior period adjustment], possibly put it to another account."

We learned from a former STO employee of a meeting during this time, which was apparently attended by a CLA Partner (and possibly an OSA representative), two STO employees, and a CGO employee during which the STO proposed that the PPA be recorded to the ACFR General Fund, to which the CLA Partner responded that he would not issue the ACFR with a PPA. Following the meeting, the CGO instructed the STO to transfer the balance to the liability account 2400040001 (Due to Other Funds – Equity in Pooled Cash).

Before following these instructions, the STO then offered a counter-proposal to allocate "the BONY amount [i.e., the $1.56 billion] to the M2M [mark to market] offset account, and then the $500k to the liability account." The CGO disagreed, advising the STO to record the entire $1.56 billion balance to the liability account. The STO responded by saying, "If you believe its [sic] easier to explain to the auditors, we can us[e] the "24" account and I'll re-word my w/p explanations to match" and attached a revised workpaper reflecting the feedback from the CGO.

[72] The proposed adjusted entry reflected a $1.5 billion debit to the Conversion Account and $1.5 billion credit to 7000003000 (Prior Period adjustment account) under Fund 30350993.

[73] The proposed entry debited $1.56 billion to the Conversion Account and credited $1.56 billion to the PPA account.

The entry was ultimately recorded to 2400600002 (Due to Other Funds – Equity in Pooled Cash) on March 5, 2018.[74] Despite reclassifying the Conversion Account balance to an account called 'Due to Other Funds – Equity in Pooled Cash', neither the STO nor the CGO made any subsequent attempts to identify to whom such funds were owed until fiscal year 2022.

g. 2018 $324 Million Entry to the Liability Account

Despite the STO having previously indicated the conversion was complete, and after the balance in the Conversion Account was transferred to the liability account, CGO staff reached out to the STO in October 2018, shortly before the fiscal year 2018 ACFR was issued by asking, "[w]ere you able to compare the last year conversion balance with what you actually converted?" Later, the CGO provided a list of ACFR BA balances totaling approximately $324 million "that need[ed] to be washed through the Conversion Account." This entry was recorded directly against liability account 240060002 under Fund 30350993, increasing the balance in the liability account to approximately $1.8 Billion.

Neither the STO nor the CGO has taken ownership over this entry, although the entry was posted by an STO employee. A current CGO employee drafted a memo in March 2024 that explains that the entry was requested by the STO. The memo explains, that during the STO's cash conversion from STARS to SCEIS, the STO could not convert funds held in a certain general ledger account because they did not have access. It then explained how the STO requested that the CGO (who had control over those accounts) move those funds to a general ledger account that the STO had access to so they could include the funds in the accounts they did not have access to in the conversion. Despite this recounting, we identified other information which suggests that the request was made by the CGO, potentially undermining the credibility of the March 2024 memo.

Regardless of who initiated the entry, the CGO has concluded that this entry and any other conversion of ACFR Business Area (e.g., A000) balances was incorrect.[75]

h. ACFR Business Area ("BA") Entries

As discussed in the *Background* section of this report, the CGO maintains business areas within SCEIS which correspond to the various State agencies for reporting purposes. The business areas

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[74] Confirmed via SCEIS query. The CGO subsequently requested that the STO record the entry to account 2400600002.

[75] See *ACFR Business Area (BA) Entries* section for further discussion.

ultimately roll-up to nine ACFR BAs within SCEIS to assist in compiling the ACFR.[76] We understand the ACFR BAs are unrelated to day-to-day accounting activity and do not equate to cash in a bank. During Phase 2 of the bank conversion $1.6 billion of ACFR BA balances was incorrectly transferred to the Conversion Account, which had the effect of turning non-cash balances within Legacy Cash accounts in SCEIS into 'real cash' by transferring those balances into 'real cash' general ledger accounts.

The effect of these entries was a net credit (i.e., decrease) to the cash balance within the ACFR BAs of $1.6 billion and a net debit (i.e., increase) to the cash balance under Fund 30350993 of $1.6 billion. These entries created a *negative* $1.6 billion ACFR BA cash balance (which was included in the ACFR) and a *positive* $1.6 billion cash balance in Fund 30350993 (which, up until fiscal year 2022, was excluded from the ACFR).

The CGO determined that the entries should not have been made and, through test-only (i.e., not formally recorded) SCEIS entries, has ascertained that reversing these entries does not impact the STO's ability to reconcile SCEIS to the bank.[77] The bank balances in SCEIS remained unchanged as a result of these test entries. The result of these reversals leaves a $245 million net cash (and corresponding liability) balance in Fund 30350993.

We ran an independent test of the reversal entries in conjunction with the SCEIS and Admin IT Teams and confirmed that the resulting balance of the liability account under Fund 30350993 was $245 million. We conducted a reconciliation of the bank account balances both before and after reversing the entries and confirmed that the balances of the bank-specific general ledger accounts impacted by the bank conversion did not change.

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal
2400600002 Due to Other Funds - Equity in Pooled Cash	1,852,455,573.29-	1,607,450,621.28	245,004,952.01-

As we will discuss in *2022 Restatement - $1.8 Billion Adjustment,* these reversals do not change the PPA of $3.5 billion and would not require further restatement action; rather, they assist in

[76] ACFR BAs include: A000 (General Governmental), H000 (Education), J000 (Health-Environment), L000 (Social Services), N000 (Admin of Justice), P000 (Resources-Econ Dev), U000 (Transportation), V000 (Debt Service), and X000 (Intergovernmental).

[77] By reversing these transactions, while the split between Fund 30350993 and ACFR BAs changes, the aggregate bank balance remains unchanged.

identifying how the $1.8 Billion should be recorded (and would have simplified the restatement process had the CGO come to this realization in fiscal year 2022).[78]

i. Unconverted STARS Agency

As discussed in *$1.8 Billion Existing in Fund 30350993 – Determination of Anchor Year*, the STARS Agency '000' was part of the ACFR General Fund and was necessary to include the cash balance for the STO to reconcile to the aggregate bank balance. Based on our analysis, we have confirmed that the fiscal year 2015 balance in this agency of $234 million was not converted from STARS to SCEIS.

As a result, the balances in the Legacy Cash Accounts in SCEIS did not reflect this amount, which meant that no corresponding offset existed for the entries that would have been recorded to Fund 30350993 to reflect this balance during Phase 1 of the bank conversion.

As this agency was part of the ACFR General Fund in STARS, the $234 million attributable to this agency in Fund 30350993 also belongs to the ACFR General Fund. While we could not identify the root cause of the remaining balance of $11 million ($245 million less $234 million), we similarly believe it belongs to the ACFR General Fund as no agency has made claim to it during our review period and through the date of this Report. While the $245 million is the only portion of the $1.8 Billion that was ever spendable/investable, it is included in the funds over which the STO has custody and is therefore <u>not</u> available to allocate or appropriate. The $245 million is included in the bank balances reported by the STO, which the STO would have invested. An adjustment to the general ledger is required such that it is properly reflected within the ACFR.

To completely resolve the issue of the $1.8 Billion, the CGO must make certain entries to SCEIS such that the $245 million is included in the State's reported cash balance in the ACFR General Fund and that the corresponding liability is removed.

[78] In fiscal year 2023, a $1.8 Billion topside entry was required to increase (i.e., debit) cash, which offsets the negative $1.6 billion ACFR BA cash balance resulting in a net increase to cash $245 million. A balance of $245 million would remain in Fund 30350993 (which would need to be added to cash) after reversing the $1.6 billion ACFR BA cash entries. Thus, both methods arrive at the same net increase of $245 million that must be manually added to cash (so long as Fund 30350993 is excluded from the ACFR).

#	Recommendation	Relevant Party(ies)
17	The CGO should record two sets of entries to SCEIS to properly reflect the $1.8 billion cash balance: (1) reverse the $1.6 billion incorrectly-converted ACFR Business Area balances as proposed by the CGO; and (2) record an entry to SCEIS for $245 million as a debit to account 2400600002 (Due to Other Funds – Equity in Pooled Cash) in Fund 30350993 and a credit to account 7000001000 (Prior Period Adj – CAFR) (i.e., the restatement account) within the ACFR General Fund.	CGO

Given that there is no business area in SCEIS for unclaimed General Fund cash, we understand how the balance of this agency could have been omitted from the STARS to SCEIS conversion. The original design of SCEIS was approved by Central State Finance agencies (i.e., the business owners) at the time the system was developed for initial implementation. We understand that certain users find the design to be cumbersome when attempting to confirm statewide General Fund cash. We therefore recommend that the CGO, the STO, and SCEIS reevaluate the configuration of unclaimed general fund cash in SCEIS.

#	Recommendation	Relevant Party(ies)
23	Evaluate the current configuration of SCEIS including, but not limited to, the configuration of the cash in the budgetary General Fund to determine whether changes are warranted.	CGO, STO, and SCEIS

VI. 2022 Restatement

a. Restatement Overview

Note 15 of the 2022 ACFR states that the State discovered in fiscal year 2022 that cash transfers out of the ACFR General Fund were erroneously excluded from the ACFR since 2012 related to appropriations to certain entities (namely higher education institutions) (referred to herein as the "Double-Counting of Appropriations").[79] Note 15 adds that "this mapping error impacted the ACFRs for fiscal years 2012 through 2021, overstating ACFR General Fund cash and fund equity in those ACFRs by a cumulative amount of $3.530 billion."[80] The $3.5 billion figure is not related entirely to the Double-Counting of Appropriations, but rather it is the net result of three primary categories of errors: (1) the Double-Counting of Appropriations, which had improperly overstated cash by $5.9 billion, (2) the cash balance in Fund 30350993, which improperly understated cash by the $1.8 Billion, and (3) a $517 million Department of Transportation-related adjustment which also had understated cash (the "DOT Adjustment").

Restatement Categories	2022 Restatement
Double Counting of Appropriations	$ (5,899,197,555)
Fund 30350993 Cash Balance	1,852,455,573
DOT Adjustment	516,909,503
2022 Restatement	**$ (3,529,832,480)**

As this level of detail was not disclosed, the CGO should consider whether that disclosure warrants additional clarification.

#	Recommendation	Relevant Party(ies)
18	Consider whether to clarify Note 15 of the fiscal year 2022 ACFR including, but not limited to, whether to specifically identify and quantify the relevant components.	CGO

[79] 2022 ACFR, p. 146-147.

[80] 2022 ACFR, p. 146-147. Mapping refers to the CGO process of identifying whether general ledger accounts should be included in the ACFR. Fund 10019000 was not "linked" correctly to be included within the ACFR.

b. Double-Counting of Appropriations Cash

Each year, State appropriations are authorized in the General Appropriations Act to allocate funds for government operations or programs for the fiscal year. Appropriations do not represent an actual transfer of cash; rather, they constitute the assignment of claims to the cash. Agencies may then request and expend cash up to the appropriated amount to fund their operations and fulfill their authorized responsibilities. The Executive Budget Office ("EBO") loads recurring appropriations into SCEIS on or before July 1. The amounts are loaded to Fund 10010000 (General Fund) for Reporting Entities and Fund 10019000 (AFS - General Fund) for AFS Entities.[81] The CGO will execute a corresponding cash entry within SCEIS that aligns with the appropriation amounts to ensure there are sufficient funds available to support the newly authorized spending.[82] Nonrecurring or supplemental appropriations are distributed by September 30 to the extent that there is sufficient surplus from the prior year's budget. The budgetary General Fund budget and cash can be adjusted during the fiscal year for reasons including, but not limited to: special legislation, interagency transfers, midyear budget cuts, lapses, and carry forwards.

The Double-Counting of Appropriations originated when SCEIS was first brought online in 2007 but did not impact the ACFR until 2012, the first year in which SCEIS was incorporated into the ACFR.[83] We understand the Double-Counting of Appropriations relates specifically to Fund 10019000 in SCEIS, which, until January 4, 2023, was mapped as a 999 GAAP code which designates that the fund is excluded from the ACFR. For ACFR compilation purposes, amounts for AFS entities are manually entered into SCEIS based on their audited financial statements. Consequently, the claim to cash from the perspective of the AFS entities was correctly included in the ACFR. However, the corresponding transfer-out from the ACFR General Fund was erroneously omitted from the ACFR, thus overstating or "Double-Counting" ACFR General Fund cash related to the appropriations to AFS entities.[84] The CGO determined that the aggregate impact of the Double-Counting of Appropriations was $6.9 billion, of which $5.9 billion relates to the

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[81]Reporting entities do not have their financial audit performed by a third party accounting firm and therefore complete and submit detailed reporting packages to the CGO.

[82] For example, the CGO will debit general ledger account 1000030000 (General Fund Appropriation Cash) and credit account 7999999997 (General Fund Appropriation Cash Offset) to load General Fund Appropriation Cash into SCEIS for the authorized amount. A corresponding debit to 7999999997 and credit to 1000030000 will be posted to BA Z900 to offset the increase in cash so that statewide cash is not impacted.

[83] 2022 ACFR, p. 147.

[84] 2023 ACFR, p. 147.

prior period (i.e., 2021 and prior).[85] The CGO viewed the components of the $5.9 billion as: (1) $3.1 billion recorded in 2017 as part of the bank conversion;[86] and (2) $2.8 billion recorded between 2018 and 2021 in Fund 10019000.

We reconciled the activity in Fund 10019000 between 2012 and 2022 by comparing general ledger activity independently generated from SCEIS to the General Appropriation Act legislation (i.e., control documents) while also considering supplementary appropriations, transfers, allocations, carryforwards, and lapses. This reconciliation confirmed that the amounts recorded to Fund 10019000 matched the legislative appropriation activity. We performed this exercise because the CGO did not do so as part of its restatement work nor as part of any recurring check on the accuracy of the amounts in the general ledger. We therefore recommend that the CGO implement a process to do so on a recurring basis.

#	Recommendation	Relevant Party(ies)
10	Establish a formalized process by which appropriations as recorded in SCEIS are reconciled to the amounts reported in the AFS entities' financial statements and the corresponding legislative documents.	CGO

The $3.1 billion portion of this adjustment overlapped with the previously discussed $1.8 Billion. As a result, the CGO did not accurately separate the components of the Double-Counting of Appropriations from the $1.8 Billion adjustment in its workpapers. Had the CGO performed a detailed analysis to corroborate the appropriations amounts for each fiscal year, they likely would have identified this distinction. Nevertheless, despite this misunderstanding, and due to the overlapping offsetting nature of these adjustments, we did not identify any evidence that calls into question the total amount of the PPA of $3.5 billion.

[85] The approximately $1 billion difference is attributed to 2022 and since the ACFR had not yet been issued, it could be corrected and properly reflected in the 2022 ACFR.

[86] $2.5 billion of the $3.1 billion relates to appropriations recorded between 2009 and 2014. The remaining $600 million, which was confirmed via SCEIS query, represents the appropriations recorded in 2017 in Fund 10019000. See *$1.8 Billion Adjustment* for discussion of the 2015 and 2016 appropriations, which were not part of the $3.1 billion.

c. $1.8 Billion Adjustment

Another component of the restatement is the $1.8 Billion net cash balance recorded in Fund 30350993.[87] Similar to Fund 10019000, Fund 30350993 is a treasury fund in SCEIS that was mapped by the CGO as a GAAP Fund code 999 such that it was excluded from the ACFR.

As of 2022, the $1.8 Billion balance is composed of: (1) balances recorded related to 11 bank accounts (with a total balance of $31.0 billion); and (2) the 'splitter' balance in Fund 30350993 (with a balance of negative $29.1 billion).[88] We have confirmed that, in each instance, SCEIS cannot be reconciled to the bank statements for those 11 banks without including the cash in Fund 30350993.[89]

We also understand that the CGO could not reconcile cash in fiscal year 2022, in the aggregate, without the $1.8 Billion (i.e., the net balance in the bank general ledger accounts and the splitter). As discussed in *ACFR Business Area ("BA") Entries*, $1.6 billion of ACFR BA balances was incorrectly transferred to Fund 30350993, which resulted in a *negative* $1.6 billion ACFR BA cash balance (which was included in the ACFR thus suppressing the reported cash balance) and a *positive* $1.6 billion cash balance in Fund 30350993 (which, up until fiscal year 2022, was excluded from the ACFR).

Since issuing the fiscal year 2022 ACFR, the CGO has determined (and we agree) that those ACFR BA entries should not have been recorded as part of the conversion and, had they not been recorded, only $245 million would have remained in Fund 30350993.

However, the CGO did not come to this realization at the time of the restatement. Therefore, the full $1.8 billion adjustment was required to offset the *negative* $1.6 billion cash balance within the ACFR to arrive at a net balance of $245 million. Based on this understanding, we believe the $1.8 Billion is appropriately reflected in the 2022 PPA.[90]

d. DOT Adjustment

Between 2013 and 2017, the CGO recorded in the ACFR General Fund transfers to the DOT for appropriations yet to be drawn down by the DOT each year. The transactions were recorded to

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[87] $1.8 Billion represents the net cash balance of Fund 30350993 within all cash general ledger accounts in SCEIS (i.e., accounts starting with '1').

[88] Confirmed via SCEIS query of Fund 30350993.

[89] Confirmed via SCEIS query of Fund 30350993.

[90] See *ACFR-Only Business Area Entries* section for discussion of ACFR BAs within the $1.8 Billion.

general ledger accounts 1100000000, 1100000007, and 1100000012 which reduced the cash balance in the ACFR General Fund. When a different CGO employee assumed responsibility for this process in 2018, they discontinued the process based on the understanding the appropriations represented only a claim to cash, rather than an actual transfer of cash, thereby making the entry unnecessary.

In response to a request from the OSA in 2022, the CGO reversed the accumulated transfer balance after determining those entries were duplicative of funds already accounted for within the ACFR General Fund. To effect this change, the CGO recorded a PPA of $517 million to increase the ACFR General Fund cash balance with an offset to the PPA account.[91] In subsequent periods, the CGO began recording any DOT unspent appropriations as an interfund payable from the ACFR General Fund.

We assessed the accuracy of the CGO's analysis underlying this adjustment by independently corroborating the inputs.[92] Based on this assessment, we believe the cumulative restatement amount of $516,909,502 is accurate. We also believe that the individual DOT-related adjustments recorded to the statistical tables are accurate.

e. Statistical Tables

Statistical tables present multi-year – often ten years or more - comparative data that extend beyond the annual basic financial statements.[93] Since comparative financial statements are not issued in the ACFR, the statistical tables, which are not audited, provide a more comprehensive view into the historical data that accompany the financial statements.

We reviewed the CGO's analysis that serves as the basis for the adjustments to the statistical tables related to the Double-Counting of Appropriations and the $1.8 Billion. We confirmed that this analysis ties to the CGO's supporting document (which includes the DOT Adjustment), which ties to the statistical tables.[94]

The CGO's analysis attempted to quantify the appropriations between 2012 and 2022 by pulling activity from account 1000030000 in Fund 10019000 for each year. The balances for years 2018

[91] Confirmed via SCEIS query.

[92] External sources included SCEIS data, legislative appropriation documents, and DOT financial statements.

[93] GASB Codification of Governmental Account Standards Section 2800, "Statistical Section".

[94] This analysis quantifies the yearly adjustments for the $1.8 Billion and Double-Counting of Appropriations but does not include the DOT Adjustment.

through 2021 were appropriately applied directly to the statistical tables. Conversely, the amounts for 2012 to 2017 were adjusted using a percentage allocation methodology. Under this methodology, the relative size of the appropriation amounts for each year was calculated as a percentage of the total of the six years. Each of these percentages were then multiplied by $1.3 billion, which represents the $3.1 billion recorded in 2017 as part of the bank conversion[95] less the $1.8 Billion. The CGO has agreed with our assessment that this percentage-based allocation methodology does not represent best practice. At a minimum, since these represent cumulative balances, a more defensible approach would have been to restate the statistical tables based on the balance in the relevant accounts each year. We understand that the CGO has begun to reassess its allocation methodology which has resulted in at least one adjustment different than what had previously been presented.[96] We therefore recommend that the CGO reevaluate the accuracy of the statistical tables prior to the release of its next ACFR.

#	Recommendation	Relevant Party(ies)
19	Evaluate the accuracy of the amounts in the statistical tables as reflected in the fiscal year 2022 ACFR. If materially inaccurate, determine if revisions necessitate changes in presentation and/or disclosure prior to issuing the fiscal year 2024 ACFR.	CGO

During our review we identified certain adjustments, some of which the CGO had recorded, others they had elected not to record due to perceived ‘immateriality’. When we inquired about how materiality was evaluated, we learned that the CGO does not have a method of accumulating errors to allow it to properly evaluate materiality. We therefore recommend that the CGO establish this process so errors can be tracked and reevaluated as necessary.

[95] $2.5 billion relates to appropriations recorded between 2009 and 2014. The remaining ~$600 million represents the appropriations recorded in 2017 in Fund 10019000.

[96] The CGO has preliminarily concluded that cash was overstated by approximately $1.1 billion in 2016.

#	Recommendation	Relevant Party(ies)
11	Implement a standardized procedure for tracking and documenting errors, corrected and uncorrected, to ensure they are identified, analyzed, and corrected (if needed). Procedure should establish requirements for elevation to appropriate levels within the CGO and to the auditors.	CGO

f. 2022 Topside Entries Related to Cash Presentation

On November 3, 2022, CGO staff discussed with the OSA staff $5.02 billion of topside entries or 'late manual adjustments' that the CGO planned to record to the ACFR which was comprised of $4.1 billion of credits to investments (which represents the net of the $1.8 Billion and the Double-Counting of Appropriations adjustments of negative $5.9 billion) and $973 million[97] of credits to cash (which represents the current-period 2022 Double-Counting of Appropriations adjustment). The CGO sent an email (in an apparent response to a question from the OSA) explaining that it could "take cash down to zero and the offset to investments. However, we will not take cash negative." In clarifying its question, the OSA expressed a desire to "gain a deeper understanding of why we need to use investments."

The next day, the CGO recorded those entries of $4.1 billion and $973 million to credit (decrease) general ledger account 1000030000 (i.e., cash) with offsets to debit (increase) the PPA account and the General Government account, respectively.[98] The CGO additionally recorded the DOT adjustment of $516 million to credit (decrease) the PPA account and debit (increase) the CAFR – Due To/Due From account.[99] As expected, these entries resulted in an approximately $700 million negative cash balance within the ACFR General Fund.[100]

The CGO subsequently provided the auditors a draft of the ACFR reflecting a zero cash balance in the ACFR General Fund (with the $700 million deficit presumably being offset by a topside

[97] The $973 million represents 2022 appropriations recorded to Fund 10019000.

[98] Confirmed via SCEIS query. The Prior Period Adjustment is documented in Exhibit B-2 of the 2022 ACFR within "Fund balances at beginning of year, as restated".

[99] Confirmed via SCEIS query. The resulting balance within the PPA account is the $3.5 billion restatement amount.

[100] Excluding the topside entries of [$5.02 billion] and [-$1.28 billion] the balance for Cash and cash equivalents for the General Fund was [-$705 million]. We believe that the CGO recorded the PPA directly to the general ledger such that the exact amount of the topside entry could be determined to arrive at a zero cash balance.

entry adjustment). CLA and OSA provided comments in response, including a comment from OSA that "[g]eneral Fund Cash and cash equivalents shouldn't be $0." We understand that the OSA did not intend for the comment to be viewed as a directive but rather an informal question as they believed (incorrectly) that ACFR General Fund Cash had never been zero.[101] We further understand that the OSA's view is that there is no accounting standard that says cash cannot be zero, but also acknowledged that cash had not been zero in the ACFR General Fund in any prior year. We subsequently learned of an additional document in which the CGO recounted a conversation with OSA stating that OSA "want[ed] [the CGO] to fix [the ACFR General Fund balance] so cash won't be zero."

The CGO appears to have taken these comments as a directive, and provided a revised version of the ACFR to the auditors in response to the auditors' comments on November 17, 2022, reflecting a cash balance in the ACFR General Fund of approximately $3.0 billion. To effect this change, the CGO recorded two topside entries to the ACFR General Fund 'Cash' and 'Investments' line items. The first entry reclassified $5.02 billion from investments to cash while the second reclassified $1.28 billion from cash to investments resulting in a net increase of $3.7 billion to Cash and corresponding decrease to investments. The $5.02 billion topside entry negates the cash impact of the PPAs recorded to the general ledger (i.e., increasing cash by $5.02 billion), while the $1.28 billion entry reduced cash by that amount (and increases investments).

We understand from the CGO that these specific amounts could not be supported by contemporaneous documentation. Aside from the relationship of the dollar amount of these topside entries to the PPA, we have not identified any contemporaneous documentation to support the amount of these topside entries. We therefore recommend that the CGO institute a policy that dictates when topside entries can be used and mandates the minimum requirements for documentation for all entries (including topside entries).

#	Recommendation	Relevant Party(ies)
12	Revise the existing entry policy to enumerate the specific situations under which late entries (i.e., topside entries) are permitted. The policy must also be	CGO

[101] The fiscal year 2015 ACFR General Fund cash, before topside entries was [-$246 million].

#	Recommendation	Relevant Party(ies)
	amended to set the minimum level of documentation required for all entries, including topside entries.	

This is not the first instance in which the State reclassified amounts in lieu of presenting a negative cash balance. In fiscal year 2016, the State reported a cash balance of zero within the State Tobacco Settlement fund. However, rather than reclassifying the deficit from investments, $3.3 million (the amount by which cash was negative) was reclassified from accounts payable.[102]

Conversely, as discussed in *2023 Negative ACFR General Fund Cash Topside Entry*, the CGO recorded a topside entry in fiscal year 2023 to offset the amount by which ACFR General Fund Cash was negative, such that ACFR General Fund Cash was zero. The accounting basis of the CGO's decision to report a positive cash balance in the ACFR General Fund in fiscal year 2022 is unclear, given that ACFR General Fund cash was also negative (prior to any topside entries) in fiscal year 2023. We therefore recommend that the CGO establish a policy that governs how instances of negative cash are presented in the ACFR to ensure consistent application and conformity with relevant accounting standards.

#	Recommendation	Relevant Party(ies)
20	Establish a policy or procedure that outlines the CGO's position on accounting for negative cash (with relevant GAAP/GASB citations) and the related accounting and disclosure requirements to ensure compliance and consistency in application.	CGO

We understand that these topside entries are emblematic of the lack of communication and coordination between the STO and CGO. We therefore have made certain recommendations in an

[102] Description of topside entry states, "Reclass negative cash to accounts payable- negative cash was created when reclassing funds to match STO investment balances."

effort to improve this relationship and also to establish a mutual understanding as to how negative cash arises.

#	Recommendation	Relevant Party(ies)
1	Hire an independent third party (e.g., independent compliance consultant) to assess and oversee compliance with all recommendations in this report.	The State of South Carolina
6	Consider changes to the CGO's and STO's duties and structure to enable better cooperation between the two agencies.	The State of South Carolina
7	Provide training and related documentation to the STO that explains where cash and investments in the STO Treasury show up in the ACFR and how negative cash can occur. Documentation should be sufficient to allow the STO to independently quantify the ACFR General Fund cash balance using information to which it already has access.	CGO

VII. ACFR Compilation Process

a. Crosswalk File Overview

Parts 1 and 3 of our Scope of Work generally require that we:

1. Analyze and reconcile all Treasury Cash and Treasury Investments to external statements to the extent possible (Part 1)
2. Assess the accuracy of the cash and investments balances in SCEIS (Part 3)
3. Determine if the amounts of cash and investments reported in ACFRs were fairly stated and categorized in the appropriate funds (Part 3)

To accomplish these tasks, we analyzed the CGO's Crosswalk file, which is an Excel file that aggregates the State's cash and investment balances from SCEIS for each ACFR. Our analyses of the Crosswalk files therefore served to confirm whether: (1) cash and investments balances in SCEIS and, by extension, the ACFRs were accurate and appropriately categorized (2) the portion of Treasury Cash and Treasury Investments could be tied to an external source.

Although only the aggregated balances in the Crosswalk are tied to the ACFR, Crosswalk files are composed of certain categories that reflect the build-up of the cash and investment balances. We noted that the level of detail and the format of Crosswalk files varied over the years, in general, they contained similar content. For example, the 2019 Crosswalk contained the following categories: (1) STO Cash, (2) Investments, (3) Appropriations, (4) CGO Adjustments, (5) AFS Cash and (5) AFS Restricted Cash and Investments.

The amounts in the Crosswalk include all cash or investment balances, regardless of fund classification. However, funds with a GAAP Fund Code of 999 are also separately shown on the Crosswalk with an 'Exclude' designation to ensure they are excluded from the amounts reported in the ACFR.[103]

b. Assessing the Accuracy of Crosswalk Files

Before analyzing the Crosswalk files, we first sought confirmation that: (1) we could independently reperform the SCEIS query underlying the Crosswalk files and (2) the Crosswalk could be tied to the corresponding ACFR.

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[103] We did not identify any funds beyond Fund 30350993 that remain improperly classified.

Analysis of the SCEIS query output generally resulted in insignificant variances, if any. We received sufficient explanations for any significant variances, which were generally attributable to either manual adjustments (i.e., reflected in the Crosswalk but not recorded to SCEIS) or entries posted after the date the SCEIS GL report underlying the Crosswalk was generated. In each instance, we were able to confirm the explanation provided and we therefore do not believe these variances are indicative of any error in the ACFRs. However, we believe these variances represent yet another example of how the CGO's workpapers could be better documented and more sufficiently reviewed.[104] Nonetheless, this exercise established that the data in SCEIS at the time of our investigation could be relied upon to assess the accuracy of said data contemporaneous to the respective ACFRs.

After verifying the reliability of SCEIS, we traced all cash and investments (i.e., not limited to Treasury Cash and Treasury Investments) balances (both restricted and unrestricted) per the Crosswalk to the corresponding ACFR exhibits.[105] We generally tied the Crosswalk files to the ACFR within variances that appeared attributable to rounding after including any topside entries.[106] We performed this exercise both in the aggregate and at the fund-level as reported in the ACFR. This reconciliation confirmed that any test or analysis of the SCEIS data would, by extension, represent an assessment of the data included in the corresponding ACFRs.

c. Tie-out of STO Cash to External Sources

Treasury Cash was generally comprised of two categories in the Crosswalk: STO Bank and CRAs.[107] We reconciled the 'STO Bank' component of the Crosswalk files to banking data either provided directly by the STO or bank statements extracted from contemporaneous STO closing packages, with only minor discrepancies which were generally attributable to timing differences. This reconciliation required that we include all funds, including those with a GAAP Fund Code of 999 (e.g., Fund 30350993).

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[104] Refer to recommendations 14 and 15.

[105] Relevant ACFR exhibits included B1, B3, B6, C1, D1, E1, E4, F1, F3, F5 and G1.

[106] Refer to 2023 Negative *ACFR General Fund Cash Topside Entry* section for further discussion.

[107] The Composite Reservoir Accounts were established by the STO to centralize the banking operations of agencies processing their own checks whose disbursements are not subject to a warrant by the Comptroller General. This allows State entities (agencies and universities) to issue checks against a pooled balance.

We were unable to perform the same reconciliation for the CRAs. The CGO explained that the AFS entities that have a CRA are not required to record the activity in SCEIS.[108] As a result, certain AFS entities record such activity to SCEIS while others do not. This inconsistency requires the CGO to compile, compare, deduplicate and aggregate CRA balances from AFS entities and SCEIS when building the ACFR. Documentation of this analysis performed by the CGO was not available for fiscal years prior to FY2022. For the fiscal years in which such documentation was available, while we could not independently reperform the analysis, we reviewed the documentation, which is part of the CGO's 'push-down' file[109], noting the process appears to be an improvement from prior years' documentation.

#	Recommendation	Relevant Party(ies)
24	Ensure that all agencies including the STO are using SCEIS for tracking cash in all CRAs. This will improve the efficiency and accuracy when developing the yearly ACFR.	CGO, STO, and SCEIS

d. Tie-out of STO Investments to External Sources

The 'Investments' component of the Crosswalk is comprised of Treasury Investments as well as investments held by AFS entities. For fiscal years 2016 through 2023, we tied the total fair market value of the State's investment securities per BONY, the State's investment custodian, to a variety of reports including the SCEIS "ZIMRQ300" and the IMS "TIM806" report, which present mark-to- market values and interest by fund and portfolio.[110]

Having confirmed that the investment fair market value from BONY, an external source, reconciled to SCEIS, we then compared the fair market value per the ZIMRQ300 and the TIM806 reports to the portion of the Crosswalk Treasury Investments[111]. Our tie-out involved isolating the investment portion of the Crosswalk and summarizing balances by individual GAAP fund code.

[108] Only certain AFS entities have a CRA.

[109] The 'push-down' is the name of a file developed by the CGO in fiscal years 2022 and 2023 to quantify the cash and investments balances reported in the ACFR.

[110] The ZIMRQ300 report did not exist until fiscal year 2016.

[111] From a risk/size/cost-benefit perspective we did not perform reconciliations for unclaimed property.

This generated a total investment value across all funds including AFS entities. We then leveraged either the ZIMRQ300 or TIM806 report to identify the portion of the balance that was Treasury Investments only. We then created an Excel pivot summary table that aggregated “Mark to Market”, “Purchased Accrued Interest” and “Cash Equivalents” per individual GAAP fund. We calculated a net fair market value for each individual GAAP fund by summing “Mark to Market” and “Purchased Accrued Interest” then subtracting “Cash Equivalents”. Next, we filtered out the ‘999’ individual GAAP fund codes as they represent AFS investments. As a final step, we compared the calculated net fair market values by individual GAAP fund code to the Crosswalk. The reconciliation of the Treasury investments to the crosswalk found some differences in various funds that upon further review of documents provided were understood to be related to non-Treasury investment categories.

e. Tie-out of AFS Cash and Investments

The cash and investments held by AFS entities are also reflected in the Crosswalk. AFS entities are not required to report all accounting activities within SCEIS and instead primarily use their own stand-alone accounting systems. Any activity posted to SCEIS by these entities is classified with a GAAP Fund code of 999 (i.e., to be excluded from the ACFR); rather, they separately submit their financial statements to the CGO for inclusion in the ACFR.

Annually, the CGO receives audited financial statements and cash and investment reconciliations from each AFS entity. Using these documents, the CGO prepares AFS workpapers, which serve as the basis for the cash and investment-related entries that the CGO records to SCEIS for each AFS entity.

We judgmentally selected a sample of at least ten AFS entities for each fiscal year from 2015 to 2023 from a list provided by the CGO. For each sample, we confirmed the cash and investment balances (restricted and unrestricted) per the AFS audited financial statements, the AFS workpapers, and the Crosswalk file all balances reconciled.[112]

[112] To reconcile the sample of AFS cash and investment balances per the AFS audited financial statements with the Crosswalk files for fiscal years 2017 through 2019, we used a summation file created by the CGO to agree the higher education cash and investment balances per the AFS entities with the Crosswalk within differences less than $1 million. The higher education cash and investment balances for these years averaged approximately $2 billion and $1 billion, respectively.

We assessed the completeness of the population from which we selected our samples by identifying changes to the population of AFS entities during our period of review.[113] We noted, per Note 15 of the 2018 ACFR, the State identified one AFS entity "which was previously not included in the reporting entity [and] should have been included in the State's General Fund."[114] We understand from the CGO that it had only learned of this entity by reading the newspaper and there is no formal mechanism by which the CGO is informed when new agencies or state-related entities are created.[115] We therefore recommend that a process be established to ensure that the CGO is informed of changes to the State's entity structure.

#	Recommendation	Relevant Party(ies)
25	Establish a mechanism by which the CGO is notified of any changes to the State's entity structure to ensure that all relevant AFS entities are captured in the State's ACFR.	CGO

Based on our sample testing, we did not identify any errors in the AFS-related balances of the Crosswalk file that would warrant a restatement. However, we noted multiple instances where the CGO deferred to the AFS entity and could not explain the accounting treatment or classifications applied by the AFS entity. We understand that the CGO deferred to the AFS entity, for example, when Francis Marion University included the financial statement line items "Assets held in trust by others" and "other assets" in its investment balance"[116] While Francis Marion is separately audited, and its treatment of these balances may be appropriate, the lack of understanding by the CGO highlights the need to ensure the CGO understands and evaluates how AFS entities record and classify cash and investments.[117]

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[113] We observed two AFS entities, South Carolina Research Authority and InvestSC, were added to the list of AFS entities in 2016 and 2018, respectively.

[114] 2018 ACFR, page 146.

[115] The State decided to report InvestSC as a discretely presented component unit in the ACFR because although it is a separate organization, the State of South Carolina's financial statements would not be complete without acknowledging InvestSC's financial position and activities.

[116] In at least 2019 and 2021, Francis Marion classified an interest in a permanent trust created by an estate, a charitable remainder trust, an annuity, ownership in various parcels of real estate and the cash surrender value of a life insurance policy as investments.

[117] In 2019 and 2021, these categories of assets totaled $2,756,255 and $5,288,721, respectively.

#	Recommendation	Relevant Party(ies)
13	Establish a process by which non-standard adjustments to cash and investments reported by AFS entities are identified and evaluated.	CGO

f. Appropriations

As discussed in *2022 Restatement – Double-Counting of Appropriations*, we independently confirmed the appropriations balances recorded in Fund 10019000 for fiscal years 2012 to 2022. We leveraged this work to confirm a portion of the 'Appropriations' column of the Crosswalk for fiscal years 2016 through 2023, noting no discrepancies.[118]

g. CGO Adjustments

We judgmentally selected the 2019 and 2020 Crosswalk files to attempt to corroborate the CGO Adjustments columns.[119] We attempted to validate and reconcile the balances in the supporting workbooks and agree them to the CGO Adjustments columns of the Crosswalk files.

These attempts were complicated by a lack of detail within the Crosswalk files and a lack of any formal documentation explaining how such balances were compiled and derived. The supporting workpapers that we identified which tied to the Crosswalk files were generally insufficient as to determining the source of the data, the purpose of individual reports within, or any adjustments made to generate the result. We therefore recommend that the CGO improve the process by which its workpapers are created and reviewed.[120]

#	Recommendation	Relevant Party(ies)
14	Establish a minimum standard for all accounting and financial reporting workpapers such that an external party can both understand and reperform the	CGO

[118] In 2016 accounts 1000030000, 1000040000, 1000060000, and 1000061000 within Fund 10019000 were classified to "Other" to offset the Conversion Account. See *Bank Conversion* for further detail.

[119] We understand that the 2016 through 2019 Crosswalk files were prepared in a similar manner by the same CGO employee. The 2020 through 2023 Crosswalk files were prepared by a different CGO employee using a slightly different approach. We therefore selected one file from each to review. No Crosswalk files were prepared prior to fiscal year 2016.

[120] The CGO did not accept our offer to review a more recent version of the Crosswalk (i.e. fiscal year 2022 or 2023). We therefore cannot comment on whether the documentation had improved since 2020.

#	Recommendation	Relevant Party(ies)
	process. Documentation should include information sufficient to understand the purpose of the workpaper and the source of the information.	
15	Establish requirements for the level of quality review required for all ACFR-related workpapers and how such review is documented.	CGO

h. Appropriateness of ACFR Fund Classification

To assess the appropriateness of the fund classification in the ACFR, we analyzed changes in the grouping of individual GAAP funds per the Crosswalk file for fiscal years 2015 through 2023.[121] A summary table was created to track how each individual fund key was categorized in the ACFR Funds (e.g., General Fund and Departmental Program Services) over time. In each instance, the CGO explained that they were comfortable with the classifications as presented and any changes were either attributable to GASB pronouncements or the changes were not ultimately reflected in the ACFR.

i. 2023 Negative ACFR General Fund Cash and Topside Entry

During the ACFR reconciliation process, we determined that certain topside entries (which the CGO refers to as "late manual adjustments") were made to the ACFR but not reflected in SCEIS. While we acknowledge that topside entries are not an uncommon practice, as we will discuss, we determined that the process governing these topside entries requires improvement.

The CGO recorded two topside entries impacting the ACFR General Fund in the fiscal year 2023 ACFR. The initial entry added the $1.8 Billion of cash within Fund 30350993 with a corresponding reduction to General Government Expense.[122] The other topside entry reclassified $474 million

[121] Due to the establishment of our 2015 anchor year, we did not perform this analysis for fiscal year 2014.

[122] As of fiscal year 2023, for Fund 30350993 was still mapped such that it was excluded from the ACFR, therefore necessitating a topside entry to include the $1.8 Billion in the ACFR.

from investments to cash to change the cash balance in the ACFR General Fund from a deficit/negative number to zero.[123]

In December 2023, the CGO explained to the auditors how the STO's rules and practices contributed to the negative cash scenario in 2023. The CGO explained that STO's General Fund Portfolio (which is part of the General Fund in the ACFR) purchases investments using cash pooled from entities that are not part of the General Fund as reported in the ACFR. These entities are not entitled to any earnings on the investments made using their funds.[124] However, they are also not liable for any losses incurred by the STO, thus retaining their claim to cash for any amounts 'used' by the ACFR General Fund.

#	Recommendation	Relevant Party(ies)
16	Establish a policy outlining the situations in which the CGO is permitted to adjust information it receives from various agencies and a process by which such adjustments must be communicated to the affected agencies.	CGO

As a result, the investment-related activities (e.g., the investment balance, unrealized gains and losses, and *the reduction of cash* reflecting the purchase of those investments) are reflected in the ACFR General Fund and the cash balance remains with the entity from which the ACFR General Fund used the cash to make the investment, causing the negative cash balance in the ACFR General Fund.

Per GASB 31, paragraph 14, "The equity position of each fund or component unit in an internal investment pool should be reported as assets in those funds and component units. Often, income from investments associated with one fund is assigned to another fund because of legal or

[123] As discussed in the *2022 Topside Entries Related to Cash Presentation* section, the General Fund, prior to any topside entry adjustments, had a negative cash balance in fiscal year 2022. However, unlike 2023, the 2022 topside entries increased cash in the General Fund to a balance to $3.0 billion (rather than a zero balance).

[124] In 2023, the CGO was provided with a written letter from the STO which stated that all earnings from investments of the general deposit funds shall become part of the General Fund of the State.

contractual provisions. In that situation, the accounting treatment should be based on the specific language of the legal or contractual provisions."[125]

Based on our review of the documents provided and the representations made to us, the CGO's treatment of cash used to purchase investments in the General Fund Portfolio appears consistent with the provisions of the General Fund Portfolio and therefore consistent with GASB 31. However, based on the disclosures in the ACFR, the manner in which the CGO records these transactions may not be evident to a reader of the ACFR.

#	Recommendation	Relevant Party(ies)
21	Assess all prior topside entries or other adjustments and disclosures related to offsets of negative cash balances to ensure compliance with relevant accounting standards.	CGO

[125] GASB 31—Certain Investments and External Investment Pools ¶ 14.

VIII. Auditor Involvement

As mentioned in our *Statement of Limitations*, we did not conduct a comprehensive review of the audit workpapers related to OSA's audits of the historical ACFRs. We have, however, made certain observations related to the audit function (from our review of documents and conversations with various witnesses).

We understand that the OSA conducts its audit "jointly" with CLA, an external auditor firm it has hired. In practice, both the OSA and CLA sign the audit opinion which attests to the accuracy of the ACFR. While it is not atypical for a state auditing function to supplement its audit resources and expertise with outside assistance, the concept of a joint audit is highly uncommon. In our review of the ACFRs of all 50 states, over the last 4 years, Pennsylvania was the only other state with this arrangement, with the state auditor also jointly opining on its ACFR with CLA.

The OSA expressed that this arrangement has not been consistently applied as intended. They explained that both CLA and OSA should be involved in either the preparation or review of every audit workpaper. In other words, if a representative of CLA prepared a workpaper, a member of the OSA should review it, and vice versa. The OSA explained that this does not always happen as it should.[126] This disconnect was further confirmed by a conversation with a representative from CLA, who contradicted the OSA's statement that CLA had historically led the audit process for cash and the 2022 restatement.

We understand that OSA believed that the 2022 restatement has strained the relationship between the two parties, with the two sides seemingly opposed to one another instead of one combined team. We believe an evaluation of this arrangement is warranted, given these developments.

#	Recommendation	Relevant Party(ies)
2	Evaluate the sufficiency of the joint audit structure between OSA and the State's external audit firm, CLA, to ensure it is operating as intended. Consider changes as needed.	OSA

[126] This viewpoint was not shared by CLA.

We understand that the OSA reports to a five-member committee known as the State Fiscal Accountability Authority of which the Comptroller General and State Treasurer are members. While we have not identified any evidence to suggest that the OSA has been subjected to any undue pressure from the STO or CGO, even the appearance of undue pressure threatens the perceptions of the State's audit function. The reporting structure of the OSA should therefore be revised such that the OSA no longer reports to a committee whose members include the CGO or STO.

#	Recommendation	Relevant Party(ies)
3	To ensure that there is no appearance of an impairment of independence, the reporting structure of the OSA should be revised such that it no longer reports to the Comptroller General or the State Treasurer.	The State of South Carolina

As discussed in the *2022 Topside Entries Related to Cash Presentation* section, the OSA commented on the ACFR General Fund cash presentation of a draft version of the fiscal year 2022 ACFR which the CGO literally interpreted (perhaps mistakenly). As a result, the CGO recorded two adjustments to the ACFR (topside entries) which changed the presentation of the ACFR General Fund cash position from zero to approximately $3 billion (with a corresponding reduction to investments). The CGO has been unable to provide contemporaneous documentation explaining the bases for these entries.

IX. Disclaimer - Important Information Regarding this Report

This forensic accounting analysis (this "Report") was prepared by AlixPartners, LLP ("AlixPartners") per the contract (the "Agreement") between AlixPartners and the South Carolina Department of Administration ("Admin") for the engagement of AlixPartners to provide forensic accounting services to Admin pursuant to Proviso 93.19 of the South Carolina Appropriations Act of 2024. This Report is subject to the publication and presentation provisions of Proviso 93.19 and the Agreement between AlixPartners and Admin.

This Report is provided to Admin, the Governor of South Carolina, the President of the Senate, the Chairman of the Senate Finance Committee, the Speaker of the House of Representatives, and the Chairman of the House Ways and Means Committee (the "Designated Recipients"). It is understood that this Report is to be used by the Designated Recipients in their respective roles in governing and/or administrating the affairs of the State.

The information contained in this Report is based upon financial and other data / information provided to AlixPartners by the State of South Carolina (the "State") in connection with the engagement. AlixPartners further relied on the assurance of the management and staff of the State that all information furnished by the State to AlixPartners was true and accurate in all material respects and the State is unaware of any facts that would make the information provided to AlixPartners incomplete or misleading. In preparing the Report, AlixPartners has assumed, without complete independent verification, the accuracy and completeness of all information available from the State or which was otherwise provided to AlixPartners.

This Report is subject to important limitations that are identified and discussed throughout the Report, and particularly in the section titled "Statement of Limitations" set out on page 68. This Report is subject to those risk factors, which must be reviewed and considered by the Designated Recipients.

AlixPartners' work in this matter involves forensic accounting and related analysis. Therefore, AlixPartners has not subjected the information provided to an audit or examination in accordance with generally accepted auditing standards or attestation standards or the standards of the Public Company Accounting Oversight Board.

The information in the Report reflects conditions and the views of AlixPartners as of the date this Report was submitted by AlixPartners.

In rendering its services under the Agreement, AlixPartners is not responsible for the Designated Recipients' underlying or future decisions. Additionally, outside of its use by the Designated Recipients as is understood by the parties to the Agreement, it is not contemplated that this Report will be relied upon or used for any other purpose and AlixPartners can have no and accepts no liability for any claimed loss whatsoever as a result of such use.

X. Statement of Limitations

The following is a list of known limitations we encountered during our work:

- While we received read-only access to the State's audit workpapers for fiscal years 2017 through 2023, we did not perform a detailed review of those documents as they were not directly within our Scope of Work. We therefore have limited observations thereon. In accordance with its document retention policies, the State did not retain its audit workpapers prior to 2017.
- Generally, due to limits in record retention, we received limited banking data prior to 2016, and received single-page bank statements for 2015.
- We could not directly reconcile banking data to SCEIS prior to fiscal year 2016, as that was the first year the STO reconciled SCEIS by bank account.
- Due to employee turnover, we did not have complete access to all employees with relevant firsthand knowledge of all relevant events.
- We could not determine the bases of certain transactions (e.g., entries recorded within and outside of SCEIS) due to the lack of available, contemporaneous documentation.
- We were not provided with comprehensive documentation for certain key processes, often because such documentation did not exist.
- We did not have subpoena power, nor did we place individuals under oath. Many of our interviews were conducted in group format (i.e., in the presence of management). Certain interviews were conducted in the presence of counsel engaged to represent the agencies in related matters.
- Due to scheduling and access, we interviewed certain key witnesses in the last month prior to submission.

Henry McMaster, *Governor*
Marcia S. Adams, *Executive Director*

OFFICE *of* THE EXECUTIVE DIRECTOR

Disclaimers of the State and the Working Group

The preceding final report was prepared by AlixPartners pursuant to an engagement with the South Carolina Department of Administration (Admin) after Admin developed and published a solicitation requesting proposals from independent firms for forensic accounting services.

As was set out in Admin's request for proposal, AlixPartners' work was:

> ... performed under the direction of Admin, with guidance from the South Carolina Attorney General's Office (AG's Office) and outside counsel for the AG's Office. The work of [AlixPartners] in performing its forensic review is essential to the AG's Office rendering of legal advice to the State, and thus, the work of [AlixPartners] will be protected from disclosure to third-parties, including under FOIA, by the attorney-client privilege and the work product doctrine.

Additionally, Governor Henry McMaster created a "Working Group" including Admin and the AG's Office, among other agencies, to help determine the existence, purpose, and intended destination of the $1.8 Billion in SCEIS subfund 30350993. The efforts of the Working Group were guided by Admin and the AG's Office and leveraged by AlixPartners during the process through which AlixPartners produced the final report. All privileges resulting from attorney-client communications and the creation of attorney work product arising during this process belong to the State and can only be waived by the appropriate authorities of the State. The submission of the final report as required by the Proviso is in no way expressing the intention of the State, the Working Group, or any subdivision or agency of the State to waive any attorney-client privilege, work product protection, or any other available privilege or protection attached to the process. Neither the function or operation of the Working Group nor the publication or dissemination of this report should in any way be construed by any party as any form of waiver, admission, agreement, or acknowledgment with respect to any of the facts, conclusions, or findings contained in this Report for any purpose, including but not limited to any prior, pending, or future proceeding, litigation, or investigation of any kind.

Exhibit 20

Referenced Selections[1] of Treasurer Curtis Loftis's Jan. 29, 2025 Testimony before the Constitutional Subcommittee of the House Ways & Means Committee

Footnotes 28-30

01:28:31 LOFTIS
We are displaying a level of bad governance that has never been shown before.
01:28:37 LOFTIS
Under the circumstances, that is here.
01:28:38 LOFTIS
No state has ever, in the time of an SEC investigation, disclosed it, put it on the front page of the paper and made allegation at the allegation at allegation. I'm not talking about
01:28:49 LOFTIS
Yours. You're a fair man.
01:28:51 LOFTIS
Nobody has ever done that before and we are the place now.
01:28:56 LOFTIS
We are the only state in the Union who can't go out for credit.
01:29:01 LOFTIS
Because, not the entry, every professional in the country, every investment house, every rating agency, everybody understands the entry. What they don't understand is the is the resulting bad governance.
01:29:16 LOFTIS
The conversations I have from from around the country, are what in the hell
01:29:21 LOFTIS
Is going.
01:29:21 LOFTIS
On? And I respect what you all do.
01:29:24 LOFTIS
You have responsibilities.
01:29:25 LOFTIS
You have people that ask you questions every day.
01:29:29 LOFTIS
We get it every day, but to explain to people that the big issue is we now have hospitals.
01:29:36 LOFTIS
Who are building being built with one year money. We can't even permit financing that.
01:29:42 LOFTIS
Would you think about?
01:29:43 LOFTIS
That is not because of the entry. That is because of the resulting display of bad governance.
01:29:49 LOFTIS
I can't stop it. I've asked state leaders to stop it.

[1] The Exhibits section of the report provides selections. Full transcript available upon request. To view the hearing in it's entirety, please visit: https://www.scstatehouse.gov/video/archives.php

01:29:53 LOFTIS
We can't make it stop.
01:29:54 LOFTIS
And it's going to get worse, not better.
01:29:57 LOFTIS
And I don't know what this age is going to.
01:29:59 LOFTIS
I have to go to the bank this year and borrow four hundred and eighty seven million dollars in one year money.
01:30:06 LOFTIS
So that dormitories and hospitals can be built one year at a time with no interest rate protection.
01:30:13 LOFTIS
And it's not because of the entry. It's because of the
01:30:18 LOFTIS
What's happened in the Senate to put out this narrative.

Exhibit 21

Jessica Wigington

From: Amanda Adler
Sent: Monday, March 17, 2025 4:42 PM
To: Jessica Wigington
Subject: FW: AlixPartners Report Review Meeting

From: Amanda Adler
Sent: Tuesday, February 18, 2025 10:12 AM
To: [redacted]
Subject: RE: AlixPartners Report Review Meeting

Hey [redacted] thanks for the note – happy to meet folks – I am a little swamped so does it work for yall to come over? If not, maybe we can chat briefly before the meeting…?
Amanda

From: [redacted]
Sent: Tuesday, February 18, 2025 9:56 AM
To: Amanda Adler <AmandaAdler@scsenate.gov>
Subject: RE: AlixPartners Report Review Meeting

Good morning Amanda!

I hope you had a nice weekend.

If you are available this AM, I'd be happy to schedule a meet & greet with us. Just let me know and we can come by, or welcome you to the first floor of the Wade Hampton Building (just walk-in the front and we're to the left).

Thanks!
[redacted]

[redacted] **| Legislative Liaison & Special Assistant to the State Treasurer**
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
[redacted]

From: [redacted]
Sent: Friday, February 14, 2025 3:34 PM
To: Amanda Adler <AmandaAdler@scsenate.gov>
Subject: RE: AlixPartners Report Review Meeting

Hi Amanda,

It was nice chatting yesterday!

Following up on personnel to attend, it will be:

1. [redacted], Chief of Staff
2. [redacted], Deputy State Treasurer
3. [redacted], Director of Banking
4. [redacted], Director of Treasury
5. [redacted], Legislative Liaison & Special Assistant to the State Treasurer

If room is tight, I'd be happy to stand in the hall! Treasurer Loftis is already on a long-planned trip and won't be back in-time for the hearing.

For meet & greet, just let me know when you're available Tuesday morning!

I hope you have a nice, long weekend ahead.
[redacted]

[redacted], CPM | Legislative Liaison & Special Assistant to the State Treasurer
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
[redacted]

[redacted]
Sent: Thursday, February 13, 2025 3:03 PM
To: Amanda Adler <AmandaAdler@scsenate.gov>
Subject: Re: AlixPartners Report Review Meeting

Great! Looking forward to it.

Do you have a quick moment this afternoon to discuss personnel? I'm available ~ just call my cell [redacted]. Please save it for anytime you may need me.

[redacted] | Legislative Liaison & Special Assistant to the State Treasurer
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
[redacted]

From: Amanda Adler <AmandaAdler@scsenate.gov>
Sent: Thursday, February 13, 2025 3:02 PM
To: [redacted]>
Subject: [External] Re: AlixPartners Report Review Meeting

Thanks [redacted] - Tuesday morning works well and we will figure out where.
Any update on who all will be meeting ? Trying to figure out a room as it's one of those days they are scarce !
Thanks !
Amanda

On Feb 12, 2025, at 4:34 PM, [redacted] wrote:

Thanks Amanda!

I certainly will let them know and I'll be back in-touch on who will be in attendance.

Also, would you like to have a meet & greet with our staff beforehand? Perhaps Friday or Tuesday morning? Just let me know and I'll coordinate. We'd welcome you to our office, or we can come to Gressette.

<image001.jpg>

[redacted] **| Legislative Liaison & Special Assistant to the State Treasurer**
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
[redacted]

From: Amanda Adler <AmandaAdler@scsenate.gov>
Sent: Wednesday, February 12, 2025 4:06 PM
To: [redacted]
Subject: [External] AlixPartners Report Review Meeting

Hi [redacted]!
Chairman Grooms plans to hold a subcommittee meeting to review the AP Report with your agency, the Department of Administration, and the Comptroller General's Office on Tuesday, February 18th, upon adjournment of the Senate Finance Committee meeting. Would you please let your leadership team know to save that date and time? If you'll alert me to who all will be in attendance, that will be great, and I'll follow up with a room number as soon as I have it.
Thanks so much,
Amanda

<image004.png> **Amanda Adler** | Counsel and Budget Analyst
South Carolina General Assembly | Senate Finance Committee
AmandaAdler@scsenate.gov | www.scstatehouse.gov
L. Marion Gressette Building, Suite 111 | 803-212-6684
1101 Pendleton Street, Columbia, SC 29201

Jessica Wigington

From: Amanda Adler
Sent: Monday, March 17, 2025 4:43 PM
To: Jessica Wigington
Subject: FW: Treasurer Loftis - February 25th

From: Amanda Adler
Sent: Friday, February 21, 2025 3:10 PM
To: [redacted]
Subject: RE: Treasurer Loftis - February 25th

Hi [redacted]
Yes, Thursday, 2/27 will work. We'll plan on seeing the Treasurer in Room 209 upon adjournment. I can share the materials that General Gaines brought in just a bit. I'll scan them and send them under separate email cover.
Amanda

From: [redacted]
Sent: Friday, February 21, 2025 9:31 AM
To: Amanda Adler <AmandaAdler@scsenate.gov>
Subject: Re: Treasurer Loftis - February 25th

Good morning Amanda!

Would Thursday instead be a possible option? He could do Tuesday, but I'd have to move a few existing appointments around and he's catching up on things from his trip.

Additionally, will it be in 209 or 308? The Treasurer would request one of those as he'd like that similar setting to present at a table and have a subject matter expert nearby as a resource. Plus the desk space is nice to spread out his notes!

From yesterday's hearing, there was a document referenced for presentation purposes between the members and General Gaines. Would it possible for you to share?

Thanks and have a great day ahead!
[redacted]

[redacted] **| Legislative Liaison & Special Assistant to the State Treasurer**
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
Wade Hampton Bldg., Columbia, SC 29201
[redacted]

From: Amanda Adler <AmandaAdler@scsenate.gov>
Sent: Thursday, February 20, 2025 12:07:01 PM
To: [redacted]
Subject: [External] Treasurer Loftis - February 25th

Hi [redacted]
Senator Grooms has asked that Treasurer Loftis appear before the SFC Constitutional Subcommittee on Tuesday, February 25th upon adjournment of the Senate in Gressette 209. Please confirm the Treasurer's attendance for Senator Grooms as soon as possible.
Thanks so much and give me a buzz if you have any questions!
Amanda

Amanda Adler | Counsel and Budget Analyst
South Carolina General Assembly | Senate Finance Committee
AmandaAdler@scsenate.gov | www.scstatehouse.gov
L. Marion Gressette Building, Suite 111 | 803-212-6684
1101 Pendleton Street, Columbia, SC 29201

Jessica Wigington

From: Amanda Adler
Sent: Monday, March 17, 2025 4:43 PM
To: Jessica Wigington
Subject: FW: Upcoming hearing

From: Amanda Adler
Sent: Tuesday, February 25, 2025 5:40 PM
To: [redacted]
Subject: RE: Upcoming hearing

Hi [redacted]
Thanks for the note. I don't have anything more specific for you than what we discussed prior to the previous STO presentation that was scheduled: the Subcommittee would like to hear the Treasurer's response to the AlixPartners report and may have additional questions about issues related to it. See you Thursday in Gressette 209 upon adjournment – if you have any other questions, please just let me know!
Amanda

From: [redacted]>
Sent: Tuesday, February 25, 2025 2:25 PM
To: Amanda Adler <AmandaAdler@scsenate.gov>
Subject: Upcoming hearing

Good afternoon Amanda,

I hope you had a nice weekend!

I wanted to touch base in advance of Thursday's hearing in case there were any specifics you'd like to share in preparation. Any guidance or questions in advance would be of help!

Thank you and we'll see you Thursday afternoon.

Kindest regards,
[redacted]

[redacted] **| Legislative Liaison & Special Assistant to the State Treasurer**
South Carolina Treasurer's Office
Capitol Complex
1200 Senate Street, Suite 214
Wade Hampton Bldg., Columbia, SC 29201
[redacted]

Exhibit 22

Referenced Selections[1] of Sworn Testimony from Feb. 18, 2025 Constitutional Subcommittee Hearing

Footnote 32

00:03:55 CHAIRMAN GROOMS
Them. Were you satisfied with the requirements of AlixPartners?
00:04:00
To do the work?
00:04:02 DIRECTOR ADAMS
Yes, satisfied with the requirements and the work they did also-
00:04:07 CHAIRMAN GROOMS
So you are satisfied with the report as well?
00:04:10 DIRECTOR ADAMS
I was.
00:04:11
They had a very thorough process during, starting on July eighteenth they conducted
00:04:20
Meetings. They had nineteen meetings with the Comptroller General 's office.
00:04:24
Six Meetings with the Treasurer
00:04:25
Two meetings with the Auditor
00:04:26
One meeting with CLA and eleven meetings with admin through through SCEIS.
00:04:32 S
And in addition, they had a hundred and seventy five requests for various data points. Sixty two from the CG twenty six from the treasurer, five from the state auditor, and twelve requests from admin. In addition to the information we had already provided them.

Footnote 33

00:39:08 SENATOR SABB
Let's assume hypothetically we're talking about your office
00:39:13 SENATOR SABB
You would expect
00:39:15 SENATOR SABB
Your employees to report something like this to you, right?
00:39:19 DIRECTOR ADAMS
If, again, if they understood the gravity of that, if they understood what that was at that time, yes, I yes.
00:39:27 SENATOR SABB
So so when we say gravity and I'm sorry, I just can't let it go yet,
00:39:34 SENATOR SABB
We're talking
00:39:37 SENATOR SABB

[1] The Exhibits section of the report provides selections. Full transcript available upon request. To view the hearing in it's entirety, please visit: https://www.scstatehouse.gov/video/archives.php

One and a half billion dollars.
00:39:41 DIRECTOR ADAMS
Yes.
00:39:43 SENATOR SABB
So.
00:39:49 SENATOR SABB
Money with a "B" behind it in and of itself to
00:39:52 SENATOR SABB
Me, carries a certain amount of weight.
00:39:56 SENATOR SABB
And so I guess I just have a hard time and I know you can't say emphatically.
00:40:02
Umm.
00:40:02 SENATOR SABB
But I just have a hard time accepting that employees
00:40:09 SENATOR SABB
When they are responsible
00:40:12 SENATOR SABB
For making sure that the money of the state is accounted for when their job is to make sure that their boss and what their boss does is correct,
00:40:29 SENATOR SABB
Would just not bring it to the boss 's attention.
00:40:31 SENATOR SABB
I just have a hard time with that, but
00:40:35 SENATOR SABB
If that's as far as you're willing to go, that's as far as you willing to go.
00:40:38 DIRECTOR ADAMS
Yes, Sir.

Footnotes 34-40
00:50:46 CHAIRMAN GROOMS
OK, and you're saying that the State Treasurer 's office agrees with the findings of AlixPartners?
00:50:53 CHAIRMAN GROOMS
That correct?
00:50:55 MRS. CLARISSA ADAMS
We accept the report, yes.
00:50:57 CHAIRMAN GROOMS
Is there a difference with accept the report and agreement or disagreement with the findings?
00:51:04 MRS. CLARISSA ADAMS
No.
00:51:05 CHAIRMAN GROOMS
So you agree with the findings of AlixPartners report?
00:51:09 MRS. CLARISSA ADAMS
We're definitely committed to implementing the recommendations, yes.

00:51:13 CHAIRMAN GROOMS
So yes or no question, are you in agreement with the findings of the AlixPartners report?
00:51:18 MRS. CLARISSA ADAMS
I believe that was a different question.
00:51:21 CHAIRMAN GROOMS
I'll repeat it again.
00:51:22 CHAIRMAN GROOMS
It's State Treasurer 's office in agreement with the AlixPartners report.
00:51:28 MRS. CLARISSA ADAMS
I believe there could be some clarification, but I'm happy to provide.
00:51:33 CHAIRMAN GROOMS
So you're not in agreement with what they reported?
00:51:37 MRS. CLARISSA ADAMS
We're definitely in agreement with all of their recommendations and we appreciate the report because as Director Adams answered, I don't believe that we would have the solution that we have without AlixPartners.
00:51:49 CHAIRMAN GROOMS
So there are areas of disagreement
00:51:52 CHAIRMAN GROOMS
That's in the report? there.
00:51:53 MRS. CLARISSA ADAMS
There are areas of clarification, Sir.
00:51:56 CHAIRMAN GROOMS
Is there a difference between areas of clarification and areas of disagreement?
00:52:01 CHAIRMAN GROOMS
I assume if you want to clarify something you disagree with what's in the report.
00:52:07 MRS. CLARISSA ADAMS
If you would like me to agree, I will,
00:52:09 MRS. CLARISSA ADAMS
But like I said, it would be an agreement with the clarification.
00:52:12 CHAIRMAN GROOMS
I just want you to tell the truth.
00:52:13 CHAIRMAN GROOMS
That's what I'm asking
00:52:15 MRS. CLARISSA ADAMS
That's what I'm trying to do, Sir.
00:52:16 CHAIRMAN GROOMS
Sounds like you mincing words
00:52:19 CHAIRMAN GROOMS
Could could you please tell us where you believe there should be clarification, then, or or parts of the report that that you have issues with or disagree with or need to clarify?
00:52:30 MRS. CLARISSA ADAMS
Certainly I would be happy to provide clarification.
00:52:37 MRS. CLARISSA ADAMS

One of the biggest parts that I would like to provide clarification on is on page ten
00:52:43 MRS. CLARISSA ADAMS
Where the report indicates
00:52:48 MRS. CLARISSA ADAMS
A one point six
00:52:50 MRS. CLARISSA ADAMS
Appropriation during the conversion what it does not point out is that the one point six
00:52:58 MRS. CLARISSA ADAMS
Dollar amount is done by the Comptroller General 's office and it's not to point fingers at all.
00:53:05 MRS. CLARISSA ADAMS
We are certainly working together with the Comptroller General 's office.
00:53:08 MRS. CLARISSA ADAMS
We just did not know that appropriations
00:53:10 MRS. CLARISSA ADAMS
were included in the amount that was transferred.
00:53:18 CHAIRMAN GROOMS
Okay, I'm trying to find out exactly where on page ten.
00:53:26 MRS. CLARISSA ADAMS
I believe, Sir, if you go to whom does the one point eight belong? “We have determined that approximately one point six does not represent real cash
00:53:34 MRS. CLARISSA ADAMS
It is attributable to balances in certain ACFR only business areas that were incorrectly recorded in fund 993.
00:53:44 MRS. CLARISSA ADAMS
What I wanted to provide provide clarification is on page ten it says this would mean that the Comptroller General 's office.
00:53:51 MRS. CLARISSA ADAMS
Incorrectly included one point, six billion of dollar one point, six billion dollars of appropriation. During the conversion, the state Treasurer Office was notified by the Comptroller Generals Office.
00:54:02 MRS. CLARISSA ADAMS
You will only convert cash as the appropriations are eliminated
00:54:08 MRS. CLARISSA ADAMS
Meaning, “proceed with the conversion.” AlixPartners confirmed the Controller General 's office should not have transferred one point six billion dollars in ACFR balances turning non-cash into cash.
00:54:22 MRS. CLARISSA ADAMS
The state Treasurer 's office moved one point six billion dollars in appropriation.
00:54:27 MRS. CLARISSA ADAMS
This is what AlixPartners called the unintended consequences of artificially inflating cash.
00:54:36 CHAIRMAN GROOMS
I'm. I'm sorry.
00:54:41 MRS. CLARISSA ADAMS
And I would add, AlixPartners also indicates that the ACFR business areas are the sole responsibility of the Comptroller General.
00:54:54 CHAIRMAN GROOMS

Senator from Georgetown.
00:54:57 SENATOR GOLDFINCH
I need a little clarification, Miss Adams.
00:54:59 SENATOR GOLDFINCH
So you were just reading a bunch of stuff there that I didn't see in the report.
00:55:03 SENATOR GOLDFINCH
Is that your clarification?
00:55:04 MRS. CLARISSA ADAMS
Yes, Sir. I apologize.
00:55:06 MRS. CLARISSA ADAMS
That is my clarification.
00:55:07 SENATOR GOLDFINCH
And you just want you want to stick that where exactly?
00:55:16 MRS. CLARISSA ADAMS
Where it references to balances in certain ACFR business areas that were incorrectly recorded and fund 993.
00:55:23 SENATOR GOLDFINCH
So you just want to strike that part where it says that were incorrectly recorded from 993 and insert what you just read.
00:55:32 MRS. CLARISSA ADAMS
I wanted to add that clarification and I appreciate you allowing me to share that clarification with you.
00:55:37 MRS. CLARISSA ADAMS
Again, the AlixPartners report.
00:55:39 MRS. CLARISSA ADAMS
States that cash and investment balances are correct.
00:55:43 MRS. CLARISSA ADAMS
We balance back to the bank.
00:55:45 MRS. CLARISSA ADAMS
No question.
00:55:46 SENATOR GOLDFINCH
I I'm not suggesting you don't balance back to the bank.
00:55:48 SENATOR GOLDFINCH
I've heard
00:55:48 SENATOR GOLDFINCH
The Treasurer say that many, many times.
00:55:51 MRS. CLARISSA ADAMS
Thank you for allowing me to say that.
00:55:53 SENATOR GOLDFINCH
But.
00:55:54 SENATOR GOLDFINCH
I don't understand is where.
00:55:57 SENATOR GOLDFINCH
That just came from where did that come from? Did y'all?
00:56:02 SENATOR GOLDFINCH

Happen to have your own
00:56:05 SENATOR GOLDFINCH
Firm that came up with that language?
00:56:07 SENATOR GOLDFINCH
Where did that come from?
00:56:08 MRS. CLARISSA ADAMS
These balances represent a summation of adjustments previously recorded by Comptroller General during the ACFR presentation-- preparation process.
00:56:18 MRS. CLARISSA ADAMS
As such, the failure to recognize what these accounts represented had the unintended consequence of artificially inflating the balance of fund
00:56:26 MRS. CLARISSA ADAMS
993.
00:56:27 SENATOR GOLDFINCH
Yeah, I I I know where you, I I got that.
00:56:29 SENATOR GOLDFINCH
Reading something there, my question was.
00:56:32 MRS. CLARISSA ADAMS
Oh, I'm sorry. That's on page ten.
00:56:33 SENATOR GOLDFINCH
Where where did your language that you want to insert into the AlixPartners report as clarification.
00:56:40 SENATOR GOLDFINCH
Where did that language come from?
00:56:43 MRS. CLARISSA ADAMS
We had the opportunity to meet with AlixPartners after they issued the report and we asked who
00:56:50 MRS. CLARISSA ADAMS
Specifically, when in reference to the business or excuse me, the ACFR only business areas and the one point six and AlixPartners shared with us that that was from that Comptroller General 's office.
00:57:04 SENATOR GOLDFINCH
And you're just suggesting that they ignored you?
00:57:07 MRS. CLARISSA ADAMS
No. We asked for clarification on that and they,
00:57:09 MRS. CLARISSA ADAMS
They were kind and very straightforward and announced that it was from the Comptroller Generals Office.
00:57:15 SENATOR GOLDFINCH
But but you've got a clarification, you want to insert into a report that you clearly don't think is correct.
00:57:21 SENATOR GOLDFINCH
And what am I missing here?
00:57:22 SENATOR GOLDFINCH
You you just read a bunch of stuff that's not in the report, I said.
00:57:25 SENATOR GOLDFINCH
Where did You get that from?
00:57:26 SENATOR GOLDFINCH

You said
00:57:26 SENATOR GOLDFINCH
Well, we met with AlixPartners.
00:57:29 SENATOR GOLDFINCH
Well, that implies that AlixPartners didn't put in the report what you wanted them to put in the report.
00:57:35 SENATOR GOLDFINCH
Explain. Tell me where, I,
00:57:38 SENATOR GOLDFINCH
Help me out.
00:57:39 MRS. CLARISSA ADAMS
I simply was providing.
00:57:41 MRS. CLARISSA ADAMS
I'm not asking for any edits on the report.
00:57:42 SENATOR GOLDFINCH
Where
00:57:43 SENATOR GOLDFINCH
Did it come from?
00:57:44 SENATOR GOLDFINCH
It's not a hard. I'm not trying
00:57:46 SENATOR GOLDFINCH
To trick you --
00:57:47 SENATOR GOLDFINCH
Where did that come?
00:57:48 SENATOR GOLDFINCH
Where did the the clarification that you want to insert into the AlixPartners report? Where did it come from?
00:57:55 MRS. CLARISSA ADAMS
I appreciate you letting me provide a clarification. And as I mentioned that came from AlixPartners when we met with them.
00:58:05 CHAIRMAN GROOMS
Senator from Williamsburg.
00:58:07 SENATOR SABB
Thank you, Chairman I just wanted to just chime in one quick second.
00:58:11 SENATOR SABB
I'd love for her to provide.
00:58:14 SENATOR SABB
Our committee, with a copy of the written language that she has, that she has indicated to us, came from AlixPartners, so if she doesn't mind making a copy of that and or having allowing staff to make a copy of it, I'd love to have a copy of.
00:58:31 CHAIRMAN GROOMS
I don't believe, she said. It came from AlixPartners.
00:58:34 SENATOR SABB
And perhaps we can pose the question.
00:58:38 SENATOR SABB

To her again and and sohelp me if I'm if I misunderstood your exchange with Senator from Georgetown.
00:58:45 SENATOR SABB
But I understood you to say that you had a meeting.
00:58:50 SENATOR SABB
With AlixPartners following the report and that AlixPartners provided you with the clarification that you are now sharing with this committee.
00:59:02 SENATOR SABB
Did I understand that correctly?
00:59:05 MRS. CLARISSA ADAMS
Yes, Sir. We asked AlixPartners and the director Adams.
00:59:10 MRS. CLARISSA ADAMS
Director Adams was kind enough, as I said, to set up this meeting and we asked who incorrectly recorded.
00:59:18 MRS. CLARISSA ADAMS
This balance, so just strictly dealing with page Ten and AlixPartners said
00:59:24 MRS. CLARISSA ADAMS
The Comptroller General 's office.
00:59:25 SENATOR SABB
Right. So what you just shared with us, as I understand it is information that AlixPartners provided to you, is that correct?
00:59:34 MRS. CLARISSA ADAMS
Yes, Sir.
00:59:35 SENATOR SABB
And so with that Mr. Chairman, I think I'm clear on the fact that she is testifying before us.
00:59:42 SENATOR SABB
That the information that she was just provided, or that she just provided to us is clarification that she received from AlixPartners.
00:59:50 SENATOR SABB
So I'd like to have that as a part of this.
00:59:54 SENATOR SABB
So I would request that staff copy whatever it is she has and that we make it a part of the record.
01:00:01 MRS. CLARISSA ADAMS
And I received that verbally, Sir, I apologize.
01:00:04 MRS. CLARISSA ADAMS
Happy to reach out to AlixPartners.
01:00:06 CHAIRMAN GROOMS
You received that word for word, verbally, that you just read to us, not in a written communication at all.

01:00:12 CHAIRMAN GROOMS
Thats what AlixPartners gave to you verbally?
01:00:17 CHAIRMAN GROOMS
Is that your testimony?
01:00:19 MRS. CLARISSA ADAMS

No, Sir.
01:00:21 CHAIRMAN GROOMS
I thought that's what you just said.
01:00:22 CHAIRMAN GROOMS
AlixPartners gave you that information verbally?
01:00:26 MRS. CLARISSA ADAMS
AlixPartners clarified.
01:00:28 MRS. CLARISSA ADAMS
Who so, allow me to be very clear.
01:00:29 MRS. CLARISSA ADAMS
Be very clear who incorrectly recorded the fund in the
01:00:32 MRS. CLARISSA ADAMS
993
01:00:34 CHAIRMAN GROOMS
Senator from Colorado.
01:00:36 SENATOR MATTHEWS
I just have a quick question.
01:00:39 SENATOR MATTHEWS
Your position with the Treasury Department is what?
01:00:43 MRS. CLARISSA ADAMS
I'm the chief of staff.
01:00:45 SENATOR MATTHEWS
Your chief of staff. How long have you been chief of staff?
01:00:49 MRS. CLARISSA ADAMS
About eleven years.
01:00:50 SENATOR MATTHEWS
OK.
01:00:51 SENATOR MATTHEWS
So you were chief of staff under both systems, correct?
01:00:57 MRS. CLARISSA ADAMS
Yes, ma'am.
01:00:58 SENATOR MATTHEWS
OK, um,
01:01:02 SENATOR MATTHEWS
The meeting.
01:01:03 SENATOR MATTHEWS
AlixPartners. Were you present or in any way, either virtually or in this room, when AlixPartners testified before the committee?
01:01:14 MRS. CLARISSA ADAMS
I listen to their testimony, yes, ma’am.
01:01:16 SENATOR MATTHEWS
You listen to it from your office.
01:01:19 MRS. CLARISSA ADAMS
Most likely yes, ma'am.

01:01:20 SENATOR MATTHEWS
At the time, did you have this report?
01:01:23 MRS. CLARISSA ADAMS
Yes, ma'am.
01:01:24 SENATOR MATTHEWS
Who is the person that followed up with AlixPartners after reviewing the report to get clarification that we're talking about on page ten?
01:01:34 SENATOR MATTHEWS
Was it you?
01:01:37 SENATOR MATTHEWS
Miss Adams, you were Adams also, but Marcia Adams.
01:01:42 MRS. CLARISSA ADAMS
We reached out to Director Adams who?
01:01:46 MRS. CLARISSA ADAMS
I reached out to Director Adams.
01:01:47 SENATOR MATTHEWS
And you asked her what?
01:01:49 MRS. CLARISSA ADAMS
If we could have a follow up meeting with AlixPartners.
01:01:51 SENATOR MATTHEWS
And what date was that?
01:01:54 MRS. CLARISSA ADAMS
I have to get that for you.
01:01:55 SENATOR MATTHEWS
Was that FOIA-ble?
01:01:59 MRS. CLARISSA ADAMS
It would have been an e-mail.
01:02:00 MRS. CLARISSA ADAMS
Ma'am, you.
01:02:01 SENATOR MATTHEWS
Did it by e-mail, not by telephone.
01:02:04 MRS. CLARISSA ADAMS
That is my recollection.
01:02:06 SENATOR MATTHEWS
Would this have been within a day after the the?
01:02:10 SENATOR MATTHEWS
AlixPartners testimony.
01:02:13 MRS. CLARISSA ADAMS
I don't recall.
01:02:14 SENATOR MATTHEWS
But it was soon thereafter.
01:02:17 MRS. CLARISSA ADAMS
I'd have to pull the date for you, ma'am.
01:02:19 SENATOR MATTHEWS

What forum did you meet with AlixPartners to get this information?
01:02:24 SENATOR MATTHEWS
Was it on the phone by zoom by teams or was it just?
01:02:30 SENATOR MATTHEWS
Physical meeting where you Miss Adams with the Department of Administration yourself.
01:02:37 SENATOR MATTHEWS
If you could tell us in what form did you derive this information?
01:02:42 MRS. CLARISSA ADAMS
My recollection is it was on teams.
01:02:44 SENATOR MATTHEWS
Would it have been your recollection
01:02:46 SENATOR MATTHEWS
You wouldn't have written that in the notes that you've read to us today?
01:02:53 MRS. CLARISSA ADAMS
Let me pull that date for you, ma'am, and provide that as long, as well as
01:02:59 MRS. CLARISSA ADAMS
The medium that we met.
01:03:00 SENATOR MATTHEWS
OK, the medium.
01:03:03 SENATOR MATTHEWS
With the teams, do you generally as a matter of office procedure, record your team 's meetings?
01:03:15 MRS. CLARISSA ADAMS
Not that I'm aware of.
01:03:18 SENATOR MATTHEWS
Not that you're aware of.
01:03:19 SENATOR MATTHEWS
You heard Miss Adams testify prior to your coming up.
01:03:25 SENATOR MATTHEWS
Excuse me, did you?
01:03:26 MRS. CLARISSA ADAMS
Yes, ma'am.
01:03:27 SENATOR MATTHEWS
Did she, um, make the clarification that you're referring us to now?
01:03:34 MRS. CLARISSA ADAMS
I didn't specifically hear that what I heard was the ACFR only business areas.
01:03:39 MRS. CLARISSA ADAMS
And ACFR only business areas are conducted by the Comptroller General 's office.
01:03:44 SENATOR MATTHEWS
Did Someone
01:03:47 SENATOR MATTHEWS
Write notes on your behalf., Or did you write them yourself from the meeting with AlixPartners?
01:03:56 MRS. CLARISSA ADAMS
I certainly would have taken notes during that meeting.
01:03:58 SENATOR MATTHEWS

OK. And where you said the clarifications that you've told us about did, did you ask anyone with AlixPartners to put that in writing to you all knowing that we're under SEC investigation?
01:04:14 MRS. CLARISSA ADAMS
I did not ask them to put that
01:04:15 MRS. CLARISSA ADAMS
In writing.
01:04:16 SENATOR MATTHEWS
Was there an attorney present doing your team 's meeting?
01:04:20 MRS. CLARISSA ADAMS
There were multiple attorneys present from the Comptroller General 's.
01:04:24 MRS. CLARISSA ADAMS
Excuse me
01:04:24 MRS. CLARISSA ADAMS
Yes, the Comptroller General 's office.
01:04:26 MRS. CLARISSA ADAMS
The Attorney General 's office and the State Treasurer 's office.
01:04:30 SENATOR MATTHEWS
Understandng the necessity of making these clarifications or aSCEISng AlixPartners to verify certain things did was our treasurer present during this meeting with Alix?
01:04:43 MRS. CLARISSA ADAMS
Yes, ma'am.
01:04:44 SENATOR MATTHEWS
Treasurer Loftis was present.
01:04:45 SENATOR MATTHEWS
How long did this meeting take place?
01:04:49 MRS. CLARISSA ADAMS
Let me get that information for you.
01:04:51 SENATOR MATTHEWS
Just for my sitting here.
01:04:52 SENATOR MATTHEWS
I know you're Under oath.
01:04:54 SENATOR MATTHEWS
Was it more than one hour?
01:04:56 MRS. CLARISSA ADAMS
My recollection is it was possibly an hour and a half.
01:05:00 SENATOR MATTHEWS
OK, possibly an hour and a half and the treasurer was present, was the Comptroller general present during this meeting?
01:05:08 MRS. CLARISSA ADAMS
This particular meeting was only with the State Treasurer 's office.
01:05:12 MRS. CLARISSA ADAMS
My recollection was with the State Treasurer 's office, um,
01:05:16 MRS. CLARISSA ADAMS
Director Adams.

01:05:17 SENATOR MATTHEWS
So the Department of Administration, anybody else present other than director Adams?
01:05:19 MRS. CLARISSA ADAMS
Yes, ma'am.
01:05:24 MRS. CLARISSA ADAMS
I believe I mentioned, like I said, let me get a.
01:05:26 MRS. CLARISSA ADAMS
Of who attended?
01:05:28 SENATOR MATTHEWS
And you will you make that that is a FOIA-ble meeting, correct
01:05:31 MRS. CLARISSA ADAMS
We're happy to provide that.
01:05:33 SENATOR MATTHEWS
What about the actual teams video?
01:05:37 MRS. CLARISSA ADAMS
I'm not aware of a video.
01:05:41 SENATOR MATTHEWS
Thank you very much.

Footnote 42
01:47:44 SENATOR SABB
So are you telling me that he was aware of a conversion but not aware that there was a problem associated with this one point eight billion dollar entry?
01:47:57 MRS. CLARISSA ADAMS
Senator, I want to very respectfully.
01:47:59 SENATOR SABB
And I want a very clear answer, and so I appreciate you pondering it because it's an important matter to me.
01:48:01
I.
01:48:06 SENATOR SABB
Want to know whether or not traders were new here as Deputy chief of?
01:48:10 SENATOR SABB
You're the person here testifying on the oath kind of sort of in his stead, I guess.
01:48:16 SENATOR SABB
And you just tell me whether you know.
01:48:19 SENATOR SABB
Do you know whether or not treasure Loftus was aware that there was?
01:48:27 SENATOR SABB
Concern over this one point eight billion dollar entry was it called his attention.
01:48:35 MRS. CLARISSA ADAMS
What would have been conveyed to the treasure is that there was a conversion entry and that the multiple agencies had reviewed this.
01:48:45 MRS. CLARISSA ADAMS

Had used that conversion entry and again there were no findings or recommendations that I can assure you was conveyed to the State Treasurer.
01:48:54 SENATOR SABB
Are you telling me then?
01:48:56 SENATOR SABB
The state treasurer was not aware that there was an entry of concern.
01:49:03 SENATOR SABB
Because you can't convince me that this is not an entry of concern because everybody 's trying to figure out what to do with it.
01:49:09 SENATOR SABB
So it's got to be an entry of concern. And so my question is specific one, are you telling me that treasure Loftus did not know about the concern that you all had associated with this entry?
01:49:23 MRS. CLARISSA ADAMS
And again, this is an.
01:49:24 MRS. CLARISSA ADAMS
You're not going to be happy.
01:49:26 MRS. CLARISSA ADAMS
We weren't concerned about it at that time.
01:49:29 SENATOR SABB
So your position is that that no conversations took place.
01:49:35 SENATOR SABB
As far as writing it off.
01:49:40 MRS. CLARISSA ADAMS
And that's what we were talking about earlier.
01:49:42 SENATOR SABB
Yes, ma'am. But I don't know, that's.
01:49:45 SENATOR SABB
On some of these.
01:49:47 SENATOR SABB
And so that's why I want to drill down on them because I think they're important for purposes of this record and for anybody edification who's paying attention to these hearings.
01:49:56 SENATOR SABB
And so the the first answer that you've given me is that nobody?
01:50:01 SENATOR SABB
Was concerned about this one point eight billion dollar entry that it was not a matter of concern back in twenty sixteen.
01:50:09 MRS. CLARISSA ADAMS
And I want to be very careful. We want.
01:50:11 SENATOR SABB
Yes, ma'am, if you just answer that one, yes or no and then explain for.
01:50:16 SENATOR SABB
Is it true?
01:50:17 SENATOR SABB
That nobody was concerned about the one point eight billion dollar entry back in twenty sixteen.

01:50:24 SENATOR SABB
That's a yes or no answer.

Footnote 46
01:33:30 SENATOR GOLDFINCH
So both agencies were collaborating together with other agencies in order to try to figure out how to write it down right.
01:33:37 SENATOR GOLDFINCH
Mean am I using the wrong terminology there to help me with my terminology to try to get?
01:33:41 SENATOR GOLDFINCH
Of that balance, right?
01:33:43 MRS. CLARISSA ADAMS
How to convert the system and again the good news is the bank balances were correct, there's no question.
01:33:50 SENATOR GOLDFINCH
I don't dispute that the bank balances were correct.
01:33:53 SENATOR GOLDFINCH
This balance is an.
01:33:54 SENATOR GOLDFINCH
Y'all are talking together trying to figure out how to get rid of that balance, right.
01:33:58 MRS. CLARISSA ADAMS
The balance was definitely an outlier.
01:34:00 SENATOR GOLDFINCH
Right.

02:34:59 MRS. CLARISSA ADAMS
I didn't know we were going to talk about something that happened almost a year ago. I can tell you, though that AlixPartners report.
02:35:08 MRS. CLARISSA ADAMS
Very much says that the cash and investment balances are.
02:35:11 MRS. CLARISSA ADAMS
We balance back to the bank, the taxpayers of South Carolina should know that we are able to rely on how much we have in the bank.
02:35:22 MRS. CLARISSA ADAMS
And I believe that has gotten lost and I appreciate you letting me share that today because we would not.
02:35:30 MRS. CLARISSA ADAMS
We've been able to highlight that and I appreciate you letting me highlight that the bank balances are correct.
02:35:36 CHAIRMAN GROOMS
So the Treasurer 's office can account for every dollar that it can account for, is that right?
02:35:43 MRS. CLARISSA ADAMS
Yes.

02:55:42 SENATOR RICE

OK. And I'm going to say this as far as the public is concerned, there's either money in the bank or there's not.
02:55:49 SENATOR RICE
Now if you got an account that's got something in there that's got a discrepancy in it, which this account did, there's no cash in there to back it up.
02:55:58 SENATOR RICE
When did you determine that it was? There was no cash in there. What year?
02:56:06 SENATOR RICE
Two thousand sixteen.
02:56:12 MRS. CLARISSA ADAMS
Let me let her provide a little clarification.
02:56:17 MS. MELISSA SIMMONS
Excuse me. Let me see if I can help.
02:56:20 MS. MELISSA SIMMONS
It sound your question about fund versus bank account funds are you need to governmental accounting and it is a specific fund. It's a self balancing set of accounts and it's specifically designed to account for certain legislatively mandate dollars.
02:56:36 MS. MELISSA SIMMONS
A bank account.
02:56:38 MS. MELISSA SIMMONS
It it each of our funds and there's a large number of funds in SCEIS, has a general Ledger bank account associated with?
02:56:44 MS. MELISSA SIMMONS
That and so I think that might be part of the confusing.
02:56:47 MS. MELISSA SIMMONS
There's a difference between a bank account and a SCEIS fund. The nine, nine three we're talking about is an accounting SCEIS fund, not a bank account.
02:56:56 MS. MELISSA SIMMONS
We talk about money being.
02:56:57 MS. MELISSA SIMMONS
The Bank, of course. The AlixPartners.
02:57:00 MS. MELISSA SIMMONS
Report confirms that the dollars that we have in the bank do tie back to our SCEIS general Ledger.
02:57:05 MS. MELISSA SIMMONS
However, the accountability in the general Ledger for.
02:57:09 MS. MELISSA SIMMONS
Ultimately, moving to the ACFR is in funds and I think the fund and the classification of those dollars in the fund is what what you may be asking about is that correct?
02:57:19 SENATOR RICE
I hear what you're saying, but right now you think there's a correction that needs to occur to get that off the books.

Footnotes 47, 49-50
01:25:44 CHAIRMAN GROOMS

You unfamiliar with?
01:25:47 CHAIRMAN GROOMS
Infinity.
01:25:48 CHAIRMAN GROOMS
Marketing.
01:25:50 MRS. CLARISSA ADAMS
Yes, Sir.
01:25:51 CHAIRMAN GROOMS
And and what were what's their relationship to the State Treasurer 's office?
01:25:55 MRS. CLARISSA ADAMS
Infinity is a communications firm that assists the State Treasurer's office.
01:26:02 CHAIRMAN GROOMS
And what's what's the purpose?
01:26:05 CHAIRMAN GROOMS
What's their?
01:26:07 CHAIRMAN GROOMS
I'm a why did the State Treasurer’s office contract with Infinity marketing?
01:26:14 CHAIRMAN GROOMS
And what was their hope of gaining from their services?
01:26:18 MRS. CLARISSA ADAMS
Well, certainly, as I said, this is a very important issue.
01:26:21 MRS. CLARISSA ADAMS
It would not be unusual to ask for guidance on communication on.
01:26:28 MRS. CLARISSA ADAMS
Cash position on.
01:26:33 MRS. CLARISSA ADAMS
On various things.
01:26:36 CHAIRMAN GROOMS
And revealing some stuff from Infinity marketing that I believe they are a crisis management firm, would you?
01:26:45 MRS. CLARISSA ADAMS
That is one of.
01:26:45 CHAIRMAN GROOMS
Describe them as that.
01:26:46 MRS. CLARISSA ADAMS
That is one of the services they provide. Yes, Sir.
01:26:49 CHAIRMAN GROOMS
Did the State Treasurer 's office
01:26:52 CHAIRMAN GROOMS
Secure their services for crisis management?
01:26:57 MRS. CLARISSA ADAMS
That is one of the services they offer, yes.
01:26:59 CHAIRMAN GROOMS
But is that the service they're providing to the state treasurers office?

01:27:04 MRS. CLARISSA ADAMS
Is not the sole purpose, but yes again.
01:27:10 MRS. CLARISSA ADAMS
We were able to secure or have help from subject matter experts to help us with this.
01:27:29 CHAIRMAN GROOMS
Mr. Chairman, they're from Georgetown. Just just.
01:27:31 SENATOR GOLDFINCH
Follow up on that and then I've got another lot of questions I want.
01:27:34 SENATOR GOLDFINCH
Ask you, Miss Adams. What?
01:27:37 SENATOR GOLDFINCH
I think your testimony was you engaged in Infinity to help you.
01:27:41 SENATOR GOLDFINCH
Was.
01:27:41 SENATOR GOLDFINCH
The scope of their engagement again.
01:27:48 MRS. CLARISSA ADAMS
Again, they were helping us.
01:27:54 MRS. CLARISSA ADAMS
Let me get back to you on.
01:27:56 MRS. CLARISSA ADAMS
I understand your question, but I want to make sure.
01:27:58 MRS. CLARISSA ADAMS
Answer it properly.
01:28:01 SENATOR GOLDFINCH
OK. So you you don't know what they were engaged for?
01:28:05 MRS. CLARISSA ADAMS
Yes, they were engaged to help us with communication.

Footnote 51
01:43:42 SENATOR MATTHEWS
I'm just going to ask you straightforward, because I'm just from Colleton and I'm not real fancy.
01:43:48 SENATOR MATTHEWS
Did Mister, did Infinity marketing services coach your answers that...coach you to answer the questions?
01:43:57 SENATOR MATTHEWS
That you're being asked here today in that part of what they do?
01:44:02 SENATOR MATTHEWS
Because I've looked on their account companies on byline for their services, didn't they coach your responses?
01:44:14 MRS. CLARISSA ADAMS
They were helpful.
01:44:15 SENATOR MATTHEWS
Yes or no?

01:44:17 MRS. CLARISSA ADAMS
Yes.

Footnote 52
03:13:11 COMPTROLLER GENERAL GAINES
There are two I think I would like to address today.
03:13:14 COMPTROLLER GENERAL GAINES
OK, the first being I think the previous speaker.
03:13:20 COMPTROLLER GENERAL GAINES
Reference.
03:13:23 COMPTROLLER GENERAL GAINES
Page ten, which speaks to to whom?
03:13:26 COMPTROLLER GENERAL GAINES
One point eight billion dollars belong.
03:13:28 COMPTROLLER GENERAL GAINES
And seems to suggest that the comments there in that first paragraph relating to the ACFR business areas are relating to things to see. GS office did as a part of the conversion.
03:13:40 COMPTROLLER GENERAL GAINES
Just as clarification, the ACFR business areas sit top of everything that goes on.
03:13:47 COMPTROLLER GENERAL GAINES
These are nine statewide.
03:13:51 COMPTROLLER GENERAL GAINES
Basically, phony agencies that exist to allow the Comptroller Generals Office to make top level adjustments to the states books without impacting individual state agencies.
03:14:02 COMPTROLLER GENERAL GAINES
So in essence, if I need to make an adjustment for the Department of Social Services, I will use the ACFR business area that the Department of Social Services falls.
03:14:12 COMPTROLLER GENERAL GAINES
Make that adjustment so that the books of DSS are not impacted in any way.
03:14:17 COMPTROLLER GENERAL GAINES
And so those adjustments took place in twenty, twenty two, twenty, twenty three, twenty, twenty four and continue to happen today.
03:14:24 COMPTROLLER GENERAL GAINES
That is the core function of the C GS office.
03:14:28 COMPTROLLER GENERAL GAINES
Issue is that the Treasurer 's conversion team converted those ACFR business areas and they should not have been because they're not real agencies.
03:14:36 COMPTROLLER GENERAL GAINES
Do not hold real money so.
03:14:38 COMPTROLLER GENERAL GAINES
The AP report is saying is that the error that occurred was the.
03:14:43 COMPTROLLER GENERAL GAINES
The error is not that the CG post those entries into ACFR business areas. That is what we do.
03:14:49 COMPTROLLER GENERAL GAINES

So I would like to clarify that that is not the issue that the AP report is talking about, and that is a gross misunderstanding of what that actually means.
03:14:59 COMPTROLLER GENERAL GAINES
I would also like to talk a little bit about if it's OK.
03:15:03 COMPTROLLER GENERAL GAINES
With the.
03:15:05 COMPTROLLER GENERAL GAINES
I guess the December twenty third letter that this the previous speaker indicated the STL is using as their proof that the one point eight billion dollars was real. To me that is very concerning.
03:15:19 COMPTROLLER GENERAL GAINES
I think he's made it very clear that he's the bank and I'm the accountant and so he is relying on the account.
03:15:26 COMPTROLLER GENERAL GAINES
To tell him what is cash in the bank. The letter that I sent him.
03:15:31 COMPTROLLER GENERAL GAINES
Stated that there was one point eight billion dollars in that fund to me.
03:15:36 COMPTROLLER GENERAL GAINES
And to anyone else that looked like that, looked at it, it would appear to be one point eight billion dollars in cash.
03:15:42 COMPTROLLER GENERAL GAINES
That letter further said you as the state Treasurer, need to further research and determine what that is, and secondly.
03:15:51 COMPTROLLER GENERAL GAINES
Make the General Assembly aware.
03:15:54 COMPTROLLER GENERAL GAINES
That is what that.
03:15:55 COMPTROLLER GENERAL GAINES
Said delegate.
03:15:56 CHAIRMAN GROOMS
Is that the December thirty first letter?
03:15:58 COMPTROLLER GENERAL GAINES
That is the.
03:16:01 CHAIRMAN GROOMS
Twenty twenty three.
03:16:03 COMPTROLLER GENERAL GAINES
That is the December.
03:16:05 COMPTROLLER GENERAL GAINES
Twelfth of twenty twelve. OK, that is what that letter is indicating. And I think it's concerning again that the one charged withholding all of the state 's cash and investing all the state 's cash would rely on me to tell him what is truly cash and what is.
03:16:07 CHAIRMAN GROOMS
All right.

AlixPartners **Exhibit 23**

DELIVERED ELECTRONICALLY

February 26, 2025

Senator Larry Grooms, Chairman
Senate Finance Constitutional Subcommittee

Dear Chairman Grooms,

We, AlixPartners, are responding to the February 20, 2025 request from the South Carolina Senate Finance Committee for "a response from AlixPartners regarding [redacted] testimony before the Constitutional Subcommittee on February 18."

As background, we had a call with the State Treasurer's Office (STO) on February 7, 2025, to discuss certain questions the STO had regarding our report. During that call, in answering the questions posed by the STO, we only provided information consistent with the conclusions reached in our report, which the STO could have independently confirmed and verified.

Specifically, Ms. Adams stated in the February 20, 2025 hearing that we provided certain verbal clarifications on our call with the STO on February 7, 2025. More specifically she stated that:

> "Where the report indicates A one point six Appropriation during the conversion what it does not point out is that the one point six Dollar amount is done by the Comptroller General 's office and it's not to point fingers at all. We are certainly working together with the Comptroller General 's office. We just did not know that appropriations were included in the amount that was transferred. I believe, Sir, if you go to whom does the one point eight belong? "We have determined that approximately one point six does not represent real cash It is attributable to balances in certain ACFR only business areas that were incorrectly recorded in fund 993. What I wanted to provide provide [sic] clarification is on page ten it says this would mean that the Comptroller General 's office. Incorrectly included one point, six billion of dollar one point, six billion dollars of appropriation. During the conversion, the state Treasurer Office was notified by the Comptroller Generals Office. You will only convert cash as the appropriations are eliminated Meaning, "proceed with the conversion." AlixPartners confirmed the Controller General 's office should not have transferred one point six billion dollars in ACFR balances turning non-cash into cash. The state Treasurer 's office moved one point six billion dollars in appropriation. This is what AlixPartners called the unintended consequences of artificially inflating cash. And I would add, AlixPartners also indicates that the ACFR business areas are the sole responsibility of the Comptroller General…
>
> …That is it. Again, it was very significant and I thought it was important to share that with you. And I thank you for letting me share that. And Senator, I apologize if this caused confusion. That was not my intent at all. It did not say, though, the Comptrollers general's office, and I've been very clear this is not to point fingers at all. We intend we have worked with controller Generals Office. CLARISSA ADAMS Intend to work with the Comptroller Generals Office. We've received positive news from Alex Potters [sic] that our cash and investment balances are correct. And what I

was trying to do is because it said ACFR only business areas, I wanted to make sure that you knew that that was with the Comptroller general 's office. I didn't mean to start us off on."[1] (highlights added)

We would like to clarify the highlighted portions of Ms. Adams' testimony as follows:

(1) Our report stated that the Comptroller General's Office (CGO) originally recorded the entries that made up the $1.6 billion of ACFR Business Area balances.

- See page 10 of our report: "These balances represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process";
- And pages 42 to 43 of our report: "the CGO maintains business areas within SCEIS which correspond to the various State agencies for reporting purposes. The business areas ultimately roll-up to nine ACFR BAs within SCEIS to assist in compiling the ACFR. We understand the ACFR BAs are unrelated to day-to-day accounting activity and do not equate to cash in a bank."

(2) We informed the STO on our February 7th call that, while not directly in our scope, we did not identify any evidence to suggest that the "$1.6 billion of…adjustments previously recorded by the CGO during the ACFR preparation process" were erroneous (page 10 of our report). However, as stated on page 61 of our report, our ability to assess the CGO adjustments columns of the Crosswalk files, which include ACFR BA adjustments, was limited:

> "We attempted to validate and reconcile the balances in the supporting workbooks and agree them to the CGO Adjustments columns of the Crosswalk files. These attempts were complicated by a lack of detail within the Crosswalk files and a lack of any formal documentation explaining how such balances were compiled and derived. The supporting workpapers that we identified which tied to the Crosswalk files were generally insufficient as to determining the source of the data, the purpose of individual reports within, or any adjustments made to generate the result."

(3) We informed the STO on our February 7th call that <u>a portion</u> of the $1.6 billion was recorded under fund 10019000 (i.e., related to appropriations). This is evident in the SCEIS system (to which both the STO and CGO have access) and is consistent with page 48 of our report in which we explained that "[t]he $3.1 billion portion of [the Double-Counting of Appropriations Cash] adjustment overlapped with the previously discussed $1.8 Billion."

(4) While we informed the STO in the February 7th call that the CGO was involved in certain entries that transferred the $1.6 billion to fund 30350993, the CGO was not solely responsible. In fact, the usernames attributed to these entries in SCEIS (to

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[1] Per the preliminary transcript contained within 'Selection from Constitutional Subcommittee of the Senate Finance Committee 2.18.docx'

which both the STO and CGO have access) are not directly associated with any CGO employee. The explanation we provided on February 7th is consistent with our report.

- See for example page 42 of our report: "Despite reclassifying the Conversion Account balance to an account called 'Due to Other Funds – Equity in Pooled Cash', neither the STO nor the CGO made any subsequent attempts to identify to whom such funds were owed until fiscal year 2022.");
- And see page 43 of our report: "During Phase 2 of the bank conversion $1. billion of ACFR BA balances was incorrectly transferred to the Conversion Account".

(5) Our report explained that we were only able to reconcile the bank balances in SCEIS to the bank statements when summing all funds, including fund 30350993:

- See page 49 of our report: "As of 2022, the $1.8 Billion [cash] balance is composed of: (1) balances recorded related to 11 bank accounts (with a total balance of $31.0 billion); and (2) the 'splitter' balance in Fund 30350993 (with a balance of negative $29.1 billion). We have confirmed that, in each instance, SCEIS cannot be reconciled to the bank statements for those 11 banks without including the cash in Fund 30350993."
- See page 57 of our report: "We reconciled the 'STO Bank' component of the Crosswalk files to banking data either provided directly by the STO or bank statements extracted from contemporaneous STO closing packages, with only minor discrepancies which were generally attributable to timing differences. This reconciliation required that we include all funds, including those with a GAAP Fund Code of 999 (e.g., Fund 30350993)."
-

(6) We explained to the STO in the February 7th call that the entries that created the $1.6 billion cash balance within fund 30350993 (which was excluded from the ACFR) also created an offsetting cash balance in the ACFR BAs (which were recorded in funds that were included in the ACFR). We pointed out that STO reconciled SCEIS to the bank at the account level (i.e., including all funds). We raised, in response, that the differing treatment of these two offsetting amounts for ACFR purposes created an imbalance in the ACFR: (1) negative $1.6 billion of ACFR BA balances that retained the original fund designation recorded by the CGO (and was included in the ACFR); (2) positive $1.6 billion in fund 30350993 (which, up until fiscal year 2022, was excluded from the ACFR). Further, due to their offsetting nature, when the entries that comprise the $1.6 billion transfer to fund 30350993 are reversed, the bank balances are unchanged. This is consistent with our report:

- See page 49 of our report: "Fund 30350993 is a treasury fund in SCEIS that was mapped by the CGO as a GAAP Fund code 999 such that it was excluded from the ACFR."
- See page 49 of our report: "$1.6 billion of ACFR BA balances was incorrectly transferred to Fund 30350993, which resulted in a ***negative*** **$1.6 billion ACFR BA cash balance** (which was **included in the ACFR** thus suppressing the reported cash balance) and a ***positive*** **$1.6 billion cash balance in**

Fund 30350993 (which, up until fiscal year 2022, was **excluded from the ACFR**).” (emphasis added)

- See page 43 of our report: “We conducted a reconciliation of the bank account balances both before and after reversing the entries and confirmed that the **balances of the bank-specific general ledger accounts** impacted by the bank conversion **did not change**.” (emphasis added)

Regards,

[redacted]

Partner & Managing Director

Exhibit 24

STATE OF SOUTH CAROLINA

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

JUNE 30, 2016

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MATERIAL WEAKNESSES

2016-001 FINANCIAL REPORTING – PREPARATION OF STATEWIDE ACCOUNTING RECORDS AND COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) – COMPTROLLER GENERAL'S OFFICE

Criteria

Section 1.6, An Overview of the Year-End Reporting Process, of the Comptroller General's Reporting Policies and Procedures Manual, states, "The Comptroller General's Office will use SCEIS functionality to compile the statewide financial statements. Specifically, they will evaluate the completeness of SCEIS and identify and post entries necessary for GAAP compliance in SCEIS." This policy acts as a control over financial reporting for the State's financial statements.

Condition

Internal controls over financial reporting were inadequate to prevent or detect multiple misstatements during the preparation of the State's CAFR and in the supporting accounting records, requiring the Comptroller General's Office to post material adjustments to the State's CAFR.

Context

The Comptroller General's Office is responsible for the reporting of State financial accounting data in the CAFR. Upon receipt of State agencies' financial accounting data, the Comptroller General's Office compiles the State's CAFR using the State agencies' data, and records statewide accounting adjustments to that data to properly reflect the State's overall financial position at year end. There were misstatements in the compilation of the CAFR and the related financial accounting data which were not detected or corrected by the Comptroller General's Office supervisory staff during the review process, and as a result, audit adjustments were recorded. These misstatements consisted of:

- The reporting of balances related to tax receivables and payables included in the general ledger that did not agree to the underlying accounting records and which could not be substantiated.
- The reporting and classification of general ledger account balances included in the State's accounting system but related to an enterprise fund that is separately audited.
- The omission of an entity which was determined to qualify as a discretely presented component unit.
- Elimination of certain revenue and expenditure activity which should not have been eliminated.

Cause

Accounting data compiled by the Comptroller General's Office staff during preparation of the CAFR contained errors. These errors were not detected during Office supervisory staff review and the internal controls of the Office failed to document that all Office transactions had been reviewed.

Effect

Internal controls related to the preparation and fair presentation of the financial statements did not facilitate management's identification of material misstatements. As a result, audit adjustments were required.

Recommendation

We recommend that additional procedures and controls be developed and implemented to ensure that the State's financial accounting data is reported accurately, including properly defining the reporting entity, in accordance with Section 1.6 of the procedures manual referenced above and that the data compiled by the Comptroller General's Office staff is adequately reviewed by appropriate personnel.

Views of Responsible Officials and Corrective Action Plan

See page 10.

2016-002 FINANCIAL REPORTING – SOUTH CAROLINA ENTERPRISE INFORMATION SYSTEM (SCEIS) IMPLEMENTATION OF CASH, CASH EQUIVALENTS, AND INVESTMENTS – STATE TREASURER'S OFFICE

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework states that control activities are a component of internal control. Control activities are policies and procedures established to ensure that management directives are carried out, and consist of two elements, a policy that establishes what should be done and the procedure that implements the policy. COSO Framework states that control activities must be in place for there to be adequate internal control procedures over financial reporting. Internal control procedures affect the State's ability to ensure financial transactions are authorized and accurate. The preparation of reconciliations between ledgers and sub-ledgers is a key component of an entity's internal control framework.

Condition

Internal controls over financial reporting were inadequate to prevent or detect misstatements of cash, cash equivalents, and investment balances while reconciling the amounts included the South Carolina Enterprise Information System (SCEIS) to the support provided by the State Treasurer's Office (STO).

Context

During fiscal year 2016 the STO converted legacy systems used to account for cash, cash equivalents and investments to SCEIS. This implementation was not completed by the end of the fiscal year and as a result adjustments were required to be posted in order to compile the State's CAFR.

Cause

SCEIS was not fully implemented by June 30, 2016, resulting in unreconciled variances between the supporting documentation and SCEIS balances related to cash, cash equivalents and investments.

Effect

Cash, cash equivalents, and investments reported in SCEIS did not reconcile to the amount of cash, cash equivalents, and investment balances supported by the STO, and as a result audit adjustments were required to be recorded. Inadequate reconciliation may prevent management from identifying misstatements, due to error or fraud.

Recommendation

We recommend that the STO fully complete its SCEIS implementation and that any variances be investigated and adjusted. Upon full implementation, we recommend the STO review its policies and procedure related to the reconciliation and review of year end balances.

Views of Responsible Officials and Corrective Action Plan

See page 13.

MANAGEMENTS' RESPONSES

State of South Carolina

Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

Telephone: (803) 734-2121
Fax: (803) 734-1765
E-Mail: cgoffice@cg.sc.gov

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

WILLIAM E. GUNN
CHIEF OF STAFF

Feb. 10, 2017

Mr. George L. Kennedy, III, CPA
State Auditor
S.C. Office of the State Auditor
1401 Main St., Ste. 1200
Columbia, S.C. 29201

Dear Mr. Kennedy:

We have reviewed audit comment 2016-001, which addresses our office. The comment contained four bulleted auditor findings, each of which was said to have resulted in "misstatements in the compilation of the CAFR and the related financial accounting data which were not corrected by the Comptroller General's Office supervisory staff during the review process, and as a result, audit adjustments were recorded."

We acknowledge our office's responsibility for:

- ✓ reviewing certain financial accounting data of State agencies
- ✓ recording statewide adjustments to the accounting data (to the extent we ascertain that adjustments are necessary) to properly reflect the State's overall financial position at year end
- ✓ using the data to compile the CAFR

The 1st bulleted finding indicates that our office allowed an agency to provide us tax receivables and payables balances that we included in the general ledger but that did not agree to the underlying accounting records and that could not be substantiated. *We respectfully disagree with this assertion.*

The tax receivables and payables balances were provided to our office in a year end "reporting package" by the State agency responsible for administering tax law and overseeing and accounting for tax collections on behalf of State government. In discharging its tax oversight responsibilities, that agency closely controls taxpayer information, including taxpayer information in its accounting and tax subsystems. Unlike the necessary access to taxpayer information it provides to State Auditor personnel, our office does not have similar access.

The tax agency did provide our office, as it does every year, with a 2016 reporting package that contained end of year balances derived from its tax accounting subsystem for tax receivables and payables. We needed this information for the CAFR. The reporting package we received included the signature of the agency's Chief Financial Officer asserting that the information being provided had been reviewed and that it was accurate and complete. The agency also provided us a written explanation for why the totals in this 2016 reporting package varied significantly from totals it had provided us in its 2015 reporting package. That explanation did not appear to be unreasonable or meritless. It explained that a new integrated tax accounting subsystem it was implementing gave it expanded reporting functionality and more accurate and complete information than could be obtained from its old non-integrated subsystems. We had no way to test the reporting package information. Yet aware that the CAFR auditors were scheduling their audit of the agency, we recorded the information from this reporting package into SCEIS as is our responsibility for reporting package information we receive from all State agencies.

As a part of compiling the 2016 CAFR, our office received a total of 790 separate reporting packages from State agencies. It is our practice to review each package to assure that an agency director or his/her designee attests to the accuracy and completeness of the data included thereon. We then, as a normal and necessary step in compiling the CAFR, record that data into SCEIS. During this process, if we detect an obvious error in a reporting package we try to resolve it to avoid entering obviously erroneous data into the State's central accounting system. Yet it is not within the scope of our office's responsibility or authority to audit the content of agency reporting packages in the manner a financial statement auditor would.

The 2nd bulleted finding indicates that our office misclassified and reported general ledger accounts in SCEIS that were related to a separately-audited enterprise fund. We agree that in compiling the CAFR we should not have included the entity's accounting information in SCEIS. *However, we respectfully disagree with the assertion that our office misclassified this entity's general ledger accounts, thereby producing "misstatements in the compilation of the CAFR."*

This assertion involved three general ledger cash accounts that a SCEIS consultant working with the Treasurer's office had asked our office to establish in connection with that office's ongoing conversion of its cash and investments subsystem from STARS to SCEIS. We were instructed to group these two new accounts within the State's general fund.

We have since been informed that these accounts should have been grouped with an enterprise fund rather than with the State's general fund. Yet the written documentation we received accompanying the request instructed us to group them exactly as we did within the general fund. We will analyze our longstanding procedures for establishing new accounts to see if there are additional safeguards we can employ to eliminate similar errors in the future.

The 3rd bulleted finding reports "the omission (*in our compilation of the CAFR*) of an entity which was determined to qualify as a discretely presented component unit." *We believe this finding creates a misleading impression that this was a finding discovered and corrected by the auditors.*

Prior to 1994 the omitted entity had been included in the State's CAFR as a nonmajor enterprise fund. For reasons that we have not been able to identify, a decision was made in FY 1994 to no longer include it in the CAFR. During FY 2016 our office decided to take a fresh look at that decision. We re-examined this entity, including its relationship with the State, and concluded that based on prevailing accounting standards we would include the entity in the 2016 CAFR as a nonmajor discretely presented component unit. Before the auditors began their year-end testing, we informed them of our decision to include it in the 2016 CAFR because of our determination that it met the test provided in GASB 61 of a discretely presented component unit of the State.

The 4th bulleted finding indicates that we eliminated certain revenue and expense activity that should not have been eliminated in compiling the CAFR. *We agree with this finding.*

During the STARS to SCEIS conversion in 2012, a report to eliminate internal activity that had been available in STARS was no longer available after converting to SCEIS. Consequently, in compiling the CAFR in subsequent years we calculated estimated amounts for internal activity eliminations based on account balance relationships existing in FY 2011. In FY 2016, our office worked with SCIES to develop a new calculation methodology to ensure more accurate reporting and we rebuilt our former STARS-based report in its entirety to create a report from SCEIS. We appreciate the auditors' review of the complex process we followed in creating this new report. The results of their review produced improvements that benefit the CAFR compilation process.

We appreciate this opportunity to respond to your findings in order to provide this essential detail.

Yours very truly,

Richard Eckstrom

Richard Eckstrom
Comptroller General

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

February 10, 2017

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
1401 Main Street
Columbia, South Carolina 29201

Dear Mr. Kennedy,

It was a pleasure working with your team during your recent audit of the State's CAFR. We are in receipt of the **2016-002 Financial Reporting – South Carolina Enterprise Information System (SCEIS) Implementation of Cash, Cash Equivalents and Investments – State Treasurer's Office**. We also thank you for the kind words of praise expressed during the exit conference and your recognition of the tremendous progress made due to the SCEIS Treasury Management module conversion.

We are extremely proud to have completed this important work. As you know, this statewide module conversion should have been undertaken in 2007. However, no other State Treasurer chose to commit the substantial time and effort required to complete the conversion from the 30-year-old legacy system. The Treasury module conversion did prove to be a tremendous undertaking, and we are pleased to note confirmation by your office, as well as the outside audit firm, Clifton Larson Allen, that the data and accounting supported by the State Treasurer's Office was ***never in question*** during the conversion as to the amount of cash, cash equivalents, or investment balances held within the Treasury, nor was there any question regarding the safe custody thereof.

These conversion efforts represent quantum improvements over the legacy systems that were external to the SCEIS enterprise. The State Treasurer's Office looks forward to finalizing the innovative internal control procedures over financial reporting that will further enhance the already improved transparency, timeliness, and accuracy of Treasury activities within the State Enterprise. We look forward to an even more successful reporting process next year as we further implement reconciliation procedures to ensure that Treasury data is accurately reflected within the Financial Accounting enterprise of SCEIS and inculcate recommendations in any and all practices and processes.

Please feel free to contact me should you have any questions regarding this matter.

Sincerely,

Tonia L. Morris

Tonia L. Morris, CPA
Deputy State Treasurer

(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov
Post Office Box 11778
Columbia, SC 29211
Wade Hampton Building, 1200 Senate Street
Columbia, SC 29201

STATE OF SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

JUNE 30, 2017

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MATERIAL WEAKNESS

2017-001 MATERIAL WEAKNESS IN FINANCIAL REPORTING – PREPARATION OF STATEWIDE ACCOUNTING RECORDS AND COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) – COMPTROLLER GENERAL'S OFFICE

Condition

Internal controls over financial reporting were inadequate to prevent or detect material misstatements during the preparation of the State's Comprehensive Annual Financial Report (CAFR) and in the supporting accounting records, requiring the Comptroller General's Office (CGO) to post adjustments to the State's CAFR.

Context

The CGO is responsible for compilation of the CAFR from reporting packages and audited financial statements submitted from State agencies. There were two misstatements in the compilation of the CAFR which were not detected or corrected by the CGO supervisory staff during the review process and as a result, audit adjustments were recorded.

Cause

These errors were not detected during CGO supervisory staff review.

Effect

Amounts included in the financial statements were inaccurate, as a result, material audit adjustments were required.

Criteria

Section 1.6, An Overview of the Year-End Reporting Process, of the Comptroller General's Reporting Policies and Procedures Manual, states, "The Comptroller General's Office will use SCEIS functionality to compile the statewide financial statements. Specifically, they will evaluate the completeness of SCEIS and identify and post entries necessary for GAAP compliance in SCEIS." This policy acts as a control over financial reporting for the State's financial statements.

Recommendation

We recommend the CGO review its procedures over recording adjustments related to other audited financial statements for inclusion in the statewide CAFR and make changes to strengthen its review procedures.

Response

See management's response on page 9.

SIGNIFICANT DEFICIENCIES

2017-002 FINANCIAL REPORTING – SOUTH CAROLINA ENTERPRISE INFORMATION SYSTEM (SCEIS) IMPLEMENTATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS – STATE TREASURER'S OFFICE

Condition

As of June 30, 2017 the reconciliation of internal activity related to cash and investments included in the South Carolina Enterprise Information System (SCEIS) had not been completed.

Context

During fiscal year 2016 the State Treasurer's Office (STO) converted legacy systems used to account for cash, cash equivalents and investments to SCEIS. The STO had reconciled and agreed total cash and investment balances to external financial institutions at year end. However, internal transactions recorded as part of the conversion process had not been completely reconciled and amounts reclassified as necessary. As a result, journal entries were required to be posted in order to compile the State's CAFR and to validate that cash and investments were correctly reported. These journal entries did not change total cash balances as originally reported by the STO.

Cause

Conversion entries related to cash and investments within SCEIS have not been fully completed.

Effect

Inadequate reconciliation may prevent management from identifying material misstatements, due to error or fraud. For fiscal year 2017, journal entries were required to be posted to compile the State's CAFR.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework states that control activities are a component of internal control. Control activities are policies and procedures established to ensure that management directives are carried out, and consist of two elements, a policy that establishes what should be done and the procedure that implements the policy. COSO Framework states that control activities must be in place for there to be adequate internal control procedures over financial reporting. Internal control procedures affect the State's ability to ensure financial transactions are authorized and accurate. The preparation of reconciliations between ledgers and sub-ledgers is a key component of an entity's internal control framework.

Recommendation

We recommend the STO complete its conversion entries related to cash and investments in order to verify that all activity be reconciled and appropriately adjusted.

Response

See management's response on page 11.

MANAGEMENTS’ RESPONSES

State of South Carolina
Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
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E-Mail: cgoffice@cg.sc.gov

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

WILLIAM E. GUNN
CHIEF OF STAFF

November 30, 2017

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Kennedy:

We will review our CAFR-compilation procedures to look for opportunities for improvement, focusing on our procedures for consolidating into the CAFR the financial information we obtain from separately audited financial statements of the numerous state entities your audit team is able to exclude from its auditing procedures.

The CAFR contains information we derive from many sources that include SCEIS, the separately audited financial statements of numerous agencies, agency "reporting packages" containing required financial details not available to us in SCEIS, and other sources. Our ability to produce a timely and accurate CAFR depends upon our timely receipt from agencies of accurate financial data. This activity occurs within a very short period of time, which creates a situation in which time is our most scarce resource. During this same short period we assist your audit team by preparing account analyses and running reports requested in connection with your audit testing.

As you are aware, for various reasons we are confronted each year with timing challenges in receiving information that we need. Waiting on information needed to compile the CAFR while at the same time providing your audit staff with requested analyses and other information sometimes requires us to make a conscious, practical decision to perform our review of some pages in the CAFR only after we have given you a preliminary draft of the document for your review. While that hasn't always been an ideal solution, it's sometimes been a necessary one.

With one of the smallest financial reporting staffs in the nation, South Carolina is one of the timeliest states in the nation to produce its CAFR. However, for quality control purposes – and because of the increased volume and complexity of professional accounting standards – we clearly need additional staff resources. Our agency's budget has never recovered from the series of deep cuts it experienced during the 2008-10 economic downturn. In spite of that fact, our CAFR has consistently been produced with unqualified opinions, and without interruption it has continued to receive GFOA's Certificate of Achievement for Excellence in Financial Reporting.

Sincerely,

William Gunn p.p. Joy Stoger

William E. Gunn
Chief-of-Staff

WG/jds

cc: Sue Moss

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

November 21, 2017

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
1401 Main Street
Columbia, South Carolina 29201

Dear Mr. Kennedy:

It was again a pleasure working with your team during the recent audit of the State's CAFR. We are in receipt of the **2017-002 Financial Reporting – South Carolina Enterprise Information System (SCEIS) Implementation of Cash, Cash Equivalents and Investments – State Treasurer's Office.** We also thank you for the acknowledgement that at no time were the balances of cash, cash equivalents, nor investments as reported by the State Treasurer Office ever in question, nor was there any question regarding the safe custody thereof. We offer this management's response:

The limited SCEIS conversion entries remaining to be performed will not impact cash, cash equivalents nor investment balances as noted within the CAFR. Any remaining entries will only enhance the already improved transparency, timeliness, and accuracy of Treasury activities within the State Enterprise. These entries, expected to be completed in FY 2018, will simply be a ledger move between offsetting accounts and will have no impact on CAFR reporting.

As perpetual process improvement activities continue, The State Treasurer's Office will continue to ensure that Treasury data is accurately reflected within the Financial Accounting enterprise of SCEIS.

Please feel free to contact me should you have any questions regarding this matter.

Sincerely,

Tonia L. Morris

Tonia L. Morris, CPA
Deputy State Treasurer

(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov
Post Office Box 11778
Columbia, SC 29211
Wade Hampton Building, 1200 Senate Street
Columbia, SC 29201

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 111288
Date : 3/31/2024
Page : 1 of 1
Client PO:

	Current
Job: 031953 - Supplemental Services Crisis Communication **Component:** 001 - March 2024 **Description:**	
Total for Job/Component:	**1,955.00**

Total	**$1,955.00**

Net 30 Days

From: [redacted]
To:
Cc: Accounts Payable, STO
Subject: RE: Infinity invoices
Date: Wednesday, April 10, 2024 2:37:10 PM

Yes – these are approved. Thank you!

[redacted] **| Communications Director**
South Carolina Treasurer's Office
803.734.2549 | 803.722.8602
[redacted]

From: [redacted]
Sent: Wednesday, April 10, 2024 2:35 PM
To: [redacted]
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity invoices

Hey [redacted]

If you could please review and approve these invoices at your earliest convenience.

Thank you,

[redacted] **| Accountant/Fiscal Analyst**
South Carolina Treasurer's Office
Administration Division
1200 Senate Street, Suite 109
Wade Hampton Bldg., Columbia, SC 29201
[redacted]

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

INVOICE

Invoice Number : 111287-0002
Date : 3/31/2024
Page : 1 of 1
Client PO:

		Current
Job:	**031952 - Supplemental Services: SEO**	
Component:	**001 - March 2024**	
	Description:	
	Total for Job/Component:	**262.50**

Total	**$262.50**

Net 30 Days

From: [redacted]
To: [redacted]
Cc: Accounts Payable, STO
Subject: RE: Infinity invoices
Date: Wednesday, April 10, 2024 2:37:10 PM

Yes – these are approved. Thank you!

[redacted] | **Communications Director**
South Carolina Treasurer's Office
[redacted]

From: [redacted]
Sent: Wednesday, April 10, 2024 2:35 PM
To: [redacted]>
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity invoices

Hey [redacted]

If you could please review and approve these invoices at your earliest convenience.

Thank you,

[redacted] | **Accountant/Fiscal Analyst**
South Carolina Treasurer's Office
Administration Division
1200 Senate Street, Suite 109
Wade Hampton Bldg., Columbia, SC 29201
[redacted] | [redacted]v

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 111289-0002
Date : 3/31/2024
Page : 1 of 1
Client PO:

	Current
Job: 031955 - Supplemental Services: Social	
Component: 001 - March 2024	
Description:	
Total for Job/Component:	**864.00**

Total	**$864.00**

Net 30 Days

From: [redacted]
To: [redacted]
Cc: Accounts Payable, STO
Subject: RE: Infinity invoices
Date: Wednesday, April 10, 2024 2:37:10 PM

Yes – these are approved. Thank you!

[redacted] **| Communications Director**
South Carolina Treasurer's Office
[redacted]

From: [redacted]
Sent: Wednesday, April 10, 2024 2:35 PM
To: [redacted]
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity invoices

Hey Karen!

If you could please review and approve these invoices at your earliest convenience.

Thank you,

[redacted] **| Accountant/Fiscal Analyst**
South Carolina Treasurer's Office
Administration Division
1200 Senate Street, Suite 109
Wade Hampton Bldg., Columbia, SC 29201
[redacted]

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

INVOICE

Invoice Number : 111837-0002
Date : 4/30/2024
Page : 1 of 1
Client PO:

		Current
Job:	**031955 - Supplemental Services: Social**	
Component:	**002 - April 2024**	
Description:		
	Total for Job/Component:	**1,584.00**

Total	**$1,584.00**

Net 30 Days

From: [redacted]

[redacted]

Subject: Re: Infinity Invoices

Date: Wednesday, May 8, 2024 4:35:54 PM

Approved

[redacted]

On May 8, 2024, at 4:10 PM, [redacted] wrote:

Let me review with [redacted] and get back to you! Thanks!

<!--[if !vml]-->
<image003.jpg>
<!--[endif]-->[redacted] | **Communications Director**

South Carolina Treasurer's Office
[redacted]

From: [redacted]
Sent: Wednesday, May 8, 2024 4:02 PM
To: [redacted]
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity Invoices

Hey [redacted]

Please review and approve at your earliest convenience.

Thank you,

<!--[if !vml]-->
<image005.jpg>
<!--[endif]-->[redacted]

South Carolina Treasurer's Office
Administration Division
1200 Senate Street, Suite 109
[redacted]

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 111836
Date : 4/30/2024
Page : 1 of 1
Client PO:

	Current
Job: 031953 - Supplemental Services Crisis Communication	
Component: 002 - April 2024	
Description:	
Total for Job/Component:	**1,870.00**

Total	**$1,870.00**

Net 30 Days

Infinity Marketing • 874 S. Pleasantburg Drive • Greenville, SC 29607 • p (864) 235-1700 • f (864) 235-3100

From: [redacted]
To: [redacted]
Subject: Re: Infinity Invoices
Date: Wednesday, May 8, 2024 4:35:54 PM

Approved
[redacted]

On May 8, 2024, at 4:10 PM, [redacted] wrote:

Let me review with [redacted] and get back to you! Thanks!

<!--[if !vml]-->
<image003.jpg>
[redacted] | **Communications Director**

South Carolina Treasurer's Office
[redacted]

From: [redacted]
Sent: Wednesday, May 8, 2024 4:02 PM
To: [redacted]
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity Invoices

Hey [redacted]

Please review and approve at your earliest convenience.

Thank you,

<!--[if !vml]-->
<image005.jpg>
<!--[[redacted] | **Accountant/Fiscal Analyst**

South Carolina Treasurer's Office
Administration Division
1200 Senate Street, Suite 109
[redacted]

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 111835-0002
Date : 4/30/2024
Page : 1 of 1
Client PO:

		Current
Job:	**031952 - Supplemental Services: SEO**	
Component:	**002 - April 2024**	
	Description:	
	Total for Job/Component:	**150.00**

Total	**$150.00**

Net 30 Days

From: [redacted]
[redacted]
Subject: Re: Infinity Invoices
Date: Wednesday, May 8, 2024 4:35:54 PM

Approved
[redacted]

On May 8, 2024, at 4:10 PM, [redacted] wrote:

Let me review with [redacted] and get back to you! Thanks!

<!--[if !vml]-->
<image003.jpg>
<!--[[redacted] | **Communications Director**

South Carolina Treasurer's Office
[redacted]

From: [redacted]
Sent: Wednesday, May 8, 2024 4:02 PM
To: [redacted]
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity Invoices

Hey [redacted]

Please review and approve at your earliest convenience.

Thank you,

<!--[if !vml]-->
<image005.jpg>
<!--[[redacted] | **Accountant/Fiscal Analyst**

South Carolina Treasurer's Office
Administration Division
1200 Senate Street, Suite 109
[redacted]

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 112650-0002
Date : 6/12/2024
Page : 1 of 1
Client PO:

		Current
Job:	**031952 - Supplemental Services: SEO**	
Component:	**003 - May 2024**	
	Description:	
	Total for Job/Component:	**75.00**

Total	**$75.00**

Net 30 Days

From: [redacted]
To: [redacted]; [redacted]
Cc: Accounts Payable, STO; [redacted]
Subject: RE: Infinity invoices
Date: Thursday, June 13, 2024 10:15:48 AM
Attachments: Infinity - 112652 - $1215.00.pdf

Invoices ‘50 and ‘51 are approved. The attached is a Future Scholar expense so including [redacted] for processing that.

Thanks!

[redacted] | **Communications Director**
South Carolina Treasurer’s Office
[redacted]

From: [redacted]
Sent: Thursday, June 13, 2024 8:55 AM
To: [redacted]
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity invoices

Hey [redacted]

At your earliest convenience, please review and approve the invoices attached.

Thank you,

[redacted] | **Accountant/Fiscal Analyst**
South Carolina Treasurer’s Office
Administration Division
1200 Senate Street, Suite 109
[redacted]

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

INVOICE

Invoice Number : 112651-0002
Date : 6/12/2024
Page : 1 of 1
Client PO:

		Current
Job:	**031955 - Supplemental Services: Social**	
Component:	**003 - May 2024**	
Description:		
	Total for Job/Component:	**504.00**

Total	**$504.00**

Net 30 Days

From: [redacted]
To: [redacted]; [redacted]
Cc: Accounts Payable, STO; [redacted]
Subject: RE: Infinity invoices
Date: Thursday, June 13, 2024 10:15:48 AM
Attachments: Infinity - 112652 - $1215.00.pdf

Invoices ‘50 and ‘51 are approved. The attached is a Future Scholar expense so including [redacted] for processing that.

Thanks!

[redacted] | **Communications Director**
South Carolina Treasurer’s Office
[redacted]

From: [redacted]
Sent: Thursday, June 13, 2024 8:55 AM
To: [redacted]
Cc: Accounts Payable, STO <accountspayable@sto.sc.gov>
Subject: Infinity invoices

Hey [redacted]

At your earliest convenience, please review and approve the invoices attached.

Thank you,

[redacted] | **Accountant/Fiscal Analyst**
South Carolina Treasurer’s Office
Administration Division
1200 Senate Street, Suite 109
[redacted]

Infinity

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 114749
Date : 9/23/2024
Page : 1 of 1
Client PO:

		Current
Job:	**032875 - August 2024 Supplemental Services**	
Component:	**001 - August 2024 Supplemental Services – Crisis Communication**	
	Description:	
	Total for Job/Component:	**2,595.00**

Total	**$2,595.00**

Net 30 Days

10/1/24

Infinity

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 115328
Date : 10/15/2024
Page : 1 of 1
Client PO:

		Current
Job:	**033048 - Sept 2024 Supplemental Services - Crisis Communication**	
Component:	**001 - Sept 2024 Supplemental Services - Crisis Communication**	
Description:		
	Total for Job/Component:	**11,562.50**

Total	**$11,562.50**

Net 30 Days

10/18/24

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 116058
Date : 11/21/2024
Page : 1 of 1
Client PO:

		Current
Job:	**033187 - Sept 2024 Supplemental Services - Crisis Communication**	
Component:	**001 - Sept 2024 Supplemental Services - Crisis Communication**	
	Description:	
	Total for Job/Component:	**12,922.50**

Total	**$12,922.50**

Net 30 Days

CW 11/22/24

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 117085
Date : 12/31/2024
Page : 1 of 1
Client PO:

		Current
Job:	**033518 - Dec 2024 Supplemental Services - Crisis Communication**	
Component:	**001 - Dec 2024 Supplemental Services - Crisis Communication**	
	Description:	
	Total for Job/Component:	**14,282.50**

Total	**$14,282.50**

Net 30 Days

1/10/25 -

Infinity

INVOICE

South Carolina Treasurer's Office
Attn: [redacted]
1200 Senate Street, Suite 109
Wade Hampton Building
Columbia, SC 29201

Invoice Number : 117084
Date : 12/31/2024
Page : 1 of 1
Client PO:

	Current
Job: 033301 - Nov 2024 Supplemental Services - Crisis Communication	
Component: 001 - Nov 2024 Supplemental Services - Crisis Communication	
Description:	
Total for Job/Component:	**2,595.00**

Total	**$2,595.00**

Net 30 Days

1/10/25

Exhibit 27

Referenced Selections[1] of Sworn Testimony from Feb. 20, 2025, Constitutional Subcommittee Hearing

Footnotes 54-56

00:01:38 CHAIRMAN LARRY GROOMS
You've read the AlixPartners report. Do you agree with the recommendations in the report?
00:01:43 INTERIM AUDITOR MOSS
I do.
00:01:44 CHAIRMAN LARRY GROOMS
You read the AlixPartners report. Do you agree with what's in the AlixPartners report?
00:01:49 INTERIM AUDITOR MOSS
I do.
00:01:51 CHAIRMAN LARRY GROOMS
Can you talk to us a little bit about the state auditors participation with AlixPartners?
00:01:57 INTERIM AUDITOR MOSS
That was my predecessor, George Kennedy.
00:02:00 INTERIM AUDITOR MOSS
The meetings that were held were held with him and didn't include any staff members.
00:02:07 INTERIM AUDITOR MOSS
But the recommendations for our office totally supportive of.
00:02:13 CHAIRMAN LARRY GROOMS
Umm.
00:02:17 CHAIRMAN LARRY GROOMS
Is there anything else you'd like to share with us regarding the State auditor's office and AlixPartners?
00:02:23 INTERIM AUDITOR MOSS
One of the recommendations was about who appoints the state auditor is the five member SFAA and it had just been... I think there's some legislation that's been introduced to have it appointed by the governor with the consent of.
00:02:39 INTERIM AUDITOR MOSS
The Senate.
00:02:41 INTERIM AUDITOR MOSS
I would like to offer a different idea.
00:02:45 INTERIM AUDITOR MOSS
And I've talked to Senator Peeler and
00:02:51 INTERIM AUDITOR MOSS
Maybe somebody from the treasurer 's office that that position could still be appointed.
00:02:55 INTERIM AUDITOR MOSS
By the SFAA but exclude the Treasurer and the Comptroller General.
00:03:00 INTERIM AUDITOR MOSS
Then we have a member, representative of the House, the Governor, and a representative from the Senate.
00:03:06 CHAIRMAN LARRY GROOMS

[1] The Exhibits section of the report provides selections. Full transcript available upon request. To view the hearing in it's entirety, please visit: https://www.scstatehouse.gov/video/archives.php

OK.
00:03:07 CHAIRMAN LARRY GROOMS
Well, we'll certainly take that into consideration.
00:03:09 INTERIM AUDITOR MOSS
Thank you.
00:03:11 CHAIRMAN LARRY GROOMS
Do Members have have questions for the Office of State Auditor?
00:03:16 CHAIRMAN LARRY GROOMS
So I know Mister Kennedy was one most involved in the auditing process and not you. But we did want to hear from you as the acting state auditor to see if there were any issues at all that y'all may have with the AlixPartners report.
00:03:30 INTERIM AUDITOR MOSS
No, and we one of the things was about our relationship with Clifton Larson Allen.
00:03:35 INTERIM AUDITOR MOSS
We're going out to RFP after this engagement. After this effort is finished. And so we do anticipate new auditors for the next cycle.
00:03:45 CHAIRMAN LARRY GROOMS
No, no, thank you for sharing that with us too.
00:03:49 CHAIRMAN LARRY GROOMS
Yes, Senator, from Pickens.
00:03:51 SENATOR REX RICE
Thank you, Mr. Chairman.
00:03:52 SENATOR REX RICE
One question the.
00:03:54 SENATOR REX RICE
Clarify you said the meetings with AlixPartners.
00:03:58 SENATOR REX RICE
How many meetings were there?
00:04:00 INTERIM AUDITOR MOSS
As I understand there was two and I learned that from Tuesdays testimony by Marcia Adams, the Director of Administration.
00:04:08 SENATOR REX RICE
And none of them with staff.
00:04:10 INTERIM AUDITOR MOSS
I was.
00:04:10 INTERIM AUDITOR MOSS
Or my - I have a another person that works our office, the Director of State Audits. I was Director of State Audits for several years and in the last couple of years I've held a different
00:04:20 INTERIM AUDITOR MOSS
Director role. But he was not involved either.
00:04:23 INTERIM AUDITOR MOSS
It was just with the state auditor.
00:04:25 SENATOR REX RICE
OK.

00:04:26 SENATOR REX RICE
Thank you.
00:04:28 CHAIRMAN LARRY GROOMS
Yes, Senator from Aiken.
00:04:29 SENATOR TOM YOUNG
Thank you, Mr. Chairman.
00:04:33 SENATOR TOM YOUNG
Miss Moss, thank you for being here.
00:04:36 SENATOR TOM YOUNG
The contract with Clifton Larson Allen.
00:04:41 SENATOR TOM YOUNG
That was a multi-year contract.
00:04:44 INTERIM AUDITOR MOSS
It was in five-year terms.
00:04:46 SENATOR TOM YOUNG
And is it being ended earlier than the normal expiration?
00:04:50 INTERIM AUDITOR MOSS
Nope, it's scheduled
00:04:51 INTERIM AUDITOR MOSS
This is their fifth year of this cycle of the contract.
00:04:55 SENATOR TOM YOUNG
Umm.
00:05:00 SENATOR TOM YOUNG
And the RFP would start when or be issued when?
00:05:03 INTERIM AUDITOR MOSS
After the after the ACFR is issued final.
00:05:07 SENATOR TOM YOUNG
OK.
00:05:08 INTERIM AUDITOR MOSS
We are.
00:05:10 INTERIM AUDITOR MOSS
shooting for the end of the month for that to be issued final and we will.
00:05:17 INTERIM AUDITOR MOSS
We've drafted up an RFP.
00:05:20 INTERIM AUDITOR MOSS
And then we'll see what kind of proposals we get.
00:05:23 INTERIM AUDITOR MOSS
And make a selection from there and that doesn't mean CLA can't propose on it again, but.
00:05:32 INTERIM AUDITOR MOSS
Not to jade the process and all the accounting and auditing services are exempt from the procurement code and delegated to the State Auditor, but we think it's after a twenty year term with them that would be a good idea to have a new a fresh set of eyes.
00:05:48 INTERIM AUDITOR MOSS
as well.

00:05:50 SENATOR TOM YOUNG
Thank you very much.
00:05:53 CHAIRMAN LARRY GROOMS
Hearing no questions.
00:05:55 CHAIRMAN LARRY GROOMS
Thank you for being here and sharing with us the opinion of the.
00:06:00 CHAIRMAN LARRY GROOMS
Office of State Auditor
00:06:00 INTERIM AUDITOR MOSS
Thank you for having me. Has been a great first week.
00:06:03 INTERIM AUDITOR MOSS
Of my job.
00:06:04 CHAIRMAN LARRY GROOMS
Alright. Yes, OK.
00:06:09 CHAIRMAN LARRY GROOMS
And next we have with us Comptroller General

Footnotes 57-60, 62-63
00:06:51 CHAIRMAN LARRY GROOMS
Do you accept the AlixPartners report?
00:06:54 COMPTROLLER BRIAN GAINES
Yes, Sir.
00:06:56 CHAIRMAN LARRY GROOMS
Do you accept the findings in the AlixPartners report?
00:06:58 COMPTROLLER BRIAN GAINES
Yes, Sir.
00:07:00 CHAIRMAN LARRY GROOMS
Could you tell us a little bit about your impression with the AlixPartners report?
00:07:04 COMPTROLLER BRIAN GAINES
I thought it was very thorough.
00:07:06 COMPTROLLER BRIAN GAINES
They covered a lot of information in a short period of time.
00:07:10 COMPTROLLER BRIAN GAINES
We did have several meetings with them, but in totality I thought the report was well written and really did give us what I call a fact-based understanding of what really occurred during the conversion process.
00:07:24 CHAIRMAN LARRY GROOMS
You sat through the testimony of the Office of State Treasurer on Tuesday.
00:07:30 CHAIRMAN LARRY GROOMS
And the other night you shared with us some that you have some areas of disagreement.
00:07:36 CHAIRMAN LARRY GROOMS
Could you please go into those for us?
00:07:40 COMPTROLLER BRIAN GAINES
I can.
00:07:42 COMPTROLLER BRIAN GAINES

So I think it's important before we dive into the the weeds, if you will, that we I guess understand some overarching key terms and concepts that are used in the report and kind of what those things mean.
00:07:59 COMPTROLLER BRIAN GAINES
Some may seem elementary, but I do want to just make sure there is a good basis of understanding of what, what the report was trying to convey.
00:08:07 CHAIRMAN LARRY GROOMS
Let me ask you, suspend for a second members the comptroller again sent us this, this, this, this one document.
00:08:15 CHAIRMAN LARRY GROOMS
I just want to make sure we're reading all the same sheet right here.
00:08:19 CHAIRMAN LARRY GROOMS
Please continue.
00:08:20 COMPTROLLER BRIAN GAINES
Yes, Sir.
00:08:21 COMPTROLLER BRIAN GAINES
So the first would be fund.
00:08:23 COMPTROLLER BRIAN GAINES
I want to make sure we understand when we use the term fund.
00:08:27 COMPTROLLER BRIAN GAINES
That is an eight-digit code.
00:08:29 COMPTROLLER BRIAN GAINES
that Exists to identify a revenue source.
00:08:33 COMPTROLLER BRIAN GAINES
It exists primarily for legal, accounting and reporting purposes and is required by gap for all governmental entities.
00:08:40 COMPTROLLER BRIAN GAINES
So it serves as the basis for all.
00:08:43 COMPTROLLER BRIAN GAINES
Governmental accounting.
00:08:44 COMPTROLLER BRIAN GAINES
It is what the Budget Office uses.
00:08:46 COMPTROLLER BRIAN GAINES
It is what the Comptroller Generals office uses.
00:08:48 COMPTROLLER BRIAN GAINES
It is what the State Treasurer 's office uses.
00:08:51 COMPTROLLER BRIAN GAINES
It is how every governmental entity manages its funding.
00:08:55 COMPTROLLER BRIAN GAINES
Is by fund.
00:08:56 COMPTROLLER BRIAN GAINES
It is also what you use to appropriate funds.
00:08:59 COMPTROLLER BRIAN GAINES
You appropriate?
00:09:00 COMPTROLLER BRIAN GAINES

General funds and you appropriate or authorize the expenditure of other and federal funds.
00:09:06 COMPTROLLER BRIAN GAINES
So everything is based off of fund accounting. I want to make sure we kind of drive that point home. The various types of funds, any fund that begins with the one is a general fund, it is general fund appropriations and expenditures.
00:09:21 COMPTROLLER BRIAN GAINES
Anything that begins with a two is a general fund revenue source.
00:09:26 COMPTROLLER BRIAN GAINES
Any threes are earmarked.
00:09:28 COMPTROLLER BRIAN GAINES
Other funds, those mean that those funds any balance in those funds that earns interest, that interest is remitted back to the general Fund, if it is a four, it is a restricted other fund in any interest that is earned by those balances gets to stay in the fund.
00:09:46 COMPTROLLER BRIAN GAINES
And there has to be specific legislative authority to have any restricted funds.
00:09:50 COMPTROLLER BRIAN GAINES
You have to give an agency permission to retain any interest on any of their balances.
00:09:56 COMPTROLLER BRIAN GAINES
If it begins with a five, that is a federal fund and those are used to account for all the revenue in expenditures that are associated with federal grants. If it begins with a six, that is, those are composite reservoir accounts. Those are accounts that exist outside of the.
00:10:14 COMPTROLLER BRIAN GAINES
State’s accounting system and outside of the.
00:10:16 COMPTROLLER BRIAN GAINES
Treasury a good example of one of those would be in the law enforcement agencies if they have like an undercover unit, you would not want those expenditures to be public information. You would not want to disclose those individuals names.
00:10:30 COMPTROLLER BRIAN GAINES
So those law enforcement agencies would allow to have a composite reservoir account just for those particular expenditures.
00:10:37 COMPTROLLER BRIAN GAINES
If it begins with a nine, those are ACFR specific funds. Those are funds that the Comptroller General 's office uses.
00:10:44 COMPTROLLER BRIAN GAINES
In compilation of the ACFR. So if there is an adjustment that needs to be made for it for the ACFR, it will be made in a nine fund. So as as not.
00:10:54 COMPTROLLER BRIAN GAINES
To disrupt any of the other funds that actually exist to carry out state business, and if it is a treasury fund, those are funds that are STO specific. Those are funds that are only utilized by the state treasurer. They are used to pool cash and investments from origin.
00:11:11 COMPTROLLER BRIAN GAINES
Fund sources.
00:11:12 COMPTROLLER BRIAN GAINES
And Treasury funds must always net to zero across all banks.

00:11:16 COMPTROLLER BRIAN GAINES
Cannot hold a balance or should not hold a balance.
00:11:20 COMPTROLLER BRIAN GAINES
When we use the term business area, that is a four digit code which corresponds to the various state agencies. So every state agency has a business area code like the Senate, the Senate code I believe is eight zero one zero.
00:11:34 COMPTROLLER BRIAN GAINES
The Comptroller generals e one two zero.
00:11:36 COMPTROLLER BRIAN GAINES
But every agency has a unique and specific business area.
00:11:40 COMPTROLLER BRIAN GAINES
Digits.
00:11:40 COMPTROLLER BRIAN GAINES
Code when we use the term Act for business areas. That is a four-digit code that corresponds to the nine functional areas of government.
00:11:50 COMPTROLLER BRIAN GAINES
This is something that is prescribed by GASB and it is used by the Comptroller Generals Office in the ACFR compilation process.
00:11:59 COMPTROLLER BRIAN GAINES
Each business area rolls up to an act for business fund.
00:12:03 COMPTROLLER BRIAN GAINES
There's an attachment included in the packet I provided you attachment one.
00:12:10 COMPTROLLER BRIAN GAINES
That shows you what the nine ACFR business areas are and what agencies fall under each business area.
00:12:19 COMPTROLLER BRIAN GAINES
So in for instance, in the general government, which is eight, zero, zero, zero.
00:12:25 COMPTROLLER BRIAN GAINES
If in compiling the ACFR I needed to make an adjustment to the Senate 's financials, I would do it using a zero, zero, zero. I would not do it.
00:12:34 COMPTROLLER BRIAN GAINES
Using the Senate 's actual business area.
00:12:37 COMPTROLLER BRIAN GAINES
So as not to disrupt the official books of the agency itself.
00:12:41 COMPTROLLER BRIAN GAINES
remember the ACFR is a compilation and we're making top level adjustments across.
00:12:47 COMPTROLLER BRIAN GAINES
Everything that is going on, we are not impacting any agencies books.
00:12:51 CHAIRMAN LARRY GROOMS
Could you explain a top level adjustment again?
00:12:54 CHAIRMAN LARRY GROOMS
You touched on it the other.
00:12:55 COMPTROLLER BRIAN GAINES
Night. And so when I say top level, I'm talking about over and above everything that exists in the system.

00:13:03 COMPTROLLER BRIAN GAINES
You have all of the agencies, all of the eighty one agencies that operate within the accounting system.
00:13:08 COMPTROLLER BRIAN GAINES
If I need to make an accrual based adjustments for accounting purposes for the financial report.
00:13:14 COMPTROLLER BRIAN GAINES
I would not go into an agency and do that because that didn't that agencies books are going to be changed.
00:13:19 COMPTROLLER BRIAN GAINES
I would do it at an ACFR business area which sits above the agency level.
00:13:24 COMPTROLLER BRIAN GAINES
I mean, it's a statewide compilation level, so I make those adjustments up here so as to not to affect the agencies books.
00:13:31 CHAIRMAN LARRY GROOMS
And so.
00:13:33 CHAIRMAN LARRY GROOMS
What you what you call above?
00:13:35 CHAIRMAN LARRY GROOMS
I'm sorry. You.
00:13:36 CHAIRMAN LARRY GROOMS
The term again was the top level adjustment and the top level adjustment.
00:13:38 COMPTROLLER BRIAN GAINES
Yes, Sir.
00:13:41 CHAIRMAN LARRY GROOMS
That's different than.
00:13:44 CHAIRMAN LARRY GROOMS
A non ACFR agency, correct? I mean a non SCEIS agency, a college university, state boards authority.
00:13:50 COMPTROLLER BRIAN GAINES
Correct.
00:13:51 COMPTROLLER BRIAN GAINES
Those are considered audits at financial statement agencies because they don't operate in the accounting system, they actually submit an audited financial statement.
00:13:59 CHAIRMAN LARRY GROOMS
To so adjustment that needs to be made to a state agency. You wouldn't do it within the state agency 's accounting. You would do it.
00:14:09 COMPTROLLER BRIAN GAINES
At the ACFR business area level? OK, whatever function area that agency falls in.
00:14:18 COMPTROLLER BRIAN GAINES
And you'll see the nine that are listed there and the corresponding agencies that fall.
00:14:23 COMPTROLLER BRIAN GAINES
Under each, so next I would like to, I guess dive into some of the or provide some comments on some of the statements that were made during our last meeting. The first being that the CGO was responsible for making the erroneous entries reference on page ten.
00:14:43 COMPTROLLER BRIAN GAINES
Of the AlixPartners report.

00:14:45 COMPTROLLER BRIAN GAINES
I've talked about last time the ACFR business areas only exist to allow the CGL to make those top sided adjusting entries to the states accounting system without adjusting any of the agencies official books.
00:15:00 COMPTROLLER BRIAN GAINES
The ACFR business areas are not real agencies.
00:15:03 COMPTROLLER BRIAN GAINES
They do not represent or hold real cash.
00:15:06 COMPTROLLER BRIAN GAINES
No actual cash is ever deposited in, nor are any payments ever paid out of an ACFR business area.
00:15:14 COMPTROLLER BRIAN GAINES
These entries are only for accrual purposes only and they allow the CGO to ensure the States financial statements comply with.
00:15:22 COMPTROLLER BRIAN GAINES
GAAP and GASB by standards.
00:15:24 COMPTROLLER BRIAN GAINES
This is the core function of the CGO statewide Financial Reporting division.
00:15:29 COMPTROLLER BRIAN GAINES
And it has been the CGO's process before the implementation of SCEIS. The error that is referenced on page ten references the STO's Conversion team mistakenly including the Act for business areas in the states banking.
00:15:45 COMPTROLLER BRIAN GAINES
And investment conversion process.
00:15:47 COMPTROLLER BRIAN GAINES
The STO's conversion team's failure to recognize what these business areas were had the unintended consequences of
00:15:54 COMPTROLLER BRIAN GAINES
Artificially inflating the balance and fund 30350993.
00:16:00 COMPTROLLER BRIAN GAINES
The erroneous treatment of these business areas as cash transactions was the primary reason the conversion account did not net to zero.
00:16:09 COMPTROLLER BRIAN GAINES
Upon the completion of the conversion, as was intended, the conversion account was the offsetting account to which all entries that compromise the one point eight billion dollars were recorded.
00:16:21 COMPTROLLER BRIAN GAINES
This is also the reason the CGO's proposed solution which has been validated by AlixPartners.
00:16:28 COMPTROLLER BRIAN GAINES
To convert, to reverse the conversion entries related to the Act for business areas reduces the balance and fund 30350993 by one point, six billion dollars.
00:16:40 COMPTROLLER BRIAN GAINES
Are there any questions on that one?
00:16:43 CHAIRMAN LARRY GROOMS
And when would those be made?
00:16:46 COMPTROLLER BRIAN GAINES

Those would be made at any point we were actually waiting until we understood that everybody agreed with that particular recommendation.
00:16:54 COMPTROLLER BRIAN GAINES
It wasn't until Tuesday 's meeting that I learned that the STO was also in agreement with that recommendation.
00:17:00 CHAIRMAN LARRY GROOMS
But as it stands right now.
00:17:02 CHAIRMAN LARRY GROOMS
Within the state treasury, there still exist one point eight billion dollars in unreconciled differences.
00:17:12 CHAIRMAN LARRY GROOMS
And that's.
00:17:14 CHAIRMAN LARRY GROOMS
And that's the error.
00:17:15 COMPTROLLER BRIAN GAINES
That is the error and that is what I think it's recommendation number seventeen. That is what.
00:17:19 CHAIRMAN LARRY GROOMS
So I guess I should say that so so there exists today one point eight billion in unreconciled errors in the state treasury.
00:17:27 COMPTROLLER BRIAN GAINES
Yes, Sir. In fund 30350993.
00:17:30 CHAIRMAN LARRY GROOMS
And that's one of the funds.
00:17:33 CHAIRMAN LARRY GROOMS
That's a state treasury fund.
00:17:37 CHAIRMAN LARRY GROOMS
I think that's an important distinction.
00:17:41 CHAIRMAN LARRY GROOMS
OK. All right.
00:17:44 CHAIRMAN LARRY GROOMS
Yes, Senator, from PICKENS.
00:17:45 SENATOR REX RICE
Thank you, Mr. Chairman. General,
00:17:50 SENATOR REX RICE
These entries were made and shouldn't have been made correct.
00:17:54 SENATOR REX RICE
Many entries were.
00:17:56 SENATOR REX RICE
Do we have a clue on?
00:17:57 COMPTROLLER BRIAN GAINES
That there were thousands of entries that were part of the conversion process.
00:18:01 COMPTROLLER BRIAN GAINES
The ones that caused the error, it's about a hundred and fifty-four of those.
00:18:06 COMPTROLLER BRIAN GAINES
We Identified them a hundred and fifty-four will be direct. A hundred and fifty one.

00:18:10 COMPTROLLER BRIAN GAINES
of those will be direct reversals, meaning we would just simply reverse that transaction in the accounting system to fix it.
00:18:17 COMPTROLLER BRIAN GAINES
Three of them included both ACFR and non ACFR agencies.
00:18:21 COMPTROLLER BRIAN GAINES
So we will have to manually adjust those to only back out the ACFR portion.
00:18:25 COMPTROLLER BRIAN GAINES
But once that has been accomplished, at one point six the one point eight billion number would drop to two hundred and forty five million.
00:18:32 SENATOR REX RICE
Is there any way to know who made those entries?
00:18:35 COMPTROLLER BRIAN GAINES
I think they were batch uploads, meaning they had to be developed and created and populated a spreadsheet by the conversion team.
00:18:43 COMPTROLLER BRIAN GAINES
But once the spreadsheet is uploaded into the system, a name is no longer attached to it.
00:18:48 COMPTROLLER BRIAN GAINES
Just becomes a batch entry.
00:18:50 SENATOR REX RICE
When you say it when you use the word team.
00:18:53 SENATOR REX RICE
There's a group of individuals I guess.
00:18:55 SENATOR REX RICE
That sat there and came up with these entries.
00:18:59 COMPTROLLER BRIAN GAINES
Yes, Sir.
00:19:01 SENATOR REX RICE
They were all in the State Treasurer 's office. Do you think they were led by the State Treasurer 's office?
00:19:06 COMPTROLLER BRIAN GAINES
They were led by the state treasurer’s office, They were also outside consultants. There were staff from the state 's accounting system, SCEIS staff that were also involved.
00:19:14 COMPTROLLER BRIAN GAINES
But regardless of who was on the team, I want to make sure it's also understood that the conversion process was managed and led by the State Treasurer’s Office.
00:19:23 SENATOR REX RICE
And do you think?
00:19:26 SENATOR REX RICE
That that practice should not have taken place. What those events should have not taken place is what you're saying at this point.
00:19:35 COMPTROLLER BRIAN GAINES
The inclusion of the ACFR business, areas should not have taken place, yes sir.
00:19:38 SENATOR REX RICE

OK and.
00:19:41 SENATOR REX RICE
Who would make the decision to do that?
00:19:43 COMPTROLLER BRIAN GAINES
I think it was just the team.
00:19:45 COMPTROLLER BRIAN GAINES
I I can't say it was one individual that said to do it.
00:19:48 COMPTROLLER BRIAN GAINES
I don't know.
00:19:50 COMPTROLLER BRIAN GAINES
I don't think AlixPartners was the term, was able to determine what one individual made that decision, but the conversion process was the STO's process.
00:19:59 SENATOR REX RICE
I mean, obviously I'm not an accountant, but.
00:20:02 SENATOR REX RICE
People go to school to become an accountant, and if they'd have gone, I mean, it's our system so complex.
00:20:11 SENATOR REX RICE
And different from other systems that somebody just coming in that didn't really know what they were doing would make that.
00:20:20 SENATOR REX RICE
Decision or is it just? Should they have known different?
00:20:23 COMPTROLLER BRIAN GAINES
I think it's safe to say it was a very complicated process. I don't.
00:20:27 COMPTROLLER BRIAN GAINES
Don't doubt that at all.
00:20:30 COMPTROLLER BRIAN GAINES
I just don't think there was a true understanding of what the ACFR business areas were.
00:20:35 COMPTROLLER BRIAN GAINES
And why they should not have been included
00:20:36 SENATOR REX RICE
it would be similar, and I go back to the days when we first got computers.
00:20:43 SENATOR REX RICE
I remember our first one in the office back in the in the Eighties and they told me to stay away from it and quit pushing buttons because you don't mess something up.
00:20:54 SENATOR REX RICE
So. So essentially that's kind of what what happened. They shouldn't have done it, but they did and just not realizing what they.
00:21:00 SENATOR REX RICE
Yes, Sir.
00:21:01 CHAIRMAN LARRY GROOMS
Thank you, General Gaines and your understanding, and particularly in reading the AlixPartners report.
00:21:09 CHAIRMAN LARRY GROOMS
Isn't it reasonable to assume

00:21:11 CHAIRMAN LARRY GROOMS
That they did not know in twenty sixteen they had made errors correct, but in twenty seventeen, when the fund did not balance to zero, that is when they should have understood there were errors within the state treasury.
00:21:28 COMPTROLLER BRIAN GAINES
Correct. And I think the AP report also says essentially things should have stopped at that point and that one point eight should have been researched and resolved at that point.
00:21:36 CHAIRMAN LARRY GROOMS
Yeah, I think that's on page nine or maybe a lot of part of page eight, but.
00:21:41 CHAIRMAN LARRY GROOMS
Yes, that, that's that's my understanding of AlixPartners report also and it's your understanding, yes, thank you. OK.
00:21:47 CHAIRMAN LARRY GROOMS
Yes, Senator from Aiken.
00:21:48 SENATOR TOM YOUNG
And on that point
00:21:52 SENATOR TOM YOUNG
There were, like at least four fiscal years that went by before there was any follow up to or or before the issue came back up. I mean, there's, there's this gap in time and from like twenty seventeen.
00:22:07 SENATOR TOM YOUNG
To twenty twenty-two, where there's really not.
00:22:10 SENATOR TOM YOUNG
In any of the documents that I've seen.
00:22:14 SENATOR TOM YOUNG
Unless I'm forgetting something in the in the report in the in the AlixPartners report or in any of the documents we've gotten from the agencies and so do you.
00:22:22 SENATOR TOM YOUNG
Have you gotten an understanding?
00:22:25 SENATOR TOM YOUNG
As to why there was this four year plus gap?
00:22:29 COMPTROLLER BRIAN GAINES
I have not.
00:22:30 COMPTROLLER BRIAN GAINES
I have not.
00:22:30 COMPTROLLER BRIAN GAINES
It did not become, I would say, brought or come to light until the twenty twenty two act for development process.
00:22:38 COMPTROLLER BRIAN GAINES
So, but what? What and why did not come up during the four or five years after the conversion?
00:22:44 COMPTROLLER BRIAN GAINES
I I don't know.
00:22:45 SENATOR TOM YOUNG
OK.
00:22:45 SENATOR TOM YOUNG

OK.
00:22:45 SENATOR TOM YOUNG
Thank you.
00:22:46 CHAIRMAN LARRY GROOMS
Thank.
00:22:46 CHAIRMAN LARRY GROOMS
And the twenty twenty two act for that is when there was the misstatement that was published.
00:22:54 COMPTROLLER BRIAN GAINES
Correct. That was the three-point five billion dollar restatement.
00:22:57 CHAIRMAN LARRY GROOMS
Which would have been larger than three-point five billion.
00:23:01 CHAIRMAN LARRY GROOMS
Had the Comptroller not.
00:23:04 CHAIRMAN LARRY GROOMS
Included.
00:23:05 CHAIRMAN LARRY GROOMS
The fund balance of one point, eight billion.
00:23:08 COMPTROLLER BRIAN GAINES
That right? Yeah.
00:23:09 CHAIRMAN LARRY GROOMS
I'm sorry, that's your understanding.
00:23:12 COMPTROLLER BRIAN GAINES
Correct. The actual restatement would have been five point, nine billion dollars that. But you also have to keep in mind the one point eight had not been included.
00:23:20 COMPTROLLER BRIAN GAINES
That brought down the five point nine billion dollars.
00:23:24 COMPTROLLER BRIAN GAINES
And then there was an additional adjustment of five hundred thousand five hundred million dollars that was related to.
00:23:31 COMPTROLLER BRIAN GAINES
The interplay between dot and the accounting system.
00:23:34 CHAIRMAN LARRY GROOMS
So if it had not been.
00:23:36 CHAIRMAN LARRY GROOMS
For the previous controller, double counting cash that built up.
00:23:44 CHAIRMAN LARRY GROOMS
In.
00:23:45 CHAIRMAN LARRY GROOMS
That made it appear our state had much more cash than what we did.
00:23:48 CHAIRMAN LARRY GROOMS
We still might not know about the one point eight billion.
00:23:52 COMPTROLLER BRIAN GAINES
I think, but for the work that was done in twenty twenty two to do the complete top to bottom reconciliation, all the of all of the state 's cash accounts, this issue probably would not have come up.

00:24:05 CHAIRMAN LARRY GROOMS
And.
00:24:06 CHAIRMAN LARRY GROOMS
And that would and that.
00:24:10 CHAIRMAN LARRY GROOMS
Would be Because of the of the two agencies at that time, the and the leadership with the two agencies, both both having access and understanding that there were unreconciled differences within the state treasury.
00:24:24 CHAIRMAN LARRY GROOMS
But failing to report them.
00:24:26 COMPTROLLER BRIAN GAINES
And I I would say that perhaps both agencies did not have a complete understanding of what the one point eight billion dollar Dollars was.
00:24:34 CHAIRMAN LARRY GROOMS
but do you believe that's a significant financial event?
00:24:43 CHAIRMAN LARRY GROOMS
Yes, Sir. That a multibillion dollar error is something that should have been reported to the General Assembly.
00:24:57 COMPTROLLER BRIAN GAINES
Yes, Sir.
00:24:51 CHAIRMAN LARRY GROOMS
Any other questions on this?
00:24:54 CHAIRMAN LARRY GROOMS
Please continue, OK.
00:24:57 COMPTROLLER BRIAN GAINES
The next statement I'd like to kind of talk about was the the December twelfth twenty, twenty three letter and the suggestion that the letter from the Comptroller General 's office to the Treasurer 's office served as proof that the one point eight billion dollars was real cash.
00:25:14 COMPTROLLER BRIAN GAINES
I would like to start by saying in a letter dated October thirty first, which I think has been deemed a Halloween letter.
00:25:23 COMPTROLLER BRIAN GAINES
In which?
00:25:25 COMPTROLLER BRIAN GAINES
Which I directed the state Treasurer to, among other things, complete research of the cash entries in triple zero agencies, which is just another name, another term for ACFR business areas.
00:25:36 COMPTROLLER BRIAN GAINES
Use those interchangeably. ACFR business area is the same thing as a triple zero agency.
00:25:41 COMPTROLLER BRIAN GAINES
To complete the research of the cash entries in the triple zero agencies and fund 30350993. I would also like to note that the same request was submitted to the Treasury 's office.
00:25:54 COMPTROLLER BRIAN GAINES
On June twenty ninth twenty. Twenty three.
00:25:56 COMPTROLLER BRIAN GAINES

That was my first official communication with the STO and it was related to the twenty twenty three act for compilation process.
00:26:04 COMPTROLLER BRIAN GAINES
We did not have an understanding at that time at the CG O that the issues that identifying in nine, nine, three and the triple zero agencies were actually related.
00:26:16 COMPTROLLER BRIAN GAINES
So that arose those two.
00:26:19 COMPTROLLER BRIAN GAINES
Two issues arose during the conversion process.
00:26:22 COMPTROLLER BRIAN GAINES
In response, the STO sent the CGA letter dated November thirtieth twenty twenty three, asking the CG to provide them any concerns regarding fund 30350993.
00:26:35 COMPTROLLER BRIAN GAINES
I then sent the STO.
00:26:38 COMPTROLLER BRIAN GAINES
A letter dated December twelve twenty twenty three discussing the history.
00:26:43 COMPTROLLER BRIAN GAINES
And the STO 's usage of the fund based on the CG OS understanding in the letter I stated, I was confident to a reasonable degree of certainty that the balance in fund 30350993 was part of the General Fund balance and the.
00:27:00 COMPTROLLER BRIAN GAINES
CG OS treatment of fund of the Fund in the twenty twenty two.
00:27:04 COMPTROLLER BRIAN GAINES
And Twenty, twenty three ACFR were accurate.
00:27:07 COMPTROLLER BRIAN GAINES
This understanding was shared by the state auditor.
00:27:09 COMPTROLLER BRIAN GAINES
And the stakes external auditor Clifton Larson.
00:27:13 COMPTROLLER BRIAN GAINES
I further ask the STO to move the balance to the appropriate fund and make its purpose known to the General Assembly to the CGO. The balance and fund 30350993 appeared to be necessary to balance the cash in the fund.
00:27:30 COMPTROLLER BRIAN GAINES
To the state treasuries in the bank.
00:27:32 COMPTROLLER BRIAN GAINES
To balance the cash held by the state treasury to the cash that is in the bank.
00:27:37 COMPTROLLER BRIAN GAINES
However, we now know the one point eight billion dollar balance and fund 30350993.
00:27:43 COMPTROLLER BRIAN GAINES
Was in fact related to the negative cash of one point, six billion dollars that existed in the Triple Zero agencies, which was referenced in my June twenty June, twenty, nine, twenty twenty three e-mail and the Halloween letter regardless the seat, regardless of how the CGL state auditor or CLA.
00:28:01 COMPTROLLER BRIAN GAINES
Understood.

00:28:03 COMPTROLLER BRIAN GAINES
Fund 30350993
00:28:05 COMPTROLLER BRIAN GAINES
At that time, the STO as the state 's bank should have been able to determine what was real cash and should not have had to rely on me the State.
00:28:15 COMPTROLLER BRIAN GAINES
Accountant.
00:28:17 CHAIRMAN LARRY GROOMS
Let me ask you something, he said. Something a minute ago that caught my attention.
00:28:21 CHAIRMAN LARRY GROOMS
You mentioned cash in the Treasury and cash in the bank.
00:28:25 CHAIRMAN LARRY GROOMS
You shouldn't that be the same?
00:28:27 COMPTROLLER BRIAN GAINES
They are the.
00:28:28 COMPTROLLER BRIAN GAINES
And so when I say cash in the Treasury, I'm meaning the accounting system right.
00:28:31 COMPTROLLER BRIAN GAINES
In cash in the bank.
00:28:32 COMPTROLLER BRIAN GAINES
Meeting the physical bank and there was a difference of.
00:28:36 CHAIRMAN LARRY GROOMS
One point eight billion.
00:28:38 COMPTROLLER BRIAN GAINES
There was not a difference between the two.
00:28:39 COMPTROLLER BRIAN GAINES
The difference was the one point eight did not have a Home.
00:28:42 CHAIRMAN LARRY GROOMS
the one point eight. But so the one point eight was included in cash in the Treasury.
00:28:49 CHAIRMAN LARRY GROOMS
And it was listed as General Fund.
00:28:51 COMPTROLLER BRIAN GAINES
It was not listed as correct.
00:28:52 CHAIRMAN LARRY GROOMS
Has not listed as general fund OK.
00:28:55 COMPTROLLER BRIAN GAINES
Well, it's in the Treasury fund and it was not assigned to an agency. So it was a balance that did not have a home.
00:29:02 COMPTROLLER BRIAN GAINES
Think you probably remember from twenty twenty two, Miss Kip kept saying that.
00:29:07 COMPTROLLER BRIAN GAINES
She could not find a.
00:29:08 COMPTROLLER BRIAN GAINES
It did not have a home, so that fund did not have a home, and that balance did.

00:29:12 COMPTROLLER BRIAN GAINES
Have a home, but it resided within the Treasury.
00:29:14 COMPTROLLER BRIAN GAINES
Resided within the Treasury?
00:29:15 CHAIRMAN LARRY GROOMS
But it was not in the bank.
00:29:18 COMPTROLLER BRIAN GAINES
One point, six billion of it was.
00:29:20 CHAIRMAN LARRY GROOMS
Not in the bank. The I think this was an important part here that we're now.
00:29:27 CHAIRMAN LARRY GROOMS
And you're.
00:29:28 CHAIRMAN LARRY GROOMS
But we've been at this a while and none of us are trained to count.
00:29:34 CHAIRMAN LARRY GROOMS
But we all keep a checkbook balance.
00:29:37 CHAIRMAN LARRY GROOMS
And I think my my, my kids now, you know, are in their early thirties.
00:29:42 CHAIRMAN LARRY GROOMS
They only have a checkbook.
00:29:44 CHAIRMAN LARRY GROOMS
It's all done online on their hands, so that's things change. Technology changes.
00:29:49 CHAIRMAN LARRY GROOMS
What doesn’t change is there’s a bank.
00:29:53 CHAIRMAN LARRY GROOMS
And there's money in the bank and.
00:29:57 CHAIRMAN LARRY GROOMS
You had been the controller for less than a month.
00:30:02 CHAIRMAN LARRY GROOMS
And.
00:30:04 CHAIRMAN LARRY GROOMS
You recognize that there were errors within the state treasury multi billion dollar errors, is that not?
00:30:10 CHAIRMAN LARRY GROOMS
Is that not true?
00:30:11 COMPTROLLER BRIAN GAINES
Yes, Sir.
00:30:12 CHAIRMAN LARRY GROOMS
And you attempted to get to the bottom of the multi billion dollar errors within our state treasury.

COMPTROLLER GENERAL GAINES
Yes, Sir.

Footnote 64
00:45:48 CHAIRMAN LARRY GROOMS

Please continue.
00:45:57 COMPTROLLER BRIAN GAINES
Next, I would like to comment on why the statement we talked to the bank and not the fund is a misleading statement and one that is also very concerning.
00:46:07 COMPTROLLER BRIAN GAINES
The STO, the state 's bank must maintain an account for cash in its custody, in the same manner as a bank does.
00:46:17 COMPTROLLER BRIAN GAINES
A bank has bank account owners and each bank account owner has various bank account numbers.
00:46:24 COMPTROLLER BRIAN GAINES
Combined, the bank account owner and the bank account number create a unique identifier for each depositor of that bank.
00:46:32 COMPTROLLER BRIAN GAINES
And the state 's Treasury.
00:46:33 COMPTROLLER BRIAN GAINES
A bank account owner is the business area and the bank account numbers are the funds together, the business owner and fund combination established a depositor or the owner of every dollar within the State 's Treasury.
00:46:49 COMPTROLLER BRIAN GAINES
There are approximately eleven thousand unique business area and fund combinations which represent the STO depositors as owners of the cash that is held within the state treasury.
00:47:01 COMPTROLLER BRIAN GAINES
The state Treasurer 's office confirms cash and investments and earnings by fund.
00:47:07 COMPTROLLER BRIAN GAINES
To state agencies, higher education institutions.
00:47:10 COMPTROLLER BRIAN GAINES
Colleges and others a fund to the STO is no different than a bank account.
00:47:17 COMPTROLLER BRIAN GAINES
Or an individual depositor is to a bank.
00:47:20 COMPTROLLER BRIAN GAINES
A bank is made-up of individual depositors, ie funds, and a bank must keep track of all the depositors so it can properly provide bank statements to each individual depositor, showing the bank balance plus any earnings the bank has made on behalf of that depositor.
00:47:37 COMPTROLLER BRIAN GAINES
A bank must know the total pool, cash and investments it has made on behalf of all the individual individual depositors, ie funds.
00:47:47 COMPTROLLER BRIAN GAINES
A bank must be able to parse those treasury funds back to the individual depositors, ie funds on a monthly basis. If a bank disregards their individual depositors, IE funds.
00:48:01 COMPTROLLER BRIAN GAINES
And only focuses on the bank balance.
00:48:03 COMPTROLLER BRIAN GAINES
How are the individual depositors assured their balances are right and their earnings on their balances are correctly returned, which is the St. OS function today the

00:48:14 COMPTROLLER BRIAN GAINES
STO provides statements to state agencies which breaks out the funds amount by amount of deposits.
00:48:21 COMPTROLLER BRIAN GAINES
Investment purchases mark to market values, accrued investment earnings and cash income received for the funds in which they are allowed to retain interest.
00:48:32 COMPTROLLER BRIAN GAINES
Second attachment included in your packet is an example of the cash confirmation that the STO does in fact send to agencies.
00:48:39 COMPTROLLER BRIAN GAINES
You will see it breaks out all of the agencies funds that they are allowed to retain their own interest in what the balance is, which is how much money the agency has deposited into that fund.
00:48:51 COMPTROLLER BRIAN GAINES
The investment that has been purchased on behalf of the agency, what is the current value of that investment?
00:48:57 COMPTROLLER BRIAN GAINES
Any accrued interest that is owed to the agency.
00:49:01 COMPTROLLER BRIAN GAINES
Or due to that fund the cash income that has been received by that fund and then the and then the business area and the deposit fund that is associated with.

Exhibit 28

STATE TREASURER'S OFFICE OVERVIEW OF ISSUES SURROUNDING SCEIS FUND 30350993 AND OTHER ALLEGATIONS

Issued February 26, 2025

THE RELEASE OF THIS DOCUMENT AND ITS EXHIBITS SHALL NOT CONSTITUTE OR IN ANY WAY IMPLY A WAIVER OF ANY LEGAL PRIVILEGE OR CONFIDENTIALITY REGARDING ANY MATERIALS OR COMMUNICATIONS REFERENCED HEREIN. THIS DOCUMENT RECOUNTS AND INTERPRETS EVENTS AS THEY ARE PRESENTLY UNDERSTOOD BASED ON THE INFORMATION AVAILABLE AT THE TIME OF RELEASE. IN THE EVENT THAT NEW INFORMATION BECOMES AVAILABLE, THESE UNDERSTANDINGS AND INTERPRETATIONS ARE SUBJECT TO CHANGE, IN WHICH CASE, THE ISSUERS OF THIS DOCUMENT ASSUME NO CONTINUING DUTY TO REVISE OR AMEND IT.

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

February 26, 2025

To Governor Henry McMaster, Members of the South Carolina General Assembly and the Citizens of South Carolina:

Please find this comprehensive response to the $1.8B conversion fund to address actions taken by my staff as well as refute some of the assertions made by others on our handling of this matter.

To be clear, there is no mystery bank with $1.8 Billion in it. There is no missing or misspent money, and all cash and investments have been properly managed and accounted for by the State Treasurer's Office. The AlixPartners Report confirms this as well. The State Treasurer's Office has acted in good faith to research and understand the accounting error made during the SCEIS computer conversion.

Despite bold claims to the contrary, we have fully cooperated with the Office of the Comptroller General, the Department of Administration, the State Auditor's Office and the external auditors brought in to review this matter, namely Mauldin Jenkins CPAs & Advisors and AlixPartners LLP.

I take seriously my duties as a fiduciary in charge of managing South Carolina's public funds.

We are ready to move forward with the recommendations of the AlixPartners report and to put this chapter behind us.

Sincerely,

Curtis Loftis

Curtis M. Loftis, Jr.
South Carolina Treasurer

Wade Hampton Building, 1200 Senate Street, Suite 214
Columbia, SC 29201
(803) 734-2101
www.treasurer.sc.gov

EXECUTIVE SUMMARY

- Comments by certain State officials regarding the State's financial system and SCEIS Fund 30350993 have been ambiguous, misleading, and often inaccurate, resulting in significant misunderstandings among stakeholders. (p. 3).
- The Comptroller General is responsible for the creation of the State's ACFR and is tasked with the oversight of SCEIS. (p. 8).
- The AlixPartners Report concludes that $1.6 billion of the balance recorded in SCEIS Fund 30350993 was caused by the CGO's incorrectly converting non-cash to cash in SCEIS. (p. 10).
- The evidence confirms that the CGO excluded SCEIS Fund 30350993 from the ACFR, coordinated the use of SCEIS Fund 30350993 during the State's financial system conversion, and incorrectly recorded $1.6 billion of appropriations as "cash," which it ultimately directed into SCEIS Fund 30350993. (p. 11).
- Comptroller General Brian Gaines has consistently provided inaccurate communications and under-oath testimony to the Subcommittee regarding SCEIS Fund 30350993, attempting to place undue blame on the Treasurer for the CGO's errors. (p. 20).
- The AP Report suggests that the Comptroller General and/or CGO provided false information to AlixPartners, withheld other important information from AlixPartners, and that the CGO may have provided false information to the Subcommittee. (p. 22).
- The Comptroller General is obstructing STO's ability to follow the AP Report recommendation and the directives of the General Assembly. (p. 25).
- The Treasurer has never hidden or attempted to hide SCEIS Fund 30350993. (p. 28).
- The Treasurer's testimony that the $1.8 billion had earned interest was made in reliance of the Comptroller General and State Auditor's professional opinions that SCEIS Fund 30350993 represented General Fund cash. (p. 29).
- Senator Goldfinch falsely claimed to have evidence that SCEIS Fund 30350993 held federal funds in the Subcommittee's April 2, 2024 hearing. (p. 30).
- The STO's General Fund Portfolio has always maintained sufficient liquidity to cover all State transactions. (p. 32).
- The Treasurer has never concealed or attempted to conceal any ACFR (or draft ACFR) General Fund balance. (p. 35).
- The Treasurer never released, nor did he intend to release information that would put the State's financial system at risk. (p. 40).
- The manner in which the Subcommittee has chosen to undertake its "investigation" has been inappropriate and may be actively endangering the State's interests. (p. 46).

BACKGROUND

This Overview of Issues Surrounding SCEIS Fund 30350993 and Other Allegations ("Report") is the product of an internal review requested by Curtis M. Loftis, Jr., State Treasurer of South Carolina ("Treasurer") and conducted by the South Carolina State Treasurer's Office ("STO") via its STO Legal Division, and articulates the present understanding of the background and facts related to the *State Treasury Forensic Accounting Review Final Report* ("AP Report") issued by AlixPartners LLP on January 15, 2025, as well as allegations made in the *Interim Report of Findings and Recommendations on the $1.8 Billion Discrepancy in Treasury Balances and Certain Other Matters* ("Interim Report"), issued by the Constitutional Subcommittee of the Senate Finance Committee ("Subcommittee") on April 16, 2024.

On November 29, 2022, **without notifying or consulting with the Treasurer or STO**, Comptroller General Richard Eckstrom issued the State's 2021-2022 Annual Comprehensive Financial Report ("ACFR") containing a restatement in "Note 15" which adjusted ACFR General Fund cash and equity by a net amount of negative $3.530 billion (pp. 146-147). According to note 15, the adjustment was necessary because a mapping error in the State's accounting system, the South Carolina Enterprise and Information System ("SCEIS"), had resulted in an overstatement of cash in the ACFR General Fund. Per Note 15, the error "impacted the ACFRs only. It had no impact on the State's actual cash…" Id. p. 147.

This ACFR restatement, which was disclosed as part of the 2022 ACFR on the Electronic Municipal Market Access (EMMA) system on January 31, 2023, is now the subject of an investigation by the Securities and Exchange Commission ("SEC").

Although Note 15 did not explicitly state it, the AP Report confirms that the CGO initially calculated the ACFR restatement as "net result of three primary categories of errors: (1) the Double-Counting of Appropriations, which had improperly overstated cash by $5.9 billion, (2) the cash balance in Fund 30350993, which improperly understated cash by the $1.8 Billion, and (3) a $517 million Department of Transportation-related adjustment which also had understated cash." (p. 46). The AP Report appears to acknowledge that Note 15 quantitatively corrected the misstatement in the ACFR. The Treasurer and STO have not been provided sufficient information to determine (nor is it within their legal authority to determine), and therefore cannot opine on whether the proposed SCEIS reversal entries and ACFR calculation methodology is qualitatively correct, or what effects those corrective entries will have on the ACFR.

As it pertains to this Report, Eckstrom and the Comptroller General's Office (CGO) unilaterally determined that an understatement of $1.8 billion in the ACFR General Fund had occurred due to the exclusion from the ACFR General Fund of entries recorded in SCEIS—namely those entries recorded in SCEIS Fund 30350993.

As a result of significant inquiry and speculation regarding the origins and ownership of the SCEIS Fund 30350993 balance, Governor Henry D. McMaster established a multi-agency "Working Group" to research the matter. In light of the State's pending SEC investigation, and out of respect for the progress of the Working Group, the Treasurer held this report in abeyance. As the AP Report has now been released and discussed SCEIS Fund 30350993 in detail, this report serves to supplement the information discussed therein, as well as respond to other allegations regarding the Treasurer and STO.

DISCUSSION

I. Comments by certain State officials regarding the State's financial system and SCEIS Fund 30350993 have been ambiguous, misleading, and often inaccurate, resulting in significant misunderstandings among stakeholders.

Misunderstandings regarding accounting terminology, as well as the mechanisms within State's financial system, have led to misleading and inaccurate accusations regarding SCEIS Fund 30350993.[1]

a. The STO does not custody all State money, and the ACFR does not directly present the financial condition of the STO's portfolios.

As an initial point of clarity, it is important to understand that the STO does not custody all State cash and investments. Certain State entities have been authorized by statute to manage and/or account for their own resources, and some are exempt from using SCEIS. These entities report their financial information to the Comptroller General, who is singularly responsible for leveraging that information, along with other financial information it requests and obtains from State agencies through SCEIS and through its "closing package" forms, to compile and prepare the State's ACFR.

The Comptroller General incorporates STO-custodied resources into its ACFR calculations, but the ACFR is not a discrete representation of *only* STO-custodied resources. This distinction has contributed to seemingly disparate conclusions regarding the ACFR vs. the STO's cash and investments, such as:

> • "This mapping error impacted the ACFR's only. **It had no impact on the State's actual cash…**" 2022 ACFR p. 147.
>
> • "We determined that approximately $1.6 billion of the $1.8 billion [in SCEIS Fund 30350993] did not represent real cash… It should be noted that, upon reversing the $1.6B entries that **the bank balances in SCEIS remain the same and continue to reconcile to bank statements.**" AP Report, p. 10.
>
> • "The [remaining] $245 million is…investible/spendable cash and **is, and has been, included in the bank balances reported by the STO.**" AP Report, p. 10.

In other words, a problem with the CGO's ACFR does not imply—and in the present situation, does not equate to— a problem with the STO-custodied cash and investments.

Even if the STO had statutory authority or responsibility to compile the ACFR (which it does not), as noted by the AP Report the CGO has historically prepared the ACFR in a manner

[1] These topics have been highly simplified for clarity. For every generality, there are exceptions.

that has made it impossible[2] for STO to independently assess the ACFR's accuracy. For fiscal year ending 2023, and numerous years prior, the State Auditor's "Report to Governance on the Audit of the State of South Carolina"[3] (and many years prior) noted that the CGO's processes are "manual" and "based off review of the account coding and historical knowledge":

> The process performed by the Comptroller General's Office (CGO) to prepare the Cash and Investment closing file is manual and time consuming. The reconciliation process is initiated by general ledger export and review of approximately 31,000 transactions to determine if those transactions should be included or excluded from the reconciliation process. The inclusion/exclusion decision is determined based off review of the account coding and historical knowledge. We recommend that management of the State review the reconciliation to determine if any components of the process can be automated.

Likewise, the AP Report notes a troubling number of instances in which the CGO's processes, calculations, adjustments, and "top-side entries" were, in AlixPartners' assessment, insufficient (pp. 9, 38, 39, 41, 48, 51, 53, 60, 61, 62, 64) inadequately documented (pp. 11, 13, 39, 51, 53, 57, 58, 61), the result of incorrect or unsupportable methodology (pp. 11, 39, 51, 53, 54) or a combination of these factors. The CGO even refused to allow AlixPartners to review its "Crosswalk" for any year after 2020. AP Report (p. 61, fn. 120). Before that, an independent review conducted by accounting firm Mauldin and Jenkins similarly stated that the CGO has not adequately communicated its ACFR processes to STO. *See* Mauldin & Jenkins, "Operational Performance Assessment of the ACFR Development Process" (pp. 44-48).

In the context of SCEIS Fund 30350993, the difference between the financial condition of the STO-custodied cash and investments versus the CGO's presentation of the ACFR, has caused significant confusion. It is essential to recognize that the Comptroller General's 2022 ACFR restatement had absolutely no connection with the STO's ability to track the resources it custodies. The restatement was an element of the CGO's Government-wide ACFR computation.

b. SCEIS Fund 30350993 is an accounting record, not a bank or investment account.

Contrary to implications in public discourse, the $1.8 billion "fund" at issue is not a bank account or investment product containing that amount. SCEIS Fund 30350993 is an accounting ledger used to represent State transactions.

SCEIS[4] contains the State's General Ledger. Because the State's General Ledger is large and complex, it is organized into smaller "accounting designations that the State uses to track specific funding sources and spending for particular purposes" which are referred to as "funds."

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[2] In fact, one of the many AP Report recommendations made for the CGO is that it "Provide training and related documentation to the STO that explains where cash and investments in the STO Treasury show up in the ACFR and how negative cash can occur. Documentation should be sufficient to allow the STO to independently quantify the ACFR General Fund cash balance using information to which it already has access."

[3] This audit addressed the FY2023 ACFR, issued by Comptroller General Brian J. Gaines.

[4] The majority of South Carolina Code provisions governing the State's financial procedures predate SCEIS and do not contemplate the existence of SCEIS funds.

ACFR FY23 (p. 24). To avoid ambiguity, the term "SCEIS fund" will be used in reference to this SCEIS accounting designation.

SCEIS funds aggregate related SCEIS General Ledger information into a smaller, more specific ledger. The existence of a SCEIS fund does not imply the existence of a discrete bank account or investment account composed only of the assets or transactions represented in that SCEIS fund. One dollar in a SCEIS fund does not necessarily correlate to a specific bank account or specific investment security in a pool.

The CGO is the sole agency with the authority to create, classify, reclassify, close, or authorize agency access[5] to SCEIS Funds: "the Comptroller General is directed, as the State Accounting Officer, to maintain an Enterprise Information System for State Government (SCEIS) that will result in proper authorization and control of agency expenditures, including payroll transactions, and in the preparation and issuance of the official financial reports for the State of South Carolina." 2023-24 State Appropriations Act, Proviso 97.2; *see also* 2005 Act No. 115, Part 1B, Proviso 59.2.

In conclusion, SCEIS Fund 30350993 is not a specific bank or investment account; it is an electronically-recorded accounting ledger which aggregates and presents related SCEIS General Ledger transactions.

c. The STO banks and invests "pooled" money, also referred to as portfolios, the amounts of which are classified on a large scale.

The STO banks and invests money in large portfolios or "pools" which benefit from economies of scale and allow for lower trading costs per dollar, greater diversification, and, consequently, theoretically higher yields. *See* 2024 Appropriations Act, Proviso 98.3. Pools are created based on the State's needs, as well as the purposes, restrictions, and requirements associated with money from certain sources. Each pool is composed of a specifically-tailored combination of cash and/or investments, depending on the pool's risk and liquidity requirements. The "menu" of STO's permissible investments is dictated by S.C. Code Ann. § 11-9-660. At any given time, a pool may include assets "located" in the portfolio's designated bank account or multiple investment vehicles, and that "location" will change regularly.

The STO tracks these pools using SCEIS, and the AP Report has confirmed that STO's cash and investment have reconciled with banking records since at least 2015. In highly simplified terms, what this means is that the SCEIS Bank General Ledger matches the bank and investment statements from the same period. And, importantly, even when the errors in SCEIS Fund 30350993 are reversed, this will continue to be true. AP Report, p. 10.

d. The "accounts" in SCEIS Fund 30350993 are not bank accounts or investment accounts; they are categories of transactions.

Within the context of SCEIS, an account (referred to hereafter as "GL Account") is not a bank account, an investment account, or any other financial product. GL Accounts are categories

[5] The Comptroller General's website contains forms by which agencies can request these actions. https://cg.sc.gov/guidance-and-forms-state-agencies/cgs-accounting-policies-and-procedures

of transactions which organize the ledger entries by their characteristics, such as revenues, expenses, assets, liabilities, and equity.

The image below is a screen capture of how a SCEIS fund is presented within SCEIS. As shown in this example, SCEIS Fund 10050025, the balances are organized into GL Accounts.

Bus Area: X220 Fund: 10050025 Grant: *
Cost Ctr: * Funded Program: * Period: 3, 2025
Account Group Selected: SC_TRIAL_BALANCE

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal
1000000000 CASH DUE TO/FROM			
1000030000 GENERAL FUND APPROPRIATION CASH		31,681,850.00	31,681,850.00
1011300000 WF_E16_STO_Contingent Acct_CASH			
1011300001 WF_E16_STO_Contingent_CLRG_CKS OUT			
* Cash Accounts		31,681,850.00	31,681,850.00
** Total Assets		31,681,850.00	31,681,850.00
*** Total Assets		31,681,850.00	31,681,850.00
2000010000 ACCT PAY&VOUCHER PAY			
2000040000 ACCOUNTS PAYABLE - CCD			
* Accounts Payable			
** Total Liabilities			
5180750000 AID ENTITIES			
5180850000 AID PLANNING DISTRICTS			
* Expenses			
7999999997 GENERAL FUND APPROPRIATION CASH OFFSET		31,681,850.00-	31,681,850.00-
* Other Accounts		31,681,850.00-	31,681,850.00-
** Total Fund Balance		31,681,850.00-	31,681,850.00-
*** Total Liabilities and Fund Balance		31,681,850.00-	31,681,850.00-
**** Total			

Transactions recorded within a SCEIS fund account can also be aggregated and viewed at the SCEIS General Ledger account level, across all SCEIS Funds. The GL Account column indicates how the corresponding activity is aggregated within the SCEIS General Ledger for the SCEIS fund.[6] GL Accounts are often referred to by their 10-digit numbers and/or a shorthand nickname derived from that number. Every SCEIS fund uses the same GL Accounts numbers—i.e. every SCEIS fund's "CASH DUE TO/FROM" GL Account is numbered 1000000000, just as the SCEIS fund example shown above. Unfortunately, SCEIS Funds and GL Accounts can be easily conflated because SCEIS funds are assigned long (8-digit) number codes, which are also often shortened for quick reference.

In the context of SCEIS Fund 30350993, the reference to "accounts" does not mean that there is a discrete bank or investment vehicle with $1.8 billion dollars in it. These "accounts" are GL Accounts.

e. The term "General Fund" has multiple meanings.

[6] The number associated with each GL Account is not a "bank account" number, but a SCEIS-wide account code used (as applicable) in every SCEIS Fund and in the SCEIS General Ledger.

Another critical distinction to be made in the discussion of SCEIS Fund 30350993 is the various uses of the term "General Fund."[7] Despite the ubiquity of the term in State government, the State's General Fund is not defined in statute, and can have multiple meanings depending on context and application.

To the Treasurer and STO, "General Fund" is the General Fund Portfolio— the STO-custodied pool of cash and investments which finance the ordinary operations of the State, except where the cost of those operations are paid by other sources.

To the Comptroller General and CGO, "General Fund" primarily refers to the CGO-calculated ACFR General Fund financial statement published in the ACFR. The ACFR is comprised of all State resources, including STO-custodied resources, as well as resources not custodied by STO, and resources which are not recorded on SCEIS. Activity is accounted for in the ACFR General Fund unless State Law or external parties require them to be accounted for in another fund. FY2023 ACFR, p. 30.

The Comptroller General also tracks the "Appropriations General Fund" which refers to the money appropriated in each year's State Appropriations Act. Per S.C. Code Ann. § 11-3-50, "The Comptroller General shall keep a book in which all appropriations by the General Assembly shall be entered, with all payments made under them..." Presently, this "book" is maintained in SCEIS.

	STO's General Fund Portfolio	**CGO's ACFR General Fund**	**Legislature's General Fund in Appropriations Act**
Context	1 of 8 STO-invested pools.	1 of 5 Governmental Funds calculated by the CGO for purposes of the ACFR.	Legislatively-assigned resources are organized into 4 Funds for Statewide Accounting, of which the General Fund is one.
What rules/policies apply?	Resources invested in accordance with State law and STO portfolio investment guidelines.	Calculation and presentation governed by GAAP/ GASB guidelines and CGO policies.	Governed by State law and Appropriations Act.
Compatibility and visibility within SCEIS?	STO and CGO have full visibility to all portfolio activities in SCEIS.	The ACFR General Fund is not composed of the same SCEIS Funds that represent pooled resources in the General Fund Portfolio. CGO calculates the ACFR General Fund and makes additional manual adjustments outside of SCEIS. STO is not privy to CGO's calculations.	Maintained by the CGO in SCEIS.

[7] The term General Fund predates SCEIS by decades and does not invoke the same meaning of "fund" discussed previously in the context of SCEIS funds.

Understanding the various meanings of "General Fund" is particularly relevant in discussing the differing reconciliations performed by the STO and CGO. STO reconciles the cash and investments it custodies. On a monthly basis, the STO reconciles the total custodied cash and investments in the Treasury with the statements from the financial institutions holding and investing those assets. **There has never been any indication that STO's bank and investment reconciliations are inaccurate.** In fact, the Comptroller General correctly states in the 2022 ACFR restatement, Note 15, that the restatement has no impact on the State's (and thus the STO's) actual cash:

> This mapping error impacted the ACFRs only. It had no impact on the State's actual cash or on the State's annual appropriation and budgeting process. Furthermore, the general ledger remained correct throughout.

It is the ACFR General Fund for which the CGO issued a net $3.5 billion restatement, which included applying the $1.8 billion balance recorded in SCEIS Fund 30350993 as cash to the ACFR General Fund, without ever notifying or consulting with the Treasurer or STO.

II. The Comptroller General is responsible for the creation of the State's ACFR, and is tasked with the oversight of SCEIS.

Pursuant to State law, the Comptroller General is responsible for the management of SCEIS and the creation of the ACFR, and has been given broad and absolute authority to carry out that responsibility.

In the simplest terms: the Treasurer is the State's banker; the Comptroller General is the State's accountant. The present Comptroller General apparently disputes this distinction; but, at all times relevant to the history of SCEIS Fund 30350993, this is how the statutory relationship was mutually understood between the Comptroller General and the Treasurer, as well as their respective offices. In fact, in a 2020 e-mail discussion among STO and CGO staff, former Comptroller General Eckstrom aptly described the duties and authorities of each office:

> Martin [of STO], you know the bank-side of this task. David, between you, Kathy, Michael, and Katherine [all of CGO] I think we can cover the book-side. […] We're all in this together.

a. The Treasurer is the State's Banker.

The STO manages the "bank-side" of the State's financial system, and "acts as the State's banker and is responsible for managing, investing, and retaining custody of more than $60 billion in public funds for the South Carolina State Government." Mauldin & Jenkins, *Operational Performance Assessment of the ACFR Development Process* (p.10). The Treasurer "has by law the custody and control of the moneys of the State." *In re Morris,* 1998 WL 196487 (S.C.A.G.) (quoting 81A C.J.S., <u>States</u> § 135). The Treasurer is responsible for the investment of the STO-custodied funds, and S.C. Code Ann. § 11-9-660(A) provides him with "full power to invest and reinvest all funds of the State" in a list of designated investment vehicles.

In summary, the Treasurer custodies and invests the Treasury's money and provides reporting to others (the CGO, state agencies, the Legislature, and the public), and issues Treasury payments directed by the Comptroller General. See S.C. Code Ann. § 11-5-100, *et seq*.

b. The Comptroller General is the State's accountant, responsible for computing, compiling, and issuing the ACFR, managing SCEIS, and overseeing the State's financial procedures.

By comparison, the Comptroller General maintains the "book-side" of the State's finances. As the State's Chief Accounting Officer, he verifies, directs, and accounts for every expenditure of the State. [8] By law, he is to serve as a "complete check"[9] on the Treasurer. S.C. Code Ann. § 11-3-110.

The Comptroller General is the officer responsible for ascertaining the purpose—and therefore the "ownership"— of State money. He must maintain, "as a permanent office record," an "itemized statement of expenditures showing in each case the name of the payee and a list of articles purchased or services rendered, together with a certified statement that such articles or services were purchased or rendered exclusively for the purpose or activity for which the appropriation was made" for every payment from the Treasury. S.C. Code Ann. § 11-3-170. He must also account for "unappropriated funds in the State Treasury." S.C. Code Ann. § 11-3-90.

Of particular relevance to the matter of SCEIS Fund 30350993, the Comptroller General is tasked with keeping "a set of books exhibiting the separate transactions of the State Treasury" (S.C. Code Ann. § 11-3-100) and must keep records such that, "at any time," he will be able to "show how such accounts stand" between the State and any recipient or intended recipient of public funds (S.C. Code Ann. § 11-3-210).

The Comptroller General must also "keep a book in which all appropriations by the General Assembly shall be entered, with all payments made under them…" S.C. Code Ann. § 11-3-50.

Additionally, for each fiscal year since 2014, the Comptroller General has been given full power and authority to maintain SCEIS, report on the financial condition of the State government, and issue accounting policies and directives for the State. See 2023-24 State Appropriations Act Proviso 97.2.

From a legal perspective, it is clear that the designation, identification, ACFR inclusion, and record-keeping responsibilities related to the transactions recorded in SCEIS Fund 30350993 can only reasonably attributed to the Comptroller General. A review of the events which led to the accumulation of "cash" represented in SCEIS Fund 30350993 only further reinforces this conclusion.

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[8] For example, See SCAG Op.Ltr. Dec. 2, 2005, to the Honorable Hugh K. Leatherman, Sr.

[9] Importantly, the law does not authorize, nor do the systems in place allow the Treasurer to serve reciprocally as a "complete check" on the Comptroller General.

III. The AlixPartners Report concludes that $1.6 billion of the balance recorded in SCEIS Fund 30350993 was caused by the CGO's incorrectly converting non-cash to cash in SCEIS.

The AP Report concludes that, of the $1.8 billion represented in SCEIS Fund 30350993, "approximately $1.6 Billion did not represent real cash. It is attributed to balances in certain ACFR-only business areas ("ACFR BAs") that were incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion. **These balances represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process, and as such, the failure to recognize what these balances represented had the unintended consequence of artificially inflating the balance in Fund 30350993.** These entries were the primary reason that the Conversion Account did not net to zero upon completion of the conversion as intended." AP Report, Pg. 10 (Emphasis added.)

By way of background, SCEIS has been set up in a way that represents the movement of actual resources (i.e. real cash), and also tracks budgeted dollars, also known as appropriations. In SCEIS, appropriations are not real cash; instead, they represent an agency's authority to spend money, as dictated by the General Assembly. In the SCEIS system, appropriations can be erroneously recorded as real cash.

AlixPartners concludes that the CGO incorrectly recorded appropriations (i.e. non-cash) originating from the CGO's SCEIS ACFR Business Areas ("ACFR BA's").[10] The CGO's *non-cash* entries erroneously flowed out into the SCEIS "universe" as *actual cash*. The CGO's incorrect entries contained both "positive" and "negative" aspects of cash. Thus, as the non-cash entries worked their way into SCEIS funds as cash, the net effect on the SCEIS General Ledger bottom line was zero.

STO did not know, and had no way of knowing, that the CGO had "created cash" in SCEIS by recording appropriations as cash. Under the CGO's explicit direction, STO transferred $1.6 billion of this ACFR BA non-cash "to the Conversion Account [in SCEIS Fund 30350993], which had the effect of turning non-cash balances within Legacy Cash accounts in SCEIS into 'real cash' by transferring those balances into 'real cash' general ledger accounts." AP Report, p. 43. Meanwhile, the "negative" aspects of this cash—also referred to as "corresponding entries"—remained in (or was moved to) other SCEIS funds.[11]

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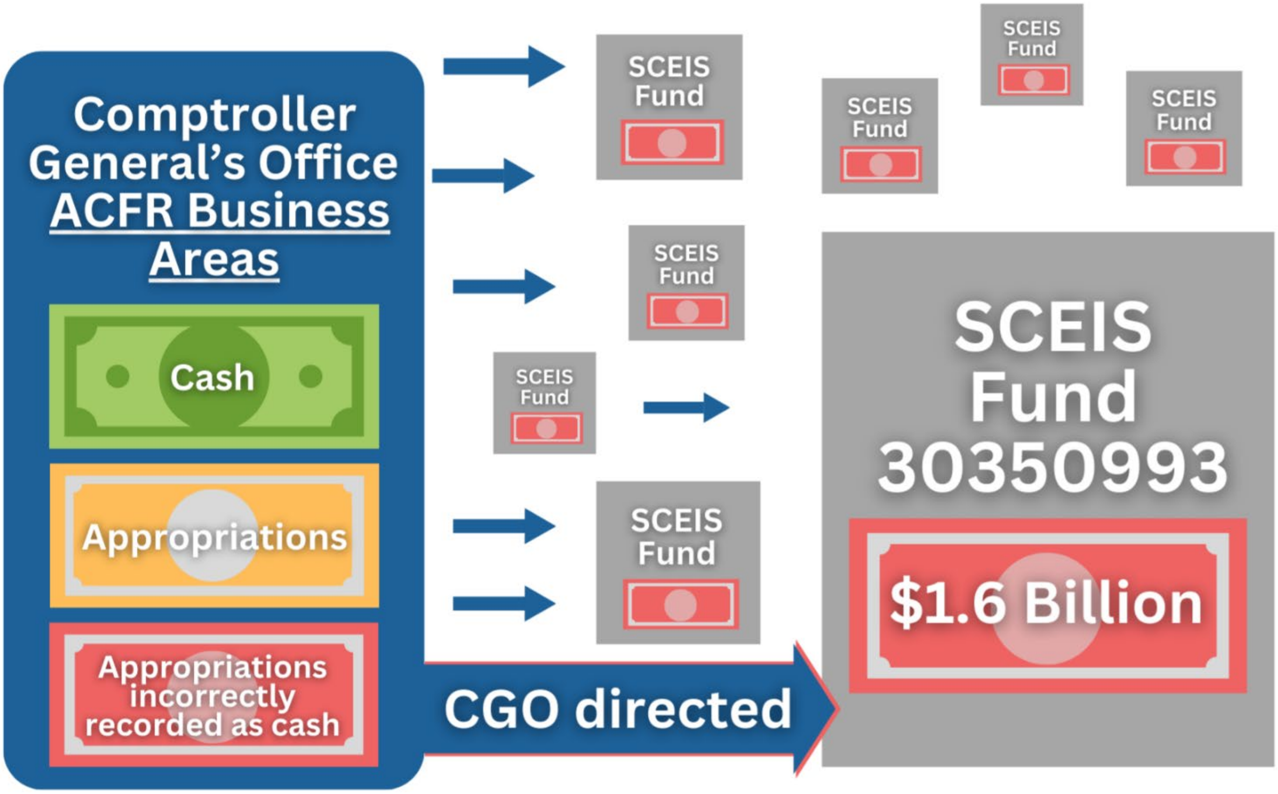
[10] ACFR BA's are also sometimes referred to as "Triple Zeros," as they include: A000 (General Governmental), H000 (Education), J000 (Health-Environment), L000 (Social Services), N000 (Admin of Justice), P000 (Resources-Econ Dev), U000 (Transportation), V000 (Debt Service), and X000 (Intergovernmental).

[11] The AP Report does not specify the date(s) that the CGO's original errors occurred, nor does it reassure the State that the $1.6 billion of non-cash recorded as cash in SCEIS Fund 30350993 represents the full extent of the CGO's original error.



The error affected the ACFR and the SCEIS Bank General Ledger differently. The SCEIS Bank General Ledger is "SCEIS Fund agnostic," and considers all SCEIS funds without regard to ACFR classification. Since the CGO's incorrect entries accumulating as cash in SCEIS Fund 303050993 were offset by negative entries in other SCEIS funds, the net effect on SCEIS Bank General Ledger was zero. Likewise, the net effect of reversing the entries in the SCEIS Bank General Ledger will also be zero, and the SCEIS Bank General Ledger will continue to reconcile properly.

As noted above, Comptroller General is statutorily required to keep records such that, "at any time," he will be able to "show how such accounts stand" between the State and any recipient or intended recipient of public funds (S.C. Code Ann. § 11-3-210), and must also "keep a book in which all appropriations by the General Assembly shall be entered, with all payments made under them…" S.C. Code Ann. § 11-3-50. Legally, and factually, the $1.6 billion of appropriations recorded as cash in SCEIS Fund 30350993 can only be attributed to the Comptroller General.

IV. The evidence confirms that the CGO excluded SCEIS Fund 30350993 from the ACFR, coordinated the use of SCEIS Fund 30350993 during the State's financial system conversion, and incorrectly recorded $1.6 billion of appropriations as "cash," which it ultimately directed into SCEIS Fund 30350993.

Despite the AP Report's explicit finding that the $1.6 billion of false cash in SCEIS Fund 30350993 "represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process," (p. 10), Comptroller General Gaines continues to publicly deny any responsibility and assign blame to STO. As such, it is appropriate to explicitly set forth the evidence proving that the CGO excluded SCEIS Fund 30350993 from the ACFR, coordinated the use of SCEIS Fund 30350993 during the State's financial system conversion, and incorrectly recorded $1.6 billion of appropriations as "cash," which it ultimately directed STO to record in SCEIS Fund 30350993.

a. The Comptroller General was statutorily responsible for the SCEIS conversion.

In 2005, the General Assembly mandated that SCEIS "shall be implemented for all agencies" as the State's financial management and accounting system. S.C. Code Ann. § 11-53-20. SCEIS represented a comprehensive automated information system, replacing the thirty-year-old Statewide Accounting and Reporting System ("STARS"), as well as several other individual systems, some of which had limited or no compatibility with STARS. "The South Carolina Enterprise Information System Oversight Committee, as appointed by the Comptroller General, shall provide oversight for the implementation and continued operations of the system." Id.

The conversion of STO functions to SCEIS occurred between 2014 and 2018, and was a collaboration of representatives from the CGO, STO, the SCEIS division of the Department of Administration, the State Auditor's Office, as well as two outside consultants: Grant Thornton, LLP (an accounting and auditing firm), and SAP (the developer of the SCEIS platform).

b. The CGO coded SCEIS Fund 30350993 to be excluded from the ACFR.

As the AP Report acknowledges, the CGO has been aware of SCEIS Fund 30350993 since it was created in SCEIS by the Department of Administration in 2014. *See* (p.8). Moreover, the CGO, not STO, excluded SCEIS Fund 30350993 from the ACFR General Fund, and coordinated the STO's and Department of Administration's use of the SCEIS fund during the State's financial system conversion.

On May 26, 2016, Laura Showe, the CGO's Manager of Statewide Reporting issued an e-mail directive four other CGO employees to change the coding and classification of SCEIS fund 30350993 to be excluded from ACFR (formerly referred to as CAFR[12]) reporting, and notifying STO's Director of Treasury Management, Martin Taylor, of the modification to the SCEIS fund:

> Good morning,
>
> David [Starkey, of CGO] just attended a meeting and it has been determined this fund does not represent "true" cash available and should not be reported within the CAFR, it is being used as a clearing fund for the Treasurer's office. Therefore, the following

[12] For Fiscal Years 2019-20 and prior, the State's comprehensive financial statements were referred to as the Comprehensive Annual Financial Report, or "CAFR." For Fiscal Years 2020-21 and after, the same report is called the Annual Comprehensive Financial Report, or "ACFR."

> changes need made on the fund master so that it is not picked up in any CAFR reporting that is prepared at year end.
>
> Fund Type = 99
>
> GAAP individual fund= 999
>
> Fund code = 6999
>
> Funds classification = 99999
>
> These changes will ensure that it is not pulled into the General Fund reporting based upon the current coding. If any issues are identified with these requested changes please let me know so that we can work towards a solution. Thanks
>
> Laura Showe
> Manager, Statewide Financial Reporting
> Comptroller General's Office

EXHIBIT 1. This e-mail proves that CGO employees Showe and Starkey explicitly acted to exclude SCEIS Fund 30350993 from the CAFR/ACFR, and recognized SCEIS Fund 30350993 as a "clearing fund."

On the same day, in response to the CGO's directive to code SCEIS Fund 30350993 to be excluded from the CAFR/ACFR, STO's Director of Treasury Management, Martin Taylor, advised Senior Assistant Comptroller David Starkey of CGO and Doug Cooper of Department of Administration that:

> There are several funds used for "treasury" purposes that you will likely need to treat in similar fashion as this fund…………. Suffice it to say we at STO will need to consider the activity in this fund to balance the system to the BANK, but the activity within these funds is AGENCY / FUND agnostic and not attributable to any specific agency………
>
> We'll talk it through at the overview meeting we discussed this am………….

EXHIBIT 1. Taylor's e-mail affirms the long-standing mutual statutory understanding that STO's responsibility is to balance SCEIS money to the bank, without regard to the ownership of specific SCEIS funds, while it is the CGO's responsibility to make determinations regarding the ACFR.

There is no indication that any person at CGO or the Department of Administration ever took issue with Taylor's statement.

c. The CGO coordinated the use of SCEIS Fund 30350993 as a "conversion fund" and directed the STO to make conversion entries in it.

The SCEIS conversion team used SCEIS Fund 30350993 to track the conversion of banking and investment functions as entries were imported from the legacy systems to SCEIS.[13]

On July 13, 2017, Taylor (STO) sent an e-mail to Starkey (CGO) acknowledging receipt and review of a "workpaper" from Starkey which described a very large journal entry in SCEIS related to the SCEIS cash conversion. Taylor (STO) stated to Starkey (CGO):

> I have spent some time looking at your workpaper and think I follow your efforts. BUT before we get to posting any entries etc, I wanted to get together with you and your crew, put it up on a screen and talk through what entries you propose and what my next steps should be…. Just make sure we are all singing the same hymn...... As we continue to empty the legacy cash accounts into Bank GL's.

EXHIBIT 2. Taylor's communication indicates his understanding that the CGO was coordinating STO's posting of SCEIS conversion entries.

On November 2, 2017, Starkey (CGO) sent an e-mail to Katherine Kip[14] and Martin Taylor (both of STO), copying Showe and Morrison (both of CGO) in which Starkey directs STO to make accounting entries in SCEIS related to the SCEIS conversion:

> Hi Martin & Katherine,
>
> Here the adjustment to 1000060000, which went through last night as we discussed last night. As long as you now convert the H000 and P000 areas in 1000060000, you will only convert the cash, as the appropriations have now been eliminated. Katherine, we took Martin through the workpapers last night, which go down to the document level. We never eliminated the appropriations from 1000060000, as all of the activity was in fund 10019000 (a GAAP fund 999 – which does not flow into the CAFR). But, now we are good to convert that. We also discussed the JE to eliminate the 9999999999 account balance yesterday as well and will touch base with you in a few.

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[13] As part of that process, another SCEIS fund— SCEIS Fund 30350992— was also used as a conversion fund to record cash and investments transfers, similar to the use SCEIS Fund 30350993. On June 26, 2017, Taylor (STO) consolidated these conversion entries from SCEIS fund 30350992 into SCEIS Fund 30350993, per SCEIS journal entry document number 1003448757.

[14] Kip was employed with the STO from 2016 until February 2020, at which time she assumed a position at the CGO.

EXHIBIT 3. Attached to the CGO email is a complex excel spreadsheet detailing the ledger entries relating to the adjustment discussed in the email.

In this e-mail, Starkey (CGO) is directing Taylor and Kip (both of STO) to "convert" balances from two of the CGO's ACFR Business Areas: H000 and P000. Consistent with the recent findings of the AP Report, Starkey (CGO) acknowledges that the CGO had, at some point previously, "never eliminated the appropriations" from one of the SCEIS GL Accounts associated with the legacy STARS system (GL Account 1000060000). Starkey (CGO) assures the STO that "the appropriations have now been eliminated," and that the STO, in following his directive "will only convert the cash." Unfortunately, as AlixPartners has determined, Starkey was incorrect: "those ACFR BA entries should not have been recorded as part of the conversion and, had they not been recorded, only $245 million would have remained in Fund 30350993." p. 49.

What is not mentioned in the e-mail, but is made clear from the context of the e-mail, as well as STO's SCEIS entries in following the Starkey's directive is this: the effect of the CGO's direction, which was unknown[15] at the time, was that **non-cash appropriations were moved into SCEIS Fund 30350993 as if they were cash.[16]**

In response to Starkey (CGO) on the same day, Kip (STO) requests clarification regarding the CGO's directive, as well as CGO's reassurance that the directive is appropriate:

> So are you saying you want me to convert 9999 account into 1060 to the extent of -513,524,815 in cash (i.e. the rest of the account is appropriations and should not be converted). Have we ascertained that there are no other appropriations that need to be eliminated?

EXHIBIT 3.

As evidenced by a November 2, 2017, e-mail from State Auditor George Kennedy to various CGO and STO staff, the State Auditor could not complete his audit until this action was complete. EXHIBIT 4. Any delay in the audit would hold up the publication of the CGO's ACFR, and, as the AP Report states "…the former Comptroller General, Mr. Eckstrom, insisted that the ACFR be issued in time to be considered for the Certificate of Achievement for Excellence in

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[15] To be clear, there is no evidence that the CGO or the STO understood that these entries would result in non-cash appropriations being incorrectly recorded as cash. In fact, the e-mail conversation makes it clear that both parties believed the CGO had removed any appropriations, and that the proposed transaction would involve true cash only.

[16] This is not the only time that appropriations from the CGO's ACFR Business areas were improperly recorded as cash, but it is the most clearly documented. AlixPartners has indicated verbally to STO staff in a meeting that some of the incorrect entries were recorded into SCEIS Fund 30350993 by STO and others were recorded by CGO. However, the AP Report's conclusion as to responsibility for these entries is unequivocal: the $1.6 billion in SCEIS Fund 30350993 "balances represent a summation of adjustments previously recorded by the CGO," that were "incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion." P. 10.

Financial Reporting from the Government Finance Officers Association. However, the former CG often demanded that his team exceed the timing requirements of the GFOA, aiming to be the first state to issue its ACFR. The CGO staff commented that these deadlines often placed unnecessary pressure on the team." (p. 39).

Thus, in response to Kip's (STO) November 2, 20217, e-mail asking Starkey (CGO) whether he is sure there are no other appropriations that need to be eliminated before Kip makes the CGO's entries, Starkey (CGO) responds with the following immediate directive:

> We'll call you in a minute, but all business areas within 1000060000 need to be converted now, even H000 and P000.

EXHIBIT 3.

The above entries were made, as directed by Starkey (CGO), on November 7, 2017.[17] The CGO-directed entries resulted in a significant increase to the balance of SCEIS Fund 30350993. The fact that AlixPartners recommends the reversal of entries recorded in this batch, indicates that AlixPartners, having the benefit of information known now, has concluded that the entries result in non-cash being incorrectly recorded as cash.

This interaction is plain evidence of the AP Report's conclusion, in which it determined that "approximately $1.6 billion" recorded in SCEIS Fund 30350993 "is attributed to balances in certain ACFR-Only business areas… previously recorded by the CGO during the ACFR preparation process, and as such, the failure to recognize what these accounts represented had the unintended consequence of artificially inflating the balance in Fund 30350993." p. 10. The AP Report concludes that "the CGO has determined (and we agree) that those ACFR BA entries should not have been recorded as part of the conversion and, had they not been recorded, only $245 million would have remained in Fund 30350993." p. 49.

Nevertheless, the CGO's directive was followed, and the 2016-17 ACFR was issued on November 17, 2017, only days after the above discussion. For his work on this ACFR, the Comptroller General received a "Certificate of Achievement for Excellence in Financial Reporting," just as he had hoped.

d. The STO proposed a prior period adjustment which would have transparently addressed the balance of SCEIS Fund 30350993, but the CGO and State Auditor refused.

In early March of 2018, Starkey of CGO and Taylor of STO discussed the conversion entry balance which was now in SCEIS Fund 30350993.

On March 1, 2018, Taylor (STO) e-mailed Starkey (CGO) two documents, both with "Conversion GL Cleanup" in their titles, asking Starkey to review them, and then to "Gimme a

[17] The SCEIS entry does not identify the specific user who recorded these entries because it was a "batch entry."

holler afterwards and I'll post when we are happy." In one of the documents, Taylor offered a proposal to account for the balance in SCEIS Fund 30350993, suggesting that a prior period adjustment should be made:

> […] it is therefore my determination that the balance of the Conversion GL within 30350993 s/b written off as a prior period adjustment in order to complete the conversion process as all of this activity took place in years 2016 and prior.

EXHIBIT 5. A Prior Period Adjustment, or "PPA" is a correction of an error in financial statements that was reported for a prior period, resulting in a restatement. As explained in the AP Report, "Under this proposal, the cash portion of Fund 30350993 would remain, as the STO needed that balance to tie back to the bank account balances." (p. 9).

In a presentation before the Senate Finance Committee on January 21, 2025, an AlixPartners representative testified that, while he did not believe the specifics of the PPA proposed by STO via Martin Taylor were the correct accounting solution, Taylor's proposal would have been a "transparent" way of permanently resolving the issue presented by SCEIS Fund 30350993, as the proposed PPA would have been publicly reported as a restatement in the ACFR.

However, "[Taylor] was informed by the CGO and a representative from CliftonLarsonAllen LLP ('CLA'), the State's external auditors, that neither would accept that decision." (p. 9) (emphasis added). Per AlixPartners, "We learned from a former STO employee of a meeting during this time, which was apparently attended by a CLA Partner (and possibly an OSA representative), two STO employees, and a CGO employee during which the STO proposed that the PPA be recorded to the ACFR General Fund, to which the CLA Partner responded that he would not issue the ACFR with a PPA." (p. 41).

e. The CGO instructed the STO to transfer $1.5 billion to a CGO-created GL Account in SCEIS Fund 30350993, where it remains today.

The CGO created GL Account 2400040001 (Due to Other Funds – Equity in Pooled Cash), a liability GL Account specifically made for the purpose of recording the balance of the conversion entries in SCEIS Fund 30350993. Then, "the CGO instructed the STO to transfer the balance" to that account within SCEIS Fund 30350993. AP Report (p. 41).

At some point on or immediately before March 2, 2018, Starkey (CGO) informed Taylor (STO) that, instead of the STO-proposed PPA, the CGO would create a different GL Account for the conversion entries, including those recorded in SCEIS Fund 30350993. Starkey (CGO) follows up and confirmed this conversation on March 5, 2018, with the following e-mail, and even offers for CGO to make the entries transferring the SCEIS Fund's balance into this GL Account:

> Hi Martin,
> The liability account to use (once it is set up) will be 2400040001 "Due to Other Funds – Equity in Pooled Cash".

> Kathy is in and out today and we will let you know when it is done. Also, the P000 expenditure account to use is 5510501050 “Resources and Economic Development”. Let me know if you have any problems with that one and we can input it here for you if needed.
> We’ll keep you updated.
> Regards,
>
> David

EXHIBIT 6. The same day, Taylor (STO) responds to Starkey (CGO), via e-mail, confirming specifically how the balance represented in SCEIS Fund 30350993 should be handled:

> […] Also……. on the 1.5BB amount in 30350993,…… was planning to move the BONY amount to the M2M offset account, and then the $500k to the liability account……. Does that work for ya’ll, or do you want all of it to the liability account ?

EXHIBIT 6. Starkey (CGO) responds with CGO’s directive:

> As it is a pooled investment account, I think it would be easier with the 24 account[18], **as those monies are truly owed to other funds**.

[Emphasis added.] EXHIBIT 6. Taylor acknowledges and complies with Starkey’s e-mail and states that he will keep Starkey posted with any issues. EXHIBIT 6.

This exchange again shows STO following the CGO’s directives on SCEIS matters. It also clearly demonstrates that, while the parties acted collaboratively, it was CGO—not STO—who had the ultimate authority and discretion to dictate SCEIS-conversion actions which resulted in the accumulated balance in SCEIS Fund 30350993. Nowhere in this March 2018 exchange, nor any time in the subsequent five plus years, did the CGO assert that it was STO’s responsibility to ferret out the “ownership” of the balance of SCEIS Fund 30350993. As the AP Report correctly notes, “Despite reclassifying the Conversion Account balance to an account called ‘Due to Other Funds – Equity in Pooled Cash’, neither the STO nor the CGO made any subsequent attempts to identify to whom such funds were owed until fiscal year 2022.” (p. 42).

f. The CGO directed STO to add an additional $324 million balance to SCEIS Fund 30350993.

On October 26, 2018, an email from John Morrison (CGO) to Martin Taylor (STO) provided a “list of the balances that we [the CGO] have identified that need to be washed through the conversion account based on our conversation.” EXHIBIT 7. Morrison further stated: “I have

[18] The “24 account” refers to GL Account 2400040001 (Due to Other Funds – Equity in Pooled Cash) created by the CGO.

shown the adjustments as it needs to be entered from the CAFR perspective. I will follow up with a phone call in a minute." Id.

Less than two hours later, Taylor (STO) replied via e-mail to Morrison (CGO), and subsequently made the SCEIS journal entries to SCEIS fund 30350993 and others in compliance with the CGO's instructions. Included in those transactions, the STO added, at Morrison's direction, $324 million dollars to SCEIS Fund 30350993.[19] These 2018 conversion entries increased the amount in SCEIS Fund 30350993 from $1.5 billion to $1.8 billion.

The AP Report indicates that this CGO-directed entry was, again, incorrect, and notes a troubling observation regarding the CGO's credibility in recounting these events:

> A current CGO employee drafted a memo in March 2024[20] that explains that the entry was requested by the STO. The memo explains, that during the STO's cash conversion from STARS to SCEIS, the STO could not convert funds held in a certain general ledger account because they did not have access. It then explained how the STO requested that the CGO (who had control over those accounts) move those funds to a general ledger account that the STO had access to so they could include the funds in the accounts they did not have access to in the conversion. **Despite this recounting, we identified other information which suggests that the request was made by the CGO, potentially undermining the credibility of the March 2024 memo.**

(p. 42). The AP Report notes this credibility concern despite stating in its disclaimer that "AlixPartners has assumed, without complete independent verification, the accuracy and completeness of all information available from the State or which was otherwise provided to AlixPartners." p. 67.

g. As part of its $3.5 billion restatement, the Comptroller General decided— without consulting the STO— to apply the balance in SCEIS Fund 30350993 to the ACFR General Fund.

During or before December of 2022, the CGO determined it had inadvertently double-counted certain State funds in SCEIS, resulting in an overstatement of the ACFR General Fund in the State's ACFR by approximately $5.87 billion dollars, and that a restatement was necessary. *See* Subcommittee "Report on the Investigation of the FY2022 Annual Comprehensive Financial Report Restatement," 2023.

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[19] See SCEIS Fund 30350993 document number 1005873176 through -78.

[20] Neither AlixPartners, the CGO, or the Subcommittee have provided STO, or given STO an opportunity to respond to, the March 2024 memo described above. As discussed more fully below, the STO has requested this document from CGO, but as of the date of this report, CGO has refused to provide it.

As part of this restatement, the CGO decided, **without consulting with or notifying the STO,** to include the balance of SCEIS Fund 30350993 in the ACFR General Fund, as well as $517 million of Department of Transportation money which previously had not been included within the ACFR General Fund, which had the net effect of to reducing what would have otherwise been a $5.87 billion restatement of cash to a $3.5 billion restatement. This determination and action by the CGO further proves that the CGO had full knowledge and visibility of, and access to SCEIS Fund 30350993.

V. Comptroller General Brian Gaines has consistently provided inaccurate communications and under-oath testimony to the Subcommittee regarding SCEIS Fund 30350993, attempting to place undue blame on the Treasurer for the CGO's errors.

On May 12, 2023, Brian J. Gaines was appointed to succeed Mr. Eckstrom in serving as the State's Comptroller General. Since that time, he has made numerous false assertions regarding SCEIS Fund 30350993 and the conversion process, in writing and under oath before the State's legislature in an apparent attempt to place blame on the Treasurer and STO for the CGO's errors.

a. Gaines's Letter dated December 12, 2023

On December 12, 2023, Gaines sent a letter to the Treasurer (and, presumably, to members of the Subcommittee) containing numerous false and misleading assertions regarding SCEIS Fund 30350993 which have now been completely dispelled by the AP Report. EXHIBIT 8. This letter became an exhibit in the Subcommittee's Interim Report and has never been withdrawn by Gaines or the CGO. Gaines' false statements in the letter include but are not limited to the following:

•*SCEIS Fund 30350993 "has been in the possession and control of the State Treasurer's Office since its creation in October 2014."* This is soundly disproven by the AP Report, as well as numerous e-mails already discussed in which the CGO not only acknowledges its own ability to make entries in SCEIS Fund 30350993, but also directs STO's entries therein.

•*"Fund 30350993, as understood by the Comptroller General's Office, was originally established by the State Treasurer's Office to balance entries coded incorrectly between bank accounts – and it was set up as to not be presented to the General Assembly as moneys potentially available for appropriation or to be included in the ACFR."* As clearly proven above, and acknowledged in the AP Report, the CGO knew and agreed to SCEIS Fund 30350993 being used as a conversion fund. Moreover, it was the CGO, not STO, who excluded SCEIS Fund 30350993 from the ACFR.

•"*The State Treasurer's Office is the only State entity that may move the amounts in Fund 30350993 to the appropriate SCEIS Funds and make its purpose known to the General Assembly."* Gaines makes this statement, despite the fact that, only a few weeks earlier, on November 8, 2023, the CGO initiated a transaction with SCEIS Fund 30350993 by transferring $1.8 billion out of the Fund into SCEIS Fund 90016011, and back into Fund 30350993.[21] This

[21] See SCEIS Fund 30350993 Document #1014653960 and #1014654100.

transfer by the CGO, with the description "CORRECT ACFR CASH GROUPS," further proves that CGO had both access to view the SCEIS Fund 30350993 and the ability to perform transactions with it.

b. Gaines's Testimony before the Subcommittee on April 2, 2024

In the April 2, 2024, hearing, Gaines made still more false and accusatory statements regarding SCEIS Fund 30350993, this time having been put under oath:

> COMPTROLLER GENERAL BRIAN GAINES: The 1.8 came about during the conversion from the old legacy system to the new accounting system. It was during the Treasurer's office conversion process. So, and those transactions that generated that $1.8 billion was done by folks that were employed, employees of the treasurer's office.
>
> SENATOR LARRY GROOMS: Who do you believe is responsible for resolving the problem?
>
> COMPTROLLER GENERAL BRIAN GAINES: I would say the Treasurer's office, as the transactions originated out of their office, and they would be the ones with the records that would be able to dictate where those funds came from and why they were transacted in that way.

These statements are false. The AP Report states that the Comptroller General is factually responsible for the non-cash appropriations entering the SCEIS system as cash. The e-mails discussed previously are irrefutable proof that the CGO directed STO to post that non-cash as cash into SCEIS Fund 30350993. Moreover, the Comptroller General is legally mandated to account for all transactions in the Treasury (SC Code Ann. § 11-3-100), maintaining all accounting records of the Treasury (SC Code Ann. § 11-3-100), accounting for unappropriated money in the Treasury (S.C. Code Ann.§ 11-3-90) the accounting of appropriations (S.C. Code Ann. § 11-3-50), and maintaining SCEIS (Proviso 97.2).

> SENATOR STEPHEN GOLDFINCH: But do you I'm sorry, I don't mean to interrupt you, but do you have authority to look into a Treasurer's account?
>
> COMPTROLLER GENERAL BRIAN GAINES: No. So the CG cannot. No other agency, the CG included, can make adjustments to any other agency's funds. We can't do that.
>
> SENATOR STEPHEN GOLDFINCH: And this is the Treasurer's agency's funds?

> COMPTROLLER GENERAL BRIAN GAINES: It is a fund that is assigned to the Treasurer's office. Yes, sir. It's an E160 fund, which is the Treasurer's office fund.
>
> SENATOR STEPHEN GOLDFINCH: And therefore, the CG's office can't access it?
>
> COMPTROLLER GENERAL BRIAN GAINES: Correct.

These statements are false. The CGO has complete legal authority and responsibility to maintain SCEIS, and effectuate all State accounting policies. If the Comptroller General is not able to “look into” or “make adjustments” to any other agency’s funds, it is his own fault, and he is in gross violation of his clear statutory duties. Nevertheless, the evidence proves that the CGO can and has made adjustments to SCEIS Fund 30350993, such as its November 8, 2023, transfer of $1.8 billion out of SCEIS Fund 30350993, into SCEIS Fund 90016011, and back into Fund 30350993.[22] This transfer by the CGO proves that CGO has both access to view the SCEIS Fund 30350993 and the ability to perform transactions with it.

Regrettably, the Subcommittee appears to have relied heavily on Gaines’s brief testimony in this hearing, along with, perhaps, other communications of which the STO is not a party; however, the above exchanges have now been proven false by the findings of the AP Report and the evidence provided in this document.

VI. The AP Report suggests that the CGO provided false information to AlixPartners, withheld other important information from AlixPartners, and that the CGO may have provided false information to the Subcommittee.

AlixPartners makes two subtle yet significant observations in the AP Report: 1) the CGO provided false information to AlixPartners and withheld other important information from AlixPartners, and 2) that the CGO may have provided false information to the Subcommittee, and that the Comptroller General has no intent to change its flawed practices moving forward.

a. The CGO refused to allow AlixPartners to review its “Crosswalk” for fiscal years 2022 and 2023.

The CGO’s refusal to allow AlixPartners to review its “Crosswalk” for 2022 and 2023 is inexcusable and indefensible. <u>See</u> AP Report (p. 61, fn. 120).

The Crosswalk is a CGO-created workpaper created in Microsoft Excel (*not* SCEIS) by which the CGO “aggregates the State’s cash and investment balances from SCEIS for each ACFR.” AP Report p. 56. Among other things, the Crosswalk contains “manual adjustments” by the CGO, and “entries posted after the date the SCEIS GL report underlying the Crosswalk was generated.” (p. 57).

[22] See SCEIS Fund 30350993 Document #1014653960 and #1014654100.

In the Crosswalks reviewed by AlixPartners, variances in the Crosswalk "represent yet another example of how the CGO's workpapers could be better documented and more sufficiently reviewed." (p. 57). The AP Report also states that AlixPartners "noted multiple instances where the CGO… could not explain the accounting treatment or classifications applied [in the Crosswalk]," and references a "lack of understanding by the CGO." P. 60.

As a matter of significant concern, the AlixPartners "selected the 2019 and 2020 Crosswalk files to attempt to corroborate the CGO Adjustments columns. We attempted to validate and reconcile the balances in the supporting workbooks and agree them to the CGO Adjustments columns of the Crosswalk files. These attempts were complicated by a **lack of detail within the Crosswalk files** and a **lack of any formal documentation explaining how such balances were compiled and derived.** The supporting workpapers that we identified which tied to the Crosswalk files were generally **insufficient as to determining the source of the data, the purpose of individual reports within, or any adjustments made to generate the result**." AP Report p. 61 (emphasis added).

The AP Report description of the Crosswalk is concerning: **the CGO calculates statewide cash and investments for ACFR reporting using an Excel spreadsheet with manual adjustments that are insufficiently documented, supported, or reviewed.**

Despite these concerning observations, AlixPartners notes, "The CGO did not accept our offer to review a more recent version of the Crosswalk (i.e. fiscal year 2022 or 2023). We therefore cannot comment on whether the documentation had improved since 2020." AP Report, p. 61.

Importantly, 2022 was the year that the Comptroller General released its $3.5 billion dollar restatement to ACFR General Fund cash.

As a matter of maximizing the benefit of a taxpayer-funded forensic audit, an auditee's refusal to allow AlixPartners to review any of its work is a wasted opportunity. However, in light of the AP Report's revelations, the CGO's current Crosswalks should have been thoroughly reviewed, and the Comptroller General's refusal to allow the AlixPartners to do this is inexcusable.

b. The CGO attempted to mislead AlixPartners regarding its own errors by providing AlixPartners with a memorandum that falsely blamed the STO, and presumably has provided that same memorandum to the Subcommittee prior to its April 2, 2024 hearing involving the Treasurer.

The AP Report states that the CGO provided a memorandum containing the demonstrably false accusation that the STO requested a SCEIS entry which AlixPartners determined was incorrect: "Despite this recounting, we identified other information which suggests that the request was made by the CGO, potentially undermining the credibility of the March 2024 memo." (p. 42).

As discussed more fully above, an e-mail from John Morrison of CGO, dated October 26, 2018, proves that the CGO ordered the incorrect entries[23] to be made—in other words, there is clear proof that the CGO's March 2024 memo was, at best, mistaken, if not directly intended to mislead the original recipient of the memo, and perhaps was even provided to AlixPartners with that same intent. In either case, neither the STO or the Treasurer was ever provided a copy of the March 2024 memo, much less given an opportunity to respond to it.

Moreover, given the proximity of the March 2024 date to actions by the Subcommittee, STO has reason to believe that the original recipient of the CGO's inaccurate memo was the Subcommittee. The Subcommittee requested Comptroller General Gaines's and the Treasurer's attendance at a hearing on April 2, 2024, under the pretext of discussing their respective agencies' budgets. EXHIBIT 10. Yet, upon arrival the Treasurer was questioned and lambasted for over six hours by six Senators on numerous complex and granular accounting, legal, regulatory, and political topics. The Subcommittee presented him with, and demanded that he discuss, complex, unauthenticated financial documents that had never been provided to him previously. The Treasurer was never asked a single question about the STO budget.[24] [25]

It is highly likely that many of the accusations and misleading documents set forth in that "budget hearing" originated from back-channel communications from the Comptroller General and/or the CGO, likely including this March 2024 memo. The CGO's flagrant refusal to comply with a valid FOIA request for these communications is a tacit admission of this.

The CGO's "March 2024" memo is subject to mandatory disclosure pursuant to the Freedom of Information Act, (S.C. Code Ann. § 30-4-10, *et seq.*). The CGO is a "public body" pursuant to S.C. Code Ann. § 30-4-20(a), and the March 2024 memo is a "public record" as defined by S.C. Code Ann. § 30-4-20(b), because it is a "documentary material" which is "owned, used, in the possession of, or retained by" the CGO.

Recognizing the importance of this document, on January 30, 2025, STO submitted a request to CGO for "the 'March 2024 memo' drafted by a CGO employee which was referenced on p. 42 of the Alix Partners report, along with any correspondence conveying that document (such as e-mails to which it was attached, letters, etc), conveying drafts of the document, or otherwise discussing the document." EXHIBIT 10.

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[23] Again, STO reiterates that there is <u>no evidence</u>, and STO does not intend to imply or suggest, that the CGO knew these entries were incorrect at the time they were suggested, or at any time until the AlixPartners issued its conclusions. By all accounts, the CGO's and STO's actions during the SCEIS conversion were cooperative and taken in good faith.

[24] By comparison, the Comptroller General's budget hearing occurred immediately prior to the Treasurer's and lasted less than 15 minutes, in which he was allowed to summarily and falsely declare that all of the issues resulting in or caused by the entries in SCEIS Fund 30350993 were the fault of the State Treasurer.

[25] It bears noting that this hearing, upon which the Subcommittee bases many of its findings in the Interim Report, was supposed to be an agency budget hearing.

On February 4, 2025, CGO's attorney responded by denying the request and claiming ignorance, responding "I'm not exactly sure which memo the report references." EXHIBIT 10.

On February 5, 2025, STO expanded the scope of the FOIA request to "all correspondence (including attachments or enclosures) or other materials provided to members, committees, subcommittees, staff members, or consultants, of the General Assembly, sent or received between January 1, 2024 and April 30, 2024. This would include but not be limited to letters, e-mails, meeting/calendar invitations, voicemails, text messages, or any other materials in CGO's possession." EXHIBIT 10.

On February 12, 2025, the CGO again denied the STO's request, claiming that the requested materials were protected by "legislative privilege."

The CGO's grounds for withholding these public records is, of course, utter nonsense. S.C. Code Ann. § 30-4-40(8) establishes the legislative privilege exception to FOIA, and provides that a public body may withhold "Memoranda, correspondence, and working papers **in the possession of individual members of the General Assembly or their immediate staffs**." (emphasis added). Any materials in the CGO's possession[26] may not be withheld under this provision. The STO's February 5, 2025, records request submitted by the STO explicitly requested "materials in CGO's possession." Moreover, the requested CGO records, including the March 2024 memo, were created before the existence of the Governor's Working Group, and before the passage of Proviso 93.19 authorized the Department of Administration to hire AlixPartners, and declared working materials related to AlixPartners audit "exempt from public record request."

In short: the CGO has no lawful justification for withholding any of the requested information from STO, or anyone else.

The CGO's efforts to hide its March 2024 memo is a clear and troubling indication of Gaines's and the CGO's efforts to place undue blame on the Treasurer and the STO which should raise grave concerns about the reliability information provided to AlixPartners and to members of the General Assembly.

VII. The Comptroller General is obstructing STO's ability to follow the AP Report recommendation and the directives of the General Assembly.

[26] The statute goes on to state that "nothing herein may be construed as limiting or restricting public access to source documents or records, factual data or summaries of factual data, papers, minutes, or reports otherwise considered to be public information under the provisions of this chapter and not specifically exempted by any other provisions of this chapter." S.C. Code Ann. § 30-4-40(8). Thus, even if the STO had requested the same CGO-related materials from the General Assembly, the General Assembly could not withhold them under Section 30-4-40(8), although this matter may need to be litigated for clarification.

The AP Report made 25 separate recommendations, most of which articulate concerns of fundamental accounting revealed within the CGO. The AP Report made only one recommendation directly solely toward STO, which the STO had already taken steps to accomplish nearly ten months before the AP Report's release.

The AP Report recommends[27] that the STO:

#	Recommendation	Relevant Party(ies)	Page Number
4	Develop comprehensive policies and procedures outlining the roles and responsibilities of the STO which must require that the STO report (and independently confirm, as needed) cash and investments in its custody by agency and fund at least annually.	STO	37

(p. 16).

Responding to the release of the AP Report recommendations, the General Assembly passed a Joint Resolution (S. 253) on February 13, 2025, requiring in part that "The Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall work in concert to effectuate the implementation of recommendations made in the AlixPartners forensic accounting report and other relevant studies conducted during Fiscal Years 2023-2024 and 2024-2025 that do not require statutory change. The Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall begin implementation of these recommendations immediately in coordination and with oversight of the Department of Administration." (Section 2).

The Joint Resolution also established a ninety-day deadline by which these agencies were to "provide a detailed timeline for implementation of all recommendations made in the AlixPartners forensic accounting report and other relevant studies conducted during Fiscal Years 2023-2024 and 2024-2025, including those recommendations requiring statutory change to the Governor, the President of the Senate, the Chairman of the Senate Finance Committee, the Speaker of the House of Representatives, the Chairman of the House Ways and Means

[27] It should be noted that, even if STO had been able to report cash and investments in the manner described above, it would not have changed any of the facts surrounding SCEIS Fund 30350993. In fact, the Subcommittee noted in its 2023 "Report on the Investigation of the FY2022 Annual Comprehensive Financial Report Restatement," that when former Comptroller General Eckstrom was asked to supply correspondence with the Treasurer or any other agency asserting that "the manner in which the Office of the State Treasurer reconciled cash was insufficient or inadequate for the Office of the Comptroller General to successfully compile the Annual Comprehensive Financial Report," General Eckstrom responded that he was "unable to locate" any such correspondence dating back ten years. (p. 12).

Committee, the Department of Administration, and to the independent compliance monitor." (Section 5).

However, nearly ten full months before the issuance of the AP Report's recommendation, and almost a full year before the General Assembly passed its Joint Resolution, the STO had already formally requested that the Department of Administration modify SCEIS to allow STO to report "by agency and fund"—a request which it now believes would, at least partially, fulfill Recommendation 4 of the AP Report. On March 29, 2024, the STO submitted a Business Process Document requesting that SCEIS be modified to "Create a more automated process at fiscal year-end that… calculates cash balances by cash g/l within fund within Agency." EXHIBIT 11.

In compliance with the General Assembly's directive, on February 14, 2025, Clarissa Adams, STO Chief of Staff, e-mailed Marcia Adams, Director of Department of Administration, asking "In light of the swift joint resolution passage of S.0253 by the General Assembly this week and the 90 day implementation timeline requirement in Section 5 of the bill, could you please provide a time frame as to when the attached BRD will be completed?" EXHIBIT 12.

Marcia Adams (DOA) responded to Clarissa Adams (STO), stating that the "BRD conflicts with the requirements of the CGO," and recommended that the STO, CGO and Department of Administration meet to discuss further. EXHIBIT 12. Prior to this discussion, DOA had informed STO that it would not make the STO-requested change in the BRD until after the release of the AP Report. However, this was the first time STO had ever been informed that there was a problem with the SCEIS modification requested in its BRD. The letter offered no clarification as to exactly what element of the request conflicted with the CGO's requirements. The message was clear: because Comptroller General Gaines controls SCEIS, the Department of Administration has not and will not make the changes to SCEIS requested in the STO's Business Process Document.

On the same day, February 14, 2025, Adams (STO) e-mailed Comptroller General Gaines requesting a meeting to discuss the BRD and referencing the immediacy of the matter, given the timeline required by the General Assembly, per of S. 253. EXHIBIT 13.

Gaines did not respond.

Adams (STO) sent a follow-up letter on February 21, 2025, sent via e-mail and hand delivery. EXHIBIT 14.

As of the date of the issuance of this report, Gaines has still not responded.

Gaines's refusal to communicate with STO regarding this important matter is evidence that he is actively obstructing the STO's ability to follow the recommendations set forth in the AP Report, and fulfill the expectations of the General Assembly. Obviously, in order for the STO to develop "comprehensive policies and procedures outlining" the review, reporting, and verification of this "by agency and fund" report required in Recommendation 4, or even ascertain a timeline to do so as required by the Joint Resolution, the STO must first be given a clear understanding of what SCEIS can actually be modified to do in accordance with the STO's March 29, 2024 request.

In legislative hearing after legislative hearing[28], Gaines has complained that he "inherited" a poor relationship between the STO and the CGO, and "despite [his] best efforts, the same relationship continues persist." These events, along with the document request described previously, suggest that quite the opposite is true— Gaines is meaningfully impeding the business efforts of STO, subverting the wishes of the General Assembly, and hindering the progress of this State.

VIII. The Treasurer has never hidden or attempted to hide SCEIS Fund 30350993.

Turning to the allegations made by the Constitutional Subcommittee of the Senate Finance Committee: the Interim Report issued by the Subcommittee incorrectly states that "Treasurer Loftis failed to disclose the existence of the $1.8 billion [SCEIS] fund to the General Assembly and to the people of South Carolina over the past seven years, despite his explicit statutory duty to do so," (pp. 5, 8, and 10) citing S.C. Code Ann. §11-5-185(7). The Interim Report further describes SCEIS fund 30350993 as being improperly "hidden" in terms of disclosure to the General Assembly and "hidden" from the CGO for reporting purposes until 2022. (pp. 10 and 14).

As an initial matter, it must be noted that Section 11-5-185(7) specifically requires the Treasurer to report on issues "relating to state revenue," which SCEIS Fund 30350993 clearly is not, nor has it ever been understood as such.

Nevertheless, as has been thoroughly established at this point, the accusation that SCEIS Fund 30350993 was "hidden" from anyone is false. All SCEIS users with statewide access can view SCEIS funds, including SCEIS Fund 30350993. That includes, at a minimum, the CGO, STO, the Department of Administration's SCEIS Division, the State Auditor's Office, and the Executive Budget Office ("EBO"). Upon information and belief, certain members or Committees of the General Assembly and their staffs also have access to SCEIS; however, the breadth of General Assembly member access and the level of their access is not known to STO.

Further, STO submits an annual "Other Funds Survey" report of cash balances and expenditures to the EBO. Beginning in 2017, STO's report to EBO (which covered FY 2016-2017) contained an explicit line item identifying SCEIS Fund 30350993 and the $1.8 billion amount represented in it as of the date of submission of the report. The SCEIS Fund was then reported to EBO every year until 2023, when the EBO instructed STO to stop reporting these types of SCEIS funds in its report. EXHIBIT 31.

Unlike the Treasurer, the Comptroller General and EBO have mandatory, non-discretionary duties of notification to the General Assembly which pertain to SCEIS fund 30350993. The Comptroller General is statutorily required to "report, annually, to the General

[28] See e.g. House Ways and Means Committee, Constitutional Subcommittee (January 16, 2025); Senate Finance Committee, Constitutional Subcommittee (Feb. 18, 2025).

Assembly his transactions in regard to unappropriated funds in the State Treasury." S.C. Code Ann. § 11-3-90. The Comptroller General is further required to "annually report to the General Assembly a balance sheet of the books aforesaid [Exhibiting the separate transactions of the State Treasury], setting forth as well by whom debts are due to the State as the amounts of those debts." §11-3-100. Likewise, the EBO gathers comprehensive financial information from agencies, as outlined in S.C. Code Ann. § 11-11-10, et seq., as well as the supplemental financial information provided by the EBO to the General Assembly per §11-11-80 to accompany the submission of the Governor's budget.

STO is unaware of any evidence that CGO or EBO ever notified the General Assembly of the balance of SCEIS Fund 30350993 or considered such a notification to be required by statute. Although the STO explicitly reported to EBO from 2017 until 2023 regarding SCEIS Fund 303050993, and its existence and use was separately known to CGO since at least 2016, neither agency presumably believed a report to the legislature was statutorily required.

Notably, for much of this time, current Comptroller General Brian Gaines was the EBO's director.

The fact that these other offices did not consider SCEIS Fund 30350993 to be a matter that warranted disclosure under statutes with much more specific application to this matter, as well as mandatory terms, is evidence of the professional consensus by all parties involved that the balance of the SCEIS fund had been recorded correctly.

IX. The Treasurer's testimony that the $1.8 billion had earned interest was made in reliance of the Comptroller General and State Auditor's professional opinions that SCEIS Fund 30350993 represented General Fund cash.

Members of the Subcommittee have questioned the basis for Treasurer's assertion that his office had invested and earned interest from the $1.8 billion represented in SCEIS Fund 30350993. This assertion was made in reliance of the Comptroller General's and State Auditor's professional opinions that SCEIS Fund 30350993 represented General Fund cash.

First, and most importantly, from Fiscal Year 2022 and forward, both Comptroller General Eckstrom and Comptroller General Gaines included the balance of SCEIS Fund 30350993 as **cash** in their calculations of the ACFR General Fund. As such, it was the State of South Carolina's official position that SCEIS Fund 30350993 represented General Fund cash.

Further reinforcing the State's position regarding the balance of SCEIS Fund 30350993, Comptroller General Gaines stated in his December 12, 2023, letter to the Treasurer:

> The Comptroller General's Office, the State Auditor, and the State's external auditor, CliftonLarsonAllen, are all confident to a reasonable degree of certainty that the amounts in SCEIS Fund 30350993 are part of the General Fund fund balance, and that this treatment of the money in this Fund is correct in the FY2022 ACFR and for the upcoming FY2023 ACFR.

EXHIBIT 8. Likewise, the State Auditor wrote in a letter to the Chairman of the Subcommittee on February 20, 2024,

Based on the process we described above to validate the CGO placement of the $1.8 billion in the General Fund, we have no reason to believe the research will not support its ownership by agencies reflected in the General Fund. However, if evidence is discovered to support the ownership of the $1.8 billion or positions thereof by a fund other than the General Fund, a reclassification of cash presented in the ACFR will need to be made.

EXHIBIT 15.

The Treasurer relied on these assertions, which, at the time they were made, were the official position of the State. In fact, in the April 2, 2024, hearing before the Subcommittee, the Treasurer explicitly qualified his testimony regarding the existence of the $1.8 billion as cash, stating “The Comptroller's General's Office and the State Auditor's Office and Clifton Larson all have reached a level of confidence that this money exists and it should be in the general fund. And we don't say that's not the case, but we really don't have a say.”

It bears repeating here that the term General Fund can have one of three meanings—an ambiguity which may have contributed to a miscommunication in these conversations. To the Treasurer, the “General Fund” is the STO General Fund Portfolio, not the ACFR General Fund. Resources in the STO’s General Fund Portfolio earn real interest which can be calculated accordingly. Since all available State cash is pooled, invested, and earns interest (without regard to any particular SCEIS fund), STO calculated the amount of interest that $1.8 billion in the General Fund Portfolio would have earned over the relevant period.

Regardless, the Treasurer’s answer was given in good faith, based on the professional accounting opinions of other State officials presumed to be able to render that opinion accurately.

X. Senator Goldfinch falsely stated that SCEIS Fund 30350993 held federal funds in the Subcommittee’s April 2, 2024 hearing.

The Subcommittee inaccurately speculates in its Interim Report that the Treasurer misapplied interest earned from federal money commingled in the balance of SCEIS Fund 30350993, supposedly impairing the General Assembly’s fiduciary responsibility to ensure proper application of those earnings. There was no evidence supporting this claim at the time, and there is no evidence of it today.

During the April 2, 2024, Subcommittee hearing, Senator Stephen Goldfinch questioned the Treasurer regarding the State’s custody and investing of federal funds. Bizarrely, Goldfinch falsely stated the Subcommittee knew that SCEIS Fund 30350993 contained federal dollars:

> SENATOR GOLDFINCH: Would it surprise you to know that we know, after doing extensive research, that some of that money is in fact owed to the federal government?
>
> TREASURER LOFTIS: For what reason?
>
> SENATOR GOLDFINCH: Don't know. We'd love to -- we'd love to have the answer to that.

> TREASURER LOFTIS: Well, then how do you know it's owed to the federal government?
>
> SENATOR GOLDFINCH: We'd love to have the answer from the treasurer's office on that, Mr. Treasurer.
>
> TREASURER LOFTIS: Senator, you said some money is owed to the federal government from that money. Why was that the case?
>
> SENATOR GOLDFINCH: I want to know that from you.
>
> TREASURER LOFTIS: Well, Senator, you just said that part of that money is due to the federal government.
>
> SENATOR GOLDFINCH: Yeah, and I–
>
> TREASURER LOFTIS: So that tells me that you believe the federal government is the owner.

(pp. 171- 172). The Treasurer correctly points out Senator Goldfinch's false construct:

> TREASURER LOFTIS: If you know something I don't know, you are -- it is incumbent upon you to tell me.
>
> SENATOR GOLDFINCH: Okay. I'd love to tell you, but you know what? We have to rely on you for that.
>
> TREASURER LOFTIS: Well, Senator, you've made -- you've made a false construct.
>
> SENATOR GOLDFINCH: I have not made a false construct.
>
> TREASURER LOFTIS: You've said that we owe the federal government money. We have no reason to believe we owe the federal government money. You have said we do. That's a false construct.

(p. 176). This exchange with Senator Goldfinch is indicative of the manner in which members of the Subcommittee handled much of the April 2, 2024 hearing. To date, neither Senator Goldfinch nor the Subcommittee has provided any evidence supporting his assertion that SCEIS Fund 30350993 contains federal funds.

Had the Subcommittee researched the matter, they would have discovered that there is a specific South Carolina officer—the Comptroller General— who is statutorily responsible for keeping track of federal funds:

> The Comptroller General shall account for and control expenditures of individual federally funded projects for all agencies using the Statewide Accounting and Reporting System. […] Upon request of the board, the House Ways and Means Committee, or the Senate Finance Committee, the Comptroller General shall provide periodic reports of authorization levels, expenditures, revenues, and other data related to the federal projects.

S.C. Code Ann. § 2-65-60.

Nevertheless, the General Assembly can rest assured that STO has, for years, complied with the reconciliation procedures established by the Cash Management Improvement Act ("CMIA") 31 U.S.C. §§ 6501 and 6503, and in accordance with the CMIA Agreement between the State of South Carolina and the United States Department of the Treasury. This Agreement sets forth procedures for draws of federal funds, the State's disbursement of federal funds, interest liabilities and calculation methodology, and other financial procedures.

Accordingly, the Treasurer did not impair the General Assembly's fiduciary responsibility to ensure proper application of the earnings on federal money.

XI. The State's General Fund Portfolio has always maintained sufficient liquidity to cover all State transactions.

In its Interim Report, the Subcommittee falsely accuses the Treasurer of violating the law purportedly because "the State's General Fund reflected a negative position of $474 million on June 30, 2023, in violation of Section 11-9-300 of the South Carolina Code." (pp. 9, 19).

As an initial matter, the Subcommittee characteristically declines to offer critical specificity in this accusation—opting instead for the broad and inflammatory assertion that the "General Fund" reflected a negative position, rather than the more specific assertion that that the ACFR General Fund's "cash and cash equivalents" were negative, *according to an unpublished initial draft ACFR*.

As noted previously, the concept of the "General Fund" is not defined in statute and has different meanings depending on context and application. The CGO's presentation of the ACFR General Fund is not directly representative of the liquidity or sufficiency of resources in STO-managed General Fund Portfolio.

While ACFR General Fund liquidity is not the STO's responsibility, according to Comptroller General Gaines's cover letter in the FY 2022-23 ACFR, the ACFR General Fund is in sound financial condition: "The State ended fiscal year 2023 with a positive budgetary-basis General Fund fund balance after reservation of $6.846 billion, which was made up of legislatively-approved agency carryover appropriations of $4.051 billion, the Contingency Reserve of $23.716 million, the General Reserve of $575.285 million, the Capital Reserve of $209.194 million, and an unassigned surplus of $1.986 billion." (p. 9). Comptroller General Gaines notes that "Legislation also directs that in closing the books each year the Comptroller

General shall suspend, to the extent necessary, any budgetary-basis surplus appropriations in a general or supplemental act or Capital Reserve Fund appropriations if the State's General Fund has a negative Unassigned fund balance when reported on a generally accepted accounting principles-basis (GAAP basis). *There were no suspensions necessary for fiscal year 2023.*" Id. (emphasis added).

Additionally, the unrestricted fund balance of the ACFR General Fund far exceeded governmental accounting industry recommendations. According to the Government Finance Officers Association ("GFOA"), general-purpose governments like the State of South Carolina should maintain "unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." *Fund Balance Guidelines for the General Fund*, September 30, 2015. The ACFR had a budgetary basis General Fund unrestricted fund balance of $6.846 billion as of June 30, 2023. (ACFR pp. 9, 189). According to the ACFR, two months of ACFR General Fund's total revenue was approximately $2.68 billion. Thus, STO maintained more than double the GFOA-recommended fund balance in the State's ACFR General Fund.

As for the liquidity of the STO's General Fund Portfolio, the STO's Comprehensive Investment Plan requires a minimum of 10% liquidity in STO's portfolios. STO tests and confirms compliance to its liquidity policy on a daily basis. [EXHIBIT 16].

On June 30, 2023, resources that compose the STO's General Fund Portfolio cash and cash equivalents were positive and sufficient to fulfill the cash needs of the State. None of the STO's bank balances were overdrawn or reflected a negative balance. The FY 2023 ACFR states "The reported amount of the State Treasurer's deposits as of June 30, 2023, was $2.767 billion and the bank balance was $2.691 billion." (p. 80).

Stated succinctly: the State's liquidity was and continues to be sufficient to support State operations. Nevertheless, in light of the Subcommittee's assertion that this situation represents the Treasurer's violation of three separate section of the South Carolina Code, each statute is addressed individually below.

a. Section 11-9-300 does not establish a mandate for the Treasurer; however, even if it did, the General Fund did not "become exhausted" and this statute was not violated.

The Subcommittee accuses the Treasurer of violating S.C. Code Ann. § 11-9-300—a statute which specifically applies to the State Fiscal Accountability Authority ("SFAA"), not to the Treasurer. Even if it did apply to the Treasurer, the General Fund and maintained a cash reserve sufficient to ensure that all checks and other disbursements were paid when presented for payment.

Section 11-9-300 reads as follows:

> The State Fiscal Accountability Authority shall, when necessary, borrow as otherwise provided by law a sufficient sum or sums of money to provide for the payment of all demands upon the State

> Treasury, to the end that the general fund herein authorized shall at no time become exhausted, and the authority shall maintain at all times a cash balance sufficient in its judgement to meet the requirements of . . . this section.

This statute clearly does not set a mandate of any kind for the Treasurer or STO. Section 11-9-300 requires that the SFAA prevent the general fund from becoming exhausted by borrowing money to pay the State's bills. Notably, the SFAA did *not* borrow money during FY 2023 to "provide for the payment of all demands upon the State Treasury" to prevent the general fund from becoming "exhausted." Id. The SFAA's failure to act to prevent the General Fund from becoming exhausted is evidence that such action was not "necessary," per the statute.

There is no evidence of checks or other disbursements failing, nor did the Joint Auditors propose any comment to the State that checks or other disbursements from the State had bounced when presented for payment.

Clearly, there was a sufficient cash balance in the General Fund, and the Treasurer did not violate Section 11-9-300.

b. The STO maintained a sufficient cash reserve to finance the necessary activities in accordance with Section 11-9-290.

The Subcommittee also vaguely asserts that the Treasurer "likely violates" Section 11-9-290, which requires a sufficient cash reserve in the "general deposit account." (Interim Report, p. 19.) This uninformed accusation is nullified not only by the plain language of the statute itself but is also completely disproven by the evidence.

Section 11-9-290 reads as follows:

> The State Treasurer shall at all times maintain a sufficient cash reserve in the general deposit account to finance properly the activities supported by the respective funds comprising the general deposit account and to this end the [SFAA] may borrow, from time to time, such amounts as are necessary.

In order to violate this statute, the Treasurer would have to fail to "maintain a sufficient cash reserve in the *general deposit account*," not the General Fund. See S.C. Code Ann. § 11-9-290 (emphasis added). The "general deposits account" is a component of the General Fund and consists of multiple bank accounts in which State agencies are directed to deposit their cash for specific purposes.

Regardless, the SFAA did *not* have to borrow money during FY 2023 to "maintain a sufficient cash reserve in the general deposit account." Id. The SFAA's failure to act to maintain a cash reserve is evidence that such action was not "necessary," because the Treasurer and STO had sufficiently maintained that cash reserve.

Thus, the Subcommittee's conclusion that that the STO "likely" violated Section 11-9-290 is plainly incorrect.

c. Section 11-5-185(7) did not and does not obligate the Treasurer to notify the General Assembly that the CGO calculated a negative cash balance in a draft balance sheet for the ACFR General Fund, which was corrected to "conform with accounting rules."

The Interim Report further states that the Treasurer violated Section 11-5-185(7) by not notifying the General Assembly in January 2024 of the Comptroller General's unpublished, draft ACFR calculation of the cash and cash equivalents line of the ACFR General Fund.

The relevant portion of Section 11-5-185 is subsection (7), which reads as follows:

> In addition to other reports required by law to be made, by the State Treasurer, he shall also report annually to the General Assembly in the month of January on the following matters: . . . (7) Any other information relating to state revenue which the Treasurer deems pertinent and of value to the General Assembly, including such items as special state funds, the highway fund and other funds not specified herein, as may be deemed appropriate by the Treasurer.

Here again, the Subcommittee has failed to recognize that this statute concerns *state revenue*, and not every matter of interest involving the Treasurer. Certainly, the CGO's unpublished, draft calculation of the cash and cash equivalents line of the ACFR General Fund, which was changed before the STO was even made aware of it, is neither revenue-related, nor is it "of value"—particularly when the STO had reported a positive general ledger cash balance of $627 million at June 30, 2023 to the CGO, invested $1.6 billion into an overnight repurchase agreement on June 30, 2023, and had highly liquid short-term fixed income securities of over $11 billion at June 30, 2023. Put simply: there was nothing to report in this regard.

In conclusion, the Subcommittee's accusations regarding the Treasurer's obligation to report the cash balance in the ACFR General Fund, as represented in a draft ACFR, are unsupported by facts or law.

XII. The Treasurer has never concealed or attempted to conceal any ACFR (or draft ACFR) General Fund balance.

In its Interim Report, the Subcommittee wrote, "The Subcommittee has evidence indicating that the Office of State Treasurer took deliberate steps to conceal the negative cash position." (Interim Report, p. 9.) Senators on the Subcommittee have falsely accused the STO of attempting to conceal the balance in the General Fund by: (i) exerting undue influence over the Joint Auditors to remove the negative cash balance of $474 million from the General Fund's Balance Sheet, and remove a comment about the cash balance from the Auditors' draft Management Letter, and (ii) selling portions of the State's fixed income investment portfolio and presumably using the proceeds to eliminate the negative cash balance.

a. Neither the Treasurer nor STO Influenced the Comptroller General, CGO, or Joint Auditors to conceal a purported negative general fund balance.

It is clear that the STO did not exert undue influence on the Joint Auditors to eliminate a negative cash balance from the General Fund's Balance Sheet in the FY 2023 ACFR or the Joint Auditors' Management Letter.

First and foremost, there is absolutely no evidence suggesting that the Treasurer or STO coerced any change to the ACFR or the audit findings. The Subcommittee insinuates that STO's mere interaction with the Joint Auditors is somehow definitive evidence of the Treasurer's wrongdoing. The Subcommittee's suggestion, based on speculation and uninformed interpretation, that the State's ACFR and the audit thereof are so susceptible to fraud is reckless, irresponsible, and inexcusable.

The accusation itself demonstrates the Subcommittee's misapprehension of the responsibilities of an auditor versus the responsibilities of an auditee. It is the management of the auditee—not the auditor— that makes decisions about the content of the auditee's financial statements.[29] The auditor determines the procedures of the audit it performs on the auditee's financial statements, as well as the contents of the opinion that the auditor gives on those financial statements.

The General Assembly has made it clear that the Comptroller General constitutes management of the State for purposes of the preparation and issuance of the ACFR.[30] The Comptroller General, not the Joint Auditors, makes decisions about the State's financial statements, including how to present cash and cash equivalents on the General Fund's Balance Sheet in the ACFR.

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[29] The State's Joint Auditors confirm the responsibility of the management of the State, namely the Comptroller General. In its opinion on the State's FY 2023 ACFR, the Joint Auditors state "Management [of the State] is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material weaknesses, whether due to fraud or error." The Joint Auditors also articulate their own responsibilities: "Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions." *Id.*

[30] Proviso 97.2 from the 2022-2023 Appropriations Act provides, "It is the intent of the General Assembly that the State of South Carolina issue financial statements in conformance with Generally Accepted Accounting Principles ('GAAP'). To this end, the Comptroller General is directed, as the State Accounting Officer, to maintain an Enterprise Information System for State Government (SCEIS) that will result in proper authorization and control of agency expenditures . . . and in the preparation and issuance of the official financial reports for the State of South Carolina."

It would have served no purpose for the Treasurer to exert undue influence on the Joint Auditors in order to effect a change in the ACFR because the Comptroller General holds the final determination of what is presented in the ACFR. Since the Subcommittee makes no allegation that the Treasurer exerted undue influence on the Comptroller General, the Subcommittee must either accept the Comptroller General's removal of its calculated negative General Fund cash balance as appropriate, or it must find some independent wrongdoing by the Comptroller General.

Secondly, STO could not have exerted undue influence regarding the presentation of General Fund cash in the ACFR because STO did not even know that the CGO had calculated a negative cash balance in the General Fund until after the CGO had eliminated it from the General Fund's Balance Sheet.

The STO submitted its cash and investments closing package to the CGO on September 8, 2023. At some time after September 8 and before November 30, 2023, unknown to the STO, the CGO calculated a negative $474 million balance of cash and cash equivalents for the ACFR General Fund and prepared a draft of the ACFR showing the negative balance on the Balance Sheet. Interim Report, Ex. 5. CliftonLarsonAllen referred to the draft ACFR that showed the negative $474 million cash balance as "an initial draft" of the FY 2023 ACFR.

On December 12, 2023, Comptroller General Gaines sent an email to the Treasurer with a draft of the FY 2023 ACFR on which the CGO reported that the cash and cash equivalents in the ACFR General Fund had a balance of zero as of June 30, 2023. EXHIBIT 18.

It was not until January 10, 2024, that the STO learned about the Comptroller General's (now corrected) calculation of a negative cash balance in the ACFR General Fund. On that date, an auditor from CliftonLarsonAllen, LLP, e-mailed Clarissa Adams, STO Chief of Staff, copying George Kennedy, State Auditor, to provide "a draft of the management letter comments for review and input,"[31] which included a proposed comment concerning a negative cash balance in the draft of the Joint Auditors Management Letter. *See* EXHIBIT 19.

Subsequently, on January 17, 2024, STO staff and the Joint Auditors met to discuss the open items referenced in the draft Management Letter. During that meeting, the auditor was apparently surprised to hear that the CGO had not discussed the ACFR General Fund cash balance with STO.[32] Later that same day, one of the auditors sent an email to STO showing STO "the

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[31] It is standard practice for an auditor to share a draft of its management letter with the auditee to allow the auditee to review and comment on the draft letter in order to ensure that the letter is accurate. It is common for a draft comment to be edited or deleted after management's review and comment with the auditor. This is exactly what happened between the auditors and the STO concerning the draft FY 2023 Management Letter.

[32] In the Mauldin & Jenkins report, nearly every observation and recommendation related to the CGO notes its inadequacy in communicating with the STO and/or other agencies. <u>See</u> pp. 44-48. The CGO's poor communication practices are evidenced clearly in this particular set of circumstances.

initial ACFR draft in which" the negative balance of $474 million was first reported by CGO. EXHIBIT 17.

STO staff met again with the CliftonLarsonAllen auditor on January 18, 2024, to discuss the negative cash balance. After some discussion, it became apparent that neither the STO or the auditors fully understood how the CGO had calculated the ACFR General Fund's cash.[33] The CliftonLarsonAllen auditor unilaterally suggested removing the comment about the ACFR General Fund cash balance from its Management Letter. That same day, shortly after the meeting, CliftonLarsonAllen sent STO staff an email confirming that the comment would be removed. EXHIBIT 21.

The Treasurer was not personally involved in any of these discussions and did not attend any meetings with the auditors regarding this matter.

In summary, the Comptroller General independently—and without the STO's knowledge—calculated a negative cash balance in the draft ACFR General Fund. Then, without notifying or consulting the Treasurer or STO, the Comptroller General independently decided to correct the issue at least six weeks before the STO even learned of it. Therefore, the STO could not have unduly influenced the Joint Auditors (or the Comptroller General, for that matter) to remove the negative cash balance from the General Fund's Balance Sheet.

Finally, the evidence proves that the ultimate decision about the Management Letter was made independently and free of coercion by the Joint Auditors.

There is not a shred of evidence suggesting that, at any point, in any of the exchanges with the Joint Auditors, that the Treasurer or an STO employee even *asked* the Joint Auditors (or the State Auditor or CliftonLarsonAllen separately) to remove a comment concerning negative cash balance in the General Fund, much less coerced them in some way.

Neither CliftonLarsonAllen nor the State Auditor have made any such insinuation against the Treasurer or STO. In an email from George Kennedy to a Subcommittee staffer on February 6, 2024, Mr. Kennedy wrote, "The comment arose because of a negative cash balance in the general fund . . . . STO staff and Remi Omisore of CLA spoke further on this issue, and STO staff provided additional explanations of their process. Based on this discussion, *we determined the formal comment could be removed*." (Exhibit 6 of Interim Report.) The Subcommittee either ignored this statement or refused to consider it, opting instead for the unfounded and speculative conspiracy theory loosely articulated in the Interim Report.

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[33] After the January 18th meeting, CliftonLarsonAllen agreed to discuss the presentation of cash at a later date. The STO subsequently requested clarification from CliftonLarsonAllen on this matter on February 2, 2024, and again on February 22, 2024, and requested a meeting with CLA in the latter communication. Receiving no response, STO followed up again on March 22, 2024, noting the quickly-approaching fiscal year end. CliftonLarsonAllen met with STO staff on April 5, 2024, only to inform STO staff that, the CGO would have to explain its calculation and methodology regarding presentation of cash in the ACFR.

As the evidence indicates, STO did not unduly influence the Joint Auditors to remove the Management Letter comment about a negative cash balance.

b. The Treasurer did not attempt or take steps to conceal any purported negative cash balance by selling investments at a loss.

Members of the Subcommittee have accused the Treasurer of taking deliberate steps to conceal the negative cash balance in the ACFR General Fund on June 30, 2023, by selling portions of the General Fund's fixed income investment portfolios and presumably using the proceeds to eliminate the negative cash balance.

When the Subcommittee presented its Interim Report to the Senate, Senator Grooms and Senator Goldfinch engaged in a contrived colloquy on the Senate floor. Senator Goldfinch asked, "And isn't it true that the zero balance was a result of the Treasurer selling our investments, the State's investments, at a loss?" Senator Grooms responded, "I believe that to be true. I have evidence to support that. And that's one of the areas for continued investigation to occur."

First, this baseless accusation is chronologically impossible. June 30 is the last day of the State's fiscal year. Once the fiscal year is over, it takes weeks for the CGO to gather the information needed to compile the ACFR, and months for the CGO to produce a draft of the ACFR. On June 30, 2023, even the CGO could not have known the exact amount of the ACFR General Fund cash and cash equivalents. Certainly, the STO could not have known before the fiscal year even ended that it needed to sell off investments on June 30, 2023, to achieve a perfect zero balance in the ACFR.

Second, despite Senator Grooms's claim that to have evidence, neither the Subcommittee nor any Senator presented evidence of STO's selling of securities at all, much less evidence that any sale was made with the intent of concealing the negative cash balance on June 30, 2023.

In fact, in the month of June 2023, STO did not sell a single security from the General Fund Portfolio.

In an attempt to make sense of the Senators' assertions, one must assume that the Subcommittee is conflating—and inviting others to conflate— the existence of *unrealized* losses in the State's investment portfolios with *selling investments* "at a loss." The Interim Report states that STO took steps to conceal the negative cash balance, and in the next allegation, asserts that "[T]he State's investment portfolio on June 30, 2023, reflected unrealized losses of $900 million." (Interim Report, p. 9.)

Unrealized losses bear no relevance to STO selling securities to change the balance of cash and cash equivalent in the General Fund from a negative $474 million to zero on June 30, 2023. The term "unrealized loss" is a loss on paper only—it refers to a held asset's decrease in value at a specific point in time. For a security to reflect an "unrealized loss," that asset must still be owned. A true, or "realized" loss only can occur when an asset is sold.

The STO invests in accordance with State law—namely S.C. Code Ann. § 11-9-660,[34] which allows the STO to invest in repurchase agreements, U.S. Treasuries, U.S. Agencies, investment grade fixed income securities (including corporates) and certain certificates of deposits. Per the STO's Comprehensive Investment Plan, the STO's investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flow needs, and 3) attaining a competitive interest rate in relation to prevailing budgetary and economic environments while taking into account the State's investment risk constraints and cash flow characteristics of the portfolios.

STO maintains sufficient liquidity to hold its investments until maturity. Generally, STO does not sell fixed income securities except when market repositioning would benefit the portfolio.

In conclusion, neither the Treasurer nor the STO took deliberate actions to conceal the purported negative cash balance in the General Fund, as calculated in an unreleased CGO draft of the ACFR. Neither used undue influence on the Joint Auditors to remove the ultimately nonexistent negative cash balance from the General Fund's Balance Sheet or to remove the proposed comment about a negative cash balance in the General Fund. Additionally, the STO did not sell investments at a loss to conceal or offset a negative cash balance.

XIII. The Treasurer never released, nor did he intend to release information that would put the State's financial system at risk.

In its Interim Report, the Subcommittee repeatedly cites the Treasurer's alleged "threat to post to the internet highly sensitive financial information belonging to the State." The Subcommittee ignores clear evidence that the Treasurer and STO actively sought to avoid releasing sensitive information. (p. 5). The Interim Report also fails to acknowledge the Subcommittee's own role in inciting the incident.

These events originated with an exchange of letters between the Subcommittee and the Treasurer related to the Treasurer's compliance with S.C. Code Ann. §§ 11-5-120 and 180, which occurred prior to the April 2, 2024, budget hearing before the Subcommittee.

S.C. Code Ann. § 11-5-120 requires the State Treasurer to publish quarterly for public review "a statement showing the amount of money on hand and in what financial institution it is deposited and the respective funds to which it belongs."

On March 7, 2024, the Subcommittee Chairman, Senator Larry K. Grooms, sent a letter to the Treasurer on behalf of the Subcommittee, indicating that the Treasurer had refused to provide the Comptroller General information in accordance with Sections 11-5-120 and 180, and demanding that the Treasurer "provide this Subcommittee with agency ownership, by agency, by fund regarding fund 30350993" within seven days. EXHIBIT 22.

[34] STO also abides by S.C. Code Ann. §§ 6-6-10, 12-45-220, and 11-1-60 which pertain to investment of the Local Government Investment Pool.

On March 14, 2024, the Treasurer provided a substantial and thorough letter in response, with exhibits. EXHIBITS 23 and 24. The letter provided a timeline of SCEIS Fund 30350993 as the STO then understood its history, an analysis of Sections 11-5-120 and 180 and proof that the Treasurer and/or SCEIS, had fulfilled those statutory requirements.[35]

In particular, the Treasurer's March 14 response pointed out that the "Statement of the State Treasurer's Bank Deposits," a document which contains the subheading "PUBLISHED AS REQUIRED BY SECTION 11-5-120," was posted quarterly on the STO website to fulfill this reporting requirement. Since Section 11-5-120 was passed into law nearly 100 years before the State's adoption of SCEIS, the statute could not possibly require the Treasurer issue a report broken out by SCEIS Fund. The Treasurer further explained that a "cash by SCEIS fund report," is extremely detailed and contains "thousands of lines of data—certainly not what is required to be published for perusal by the general public under § 11-5-120. Additionally, publishing this much data online would provide a blueprint for mischief by internet scammers and hackers." EXHIBIT 23.

Despite the Treasurer's thorough 8-page response addressing a number of issues raised in Senator Grooms' March 7 letter, the Subcommittee rehashed all of those issues and more[36] in it its April 2, 2024 hearing, and significantly criticized the Treasurer for not publishing this sensitive financial information.

During the hearing, Senator J. Thomas McElveen, III, questioned the Treasurer regarding STO's compliance with S.C. Code Ann. § 11-5-120. A review of the discussion clearly proves that it was Senator McElveen, not the Treasurer, who pushed to publicly publish the sensitive financial data contained in the "cash by SCEIS fund report."

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[35] "If the statute or regulation is silent or ambiguous with respect to the specific issue, the court then must give deference to the agency's interpretation of the statute or regulation, assuming the interpretation is worthy of deference." *Sierra Club v. S.C. Dep't of Health & Env't Control*, 426 S.C. 236, 256 (2019). South Carolina courts "defer to an agency interpretation unless it is 'arbitrary, capricious, or manifestly contrary to the statute [or regulation].'" *Kiawah Dev. Partners, II v. S.C. Dep't of Health & Envtl. Control*, 411 S.C. 16, 34-35 (2014). "Where an agency is charged with the execution of a statute, the agency's interpretation should not be overruled without cogent reason." *Nucor Steel, a Div. of Nucor Corp. v. S.C. Pub. Serv. Comm'n*, 310 S.C. 539, 543, (1992). "The construction of a statute by the agency charged with its administration will be accorded the most respectful consideration and will not be overruled absent compelling reasons." *Dunton v. S.C. Bd. of Exam'rs In Optometry*, 291 S.C. 221, 223 (1987).

[36] It bears noting that this hearing, upon which the Subcommittee bases many of its findings in the Interim Report, was supposed to be an agency budget hearing. EXHIBIT 9. Notwithstanding the Subcommittee's authority to even investigate these matters (discussed more thoroughly below), the notice and procedure of this hearing were hardly adequate to elicit a meaningful discussion on such complex and important issues.

TREASURER LOFTIS: I am only in compliance with that requirement. This is what I meant about laws aging. That law was from 1912, or either 1902, I'm not quite sure. [...] It has never been anticipated that each fund had to be listed. This is the fund list. It is 80 pages. It lists, if we do this correctly, the account[37] numbers, the owner, and the amounts. Like you might think that somebody in Kiev would be interested to know in what account $4.6 billion is in. If you would like this published, Senator, we will publish it tonight.

SENATOR MCELVEEN: Well, Mr. Treasurer --

TREASURER LOFTIS: Just -- it's--

SENATOR MCELVEEN: -- though, if it needs to be published, it should have been published before tonight, correct? I mean, it's a statutory responsibility.

TREASURER LOFTIS: Well no, **if you think that we should publish this report, I'll publish it. Now before I do that, I will call SCEIS, we'll call my IT and we'll call the Secret Service[38], because this is an invitation for anybody that wants our money to come get our money.** That's the report. By fund, by agency, I mean, by fund and with the fund accounts. It is the architecture of the State Treasurer's Office.

SENATOR MCELVEEN: Okay.

TREASURER LOFTIS: It is the bank of the state, and we will do as we are told, Senator.

(Subcommittee Hearing, pp. 59-60) (emphasis added).

SENATOR MCELVEEN: My question about that is, if there's a question about something like that and, you know, public disclosure, should you err on the side of transparency, which is a word that gets thrown around a lot up here or --

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[37] The “account numbers” to which the Treasurer refers to here are not bank account numbers, but internal SCEIS identification numbers. The cash by SCEIS fund report excerpt provided to the Subcommittee did not include bank account numbers. Nevertheless, as was later confirmed by the Department of Administration, release of the information could pose a serious security risk.

[38] The United States Secret Service investigates “wire and bank fraud, computer network breaches, ransomware, and other cyber-enabled financial crimes…” https://www.secretservice.gov/investigations

> TREASURER LOFTIS: Senator -- make sure we post this today. We'll do it, Senator, and I apologize. And we will post it today.
>
> SENATOR MCELVEEN: All right. So if you're going to post it today, your testimony is that you have not been in compliance with that statute.
>
> TREASURER LOFTIS: That's correct, Senator.
>
> SENATOR MCELVEEN: All right. And so –
>
> TREASURER LOFTIS: Well, that's your interpretation. I think we've interpreted it properly.
>
> SENATOR MCELVEEN: Well, I think I don't want to speak for the members of subcommittee, but **I think that we believe that the law, the statute requires actually a by agency, by fund reconciliation, which the treasurer's office, to my understanding, is not doing currently.**

(Subcommittee Hearing, pp. 62-63) (emphasis added).

None of the Subcommittee members verbally indicated their belief that the Treasurer was threatening to release the State's sensitive financial information in the hearing. The word "threat" is not once uttered by anyone in the entire hearing. Moreover, STO staff was present for this discussion, and other STO staff members have reviewed the video recording; based on staff observations, it does not appear that the Subcommittee interpreted the Treasurer's remarks in this exchange as a threat to release sensitive information.

In fact, even when the Treasurer conceded that he would comply with the Subcommittee's interpretation of Section 11-5-120 by publicly posting the cash by SCEIS fund report, he explicitly stated that he would take security measures before he posts the report: "Well no, if you think that we should publish this report, I'll publish it. Now before I do that, I will call [the Department of Administration's SCEIS Division], we'll call my IT and we'll call the Secret Service, because this is an invitation for anybody that wants our money to come get our money." (Hearing Transcript, p. 60).

To that end, the day after the Subcommittee hearing, on the evening of April 3, 2024, Clarissa Adams, STO Chief of Staff, e-mailed Marcia Adams, Director of the Department of Administration regarding STO's compliance with S.C. Code Ann. §§ 11-5-120, 170 and 180. That e-mail stated, in part:

> We now understand the General Assembly is re-interpreting these statutes. These new interpretations impose new and different disclosure obligations. In an effort to meet what is believed to be the new 11-5-120 requirements, attached is a detail fund report we

> propose posting on our website. However, before posting the attached report, the STO has serious concerns regarding potential risks created by publishing such detail information on the STO website.
>
> We would ask for your assistance in assessing any risks associated with publicly providing this information. If there is [any] risk in providing the detail fund report, we want to make sure the STO has alerted DOA so it can take action to help protect SCEIS and the State from the added security risks that may be created by the publication of such detailed information.

EXHIBIT 25. A follow-up e-mail sent from Marcia Adams at 11:42 a.m. on the morning of April 4, 2024 indicates that the two discussed the matter by telephone that morning, and that the Department of Administration was "working on this now." EXHIBIT 25.

On the afternoon of April 4, 2024, the Treasurer sent two letters to the Subcommittee. The first letter, sent at 12:42 p.m., was sent via e-mail from Edward Frazier, STO Legislative Liaison and Special Assistant to the State Treasurer. That letter stated, in relevant part:

> With respect to the electronic publication for public review of quarterly statements referenced in § 11-5-120, we will begin posting on the State Treasurer's website a detailed fund report. We alerted the Department of Administration so that that agency can take action to protect SCEIS and the State's other information and financial systems from the added security risks created by the publication of such detailed information.

EXHIBIT 26.

On its face, the letter informs the Subcommittee that the Treasurer intended to do exactly what they had informed him that they believed he should have been doing all along. Nevertheless, the letter does not indicate what information, specifically, a "detailed fund report" would include. Although the Treasurer had told the Subcommittee in the hearing that, before he published the report, "I will call SCEIS, we'll call my IT and we'll call the Secret Service, because this is an invitation for anybody that wants our money to come get our money," (Hearing Transcript, p. 60), this letter did not inform the Subcommittee that STO Staff was working with the Department of Administration to determine the risks association with posting certain fund information, and that STO intended to redact the report as necessary to protect the interests of the State.

To the extent that the Subcommittee interpreted this letter as a "threat," that interpretation is incongruous with Senator McElveen's indication in the hearing two days prior that the Subcommittee believed the full 80-page "cash by SCEIS fund report" should have been published in order for the STO to comply with S.C. Code Ann. § 11-5-120. The Subcommittee remained curiously quiet for a group of senators who had just received a serious threat to the State's financial security—neither the Subcommittee members nor their staff contacted the Treasurer or

STO to attempt to diffuse the supposed threat, as one would expect them to have done if they held genuine concern.

Internally at STO, there was no directive given at any time to post any new report. STO staff continued its efforts to devise a solution that would comply with the perceived "re-interpretation" of S.C. Code Ann. § 11-5-120 while also continuing to protect the State's financial information. At 1:37 p.m., Marcia Adams e-mailed Clarissa Adams stating:

> We are consulting with our outside cyber security firm and will have the risks outlined and sent to you by this afternoon. It is my strong recommendation that you do not post anything until Admin has a chance to outline the risks associated with the document you sent me last night. At first glance, this looks like information that should not be publicly posted. If our initial assessment is correct, even the best protections we can put in place may not be enough to mitigate the risks. We will respond in detail to your question later today.

EXHIBIT 27.

At 2:31 p.m. on the same day (April 4, 2024) the Treasurer sent a second letter to the Subcommittee which sought to clarify certain statements and respond to various other matters addressed in the April 2, 2024 Subcommittee hearing. This letter, **which was not included in the Exhibits of the Interim Report**, and which the Subcommittee refused to acknowledge in a subsequent hearing on February 18, 2025, specifically addresses the reporting requirements of S.C. Code Ann. § 11-5-120, and states

> When I stated at the hearing that the State Treasurer's Office is not in compliance with these reporting requirements, I meant that my office had not yet had the opportunity to change its reporting procedures in accordance with the re-interpretation articulated to me at the hearing. **We are now working toward devising a secure means of complying with these new disclosure obligations.**[39]

EXHIBIT 28 (emphasis added). If the Subcommittee truly interpreted the Treasurer's first April 4, 2024, letter as a "threat to post to the internet highly sensitive financial information belonging to the State," the Treasurer's second letter, sent less than two hours later, should have assuaged their concerns by indicating that STO staff was "working toward devising a secure means of complying with these new disclosure obligations." EXHIBIT 28.

That afternoon, the Treasurer received calls from Governor Henry McMaster, as well as Chief Mark Keel, of the State Law Enforcement Division, both of whom urged him not to release the full "cash by SCEIS fund report." The Treasurer informed both officials that he had no

[39] The Subcommittee apparently continues to deny, or refuses to acknowledge, the existence of this letter, as evidenced by their comments in the February 18, 2025 hearing.

intention of releasing the document without taking appropriate security precautions, if it was to be released at all. The Subcommittee has indicated that the South Carolina Attorney General's office also began preparing court filings to enjoin the Treasurer from releasing the "cash by SCEIS fund report." This may be true; however, given the STO legal office's positive relationship with staff at the Attorney General's Office, it is unclear why the Attorney General would not have first made contact with STO[40] under such circumstances.

At 5:19 p.m. on April 4, 2024, Marcia Adams sent the Treasurer a letter "strongly recommending that the detail fund report… not be published. We believe that publishing the information contained in the report would create a real and unnecessary risk for the State." EXHIBIT 29. The report was never published or released.

There was no intent by the Treasurer or within STO to actually release sensitive financial information. In fact, the evidence proves that STO staff were seeking support from other agencies to justify withholding the sensitive information.

Two weeks later, in the Subcommittee's presentation to the Senate on April 16, 2024, the Subcommittee Chairman made its first public assertion that there had been a "threat" by the Treasurer. The Chairman went so far as to speak directly to STO staff from the floor of the Senate, threatening criminal prosecution if staff released such information. By then, the matter had clearly been resolved for nearly two weeks, and the financial information in question had not been and would not be posted publicly; yet the Subcommittee still seized the opportunity to attack the Treasurer's "current judgement and temperament." *See* Interim Report, p. 8.

It is disingenuous at best for the Subcommittee to criticize the Treasurer's successful response to a potentially dangerous effort by the Subcommittee to pressure the STO to publish sensitive financial data that would expose the state to risk. Regardless how the Subcommittee interpreted the Treasurer's statements, the Treasurer's and STO's efforts drew the immediate attention of the Department of Administration, the Governor, the Chief of the State Law Enforcement Division, and apparently the Attorney General, all of whom acknowledged the danger associated with the release of the information, and agreed with the Treasurer that it should not be released despite the pressure by certain Subcommittee members to have him do so.

XIV. The manner in which the Subcommittee has chosen to undertake its "investigation" has been inappropriate and may be actively endangering the State's interests.

The Treasurer and STO, recognizing the extraordinary public importance of Comptroller General Eckstrom's 2022 ACFR Restatement, have made every effort to cooperate with the Governor's Working Group, the AlixPartners audit, and the Subcommittee's review of this issue. However, given the manner in which the Subcommittee has conducted itself, and the increasing

[40] Rule 11, SCRCP requires, in part, that "All motions filed shall contain an affirmation that the movant's counsel prior to filing the motion has communicated, orally or in writing, with opposing counsel and has attempted in good faith to resolve the matter contained in the motion, unless the movant's counsel certifies that consultation would serve no useful purpose, or could not be timely held."

potential for the Subcommittee's "hearing" content to cause harm to the State and its citizens, it is appropriate to consider whether the Subcommittee has exceeded its authority.

a. The Subcommittee may not be legally authorized to conduct an investigation of the Treasurer or STO.

The Subcommittee may have exceeded the scope of its legal authority by conducting this "investigation."

S.C. Code Ann. § 2-2-40(A) allows "standing committees," not subcommittees, of the Senate or House of Representatives, to "initiate an oversight study and investigation of an agency within its subject matter jurisdiction. The motion calling for the oversight study and investigation must state the subject matter and scope of the oversight study and investigation. The oversight study and investigation must not exceed the scope stated in the motion or the scope of the information uncovered by the investigation."

S.C. Code Ann. § 2-2-40(B) clarifies that "the President of the Senate, the Speaker of the House of Representatives, or chairmen of standing committees" (again, not subcommittees), may authorize and conduct "legislative investigations into agencies' functions, duties, and activities," so long as it is consistent with "fulfilling their constitutional duties." The specific constitutional duties referenced here are listed in Section 2-2-5(1), which states that "Section 1, Article XII of the State Constitution requires the General Assembly to provide for appropriate agencies to function in the areas **of health, welfare, and safety and to determine the activities, powers, and duties of these agencies** and departments." (emphasis added).

First, regarding Subsection (A), the Constitutional Subcommittee of the Senate Finance Committee is obviously not a committee, much less a "standing committee,"[41] of the Senate. This fact alone appears to preclude the Subcommittee from conducting the investigation it has undertaken.

Additionally, the STO is not aware of any motion made in, or approved by, the Senate Finance Committee "calling for the oversight study and investigation" of the Treasurer or STO, much less articulating "the subject matter and scope of the oversight study and investigation." S.C. Code Ann. § 2-2-40(A). Given the fact that the Senate Finance Committee does not publish minutes, it is conceivable (though unlikely) that the Senate Finance Committee may have taken this action without notifying STO.

Likewise, regarding Subsection (B), the Constitutional Subcommittee of the Senate Finance Committee is, again, not a "standing committee," of the Senate. And, if the Senate Finance Committee Chairman or the President of the Senate have authorized an investigation of

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[41] "'Standing committee' means a permanent committee with a regular meeting schedule and designated subject matter jurisdiction that is authorized by the Rules of the Senate or the Rules of the House of Representatives." S.C. Code Ann. § 2-2-10(5).

the Treasurer or STO regarding "health, welfare, and safety and to determine the activities, powers, and duties" of STO, they have not notified STO of that fact.

There are countless other constitutional and statutory grounds for challenging the legitimacy of the Subcommittee's "process"— not the least of which is that the Senate has no authority to impeach the Treasurer, and to the extent that the Senate would ever have an opportunity to adjudicate the Treasurer's removal, the Subcommittee has now thoroughly betrayed any semblance of fairness or impartiality the Senate may have had.

b. The Subcommittee's hearing tactics have not been reasonably calculated to investigate SCEIS Fund 30350993 or the CGO's 2022 ACFR Restatement.

In the context of the above provisions, it is appropriate to acknowledge the Subcommittee's hearing tactics. As discussed in previous sections of this Report, the Subcommittee has perpetuated numerous false, harmful, and unfounded allegations, all made under the broad and disingenuous shield of their legislative immunity.

h. The April 2, 2024 Subcommittee "Budget Hearing"

In the April 2, 2024, Subcommittee "budget hearing," the Treasurer was never asked a single question about the STO budget. [42] Instead, the Subcommittee's six-hour questioning of the Treasurer was composed of combative and misleading questioning and employed numerous "gotcha" moments. The Subcommittee questioned the Treasurer about events that occurred over the course of his entire eleven-year tenure, and baselessly accused him of misconduct throughout the hearing.

In one line of questioning, the Subcommittee falsely claimed to have evidence that STO had erroneously commingled federal money in SCEIS Fund 30350993.

In another line of questioning, the Subcommittee falsely accused the Treasurer of selling millions of dollars in investments at a loss in order to conceal a nonexistent "negative general fund balance."

In yet another series of questions, the Subcommittee falsely accused the Treasurer of causing excessive employee turnover at STO, presenting misleading statistics such as Senator Goldfinch's repeated assertion that "the average turnover rate in your office is almost 30 percent over the last ten years." During a break in the hearing, the Treasurer was able to consult with STO staff regarding turnover and, upon returning, he was able to clarify the record: "The turnover rate is -- our turnover rate is within 1 percent of the statewide turnover rate. The STO's average turnover rate is 19 percent. The statewide is 18 percent." This information had already been provided to the Subcommittee in a letter dated March 28, 2024. Interim Report, p. 74.

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[42] By comparison, the Comptroller General's budget hearing occurred immediately prior to the Treasurer's and lasted less than 15 minutes, in which he was allowed to summarily declare that all of the issues resulting in or caused by the entries in SCEIS Fund 30350993 were the fault of the State Treasurer.

However, the most egregious example of the Subcommittee's conduct in the April 2, 2024, hearing occurred when the Chair directed staff to hand the Treasurer a document, referred to in the hearing as "Exhibit 10." The Treasurer reviewed the document and responded, "I cannot adequately speak to the depths of the conversation. I'm going to have to get experts to do this."

Chairman Grooms ignored the Treasurer's statement and began a tirade of false questioning and assertions regarding a non-existent $30 billion in "unresolved differences," just a few examples of which include:

> SENATOR LARRY GROOMS: It looks like there's 30 billion in unresolved differences with the banking and investments, and you're the banker, your wheelhouse, and they're unresolved. And they've been hanging around now for 2015, 2016, 2017.
> …
> SENATOR LARRY GROOMS: It's unreasonable to think that, as the banker, you can't speak to $30 billion in unresolved issues. You have to have some thoughts on the matter.
> …
> SENATOR LARRY GROOMS: You can't explain $30 billion?
> …
> SENATOR LARRY GROOMS: I promise you, we have some responsibilities. And as the General Assembly, we've got some oversight questions. If you're the banker and you've lost control over $1.8 billion, and then if you've lost control over $31 billion.
> …
> SENATOR LARRY GROOMS: Well, I've got a few conclusions. We do have a $1.8 billion problem, principally with the investments and another $30 billion problem with the banks that occurred in funds under the exclusive control of the treasurer's these funds were under the exclusive control of the treasurer's office.

The Subcommittee never explicitly identifies "Exhibit 10," but plainly asserts that the document represents proof of a "$30 billion problem." This document was even included in the Subcommittee's Interim report as Exhibit 7, where it is identified as "Selected Accounts Variation Report for Fund 30350993." The Interim Report cites this document, and plainly suggests that it is a SCEIS-generated report, saying "The Subcommittee understands that there exists in SCEIS considerable discrepancies in actual bank balances compared to reported amounts in SCEIS that arose from conversion of the Treasury's banking records in 2015." p. 9. The entire image in this document appears, unedited, below:

Selected Accounts Variation Report　　Run Date / Time 03/26/2024, 20:58:09

Bus Area: *　　Fund: 30350993　　Grant: *
Cost Ctr: *　　Funded Program: *　　Period: 16, 2023
Account Group Selected: *

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal	
1000000000 CASH DUE TO/FROM	(29,126,331,493.06)	-	(29,126,331,493.06)	
1010339900 UC TRUST - FEDERAL	(533,584,001.21)	-	(533,584,001.21)	
1011300000 WF_E16_STO_Contingent Acct_CASH	10,678,504,773.50	-	10,678,504,773.50	
1011300700 WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	25,339,949,424.07	-	25,339,949,424.07	
1011300707 WF GENERAL DEPOSIT WRITE OFFS	17.50	-	17.50	
1013300000 BOA CASH_STO_GENERAL DEPOSIT ACCOUNT	1,094,129,628.79	-	1,094,129,628.79	
1013301000 BOA_CASH_STO_GDA_INT ACCT	(280,000,000.00)	-	(280,000,000.00)	
1015300000 UNITED COMMUNITY BANK_E16_CASH_GEN DEP	(8,927,566.14)	-	(8,927,566.14)	
1016300000 SYNOVUS CASH_GEN DEP	(297,953,597.15)	-	(297,953,597.15)	
1016300100 SYNOVUS RESTRICTED CASH_GEN DEP	(1,706,211,622.08)	-	(1,706,211,622.08)	
1017300000 TD BANK_E16_CASH_GEN DEP	(669,705,559.77)	-	(669,705,559.77)	
1018300000 FARMERS AND MERCHANTS GENERAL DEPOSIT	(9,425.47)	-	(9,425.47)	
1019300000 FIRST NTL HOLLY HILL_E16_CASH_GEN DEP	(6,098,183.34)	-	(6,098,183.34)	
1020300000 FIRST CITIZENS_E16_CASH_GEN DEP	(2,365,057,191.53)	-	(2,365,057,191.53)	
1021300000 TRUIST_E16_CASH_GEN DEP	(59,427,822.83)	-	(59,427,822.83)	
1024300000 ARTHUR STATE BANK_E16_CASH_GEN DEP	(3,764,915.61)	-	(3,764,915.61)	
1025300000 BANK OF CLARENDON_E16_CASH_GEN DEP	(16,551,854.73)	-	(16,551,854.73)	
1026300000 SOUTH STATE BANK GENERAL DEPOSIT	(164,761,893.22)	-	(164,761,893.22)	
1028300000 BANK OF TRAVELER'S REST_E16_CASH_GEN DEP	(245,009.38)	-	(245,009.38)	
1029300000 BLUE RIDGE BANK_E16_CASH GEN DEP	(1,299,749.69)	-	(1,299,749.69)	
1032300000 ENTERPRISE BANK_E16_CASH_GEN DEP	(2,315,631.97)	-	(2,315,631.97)	
1034300000 PALMETTO STATE BANK_E16_CASH_GEN DEP	(22,881,753.39)	-	(22,881,753.39)	
1036300000 JPMC CASH_STO_GENERAL DEPOSIT ACCOUNT	5,000,000.00	-	5,000,000.00	
1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT	0.11	-	0.11	
1063300307 BONY GENERAL WRITE OFFS	(0.11)	-	(0.11)	
1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
2400600002 DUE TO OTHER FUNDS - EQUITY IN POOLED CASH	(1,852,455,573.29)	-	(1,852,455,573.29)	
Sum with 1000000000 and 2400600002	(0.00)	-	(0.00)	28
Sum without 1000000000 and 2400600002 (Banks Only)	30,978,787,066.35	-	30,978,787,066.35	26

Upon closer review, STO believes that this document was created to look like a screenshot of SCEIS or a genuine SCEIS report; however, there is no SCEIS report of which STO staff is aware that would produce the bottom two rows of data set forth in this document. The document appears to have been manufactured to look like SCEIS by adding a screen capture of the heading of SCEIS Fund 30350993 to the top of an Excel spreadsheet. The GL Accounts from SCEIS Fund 30350993 appear to have been exported into Excel to exclude zero balances, and the cell colors were changed to gray in an attempt to match the SCEIS heading. But most importantly, the final two lines appear to be formulas which were **manually added in an attempt to misrepresent the balance of SCEIS Fund 30350993 as being over $30 billion.**

Selected Accounts Variation Report Run Date / Time 03/26/2024, 20:58:09

Bus Area: * Fund: 30350993 Grant: *
Cost Ctr: * Funded Program: * Period: 16, 2023
Account Group Selected: *

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal

Screen capture from SCEIS

Excel Spreadsheet

Manually added

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal	
1000000000 CASH DUE TO/FROM	(29,126,331,493.06)	-	(29,126,331,493.06)	
1010339900 UC TRUST - FEDERAL	(533,584,001.21)	-	(533,584,001.21)	
1011300000 WF_E16_STO_Contingent Acct_CASH	10,678,504,773.50	-	10,678,504,773.50	
1011300700 WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	25,339,949,424.07	-	25,339,949,424.07	
1011300707 WF GENERAL DEPOSIT WRITE OFFS	17.50	-	17.50	
1013300000 BOA CASH_STO_GENERAL DEPOSIT ACCOUNT	1,094,129,628.79	-	1,094,129,628.79	
1013301000 BOA_CASH_STO_GDA_INT ACCT	(280,000,000.00)	-	(280,000,000.00)	
1015300000 UNITED COMMUNITY BANK_E16_CASH_GEN DEP	(8,927,566.14)	-	(8,927,566.14)	
1016300000 SYNOVUS CASH_GEN DEP	(297,953,597.15)	-	(297,953,597.15)	
1016300100 SYNOVUS RESTRICTED CASH_GEN DEP	(1,706,211,622.08)	-	(1,706,211,622.08)	
1017300000 TD BANK_E16_CASH_GEN DEP	(669,705,559.77)	-	(669,705,559.77)	
1018300000 FARMERS AND MERCHANTS GENERAL DEPOSIT	(9,425.47)	-	(9,425.47	
1019300000 FIRST NTL HOLLY HILL_E16_CASH_GEN DEP	(6,098,183.34)	-	(6,098,183.34	
1020300000 FIRST CITIZENS_E16_CASH_GEN DEP	(2,365,057,191.53)	-	(2,365,05[illegible]	
1021300000 TRUIST_E16_CASH_GEN DEP	(59,427,822.83)	-	(59,42[illegible]	
1024300000 ARTHUR STATE BANK_E16_CASH_GEN DEP	(3,764,915.61)	-	(3,764,915.61)	
1025300000 BANK OF CLARENDON_E16_CASH_GEN DEP	(16,551,854.73)	-	(16,551,854.73)	
1026300000 SOUTH STATE BANK GENERAL DEPOSIT	(164,761,893.22)	-	(164,761,893.22)	
1028300000 BANK OF TRAVELER'S REST_E16_CASH_GEN DEP	(245,009.38)	-	(245,009.38)	
1029300000 BLUE RIDGE BANK_E16_CASH GEN DEP	(1,299,749.69)	-	(1,299,749.69)	
1032300000 ENTERPRISE BANK_E16_CASH_GEN DEP	(2,315,631.97)	-	(2,315,631.97)	
1034300000 PALMETTO STATE BANK_E16_CASH_GEN DEP	(22,881,753.39)	-	(22,881,753.39)	
1036300000 JPMC CASH_STO_GENERAL DEPOSIT ACCOUNT	5,000,000.00	-	5,000,000.00	
1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT	0.11	-	0.11	
1063300307 BONY GENERAL WRITE OFFS	(0.11)	-	(0.11)	
1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
2400600002 DUE TO OTHER FUNDS - EQUITY IN POOLED CASH	(1,852,455,573.29)	-	(1,852,455,573.29)	
Sum with 1000000000 and 2400600002	(0.00)	-	(0.00)	28
Sum without 1000000000 and 2400600002 (Banks Only)	30,978,787,066.35	-	30,978,787,066.35	26

It is not clear to STO exactly what purpose this spreadsheet would actually serve, or what information it purports to convey. It appears that the $30,978,787,066.35 "Sum without 1000000000 and 2400600002 (Banks Only)" would represent the *cumulative activity* from all Bank General Ledgers in SCEIS Fund 30350993, and is not evidence of any "unresolved difference" as Senator Grooms claimed.

By comparison, this is the *actual* "bottom line" of SCEIS Fund 30350993, from the same period (period 16 of 2023) as represented within the SCEIS system:

Selected Accounts Variation Report Run Date / Time 02/25/2025, 15:16:01

Bus Area: * Fund: 30350993 Grant: *
Cost Ctr: * Funded Program: * Period: 16, 2023
Account Group Selected: SC_TRIAL_BALANCE

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal
1036300012 JPMC GEN DEP ACH IN			
1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT	0.11		0.11
1063300307 BONY GENERAL WRITE OFFS	0.11-		0.11-
1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP	500.00-		500.00-
1076300002 ANDERSON BROTHERS GEN DEP ACH OUT			
1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP	500.00-		500.00-
1087300002 CAROLINA BANK & TRUST GEN DEP ACH OUT			
* Cash Accounts	1,852,455,573.29		1,852,455,573.29
** Total Assets	1,852,455,573.29		1,852,455,573.29
*** Total Assets	1,852,455,573.29		1,852,455,573.29
2400600002 DUE OTH FDS-EQTY CSH	1,852,455,573.29-		1,852,455,573.29-
* Other Liabilities	1,852,455,573.29-		1,852,455,573.29-
** Total Liabilities	1,852,455,573.29-		1,852,455,573.29-
3000010000 RET EARN & FD BAL UN			
* Fund Balance Accounts			
9999999999 CONVERSION ACCOUNT			
* Other Accounts			
** Total Fund Balance			
*** Total Liabilities and Fund Balance	1,852,455,573.29-		1,852,455,573.29-
**** Total			

To the extent that the Subcommittee was aware that its exhibit was not genuine, its proffering, questioning, and inclusion of it in the Interim Report is simply unconscionable. To the extent that it was a mistake, made in blind reliance on an outside source, it is an inexcusable mistake, and the Subcommittee should identify the source of this document.

ii. The February 18, 2025 Subcommittee "AlixPartners Report Review"

A year later, at 4:06 p.m. on February 12, 2025, the Subcommittee invited the "agency" (i.e. STO) to a "meeting to review the AP Report with your agency, the Department of Administration, and the Comptroller General's Office," which was to occur on February 18, 2025.[43] EXHIBIT 30. The e-mail request asked the STO "leadership team" to save the date, and requested that STO notify the Subcommittee "who all will be in attendance." EXHIBIT 30. In a follow-up phone call, Subcommittee staff further indicated that the Subcommittee intended to discuss "next steps" as related to the AP Report.

However, the February 18, 2025, meeting of the Subcommittee veered far outside the scope of the AP Report. The Subcommittee criticized STO for engaging William Holder, a nationally-recognized governmental accounting and ACFR reporting expert, to assist STO in

[43] The Subcommittee's invitation gave STO two business days of notice before a State holiday, during which the Treasurer and many STO staff members had already made out-of-town plans. For those STO staff members who were able, the STO team and the Treasurer worked together remotely through the weekend and the holiday to prepare the STO's Chief of Staff, Clarissa Adams, to discuss all relevant aspects of the AP Report and the State's "next steps" toward resolving the issues discussed in the AP Report.

understanding the CGO’s calculation and preparation of the ACFR, and in interpreting the findings and entries proposed by AlixPartners.

The Subcommittee criticized STO for engaging an external communications firm to assist the agency in communicating these extraordinarily complicated accounting issues, while being sensitive to the State’s interests in the investigation by the SEC, and carefully representing the State’s true financial condition to any potential investors in the State’s bond issuances.

The Subcommittee also questioned STO’s Adams about the Treasurer’s so-called “threat” to release the State’s financial information in the April 2, 2024, hearing.

The Chair presented to STO’s Adams (without any notice, and without any authentication) a video of Senator McElveen questioning the Treasurer in the April 2, 2024 Subcommittee meeting. Unbeknownst to Adams, **Senator McElveen’s assertion that the Subcommittee believed the Treasurer should post the report had been edited out of this video.** The Subcommittee, of course, did not inform Ms. Adams that the video had been edited.

The Subcommittee also presented Ms. Adams with the Treasurer’s first letter of April 4, 2024, but, despite Ms. Adams’ insistence, refused to acknowledge the existence of the Treasurer’s second letter, issued the same day, which stated “We are now working toward devising a secure means of complying with these new disclosure obligations.” EXHIBIT 28.

When questioned on these topic, Ms. Adams informed the Subcommittee that “I was prepared to discuss the AlixPartners Report, so I would definitely want to pull those letters and have a minute to look at it because it happened sometime ago. I didn’t know we were not going to be discussing the AlixPartners report,” and went on to say “I apologize, I am not prepared to discuss that.”

The Subcommittee ignored Ms. Adams’s statement and persisted in questioning her about these events, which occurred nearly a year prior, all while interjecting editorializing comments, showing a complete disregard for Ms. Adams’s statement that she was not prepared to discuss the matter. Throughout the questioning, Ms. Adams repeatedly stated that she was not able to discuss these events because she had prepared to discuss the AP Report, to which, at one point, Senator Goldfinch declared “We’re here to discuss all kinds of stuff.”

This Subcommittee conduct is does not appear to be intended to uncover true or meaningful information about any issue. Instead, the behavior only serves to draw attention to the Subcommittee members, without regard to the fact that their self-declared “witch hunt” has cost the State countless dollars, cost the involved agencies countless man-hours, and cost the agencies’ employees many nights and weekends of work which could have been spent with their families.

c. The Subcommittee’s conduct may be endangering the State’s interests.

The Subcommittee’s investigation tactics may also be endangering the State’s interests by prolonging and overcomplicating the SEC investigation into the CGO’s 2022 ACFR Restatement.

The Subcommittee's insistence upon publicly airing these false allegations has undoubtedly made it more difficult (and thus more expensive) for the State's attorneys to address and respond to the actual substantive issues. Moreover, on advice of counsel, the Treasurer has made the prudent decision not to issue General Obligation while the SEC investigation is ongoing, in order to protect the State's interests. As such, the STO has not issued General Obligation Bonds since it became aware of the SEC investigation.

Meanwhile, the original basis of the Subcommittee's inquiry into the $1.8 billion balance of SCEIS Fund 30350993 has been addressed. As the AP Report confirms, when the incorrect entries in SCEIS Fund 30350993 are reversed, the net effect on the State's Bank General Ledger will be zero.

Zero.

As for the Treasurer and STO, the question is answered, and the case is closed. The Subcommittee's continued pursuit of this matter must end.

EXHIBITS

1. Email of May 26, 2016 from Laura Showe (CGO) and response of same date by Martin Taylor (STO)

2. Email of July 13, 2017 from Martin Taylor (STO)

3. Email exchange of November 2, 2017 from David Starkey (CGO) and response from Katherine Kip (STO)

4. Email of November 2, 2017 from George Kennedy (State Auditor) to CGO and STO staff

5. Spreadsheet containing Taylor (STO) recommendation of PPA

6. Email exchange of March 1 - 5, 2018 between Starkey (CGO) and Taylor (STO)

7. Email of October 26, 2018 from John Morrison of CGO to Martin Taylor of STO

8. Letter of December 12, 2023 from Comptroller General Gaines Treasurer Loftis

9. Letter of March 26, 2024 from Subcommittee to Treasurer Loftis regarding budget hearing

10. Email exchange beginning January 30, 2025 between Shawn Eubanks (STO) and Bob Maldonado (CGO)

11. E-mail of March 29, 2024 from Melissa Simmons (STO) to Department of Administration and attachment

12. E-mail exchange of February 14, 2025 between Clarissa Adams (STO) to Marcia Adams (Department of Administration)

13. E-mail of February 14, 2025 from Clarissa Adams (STO) to Comptroller General Gaines

14. E-mail of February 21, 2025 from Clarissa Adams (STO) to Comptrller General Gaines and attachment

15. Letter of February 20, 2024 from George Kennedy (State Auditor) to the Subcommittee

16. STO Comprehensive Investment Plan

17. E-mail of January 17, 2024 from Clifton Larson Allen

18. Email of December 12, 2023 from Comptroller Gaines to Treasurer Loftis with ACFR draft dated November 30, 30, 2023

19. Email of January 10, 2024 from CliftonLarsonAllen, LLP to STO Chief of Staff Clarissa Adams with draft of management letter comments

20. Intentionally left blank

21. Email of January 18, 2024 from CliftonLarsonAllen, LLP to STO

22. Letter of March 7, 2024, from Subcommittee Chairman, Senator Larry K. Grooms to Treasurer Loftis

23. Letter of March 14, 2024 from Treasurer Loftis to Sen. Grooms & the Senate Finance Subcommittee

24. Exhibits to March 14th Letter

25. Email of April 3, 2024 from Clarissa Adams, STO Chief of Staff to Marcia Adams, Director of the Department of Administration and the director’s response thereto.

26. Letter of April 4 from Treasurer Loftis to the SFC Subcommittee transmitted via email timestamped 12:42 p.m.

27. Email of April 4, 2024 1:37 p.m. from Director Adams to STO Chief of Staff Clarissa Adams

28. Letter of April 4, 2024 from Treasurer Loftis to the SFC Subcommittee transmitted via email timestamped 2:31 p.m.

29. Letter of April 4, 2024 from Director Adams to Treasurer Loftis

30. Email of February 12, 2025 from Subcommittee to Edward Frazier (STO)

31. STO Other Funds Reports to Executive Budget Office (EBO)

Exhibit 29

Fund	30350993
Account	(All)

Sum of Amount in local currency	2015	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
A000										
(blank)										
FROM 3000010000 - UNRESERVED FUND BAL/UNRESTRICTED NET ASSETS (ZG)									1,852,455,573	1,852,455,573
TO 3000010000 - UNRESERVED FUND BAL/UNRESTRICTED NET ASSETS (ZG)									(1,852,455,573)	(1,852,455,573)
(blank) Total									-	-
A000 Total									-	-
E160										
100003 - GF Appropriation Cash (Formerly Cash on Deposit - STO)										
FROM 1000030000 - GENERAL FUND APPROPRIATION CASH		119,061,800								119,061,800
FROM 1020300000 - FIRST CITIZENS_E16_CASH_GEN DEP		55								55
FROM 1025300000 - BANK OF CLARENDON_E16_CASH_GEN DEP	21,455									21,455
TO 1000030000 - GENERAL FUND APPROPRIATION CASH		(32,249,700)	(86,831,911)							(119,081,611)
TO 1020300000 - FIRST CITIZENS_E16_CASH_GEN DEP		(110)								(110)
TO 1025300000 - BANK OF CLARENDON_E16_CASH_GEN DEP	(1,583)									(1,583)
TO 1034300000 - PALMETTO STATE BANK_E16_CASH_GEN DEP	(6)									(6)
100003 - GF Appropriation Cash (Formerly Cash on Deposit - STO) Total	**19,866**	**86,812,045**	**(86,831,911)**							-
101033 - UC Trust										
TO 9999999999 - CONVERSION ACCOUNT		(533,584,001)								(533,584,001)
101033 - UC Trust Total		**(533,584,001)**								**(533,584,001)**
101130 - Wells Fargo										
FROM 1011300000 - WF_E16_STO_Contingent Acct_CASH			969,196,848							969,196,848
FROM 1011300100 - WF_E16_STO_Special Payments_CASH		17,593,109	281,999,075							299,592,184
FROM 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT		1,113,677,001	4,007,844,847	2,954,135,434	2,310,738,427	4,511,778,234	5,507,635,814	5,011,951,452	4,419,510,878	29,837,272,088
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT		518,023,220	1,353,642,535	1,450,478,468	1,273,476,810	3,100,779,832	1,477,785,791	4,690,560,676	982,678,789	14,847,426,123
FROM 1011300707 - WF GENERAL DEPOSIT WRITE OFFS		35	112	3	1,042	534	1,248	78	136	3,188
FROM 1011300711 - WELLS FARGO GEN DEP CHECKS IN		463,357,951	1,184,059,398	1,342,460,912	1,253,270,319	1,506,898,554	1,338,336,882	1,875,126,187	980,212,708	9,943,722,911
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN		188 813 800	2 440 590 133	2 474 392 052	2 134 859 811	2 818 084 510	2 976 097 843	4 125 146 820	1 946 284 609	19 104 269 578
FROM 1011300715 - WELLS FARGO GEN DEP TRF IN		7,967,118	738,910							8,706,028
FROM 1011300717 - WELLS FARGO GEN DEP BANK FEES			5,124	4,649	2,080	17	17	17	1,193	13,097
FROM 1013300002 - BANK OF AMERICA GEN DEP ACH OUT		159,087,900	1,946,835,700	1,991,540,686	1,694,665,758	2,326,194,316	2,260,881,536	3,250,348,803	1,802,065,280	15,431,619,979
FROM 1013300012 - BANK OF AMERICA GEN DEP ACH IN				145,272,443		313,406,267	46,822,852	139,398	437,359,003	942,999,962
FROM 1013301002 - BOA_GDA_INT_ACCT ACH OUT									100,000,000	100,000,000
FROM 1015300005 - UNITED COMMUNITY BANK GEN DEP TRF OUT		377,502								377,502
FROM 1016300002 - SYNOVUS GEN DEP ACH OUT			128,628,800	17,587,200	633,500	1,292	175,366,700	194,316,600	4,169,200	520,703,292
FROM 1016300112 - SYNOVUS RESTRICTED GEN DEP ACH IN						1,292	241,991			243,283
FROM 1017300002 - TD BANK GEN DEP ACH OUT			36,958,500	87,815,600	60,166,000	83,208,900	88,313,900	200,714,300	12,970,200	570,147,400
FROM 1019300000 - FIRST NTL HOLLY HILL_E16_CASH_GEN DEP	4,287,141									4,287,141
FROM 1019300005 - FIRST NTL HOLLY HILL GEN DEP TRF OUT	198,610									198,610
FROM 1020300002 - FIRST CITIZENS GEN DEP ACH OUT			28,517,100	232,450,200	317,666,700	254,232,800	323,706,600	280,831,800	331,120,900	1,768,526,100
FROM 1021300002 - TRUIST GEN DEP ACH OUT			17,332,600	80,659,400	50,962,300	175,000,000	17,067,700	2,982,800	938,300	344,943,100
FROM 1025300002 - BANK OF CLARENDON GEN DEP ACH OUT					988,082	2,263,125	2,747,198	2,330,792	2,265,392	10,594,589
FROM 1026300002 - SOUTH STATE BANK GEN DEP ACH OUT					988,500	10,153,900	997,100	1,165,900	1,512,400	14,817,800
FROM 1026300005 - SOUTH STATE BANK GEN DEP TRF OUT			498,800							498,800
FROM 1029300005 - BLUE RIDGE BANK GEN DEP TRF OUT	22,924									22,924
FROM 1032300000 - ENTERPRISE BANK_E16_CASH_GEN DEP	831,026									831,026
FROM 1032300005 - ENTERPRISE BANK GEN DEP TRF OUT	66,025									66,025
FROM 1034300000 - PALMETTO STATE BANK_E16_CASH_GEN DEP	16,626,088									16,626,088
FROM 1034300002 - PALMETTO STATE BANK GEN DEP ACH OUT			6,164,713	7,648,066	5,456,371	669,492			249,665	20,188,308
FROM 1034300005 - PALMETTO STATE BANK GEN DEP TRF OUT	2,343,710	6,892,572	738,910							9,975,192
FROM 2400600002 - DUE TO OTHER FUNDS - EQUITY IN POOLED CASH				324,624,771						324,624,771
FROM 9999999999 - CONVERSION ACCOUNT		27,304,767,210	97,449,228,416							124,753,995,626
TO 1011300000 - WF_E16_STO_Contingent Acct_CASH			(969,196,848)							(969,196,848)
TO 1011300100 - WF_E16_STO_Special Payments_CASH			(299,592,184)							(299,592,184)
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT		(855,006,295)	(3,524,813,446)	(3,913,919,358)	(3,387,971,431)	(4,307,778,982)	(4,094,438,467)	(5,654,542,960)	(2,924,962,836)	(28,663,433,776)
TO 1011300702 - WELLS FARGO GEN DEP ACH OUT		(610,955,220)	(2,342,344,267)	(2,954,130,785)	(2,310,102,637)	(6,088,983,744)	(5,625,113,419)	(7,836,950,224)	(4,415,907,823)	(32,184,488,120)
TO 1011300707 - WF GENERAL DEPOSIT WRITE OFFS		(0)	(50)		(220)	(460)	(93)	(1,266)	(63)	(2,152)
TO 1011300711 - WELLS FARGO GEN DEP CHECKS IN		(488,297,320)	(1,178,988,635)	(1,322,592,326)	(1,269,500,910)	(1,530,756,241)	(1,298,133,710)	(1,875,126,391)	(974,548,853)	(9,937,944,386)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN		(23,791,000)	(313,246,900)	(59,492,200)	(7,747,500)	(8,693,100)	(307,733,232)	(343,418,100)	(14,889,000)	(1,079,011,032)
TO 1011300717 - WELLS FARGO GEN DEP BANK FEES			(5,124)	(4,649)	(2,080)	(17)	(17)	(17)	(1,193)	(13,097)
TO 1013300002 - BANK OF AMERICA GEN DEP ACH OUT						(48 660 323)	(37 594 957)	(3 444 375)	(317 746 628)	(407 446 283)
TO 1013300012 - BANK OF AMERICA GEN DEP ACH IN		(98,866,900)	(818,394,300)	(1,560,123,367)	(1,006,398,932)	(3,155,399,555)	(4,080,133,363)	(3,141,535,432)	(3,722,051,160)	(17,582,903,008)
TO 1013301012 - BOA_GDA_INT_ACCT ACH IN									(100,000,000)	(100,000,000)
TO 1016300002 - SYNOVUS GEN DEP ACH OUT					(633,500)		(15,039,400)		(1,104,100)	(16,777,000)
TO 1016300012 - SYNOVUS GEN DEP ACH IN			(106,909,400)	(8,682,293)	(592,000)	(9,782,200)	(150,496,500)	(105,373,300)	(120,300)	(381,955,993)
TO 1016300112 - SYNOVUS RESTRICTED GEN DEP ACH IN					(2,262,995)	(1,382,077)	(241,991)		(1,411,890)	(5,298,954)
TO 1016300115 - SYNOVUS RESTRICTED GEN DEP TRF IN			(1,011,732)							(1,011,732)
TO 1017300002 - TD BANK GEN DEP ACH OUT					(804,600)		(2,146,600)	(11,339,200)		(14,290,400)
TO 1017300012 - TD BANK GEN DEP ACH IN				(8,658,900)	(2,872,900)	(17,870,900)	(14,664,400)	(58,042,100)	(7,680,600)	(109,789,800)

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Sum of Amount in local currency	2015	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
TO 1020300002 - FIRST CITIZENS GEN DEP ACH OUT							(376,300)	(714,200)	(2,485,200)	(3,575,700)
TO 1020300012 - FIRST CITIZENS GEN DEP ACH IN			(19,972,300)			(97,757,300)	(413,900)	(3,617,200)	(1,352,000)	(123,112,700)
TO 1021300002 - TRUIST GEN DEP ACH OUT									(938,300)	(938,300)
TO 1021300012 - TRUIST GEN DEP ACH IN			(3,401,200)	(42,792,400)	(19,739,400)	(606,500)		(12,057,800)		(78,597,300)
TO 1026300012 - SOUTH STATE BANK GEN DEP ACH IN					(1,782,800)	(20,029,300)				(21,812,100)
TO 1032300000 - ENTERPRISE BANK_E16_CASH_GEN DEP	(43,625)									(43,625)
TO 1034300005 - PALMETTO STATE BANK GEN DEP TRF OUT		(1,048,561)								(1,048,561)
TO 1036300012 - JPMC GEN DEP ACH IN									(5,000,000)	(5,000,000)
TO 2400040000 - AMOUNTS HELD IN CUSTODY FOR OTHERS - CURRENT		(33,881,008)								(33,881,008)
TO 2400600002 - DUE TO OTHER FUNDS - EQUITY IN POOLED CASH				(34,856,052)						(34,856,052)
TO 4530130000 - UNIDENT BANK DEPOSITS OR ADJUSTMENTS		(33)								(33)
TO 9999999999 - CONVERSION ACCOUNT		(6,577,517,978)	(85,194,497,227)							(91,772,015,206)
101130 - Wells Fargo Total	**24,331,901**	**21,091,193,103**	**15,080,606,907**	**1,203,817,557**	**1,093,463,795**	**(185,027,635)**	**(1,410,523,177)**	**589,453,058**	**(1,468,861,293)**	**36,018,454,215**
101330 - Bank of America										
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT		83,248,000	782,197,800	1,560,123,367	1,006,398,932	2,980,399,555	4,020,355,797	2,991,535,432	3,822,051,160	17,246,310,042
FROM 1011300707 - WF GENERAL DEPOSIT WRITE OFFS		6								6
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN						48,660,323	97,372,523	3,444,375	317,746,628	467,223,849
FROM 1013300000 - BOA CASH_STO_GENERAL DEPOSIT ACCOUNT		1,055,265,262	1,702,196,110	1,950,892,352	1,698,217,026	2,277,807,017	2,223,286,945	3,246,905,027	1,695,843,381	15,850,413,120
FROM 1013300002 - BANK OF AMERICA GEN DEP ACH OUT				0	3,550,563				323,048,290	326,598,853
FROM 1013300007 - BANK OF AMERICA GEN DEP WRITE OFFS				230	271,140	0	3	12	7	271,392
FROM 1013300011 - BANK OF AMERICA GEN DEP CHECKS IN					89	99			0	188
FROM 1013300012 - BANK OF AMERICA GEN DEP ACH IN		83,248,000	834,920,500	1,414,850,924	1,006,398,932	2,666,993,288	4,033,310,511	3,291,396,034	3,676,216,302	17,007,334,491
FROM 1013300017 - BANK OF AMERICA GEN DEP BANK FEES		868	629	1,536	593	1,812	365	594	582	6,978
FROM 1013301000 - BOA_CASH_STO_GDA_INT ACCT									580,000,000	580,000,000
FROM 1013301002 - BOA_GDA_INT_ACCT ACH OUT									380,000,000	380,000,000
FROM 1013301012 - BOA_GDA_INT_ACCT ACH IN									200,000,000	200,000,000
FROM 1016300002 - SYNOVUS GEN DEP ACH OUT			51,722,700							51,722,700
FROM 9999999999 - CONVERSION ACCOUNT		5,747,493,053	269,796,162							6,017,289,215
TO 1011300702 - WELLS FARGO GEN DEP ACH OUT				(145,272,443)		(313,406,267)	(46,822,852)	(139,398)	(437,359,003)	(942,999,962)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN		(147 847 800)	(1 697 527 300)	(1 941 380 086)	(1 694 665 758)	(2 326 194 316)	(2 260 881 536)	(3 250 348 803)	(1 902 065 280)	(15 220 910 879)
TO 1013300000 - BOA CASH_STO_GENERAL DEPOSIT ACCOUNT		(462,860,868)	(834,923,609)	(1,414,852,690)	(1,010,221,314)	(2,666,995,198)	(4,033,310,877)	(3,291,396,634)	(3,776,216,887)	(17,490,778,077)
TO 1013300002 - BANK OF AMERICA GEN DEP ACH OUT		(147,847,800)	(1,702,195,200)	(1,950,890,586)	(1,698,216,321)	(2,277,533,993)	(2,223,286,579)	(3,246,904,428)	(1,807,366,942)	(15,054,241,849)
TO 1013300007 - BANK OF AMERICA GEN DEP WRITE OFFS		(6)	(0)	(230)	(28)	(271,115)	(3)	(12)	(5)	(271,398)
TO 1013300011 - BANK OF AMERICA GEN DEP CHECKS IN					(3)				(0)	(3)
TO 1013300012 - BANK OF AMERICA GEN DEP ACH IN									(391,524,145)	(391,524,145)
TO 1013300017 - BANK OF AMERICA GEN DEP BANK FEES		(868)	(629)	(1,536)	(679)	(1,910)	(365)	(594)	(582)	(7,163)
TO 1013301000 - BOA_CASH_STO_GDA_INT ACCT									(300,000,000)	(300,000,000)
TO 1013301002 - BOA_GDA_INT_ACCT ACH OUT									(480,000,000)	(480,000,000)
TO 1013301012 - BOA_GDA_INT_ACCT ACH IN									(100,000,000)	(100,000,000)
TO 1016300012 - SYNOVUS GEN DEP ACH IN			(4,667,900)							(4,667,900)
TO 9999999999 - CONVERSION ACCOUNT		(6,602,000,564)	(725,639,266)							(7,327,639,829)
101330 - Bank of America Total		**(391,302,717)**	**(1,324,120,003)**	**(526,529,162)**	**(688,266,828)**	**389,459,294**	**1,810,023,932**	**(255,508,394)**	**1,800,373,506**	**814,129,629**
101530 - United Community Bank										
FROM 1011300715 - WELLS FARGO GEN DEP TRF IN		152,448								152,448
FROM 1015300000 - UNITED COMMUNITY BANK_E16_CASH_GEN DEP	382,871	1,134,144	1,059,674	1,123,353	1,006,079	314,621	73,579	73,986	111,493	5,279,801
FROM 1015300005 - UNITED COMMUNITY BANK GEN DEP TRF OUT		152,448								152,448
FROM 1015300007 - UNITED COMMUNITY BANK GEN DEP WRITE OFFS					3,399					3,399
FROM 1015300017 - UNITED COMMUNITY BANK GEN DEP BANK FEES		10	152	321	10		17			511
FROM 1025300000 - BANK OF CLARENDON_E16_CASH_GEN DEP	32									32
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(3,804,154)									(3,804,154)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(945,316)	(1,123,032)	(1,006,069)	(311,223)	(73,562)	(73,986)	(111,493)	(3,644,681)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(382,871)	(1,134,134)	(114,205)							(1,631,210)
TO 1015300000 - UNITED COMMUNITY BANK_E16_CASH_GEN DEP		(152,458)	(152)	(321)	(3,409)		(17)			(156,357)
TO 1015300002 - UNITED COMMUNITY BANK GEN DEP ACH OUT			(945,316)	(1,123,032)	(1,006,069)	(311,223)	(73,562)	(73,986)	(111,493)	(3,644,681)
TO 1015300005 - UNITED COMMUNITY BANK GEN DEP TRF OUT	(382,871)	(1,134,134)	(114,205)							(1,631,210)
TO 1015300007 - UNITED COMMUNITY BANK GEN DEP WRITE OFFS						(3,399)				(3,399)
TO 1015300017 - UNITED COMMUNITY BANK GEN DEP BANK FEES		(10)	(152)	(321)	(10)		(17)			(511)
101530 - United Community Bank Total	**(4,186,993)**	**(981,687)**	**(1,059,522)**	**(1,123,032)**	**(1,006,069)**	**(311,223)**	**(73,562)**	**(73,986)**	**(111,493)**	**(8,927,566)**
101630 - Synovus										
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT		10,723,200	134,573,832	10,269,293	2,854,995	21,136,177	70,194,791	135,691,600	5,516,090	390,959,979
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN					365 200		5 028 500	9 400	911 900	6 315 000
FROM 1013300002 - BANK OF AMERICA GEN DEP ACH OUT		3,745,700	45,163,200	8,864,800						57,773,700
FROM 1016300000 - SYNOVUS CASH_GEN DEP		55,857,724	196,501,650	39,847,494	10,224,564	2,778,334	100,320,681	155,856,644	11,197,471	572,584,561
FROM 1016300002 - SYNOVUS GEN DEP ACH OUT				2,011,217	613,764	48,830	3,758,581	1,488,243	672,928	8,593,563
FROM 1016300005 - SYNOVUS GEN DEP TRF OUT		129,404	2,117,750	594,230						2,841,383
FROM 1016300007 - SYNOVUS GEN DEP WRITE OFFS			1	1		0			0	2
FROM 1016300012 - SYNOVUS GEN DEP ACH IN		14,468,900	184,360,157	24,400,493	592,000	19,754,100	92,303,000	137,002,600	6,908,237	479,789,487
FROM 1016300017 - SYNOVUS GEN DEP BANK FEES				319					105	424
FROM 1016300100 - SYNOVUS RESTRICTED CASH_GEN DEP		1,091,297	19,257	35,073	1,818	9,063	241,991	670	2,769,037	4,168,206

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Sum of Amount in local currency

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
FROM 1016300102 - SYNOVUS RESTRICTED GEN DEP ACH OUT			19,257						2,769,037	2,788,294
FROM 1016300112 - SYNOVUS RESTRICTED GEN DEP ACH IN				2,011,217	2,876,759	1,446,038	4,000,572	1,488,243	2,084,819	13,907,648
FROM 1016300115 - SYNOVUS RESTRICTED GEN DEP TRF IN		129,404	3,129,482	594,230						3,853,115
FROM 1016300117 - SYNOVUS RESTRICTED GEN DEP BANK FEES					1,818	852		670		3,340
FROM 1017300002 - TD BANK GEN DEP ACH OUT			4,998,600				935,900	173,300		6,107,800
FROM 1020300002 - FIRST CITIZENS GEN DEP ACH OUT			617,000	2,396,300			20,922,200	1,137,700	35,000	25,108,200
FROM 1021300002 - TRUIST GEN DEP ACH OUT				2,870,100			492,100			3,362,200
FROM 9999999999 - CONVERSION ACCOUNT		138								138
TO 1011300702 - WELLS FARGO GEN DEP ACH OUT						(2,583)	(241,991)			(244,575)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN		(10,160,400)	(148,957,500)	(36,515,200)	(9,729,100)	(2,629,500)	(101,590,600)	(154,357,700)	(10,410,300)	(474,350,300)
TO 1013300012 - BANK OF AMERICA GEN DEP ACH IN		(4,067,900)	(45,313,500)							(49,381,400)
TO 1016300000 - SYNOVUS CASH_GEN DEP		(30,288,517)	(184,360,157)	(24,435,885)	(592,000)	(19,762,311)	(92,303,000)	(137,002,600)	(6,908,343)	(495,652,813)
TO 1016300002 - SYNOVUS GEN DEP ACH OUT		(14,228,300)	(194,383,900)	(39,288,017)	(10,224,564)	(2,770,122)	(100,320,681)	(155,856,643)	(11,227,528)	(528,299,755)
TO 1016300005 - SYNOVUS GEN DEP TRF OUT		(129,404)	(2,117,750)	(594,230)						(2,841,383)
TO 1016300007 - SYNOVUS GEN DEP WRITE OFFS			(1)	(3)		(2)		(1)		(7)
TO 1016300012 - SYNOVUS GEN DEP ACH IN			(19,257)						(2,769,037)	(2,788,294)
TO 1016300017 - SYNOVUS GEN DEP BANK FEES				(319)					(105)	(424)
TO 1016300100 - SYNOVUS RESTRICTED CASH_GEN DEP		(129,404)	(3,129,482)	(2,570,374)	(2,878,577)	(1,438,679)	(4,000,572)	(1,488,913)	(2,054,656)	(17,690,656)
TO 1016300102 - SYNOVUS RESTRICTED GEN DEP ACH OUT			(19,257)						(2,769,037)	(2,788,294)
TO 1016300112 - SYNOVUS RESTRICTED GEN DEP ACH IN				(2,011,217)	(613,764)	(65,253)	(4,000,572)	(1,488,243)	(672,928)	(8,851,977)
TO 1016300115 - SYNOVUS RESTRICTED GEN DEP TRF IN		(129,404)	(2,117,750)	(594,230)						(2,841,383)
TO 1016300117 - SYNOVUS RESTRICTED GEN DEP BANK FEES					(1,818)	(852)		(670)		(3,340)
TO 1017300012 - TD BANK GEN DEP ACH IN					(56,600)	(65,600)		(9,700)	(10,300)	(142,200)
TO 1020300012 - FIRST CITIZENS GEN DEP ACH IN								(10,400)	(1,040,200)	(1,050,600)
TO 1021300012 - TRUIST GEN DEP ACH IN				(761,600)	(117,700)	(24,900)				(904,200)
TO 1026300012 - SOUTH STATE BANK GEN DEP ACH IN					(72,600)					(72,600)
TO 1036300012 - JPMC GEN DEP ACH IN									(5,700)	(5,700)
TO 2400600002 - DUE TO OTHER FUNDS - EQUITY IN POOLED CASH						(90,291)				(90,291)
TO 9999999999 - CONVERSION ACCOUNT		(1,994,322,067)								(1,994,322,067)
101630 - Synovus Total		**(1,967,309,630)**	**(8,918,368)**	**(12,876,308)**	**(6,755,805)**	**18,323,301**	**(4,259,100)**	**(17,365,801)**	**(5,003,509)**	**(2,004,165,219)**
101730 - TD Bank										
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT		1,349,800	13,302,000	12,616,700	3,073,900	95,883,000	20,972,800	45,168,800	7,680,600	200,047,600
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN					520,300		6,088,100	5,037,300	317,300	11,963,000
FROM 1013300002 - BANK OF AMERICA GEN DEP ACH OUT		2,580,600	15,982,200							18,562,800
FROM 1016300002 - SYNOVUS GEN DEP ACH OUT			1,195,100					11,924,100		13,119,200
FROM 1017300000 - TD BANK_E16_CASH_GEN DEP		30,128,800	130,941,187	99,425,500	81,405,012	112,107,900	95,340,300	100,857,742	46,666,355	696,872,796
FROM 1017300007 - TD Bank GEN DEP WRITE OFFS			0							0
FROM 1017300012 - TD BANK GEN DEP ACH IN		3,930,400	30,773,400	15,575,500	3,073,900	97,073,500	20,975,500	58,111,000	7,744,100	237,257,300
FROM 1017300017 - TD BANK GEN DEP BANK FEES			187		112			142	55	496
FROM 1020300002 - FIRST CITIZENS GEN DEP ACH OUT				2,958,800		1,183,500	2,700	1,018,100	63,500	5,226,600
FROM 1026300002 - SOUTH STATE BANK GEN DEP ACH OUT			294,100			7,000				301,100
TO 1011300712 - WELLS FARGO GEN DEP ACH IN		(5,173,400)	(104,937,700)	(94,436,700)	(81,646,400)	(112,107,900)	(100,941,500)	(104,141,400)	(46,860,600)	(650,245,600)
TO 1013300012 - BANK OF AMERICA GEN DEP ACH IN		(6,705,700)	(8,357,800)	(137,800)						(15,201,300)
TO 1016300012 - SYNOVUS GEN DEP ACH IN			(9,560,000)	(620,300)			(486,900)	(266,300)		(10,933,500)
TO 1017300000 - TD BANK_E16_CASH_GEN DEP		(109,813,400)	(30,479,487)	(15,575,500)	(3,074,012)	(97,073,500)	(20,975,500)	(58,111,142)	(7,744,155)	(342,846,696)
TO 1017300002 - TD BANK GEN DEP ACH OUT		(11,879,100)	(131,124,900)	(99,425,500)	(81,404,900)	(112,107,900)	(95,340,300)	(100,857,600)	(46,666,300)	(678,806,500)
TO 1017300005 - TD BANK GEN DEP TRF OUT			(110,200)							(110,200)
TO 1017300017 - TD BANK GEN DEP BANK FEES			(187)		(112)			(142)	(55)	(496)
TO 1020300012 - FIRST CITIZENS GEN DEP ACH IN			(8,269,400)					(1,448,500)	(6,500)	(9,724,400)
TO 1021300012 - TRUIST GEN DEP ACH IN				(4,230,700)	(278,800)			(38,700)		(4,548,200)
TO 1026300005 - SOUTH STATE BANK GEN DEP TRF OUT			(110,200)							(110,200)
TO 1036300012 - JPMC GEN DEP ACH IN									(116,500)	(116,500)
TO 9999999999 - CONVERSION ACCOUNT		(140,412,860)								(140,412,860)
101730 - TD Bank Total		**(235,994,860)**	**(100,461,700)**	**(83,850,000)**	**(78,331,000)**	**(15,034,400)**	**(74,364,800)**	**(42,746,600)**	**(38,922,200)**	**(669,705,560)**
101830 - Farmers & Merchants										
FROM 1018300000 - FARMERS AND MERCHANTS GENERAL DEPOSIT	285	428	1,551	309	473	734	264	1,895	3,189	9,127
FROM 1018300011 - FARMERS AND MERCHANTS GEN DEP CHECKS IN			124							124
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(1,199)									(1,199)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(490)	(309)	(473)	(734)	(264)	(1,895)	(3,189)	(7,354)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(285)	(428)	(159)							(872)
TO 1018300002 - FARMERS AND MERCHANTS GEN DEP ACH OUT			(366)	(309)	(473)	(734)	(264)	(1,895)	(3,189)	(7,230)
TO 1018300005 - FARMERS AND MERCHANTS GEN DEP TRF OUT	(285)	(428)	(159)							(872)
TO 1018300011 - FARMERS AND MERCHANTS GEN DEP CHECKS IN			(1,149)							(1,149)
101830 - Farmers & Merchants Total	**(1,484)**	**(428)**	**(650)**	**(309)**	**(473)**	**(734)**	**(264)**	**(1,895)**	**(3,189)**	**(9,425)**
101930 - First National Holly Hill										
FROM 1011300715 - WELLS FARGO GEN DEP TRF IN		134,817								134,817
FROM 1019300000 - FIRST NTL HOLLY HILL_E16_CASH_GEN DEP	373,336	752,002	818,692	873,465	581,946	4,208	1,397	3,001	2,576	3,410,622
FROM 1019300005 - FIRST NTL HOLLY HILL GEN DEP TRF OUT		134,817								134,817
FROM 1019300017 - FIRST NTL HOLLY HILL GNDP BK FEES			128				27			155

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TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(2,687,716)									(2,687,716)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(732,839)	(873,465)	(581,946)	(4,208)	(1,370)	(3,001)	(2,576)	(2,199,405)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(373,336)	(886,819)	(85,725)							(1,345,880)
TO 1019300000 - FIRST NTL HOLLY HILL_E16_CASH_GEN DEP			(128)				(27)			(155)
TO 1019300002 - FIRST NTL HOLLY HILL GEN DEP ACH OUT			(732,839)	(873,465)	(581,946)	(4,208)	(1,370)	(3,001)	(2,576)	(2,199,405)
TO 1019300005 - FIRST NTL HOLLY HILL GEN DEP TRF OUT	(373,336)	(886,819)	(85,725)							(1,345,880)
TO 1019300017 - FIRST NTL HOLLY HILL GNDP BK FEES			(128)				(27)			(155)
101930 - First National Holly Hill Total	**(3,061,052)**	**(752,002)**	**(818,564)**	**(873,465)**	**(581,946)**	**(4,208)**	**(1,370)**	**(3,001)**	**(2,576)**	**(6,098,183)**
102030 - First Citizens										
FROM 1000030000 - GENERAL FUND APPROPRIATION CASH		110								110
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT		3,308,300	17,190,200		8,800	121,290,800	49,526,000	49,449,700	6,788,400	247,562,200
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN					281,500		5,328,800	4,987,700	2,198,300	12,796,300
FROM 1013300002 - BANK OF AMERICA GEN DEP ACH OUT			6,732,600							6,732,600
FROM 1016300002 - SYNOVUS GEN DEP ACH OUT			9,401,200					847,400		10,248,600
FROM 1020300000 - FIRST CITIZENS_E16_CASH_GEN DEP		45,263,646	190,644,096	256,879,241	273,315,104	313,031,058	330,327,660	293,245,691	271,452,495	1,974,158,992
FROM 1020300002 - FIRST CITIZENS GEN DEP ACH OUT						250,400			1,420,400	1,670,800
FROM 1020300007 - FIRST CITIZENS GEN DEP WRITE OFFS		14	11	24	143	62	51	10	6	321
FROM 1020300011 - FIRST CITIZENS GEN DEP CHECKS IN				0						0
FROM 1020300012 - FIRST CITIZENS GEN DEP ACH IN		3,308,300	33,324,000	3,326,600	8,800	121,290,800	49,526,000	50,297,100	6,788,400	267,870,000
FROM 1020300017 - FIRST CITIZENS GEN DEP BANK FEES		2,346	2,680	356	1,215	309	424	477	4,379	12,185
FROM 1021300002 - TRUIST GEN DEP ACH OUT				3,326,600						3,326,600
FROM 4530030000 - MISCELLANEOUS REVENUE		0								0
FROM 9999999999 - CONVERSION ACCOUNT		12,621,157								12,621,157
TO 1000030000 - GENERAL FUND APPROPRIATION CASH		(55)								(55)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN		(13,295,600)	(146,899,800)	(245,396,100)	(270,510,400)	(310,007,500)	(334,038,400)	(293,729,100)	(271,312,900)	(1,885,189,800)
TO 1013300012 - BANK OF AMERICA GEN DEP ACH IN			(23,139,000)	(2,170,700)						(25,309,700)
TO 1016300012 - SYNOVUS GEN DEP ACH IN			(19,431,000)	(1,478,400)		(2,307,900)	(1,617,600)	(3,302,600)		(28,137,500)
TO 1017300012 - TD BANK GEN DEP ACH IN				(626,600)	(64,700)	(464,900)			(375,900)	(1,532,100)
TO 1020300000 - FIRST CITIZENS_E16_CASH_GEN DEP		(70,781,146)	(33,326,691)	(3,326,975)	(10,092)	(121,541,541)	(49,526,451)	(50,297,582)	(8,213,182)	(337,023,658)
TO 1020300002 - FIRST CITIZENS GEN DEP ACH OUT		(13 295 600)	(190 641 400)	(256 878 800)	(273 313 800)	(313 030 700)	(330 327 200)	(293 245 200)	(271 448 100)	(1 942 180 800)
TO 1020300007 - FIRST CITIZENS GEN DEP WRITE OFFS			(20)	(156)	(185)	(98)	(70)	(29)	(33)	(590)
TO 1020300017 - FIRST CITIZENS GEN DEP BANK FEES		(2,346)	(2,680)	(356)	(1,215)	(309)	(424)	(477)	(4,379)	(12,185)
TO 1021300012 - TRUIST GEN DEP ACH IN			(1,171,600)	(7,207,000)	(2,429,400)			(1,201,200)		(12,009,200)
TO 1026300012 - SOUTH STATE BANK GEN DEP ACH IN					(590,800)					(590,800)
TO 1036300012 - JPMC GEN DEP ACH IN									(537,200)	(537,200)
TO 4530130000 - UNIDENT BANK DEPOSITS OR ADJUSTMENTS		(14)								(14)
TO 9999999999 - CONVERSION ACCOUNT		(669,533,454)								(669,533,454)
102030 - First Citizens Total		**(702,404,342)**	**(157,317,404)**	**(253,552,266)**	**(273,305,029)**	**(191,489,518)**	**(280,801,210)**	**(242,948,109)**	**(263,239,313)**	**(2,365,057,192)**
102130 - Truist										
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT		14,936,000	37,988,300	49,774,400	19,739,400	78,210,300	15,089,600	15,598,600		231,336,600
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN							1,001,800	1,000,300	807,200	2,809,300
FROM 1013300002 - BANK OF AMERICA GEN DEP ACH OUT		459,400	23,289,400	6,670,000						30,418,800
FROM 1016300002 - SYNOVUS GEN DEP ACH OUT			5,446,400							5,446,400
FROM 1017300002 - TD BANK GEN DEP ACH OUT			1,351,600	8,876,900	6,893,900	18,600				17,141,000
FROM 1020300002 - FIRST CITIZENS GEN DEP ACH OUT			4,492,200	9,215,500		129,300	5,497,900	46,500	600	19,382,000
FROM 1021300000 - TRUIST_E16_CASH_GEN DEP		8,032,700	88,452,400	84,406,400	44,925,100	74,030,100	36,561,300	20,357,600	140,300	356,905,900
FROM 1021300002 - TRUIST GEN DEP ACH OUT									100	100
FROM 1021300007 - TRUIST GEN DEP WRITE OFFS				0	8			1		9
FROM 1021300012 - TRUIST GEN DEP ACH IN		15,395,400	72,567,900	74,536,800	26,633,300	78,358,200	20,587,500	15,645,100	600	303,724,800
FROM 9999999999 - CONVERSION ACCOUNT		12,424,911	2,024,118							14,449,029
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(74,870,100)	(84,406,400)	(44,802,000)	(74,025,300)	(37,563,100)	(21,356,000)	(947,000)	(337,969,900)
TO 1013300012 - BANK OF AMERICA GEN DEP ACH IN		(942,800)	(3,708,500)							(4,651,300)
TO 1016300012 - SYNOVUS GEN DEP ACH IN			(9,873,800)					(1,700)		(9,875,500)
TO 1017300012 - TD BANK GEN DEP ACH IN					(62,000)	(2,700)		(200)		(64,900)
TO 1020300012 - FIRST CITIZENS GEN DEP ACH IN						(2,100)				(2,100)
TO 1021300000 - TRUIST_E16_CASH_GEN DEP		(21,397,600)	(72,567,900)	(74,536,800)	(26,633,300)	(78,358,200)	(20,587,500)	(15,645,100)	(700)	(309,727,100)
TO 1021300002 - TRUIST GEN DEP ACH OUT		(942,800)	(88,452,400)	(84,406,400)	(44,925,100)	(74,030,100)	(36,561,300)	(20,357,600)	(140,300)	(349,816,000)
TO 1021300007 - TRUIST GEN DEP WRITE OFFS			(1)	(1)						(1)
TO 1026300012 - SOUTH STATE BANK GEN DEP ACH IN					(61,100)					(61,100)
TO 1036300012 - JPMC GEN DEP ACH IN									(400)	(400)
TO 9999999999 - CONVERSION ACCOUNT		(24,849,823)	(4,023,637)							(28,873,460)
102130 - Truist Total		**3,115,389**	**(17,884,020)**	**(9,869,600)**	**(18,291,792)**	**4,328,100**	**(15,973,800)**	**(4,712,499)**	**(139,600)**	**(59,427,823)**
102430 - Arthur State Bank										
FROM 1011300715 - WELLS FARGO GEN DEP TRF IN		69,893								69,893
FROM 1024300000 - ARTHUR STATE BANK_E16_CASH_GEN DEP	198,673	431,369	380,867	429,932	345,625	167,306	108,671	70,468	102,471	2,235,383
FROM 1024300005 - ARTHUR STATE BANK GEN DEP TRF OUT		69,893								69,893
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(1,599,426)									(1,599,426)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(339,756)	(429,932)	(345,625)	(167,306)	(108,671)	(70,468)	(102,471)	(1,564,230)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(198,673)	(431,369)	(41,111)							(671,153)

Fund	30350993
Account	(All)

Sum of Amount in local currency	2015	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
TO 1024300000 - ARTHUR STATE BANK_E16_CASH_GEN DEP		(69,893)								(69,893)
TO 1024300002 - ARTHUR STATE BANK GEN DEP ACH OUT			(339,756)	(429,932)	(345,625)	(167,306)	(108,671)	(70,468)	(102,471)	(1,564,230)
TO 1024300005 - ARTHUR STATE BANK GEN DEP TRF OUT	(198,673)	(431,369)	(41,111)							(671,153)
102430 - Arthur State Bank Total	**(1,798,098)**	**(361,476)**	**(380,867)**	**(429,932)**	**(345,625)**	**(167,306)**	**(108,671)**	**(70,468)**	**(102,471)**	**(3,764,916)**
102530 - Bank of Clarendon										
FROM 1000030000 - GENERAL FUND APPROPRIATION CASH	1,583									1,583
FROM 1011300715 - WELLS FARGO GEN DEP TRF IN		253,469								253,469
FROM 1025300000 - BANK OF CLARENDON_E16_CASH_GEN DEP	589,121	1,768,960	1,913,758	2,078,732	1,986,530	1,093,585	1,180,065	989,192	1,030,520	12,630,461
FROM 1025300002 - BANK OF CLARENDON GEN DEP ACH OUT			251,566		141,483					393,049
FROM 1025300005 - BANK OF CLARENDON GEN DEP TRF OUT		253,469								253,469
TO 1000030000 - GENERAL FUND APPROPRIATION CASH	(19,786)									(19,786)
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(4,543,465)									(4,543,465)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(1,485,670)	(2,078,732)	(1,845,047)	(1,093,585)	(1,180,065)	(989,192)	(1,030,520)	(9,702,811)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(589,121)	(1,768,960)	(176,521)							(2,534,602)
TO 1025300000 - BANK OF CLARENDON_E16_CASH_GEN DEP		(253,469)	(251,566)		(141,483)					(646,518)
TO 1025300002 - BANK OF CLARENDON GEN DEP ACH OUT			(1,737,237)	(2,078,732)	(1,986,530)	(1,093,585)	(1,180,065)	(989,192)	(1,030,520)	(10,095,860)
TO 1025300005 - BANK OF CLARENDON GEN DEP TRF OUT	(589,121)	(1,768,960)	(176,521)							(2,534,602)
TO 1034300000 - PALMETTO STATE BANK_E16_CASH_GEN DEP	(6,244)									(6,244)
102530 - Bank of Clarendon Total	**(5,157,032)**	**(1,515,490)**	**(1,662,192)**	**(2,078,732)**	**(1,845,047)**	**(1,093,585)**	**(1,180,065)**	**(989,192)**	**(1,030,520)**	**(16,551,855)**
102630 - South State Bank										
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT		2,262,500	598,000		1,631,800	12,911,000	10,033,600	83,181,700	931,600	111,550,200
FROM 1011300707 - WF GENERAL DEPOSIT WRITE OFFS		1								1
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN					109,800		115,100	1,018,700	235,400	1,479,000
FROM 1013300002 - BANK OF AMERICA GEN DEP ACH OUT		44,400	3,097,100	516,400						3,657,900
FROM 1016300002 - SYNOVUS GEN DEP ACH OUT			1,636,900							1,636,900
FROM 1017300002 - TD BANK GEN DEP ACH OUT			143,500	1,270,000						1,413,500
FROM 1017300005 - TD BANK GEN DEP TRF OUT			110,200							110,200
FROM 1020300002 - FIRST CITIZENS GEN DEP ACH OUT						351,700		60,200	836,200	1,248,100
FROM 1021300002 - TRUIST GEN DEP ACH OUT			1 235 800							1 235 800
FROM 1026300000 - SOUTH STATE BANK GENERAL DEPOSIT		2,139,255	26,925,026	21,510,929	23,702,715	30,982,860	31,497,538	107,083,762	28,461,794	272,303,879
FROM 1026300005 - SOUTH STATE BANK GEN DEP TRF OUT			110,200							110,200
FROM 1026300007 - SOUTH STATE GENERAL DEPOSIT WRITE OFFS			1	2	2,376					2,379
FROM 1026300012 - SOUTH STATE BANK GEN DEP ACH IN			4,155,100	1,786,400	1,631,800	13,262,700	10,033,600	83,241,900	1,767,800	115,879,300
FROM 1026300015 - SOUTH STATE BANK GEN DEP TRF IN		2,306,900	2,556,200							4,863,100
FROM 1026300017 - SOUTH STATE BANK GEN DEP BK FEES		54	626	1,029	2,515	885	1,938	962	1,494	9,504
FROM 9999999999 - CONVERSION ACCOUNT		8,776,973								8,776,973
TO 1011300712 - WELLS FARGO GEN DEP ACH IN		(338,500)	(22,009,600)	(19,306,700)	(23,607,800)	(30,834,100)	(31,318,400)	(106,427,200)	(27,622,400)	(261,464,700)
TO 1013300012 - BANK OF AMERICA GEN DEP ACH IN		(281,700)	(2,786,800)	(350,900)						(3,419,400)
TO 1016300012 - SYNOVUS GEN DEP ACH IN			(1,944,100)	(204,700)		(29,800)	(292,300)	(1,472,100)		(3,943,000)
TO 1017300012 - TD BANK GEN DEP ACH IN			(294,100)		(54,100)	(56,700)		(66,600)	(958,500)	(1,430,000)
TO 1020300012 - FIRST CITIZENS GEN DEP ACH IN						(59,000)		(135,600)	(58,300)	(252,900)
TO 1021300012 - TRUIST GEN DEP ACH IN				(1,647,600)	(148,100)					(1,795,700)
TO 1026300000 - SOUTH STATE BANK GENERAL DEPOSIT		(9,881,954)	(6,711,927)	(1,787,430)	(1,636,690)	(13,263,585)	(10,035,538)	(83,242,862)	(1,769,294)	(128,329,280)
TO 1026300002 - SOUTH STATE BANK GEN DEP ACH OUT			(13,170,700)	(21,509,900)	(23,700,200)	(30,979,600)	(31,495,600)	(107,082,800)	(28,460,300)	(256,399,100)
TO 1026300005 - SOUTH STATE BANK GEN DEP TRF OUT		(620,200)	(13,863,900)							(14,484,100)
TO 1026300007 - SOUTH STATE GENERAL DEPOSIT WRITE OFFS		(1)		(1)		(2,375)				(2,376)
TO 1026300017 - SOUTH STATE BANK GEN DEP BK FEES		(54)	(626)	(1,029)	(2,515)	(885)	(1,938)	(962)	(1,494)	(9,504)
TO 1036300012 - JPMC GEN DEP ACH IN									(56,500)	(56,500)
TO 9999999999 - CONVERSION ACCOUNT		(17,452,268)								(17,452,268)
102630 - South State Bank Total		**(13,044,595)**	**(20,213,099)**	**(19,723,499)**	**(22,068,399)**	**(17,716,900)**	**(21,462,000)**	**(23,840,900)**	**(26,692,500)**	**(164,761,893)**
102830 - Bank of Travelers Rest										
FROM 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	7,392									7,392
FROM 1028300000 - BANK OF TRAVELER'S REST_E16_CASH_GEN DEP	26,467	3,000								29,467
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(222,935)									(222,935)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(26,467)	(3,000)								(29,467)
TO 1028300005 - BANK OF TRAVELERS REST GEN DEP TRF OUT	(26,467)	(3,000)								(29,467)
102830 - Bank of Travelers Rest Total	**(242,009)**	**(3,000)**								**(245,009)**
102930 - Blue Ridge Bank										
FROM 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	17,054									17,054
FROM 1029300000 - BLUE RIDGE BANK E16 CASH GEN DEP	79 935	126 532	139 815	119 161	118 495	111 813	130 469	120 730	111 256	1 058 204
FROM 1029300017 - BLUE RIDGE BANK GEN DEP BANK FEES		5	5							10
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(258,609)									(258,609)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(114,194)	(119,161)	(118,495)	(111,813)	(130,469)	(120,730)	(111,256)	(826,117)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(79,935)	(126,527)	(25,616)							(232,077)
TO 1029300000 - BLUE RIDGE BANK_E16_CASH GEN DEP		(5)	(5)							(10)
TO 1029300002 - BLUE RIDGE BANK GEN DEP ACH OUT			(114,194)	(119,161)	(118,495)	(111,813)	(130,469)	(120,730)	(111,256)	(826,117)
TO 1029300005 - BLUE RIDGE BANK GEN DEP TRF OUT	(79,935)	(126,527)	(25,616)							(232,077)
TO 1029300017 - BLUE RIDGE BANK GEN DEP BANK FEES		(5)	(5)							(10)

Fund	30350993
Account	(All)

Sum of Amount in local currency	2015	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
102930 - Blue Ridge Bank Total	**(321,490)**	**(126,527)**	**(139,810)**	**(119,161)**	**(118,495)**	**(111,813)**	**(130,469)**	**(120,730)**	**(111,256)**	**(1,299,750)**
103230 - Enterprise Bank										
FROM 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	19,178									19,178
FROM 1011300715 - WELLS FARGO GEN DEP TRF IN		15,155								15,155
FROM 1032300000 - ENTERPRISE BANK_E16_CASH_GEN DEP	126,565	180,998	197,057	204,738	200,040	202,730	288,548	323,671	289,180	2,013,528
FROM 1032300002 - ENTERPRISE BANK GEN DEP ACH OUT								26,546		26,546
FROM 1032300005 - ENTERPRISE BANK GEN DEP TRF OUT		15,155								15,155
FROM 1032300017 - ENTERPRISE BANK GEN DEP BANK FEES				34	143	36	112		131	455
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(348,282)									(348,282)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(165,163)	(204,738)	(199,898)	(202,695)	(288,436)	(297,125)	(289,050)	(1,647,104)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(126,565)	(196,153)	(31,861)							(354,579)
TO 1032300000 - ENTERPRISE BANK_E16_CASH_GEN DEP				(34)	(143)	(36)	(112)	(26,546)	(131)	(27,001)
TO 1032300002 - ENTERPRISE BANK GEN DEP ACH OUT			(165,163)	(204,738)	(199,898)	(202,695)	(288,436)	(323,671)	(289,050)	(1,673,650)
TO 1032300005 - ENTERPRISE BANK GEN DEP TRF OUT	(126,565)	(196,153)	(31,861)							(354,579)
TO 1032300017 - ENTERPRISE BANK GEN DEP BANK FEES			(34)		(143)	(36)	(112)		(131)	(455)
103230 - Enterprise Bank Total	**(455,669)**	**(180,998)**	**(197,023)**	**(204,738)**	**(199,898)**	**(202,695)**	**(288,436)**	**(297,125)**	**(289,050)**	**(2,315,632)**
103430 - Palmetto State Bank										
FROM 1000030000 - GENERAL FUND APPROPRIATION CASH	6									6
FROM 1011300715 - WELLS FARGO GEN DEP TRF IN		422,778								422,778
FROM 1025300000 - BANK OF CLARENDON_E16_CASH_GEN DEP	5,159									5,159
FROM 1034300000 - PALMETTO STATE BANK_E16_CASH_GEN DEP	854,018	2,299,905	2,644,027	3,044,450	2,346,919	1,041,061	964,386	774,398	953,995	14,923,160
FROM 1034300002 - PALMETTO STATE BANK GEN DEP ACH OUT				225,749					89,487	315,236
FROM 1034300005 - PALMETTO STATE BANK GEN DEP TRF OUT		422,778								422,778
FROM 1034300017 - PALMETTO STATE BK GEN DEP BANK FEES			31	4	19	4		29	12	99
TO 1000030000 - GENERAL FUND APPROPRIATION CASH	(616)									(616)
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	(8,278,469)									(8,278,469)
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(2,380,285)	(2,818,697)	(2,346,900)	(1,041,053)	(964,361)	(774,394)	(864,504)	(11,190,195)
TO 1011300715 - WELLS FARGO GEN DEP TRF IN	(854,018)	(2,722,684)	(263,711)							(3,840,413)
TO 1034300000 - PALMETTO STATE BANK E16 CASH GEN DEP			(31)	(225 753)	(19)	(4)		(29)	(89 491)	(315 327)
TO 1034300002 - PALMETTO STATE BANK GEN DEP ACH OUT			(2,380,285)	(3,044,446)	(2,346,900)	(1,041,053)	(964,361)	(774,394)	(953,991)	(11,505,430)
TO 1034300005 - PALMETTO STATE BANK GEN DEP TRF OUT	(854,018)	(2,722,684)	(263,711)							(3,840,413)
TO 1034300017 - PALMETTO STATE BK GEN DEP BANK FEES			(31)	(4)	(19)	(12)	(25)	(4)	(12)	(107)
103430 - Palmetto State Bank Total	**(9,127,938)**	**(2,299,905)**	**(2,643,996)**	**(2,818,697)**	**(2,346,900)**	**(1,041,057)**	**(964,361)**	**(774,394)**	**(864,504)**	**(22,881,753)**
103630 - JPMC										
FROM 1011300702 - WELLS FARGO GEN DEP ACH OUT									5,000,000	5,000,000
FROM 1011300712 - WELLS FARGO GEN DEP ACH IN									57,500	57,500
FROM 1036300012 - JPMC GEN DEP ACH IN									5,000,000	5,000,000
TO 1011300712 - WELLS FARGO GEN DEP ACH IN									(57,500)	(57,500)
TO 1036300000 - JPMC CASH_STO_GENERAL DEPOSIT ACCOUNT									(5,000,000)	(5,000,000)
103630 - JPMC Total									**5,000,000**	**5,000,000**
106330 - Bank of New York										
FROM 1063300300 - BANK OF NEW YORK/MELLON GENERAL DEPOSIT					1,361					1,361
FROM 1063300307 - BONY GENERAL WRITE OFFS			0	0	2,721					2,722
FROM 2400600002 - DUE TO OTHER FUNDS - EQUITY IN POOLED CASH				0						0
FROM 4530130000 - UNIDENT BANK DEPOSITS OR ADJUSTMENTS			0							0
TO 1063300300 - BANK OF NEW YORK/MELLON GENERAL DEPOSIT			(0)		(1,361)					(1,361)
TO 1063300307 - BONY GENERAL WRITE OFFS			(0)	(0)	(2,721)					(2,722)
TO 2400600002 - DUE TO OTHER FUNDS - EQUITY IN POOLED CASH				(0)						(0)
TO 4530130000 - UNIDENT BANK DEPOSITS OR ADJUSTMENTS			(0)							(0)
106330 - Bank of New York Total			**-**	**-**	**-**					**-**
107630 - Anderson Brothers										
FROM 1076300000 - ANDERSON BROTHERS_E16_CASH_GEN DEP			500							500
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(500)							(500)
TO 1076300002 - ANDERSON BROTHERS GEN DEP ACH OUT			(500)							(500)
107630 - Anderson Brothers Total			**(500)**							**(500)**
108730 - Carolina Bank & Trust										
FROM 1087300000 - CAROLINA BANK AND TRUST_E16_CASH_GEN DEP			500							500
TO 1011300712 - WELLS FARGO GEN DEP ACH IN			(500)							(500)
TO 1087300002 - CAROLINA BANK & TRUST GEN DEP ACH OUT			(500)							(500)
108730 - Carolina Bank & Trust Total			**(500)**							**(500)**
240060 - Due to Other Funds (Equity in Pooled Cash)										
FROM 1011300000 - WF_E16_STO_Contingent Acct_CASH				34,856,052						34,856,052
FROM 1011300100 - WF_E16_STO_Special Payments_CASH							107,356			107,356
FROM 1016300100 - SYNOVUS RESTRICTED CASH_GEN DEP						90,291				90,291
FROM 1063300307 - BONY GENERAL WRITE OFFS				0						0

Fund	30350993
Account	(All)

Sum of Amount in local currency	2015	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
FROM 4660010000 - INVESTMENT EARNINGS					9,290					9,290
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT				(324,624,771)						(324,624,771)
TO 4660010000 - INVESTMENT EARNINGS					(2,292,233)					(2,292,233)
TO 7000003000 - PRIOR PERIOD ADJUSTMENT - AGENCY				(0)						(0)
TO 9999999999 - CONVERSION ACCOUNT				(1,560,601,558)						(1,560,601,558)
240060 - Due to Other Funds (Equity in Pooled Cash) Total				**(1,850,370,278)**	**(2,282,943)**	**90,291**	**107,356**			**(1,852,455,573)**
999999 - Conversion										
FROM 1000030000 - GENERAL FUND APPROPRIATION CASH		33,881,008	65,553,484,293							65,587,365,301
FROM 1000040000 - CASH DISBURSEMENTS-STO			3,937,672,151							3,937,672,151
FROM 1000060000 - LUMP-SUM DEPOSITS & WITHDRAWALS (CASH)			2,509,215,429							2,509,215,429
FROM 1010339900 - UC TRUST - FEDERAL		533,584,001								533,584,001
FROM 1011300000 - WF_E16_STO_Contingent Acct_CASH			35,187,206							35,187,206
FROM 1011300100 - WF_E16_STO_Special Payments_CASH			281,968,970							281,968,970
FROM 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT		6,577,517,978	84,912,528,257							91,490,046,235
FROM 1013300000 - BOA CASH_STO_GENERAL DEPOSIT ACCOUNT		6,602,000,564	725,639,266							7,327,639,829
FROM 1016300000 - SYNOVUS CASH_GEN DEP		272,495,579								272,495,579
FROM 1016300100 - SYNOVUS RESTRICTED CASH_GEN DEP		1,721,826,488								1,721,826,488
FROM 1017300000 - TD BANK_E16_CASH_GEN DEP		140,412,860								140,412,860
FROM 1020300000 - FIRST CITIZENS_E16_CASH_GEN DEP		669,533,454								669,533,454
FROM 1021300000 - TRUIST_E16_CASH_GEN DEP		24,849,823	4,023,637							28,873,460
FROM 1026300000 - SOUTH STATE BANK GENERAL DEPOSIT		17,452,268								17,452,268
FROM 2400600002 - DUE TO OTHER FUNDS - EQUITY IN POOLED CASH				1,560,601,558						1,560,601,558
FROM 7800020000 - MARK TO MARKET INVESTMENT OFFSET			33,881,008							33,881,008
FROM 9999999999 - CONVERSION ACCOUNT			3,102,094	595,119						3,697,213
TO 1000030000 - GENERAL FUND APPROPRIATION CASH		(8,464)	(39,842,995,211)							(39,843,003,675)
TO 1000040000 - CASH DISBURSEMENTS-STO			(6,022,345)							(6,022,345)
TO 1000060000 - LUMP-SUM DEPOSITS & WITHDRAWALS (CASH)			(3,022,740,244)							(3,022,740,244)
TO 1011000102 - WF_E16 LEGACY GENERAL DEPOSITORY_TAX		(797,472,598)								(797,472,598)
TO 1011300000 - WF_E16_STO_Contingent Acct_CASH		(17,593,109)	(10,730,954,923)							(10,748,548,032)
TO 1011300100 - WF_E16_STO_Special Payments_CASH			(563 937 941)							(563 937 941)
TO 1011300112 - WF SPECIAL PAYMENTS ACH IN			(17,533,887)							(17,533,887)
TO 1011300700 - WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT		(27,325,812,280)	(86,171,929,650)							(113,497,741,930)
TO 1013300000 - BOA CASH_STO_GENERAL DEPOSIT ACCOUNT		(5,747,493,053)	(269,796,162)							(6,017,289,215)
TO 1016300000 - SYNOVUS CASH_GEN DEP		(24)								(24)
TO 1016300100 - SYNOVUS RESTRICTED CASH_GEN DEP		(114)								(114)
TO 1020300000 - FIRST CITIZENS_E16_CASH_GEN DEP		(12,621,157)								(12,621,157)
TO 1021300000 - TRUIST_E16_CASH_GEN DEP		(12,424,911)	(2,024,118)							(14,449,029)
TO 1026300000 - SOUTH STATE BANK GENERAL DEPOSIT		(8,776,973)								(8,776,973)
TO 7800020000 - MARK TO MARKET INVESTMENT OFFSET			(2,420,672)							(2,420,672)
TO 9999999999 - CONVERSION ACCOUNT		(2,610,219)	(1,596,201,155)	(83,802)						(1,598,895,176)
999999 - Conversion Total		**(17,331,258,878)**	**15,770,146,003**	**1,561,112,875**						**0**
E160 Total	**0**	**1**	**29,128,102,782**	**511,252**	**(2,282,454)**	**(87)**	**4**	**(37)**	**33**	**29,126,331,493**
Grand Total	**0**	**1**	**29,128,102,782**	**511,252**	**(2,282,454)**	**(87)**	**4**	**(37)**	**33**	**29,126,331,493**

CMIA Statute

H.R.4279

One Hundred First Congress of the United States of America

At the Second Session

Begun and held at the City of Washington on Tuesday, the twenty-third day of January, one thousand nine hundred and ninety

An Act

To amend title 31, United States Code, to improve cash management of funds transferred between the Federal Government and the States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. Short Title.

This Act may be cited as the `Cash Management Improvement Act of 1990'.

Section. 2. Purpose.

The purpose of this Act is to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal Government and the States.

Section. 3. Technical Amendments.

Section 6501 of title 31, United States Code, is amended--

1. (1) in paragraph (2)(B) by striking `subclause (A) of this clause (2)' and inserting in lieu thereof `subparagraph (A)';
2. (2) in paragraph (2)(E) by striking `subclauses (A)-(D) of this clause (2)' and inserting in lieu thereof `subparagraphs (A), (B), (C), and (D)';
3. (3) in paragraph (4)(A) by striking `subclause (C) of this clause (4)' and inserting in lieu thereof `subparagraph (C)'; and
4. (4) in paragraph (4)(B) by striking `subclause (C) of this clause (4)' and inserting in lieu thereof `subparagraph (C)'.

Section. 4. Disbursement Objectives.

1. (a) IN GENERAL- Subchapter II of chapter 33 of title 31, United States Code, is amended by adding at the end thereof the following:

`Sec. 3335. Timely disbursement of Federal funds

1. `(a) Each head of an executive agency (other than the Tennessee Valley Authority) shall, under such regulations as the Secretary of the Treasury shall prescribe, provide for the timely disbursement of Federal funds through cash, checks, electronic funds transfer, or any other means identified by the Secretary.
2. `(b) The Secretary may collect from any executive agency which does not comply with subsection (a) a charge in an amount the Secretary determines to be the cost to the general fund of the Treasury caused by such noncompliance.
3. `(c) The amounts of charges collected from an executive agency under this section shall be deposited in the Treasury and credited as miscellaneous receipts.
4. `(d) Any charge assessed by the Secretary under this section, to the maximum extent practicable--
    1. `(1) shall be paid out of appropriations available for executive agency operations; and
    2. `(2) shall not be paid from amounts available for funding programs of an executive agency.'.

2. (b) CLERICAL AMENDMENT- The chapter analysis for chapter 33 of title 31, United States Code, is amended by inserting after the item relating to section 3334 the following:

`3335. Timely disbursement of Federal funds.'.

3. (c) REGULATIONS- The Secretary of the Treasury shall prescribe regulations under section 3335 of title 31, United States Code, as added by subsection (a), to ensure the full implementation of that section by the date which is 2 years after the date of the enactment of this Act.

Section. 5. Payment of Interest.

1. (a) DEFINITION OF STATE- Section 6501 of title 31, United States Code, is amended--
    1. (1) by redesignating paragraphs (7), (8), and (9) as paragraphs (8), (9), and (10), respectively;
    2. (2) by inserting after paragraph (6) the following new paragraph:

`(7) `Secretary' means the Secretary of the Treasury.'; and

3. (3) by striking out paragraph (9) (as redesignated by paragraph (1)) and inserting in lieu thereof the following:

`(9) `State' means a State of the United States, the District of Columbia, a territory or possession of the United States, and an agency, instrumentality, or fiscal agent of a State but does not mean a local government of a State.'.

2. (b) INTERGOVERNMENTAL TRANSFERS OF FUNDS; PAYMENT OF INTEREST- Section 6503 of title 31, United States Code, is amended to read as follows:

Section. 6503. Intergovernmental financing

1. `(a) Consistent with program purposes and with regulations of the Secretary, and in accordance with an agreement under subsection (b) entered into by the Secretary and a State--
    1. `(1) the head of an executive agency (other than the Tennessee Valley Authority) carrying out a program shall schedule transfers of funds to the State under the program so as to minimize the time elapsing between transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payments by other means by a State; and
    2. `(2) the State shall minimize the time elapsing between transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes.
2.
    1. `(b)(1) The Secretary shall enter into an agreement with each State to which transfers of funds are made, which establishes procedures and requirements for implementing this section.
    2. `(2) An agreement under this subsection shall--
        1. `(A) specify procedures chosen by the State for carrying out transfers of funds under the agreement;
        2. `(B) describe the process by which the Federal Government shall review and approve the implementation of the procedures specified under subparagraph (A);
        3. `(C) establish the methods to be used for calculating and documenting payments of interest pursuant to this section; and
        4. `(D) specify those types of costs directly incurred by the State for interest calculations required under this section, and require the Secretary to consider those costs in computing payments under this section.
    3. `(3) The Secretary shall issue regulations establishing procedures and requirements for implementing this section with respect to a State with which no agreement is entered into by the Secretary under paragraph (1). Such regulations shall apply to a State until such time as the Secretary enters into an agreement with the State under paragraph (1).
3.
    1. `(c)(1) The Secretary shall issue regulations that shall require a State, when not inconsistent with program purposes, to pay interest to the United States on funds from the time funds are deposited by the United States to the State's account until the time that funds are paid out by the State in order to redeem checks or warrants or make payments by other means for program purposes.

Except as provided under paragraph (3)(B) (relating to the Unemployment Trust Fund), the interest payable under this subsection shall be calculated at a rate equal to the average of the bond equivalent rates of 13-week Treasury bills auctioned during the period for which interest is calculated, as determined by the Secretary.

2. `(2) Except as provided in paragraph (3), amounts received by the United States as payment of interest under this subsection shall be deposited in the Treasury and credited as miscellaneous receipts.

3.

    1. `(3)(A) Amounts paid by a State under paragraph (1) as interest on funds paid to a State from a trust fund for which the Secretary is the trustee shall be credited to such trust fund.

    2. `(B) Notwithstanding any other provision of this section, amounts of interest paid by a State, on funds drawn from its account in the Unemployment Trust Fund, shall be deposited into that account and shall consist of actual interest earnings by the State, less related banking costs incurred by the State, for the period for which interest is calculated.

4.

    1. `(d)(1) If a State disburses its own funds for program purposes in accordance with Federal law, Federal regulation, or Federal-State agreement, the State shall be entitled to interest from the time the State's funds are paid out to redeem checks or warrants, or make payments by other means, until the Federal funds are deposited to the State's bank account. The Secretary shall pay, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary for interest owed to a State under this subsection. Such interest shall be calculated, at a rate equal to the average of the bond equivalent rates of 13-week Treasury bills auctioned during the period for which interest is calculated, as determined by the Secretary.

    2. `(2) If interest is paid under this subsection as a result of a State disbursing its own funds before receiving payment from a trust fund for which the Secretary of the Treasury is the trustee, such interest shall be charged against such trust fund.

5. `(e) The budget submitted by the President under section 1105 of this title for a fiscal year shall include a statement specifying, for the most recently completed fiscal year, amounts of interest accrued to the Federal Government under subsection (c) and amounts of interest paid to States under subsection (d).

6. `(f) If a State receives refunds of funds disbursed by the State under a Federal program, the State shall return those refunds to the Federal executive agency administering the

program or apply those refunds to reduce the amount of funds owed by the Federal Government to the State under such program. Interest earned on such refunds shall be considered when setting overall interest obligations between the State and the Federal Government as required by this section.

7. `(g) If the Federal Government makes a payment to a recipient under a Federal program, and a portion of the payment is an amount which the Federal Government is paying to such recipient on behalf of a State, such amount shall be considered to be a transfer of funds between the Federal Government and the State for purposes of this section.
8. `(h) A State may not be required by a law or regulation of the United States to deposit funds received by it in a separate bank account. However, a State shall account for funds made available to the State as United States Government funds in the accounts of the State. The head of the State agency concerned shall make periodic authenticated reports to the head of the appropriate Federal executive agency on the status and the application of the funds, the liabilities and obligations on hand, and other information required by the head of the executive agency. Records related to the funds received by the State shall be made available to the head of the executive agency, the Inspector General of the executive agency, and the Comptroller General for necessary audits.
9. `(i) The Secretary shall prescribe methods for the payment of interest under this section between the Federal Government and the States, including provisions for offsetting amounts owed by the respective parties. Such methods of payment shall require payment of interest on an annual basis and shall provide for comparable treatment in manner, technique, and timing for both the States and the Federal Government.
10. `(j) Consistent with Federal program purposes and regulations of the Director of the Office of Management and Budget, the head of a Federal executive agency carrying out a program shall execute grant awards to States on a timely basis to assure the availability of funds to accomplish transfers in compliance with subsection (a) of this section.'.

3. (c) CLERICAL AMENDMENT- The item relating to section 6503 in the chapter analysis for chapter 65 of title 31, United States Code, is amended to read as follows:

`6503. Intergovernmental financing.'.

4. (d) AGREEMENTS WITH STATES-
    1. (1) SECRETARY'S EFFORTS TO ENTER AGREEMENTS- The Secretary of the Treasury shall make all reasonable efforts to enter into an agreement with each State under section 6503(b) of title 31, United States Code, as added by this section (relating to procedures and requirements for transfers of funds between executive agencies and States), by not later than 2 years after the date of the enactment of this Act.
    2. (2) EFFECTIVE DATE OF REGULATIONS- Regulations issued by the Secretary of the Treasury under subsection (b)(3) of section 6503 of title 31, United States Code, as added by the section (relating to procedures and requirements for transfers of funds

involving States not entering agreements), shall take effect 2 years after the date of the enactment of this Act.

3. (e) EFFECTIVE DATE- The amendments made by this section shall take effect on the date of enactment of this Act, except that subsections (c) and (d) of section 6503 of title 31, United States Code, as added by subsection (b) of this section (relating to payments of interest between the Federal Government and State governments), shall take effect 2 years after the date of enactment of this Act.

Section. 6. GAO Report.

Four years after the date of the enactment of this Act the Comptroller General shall submit an audit of the implementation of the amendments made by section 5 and submit a report to the Congress describing the results of that audit.

Speaker of the House of Representatives.

Vice President of the United States and

President of the Senate.

END

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

February 20, 2024

Dear Senator Grooms:

In our meeting on February 15, 2024, I was asked to provide the Finance Constitutional Subcommittee with our thoughts on fund 30350993, including the accounting surrounding the balance remaining in the fund.

Additionally, I am providing some definitions of terms I used in our meeting on February 15th. As some of these terms may have different meanings throughout State government, these definitions provide clarity as to how we as auditors use them.

Definitions

ACFR - the statewide annual comprehensive financial report, also referred to as the statewide financial statements.

Conversion – The process of converting STARS, a legacy financial system, to SCEIS, the State's current financial system.

Fund – A self-balancing set of accounts used to account for specific activities. A governmental unit may have multiple funds.

General Fund – A governmental fund type that is used to account for and report all financial resources not accounted for and reported in another fund. A governmental entity has only one general fund, but the State's General Fund, as presented in the ACFR, reflects the financial activities, balances and funds of numerous State agencies.

It is also important to define the role of management and the auditor.

Management - Those in a position of authority in the State who are responsible for day-to-day decision-making and management of the operations of the State. Management responsibilities include preparing the State's ACFR. As it relates to cash management and the ACFR, management usually means the Office of the Comptroller General (CGO) and/or the Office of the State Treasurer (STO).

Independent Auditor - Those charged with the responsibility of verifying that the State's financial statements are materially correct, based on an independent and objective view. To be independent and objective, the auditor must be separate from management by refraining from the performance of any management functions including involvement in day-to-day decision-making and management of the operations of the State, preparation of the financial statements, and the design and implementation of internal controls.

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Fund 30350993 Accounting

As we discussed in the February 15th meeting, fund 30350993 was created primarily to record cash transfers between banks. That remains its primary purpose today. However, the fund was also used to convert bank and agency cash balances as the legacy STARS system was converted to SCEIS.

At the close of fiscal year 2017, fund 30350993 carried a balance of approximately $1.5 billion, representing STARS to SCEIS conversion activity. That amount grew to approximately $1.8 billion in subsequent years as the conversion was completed. It was believed that this conversion-related activity was previously recognized financial activity that had no relevance in the preparation of the statewide financial statements. Accordingly, the CGO coded fund 30350993 to ignore the balances for ACFR preparation purposes.

In 2022, the CGO successfully performed a reconciliation of the pool of cash to the balance of cash as presented in the ACFR. The reconciliation was the key to identifying a $3.5 billion net overstatement of General Fund cash in the ACFR. A correction was reflected in the fiscal year 2022 ACFR, including a correction of the $1.8 billion understatement caused by the exclusion of the remaining balance of fund 30350993 from the ACFR.

While the $1.8 billion can not be assigned to a specific agency or fund, the State's pool of cash does not reconcile to the SCEIS general ledger without its inclusion. Therefore, there is evidence that the $1.8 billion exists.

As independent auditors, our responsibility is to express an opinion on the governmental and other activities of the State, as presented in the State's ACFR. This includes the General Fund as a component of governmental activities. While the General Fund is composed of numerous agencies, activities and funds of the State, our opinion is on the aggregate General Fund and not on individual agencies, funds and activities.

The CGO determined the $1.8 billion should be classified within the General Fund for financial statement presentation purposes but could not provide us with specific documentation that the $1.8 billion is owned by the General Fund. We determined that, given the lack of specific documentation, the best approach to testing management's decision was by necessity a process of gaining assurance that the $1.8 billion is not owned by a fund other than the General Fund for financial statement purposes. We performed the following inquiries and analyses to determine if the $1.8 billion, or portions thereof, should be reflected by a fund other than the General Fund.

First, cash received or held by the State and its agencies for a specific purpose is generally reflected in the following funds:

- Departmental Services Fund
- Local Government Infrastructure Fund
- Department of Transportation Special Revenue Fund

Accounting for cash assigned to these funds is managed at an agency level. In addition to requirements that cash be used for a specific purpose, there are usually reporting requirements imposed by State or Federal governments or by other granting entities regarding the status of unspent funds. We are not aware of any material issues raised by agencies regarding specific purpose cash either during or after the conversion.

Second, various components of the State, including higher education institutions and other State activities such as the Ports Authority and Public Service Authority, are audited by other auditors. We rely on their audit work in our audit of the statewide financial statements, and we are not aware of material issues related to cash identified by the audits of these approximately 50 separately audited components.

Based on the procedures we performed, we did not obtain any information that refuted management's assertion that the General Fund is the owner of the $1.8 billion for financial statement purposes. This is consistent with the definition of the General Fund (for financial statement purposes) as the fund used to *account for and report all financial resources not accounted for and reported in another fund.*

Status of Fund 30350993

The accounts composing the $1.8 billion remain in fund 30350993 and that fund remains unbalanced. While this is unusual, its placement there serves to segregate the accounts composing the balance until an adjusting journal entry can be recorded in SCEIS to reclassify (reallocate) the balances. The journal entry should eliminate the balance of fund 30350993 and clearly establish underlying ownership of cash within the General Fund.

During the summer of 2023, we attended a meeting along with the CGO and STO where fund 30350993 was discussed. Additionally, we were copied on a letter from the Comptroller General to the State Treasurer dated October 31, 2023, formally requesting that the STO research cash balances of Fund 30350993 that arose due to the conversion and classify those amounts to the appropriate funds and general ledger accounts. In its response dated February 8, 2024, to a request for updates on certain matters by the Subcommittee, we noted the State Treasurer indicated that since the 2022 and 2023 ACFR attests to the placement of fund 30350993 in the General Fund, STO expects the CGO to provide a written directive regarding the appropriate SCEIS entry to align the General Fund with the ACFR.

To be clear, while the CGO has asserted that the General Fund is the owner of the $1.8 billion for financial statement purposes, management must continue to work to establish an underlying claim to cash by agencies within the General Fund to support the journal entry needed to reclassify the accounts. Regardless of which management agency makes the journal entry required to reclassify the balance of fund 30350993, research of historical information will be required.

Based on the process we described above to validate the CGO placement of the $1.8 billion in the General Fund, we have no reason to believe the research will not support its ownership by agencies reflected in the General Fund. However, if evidence is discovered to support the ownership of the $1.8 billion or positions thereof by a fund other than the General Fund, a reclassification of cash presented in the ACFR will need to be made.

Summary

In summary, we agree that the ACFR presentation of the balance of fund 30350993 in the General Fund is appropriate. However, management needs to make an adjusting journal entry in SCEIS to move the balances from fund 30350993 to the applicable funds at each respective agency. The journal entry will require continued research of historical activity as support.

Thank you for your attention to this matter. As auditors, we must maintain independence and objectivity and refrain from the performance of management functions, including performing the research necessary to support an adjusting journal entry. However we stand ready to assist management as we can, including reviewing or testing a proposed journal entry, if requested to do so.

Sincerely,

George L Kennedy, III

George L. Kennedy, III, CPA
State Auditor

Exhibit 32

Senator McElveen Questioning Treasurer Loftis Regarding Adherence to S.C. Code 11-5-120, Apr. 2, 2024.[1]

00:54:04

SEN. MCELVEEN OK, I I think we're going to come back to that, but I want, I want to kind of stay on statutory--

TREAS. LOFTIS Yes Sir, I'm sorry.

SEN. MCELVEEN

if possible right now. If that's OK, Mr. Treasurer. I will represent to you that South Carolina code section 11-5-120 has specific provisions. If you don't mind. I'm going to read the statute also in its its entirety.

54:26 "The state treasurer shall publish quarterly by electronic means and in a manner that allows for public review, a statement showing the amount of money on hand and in what financial institution it is deposited in, the respective funds to which it belongs." Are you in compliance with that requirement?

TREAS. LOFTIS No, Sir.

SEN. MCELVEEN

You're not?

TREAS. LOFTIS No, because this is the report. It's 80 pages.

SEN. MCELVEEN Your Wells Fargo example you gave earlier when you said talked about going into to Charlotte and--

TREAS. LOFTIS

--yes--

SEN. MCELVEEN

--the investment side that that made me wonder, I mean so you're saying you're not in compliance with that requirement?

TREAS. LOFTIS

I am only in compliance with that requirement. This is what I meant about laws aging. That law was from 1912 or either 1902 I'm not quite sure and it speaks to and we have referenced this in y'all's package the the little 6 inch long 2 inch wide ad that since the beginning of time has been in the newspaper and then I think in '86 or someplace around there they said, "Hey you don't

[1] Transcript referenced from Apr. 2, 2024, Constitutional Subcommittee – Part 1 video. To view the video, please visit: https://www.scstatehouse.gov/video/archives.php.

have to put it in the newspaper anymore you have to put it into the on the on the electronically." So we do that. It has never been anticipated that each fund had to be listed. This is the fund list. It is 80 pages. It lists, if we do this correctly, the account numbers, the owner and the amounts like you, you might think that somebody in Kiev would be interested to know in what account $4.6 billion is in. If you would like this published, Senator, we will publish it tonight.

SEN. MCELVEEN Well I mean, if it needs to be published, it should have been published before tonight, correct?

TREAS. LOFTIS Well, no. If you think that we should publish this report, I'll publish it now. Before I do that, I will call SCEIS, we'll call my IT and we'll call the Secret Service because this is an invitation for anybody that wants our money to come get our money. That's the report by fund, by agency, I mean by by fund. And with the fund accounts, it is the architecture of the state treasurer's office, OK. It is the Bank of the state and we will, we will do as we are told, Senator.

SEN. MCELVEEN So, so my recollection is when you were sent a letter around March 7th of this year by this, by this subcommittee, I think you were asked if you were complying with the statute and your response was very similar to the one you've given today, that you believe the law was old. I believe you said in the term fund in the early 1900s meant accounts.

TREAS. LOFTIS Yes.

SEN. MCELVEEN But that law still in the books, right?

TREAS. LOFTIS Yes, Sir.

57:04 SEN. MCELVEEN

Have you ever come to the General Assembly asking the General Assembly to change the law?

TREAS. LOFTIS The General Assembly has never ever changed the law for me.

SEN. MCELVEEN Do do you--

TREAS. LOFTIS I have asked repeatedly, and I have never had a statute, even in in other roles that I have changed for me.

SEN. MCELVEEN All right. So so if your interpretation of that statute is that the term fund in the early 1900s actually meant accounts, where does that interpretation come from? Did that come from outside counsel?

TREAS. LOFTIS Yes, outside counsel and inside counsel.

SEN. MCELVEEN So. So you're inside counseling.

TREAS. LOFTIS Yeah, because that was before computers and it was before modern accounting. It was, it was all different.

57:40 SEN. MCELVEEN

My question about that is if, if, if there's a question about something like that and you know, public disclosure, should, should you err on the side of transparency, which is a word that gets thrown around up here or or--

TREAS. LOFTIS

--make sure we post this today, We'll we'll do it, Senator, I apologize and we will post it today. All right.

SEN. MCELVEEN So if you, if you're going to post it today, your testimony is that you have not been in compliance with that status.

TREAS. LOFTIS That's that's correct, Senator.

SEN. MCELVEEN All right. And so--

TREAS. LOFTIS

--well, that's your interpretation. I think we've interpreted it properly.

SEN. MCELVEEN Well, I I think I don't want to speak for the members of the subcommittee, but I think that that we believe that it that the law, the statute requires actually a by, by agency, by fund reconciliation, which the treasurer's office to my understanding is not doing currently.

58:22

TREAS. LOFTIS Yeah, this is the way and y'all have this in your package. This is how the law has been traditionally interpreted. This is from Grady Patterson's time. We could go back further or whatever this year is.

SEN. MCELVEEN Did your--was there was there a point in time that your office did do that by agency, by fund reconciliation?

TREAS. LOFTIS

Well we're talking about different things, reconciliations or I thought we were talking about posting.

SEN. MCELVEEN Well, let me ask you this question. This the statue we've been talking about was was there a time that your office did comply with that statute?

TREAS. LOFTIS

We---yes. We applied in the old standard.

SEN. MCELVEEN OK. So you so you can apply it under the former.

TREAS. LOFTIS Yeah. And we still do. It's on the it's on the it's on the web now this this is the the modern equivalent of this is posted today. It gets posted regularly and -- but the modern interpretation as this Senate hearing has is for us to post the architecture of the States Bank online and we will do so today. I've been given clear instructions. We're more than happy to do it.

59:24

SEN. MCELVEEN I'm not giving instructions. I'm just, my question is really just how do you interpret your statutory responsibility there in compliance within compliance with statute. And your testimony today is that no the treasurer's office has not been in compliance with South Carolina code section 11-5-120 which I read a few minutes ago.

59:39

TREAS. LOFTIS Yeah I'm I'm not a lawyer so I am inept about understanding exactly how the answer to that--

SEN. MCELVEEN

But you have access to the lawyers, correct?

TREAS. LOFTIS

Sir I would think that discretion is in is used in every officers job and this has worked since 1902. What you're--what I am being told now. Correct me if I'm wrong that the committee believes I am not in compliance with the law. So we will now bring that into compliance and it'll be done before the day's over. I did not think it was wise. I still don't think it was wise, but if my oversight committee says do it, I'll be more than happy to do it.

SEN. MCELVEEN All right. So now you're talking about agency discretion when it comes to following the black and white letter of the of the law. So my follow up question to that is, are there other statues that that you're using your discretion not to follow?

1:00:36

TREAS. LOFTIS I said, well, I think we are following the law.

TREAS. LOFTIS You tripped me up a little because I didn't know where you were going with this.

SEN. MCELVEEN

That was not my intent.

TREAS. LOFTIS

Yeah, well, that's OK. I didn't mean that negatively. I didn't know where you're headed. With all this, we believe we are complying with the spirit of the law. We can't conceive of why anybody would want to know by modern day accounting standards, those funds. I mean, have y'all had a chance to look at the report. We gave you a page. Did anybody look at it? It's 80 pages, negative numbers, positive numbers, billions. And like the I think the first number is the General Assembly is a -2 billion dollars. You're gonna probably ask why that is, aren't you? Why would you have a negative? It's complex as hell. It's all built into SCEIS. It's the appropriation versus cash. That report will do nobody any good except give every Internet scammer and Caracas, KIev and Moscow a target. But we will be more than happy to say my discretion has been wrong and I'm the violation of the law because I didn't put that on the on the Internet. I'll be--I will--I'm guilty. So I just don't know what else to say.

SEN. MCELVEEN Well, I won't stay on this too long, Mr. Chairman. I'm sorry for the longer than I intended but where's the line there, then? Between being transparent, following the law, letting the taxpayers know where where the money is and the citizens of the state, but then also having some sort of protection against what you say could expose us to scammers?Where's the line?

TREAS. LOFTIS I think the line was what's been done since the early 1900s. It post and and I think the law was probably more geared toward letting people know what bank was involved because it's the favoritism of banks. We still have that. I mean everybody you know everybody wants the other person's business. Bankers are powerful and this is probably one of the main things because of this you can see this long line, not all but one line or bank lines.

1:02:52

I just tell you what bank the money's in though. I mean we're more than happy to go by that. But Senator, I got to tell you, if, if, if discretion, if we don't have discretion, we got to start over because SCEIS doesn't work without discretion.

None of what we do works without discretion. We have to use our discretion and we have to be accountable. I'm accountable for not putting that 88 page report on it. Do whatever you got to do.

Exhibit 33

Fund	30350993
Cash Direction	(All)

Count of Document Number	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Grand Total**
SCEIS Consultant for STO1				2						2
SCEIS Consultant for STO2	82	101	1,706	12						1,901
SCEIS Consultant for STO3		4								4
SCEIS Consultant for STO4	12			20	2					34
STO Employee 01		110	1,316	478	460	565	102	4	6	3,041
STO Employee 02		100	10							110
STO Employee 03	90	298	1,115	1,242	1,427	1,248	1,349	1,000	966	8,735
STO Employee 04									1,245	1,245
STO Employee 05					9					9
STO Employee 06								9		9
STO Employee 07								1,320	769	2,089
STO Employee 08			667	1,263	1,457	1,395	1,342	435		6,559
STO Employee 09 (Batch)			7,096							7,096
STO Employee 10 (Batch)	19		9						1	29
STO Employee 11	9	9								18
STO Employee 12	43									43
STO Employee 13		16	8	8	3	2	2			39
STO Employee 14								8		8
STO Employee 15		24	241	147	97	71	61	45	81	767
STO Employee 16				2	9					11
STO Employee 17 (BAI Interface)		140	1,952	3,260	3,820	3,740	3,582	3,646	3,728	23,868
STO Employee 18		76								76
STO Employee 19			178	14			370	138		700
STO Employee 20									162	162
STO Employee 21		8	58			7		7		80
STO Employee 22						55	261			316
STO Employee 23		60								60
STO Employee 24					4					4
STO Employee 25		2	77	15					1	95
STO Employee 26			22					92	50	164
Grand Total	**255**	**948**	**14,455**	**6,463**	**7,288**	**7,083**	**7,069**	**6,704**	**7,009**	**57,274**

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

April 4, 2024

The Honorable Larry K. Grooms
Chairman of the Constitutional Subcommittee
of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Dear Chairman Grooms:

As I testified on Tuesday, my office has complied with all our statutory reporting requirements consistent with how these statutes have been historically interpreted both during my tenure as Treasurer and during the tenure of my predecessors. The reports and information have been made to the public whether by publication in newspapers or on the internet, to the comptroller general through SCEIS as specified in that office's Annual Accountability reports and in CAFR/ACFR reporting packages, and to the General Assembly in our annual reports. No one has ever objected to the adequacy of these disclosures or asked for additional information until after the Comptroller General (CG) did the ACFR restatement.

We now understand that the CG and the General Assembly is re-interpreting these statutes especially SC Code Ann. §§ 11-5-120, 11-5-170 and 11-5-180. These re-interpretations impose new and different disclosure obligations on my office, some of which may require modifications to SCEIS.

Based on this new understanding, my office will hand deliver to the CG printed daily reports of "monies paid out" without a warrant as referenced in § 11-5-170 and monthly reports as referenced in § 11-5-180. We will provide paper copies, even though the CG already has essentially real time electronic access to this information, as my office reports it in SCEIS.

With respect to the electronic publication for public review of quarterly statements referenced in § 11-5-120, we will begin posting on the State Treasurer's website a detailed fund report. We alerted the Department of Administration so that that agency can take action to protect SCEIS and the State's other information and financial systems from the added security risks created by the publication of such detailed information.

Sincerely,

Curtis M. Loftis, Jr.

Curtis M. Loftis, Jr.
State Treasurer

cc: The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews

Exhibit 35

Email Search

1st search parameters:

- Date range: 4/1/24 - 4/6/24
- To: 'Larry Grooms' or @scsenate.gov
- From: Curtis Loftis, [redacted], [redacted], [redacted]

2nd search parameters:

- Date: 4/4/24
- To: 'Larry Grooms' or @scsenate.gov
- From: Curtis Loftis, [redacted], [redacted], [redacted], [redacted]

Timeline

Item #	To:	From:	Summary	Communication Type	Date/Time:
1	[redacted] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
N/A	[redacted]	[redacted]	[redacted].	[redacted]	[redacted]
2	[redacted] [redacted]	[redacted]	[redacted]	[redacted]	[redacted]
3	[redacted] CC: [redacted]	[redacted]	[redacted].	[redacted]	[redacted]

Item #	To:	From:	Summary	Communication Type	Date/Time
4	Larry Grooms, Thomas McElveen, Mike Fanning, Stephen Goldfinch, Margie Bright Matthews, Tom Young CC: Curtis Loftis, [redacted], Quentin Hawkins, Jessica Wigington, [redacted]ns, [redacted]	[redacted]	Emailed letter that states the STO will begin posting on the State Treasurer's website a detailed fund report. The STO alerted Admin so that the agency can take action to protect SCEIS and the state's other information and financial systems from the added security risks.	Email with attached letter	4/4/2024; 12:42 p.m.
5	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]m.
6	[redacted]	Marcia Adams	[redacted]	[redacted]	[redacted]

Item #	To:	From:	Summary	Communication Type	Date/Time:
7	Larry Grooms	[redacted]	The Treasurer provides a letter to the subcommittee clarifying numerous topics from his testimony on 4/2/2024. The last sentence of the 2nd bullet states, "We are now working toward devising a secure means of complying with these new disclosure obligations."	Email with attached letter	4/4/2024; 2:32 p.m.
8	Thomas McElveen, Mike Fanning, Stephen Goldfinch, Margie Bright Matthews, Tom Young CC: Curtis Loftis, [redacted], [redacted], [redacted], [redacted]	[redacted]	Same letter that was sent to Larry Grooms 4 minutes earlier.	Email with attached letter	4/4/2024; 2:36 p.m.
9	Curtis Loftis [redacted]	[redacted]	[redacted]	[redacted]	[redacted]

From: [redacted]
Sent: Thursday, April 4, 2024 2:32 PM
To: Larry K. Grooms
Subject: Letter from Treasurer Loftis
Attachments: 4_4_24 to Grooms.pdf

Please see attached.

Kind Regards,

[redacted] | **Executive Assistant**
South Carolina Treasurer's Office
1200 Senate Street, Suite 118
Wade Hampton Office Building
Columbia, SC 29201
803-734-2692 | Lisa.Gibson@sto.sc.gov

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

April 4, 2024

The Honorable Larry K. Grooms
Chairman of the Constitutional Subcommittee
of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Mr. Chairman and Subcommittee Members:

This letter is in reference to the hearing of the Constitutional Subcommittee hearing held April 2, 2024. As you will recall, the Subcommittee members' questions of me during the hearing covered a myriad of complex and granular topics, some of which I spoke to based on approximation or memory. I have reviewed my testimony with my staff to ensure that it was accurate. It is difficult to assess every statement because, at times, the context or premise of the discussion appears to have been undermined by mutual misunderstandings. Nevertheless, after review, I submit the following clarifications:

- The State Treasurer's Office never "lost track" of the $1.8 billion in fund 30350993; it was part of a pool of money which the State Treasurer's Office had always accounted for, invested, and held for the State's use. Likewise, the Comptroller General's office did not "find" this money; it simply discovered an amount of money for which it could not explain the origin or purpose. When I said that I did not know about the $1.8 billion until July 2023, I was referring to the fact that I did not know that the former Comptroller General had used fund 30350993 to offset his overstatement.

- My office is and always has been in compliance with the reporting requirements of S.C. Code Ann. §§ 11-5-120, 170 and 180, as they have traditionally been interpreted. In fact, no one has ever objected to the adequacy of these disclosures or asked for additional information until after the Comptroller General made the ACFR restatement in 2023. In the hearing, I understood the Subcommittee to be informing me that the Comptroller

General and the General Assembly had re-interpreted these statutes, imposing new and different disclosure obligations. When I stated in the hearing that the State Treasurer's Office is not in compliance with these reporting requirements, I meant that my office had not yet had the opportunity to change its reporting procedures in accordance with the re-interpretation articulated to me at the hearing. We are now working toward devising a secure means of complying with these new disclosure obligations.

- Regarding rating agency communications, STO Debt Division staff and leadership had interactions with the three rating agencies (S&P, Moody's, and Fitch) in the course of conducting the ordinary business of issuing the state's debt. Since November 2023, staff have had meetings or conversations with all three rating agencies. On January 19, 2014, Fitch published its rating of South Carolina affirming South Carolina's AAA Stable Rating. On March 22, 2024, S&P published its rating report affirming South Carolina's AA+ Stable Rating. Most recently calls were conducted to discuss upcoming debt issuances.

- Goldman Sachs is not currently used as a banking partner by the State Treasurer's Office; however, the State may purchase bonds from Goldman Sachs as a broker dealer through its investment manager.

- A spreadsheet provided to me during the hearing by the Subcommittee incorrectly showed a $30 billion fund balance for fund 30350993. This printout vastly overstated the balance because it failed to include account 1000000000, a "splitter" account which accounts for offsetting debits, in the subtotal. As shown in the report I provided in response, once account 1000000000 is correctly factored in, the subtotal equals $1.8 billion.

- Regarding a Subcommittee member's assertion that the State could owe the federal government interest, the State Treasurer's Office has implemented the reconciliation procedures established by the Cash Management Improvement Act, 31 U.S.C. §§ 6501 and 6503, and in accordance with the Cash Management Improvement Act Agreement between the State of South Carolina and the United States Department of the Treasury. As such, it is extremely unlikely that the $1.8 billion in question is composed of federal funds, or that the State owes the federal government interest on any funds therein.

- There were questions about State Treasurer's Office staffing levels and personnel requests. The STO has 68 filled FTEs and 83 authorized FTEs. STO requested 6 additional FTEs in our FY 2024-25 budget request. During the FY 2021-22 the STO requested 2.93 FTEs. With regards to the question regarding when the STO first had four attorneys in house, the testimony was an approximation. The STO has had four attorneys since 2018.

- The STO turnover rate is not 30% as was stated by one of the senators in the hearing. The STO's 10-year average turnover was 19%.

I intend to provide additional information to the Subcommittee in short order, but I wanted to provide these clarifications as soon as possible.

Sincerely,

Curtis M. Loftis, Jr.
State Treasurer

cc: The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews

Exhibit 36
STATE FISCAL ACCOUNTABILITY AUTHORITY AGENDA ITEM WORKSHEET

Meeting Scheduled for: **Regular Session**

---

1. **Submitted by:**
   (a) Agency: S.C. Treasurer's Office
   (b) Authorized Official Signature: *

---

2. **Subject: Executive Session to Receive Legal Advice from State Disclosure Counsel Related to the Issuance of Bonds**

---

3. **Summary**. Disclosure Counsel will provide an overview and explanation of the Securities Act and how it pertains to the issuance of state General Obligation bonds and will discuss South Carolina's (through the SFAA) obligations with regard to ongoing disclosure. The overview will include a discussion of the Annual Report, Notice of Material Events, and Voluntary Filings. Counsel will go over recent filings that have been made on behalf of the State. Counsel will provide legal advice regarding future bond issuances.

---

4. **What is the Authority asked to do?**

   Receive as information

---

5. **What is recommendation of Board Division involved?**

   .
   Recommend that the SFAA receive the overview as information.

---

6. **Recommendation of other office (as required)?**

   (a) Authorized Signature: ______________________________
   (b) Office Name: ______________________________

---

7. **Supporting Documents:**

   (a) List those attached:
   1. *
   2. *
   3. *

Exhibit 37

STATE FISCAL ACCOUNTABILITY AUTHORITY
MEETING OF February 4, 2025

EXECUTIVE SESSION
ITEM NUMBER 1

AGENCY: State Treasurer's Office

SUBJECT: Disclosure Counsel Update

AUTHORITY ACTION REQUESTED:

ATTACHMENTS:

Agenda item worksheet and attachment

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 3, 2025

VIA ELECTRONIC MAIL

The Honorable Lawrence K. "Larry" Grooms
Chairman, Senate Finance Constitutional Budget Subcommittee
313 Gressette Bldg.
Columbia, SC 29201

RE: Clarification Regarding Bonds

Dear Senator Grooms:

I am writing in response to questions raised at the February 27, 2025, Senate Finance Constitutional Budget Subcommittee meeting about whether I notified JBRC or SFAA about my concerns regarding the issuance of General Obligation Bonds.

As background, SFAA Resolutions for General Obligation Bonds specifically authorize the "Treasurer" and the "Governor" to issue BANs. For your information, I am attaching a copy of a resolution for a Clemson project that was included in the BAN that was issued in May 2024, with applicable sections highlighted.

BANs have been issued in the past for various reasons. BANs were issued last year for two projects: Clemson and MUSC. Both the Governor and I signed the BAN documents. Enclosed is the "Certificate as to Approval of Issuance" and the "Certification of the Governor and State Treasurer of the State of South Carolina as to Proposals Received for the Purchase of the Bond Anticipation Note and the Award Thereof" for the 2024 Clemson BAN.

While there is no specific requirement to inform the SFAA of the decision to issue BANs in lieu of Bonds, my office requested that there be an agenda item added to the February 2025 SFAA meeting so that the SFAA as a body could receive legal advice from the state's disclosure counsel regarding this matter. The draft agenda that was sent to the SFAA "Liaisons" included the item. However, against the request of my office, the item was not included on the final February 4, 2025, SFAA agenda.

The STO liaison and STO attorney arranged a meeting whereby the SFAA Liaisons and attorneys could discuss this matter with the State's Disclosure Counsel. That meeting was held on January 29, 2025, and attended by representatives from each authority member. There is no requirement

Wade Hampton Building, 1200 Senate Street, Suite 214
Columbia, SC 29201
(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov

to notify JBRC of the decision to issue BANs, so no outreach was specifically made to that committee, although Chairman Peeler and Chairman Bannister's representatives were present at the January 29, 2025, Teams meeting.

Sincerely,

Curtis M. Loftis, Jr.
South Carolina Treasurer

Enclosures:

Excerpts from Clemson Resolution
Certificate as to Approval of Issuance
Certification of the Governor and State Treasurer of the State of South Carolina as to Proposals Received for the Purchase of the Bond Anticipation Note and the Award Thereof

CC:

The Honorable Wes Climer
The Honorable Stephen L. Goldfinch
The Honorable Brad Hutto
The Honorable Margie Bright Matthews
The Honorable Rex F. Rice
The Honorable Ronnie A. Sabb
The Honorable Tom Young, Jr.

Exhibit 39
South Carolina General Assembly
126th Session, 2025-2026

R1, S253

STATUS INFORMATION

Joint Resolution
Sponsors: Senators Peeler, Grooms, Alexander, Turner and Young
Document Path: SF-0005AA25.docx

Introduced in the Senate on January 21, 2025
Introduced in the House on February 6, 2025
Last Amended on January 30, 2025
Currently residing in the Senate

Summary: Audit Support

HISTORY OF LEGISLATIVE ACTIONS

Date	Body	Action Description with journal page number
1/21/2025	Senate	Introduced and read first time (Senate Journal-page 4)
1/21/2025	Senate	Referred to Committee on **Finance** (Senate Journal-page 4)
1/29/2025	Senate	Committee report: Favorable with amendment **Finance** (Senate Journal-page 9)
1/30/2025	Senate	Committee Amendment Adopted (Senate Journal-page 35)
1/30/2025	Senate	Read second time (Senate Journal-page 35)
1/30/2025	Senate	Roll call Ayes-43 Nays-0 (Senate Journal-page 35)
1/31/2025		Scrivener's error corrected
2/4/2025	Senate	Read third time and sent to House (Senate Journal-page 10)
2/6/2025	House	Introduced, read first time, placed on calendar without reference (House Journal-page 45)
2/12/2025	House	Read second time (House Journal-page 92)
2/12/2025	House	Roll call Yeas-109 Nays-0 (House Journal-page 92)
2/13/2025	House	Read third time and enrolled (House Journal-page 15)
3/6/2025		Ratified R 1
3/7/2025		Signed By Governor
3/12/2025		Effective date 03/07/25

View the latest legislative information at the website

VERSIONS OF THIS BILL

01/21/2025
01/29/2025
01/29/2025-A

01/30/2025
01/31/2025
02/06/2025

NOTE: THIS IS A TEMPORARY VERSION. THIS DOCUMENT WILL REMAIN IN THIS VERSION UNTIL FINAL APPROVAL BY THE LEGISLATIVE COUNCIL.

(R1, S253)

A JOINT RESOLUTION TO PROVIDE AUTHORIZATION FOR THE DEPARTMENT OF ADMINISTRATION TO EXPEND CERTAIN FUNDS TO ENGAGE AN INDEPENDENT COMPLIANCE CONSULTANT FOR REVIEW OF COMPLIANCE OF THE ALIXPARTNERS FORENSIC ACCOUNTING REPORT, TO REQUIRE THE OFFICE OF THE STATE TREASURER, THE OFFICE OF THE COMPTROLLER GENERAL, AND THE OFFICE OF THE STATE AUDITOR TO IMPLEMENT THE RECOMMENDATIONS FROM THE ACCOUNTING REPORT, TO PROVIDE A DETAILED TIMELINE OF SUCH, AND TO ISSUE A REPORT ON THE STATUS THEREOF, AND TO REQUIRE THE COMPLIANCE CONSULTANT TO ISSUE A REPORT ON THE STATUS OF SUCH IMPLEMENTATION.

Whereas, the General Appropriations Act for Fiscal Year 2024-2025 required the Department of Administration to engage a forensic accounting firm, experienced in forensic accounting, to conduct a forensic accounting review of all cash and investments held in the State Treasury; and

Whereas, the General Appropriations Act for Fiscal Year 2024-2025 further required that the Office of the State Treasurer work in conjunction with the Department of Administration on a plan of implementation to utilize the funds appropriated to the Office of the State Treasurer for support of this forensic accounting review as would be needed to fully cooperate with the forensic accounting firm, subject to review and comment by the Joint Bond Review Committee; and

Whereas, the scope of work charged to the forensic accounting firm included making recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future; and

Whereas, the Department of Administration awarded the contract for the forensic accounting review to AlixPartners LLP of Washington, DC, who has now provided its final report to the Governor, the President of the Senate, the Chairman of the Senate Finance Committee, the Speaker of the House of Representatives, and the Chairman of the House Ways and Means Committee; and

Whereas, the report makes a clear recommendation, among others, that an independent third party be hired to assess and oversee compliance with all recommendations in this report; and

Whereas, as of the most recent deadline for submission of agenda items for review by the Joint Bond Review Committee, no plan of implementation as required by Proviso 117.186 of the General Appropriations Act for Fiscal Year 2024-2025 for support of the audit has been received from the Office of the State Treasurer. Now, therefore,

Be it enacted by the General Assembly of the State of South Carolina:

Funding for independent compliance consultant

SECTION 1. The General Assembly hereby redirects the funding appropriated to the Office of the State Treasurer for Audit Support pursuant to Proviso 117.186 of the General Appropriations Act for Fiscal Year 2024-2025 to the Department of Administration to be utilized to hire an independent compliance consultant to assess and oversee compliance with all recommendations in the AlixPartners forensic accounting report and other relevant studies conducted in Fiscal Years 2023-2024 and 2024-2025. Procurements by the Department of Administration made pursuant to this section are exempt from the purchasing procedures of the South Carolina Procurement Code in Chapter 35, Title 11.

Implementation of forensic accounting recommendations

SECTION 2. The Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall work in concert to effectuate the implementation of recommendations made in the AlixPartners forensic accounting report and other relevant studies conducted during Fiscal Years 2023-2024 and 2024-2025 that do not require statutory change. The Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall begin implementation of these recommendations immediately in coordination and with oversight of the Department of Administration. The Department of Administration has the authority to request support from any agency of the State for the implementation of recommendations and all reasonable requests shall be granted.

Report

SECTION 3. The Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall provide a monthly written report on the status of implementation of the recommendations made to their individual agencies to the Governor, the

President of the Senate, the Chairman of the Senate Finance Committee, the Speaker of the House of Representatives, the Chairman of the House Ways and Means Committee, the Department of Administration, and to the independent compliance monitor beginning no later than March 31, 2025. The independent compliance monitor shall provide review and comment on the monthly reports to the Department of Administration no later than thirty days following receipt. The Department of Administration shall convene a monthly public meeting of the Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor to provide the input of the independent compliance monitor.

Report

SECTION 4. Upon completion of implementation of all recommendations not requiring statutory change and no later than one year after the effective date of this joint resolution, the independent compliance monitor shall provide a comprehensive report that includes the status of the implementation of all recommendations to the Joint Bond Review Committee for review and comment. The Joint Bond Review Committee is authorized to extend the monthly reporting requirements in this section as it may deem necessary.

Timeline for implementation

SECTION 5. No later than ninety days after the effective date of this joint resolution, the Office of the State Treasurer, the Office of the Comptroller General, and the Office of the State Auditor shall provide a detailed timeline for implementation of all recommendations made in the

AlixPartners forensic accounting report and other relevant studies conducted during Fiscal Years 2023-2024 and 2024-2025, including those recommendations requiring statutory change to the Governor, the President of the Senate, the Chairman of the Senate Finance Committee, the Speaker of the House of Representatives, the Chairman of the House Ways and Means Committee, the Department of Administration, and to the independent compliance monitor. Such a timeline notwithstanding, it is the intent of the General Assembly that the recommendations referenced in this section that do not require statutory change be fully implemented no later than one year after the effective date of this joint resolution.

Time effective

SECTION 6. This joint resolution takes effect upon approval by the Governor.

Ratified the 6th day of March, 2025.

Approved the 7th day of March, 2025. -- T.

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Exhibit 40

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 10, 2025

VIA ELECTRONIC MAIL

The Honorable Lawrence K. "Larry" Grooms
Chairman, Senate Finance Constitutional Budget Subcommittee
313 Gressette Building
Columbia, SC 29201

Dear Chairman Grooms and Subcommittee Members:

I am writing to you as a follow-up to the February 27, 2025 meeting of the Constitutional Subcommittee to help clarify some of my testimony and to provide information that was requested by subcommittee members.

First, to the extent that I said anything that contradicted the *State Treasurer's Office Overview of Issues Surrounding SCEIS Fund 30350993 and Other Allegations* ("STO Report") submitted to you on February 27, 2025, please accept the Report as a correction to my testimony. The Report is thorough, and every assertion of fact is supported by evidence. To the best of my knowledge, it is a true and accurate representation of our complete understanding of the matters we discussed.

You asked me if I did anything wrong or if I take responsibility for the $1.8 billion in SCEIS Fund 30350993. I want to be clear that I take full responsibility for the actions of the State Treasurer's Office. What I am unwilling to do is accept responsibility for the statutory duties of the Comptroller General—namely overseeing SCEIS and the SCEIS conversion (including directing STO to make certain entries which ultimately proved incorrect, as demonstrated in the Report), and preparation of the ACFR.

As established in the AlixPartners Report, the Comptroller General incorrectly recorded non-cash appropriations as actual cash in SCEIS, and then instructed the STO to proceed with conversion of incorrect general ledger account entries into SCEIS Fund 30350993, resulting in a $1.6 billion balance. The STO had no way of knowing at the time that the CGO-directed entries were incorrect, nor does there appear to be any evidence that the CGO knew the entries would have this result.

As for my testimony last year regarding whether the $1.8 was cash–I attempted to answer this question multiple times at the hearing, but my response fell on the deaf ears of several of your fellow subcommittee members. When I testified last year, I relied on the information that was known to me at the time, specifically:

- The CGO used the $1.8 billion in the 2022 ACFR restatement as “cash” in the ACFR General Fund.
- In a letter dated December 12, 2023, Comptroller General Gaines stated the $1.8 billion represented cash. (Report, Exhibit 8).
- The State Auditor in a letter dated February 20, 2024, to Senator Grooms said that he and the external auditors believed it to be cash and he testified to that effect. (Report, Exhibit 15).

Moreover, in that hearing, I even qualified my own statements early on by informing the Subcommittee: “The Comptroller's General's Office and the State Auditor's Office and Clifton Larson all have reached a level of confidence that this money exists and it should be in the general fund. And we don't say that's not the case, but we really don't have a say.”

I testified honestly and in good faith based on the information that I was told and what I knew at the time. Since all available State cash is pooled, invested, and earns interest (without regard to any particular SCEIS fund), my office calculated the amount of interest that $1.8 billion in the General Fund Portfolio would have earned over the relevant period.

In response to other matters raised in the meeting, I provide the following:

- My attendance at AlixPartners and Governor’s Working Group Meetings:
  - From a review of the calendar it appears that there were approximately 15 Governor’s Working Group meetings and I attended 14 of them.
  - There were eight AlixPartners meeting with the Treasurer’s Office. I was invited to three of these meetings and attended each.
- Second letter sent the same day as the first, addressing the SCEIS fund report.
  - A copy of the second letter sent on April 4, 2024 to Senator Grooms is attached. The letter was emailed at 2:31 PM and sent to LarryGrooms@scsenate.gov and also emailed to the subcommittee members at 2:35 PM (Report, Exhibit 28) (See attached)
- Budget for STO staff in response to Senator Bright Matthews’ question:
  - In FY 2025 the General Assembly authorized $6,489,110 in salaries for the STO as part of the 2024-25 Appropriations Act.
- Issuance of Bonds
  - This matter has already been addressed by a March 3, 2025, letter to Senator Grooms and with copies to the subcommittee and staff addressing the request to add the item to the SFAA agenda.
- SCEIS Oversight Committee
  - With regard to comments about the SCEIS oversight committee, while it has met once a year for an annual meeting, I believe it has been underutilized and could have helped in addressing these issues. In fact, I sent a letter to Comptroller General Gaines on March 13, 2024, asking him to have the-committee meet to assist in the research into SCEIS Fund 30350993. (See attached)

Thank you for your attention to these important matters.

Sincerely,

Curtis M. Loftis, Jr.

Curtis M. Loftis, Jr
South Carolina Treasurer

Enclosures

CC:

The Honorable Wes Climer
The Honorable Stephen L. Goldfinch
The Honorable Brad Hutto
The Honorable Margie Bright Matthews
The Honorable Rex F. Rice
The Honorable Ronnie A. Sabb
The Honorable Tom Young, Jr.

(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov
116 Wade Hampton Building
Capital Complex
1200 Senate Street
Columbia, SC 2920

From: Gibson, Lisa
To: Larry K. Grooms
Subject: Letter from Treasurer Loftis
Date: Thursday, April 4, 2024 2:31:00 PM
Attachments: 4_4_24 to Grooms.pdf

Please see attached.

Kind Regards,

Lisa B. Gibson | Executive Assistant
South Carolina Treasurer's Office
1200 Senate Street, Suite 118
Wade Hampton Office Building
Columbia, SC 29201
803-734-2692 | Lisa.Gibson@sto.sc.gov

From:	Gibson, Lisa
To:	Thomas McElveen; Mike Fanning; Stephen Goldfinch; Margie Bright Matthews; Tom Young
Cc:	Loftis, Curtis; Kelly, Shelly; Adams, Clarissa; Frazier, Edward; Gibson, Lisa
Subject:	Letter from Treasurer Loftis
Date:	Thursday, April 4, 2024 2:35:59 PM
Attachments:	4_4_24 to Grooms.pdf

Please see the attached letter.

Kind Regards,

Lisa B. Gibson | Executive Assistant
South Carolina Treasurer's Office
1200 Senate Street, Suite 118
Wade Hampton Office Building
Columbia, SC 29201
803-734-2692 | Lisa.Gibson@sto.sc.gov

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

April 4, 2024

The Honorable Larry K. Grooms
Chairman of the Constitutional Subcommittee
of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Mr. Chairman and Subcommittee Members:

This letter is in reference to the hearing of the Constitutional Subcommittee hearing held April 2, 2024. As you will recall, the Subcommittee members' questions of me during the hearing covered a myriad of complex and granular topics, some of which I spoke to based on approximation or memory. I have reviewed my testimony with my staff to ensure that it was accurate. It is difficult to assess every statement because, at times, the context or premise of the discussion appears to have been undermined by mutual misunderstandings. Nevertheless, after review, I submit the following clarifications:

- The State Treasurer's Office never "lost track" of the $1.8 billion in fund 30350993; it was part of a pool of money which the State Treasurer's Office had always accounted for, invested, and held for the State's use. Likewise, the Comptroller General's office did not "find" this money; it simply discovered an amount of money for which it could not explain the origin or purpose. When I said that I did not know about the $1.8 billion until July 2023, I was referring to the fact that I did not know that the former Comptroller General had used fund 30350993 to offset his overstatement.

- My office is and always has been in compliance with the reporting requirements of S.C. Code Ann. §§ 11-5-120, 170 and 180, as they have traditionally been interpreted. In fact, no one has ever objected to the adequacy of these disclosures or asked for additional information until after the Comptroller General made the ACFR restatement in 2023. In the hearing, I understood the Subcommittee to be informing me that the Comptroller

General and the General Assembly had re-interpreted these statutes, imposing new and different disclosure obligations. When I stated in the hearing that the State Treasurer's Office is not in compliance with these reporting requirements, I meant that my office had not yet had the opportunity to change its reporting procedures in accordance with the re-interpretation articulated to me at the hearing. We are now working toward devising a secure means of complying with these new disclosure obligations.

- Regarding rating agency communications, STO Debt Division staff and leadership had interactions with the three rating agencies (S&P, Moody's, and Fitch) in the course of conducting the ordinary business of issuing the state's debt. Since November 2023, staff have had meetings or conversations with all three rating agencies. On January 19, 2014, Fitch published its rating of South Carolina affirming South Carolina's AAA Stable Rating. On March 22, 2024, S&P published its rating report affirming South Carolina's AA+ Stable Rating. Most recently calls were conducted to discuss upcoming debt issuances.

- Goldman Sachs is not currently used as a banking partner by the State Treasurer's Office; however, the State may purchase bonds from Goldman Sachs as a broker dealer through its investment manager.

- A spreadsheet provided to me during the hearing by the Subcommittee incorrectly showed a $30 billion fund balance for fund 30350993. This printout vastly overstated the balance because it failed to include account 1000000000, a "splitter" account which accounts for offsetting debits, in the subtotal. As shown in the report I provided in response, once account 1000000000 is correctly factored in, the subtotal equals $1.8 billion.

- Regarding a Subcommittee member's assertion that the State could owe the federal government interest, the State Treasurer's Office has implemented the reconciliation procedures established by the Cash Management Improvement Act, 31 U.S.C. §§ 6501 and 6503, and in accordance with the Cash Management Improvement Act Agreement between the State of South Carolina and the United States Department of the Treasury. As such, it is extremely unlikely that the $1.8 billion in question is composed of federal funds, or that the State owes the federal government interest on any funds therein.

- There were questions about State Treasurer's Office staffing levels and personnel requests. The STO has 68 filled FTEs and 83 authorized FTEs. STO requested 6 additional FTEs in our FY 2024-25 budget request. During the FY 2021-22 the STO requested 2.93 FTEs. With regards to the question regarding when the STO first had four attorneys in house, the testimony was an approximation. The STO has had four attorneys since 2018.

- The STO turnover rate is not 30% as was stated by one of the senators in the hearing. The STO's 10-year average turnover was 19%.

I intend to provide additional information to the Subcommittee in short order, but I wanted to provide these clarifications as soon as possible.

Sincerely,

Curtis M. Loftis, Jr.
State Treasurer

cc: The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 13, 2024

The Honorable Brian J. Gaines
Comptroller General and Chair of the SCEIS Executive Oversight Committee
1200 Senate St., Suite 305
Columbia, SC 29201

VIA HAND DELIVERY AND ELECTRONIC MAIL

Dear General Gaines:

Please accept this letter as a formal request to the SCEIS Executive Oversight Committee. At your request and at the request of the Senate Finance Committee, my staff has been researching the ownership of funds in SCEIS Fund 30350993. As it stands, SCEIS Fund 30350993 was used by the Comptroller General's Office (CGO), State Treasurer's Office (STO), and SCEIS for the STARS to SCEIS conversion.

The STO cannot conduct this research alone. We do not have the resources to independently conduct this research in the time frame requested. As such I am requesting that the SCEIS Oversight Committee form a working group which would include representatives from the original three agencies (CGO, STO, SCEIS) that worked on the conversion, all of whom made entries to SCEIS Fund 30350993 and all of whom continue to have visibility and access to the fund. I would also recommend including representatives from state agencies such as Revenue and Fiscal Affairs, Office of Technology and Information Services within the Department of Administration, and the Executive Budget Office as well as AFS entities, who may be able to shed light on this issue.

Finally, I recommend that the Oversight Committee include SAP consultants who have SCEIS and conversion expertise in order to review documentation from the conversion of the STARS legacy system to SCEIS. I believe we all have the same interest—to ensure that the public funds are properly accounted for, custodied, and invested. It will take the effort of multiple parties to review the decisions made by the CGO, the STO, and the SCEIS team during the multi-year STARS to SCEIS conversion.

Wade Hampton Building, 1200 Senate Street
Columbia, SC 29201
(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov

My staff looks forward to working with the working group on finding a solution.

Sincerely,

Curtis M. Loftis, Jr.
State Treasurer

cc: The Honorable Henry McMaster, Governor
The Honorable Thomas Alexander, President of the South Carolina Senate
The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Larry K. Grooms, Chairman of the Constitutional Budget Subcommittee
The Honorable Murrell Smith, Speaker of the South Carolina House of Representatives
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews
Marcia S. Adams, Executive Director of the SC Department of Administration
George Kennedy, SC State Auditor

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 11, 2025

VIA ELECTRONIC MAIL

The Honorable Lawrence K. "Larry" Grooms
Chairman of the Constitutional Subcommittee of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

Dear Chairman Grooms and Subcommittee Members:

I am writing to you as a follow-up to the February 18, 2025, meeting of the Constitutional Subcommittee, in which I presented on behalf of the State Treasurer's Office, in my capacity as the agency's Chief of Staff.

First, to the extent that I said anything that contradicted the *State Treasurer's Office Overview of Issues Surrounding SCEIS Fund 30350993 and Other Allegations* ("STO Report") submitted to you on February 27, 2025, please accept the Report as a correction to my testimony. The STO Report is thorough, and every assertion of fact is supported by evidence. To the best of my knowledge, it is a true and accurate representation of our complete understanding of the matters we discussed.

Second, you will recall in the meeting that I expressed a desire to clarify some language in the AlixPartners *State Treasury Forensic Accounting Review Final Report* ("AP Report").

The language I read in the meeting appears verbatim on page 10 of the AP Report, is as follows:

> We determined that approximately $1.6 billion of the $1.8 Billion did not represent real cash. It is attributed to balances in certain ACFR-Only business areas ("ACFR BAs") that were incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion. These balances represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process, and as such, the failure to recognize what these accounts represented had the unintended consequence of artificially inflating the balance in Fund 30350993. These entries were the primary reason that the Conversion Account did not net to zero upon completion of the conversion as intended.

The clarification I wished to provide was simply this: AlixPartners staff stated in a meeting on February 7, 2025, with our staff that the balances of "non-cash" appropriation entries that were recorded as real cash in SCEIS Fund 30350993 originated in ACFR Business Areas that are the sole responsibility of the Comptroller General's office.

Thank you for your attention to this matter.

Sincerely,

Clarissa Adams
Chief of Staff

cc: The Honorable Wes Climer
The Honorable Stephen Goldfinch
The Honorable Brad Hutto
The Honorable Margie Bright Matthews
The Honorable Rex F. Rice
The Honorable Ronnie Sabb
The Honorable Tom Young, Jr.

Exhibit 42

Transcript of AlixPartners's Mar. 11, 2025, Testimony before the Constitutional Subcommittee

Video: https://www.scstatehouse.gov/video/archives.php

Transcript

00:00:02 CHAIRMAN GROOMS
I like to go ahead and call this meeting of the Constitutional Subcommittee to order.
00:00:11 CHAIRMAN GROOMS
Do we have?
00:00:12 CHAIRMAN GROOMS
We may have issue with sound.
00:00:17
There we go.
00:00:18 CHAIRMAN GROOMS
Like to call this meeting of the Constitutional Subcommittee of the Senate Finance Committee to order before begin elective vote the Lords blessings.
00:00:27 CHAIRMAN GROOMS
Dear Lord, we we do thank you for giving us life.
00:00:31 CHAIRMAN GROOMS
We thank you for the responsibilities that that, that you've laid before us. We pray father for wisdom, we pray for guidance.
00:00:38 CHAIRMAN GROOMS
We ask Father that you lead these proceedings this day for the betterment of the people of this state and for your Kingdom. This in Christ name we pray. Amen.
00:00:47 CHAIRMAN GROOMS
Members first on our agenda, we have Mister Grant Gillespie.
00:00:52 CHAIRMAN GROOMS
He's the director.
00:00:53 CHAIRMAN GROOMS
Of the state Fiscal Accountability Authority Mister Gillespie, if you would please come.
00:01:01 CHAIRMAN GROOMS
And before you sit down, would you please raise your right hand?
00:01:07 CHAIRMAN GROOMS
Do you solemnly swear the testimony you're about to give is the truth, the whole truth, and nothing but the truth?
00:01:12 CHAIRMAN GROOMS
So Help you God?
00:01:13 CHAIRMAN GROOMS
Please be seated. Thank you.
00:01:16 CHAIRMAN GROOMS
And Mister Gillespie, you have. brought with us someone else here?
00:01:22 CHAIRMAN GROOMS
OK.

00:01:24 CHAIRMAN GROOMS
Is he going to be testifying or just advising you?
00:01:32 CHAIRMAN GROOMS
If you're going to testify, would you please raise your right hand?
00:01:35 CHAIRMAN GROOMS
Do solemnly swear the testimony you're about to give is the truth, the whole truth, and nothing but the truth
00:01:40 CHAIRMAN GROOMS
so help you God? Thank you.
00:01:42 CHAIRMAN GROOMS
Please be seated.
00:01:46 CHAIRMAN GROOMS
Mister Gillespie, you've heard some of the testimony that the Treasurer has offered not only here, but also at the House subcommittee. And there was an (…) there seemed to be an issue about short term bonds and long term bonds.
00:02:02 CHAIRMAN GROOMS
About when there was notification to the SFAA that the Treasurer would not be issuing long term bonds.
00:02:11 CHAIRMAN GROOMS
Could you help clarify that or or share with us your knowledge?
00:02:15 CHAIRMAN GROOMS
Of of of.
00:02:18 CHAIRMAN GROOMS
Why the Treasurer is not issuing long term bonds and when notification was offered.
00:02:24 MR. GRANT GILLESPIE
Sure, sure.
00:02:24 MR. GRANT GILLESPIE
Here's what I can tell you.
00:02:28 MR. GRANT GILLESPIE
And is.
00:02:31 MR. GRANT GILLESPIE
That in terms of the Treasurer 's office and what they attempted to do, or try to do, they they notified me in terms of trying to get an agenda item on the February fourth.
00:02:41 MR. GRANT GILLESPIE
Meeting that, that's a little bit outside the normal box of agenda items that we have, but it's not untypical.
00:02:48 MR. GRANT GILLESPIE
It is sometimes and before we call liaison review, which is kind of the principles that represent the members of the board.
00:02:55 CHAIRMAN GROOMS
Could you pull that microphone over? OK. Thank you.
00:02:56 MR. GRANT GILLESPIE
Sure, there you go.
00:02:58 MR. GRANT GILLESPIE

Yes, Sir. Before that liaison review, a member can put an agenda item on there.
00:03:04 MR. GRANT GILLESPIE
So like, as I said, it's not uncommon. The Treasurer 's office requested this on January the third.
00:03:11 MR. GRANT GILLESPIE
I chatted.
00:03:12 MR. GRANT GILLESPIE
Had a verbal conversation with Clarissa Adams, Clarissa, and I.
00:03:17 MR. GRANT GILLESPIE
Requested that the Treasurer would like to have an agenda item, an update (…)
00:03:21 MR. GRANT GILLESPIE
Not have.
00:03:21 MR. GRANT GILLESPIE
Update by Disclosure Council.
00:03:25 MR. GRANT GILLESPIE
We had that conversation later on January the tenth.
00:03:28 MR. GRANT GILLESPIE
I notified Clarissa that we have what we call a placeholder in place on the agenda right now. The title.
00:03:35 MR. GRANT GILLESPIE
Of that agenda is updated.
00:03:38 MR. GRANT GILLESPIE
By disclosure Council, I said.
00:03:40 MR. GRANT GILLESPIE
told The other four.
00:03:42 MR. GRANT GILLESPIE
Let me know when you have any.
00:03:43 MR. GRANT GILLESPIE
Happy to disseminate it out at that appropriate time.
00:03:46 MR. GRANT GILLESPIE
Of course I did e-mail back on that same day. Said yes, we would like it on the agenda and that they would like to have an executive session.
00:03:54 MR. GRANT GILLESPIE
As information only.
00:03:57 MR. GRANT GILLESPIE
And that in terms of information, she wanted to wait till the AlixPartners report had had come out, which I believe she said the date was January the fifteenth.
00:04:06 MR. GRANT GILLESPIE
In terms of next kind of step we take with our agenda, we send out our draft agenda to all the Members on January, the seventeenth, on there still is the placeholder with the same title, January the twenty first
00:04:20 MR. GRANT GILLESPIE
I did follow up with the Treasurer 's office again.
00:04:23 MR. GRANT GILLESPIE
Emailed them,

00:04:24 MR. GRANT GILLESPIE
Emailed Clarissa. At that point in time and said had conversations with a couple of the members.
00:04:29 MR. GRANT GILLESPIE
Like to have some additional information prior to liaison review.
00:04:33 MR. GRANT GILLESPIE
Anything that you can give happy to give them.
00:04:36 MR. GRANT GILLESPIE
At that point in time.
00:04:37 MR. GRANT GILLESPIE
In terms of, we followed up, I believe one more time prior to them before the actual liaison review liaison review on January, the twentyeighth and January, twenty eighth when we got to that particular that particular item, it was discussed I believe with Shelly Kelly that did the discussion.
00:04:56 MR. GRANT GILLESPIE
She.
00:04:56 MR. GRANT GILLESPIE
Kind of gave a mention or a description of what the Disclosure Council wanted to do and what Disclosure Council wanted to do was kind of give a high overview of essentially what the state disclosure obligations.
00:05:06 MR. GRANT GILLESPIE
are as it relates to the as it relates to the SEC investigation.
00:05:10 MR. GRANT GILLESPIE
From that, there was a lot of back and forth kind of between the Members questions that were asked, a lot of it kind of, if I remember correctly, dealt with a little bit of uncertainty what they're being asked to do. Remember some questions dealing with why it needed
00:05:23 MR. GRANT GILLESPIE
Be an executive session.
00:05:25 MR. GRANT GILLESPIE
The ultimate resolutions from a couple of the offices, what they requested and what they wanted was the Disclosure Council to meet with their in House legal counsel to describe exactly what was being discussed and asked to be on the agenda for the February fourth.
00:05:38 MR. GRANT GILLESPIE
Meeting that meeting was set up the very next day.
00:05:42 MR. GRANT GILLESPIE
All five offices were representatives were representative. Also Disclosure Council was there as well in terms of discussion, it was very similar to what Shelley had described.
00:05:56 MR. GRANT GILLESPIE
Discussed in terms of what the the state 's disclosure obligations are as it relates to the SEC, it was discussed also.
00:06:04 MR. GRANT GILLESPIE
The the general obligation bonds that had been issued for a certain time period.
00:06:08 MR. GRANT GILLESPIE

I can't remember exactly what time period that was stated. The reasonings for the the bond anticipation notes.
00:06:15 MR. GRANT GILLESPIE
From that, there was just a lot of conversation back and forth.
00:06:19 MR. GRANT GILLESPIE
Once again, it kind of seemed there was a little bit concerned and and question why the agenda need to be placed on that point in time.
00:06:30 MR. GRANT GILLESPIE
It eventually
00:06:31 MR. GRANT GILLESPIE
Kind of got to a point where it was obvious where the majority of the members.
00:06:37 MR. GRANT GILLESPIE
Did not want this on the agenda at that point in time. If I remember correctly, I made the statement that.
00:06:44 MR. GRANT GILLESPIE
It seems that the majority of the board doesn't want this on the agenda.
00:06:48 MR. GRANT GILLESPIE
We would plan to take it off if you disagree or like it take a different direction. Please let us know.
00:06:54 MR. GRANT GILLESPIE
Let us know in the next couple of days.
00:06:56 MR. GRANT GILLESPIE
As a result, the agenda item was taken off.
00:07:03 MR. QUENTIN HAWKINS
Do.
00:07:04 CHAIRMAN GROOMS
Any Members have any questions at this point?
00:07:08 SENATOR GOLDFINCH
I mean, I got some questions, Mr. Chairman.
00:07:10 CHAIRMAN GROOMS
Senator from Georgetown.
00:07:13 SENATOR GOLDFINCH
Unless you'd like to withhold questions for some other. But I mean, I've got.
00:07:17 CHAIRMAN GROOMS
Oh.
00:07:17 CHAIRMAN GROOMS
Go, go now would be appropriate.
00:07:22 SENATOR GOLDFINCH
Grant good overview but I.
00:07:25 SENATOR GOLDFINCH
Got lost somewhere in the middle.
00:07:30 SENATOR GOLDFINCH
I appreciate yoy Going through it in detail so.
00:07:35 SENATOR GOLDFINCH

I guess my question is like what?
00:07:37 SENATOR GOLDFINCH
Obviously there wasn't a desire by the Members to put it on the agenda.
00:07:44 SENATOR GOLDFINCH
Can we start that way and move backwards? Why?
00:07:49 SENATOR GOLDFINCH
What's the? What's the implication?
00:07:51 SENATOR GOLDFINCH
Why didn't they want to put on the agenda?
00:07:54 MR. GRANT GILLESPIE
Senator, I can't speak for the other four offices.
00:07:57 SENATOR GOLDFINCH
What's your thought?
00:07:58 MR. GRANT GILLESPIE
I can tell you what I sensed and what I witnessed in the conversation and what I witnessed. Conversation Was this a level of frustration.
00:08:04 MR. GRANT GILLESPIE
That they did not feel comfortable putting it on the agenda at that at that point in.
00:08:09 SENATOR GOLDFINCH
Time because what they were being put in a bad position. Or like what? What? What's the implication there?
00:08:15 MR. GRANT GILLESPIE
I think a lot of it would seem to be just in terms they wanted more information about the item, what they were being asked to do, what they were asking their members.
00:08:23 MR. GRANT GILLESPIE
To listen to it once again, it was an executive session.
00:08:27 MR. GRANT GILLESPIE
It was for information only, but it seemed to be some they seemed to have not complete clarity. What they were being asked to do.
00:08:33 MR. GRANT GILLESPIE
Was my take On it.
00:08:34 SENATOR GOLDFINCH
because this is a very unusual request?
00:08:39 MR. GRANT GILLESPIE
I can't speak
00:08:40 MR. GRANT GILLESPIE
It's not a normal request that we have for an agenda item in terms of what we receive. It's outside of that context.
00:08:46 MR. GRANT GILLESPIE
Sir.
00:08:48 CHAIRMAN GROOMS
Yeah, yeah, yeah, sure. Yeah, we can.
00:08:50 SENATOR SABB

I want to just want to be clear on on, on where we are because I don't want us to run afoul of any of the rules.
00:08:59 SENATOR SABB
We're not talking about what occurred in executive session. We're talking about why it didn't get to a discussion in executive session.
00:09:07 MR. GRANT GILLESPIE
That's correct. That's correct.
00:09:08 SENATOR YOUNG
OK.
00:09:09 SENATOR SABB
Make sure we're clear on that, Miss Jim.
00:09:11 SENATOR GOLDFINCH
Thank you, senator.
00:09:15 SENATOR GOLDFINCH
The members weren't comfortable putting it on the agenda.
00:09:19 SENATOR GOLDFINCH
This was an unusual request.
00:09:23
Umm.
00:09:25 SENATOR GOLDFINCH
And back up from there.
00:09:27 SENATOR GOLDFINCH
Why?
00:09:28 SENATOR GOLDFINCH
Why do you suspect?
00:09:30 SENATOR GOLDFINCH
There's there's some disconnect that I'm missing, right?
00:09:32 SENATOR GOLDFINCH
I'm not sure what what it is.
00:09:34 SENATOR GOLDFINCH
Why wasn't?
00:09:35 SENATOR GOLDFINCH
Why was the request made?
00:09:38 SENATOR GOLDFINCH
Why didn't they get put on the agenda?
00:09:40 SENATOR GOLDFINCH
Where's?
00:09:41 SENATOR GOLDFINCH
What is there in the middle that I'm missing?
00:09:44 MR. GRANT GILLESPIE
I can't speak specifically. I can tell you exactly factually.
00:09:47 MR. GRANT GILLESPIE

What the agenda item said at that point in time, when discussion was had the agenda item as a I'll mention just when you look at a typical agenda item that what you'll see is it'll say the agency that it's from
00:10:00 MR. GRANT GILLESPIE
You'll see the subject.
00:10:02 MR. GRANT GILLESPIE
And then that subject is a pretty detailed description of what the five member authority is looking at, with, The details are behind it.
00:10:10 MR. GRANT GILLESPIE
Then you'll see what they're actually being asked to do.
00:10:14 MR. GRANT GILLESPIE
Whats The request.
00:10:15 SENATOR GOLDFINCH
This is a normal request.
00:10:16 MR. GRANT GILLESPIE
This is this is.
00:10:17 MR. GRANT GILLESPIE
This is the normal agenda item.
00:10:19 SENATOR GOLDFINCH
Yeah, like a request that you would normally have, but in this case was that protocol followed?
00:10:24 MR. GRANT GILLESPIE
In this case, what you had was sent you had.
00:10:27 MR. GRANT GILLESPIE
It was an update by Disclosure Council at that point in time and we were told that it would be put in executive session and for information only, and that was that was the level of information that we had.
00:10:36 SENATOR GOLDFINCH
Oh, so you're so you're suggesting that the treasurer did not tell you specifically what was going on there?
00:10:43 MR. GRANT GILLESPIE
He told us in broad context, what the what the subject was.
00:10:47 SENATOR GOLDFINCH
But not the members.
00:10:49 MR. GRANT GILLESPIE
The level of that the members knew at that point in time was discussed, one at liaison review by by the Treasurer 's office, and two, the very next day when Disclosure Council gave gave their comments as well.
00:11:04 SENATOR GOLDFINCH
OK.
00:11:07 SENATOR GOLDFINCH
I think that's all for me right now, Mr. Chairman.
00:11:10 SENATOR GOLDFINCH
A reserve to come back if I can.
00:11:13 CHAIRMAN GROOMS

Mister Gillespie?
00:11:16 CHAIRMAN GROOMS
And in members, correct me if my memory is is off a little bit, but it seemed like the treasurer was telling us that he wanted to be on the agenda to be able to explain why he's.
00:11:31 CHAIRMAN GROOMS
Why he is not going to issue any GO Bondsrather he wants to issue bond anticipation notes.
00:11:39 CHAIRMAN GROOMS
but He wasn't allowed to do so.
00:11:42 CHAIRMAN GROOMS
Is is that?
00:11:44 CHAIRMAN GROOMS
Could you help me understand?
00:11:46 CHAIRMAN GROOMS
Is that an accurate statement that he wasn't allowed to do so?
00:11:51 MR. GRANT GILLESPIE
In general context context, he wanted to have a discussion about an update from Disclosure Council. The conversation with more details were devolved from the State Treasurer 's office and the actual Disclosure Council. Bond anticipation notes was discussed.
00:12:06 MR. GRANT GILLESPIE
General obligation debt was discussed as as well.
00:12:10 CHAIRMAN GROOMS
OK. And a normal request would have had that listed in writing?
00:12:16 CHAIRMAN GROOMS
It would have had a request for some sort of action.
00:12:21 MR. GRANT GILLESPIE
Typically before it gets to liaison review and obviously before it actually gets to the actual authority meeting, you'll have a detailed description of what the the item is. Now if it's an executive session, it would be somewhat limited, but you would have a little bit more.
00:12:34 MR. GRANT GILLESPIE
More of a description. So it's a little bit different that that regard.
00:12:41 CHAIRMAN GROOMS
OK.
00:12:41 CHAIRMAN GROOMS
Could you tell us the status right now? Is the Treasurer able to issue Geo bonds?
00:12:48 MR. GRANT GILLESPIE
I do not know the answer to.
00:12:49 MR. GRANT GILLESPIE
That question.
00:12:53 CHAIRMAN GROOMS
OK, OK. Oh yeah, senator from Georgetown.
00:12:56 SENATOR GOLDFINCH
Go back to this description.
00:12:58 SENATOR GOLDFINCH
This is, I think what I'm confused about.

00:13:01 SENATOR GOLDFINCH
What was the description adequate or was it blank for the members to make a informed decision about?
00:13:10 MR. GRANT GILLESPIE
I can tell you simply it was an update by Disclosure Council technical you would.
00:13:13 SENATOR GOLDFINCH
Hang on, a minuite.
00:13:15 SENATOR GOLDFINCH
I'm sorry. I don't mean to interrupt you, but I want to make sure I understand what you're saying.
00:13:18 SENATOR GOLDFINCH
An update by.
00:13:21 SENATOR GOLDFINCH
By Council disclosure Council.
00:13:24 SENATOR GOLDFINCH
That was the actual verbiage that was on there.
00:13:26 MR. GRANT GILLESPIE
That was actual verbiage of the actual subject that we had at that point in time.
00:13:30 MR. GRANT GILLESPIE
Yes, Sir.
00:13:30 SENATOR GOLDFINCH
So there really wasn't any description of what was there other than update by disclosure Council.
00:13:36 MR. GRANT GILLESPIE
not not at that point in time.
00:13:38
No, Sir.
00:13:41 SENATOR GOLDFINCH
OK. Had the treasurer.
00:13:44 SENATOR GOLDFINCH
Put a description in there.
00:13:47 SENATOR GOLDFINCH
You know something to the effect of I'm considering not issuing long term bonds and need to speak with.
00:13:55 SENATOR GOLDFINCH
The members about this, would that have been something that would have gotten everybody 's attention.
00:14:00 MR. GRANT GILLESPIE
I can't speak in that regard.
00:14:02 MR. GRANT GILLESPIE
I can tell you that was not on the agenda.
00:14:03 SENATOR GOLDFINCH
What would you?
00:14:05 SENATOR GOLDFINCH

Well, I guarantee it wasn't on the agenda, but would that have gotten
00:14:07 SENATOR GOLDFINCH
Your attention?
00:14:08 MR. GRANT GILLESPIE
We we we would have put it in there as more detail for the other four Members. So I can't tell you if it
00:14:16 MR. GRANT GILLESPIE
Got my attention or not, but it's it's. It may have gotten the other attention of the.
00:14:21 MR. GRANT GILLESPIE
Four members.
00:14:25 CHAIRMAN GROOMS
Finance Committee staff would like to add something.
00:14:27 MR. QUENTIN HAWKINS
Yes, Sir. Mr. Chairman as context.
00:14:30 MR. QUENTIN HAWKINS
There, I think Grant is described the information that was made available, but the Treasurer 's office admitted.
00:14:37 MR. QUENTIN HAWKINS
To this committee staff after the last meeting.
00:14:40 MR. QUENTIN HAWKINS
proof Of the agenda item.
00:14:42 MR. QUENTIN HAWKINS
Which was a did have a description in it and as an agenda item we had never seen, nor to my knowledge, had Mister Gillespie ever seen.
00:14:50 MR. QUENTIN HAWKINS
So it clearly existed or was created afterwards one to two.
00:14:56 MR. QUENTIN HAWKINS
I would also say that the Disclosure Council meeting that was scheduled and we all staff agreed to that that happened after his, the treasurers, testimony in the House, which is one the disclosure was made about the long term debt.
00:15:12 MR. QUENTIN HAWKINS
That, to my knowledge, was not the subject of the Disclosure Council meeting at that time. Prior to that, and was really more brought up in that meeting by other staff.
00:15:26 MR. QUENTIN HAWKINS
So I just as context from a staffing perspective.
00:15:31 MR. QUENTIN HAWKINS
And I grant you know, when the ban was issued, I think the Clemson one, you may have more knowledge on what what date was that issued or what month.
00:15:43 MR. GRANT GILLESPIE
From my understanding, a lot of this is from testimony and some of the stuff that's been been sent to us was issued May of twenty twenty four.
00:15:52 MR. GRANT GILLESPIE
For the Clemson one.
00:15:54 CHAIRMAN GROOMS

And the other one was musc project.
00:15:56 MR. GRANT GILLESPIE
The other one was musc.
00:15:58 MR. GRANT GILLESPIE
Yes, Sir. from my understanding.
00:16:00 CHAIRMAN GROOMS
OK.
00:16:03 CHAIRMAN GROOMS
Yes, senator Pittsburgh.
00:16:04 SENATOR SABB
thanks.
00:16:05 SENATOR SABB
Just a question or two on somewhat of a different subject, I think.
00:16:14 SENATOR SABB
The appropriateness of.
00:16:19 SENATOR SABB
Executive session is what I want to explore just for.
00:16:22 SENATOR SABB
Second or two.
00:16:23 SENATOR SABB
So I'm hearing that.
00:16:26 SENATOR SABB
There are conversations.
00:16:28 SENATOR SABB
With Disclosure Council that are appropriate for public consumption right? every time the Disclosure Council shares information, it's not the kind of information that's like attorney-client privilege or anything like that.
00:16:46 SENATOR SABB
Where it's not discussed openly, am I following that OK?
00:16:50 MR. GRANT GILLESPIE
I'm sure there's some attorney-client privilege.
00:16:52 MR. GRANT GILLESPIE
I'd probably refer to that question to mine general counsel if I can.
00:16:55 SENATOR SABB
Sure, sure. Happy to, OK.
00:16:57 SENATOR SABB
Here's where I'm going.
00:16:59 SENATOR SABB
I'm curious about the appropriateness of the subject matter for executive.
00:17:04 SENATOR SABB
Session and whether or not this would be the kind of legal briefing that's appropriate for for executive session.
00:17:16 SENATOR SABB
Or or or should the subject matter be one that's discussed?

00:17:23 SENATOR SABB
By the board.
00:17:25 SENATOR SABB
In open.
00:17:26 SENATOR SABB
So that's what I'm curious.
00:17:28 SENATOR SABB
That's kind of where I'm heading in my series of questions with Grant.
00:17:32 SENATOR SABB
So if you can help me on that then I'd appreciate it.
00:17:35 MR. KEITH MCCOOK
My experience over the last eight.
00:17:37 MR. KEITH MCCOOK
Excuse me, my experience over the last eight years is that the authority members are very resent to go into executive session.
00:17:44 MR. KEITH MCCOOK
they Don't like it
00:17:46 MR. KEITH MCCOOK
They like to be as open and transparent as possible. There is nothing.
00:17:50 MR. KEITH MCCOOK
In the law, with a few exceptions that mandates that go into executive session for any particular subject matter, and they of course have the right as the five Member authority to waive any attorney client privilege.
00:18:01 MR. KEITH MCCOOK
That said, I think.
00:18:04 MR. KEITH MCCOOK
I think that it would have been legally proper under FOIA for the five member authority to have received an executive session briefing from legal counsel on that subject and a whole host of others.
00:18:20 MR. QUENTIN HAWKINS
Mr. Chairman.
00:18:23 MR. QUENTIN HAWKINS
I can provide some more context.
00:18:27 CHAIRMAN GROOMS
Senator, from Georgetown.
00:18:28 SENATOR GOLDFINCH
I'm sorry to interrupt, but just to follow up on that question.
00:18:32 SENATOR GOLDFINCH
When you say that context, do you mean the context of the SEC investigation or the context of disclosure regarding long term bonds and general bond obligations?
00:18:43 SENATOR GOLDFINCH
Is that normally something?
00:18:45 SENATOR GOLDFINCH
I see distinguished between the two.

00:18:47 SENATOR GOLDFINCH
Do you distinguish between the two?
00:18:51 MR. KEITH MCCOOK
I think a briefing by legal counsel that has a relationship with the authority is appropriate for executive session, regardless of the subject, as long as they're providing legal advice, whatever the context may be.
00:19:05 MR. KEITH MCCOOK
It's not specific to this topic at all.
00:19:09 MR. KEITH MCCOOK
If somebody came up and we've had somebody come up and provided legal advice to the authority members about a settlement that's appropriate for executive session.
00:19:18 SENATOR GOLDFINCH
There's a lot of things that may call legal advice, though, right?
00:19:22 SENATOR GOLDFINCH
Yes, yes. Yeah. OK. Thanks.
00:19:25 CHAIRMAN GROOMS
Yeah. Quentin, with our finance staff.
00:19:28 MR. QUENTIN HAWKINS
Good Senator Saba, the context that's important to this is.
00:19:33 MR. QUENTIN HAWKINS
As Keith described very appropriately, legal advice can be an executive session, but in my experience of over ten years with the board and the Finance Committee, the standard for going to executive session is very high.
00:19:50 MR. QUENTIN HAWKINS
And I'll tell you personally, myself and the other Senate staffers involved in making recommendations to our Chairman on executive session, we had almost no information to go on in order to advise.
00:20:03 MR. QUENTIN HAWKINS
To authorize the executive session.
00:20:06 SENATOR SABB
Ship. Yes, please. And thank you for that context. Because, I mean, that was my sense.
00:20:14 SENATOR SABB
Of my sense was in listening to to grant describe some of the vagueness that was associated with the request, that there was hesitancy on certain person 's part as to whether or not.
00:20:29 SENATOR SABB
That would be something that in number one was appropriate for the agenda number two.
00:20:36 SENATOR SABB
For was appropriate for the agenda and in executive session, and that's really what prompted me to go down that, that, that path and so.
00:20:45 SENATOR SABB
So it disappears to me based on what was just shared that.
00:20:50 SENATOR SABB
It's probably not appropriate for executive session, although I know very clearly that legal briefings.

00:20:57 SENATOR SABB
Can be appropriate for executive session and just as sent from Georgetown mentioned it can cover a whole gambit of of of topics and but.
00:21:12 SENATOR SABB
Really curious.
00:21:14 SENATOR SABB
Based on the information that was given as to whether or not.
00:21:19 SENATOR SABB
Because, quite frankly, I've always had some concern over the years.
00:21:23 SENATOR SABB
as to whether or not.
00:21:27 SENATOR SABB
Appropriate matters are discussed in executive sessions.
00:21:33 SENATOR SABB
In compliance with the law or whether or not occasionally.
00:21:40 SENATOR SABB
Unpopular subjects were inappropriately.
00:21:46 SENATOR SABB
Discussed in executive session. Quite frankly, with the purpose in mind of keeping bad information in House.
00:21:53 SENATOR SABB
As opposed to complying with the law and having open, robust conversations about matters of public import.
00:22:04 SENATOR SABB
And and so I was trying to figure out a way to engage in a discussion that allows me to reach my own conclusion as to whether or not the subject matter was appropriate.
00:22:18 SENATOR SABB
For executive session, realizing that ultimately it never got there.
00:22:24 SENATOR SABB
But I'm curious as to whether or not persons and I do not ask witnesses in this instance you.
00:22:31 SENATOR SABB
To speak on behalf of someone else.
00:22:35 SENATOR SABB
Other than sharing your own observation about you know what you observe, what you heard, those kinds of things. Well, I guess I'll ask a pointed question.
00:22:45 SENATOR SABB
Did anyone in your presence voice concern about whether or not
00:22:52 SENATOR SABB
The subject matter, given its vagueness as described, was appropriate or inappropriate for executive session discussion?
00:23:01 MR. GRANT GILLESPIE
There was concern from some of the members or representatives of members for to go in executive session.
00:23:08 MR. GRANT GILLESPIE

As stated previously, yes Sir.
00:23:12 CHAIRMAN GROOMS
Senator from Georgetown so.
00:23:14 SENATOR MATTHEWS
Yeah.
00:23:15 SENATOR GOLDFINCH
To grant, I mean executive session can be abused right? As the chairman from Williamsburg was alluding to.
00:23:21 SENATOR GOLDFINCH
Mean it can be abused.
00:23:25 SENATOR GOLDFINCH
Did I say Georgetown? No, you said.
00:23:28 SENATOR GOLDFINCH
I kind of like the I withdraw my statement.
00:23:33 SENATOR GOLDFINCH
No, no, senator from Williamsburg executive session can certainly be abused.
00:23:38 SENATOR GOLDFINCH
I hope that's not what we have here, but.
00:23:41 SENATOR GOLDFINCH
It feels like.
00:23:44 SENATOR GOLDFINCH
Someone made a request with some very vague information to hide behind executive session, and then the majority of the Members say no, we're not hiding behind executive session. And then what happened to the information there after?
00:23:59 SENATOR GOLDFINCH
That and that's a question for you.
00:24:00 SENATOR GOLDFINCH
What Happened to the.
00:24:02 MR. GRANT GILLESPIE
Information after that?
00:24:03 MR. GRANT GILLESPIE
Sure, after decided not to be on the agenda?
00:24:06 MR. GRANT GILLESPIE
Right.
00:24:07 MR. GRANT GILLESPIE
The agenda item was removed from the actual agenda for February the fourth.
00:24:11 SENATOR GOLDFINCH
So it was not put forth in public session.
00:24:14 MR. GRANT GILLESPIE
It was not put forth.
00:24:14 SENATOR GOLDFINCH
In public session. So it was clearly something that the Treasurer didn't want heard publicly.
00:24:20 MR. GRANT GILLESPIE
I cannot answer that.

00:24:22 MR. GRANT GILLESPIE
I can tell you there were concerns from other Members about it being an executive session.
00:24:26 SENATOR GOLDFINCH
I think it follows though, that if the Treasurer requested an executive session.
00:24:32 SENATOR GOLDFINCH
The rest of the members said that's not appropriate for executive session, and the Treasurer removes his request for executive session and removes the agenda item altogether,
00:24:42 SENATOR GOLDFINCH
Treasurer didn't want it to be heard in public.
00:24:45 MR. GRANT GILLESPIE
Can't speak to what treasure thought.
00:24:46 SENATOR GOLDFINCH
No, you.
00:24:48 SENATOR GOLDFINCH
That's my words not yours thank you.
00:24:51 CHAIRMAN GROOMS
Let me ask, let me ask this.
00:24:54 CHAIRMAN GROOMS
Is it a big deal that the Treasurer doesn't issue GO bonds when he has been issuing GO bonds?
00:25:02 MR. GRANT GILLESPIE
Senator, all due respect, that's something that's outside of my scope. Yes, Sir.
00:25:09 CHAIRMAN GROOMS
OK, that you you.
00:25:11 CHAIRMAN GROOMS
To me it seems like that is.
00:25:12 CHAIRMAN GROOMS
Big deal that.
00:25:14 CHAIRMAN GROOMS
That that's something worthy of the other members to know that we're only issuing bond anticipation notes. Is that a GO bonds?
00:25:23 CHAIRMAN GROOMS
Has this do you to your knowledge? Has this happened before?
00:25:27 MR. GRANT GILLESPIE
Not to my knowledge. No, Sir. I I don't know the answer to those questions.
00:25:29 CHAIRMAN GROOMS
So it is unusual.
00:25:33 MR. GRANT GILLESPIE
I couldn't tell you if it's unusual.
00:25:35 MR. GRANT GILLESPIE
I know I've learned more about bank anticipation notes more than ever, once know over the past week or so, but i can't speak to answer your question, OK?
00:25:44 CHAIRMAN GROOMS
Thank you.
00:25:44 CHAIRMAN GROOMS

Any other questions?
00:25:47 CHAIRMAN GROOMS
Thank you for coming here and sharing with us your perspective on this. Thanks.
00:25:48 MR. GRANT GILLESPIE
Sure, absolutely.
00:25:59 CHAIRMAN GROOMS
And members next on our agenda, we're going to hear once again from AlixPartners we have with us, Miss Susan Markel and Mister David Bligh, if you would please come.
00:26:11 CHAIRMAN GROOMS
And.
00:26:18 CHAIRMAN GROOMS
Before you get comfortable.
00:26:21 CHAIRMAN GROOMS
Could you?
00:26:21 CHAIRMAN GROOMS
Could you both raise your right hands?
00:26:22 CHAIRMAN GROOMS
We'll do it at the same time.
00:26:24 CHAIRMAN GROOMS
Do solemnly swear the testimony you're about to give is the truth, the whole truth, and nothing but the truth, so help you God.
00:26:30 CHAIRMAN GROOMS
Let record reflect, they both said.
00:26:32 CHAIRMAN GROOMS
I do.
00:26:34 CHAIRMAN GROOMS
Thank you for being here today.
00:26:36 CHAIRMAN GROOMS
I know you flew in today to be able to chat with us and we appreciate that.
00:26:43 CHAIRMAN GROOMS
I'm sure you familiarize yourself with the testimony of the
00:26:47 CHAIRMAN GROOMS
State Treasurer basically in regards to his.
00:26:52 CHAIRMAN GROOMS
His response to the AlixPartners Report.
00:26:54 CHAIRMAN GROOMS
Court and through the testimony, the state treasurer, the Office of State Treasurer, reported the release on February twenty six twenty twenty five, the state treasurer indicated.
00:27:09 CHAIRMAN GROOMS
That the balance of the one point eight billion in 30350993 is completely the result of incorrect entries either made by the Comptroller General
00:27:24 CHAIRMAN GROOMS
Or directed to be made by the Comptroller General. When I read your report that’s
00:27:30 CHAIRMAN GROOMS

what I get.
00:27:31 CHAIRMAN GROOMS
Could you comment on that?
00:27:38 CHAIRMAN GROOMS
Could you get a little closer to the microphone?
00:27:41 MS. SUSAN MARKEL
And turn it on.
00:27:44 MS. SUSAN MARKEL
Yeah. As we indicated in our report that we issued, we believe that it was joint responsibility.
00:27:49 MS. SUSAN MARKEL
Wasn't one party versus the other.
00:27:52 MS. SUSAN MARKEL
We believe that the CGO and the STO were both involved in the various entries, but I'll turn to Dave to go into a little more specifics on that.
00:28:00 MR. DAVID BLIGH
Yeah. Thanks, Susan.
00:28:02 MR. DAVID BLIGH
So just to be clear and to make any sort of confusion or dispel confusion, so our report stated that the entries.
00:28:12 MR. DAVID BLIGH
That comprise those ACFR business areas were originally recorded by the Comptroller General 's office, however, where that became an issue was not with the entries themselves, but the transferring of those entries into fund 993.
00:28:27 MR. DAVID BLIGH
And those transfers, at least from a journal entry perspective within SCEIS, was not recorded or not directly attributable to any CGO employee.
00:28:37 CHAIRMAN GROOMS
So the so the CGO created the account and but the entries were made by state treasury.
00:28:47 MR. DAVID BLIGH
So the ACFR business areas are used by the Comptroller General 's office in preparation for the ACFR, so they hold various adjustments
00:28:54 MR. DAVID BLIGH
And entries that are recorded to assist with that preparation.
00:28:58 MS. MARKEL
In normal course
DAVID BLIGH
correct as part of the normal course of the ACFR preparation process.
00:29:03 MR. DAVID BLIGH
Where the problem and the unintended consequences we refer to it in our report occurred was when those balances were moved from their original place, which was in the legacy cash accounts within their existing
00:29:19 MR. DAVID BLIGH
Fund and business area designation, to the Treasury Fund.
00:29:23 MR. DAVID BLIGH

Of 350993. So it was the transferring of those funds that created one point six billion of the one point, eight billion dollar balance.
00:29:32 MR. DAVID BLIGH
Within 993..
00:29:34 CHAIRMAN GROOMS
So who did the transferring?
00:29:36 SENATOR GOLDFINCH
So.
00:29:37 MR. DAVID BLIGH
That from the entry perspective, yes, from the entry there were four usernames associated with those entries.
00:29:45 MR. DAVID BLIGH
The names are Catherine Kip, Martin Taylor, Doug Cooper
00:29:50 MR. DAVID BLIGH
And then there's one entry that's referred to as batch, which is effectively a
00:29:54 MR. DAVID BLIGH
System assisted entry or not attributable to one person.
00:29:57 CHAIRMAN GROOMS
and they were.
00:29:59 CHAIRMAN GROOMS
Employees of the Office of State Treasury.
00:30:01 MR. DAVID BLIGH
Doug Cooper was a SCEIS employee.
00:30:03 CHAIRMAN GROOMS
SCEIS SCEIS, part of the SCEIS team assigned to the state Treasurer 's office.
00:30:04 MR. DAVID BLIGH
But the other two.
00:30:09 MR. DAVID BLIGH
That's.
00:30:10 MR. DAVID BLIGH
And and as Susan said, I think the point we would make is even though their name shows up as the person
00:30:14 MR. DAVID BLIGH
The entries we do understand, and we've seen evidence of the comptroller.
00:30:19 MR. DAVID BLIGH
General 's office.
00:30:20 MR. DAVID BLIGH
Team members being at least aware of these entries and involved in some of the decision
00:30:24 MR. DAVID BLIGH
Making.
00:30:25 CHAIRMAN GROOMS
OK. Because we we keep hearing that the the State Treasurer intends to say that the the Treasurer is the state 's banker.
00:30:34 CHAIRMAN GROOMS

I've heard that a lot.
00:30:36 CHAIRMAN GROOMS
And that the Comptroller general is the states accountant as such the state treasurer.
00:30:43 CHAIRMAN GROOMS
Has reconciled balances in SCEIS to the bank.
00:30:46 SENATOR YOUNG
Like.
00:30:47 CHAIRMAN GROOMS
And that all cash and investments have been properly managed and accounted for by the state treasurers office. Based on your review, do you agree with the state Treasurers office and how do you think these discrepancies
00:31:03 CHAIRMAN GROOMS
Of duties relate to the one point eight billion in 3050993 and to the 2022 act for restatement.
00:31:17 MS. SUSAN MARKEL
Yeah. I guess one comment I would make to that and it in the Treasurer 's report, he indicated that based on our report that we agreed that the cash and investments were managed properly.
00:31:27 MS. SUSAN MARKEL
That's one area we did not make a statement as to it was not part of our scope to go in and determine how they managed
00:31:34 MS. SUSAN MARKEL
Their cash and investments, so we don't really have a position to take on that.
00:31:37 MS. SUSAN MARKEL
We can't say that our role was to reconcile the cash and investments as to the bank accounts into the general Ledger and we we were able to do that with which
00:31:47 MS. SUSAN MARKEL
Which is a portion of the funds that are included in the ultimate ACFR cash
00:31:51 MS. SUSAN MARKEL
Line items.
00:31:55 MR. DAVID BLIGH
And just to add to that, back to the statement that Susan was referencing.
00:32:00 MR. DAVID BLIGH
The statement that it the cash is properly managed and accounted for, I think what we would say is that that accounted for piece.
00:32:09 MR. DAVID BLIGH
I don't think we would be here if everything was properly accounted for.
00:32:13 MR. DAVID BLIGH
So that part about the one point eight billion.
00:32:17 MR. DAVID BLIGH
Having not been, as we previously stated, investigated or or truly understood as to what it represented, represents a shortcoming in how the Treasury refunds were accounted for.
00:32:28 CHAIRMAN GROOMS
And I hear the state treasurer saying that.
00:32:32 CHAIRMAN GROOMS

Everything has been reconciled and accounted for.
00:32:37 CHAIRMAN GROOMS
And I'm still looking at a one point eight billion dollar discrepancy.
00:32:43 CHAIRMAN GROOMS
Could you comment on that?
00:32:46 MR. QUENTIN HAWKINS
It's.
00:32:46 MR. DAVID BLIGH
Sure. So the treasury is correct on an account level. As Susan mentioned, we can reconcile at an account level between SCEIS and the banking institution 's statements of record.
00:33:01 MR. DAVID BLIGH
Where the issue lies for fund 30350993 is that at the fund level as we've recommended in our report, we believe that the Treasurer should be reporting at both an account and a fund level.
00:33:17 MR. DAVID BLIGH
So it's that.
00:33:18 MR. DAVID BLIGH
That not going down to that level of more granularity to the fund where we see part of the problem.
00:33:24 CHAIRMAN GROOMS
So the the error appears when.
00:33:28 CHAIRMAN GROOMS
There's a reconciliation between the bank and the SCEIS.
00:33:34 MR. DAVID BLIGH
By fund.
00:33:34 CHAIRMAN GROOMS
But but if, but if you only reconcile in bank statements to what you know is in the bank, you're not going to see
00:33:42 CHAIRMAN GROOMS
A discrepancy, right?
00:33:43 MR. DAVID BLIGH
If you're only using at the account level, which is, I think in the treasurers word agnostic fund. If you only look at that view from the account level and SCEIS, you would not see the components by fund.
00:33:54 CHAIRMAN GROOMS
So the trend that says it's not his business, he really doesn't really care.
00:33:56 CHAIRMAN GROOMS
About fund.
00:33:59 CHAIRMAN GROOMS
He wouldn't be able to recognize an error.
00:34:05 MR. DAVID BLIGH
I think it's tough to say what he would be able to recognize, but I think there's two things worth noting here.
00:34:10 MR. DAVID BLIGH
One is Is the 30350993

00:34:12 MR. DAVID BLIGH
is a treasury fund. It's associated with the business area E one sixty in SCEIS, which corresponds to the State Treasurer 's office.
00:34:20 MR. DAVID BLIGH
And it's only associated with the state.
00:34:22 Speaker 2
Treasurer 's office.
00:34:23 CHAIRMAN GROOMS
So it is a treasury fund.
00:34:24 MR. DAVID BLIGH
Yes it is.
00:34:25 CHAIRMAN GROOMS
And the entries that are made to it are made by Comptroller General Staff.
00:34:31 MR. DAVID BLIGH
No, the overwhelming majority were made by the state.
00:34:34 MR. DAVID BLIGH
Treasurer 's office.
00:34:34 CHAIRMAN GROOMS
state Treasurer 's office. And so if there were.
00:34:40 CHAIRMAN GROOMS
If there were mistakes.
00:34:44 CHAIRMAN GROOMS
With the entries.
00:34:46 CHAIRMAN GROOMS
They would have been
00:34:47 CHAIRMAN GROOMS
Made by state Treasury Office staff?
00:34:52 MR. DAVID BLIGH
Yes, you know, I've restated a report in in consultation with SCEIS staff and and the Commissioner General, Comptroller General 's office staff.
00:35:00 CHAIRMAN GROOMS
Excuse me. So could the Comptroller General 's office had made those entry errors?
00:35:08 MR. DAVID BLIGH
So our understanding is they would not have the ability to post entries to that fund because that fund is restricted to state Treasury Office employees.
00:35:17 CHAIRMAN GROOMS
And this was an important this was an important part because.
00:35:22 CHAIRMAN GROOMS
The as we dig into this, as you all have dug into it.
00:35:27 CHAIRMAN GROOMS
As members of the committee have spent countless hours and staff spent countless hours on this.
00:35:33 CHAIRMAN GROOMS

We know that a mistake was made somewhere and we believe at least I believe that that an error was made.
00:35:43 CHAIRMAN GROOMS
An entry error was made.
00:35:47 CHAIRMAN GROOMS
By state treasury.
00:35:50 CHAIRMAN GROOMS
Employees and also with the SCEIS members who were associated or assigned to the Treasury, that that's that's what it appears to me from all the information and and now we have the state treasurer saying.
00:36:05 CHAIRMAN GROOMS
The error was always with the comptroller general.
00:36:09 CHAIRMAN GROOMS
Could you give me your understanding? Is your understanding like my understanding?
00:36:14 CHAIRMAN GROOMS
Am I?
00:36:15 CHAIRMAN GROOMS
Am I looking at this?
00:36:16 CHAIRMAN GROOMS
Are we all saying the same thing but talking about a little bit differently that that I'm trying to get to the origin
00:36:23 CHAIRMAN GROOMS
Of the error.
00:36:24 CHAIRMAN GROOMS
Because when it was first made, is also my understanding.
00:36:28 CHAIRMAN GROOMS
That.
00:36:30 CHAIRMAN GROOMS
The ones who made the error, the ones who did the incorrect entries, did not know they had made a mistake until later.
00:36:38 CHAIRMAN GROOMS
Like the following year, when things didn't balance.
00:36:41 CHAIRMAN GROOMS
Out To zero it's.
00:36:44 MR. DAVID BLIGH
So I'll try to answer that, but let me know if I miss anything.
00:36:45 SENATOR RICE
OK. Yes.
00:36:47 MR. DAVID BLIGH
So I think as you stated in the beginning, it was and there were entries that the entries that created the one point six billion were made by the State Treasurer 's office staff.
00:36:48
00:36:59 MR. DAVID BLIGH
With assistance with from the SCEIS team.

00:37:01 MR. DAVID BLIGH
The other part that I would add to that though, is at least it was, at least in consultation with and with the involvement of the Comptroller general 's office in many cases.
00:37:01 CHAIRMAN GROOMS
OK.
00:37:10 MR. DAVID BLIGH
There did not appear to be, as you pointed out.
00:37:12 MR. DAVID BLIGH
A recognition of that error or why or what caused or drove the balance do not.
00:37:20 MR. DAVID BLIGH
Net to zero at the end excuse
00:37:21 MR. DAVID BLIGH
Me.
00:37:24 MR. DAVID BLIGH
I don't know that I would say that they actually did recognize what the mistake was at any point in time.
00:37:29 MR. DAVID BLIGH
I think the point being, our understanding was the expectation was that that fund would net to zero at the end of the conversion and it did not. So from that perspective, there was a recognition of a problem, but not necessarily the understanding what that problem really was.
00:37:42 CHAIRMAN GROOMS
So I guess I'm saying they were they were incorrect entries and at some point the incorrect entries. It was an understanding that they were erroneous, that there were errors.
00:37:54 MR. DAVID BLIGH
Yes, although they I don't believe they knew which entries were erroneous.
00:37:58 CHAIRMAN GROOMS
Right, right, right.
00:37:59 CHAIRMAN GROOMS
OK. And as I'm walking through this, if any Members have any questions while we're going through this 'cause, this is some of the fundamental stuff.
00:38:09 CHAIRMAN GROOMS
That we've been able to gather and and we and our state has paid for a report and it seemed to confirm a lot of things that we originally believed.
00:38:21 CHAIRMAN GROOMS
Senator from Georgetown.
00:38:23 SENATOR GOLDFINCH
I can jump in if you don't mind.
00:38:25 CHAIRMAN GROOMS
Yep, go ahead.
00:38:27 SENATOR GOLDFINCH
So we've established that the Treasurer 's office is yeah, and I know I'm making it a little simplistic, but we've established at the Treasurer 's office made the mistake right.
00:38:36 SENATOR GOLDFINCH
Mean it was their account or their fund.

00:38:39 SENATOR GOLDFINCH
They did the entries into the fund. We've established the Treasurer 's office made a mistake, right?
00:38:44 SENATOR GOLDFINCH
I know it was in coordination with SCEIS.
00:38:45 SENATOR GOLDFINCH
I know the C GS office knew about it.
00:38:48 SENATOR GOLDFINCH
But they did all the transactions right?
00:38:52 MS. SUSAN MARKEL
They recorded the transactions in the general Ledger.
00:38:55 SENATOR GOLDFINCH
They created the mistakes?
00:38:56 MS. SUSAN MARKEL
They recorded the transaction.
00:38:57 MS. SUSAN MARKEL
What we see is in early November, they're trying to reconcile the accounts so that they can get the auditors sign up.
00:39:03 SENATOR GOLDFINCH
OK.
00:39:03 SENATOR GOLDFINCH
I'm sorry. I don't mean to interrupt you early November of what year? OK. Twenty seventeen. So in twenty seventeen. The Treasurer 's office began to know in November of twenty seventeen which is my next question.
00:39:06 MS. SUSAN MARKEL
Twenty seventeen. Sorry.
00:39:16 SENATOR GOLDFINCH
Twenty seventeen November they began to realize they’ve got a problem?
00:39:21 MS. SUSAN MARKEL
The auditors were indicated that they could not sign off until the accounts were reconciled.
00:39:25 SENATOR GOLDFINCH
The Treasurer 's office realized they had a problem in twenty seventeen.
00:39:28 SENATOR GOLDFINCH
Others wouldn't sign off on it, right?
00:39:30 MS. SUSAN MARKEL
Yeah. And others, yes.
00:39:32 SENATOR GOLDFINCH
November of twenty seventeen.
00:39:34 MS. SUSAN MARKEL
Yes.
00:39:36 SENATOR GOLDFINCH
OK. Early November twenty seventeen And at that point in time, the fund was around one point six billion.
00:39:41 MS. SUSAN MARKEL

No, this is before the entries were made.
00:39:43 SENATOR GOLDFINCH
Before the entries were made OK, when was the entry made again?
00:39:44
Right.
00:39:46 MS. SUSAN MARKEL
November second and November seventh, there were two different, yes.
00:39:49 SENATOR GOLDFINCH
Of twenty seventeen.
00:39:51 MR. DAVID BLIGH
OK.
00:39:52 SENATOR GOLDFINCH
That entry brought us up to a balance of one point, six, right?
00:39:55 MS. SUSAN MARKEL
Approximately one point six.
00:39:57 SENATOR GOLDFINCH
Didn't get to one point.
00:39:58 SENATOR GOLDFINCH
Until later, right? Yeah.
00:39:59
Could you?
00:40:00 CHAIRMAN GROOMS
This is this is an important part you just hit on it.
00:40:08 CHAIRMAN GROOMS
Incorrect entries, was there was a belief in twenty seventeen that these were errors because the auditor said you cannot record them?
00:40:19 MS. SUSAN MARKEL
Nowthis the they could not reconcile the account and the auditor said you have to reconcile the account before they could sign off on that.
00:40:26 CHAIRMAN GROOMS
So the order is said it has to be reconciled, and then the only way to reconcile it or or not the only way. But the way they reconciled it was with fund
00:40:28
Right.
00:40:38 CHAIRMAN GROOMS
30350993.
00:40:40 MS. SUSAN MARKEL
Yes and at that point, the auditors make their notification to the CG O as well as the STO.
00:40:41 MR. QUENTIN HAWKINS
OK.
00:40:46 MS. SUSAN MARKEL
And they work together and as a result the entries are determined to be made and then posted.
00:40:53 MS. SUSAN MARKEL

By the sto.
00:40:56 SENATOR GOLDFINCH
You want me to?
00:40:57 SENATOR GOLDFINCH
Going, Mister.
00:40:57 CHAIRMAN GROOMS
Keep going.
00:40:58 CHAIRMAN GROOMS
OK.
00:41:00 SENATOR GOLDFINCH
You want to jump in too.
00:41:02 SENATOR GOLDFINCH
Ahead.
00:41:02 SENATOR SABB
But that I think is is really what the old folks used to say. Hitting the nail on the head.
00:41:08 SENATOR SABB
So. So what I'm curious about.
00:41:11 SENATOR SABB
Is given what occurred and I don't know whether you all are the ones to speak to this or whether or not we're the ones to speak to it.
00:41:21 SENATOR SABB
Should there have been notification to General Assembly?
00:41:26 SENATOR SABB
About the fact that we've got one point six, one point, eight billion dollars.
00:41:33 SENATOR SABB
That.
00:41:33 SENATOR SABB
Is not reconcilable right now.
00:41:37 SENATOR SABB
I mean to me.
00:41:39 SENATOR SABB
That's what, in my word, not anybody else.
00:41:42 SENATOR SABB
That's what the cover that's where the cover up began. Where there's an obligation to notify the General Assembly that there's an issue, and rather than anybody doing it,
00:41:54 SENATOR SABB
Everybody just keeps it hush hush.
00:41:56 SENATOR SABB
And in house.
00:41:58 SENATOR SABB
I mean, isn't that the?
00:42:01 SENATOR SABB
I want to call it a defining moment but.
00:42:03 SENATOR SABB

Mean that's.
00:42:05 SENATOR SABB
That's the dramatic moment for me.
00:42:08 SENATOR SABB
Where the auditor says wait a minute, we got a problem here. Treasurer starts communicating with the Comptroller General.
00:42:15 SENATOR SABB
And they don't disclose it to anybody.
00:42:18 SENATOR SABB
Right?
00:42:22 MS. SUSAN MARKEL
I mean, I think at the end of the day in November, they thought the entries that they were making were actually correcting the problem.
00:42:28 MS. SUSAN MARKEL
And so I don't believe that we understand that they thought that they had an error at that point in time.
00:42:34 SENATOR SABB
So that's what I don't understand.
00:42:36 SENATOR SABB
How Can.
00:42:37 SENATOR SABB
How can there's nothing that happened that reconciled it in such a way?
00:42:43 SENATOR SABB
That that any problem is solved? because what I see.
00:42:49 SENATOR SABB
Is that that's the the defining.
00:42:52 SENATOR SABB
That's where it becomes apparent, and and then we Fast forward to the treasurer coming before this committee, saying there's one point eight billion dollars that I can touch.
00:43:04 SENATOR SABB
That I can put my hands on that we can
00:43:06 SENATOR SABB
Turn into cash
00:43:07 SENATOR SABB
I mean, that's the same.
00:43:10 SENATOR SABB
The issue to me never changed.
00:43:13 SENATOR SABB
The only thing that changed was the disclosure publicly that there's money that’s
00:43:18 SENATOR SABB
Unaccounted for
00:43:19 SENATOR SABB
I'm not exactly sure where it came from, but I got it.
00:43:23 SENATOR SABB

And we're talking about the same money, right?
00:43:27 MS. SUSAN MARKEL
Yeah. The one point five, six at the end of twenty seventeen.
00:43:31 SENATOR SABB
Yes, ma'am. So, so that was never reconciled
00:43:34 SENATOR SABB
That's the same money that you all had to to to figure out didn't exist.
00:43:40 MS. SUSAN MARKEL
Yeah, I believe though when they were making those entries, they thought they were correcting, they thought they were getting to the right answer in terms of the conversion, which as we see it, he ended up with one point five, six billion, which then you would for an account that
00:43:53 MS. SUSAN MARKEL
Really should be zero
00:43:54 MS. SUSAN MARKEL
So we're kind of puzzled at that as to how that could be left that way, but that's the way that it was left.
00:43:59 SENATOR SABB
Yeah, but I'm. I'm curious
00:44:00 SENATOR SABB
And if y'all can't help me with that, I understand, but I'm curious at what point.
00:44:06 SENATOR SABB
Was the obligation to notify the General Assembly triggered and for me it appears as if that was the point.
00:44:14 SENATOR SABB
It sounds like you're suggesting that that that perhaps I'm not accurate on that.
00:44:22 SENATOR SABB
But for me that appeared to have been the triggering point. Do you disagree?
00:44:28 MS. SUSAN MARKEL
I don't know what they were thinking as we looked at it
00:44:30 MS. SUSAN MARKEL
We believe those entries they were making, they thought they were making it to correct the problem, not create a problem or end up with a problem
00:44:39 SENATOR SABB
I'll let it go for right now, but I'm not satisfied that that wasn't a triggering point because that's the issue that you Fast forward seven years later that finally comes to light.
00:44:54 SENATOR SABB
And and so to to have an issue of reconciliation that you're suggesting at this point, to me that they believe they're solving, but it was never solved.
00:45:07 SENATOR SABB
Because it didn't get solved until you all investigated it.
00:45:10 SENATOR SABB
So I don't understand.
00:45:11 SENATOR SABB

I'm not an accountant guy, but but it just doesn't.
00:45:16 SENATOR SABB
Make any sense to me
00:45:17 SENATOR SABB
Not that things necessarily make sense to me, but but it doesn't make any sense to me that there's a a problem that's acknowledged and and persons are suggesting that that they're solving the problem.
00:45:33 SENATOR SABB
But the problem was never solved.
00:45:35 SENATOR SABB
And notice was never given and and so that's where the rub is with me on the whole thing. The fact that you've got a problem that's acknowledged by the Treasurer, that's acknowledged by the auditor.
00:45:52 SENATOR SABB
That's acknowledged by the Comptroller General and that the General Assembly is never notified about it. And we're not talking chump change. We're talking one point six billion dollars.
00:46:02 SENATOR SABB
That's where my problem lies.
00:46:04 CHAIRMAN GROOMS
Mr. Chairman.
00:46:08 CHAIRMAN GROOMS
The senator from Colleton.
00:46:09 SENATOR MATTHEWS
I just have a couple of questions and and and I think I was along.
00:46:16 SENATOR MATTHEWS
In the same lane, when I when you appeared before us previously.
00:46:21 SENATOR MATTHEWS
UmTo present to initially present your AlixPartners report.
00:46:27 SENATOR MATTHEWS
And I had a sense at that time.
00:46:31 SENATOR MATTHEWS
Of the fact that the state of South Carolina paid a tremendous amount of money, at least in my opinion, and you had to perform a
00:46:40 SENATOR MATTHEWS
Yeomans
00:46:43 SENATOR MATTHEWS
Amount of work to unravel this issue and so therefore.
00:46:48 SENATOR MATTHEWS
I thought it necessary to ask you what you did.
00:46:53 SENATOR MATTHEWS
And in trying to unravel this problem, this one point six or one point eight debacle,
00:47:01 SENATOR MATTHEWS
And I want to revisit that if you don't mind.

00:47:07 SENATOR MATTHEWS
I because I'm gonna be honest because I didn't get a straight answer.
00:47:11 SENATOR MATTHEWS
We paid three million for your services. We need some answers.
00:47:16 SENATOR MATTHEWS
Specifically, how many times did you talk directly
00:47:23 SENATOR MATTHEWS
With the Treasurer? not his emissaries, not his chief of staff, not his lawyer, not his admin, not his exec
00:47:33 SENATOR MATTHEWS
How many times in your investigating coming to the bottom of this problem,
00:47:39 SENATOR MATTHEWS
Did you speak directly with him?
00:47:47 MR. DAVID BLIGH
So, There were eight meetings we had with the State Treasurer 's office.
00:47:50 SENATOR MATTHEWS
No, let's back that up. As I said earlier, I, you've provided information about the office.
00:47:58 SENATOR MATTHEWS
We've talked to the Treasurer and and I want to tell you why I'm asking this because he came to us
00:48:05 SENATOR MATTHEWS
Last year and told us that this he had invested this one point eight and that it made X amount of money.
00:48:12 SENATOR MATTHEWS
So that's why I don't want to hear about.
00:48:15 SENATOR MATTHEWS
What Miss Adams might have talked to you about, I don't want to hear about what anybody else would have asked you about because I'm following up on his statements to us so I’m asking
00:48:26 SENATOR MATTHEWS
You. How many times did you or you or anyone on your team
00:48:32 SENATOR MATTHEWS
Talk with the treasurer directly?
00:48:36 MR. DAVID BLIGH
So he attended three of those meetings.
00:48:38 MR. DAVID BLIGH
I don't have a specific recollection of him having much of a speaking role in any of those meetings, but he did attend.
00:48:46 SENATOR MATTHEWS
So how many times did you talk
00:48:50 SENATOR MATTHEWS
To the treasurer?
00:48:52 MR. DAVID BLIGH
In terms of a one way conversation, all three of those times how much times he responded, I guess is where we're not.

00:48:59 SENATOR MATTHEWS
Exactly how much information did you get directly from the Treasurer?
00:49:05 MR. DAVID BLIGH
That he would have provided verbally to us?
00:49:07 SENATOR MATTHEWS
Yes. On what he did to unravel this problem or what he did to find this problem or what he did to question his staff about why we have this problem.
00:49:20 SENATOR MATTHEWS
How many times did you in your investigative role
00:49:26 SENATOR MATTHEWS
Deal directly with him?
00:49:30 MR. DAVID BLIGH
So the three times. But as I said, I don't believe he had much of a speaking role in those three meetings.
00:49:36 SENATOR MATTHEWS
Did you get in a Did you form an opinion on whether or not he knew what was going on in his office?
00:49:45 MR. DAVID BLIGH
Are you referring to at the time of the conversion historically or like during the meetings?
00:49:50 MR. DAVID BLIGH
At that time.
00:49:50 SENATOR MATTHEWS
During the meetings, did you feel that he had a grasp
00:49:54 SENATOR MATTHEWS
Of what
00:49:55 SENATOR MATTHEWS
Technically or accountably was going on in his office?
00:50:00 MR. DAVID BLIGH
It seemed that he did, yes.
00:50:02 SENATOR MATTHEWS
Did he understand the SCEIS system?
00:50:09 MR. DAVID BLIGH
It's tough to say
00:50:10 MR. DAVID BLIGH
I don't think we ever got to that level of detail with him.
00:50:13 SENATOR MATTHEWS
Did he at any time ever accept that they had someone in his office or the four people you've talked about made a mistake?
00:50:22 MR. DAVID BLIGH
As I can recall, he has acknowledged that this was a similar to our conclusion, a shared responsibility and a shared problem amongst.
00:50:31 SENATOR MATTHEWS
Problem with who?
00:50:33 MR. DAVID BLIGH

The Comptroller General 's office and the.
00:50:35 SENATOR MATTHEWS
And that don't stay in line.
00:50:36
Citizens.
00:50:37 SENATOR MATTHEWS
Steal my lead up, please, Mr. Chair.
00:50:42 SENATOR MATTHEWS
OK so what has he accepted again?
00:50:44 SENATOR MATTHEWS
You said what?
00:50:48 MR. DAVID BLIGH
So as I recall, when we discussed our findings in the report with them on January fifteenth that he acknowledged that there was a shared problem between his office Comptroller general 's office and the State Treasurer 's.
00:51:01 Speaker 2
Office.
00:51:01 SENATOR MATTHEWS
It's actually a problem of the state. That's the only sharing.
00:51:05 SENATOR MATTHEWS
Did you explain to him or in your analysis that the Comptroller general did not have the ability
00:51:14 SENATOR MATTHEWS
To input this, but it would have been those four people that was just now discussed out of the Treasurer 's office or three of them, I think was out of the Treasurer 's office. Did you?
00:51:24 SENATOR MATTHEWS
Because you gave us the information on who inputted the numbers.
00:51:28 SENATOR MATTHEWS
Did you show that to him?
00:51:30 MR. DAVID BLIGH
We gave His office, the entries and those those names could have been determined from those entries.
00:51:35 SENATOR MATTHEWS
OK.
00:51:37 SENATOR MATTHEWS
So did you tell him that?
00:51:39 SENATOR MATTHEWS
No, no, no, no.
00:51:41 SENATOR MATTHEWS
You can't say that it’s
00:51:42 SENATOR MATTHEWS
Shared responsibility
00:51:43 SENATOR MATTHEWS
Your office provided us the names of the people from your office who put in the information.
00:51:52 MR. DAVID BLIGH

So I guess just to be clear, our conclusion that was that it was a shared responsibility.
00:51:56 SENATOR MATTHEWS
So you think the Comptroller general had the ability to put in this information?
00:52:02 MR. DAVID BLIGH
No, but they were involved in some of those entries.
00:52:05 SENATOR MATTHEWS
Creation of the fund but not continuing and saying that this was actual cash.
00:52:15 SENATOR MATTHEWS
Did they have any responsibility in that?
00:52:18 MR. DAVID BLIGH
They were involved in some of the conversion entries and discussed it with the State Treasurer 's office.
00:52:24 SENATOR MATTHEWS
Initially correct and did your evaluation ever show that the Treasurer 's office followed what the Comptroller General 's office said to do in reporting it to the General Assembly?
00:52:38 MR. DAVID BLIGH
I don't believe that was ever Brought up
00:52:39 SENATOR MATTHEWS
last hope next to the last question.
00:52:52 SENATOR MATTHEWS
There is a statement that the Treasurer made that said that the fault lies with the Comptroller General.
00:53:02 SENATOR MATTHEWS
And that it was reported in AlixPartners that you said that is that correct?
00:53:09 SENATOR MATTHEWS
No.
00:53:11 SENATOR MATTHEWS
Which one is?
00:53:12 SENATOR MATTHEWS
No, no, that is not correct.00:53:14 SENATOR MATTHEWS
Or no, that is not AlixPartners opinion.
00:53:15 MR. DAVID BLIGH
Sorry, I'm sorry.
00:53:18 MR. DAVID BLIGH
It was.
00:53:18 MR. DAVID BLIGH
That's not reflected in our report, nor is our opinion that it was solely the responsibility or the fault of the Comptroller Generals Office.
00:53:25 SENATOR MATTHEWS
Was there a time in your investigation that the Comptroller General 's office did not
00:53:32 SENATOR MATTHEWS
Cooperate in providing information to your office. Never. No.
00:53:36 MR. DAVID BLIGH
No.

00:53:38 SENATOR MATTHEWS
Did you talk to the Comptroller General?
00:53:40 MR. DAVID BLIGH
The current one, not mister gaines.
00:53:41 SENATOR MATTHEWS
yes, Mister. more than three times or less.
00:53:42 MR. DAVID BLIGH
Gaines.
00:53:48 SENATOR MATTHEWS
More, more than five times.
00:53:50 MR. DAVID BLIGH
Likely more yes.
00:53:52 SENATOR MATTHEWS
OK and.
00:53:57 SENATOR MATTHEWS
OK.
00:54:00 SENATOR MATTHEWS
There was another report from the Treasury 's office that indicates there to be clear there is no mystery bank with one point eight billion in it.
00:54:10 SENATOR MATTHEWS
There's no missing or misspent money, and all cash and investments have been properly managed and accounted for by the State Treasurer 's office.
00:54:19 SENATOR MATTHEWS
And it says that your report
00:54:23 SENATOR MATTHEWS
Confirmed this. Is that correct?
00:54:25 MR. DAVID BLIGH
No, it's not.
00:54:26 SENATOR MATTHEWS
Why is it not correct?
00:54:28 MR. DAVID BLIGH
So the first point, as my colleague Susan mentioned, we were not asked to evaluate.
00:54:33 MR. DAVID BLIGH
How the his funds were managed so we don't have an opinion or a view
00:54:36 MR. DAVID BLIGH
On that.
00:54:37 SENATOR MATTHEWS
I didn't think so, go ahead.
00:54:38 MR. DAVID BLIGH
and then the second part would be that last piece on the accounted for front as we also mentioned the the fact that the one point eight billion existed in 30350993.
00:54:52 MR. DAVID BLIGH
In a fund that should have a zero balance, in our mind is an accounting problem and therefore not everything was accounted for correctly.

00:54:59 SENATOR MATTHEWS
Last question. Promise.
00:55:04 SENATOR MATTHEWS
If asked, I assume that you and Miss Markel.
00:55:10 SENATOR MATTHEWS
Like the Duchess.
00:55:13 SENATOR MATTHEWS
But I would assume that you watched the last testimony that the Treasurer gave before this committee and the House, correct?
00:55:24 SENATOR MATTHEWS
Yes, yes, in totality, yes.
00:55:28 SENATOR MATTHEWS
As we sit here today, what would be, and this is a question for each of you, one misstatement that you that gives you the greatest concern.
00:55:39 SENATOR MATTHEWS
As it analyzes your report.
00:55:45 MR. DAVID BLIGH
I don't know that I would have a ranking of of concerns necessarily, but one thing that stands out in my mind is I believe there's a statement of passing with flying colors or something to that effect.
00:55:58 MR. DAVID BLIGH
As as we sort of just went through in your last questioning in terms of how things that were accounted for from our perspective, we think they should have been accounted for differently and investigated at the time.
00:56:09 SENATOR MATTHEWS
So by that you mean?
00:56:13 SENATOR MATTHEWS
It's a misstatement to say that the accounting was in the treasurer 's office passed with flying colors?
00:56:20 MR. DAVID BLIGH
Yes, within his responsibility and the responsibility of the State Treasurer 's office and the Comptroller. General 's office.
00:56:27 SENATOR MATTHEWS
Thank you, miss.
00:56:29 MS. SUSAN MARKEL
Yeah. What I would say is in the context of when he was discussing the number of recommendations that we had made, that there are approximately twenty five that relate to the CGO office.
00:56:38 MS. SUSAN MARKEL
Yet there was only one made to his office.
00:56:41 MS. SUSAN MARKEL
I think if you look down into that, the one that we make with his office is that he didn't reconcile the account by funds and had he taken that step to reconcile by funds as well, then account number 30350993 would have been apparent

00:56:57 MS. SUSAN MARKEL
There as well as the ACFR business area.
00:56:58 MS. SUSAN MARKEL
So by not doing it by fund, that was a missed opportunity to find this. So you can't really go quantity by quality.
00:57:06 MS. SUSAN MARKEL
I think, and it was also our focus in our investigation was primarily on the CG O because it was the accounting issue that was a primary scope of our work and the treasure was a piece of it, but not the main component of that.
00:57:19 SENATOR MATTHEWS
Thank you.
00:57:21 SENATOR MATTHEWS
Sorry about doing more than.
00:57:22 SENATOR YOUNG
Two.
00:57:23 CHAIRMAN GROOMS
Questions at the senator from Georgetown has some follow up.
00:57:26 SENATOR GOLDFINCH
So you you just hit on what, one of the things I was interested in.
00:57:32 SENATOR GOLDFINCH
It does seem like that's a pretty big deal, right?
00:57:34 SENATOR GOLDFINCH
To.
00:57:36 SENATOR GOLDFINCH
Not to do your accounting by fund.
00:57:39 SENATOR GOLDFINCH
The proper terminology.
00:57:40 SENATOR GOLDFINCH
Fund.
00:57:41 SENATOR GOLDFINCH
It's not an account.
00:57:42 MS. SUSAN MARKEL
It's an account, but then the account also has funds within it.
00:57:45 SENATOR GOLDFINCH
Yeah, I.
00:57:46 SENATOR GOLDFINCH
And I know that's where it.
00:57:48 SENATOR GOLDFINCH
Confusing, but I mean that's a pretty big deal for the Treasurer 's office and to make that mistake, right? I mean, that's ultimately.
00:57:55 SENATOR GOLDFINCH
It Would have been called immediately, right?
00:57:57 SENATOR GOLDFINCH
We're pretty darn close to immediately

00:58:00 MS. SUSAN MARKEL
I think it the bank reconciliation that was done was done just based on the account level, which leaves a lot of information hidden and not subject to review so
00:58:10 MS. SUSAN MARKEL
Had they done it across by fund as well as just by the account total
00:58:14 MS. SUSAN MARKEL
Then folks in the STO office could have seen that folks in CG OS office could have seen that as well when they were reconciling.
00:58:22 SENATOR GOLDFINCH
You said that in November or so. Two thousand seventeen.
00:58:28 SENATOR GOLDFINCH
That they felt the correction or the entry got to make sure my terminology is right.
00:58:35 SENATOR GOLDFINCH
The entry they made in the 993 was fixing the problem right?
00:58:40 MS. SUSAN MARKEL
Yes.
00:58:41 SENATOR GOLDFINCH
OK. And senator, from Williamsburg and you were having some dialogue on that,
00:58:46 SENATOR GOLDFINCH
But it didn't fix the problem, did it?
00:58:48 MS. SUSAN MARKEL
It did not.
00:58:49 MS. SUSAN MARKEL
There was still a balance in the conversion account at that time.
00:58:52 SENATOR GOLDFINCH
Right. And did they know it?
00:58:56 SENATOR GOLDFINCH
In January of twenty eighteen.
00:58:59 MS. SUSAN MARKEL
There was still the balance of one point five six in that fund.
00:59:02 SENATOR GOLDFINCH
How about January of two thousand nineteen?
00:59:06 MS. SUSAN MARKEL
Yes, at that point, it was one point eight, not one point five, six.
00:59:09 SENATOR GOLDFINCH
How about January of twenty twenty?
00:59:11 SENATOR GOLDFINCH
Yes, twenty one. Yes. Twenty two.
00:59:16 MS. SUSAN MARKEL
Twenty three at some point in.
00:59:18 MS. SUSAN MARKEL
Twenty two is when they worked on the restatement, and that's when the discussion came up about 30350993.
00:59:24 SENATOR GOLDFINCH

Right. So.
00:59:26 SENATOR GOLDFINCH
Don't. Don't you think that at some point the Treasurer 's office who makes this entry mistake
00:59:36 SENATOR GOLDFINCH
In their treasury account.
00:59:39 SENATOR GOLDFINCH
And then comes along doesn't balance by fund balances by account only, which is a mistake according to your document.
00:59:48 SENATOR GOLDFINCH
Don't you think at some point in time they say guys, we thought in twenty seventeen we had fixed this problem in twenty eighteen it wasn't fixed.
00:59:58 SENATOR GOLDFINCH
In twenty nineteen, it wasn't fixed in twenty twenty. It wasn't fixed in twenty, twenty one, it wasn't fixed.
01:00:02 SENATOR GOLDFINCH
Fact it's up to billion eight now.
01:00:04 SENATOR GOLDFINCH
Don't you think?
01:00:05 SENATOR GOLDFINCH
Some point.
01:00:06 SENATOR GOLDFINCH
Tom, they say, gosh, we have a duty to the General Assembly to let them know?
01:00:10 SENATOR GOLDFINCH
Doesn't that seem like the prudent thing to do?
01:00:15 MS. SUSAN MARKEL
I think individuals in all various aspects could have identified that as something that they needed to get to the bottom of.
01:00:21 SENATOR GOLDFINCH
had the treasurer and the Treasurers office balanced by fund pursuant to what you said they should do.
01:00:33 SENATOR GOLDFINCH
Do you think they would have called this in twenty eighteen?
01:00:36 MS. SUSAN MARKEL
Again, I think it would have been more transparent and somebody could have looked at it and started to ask some questions.
01:00:41 SENATOR GOLDFINCH
Probably as early as January. Twenty eighteen, right?
01:00:44 SENATOR GOLDFINCH
Pretty darn early in twenty eighteen at least.
01:00:47 MS. SUSAN MARKEL
We believe this is an account where the conversion account should have ended up at zero and it was not sitting at zero.
01:00:53 SENATOR GOLDFINCH
So what we have

01:00:55 SENATOR GOLDFINCH
If I'm distilling this conversation down farther and farther and farther.
01:01:01 SENATOR GOLDFINCH
What we have is a treasure and a treasurers office that makes reckless mistakes.
01:01:07 SENATOR GOLDFINCH
They don't do their accounting the way they're supposed
01:01:09 SENATOR GOLDFINCH
To do it.
01:01:10 SENATOR GOLDFINCH
And then they don't tell us which in my world is called a cover up.
01:01:17 SENATOR GOLDFINCH
All that sound about right?
01:01:19 MS. SUSAN MARKEL
I can't get the state of mind on that.
01:01:20 SENATOR GOLDFINCH
I know you.
01:01:22 SENATOR GOLDFINCH
I know you can't thank you.
01:01:25 CHAIRMAN GROOMS
The.
01:01:27 CHAIRMAN GROOMS
Chief of staff of the Treasurer, Miss Clarissa Adams, she testified Under oath before this committee that she had met with AlixPartners after the release of the report on February the seventh, and that at the meeting, AlixPartners agreed that the Comptroller General 's office is at fault for
01:01:47 CHAIRMAN GROOMS
The incorrect entries
01:01:51 CHAIRMAN GROOMS
Do you agree with that statement?
01:01:54 MR. DAVID BLIGH
Not solely at fault, no.
01:01:57 CHAIRMAN GROOMS
Not solely at fault.
01:01:58 CHAIRMAN GROOMS
Now she she was very clear.
01:02:01 CHAIRMAN GROOMS
She even suggested that the that the report.
01:02:08 CHAIRMAN GROOMS
When asked if she agreed with the report.
01:02:12 CHAIRMAN GROOMS
We had a long conversation about what I meant by agree, and she finally went ahead and said that there was a sentence that needed to be changed that would basically state that it's all the comptroller generals fault and none of the and and leading out the treasurer.
01:02:28 CHAIRMAN GROOMS

And she testified Under oath that that is what the agreement
01:02:32 CHAIRMAN GROOMS
Was at a February seventh meeting with AlixPartners.
01:02:36 CHAIRMAN GROOMS
Did AlixPartners agree that the Treasurer should be removed or not have any or not be blamed for any fault in the?
01:02:44 CHAIRMAN GROOMS
In this accounting error?
MS. SUSAN MARKEL
No Sir.
01:02:50 CHAIRMAN GROOMS
The senator from.
01:02:54 CHAIRMAN GROOMS
Colleton was asking some questions then, and it was what is the number one thing that stuck out on your mind as possibly being incorrect? In testimony from the Treasurer, I want to ask that
01:03:05 CHAIRMAN GROOMS
I want to follow up on that.
01:03:07 CHAIRMAN GROOMS
Just A little bit.
01:03:08 CHAIRMAN GROOMS
Because you've heard the testimony from our Comptroller General Gaines. Is that not true?
01:03:14 CHAIRMAN GROOMS
Listened to his testimony and the testimony of our state Treasurer.
01:03:19 CHAIRMAN GROOMS
And the testimony of our state 's acting auditor.
01:03:22 CHAIRMAN GROOMS
If you reviewed her testimony.
01:03:24 MR. DAVID BLIGH
Yes.
01:03:25 CHAIRMAN GROOMS
And listening to those test listening to those testimonies, and they were asked to comment on the AlixPartners report, all of them, even even Miss Adams with Department of Administration.
01:03:36 CHAIRMAN GROOMS
I'm sure you've listened to that testimony, also.
01:03:38 CHAIRMAN GROOMS
Yes, yes. With those who have testified before this committee.
01:03:43 CHAIRMAN GROOMS
Giving us their perspective of the AlixPartners report.
01:03:48 CHAIRMAN GROOMS
Do you find fault or have issues with the way it was carried with the way they characterized your report?
01:03:58 MR. DAVID BLIGH
I do not.

01:04:00 CHAIRMAN GROOMS
What now? Remind you.
01:04:01 CHAIRMAN GROOMS
The treasurer testified before this committee that he has no error in this, that the others are always to blame.
01:04:13 CHAIRMAN GROOMS
And it seems to me you've said here today that the Treasurer 's office.
01:04:20 CHAIRMAN GROOMS
And the comptroller's office.
01:04:22 CHAIRMAN GROOMS
And the auditor 's office all had a part to play in the
01:04:26 CHAIRMAN GROOMS
Errors is that is that right?
01:04:28 MR. DAVID BLIGH
Yes, that's correct.
01:04:29 CHAIRMAN GROOMS
So the Treasurer 's hands are as dirty, if not dirtier than the others in this mistake.
01:04:35 MR. DAVID BLIGH
They certainly share in the blame.
01:04:39 CHAIRMAN GROOMS
Thank you.
01:04:39 CHAIRMAN GROOMS
Did you want to follow up on that?
01:04:40 MS. SUSAN MARKEL
I just shared responsibility.
01:04:42 CHAIRMAN GROOMS
And and what about the testimony of others?
01:04:45 CHAIRMAN GROOMS
Any any issues with what you heard the Comptroller say?
01:04:48 CHAIRMAN GROOMS
Any issues with what you heard Miss Adams say?
01:04:51 CHAIRMAN GROOMS
Any issues what you heard?
01:04:52 MS. SUSAN MARKEL
With Marcia Adams.
01:04:53
Yet.
01:04:53 CHAIRMAN GROOMS
I'm sorry, Miss Marcia Adams.
01:04:55 CHAIRMAN GROOMS
Sir.
01:04:57 CHAIRMAN GROOMS
And any issues with our interim auditor?
01:05:00 CHAIRMAN GROOMS

No. How about issues with Miss Adams with the State Treasurer 's office?
01:05:07 MS. SUSAN MARKEL
I think other than the clarification that she wanted to.
01:05:09 CHAIRMAN GROOMS
Add yeah, because that didn't. It didn't pan out the way, she said, according to.
01:05:13 MS. SUSAN MARKEL
That's right.
01:05:15 CHAIRMAN GROOMS
OK. And what and and state treasurer?
01:05:18 MS. SUSAN MARKEL
I think as we've indicated, just in terms of the responsibility as we've laid it out as a shared responsibility.
01:05:27 CHAIRMAN GROOMS
Yes, Senator from Aiken.
01:05:28 SENATOR YOUNG
Why you're.
01:05:29 SENATOR YOUNG
Can I ask about that?
01:05:30 CHAIRMAN GROOMS
Oh please.
01:05:31 SENATOR YOUNG
So you've said today.
01:05:36 SENATOR YOUNG
Either one of you or both of you has said that it was a joint responsibility as to the entries, and that responsibility was with both the Treasurer 's office and the Commissioner General 's office.
01:05:49 SENATOR YOUNG
Is that correct?
01:05:51 SENATOR YOUNG
What? What is the basis for?
01:05:52 SENATOR YOUNG
What what establishes that responsibility is that part of the job? Or is it some other?
01:06:01 SENATOR YOUNG
Accounting.
01:06:02 SENATOR YOUNG
Requirement. I mean what what? Where does that responsibility?
01:06:06 SENATOR YOUNG
What is the basis for that responsibility?
01:06:08 MS. SUSAN MARKEL
It was looking at what was occurring at that period of time and who was involved in the discussions and determining entries that would be made and then who physically made them as well.
01:06:20 SENATOR YOUNG
So it's a it's a responsibility that arises out of the duties of the office.
01:06:27 MS. SUSAN MARKEL

It's more the responsibility for the books and records, which is on the CG O.
01:06:30 MS. SUSAN MARKEL
Side.
01:06:31 MS. SUSAN MARKEL
Working with the Treasurer, who was working on the conversion.
01:06:34 MS. SUSAN MARKEL
And they're working together in order to get accurate books and records, and they're both both parties are involved.
01:06:42 MS. SUSAN MARKEL
Determining entries and suggesting and agreeing to entries that ultimately were posted.
01:06:50 SENATOR YOUNG
So it's the duty, or the responsibility arises as a result of the job that was being done by the office.
01:06:59 SENATOR YOUNG
I'm trying to figure out where the basis for the responsibility comes from.
01:07:03 MR. DAVID BLIGH
So maybe to use a tangible example in in twenty eighteen when the decision was made to reclassify the conversion account balance to a liability, our understanding that that was a collective decision between.
01:07:19 MR. DAVID BLIGH
The state Treasurer 's office and the Consular General 's office and the State Auditor 's office.
01:07:25 MR. DAVID BLIGH
So from that perspective, it's that shared decision making that then establishes the responsibility.
01:07:33 SENATOR YOUNG
So the was did the shared decision making exist before two thousand eighteen?
01:07:39 MR. DAVID BLIGH
In certain instances, yes.
01:07:44
Umm.
01:07:48 SENATOR YOUNG
Did it was their shared decision making?
01:07:53 SENATOR YOUNG
That existed when the entries were made?
01:07:57 MR. DAVID BLIGH
Yes, for certain entries.
01:08:00 SENATOR YOUNG
So for the November second twenty, seventeen and November seventh twenty seventeen entries.
01:08:06 SENATOR YOUNG
Was that with the Comptroller General 's office involved at all in the decision making as to those entries?
01:08:13 MR. DAVID BLIGH
Our understanding is they were.

01:08:15 SENATOR YOUNG
But the actual physical entries were made by people in the treasures.
01:08:19 MR. DAVID BLIGH
Office. That's correct. OK.
01:08:20 SENATOR YOUNG
Thank you.
01:08:23 CHAIRMAN GROOMS
Senator from Georgetown.
01:08:27 SENATOR GOLDFINCH
Miss Markel, right. Susan Markel? Miss Markel.
01:08:32 SENATOR GOLDFINCH
You said something earlier that she's sort of sticking my crawl.
01:08:35 SENATOR GOLDFINCH
Trying to figure out what to do with it.
01:08:39 SENATOR GOLDFINCH
You said sort of off the cuff.
01:08:43 SENATOR GOLDFINCH
That you didn't understand
01:08:44 SENATOR GOLDFINCH
I don't want to mischaracterize your testimony, but you didn't understand.
Why?
01:08:51 SENATOR GOLDFINCH
They and I think you when you said they.
01:08:53 SENATOR GOLDFINCH
Met employees in the Treasurer 's office.
01:08:56 SENATOR GOLDFINCH
They thought.
01:08:58 SENATOR GOLDFINCH
That the entry would have fixed things and I'm that's my language not
01:09:03 SENATOR GOLDFINCH
Quite yours, but you sort
01:09:05 SENATOR GOLDFINCH
Of off the cuff said that.
01:09:07 SENATOR GOLDFINCH
Do you remember saying that?
01:09:09 MS. SUSAN MARKEL
Something like that.
01:09:10 MR. DAVID BLIGH
OK.
01:09:11 SENATOR GOLDFINCH
So that makes.
01:09:12 SENATOR GOLDFINCH
Do you? When I say that back?
01:09:14 SENATOR GOLDFINCH

I mean, makes sense to you that that's a weird thing to believe that they would have fixed that, that that would have fixed.
01:09:21 MS. SUSAN MARKEL
It was a conversion
01:09:23 MS. SUSAN MARKEL
Account which we understood people expected would come down to zero, which is the goal of a conversion. You know, to make sure the things that converted appropriately. So it should end at zero. That conversion account did not end at zero, though it ended up at one point five six
01:09:36 MS. SUSAN MARKEL
Billion.
01:09:38 SENATOR GOLDFINCH
Right. I'm a little confused about that too.
01:09:43 SENATOR GOLDFINCH
About that just doesn't quite.
01:09:45 SENATOR GOLDFINCH
Rub me the right way.
01:09:48 SENATOR GOLDFINCH
And I've never been able to really put my finger on it
01:09:51 SENATOR GOLDFINCH
But you said it and it sort of brings brings up all those memories again of why I don't think that something about.
01:09:59 SENATOR GOLDFINCH
Right.
01:10:00 SENATOR SABB
Why would you?
01:10:02 SENATOR GOLDFINCH
Why would you make the decision to do such a thing?
01:10:07 SENATOR GOLDFINCH
Is that like a
01:10:08 SENATOR GOLDFINCH
Is that like a last
01:10:11 SENATOR GOLDFINCH
Is that like a moment of desperation
01:10:12 SENATOR GOLDFINCH
We can't figure this out let 's stick it in here.
01:10:15
Like what?
01:10:15 SENATOR GOLDFINCH
What's going through an accountant 's head when they do such a?
01:10:18 MS. SUSAN MARKEL
Thing like this, I think, Dave, you can go into more details, but they were clearing out certain accounts that they thought shouldn’t exist?
01:10:25 MR. DAVID BLIGH

Right. So just to anchor back to what this conversion was supposed to do, it was supposed to take all the transactions from the old system and find a home for them in the new system.
01:10:37 MR. DAVID BLIGH
The problem though was that there were certain things that didn't belong in a home and a bank account, so they took everything out, taking stuff that didn't belong, and they shouldn't have taken.
01:10:48 MR. DAVID BLIGH
That's really what created the problem.
01:10:49 MR. DAVID BLIGH
So I think to Susan 's point, where the auditors were asking questions.
01:10:53 MR. DAVID BLIGH
Were why are there?
01:10:54 MR. DAVID BLIGH
Why are there still balances here and
01:10:57 MR. DAVID BLIGH
Without understanding what they were doing, they thought they were fixing the problem, but they ended up just moving it to the conversion account and then leaving that
01:11:05 MR. DAVID BLIGH
With a balance that
01:11:08 MR. DAVID BLIGH
They didn't quite understand either.
01:11:09 SENATOR GOLDFINCH
So, but then the response from Miss Markel her it was it was sort of.
01:11:15 SENATOR GOLDFINCH
Knee jerk knee jerks not
01:11:17 SENATOR GOLDFINCH
The right word.
01:11:20 SENATOR GOLDFINCH
It wasn't a it was an automatic response
01:11:23 SENATOR GOLDFINCH
It's like, why in the world would they do that?
01:11:26 SENATOR GOLDFINCH
You know.
01:11:27 SENATOR GOLDFINCH
And I'm I'm there too
01:11:29 SENATOR GOLDFINCH
Like why in the world would they think that putting it in this account, that supposed to balance down to zero?
01:11:35 SENATOR GOLDFINCH
While in the world would they do that?
01:11:37 SENATOR GOLDFINCH
And why in the world would anybody think that that balance would go away eventually?
01:11:43 SENATOR GOLDFINCH
When it's supposed to be at zero, we just stick it there for the time being.

01:11:47 SENATOR GOLDFINCH
Why does that?
01:11:48 SENATOR GOLDFINCH
It's like to me, maybe it's a bad analogy, but you know, you kill somebody, and of course you bury them in the backyard
01:11:57 SENATOR GOLDFINCH
Body doesn't really go away. I mean, it starts to stink after a while if you don't bury it
01:12:01 SENATOR GOLDFINCH
It deep enough.
01:12:03 SENATOR GOLDFINCH
In this case, it started to stink.
01:12:05 SENATOR GOLDFINCH
Right. I mean the numbers started to stink.
01:12:07 SENATOR GOLDFINCH
It's in a place that it's not supposed to be.
01:12:11 SENATOR RICE
Why would you do such a thing?
01:12:14 MR. DAVID BLIGH
So I think there's two competing priorities that they had.
01:12:18 MR. DAVID BLIGH
One was they had to clear out or they thought they had to clear out everything in these old balances.
01:12:23 MR. DAVID BLIGH
The other part was they thought that this conversion account should be zero.
01:12:28 MR. DAVID BLIGH
When they achieved one, but the other was not achieved in that there was still a balance in fund 993. They believe as far as we can tell that they understood why and that was memorialized in a in a document that a member of the State Treasurer’s Office
01:12:45 MR. DAVID BLIGH
Created and explaining what that was.
01:12:49 MR. DAVID BLIGH
So.
01:12:49 MR. DAVID BLIGH
Whether or not I guess we can't speak to whether he truly believed that or not, but at least as at that point in time, in around March of twenty eighteen, the State Treasurer 's office appeared to have a position as to why that
01:13:00 MR. DAVID BLIGH
Balance existed.
01:13:01 SENATOR GOLDFINCH
When you say he, you mean Martin
01:13:03 MR. DAVID BLIGH
Taylor, that's correct.
01:13:04 SENATOR GOLDFINCH
Martin Taylor, the one that actually made the entry.

01:13:07 SENATOR GOLDFINCH
He.
01:13:08 SENATOR GOLDFINCH
He worked for the Treasurer 's office at the time.
01:13:09 MR. DAVID BLIGH
He proposed the entry to record that prior period adjustment in March of twenty eighteen for the what was then the one point five, six billion dollar balance.
01:13:18 SENATOR GOLDFINCH
Yeah. So Martin Taylor, who was just, I don't know what his. Do you remember what his?
01:13:24 SENATOR GOLDFINCH
Title was at the time.
01:13:26 MR. DAVID BLIGH
I don't off hand.
01:13:28 SENATOR GOLDFINCH
But he was just a he was.
01:13:29 SENATOR GOLDFINCH
Treasurer 's office employee.
01:13:31 SENATOR GOLDFINCH
What was he, the chief of staff?
01:13:35 MR. DAVID BLIGH
Or no, I don't believe he was.
01:13:37 SENATOR GOLDFINCH
Was he like the number two or number three?
01:13:42 MR. DAVID BLIGH
Not the number two.
01:13:44 MR. DAVID BLIGH
I'm not sure if he would have been the.
01:13:46 MR. DAVID BLIGH
Three or not?
01:13:49 SENATOR GOLDFINCH
Yeah.
01:13:51 SENATOR GOLDFINCH
I'm just going to call him a line employee because I don't know what his right I don’t know
01:13:54 SENATOR GOLDFINCH
Know what his official title was
01:13:57 SENATOR GOLDFINCH
A lot employee at the Treasurer 's office recognizes there's a mistake.
01:14:04 SENATOR GOLDFINCH
And without any permission whatsoever from the number two or the boss, which would be Curtis Loftis,
01:14:12 SENATOR GOLDFINCH
Decides to make a one point six billion dollar entry that's going to stick there for forever until it gets fixed.
01:14:21 SENATOR GOLDFINCH

Something about that rubs me wrong.
01:14:23 SENATOR GOLDFINCH
You, you obviously had the same reaction.
01:14:27 SENATOR GOLDFINCH
That I did when I first heard it.
01:14:29 MR. DAVID BLIGH
Could I just to clarify one thing.
01:14:30 MR. DAVID BLIGH
Sure, he did make that proposal aware to the chief of staff and the belief she was the deputy state treasurer.
01:14:38 SENATOR GOLDFINCH
Good. Well, I'm glad that you 'cause that was what I was going to ask next.
01:14:43 SENATOR GOLDFINCH
Is it possible that he did this on his own?
01:14:45 CHAIRMAN GROOMS
The.
01:14:45 SENATOR GOLDFINCH
Answer is no, right?
01:14:47 MR. DAVID BLIGH
He certainly made them aware that.
01:14:48 SENATOR GOLDFINCH
He made the chief of staff, Clarissa Adams.
01:14:52 SENATOR GOLDFINCH
Aware of this transaction, right?
01:14:56 MR. DAVID BLIGH
Yes, of his proposal to record it as a prior period adjustment?
01:14:59 MR. DAVID BLIGH
Yes, so.
01:14:59 MS. SUSAN MARKEL
Talking March twenty eighteen and you're talking November. Yeah, OK.
01:15:02 SENATOR GOLDFINCH
March twenty eighteen.
01:15:05 SENATOR GOLDFINCH
So Clarissa Adams knows as far back as March of twenty eighteen, the chief of staff for the treasurer, Curtis Loftis, knows as far back as March of twenty eighteen.
01:15:16 SENATOR GOLDFINCH
That we got a problem. One point six billion dollar problem, right?
01:15:20 MR. DAVID BLIGH
Yeah, Martin, I believe in his document characterized it as a prior period error.
01:15:25 MR. DAVID BLIGH
Therefore, hence his prior period adjustment.
01:15:27 SENATOR GOLDFINCH
Prior period error.
01:15:29 SENATOR GOLDFINCH

Yeah, it's an error, right?
01:15:32 MR. DAVID BLIGH
That's what he believed, yes.
01:15:39 SENATOR GOLDFINCH
I'm trying to remember.
01:15:41 SENATOR GOLDFINCH
But Miss Adams sat right there couple weeks ago.
01:15:49 SENATOR GOLDFINCH
And I asked her or somebody on.
01:15:51 SENATOR GOLDFINCH
I think it was me, but somebody on here asked her
01:15:54 SENATOR GOLDFINCH
Did you know that there was a problem going back to twenty eighteen and I'm almost positive her answer was? I can't answer that or I don't remember, right?
01:16:06 SENATOR GOLDFINCH
But y'all seem to know.
01:16:09 SENATOR GOLDFINCH
Y'all seem to know definitively that she did know.
01:16:11 MR. DAVID BLIGH
There's an e-mail that shows up. Martin suggestion was shared with her.
01:16:16 SENATOR GOLDFINCH
OK, so the chief of staff of the Treasurer definitely knew that there was a one point six billion dollar adjustment in the two thousand eighteen.
01:16:25 MR. DAVID BLIGH
Assuming she read it, yes.
01:16:28 SENATOR GOLDFINCH
Did she respond? Are.
01:16:29 SENATOR GOLDFINCH
Do you remember any of the e-mail changed?
01:16:30 MR. DAVID BLIGH
I don't believe we ever saw a response on that front, OK?
01:16:41 SENATOR GOLDFINCH
So if there was no response from Clarissa Adams at the time.
01:16:48 SENATOR GOLDFINCH
Did she ever give you any indication in any interviews that you did?
01:16:54 SENATOR GOLDFINCH
That she was taking action between that time and, let's say, in the two years post to that time that she was taking actions to fix the problem.
01:17:06 SENATOR GOLDFINCH
As the chief of
01:17:06 SENATOR GOLDFINCH
Staff, I'm not not not the line guys working behind the scenes.
01:17:13 SENATOR GOLDFINCH

Try to figure it out. But did Clarissa Adams ever tell you between twenty eighteen and twenty nineteen? We were working hard to figure that out.
01:17:20 SENATOR GOLDFINCH
She ever give you that indication?
01:17:23 MR. DAVID BLIGH
No, but but in her defense, I don't believe we ever asked her in those direct words.
01:17:28 MS. SUSAN MARKEL
And in the end, it wasn't treated as an error.
01:17:31 MS. SUSAN MARKEL
It was then moved to a liability account based on discussions with the Comptroller General 's office.
01:17:38 SENATOR GOLDFINCH
Why?
01:17:41 MS. SUSAN MARKEL
I believe they didn't believe it was an error and so they thought it was more appropriately shown as a liability.
01:17:47 SENATOR GOLDFINCH
You believe that or is that
01:17:49 SENATOR GOLDFINCH
A good way to make something look better?
01:17:52 MS. SUSAN MARKEL
Well, that's that's what they did. And in later time it gets to the one point eight
01:17:57 MS. SUSAN MARKEL
Billion dollars. And who owns it and whether or not you know, people thought it was owed to somebody. And I believe at some point the Comptroller General 's office did believe it was owed to somebody.
01:18:07 SENATOR GOLDFINCH
It's important.
01:18:07 MS. SUSAN MARKEL
Yet nothing was done to really figure that out.
01:18:09 SENATOR GOLDFINCH
Out right at some.
01:18:11 SENATOR GOLDFINCH
Tom, they didn't have any idea if it.
01:18:12 SENATOR GOLDFINCH
Real or fake? Yeah.
01:18:15 SENATOR GOLDFINCH
Right. They didn't know if it was cash.
01:18:17 SENATOR GOLDFINCH
I mean, I heard the Treasurer say it's cash.
01:18:20 SENATOR GOLDFINCH
We can bring it to you.
01:18:21 SENATOR GOLDFINCH
Can cash.

01:18:21 SENATOR GOLDFINCH
You can feel it.
01:18:23 MS. SUSAN MARKEL
There was certainly a balance in that account that individuals did not understand what it represented.
01:18:28 SENATOR GOLDFINCH
Yeah.
01:18:30 SENATOR GOLDFINCH
Thank you.
01:18:32 CHAIRMAN GROOMS
Senator from Pickens and then senator from Williamsburg.
01:18:35 SENATOR RICE
Thank you, Mister.
01:18:38 SENATOR RICE
Along those same lines, the Comptroller general at the time was Eckstrom correct.
01:18:43 MS. SUSAN MARKEL
Yes.
01:18:43 SENATOR RICE
And the current treasure was treasure then.
01:18:46 MS. SUSAN MARKEL
Yes.
01:18:47 SENATOR RICE
Do you believe that
01:18:50 SENATOR RICE
Either one of those or both of those knew about this transaction.
01:18:55 MS. SUSAN MARKEL
Which transaction?
01:18:56 SENATOR RICE
The the transaction this war being made the just the the entries that were made that we've been referring to?
01:19:04 MS. SUSAN MARKEL
To we have seen in emails that in terms of the November discussions about the Comptroller working with the Treasurer to make those entries that Mister Eckstrom was
01:19:14 MS. SUSAN MARKEL
Informed of some of those entries, or that there were communications going on, we've not seen anything that has.
01:19:20 MS. SUSAN MARKEL
The treasurer
01:19:21 MS. SUSAN MARKEL
On that.
01:19:21 SENATOR RICE
So you do think eckstrom did know that was going on at the?
01:19:25 MS. SUSAN MARKEL

He knew that they were working to resolve the conversion entries and that entries were being made in November of twenty seventeen.
01:19:31 SENATOR RICE
But you don't believe the treasurer knew about it?
01:19:33 MS. SUSAN MARKEL
Haven't seen any documents that would indicate that.
01:19:37 SENATOR RICE
Should he have known about it?
01:19:40 MS. SUSAN MARKEL
The conversion process
01:19:41 MS. SUSAN MARKEL
Was really owned by the Treasurer 's office, and so that was some he had oversight over the Treasurer 's office.
01:19:49 SENATOR RICE
OK.
01:19:49 CHAIRMAN GROOMS
Thank you, Senator Williamsburg.
01:19:52 SENATOR SABB
Thanks.
01:19:53 SENATOR SABB
I want to go back to something Georgetown 's exchange with you, so it's listed as a liability, which is is really, I think.
01:20:03 SENATOR SABB
A more compelling reason that somebody needs to be advised, I mean so, so all of a sudden we've got a one point six billion dollar liability, I mean.
01:20:15 SENATOR SABB
Isn't that the point that we're making in terms of?
01:20:19 SENATOR SABB
Of the obligation to report.
01:20:22 SENATOR SABB
One point six billion dollar liability at state assets.
01:20:33 MR. DAVID BLIGH
I guess the.
01:20:34 MR. DAVID BLIGH
That I would respond to that would be not being intimately familiar with what the reporting obligations are within South Carolina.
01:20:43 MR. DAVID BLIGH
They had this this belif.
01:20:45 MR. DAVID BLIGH
I don't. I think it's our view that they didn't truly understand what it.
01:20:50 MR. DAVID BLIGH
So where we see the fault is not investigating and not truly understanding what it was.
01:20:55 SENATOR SABB

So for me it's a wee bit different and and I think perhaps it's a fundamental question that has to be answered by General Assembly and nobody else.
01:21:03 SENATOR SABB
But I think the fundamental question is where the state
01:21:09 SENATOR SABB
Where the Comptroller General Auditor 's office and the treasurer.
01:21:16 SENATOR SABB
Decide that
01:21:19 SENATOR SABB
There is on the books a one point six billion dollar obligation.
01:21:24 SENATOR SABB
The question is, is there a requirement
01:21:27 SENATOR SABB
That the General Assembly be notified that we have a one point six billion dollar liability?
01:21:35 SENATOR SABB
And so I just want to make sure that that I'm clear.
01:21:38 SENATOR SABB
As as the Assembly has to grapple with with the idea of the absence of reporting a one point six billion dollar liability that the state has
01:21:49 SENATOR SABB
That's where we are as far as the books are concerned.
01:21:53 SENATOR SABB
Back in November of twenty seventeen and help me with my dates because I'm going to write it down.
01:21:59 SENATOR SABB
There's a decision made.
01:22:03 SENATOR SABB
An entry made that evidence is a one point six billion dollar.
01:22:08 SENATOR SABB
Obligation that the state has, that nobody advises the state exists.
01:22:14 MR. DAVID BLIGH
That was in March of twenty.
01:22:15 SENATOR SABB
Eighteen March of twenty eighteen.
01:22:17 SENATOR SABB
Thank you.
01:22:18 SENATOR SABB
But everything else is accurate that I just said.
01:22:22 MR. DAVID BLIGH
I believe so.
01:22:23 MR. DAVID BLIGH
All right.
01:22:23 SENATOR SABB
Thanks Mr. Chairman.

01:22:27 CHAIRMAN GROOMS
And looking back at this and you study this.
01:22:32 CHAIRMAN GROOMS
Who decided well.
01:22:36 CHAIRMAN GROOMS
The problem really came to light.
01:22:40 CHAIRMAN GROOMS
With the twenty twenty two ACFR restatement, is that your understanding?
01:22:46 MR. DAVID BLIGH
Yes, that's where the recognition was
01:22:48 MR. DAVID BLIGH
Or when the recognition occurred that that one point eight billion was necessary to include in the Act, which is a presenting the state 's cash balance and and.
01:22:53 Speaker 2
For.
01:22:58 CHAIRMAN GROOMS
Prior to that.
01:23:01 CHAIRMAN GROOMS
It seemed, and I've heard this before, but it seemed like.
01:23:06 CHAIRMAN GROOMS
Fund three zero thirty five zero nine nine three was was excluded from view.
01:23:15 CHAIRMAN GROOMS
Where the casual observer said someone in SCIES wouldn't be able to see it unless you were either the Comptroller, the Treasurer.
01:23:23 CHAIRMAN GROOMS
Who made the decision to exclude that fund from the ACK for for the prior years?
01:23:32 MR. DAVID BLIGH
So just to clarify one thing that you said there. So it's excluded from the ACK for our understanding is it's not excluded from anyone being able to see it in SKIIS.
01:23:42 MR. DAVID BLIGH
So I just want to make that clarification, but the decision appears to as best we can tell, be made collectively between the State Treasurer 's office and the Comptroller General 's office.
01:23:42
OK.
01:23:54 CHAIRMAN GROOMS
The AKFR our financial document that we show the world, it was inaccurate for a number of years because it did not include.
01:24:05 CHAIRMAN GROOMS
This fund.
01:24:05 MR. DAVID BLIGH
That's correct.
01:24:08 CHAIRMAN GROOMS
And in twenty twenty two.
01:24:11 CHAIRMAN GROOMS

There was.
01:24:12 CHAIRMAN GROOMS
A restatement of three-point five billion.
01:24:17 CHAIRMAN GROOMS
This is what I'm trying to wrap my head around.
01:24:20 CHAIRMAN GROOMS
The Comptroller had been double counting cash and the cash balance had grown.
01:24:28 CHAIRMAN GROOMS
Couldn't figure out why but it kept getting bigger and bigger every year and in twenty twenty two he decided to count fund 30350993.. To help bring that balance down.
01:24:43 SENATOR SABB
Is that?
01:24:45 CHAIRMAN GROOMS
Is that your understanding or that was? I remember reading that in the report somehow.
01:24:49 MR. DAVID BLIGH
Yeah.
01:24:50 MR. DAVID BLIGH
I would separate them a little bit more so there's another fund, 10019000, which was also incorrectly mapped for the akver.
01:25:00 MR. DAVID BLIGH
That refers to the double counting, and that relates to appropriations.
01:25:05 MR. DAVID BLIGH
Where the general fund was not recording the granting of appropriations to other agencies. OK, the one point eight actually went.
01:25:14 MR. DAVID BLIGH
That was an over statement and the one point eight actually went the other way.
01:25:17 MR. DAVID BLIGH
Was an understatement because.
01:25:21 MR. DAVID BLIGH
And I'll keep this at a high level, but if you want us to go further in detail, I can. The the one point six billion that we've been talking about that does not represent real cash, there is two sides to that.
01:25:31 MR. DAVID BLIGH
A positive side that sat in fund nine, nine, three and there's a negative side that sat in all the original funds that it was originally recorded to.
01:25:39 MR. DAVID BLIGH
That that one point six billion of the original fund designation was included in the ACK for the part that was recorded to fund nine ninety three was not included in the ACK for so therefore it was necessary.
01:25:50 MR. DAVID BLIGH
For the comps or general 's office to include that positive side of the nine ninety three to offset the negative side that was being included in the AKVER.
01:26:05 CHAIRMAN GROOMS
Could you try that again?

01:26:06 MR. DAVID BLIGH
Yeah, sure.
01:26:07 CHAIRMAN GROOMS
I'm I'm trying the whole when I was in the fifth grade, the whole negative number, things seemed to blow me away.
01:26:13 CHAIRMAN GROOMS
Like, huh. What so?
01:26:15 MR. DAVID BLIGH
So if we just focus on nine ninety three for a moment, the when those act for business.
01:26:19 MR. DAVID BLIGH
Is that we're saying should never have been included in the conversion process when those entries were made, they created two offsetting balances.
01:26:28 MR. DAVID BLIGH
One set of balances was a negative side that was included in the ACK. For the other side was a positive side that was being excluded from the ACK for so historically the states ACK for was understated.
01:26:42 MR. DAVID BLIGH
Because there is only the negative side being picked up in the Akira, but the positive side was not.
01:26:47 MR. DAVID BLIGH
So the state.
01:26:48 MR. DAVID BLIGH
The Comptroller General 's office in twenty twenty two recognized that.
01:26:52 MR. DAVID BLIGH
And therefore said the positive side and the negative side, both need to be included in the ACK for, therefore they should offset and therefore again going back to our other conclusion which is.
01:27:02 MR. DAVID BLIGH
It is not rea cashl.
01:27:04 MR. DAVID BLIGH
It's because those entries net out to.
01:27:06 MR. DAVID BLIGH
There is no effect on the states overall cash balance.
01:27:10 CHAIRMAN GROOMS
But in twenty twenty two we definitely know that the Comptroller General.
01:27:16 CHAIRMAN GROOMS
Knew about.
01:27:18 CHAIRMAN GROOMS
Fund 30350993, or else he wouldn't have grabbed.
01:27:26 CHAIRMAN GROOMS
The the Loftus Cash to help reduce the three to help reduce the error which brought it down to three-point five billion.
01:27:36 MR. DAVID BLIGH

Certainly he recognized that nine ninety three needed that fund need to be included in the ACK for.
01:27:41 Speaker 2
And.
01:27:43 CHAIRMAN GROOMS
And it seems like the Treasurer should have realized that also at the time.
01:27:48 CHAIRMAN GROOMS
Realized about its existence, understood that there was a problem at some point.
01:27:55 MR. DAVID BLIGH
I guess just to be clear, throughout the well, sorry, are you referring to the Treasurer himself or the office?
01:28:00 CHAIRMAN GROOMS
Yeah, basically.
01:28:02 CHAIRMAN GROOMS
Well, ask any of the way the Treasurer 's office and then the treasurer himself.
01:28:06 MR. DAVID BLIGH
Well, certainly our understanding is the office knew about that fund because that was the fund that they primarily used for their conversion entries.
01:28:14 CHAIRMAN GROOMS
They knew about the fund.
01:28:16 CHAIRMAN GROOMS
They they realized that there was some sort of issue in the March of twenty eighteen.
01:28:22 CHAIRMAN GROOMS
It was all rolled together and they called it a prior period error.
01:28:27 MR. DAVID BLIGH
Well, that was the original proposal. The ultimate decision was to record.
01:28:30 MR. DAVID BLIGH
As a liability.
01:28:31 CHAIRMAN GROOMS
OK. And seeing like there was also some discussions somewhere along the line that we need to write this off?
01:28:40 CHAIRMAN GROOMS
That was something in your report, if I recall.
01:28:43 MR. DAVID BLIGH
That was part of the same.
01:28:45 MR. DAVID BLIGH
So it was originally the member of the State Treasurer 's office proposed writing it off as a prior period adjustment, but he was.
01:28:54 MR. DAVID BLIGH
Council, they're advised that by the State Treasurer 's sorry, the Comptroller General 's office and the State 's external accounting firm, Clifton Larson Allen, that they did not agree with that approach and therefore the collective decision was to record it.
01:29:09 CHAIRMAN GROOMS
As a liability and that was in twenty.

01:29:11 MR. DAVID BLIGH
March of twenty eighteen, yes.
01:29:15 CHAIRMAN GROOMS
So they so then it was recorded the way they did it and it stayed that way and basically.
01:29:19 MR. DAVID BLIGH
Correct about the balance grew, but the the account that it was recorded to did not change.
01:29:25 CHAIRMAN GROOMS
Well, still hasn't.
01:29:27 CHAIRMAN GROOMS
It's still there, correct? But it was.
01:29:32 CHAIRMAN GROOMS
But was basically made public, so to speak, in the twenty twenty two act for restatement.
01:29:39 CHAIRMAN GROOMS
Well, or it was included in that. It's part OK, yes. But but even the even at the restatement at that time, no, no one, it was still not talked about that there was a one point eight billion dollar error.
01:29:52 MR. DAVID BLIGH
Correct that in our report we pointed out that there were components to the restatement that are not readily apparent in the footnote in the twenty twenty two acquis.
01:30:05 CHAIRMAN GROOMS
It was only when we had a new comptroller, comptroller gaines, When he was trying to compile the act for twenty twenty three, it seemed like he had some questions about the fund.
01:30:14 Speaker 2
Yes. All right. OK.
01:30:16 CHAIRMAN GROOMS
So he knew right off the bat there's.
01:30:18 CHAIRMAN GROOMS
Problem here.
01:30:21 CHAIRMAN GROOMS
But the treasurer didn't realize there was a problem.
01:30:23 CHAIRMAN GROOMS
Or did he?
01:30:26 MR. DAVID BLIGH
I don't believe we've seen anything to prove that he was aware at that time.
01:30:30 CHAIRMAN GROOMS
But wouldn't you agree that the Treasurer should know what's in the Treasury?
01:30:36 MR. DAVID BLIGH
Certainly going back to our recommendations, understanding what comprises the banks that he has custody over and a fund level is something we think he should be doing.
01:30:49 CHAIRMAN GROOMS
Members have any other questions?
01:30:54 CHAIRMAN GROOMS
I appreciate you coming back and and helping clarify some things that we heard.
01:31:01 CHAIRMAN GROOMS

And this committee, where it's our intent to be able to boil down.
01:31:08 CHAIRMAN GROOMS
The testimonies that we have received going back to last year to right now and a key component of what our report will be based on your findings. Having heard various testimonies, having witnessed looking through the documents.
01:31:25 CHAIRMAN GROOMS
Is there anything?
01:31:26 CHAIRMAN GROOMS
That you would you believe we ought.
01:31:28 CHAIRMAN GROOMS
Know or or or.
01:31:31 CHAIRMAN GROOMS
Anything else you would want to share with us before you get on that big old airplane? Head back out of here.
01:31:38 MS. SUSAN MARKEL
There is one point to clarify. I think in terms of the of the St. OS report in his report on page twenty two, he talks.
01:31:45 CHAIRMAN GROOMS
I'm sorry, which which report?
01:31:47 MS. SUSAN MARKEL
Sorry, this is the February. Yeah, Treasurer 's report from February twenty sixth.
01:31:55 CHAIRMAN GROOMS
This report, oh the.
01:31:57 CHAIRMAN GROOMS
The one he, the one he brought to us.
01:31:57 MS. SUSAN MARKEL
Yes.
01:32:00 CHAIRMAN GROOMS
And swore that it was.
01:32:01 CHAIRMAN GROOMS
And then said might not be and then has a disclosure that says it may or may not be true.
01:32:09 MS. SUSAN MARKEL
It's the one. I'm sorry. Yes. He released on February twenty sixth on page twenty two. OK, there's a statement that the CGO refused to allow AlixPartners to review its crosswalk for fiscal years. Twenty twenty.
01:32:22 MS. SUSAN MARKEL
Two and twenty three, and he refers to a reference in our report.
01:32:28 MS. SUSAN MARKEL
That reference that we made is under a certain section which relates to the CGO adjustments column.
01:32:34 MS. SUSAN MARKEL
And so I want to make clear that we did in fact have access to their crosswalks for twenty two and twenty three. There's a certain portion of it called CGO adjustments, which we had difficulty understanding in prior years.

01:32:47 MS. SUSAN MARKEL
We had asked the CGO if we should review those for later years and they they indicated it wouldn't be any different.
01:32:55 MS. SUSAN MARKEL
In terms of the results that we had, so it's not as if they didn't make it available to.
01:33:00 MS. SUSAN MARKEL
We had it, but in terms of making available to us for purposes of the review of those CG O adjustments, we offered and made indicated that it wouldn't result in anything different.
01:33:09 MS. SUSAN MARKEL
We declined to do that piece.
01:33:13 MR. DAVID BLIGH
And then on the.
01:33:16 MR. DAVID BLIGH
Same token on page twenty three of that report.
01:33:22 MR. DAVID BLIGH
Twenty three.
Sorry. Well, it's also referenced on nineteen I think, apologies.
01:33:36 MR. DAVID BLIGH
Yes, on page.
01:33:38 MR. DAVID BLIGH
I believe this is reference elsewhere, but on page nineteen of the Treasurer 's report.
01:33:43 MR. DAVID BLIGH
It says in the middle you'll see there is a block quote, but it says the AP report indicates that this CGO entry was incorrect and notes a troubling observation regarding the CG OS credibility.
01:33:56 MR. DAVID BLIGH
Can't recall offhand, but, but there's a statement made by the treasurer 's office.
01:34:00 MR. DAVID BLIGH
Is that this might have been an attempt by the Comptroller General 's office to deceive us, and we just want to make clear that the document that this is referring to we found on our own, it was not provided to us by the Comptroller General 's office. So.
01:34:12 MR. DAVID BLIGH
We do not believe it was intended to deceive us in any way, and, as we noted on our report, it raised certain questions in our mind, which we looked.
01:34:21 MR. DAVID BLIGH
And and evaluated by considering other contemporaries documents at the time.
01:34:25 MS. SUSAN MARKEL
And you're referring to the three hundred twenty four million dollar entry that was in twenty eighteen, correct?
01:34:31 MS. SUSAN MARKEL
And the the document was found in Mister Starkey 's.
01:34:37 MS. SUSAN MARKEL
Those authored by.
01:34:39 MR. DAVID BLIGH

Yeah. Authored by Mister Starkey, but we found it by reviewing documents that were saved in the Comptroller Generals Office shared folders.
01:34:48 CHAIRMAN GROOMS
OK.
01:34:48 CHAIRMAN GROOMS
So you do not believe control of Gaines was trying to deceive you.
01:34:53 MR. DAVID BLIGH
No.
01:34:56 CHAIRMAN GROOMS
OK. Senator from Georgetown.
01:34:56 SENATOR GOLDFINCH
I I just based on what you just told me, I gotta ask.
01:34:59
Ask.
01:34:59 SENATOR GOLDFINCH
I mean is the treasurer's
01:35:01 SENATOR GOLDFINCH
Report, this thing. Whatever you want to call this thing February. Twenty six report.
01:35:07 SENATOR GOLDFINCH
Is this just an effort to obfuscate, shift blame?
01:35:11 SENATOR GOLDFINCH
It's what it looks like to me.
01:35:13 SENATOR GOLDFINCH
This all 's opinion of it.
01:35:16 MR. DAVID BLIGH
I don't know that we have a view like that, but certainly there are factual inaccuracies that, as we discussed here and just mentioned, that we wanted to make sure we corrected.
01:35:25 SENATOR GOLDFINCH
Most of those factual inaccuracies that some of which you just corrected, corrected attempt to shift the blame off of the Treasurer and put it on the CG, right.
01:35:35 MR. DAVID BLIGH
The the last two that we discussed are specifically directed at the Comptroller General 's office.
01:35:35 SENATOR GOLDFINCH
But.
01:35:39 SENATOR GOLDFINCH
Among others, though.
01:35:40 SENATOR GOLDFINCH
I mean, we've discussed others here today too, OK?
01:35:42 MR. DAVID BLIGH
Yes.
01:35:43 SENATOR GOLDFINCH
So this report, multiple things you've identified that aren't true in it attempts to shift blame.
01:35:50 SENATOR GOLDFINCH
to The Comptroller general.

01:35:53 MR. DAVID BLIGH
It would appear that way, our understanding.
01:35:56 SENATOR GOLDFINCH
Yeah. Thank you so much. Appreciate it.
01:36:01 CHAIRMAN GROOMS
Do you have others?
01:36:03 CHAIRMAN GROOMS
Other things you'd want to point to and.
01:36:06 CHAIRMAN GROOMS
I'm sorry, this lovely document, yes.
01:36:11 CHAIRMAN GROOMS4
OK.
01:36:12 CHAIRMAN GROOMS
Any other questions?
01:36:15 CHAIRMAN GROOMS
We appreciate you coming back and we thank you. Thanks for.
01:36:16 MS. SUSAN MARKEL
Thank you.
01:36:20 CHAIRMAN GROOMS
Thank You.

Exhibit 43

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 14, 2025

Hon. Thomas C. Alexander
President of the Senate
[*By Courier Delivery and Email*]

Hon. Harvey S. Peeler, Chair
Senate Finance Committee
[*By Courier Delivery and Email*]

Dear Senators Alexander and Peeler:

The purpose of this letter is to request your review and intervention regarding the improper conduct of the Constitutional Subcommittee of the Senate Finance Committee (hereinafter "Subcommittee").

For over a year now, the Subcommittee has engaged in an investigation of "activities within the Office of State Treasurer."[1] In so doing, the Subcommittee has disregarded statutory standards of procedure and evidence established for committee investigations, and may have exceeded its legal authority.

Senate subcommittees are not inherently empowered to conduct unscheduled investigations. S.C. Code Ann. § 2-2-40(A) allows a standing committee to initiate an oversight study and investigation of an agency, limited to "the scope stated in the motion or the scope of the information uncovered by the investigation." Id. S.C. Code Ann. § 2-2-40(B) also allows "the President of the Senate, the Speaker of the House of Representatives, or chairmen of standing committees" to authorize "legislative investigations into agencies' functions, duties, and activities." To my knowledge, my office has not been provided notice that the Senate Finance Committee has approved a motion, or that either of you have authorized, the Subcommittee's investigation of my office.

My concerns regarding the Subcommittee's investigation are not merely technical. Chapter 2 of Title 2 requires an investigating committee to observe rules of substantive and procedural due process, as well as evidentiary rules, which are conducive to a meaningful, reliable, good faith review of the subject matter. The scope of a committee's investigation must be clearly articulated and limited. By contrast, the Subcommittee has never articulated the scope of its investigation of my office; to the contrary, the scope appears to have been constantly changing. The Subcommittee has called upon my office to testify under oath (often on very short notice), providing vague and inaccurate descriptions of the Subcommittee's intended topics of questioning. In April of 2024, I was called to a Subcommittee meeting to "present the budget requests of the Office of the State Treasurer"— a meeting that typically lasts twenty minutes. Instead, I was aggressively questioned for over six hours on topics ranging from statutory interpretation to complex and granular matters of the State's finances.

In fact, on multiple occasions before the Subcommittee, my staff and I have stated that we were unable to testify regarding certain topics because of a lack of notice as to subject matter. Each time, the Subcommittee ignored this testimony and continued in their questioning. At one point, in response to this objection, a Subcommittee member declared, "We're here to discuss all kinds of stuff."

---

[1] As described by the Subcommittee in its *Interim Report of Findings and Recommendations on the $1.8 Billion Discrepancy in Treasury Balances and Certain Other Matters* issued April 16, 2024.

During their questioning, Subcommittee members have made harmful, unsupported, and false accusations of wrongdoing, presented un-authenticated and (in at least two cases) prejudicially manipulated "evidence" to witnesses. On several occasions a Subcommittee member even attempted to elicit my testimony regarding his "paraphrase" of a document, rather than providing the document to me or identifying the document for the record.

In numerous meetings, Subcommittee has publicly (and falsely) accused me of lying, misappropriating State money, attempting to impose undue influence on the State Auditor, and selling off State investments at a loss to hide a negative General Fund balance. At one point the Chairman even accused me of treason. Each of these accusations have been disproven.

When testifying before an investigative committee, a witness "may have counsel present to advise him," and "the witness or his counsel may, during the time of testimony, claim any legal privilege recognized by the laws of this State in response to any question and is entitled to have a ruling by the chairman on any objection." S.C. Code Ann. § 2-2-80. Likewise, Section 2-2-90 ensures that "witnesses shall be given the benefit of any privilege at law which he may have in court as a party to a civil action." The Subcommittee has in many instances disregarded these statutory guidelines in how it conducted the questioning of witnesses.

During the February 27, 2025, meeting of the Subcommittee, in which I was accompanied by a State Treasurer's Office attorney, the Subcommittee demanded that the attorney either be sworn in as a witness or that he "keep his mouth shut," and the Chairman threatened to have him forcibly removed from the meeting if he did not comply.

The Subcommittee claims to have reviewed thousands of pages of documents and has apparently engaged in extensive off-record communications, yet has not provided my office the opportunity to review or respond to that information.

Despite the impropriety of the Subcommittee's investigation, my staff and I have made significant good faith efforts to provide any information requested, and answer the questions posed by the Subcommittee. We have even conducted an internal review of these matters, and provided a thorough written report, including legal and evidentiary support: *State Treasurer's Office Overview of Issues Surrounding SCEIS Fund 30350993 and Other Allegations*.

The Subcommittee's conduct is troubling and appears unlikely to produce a trustworthy or meaningful outcome. Moreover, these meetings may prove detrimental to the State's financial reputation and credit rating. As such, I believe it is within your authority and responsibility to intervene, and I respectfully ask you to do so.

In closing, I must point out that the cost of the Subcommittee's conduct is not quantifiable in dollars alone. The Subcommittee's ever-changing accusations and allegations have been extraordinarily taxing, both personally and professionally, for my staff and myself. It is my sincere hope that the Senate recognizes the harm that this investigation has caused and will take care to prevent it from happening in the future.

Sincerely,

Curtis M. Loftis, Jr.

Curtis M. Loftis, Jr.
South Carolina Treasurer

cc: Hon. Henry D. McMaster, Governor
Hon. Alan Wilson, Attorney General
Hon. G. Murrell Smith, Jr., Speaker of the House
Hon. Lawrence K. Grooms, Chair, Constitutional Subcommittee

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 14, 2025

VIA ELECTRONIC MAIL

The Honorable Lawrence K. "Larry" Grooms
Chairman of the Constitutional Subcommittee of the Senate Finance Committee
313 Gressette Building
Columbia, South Carolina 29201

Re: AlixPartners Testimony before the Subcommittee on March 11, 2025

Dear Chairman Grooms and Subcommittee Members:

I am writing to provide a brief response to the testimony by AlixPartners LLP representatives Susan Markel and David Bligh, given before the Subcommittee on March 11, 2025.

As an initial matter, I note that Mr. Bligh and Ms. Markel have confirmed in their testimony several of my longstanding assertions. First, the State Treasurer's Office books reconcile to the bank. Second, the balance represented in SCEIS Fund 30350993 was not hidden by anyone or from anyone. Third, decisions which ultimately led to the balance in SCEIS Fund 30350993 appear to have been made in good faith, and ultimately the State Treasurer's Office ("STO"), the Comptroller General's Office ("CGO"), the Department of Administration, and the State Auditor's Office share responsibility for those decisions.

While I agreed with the majority of Ms. Markel and Ms. Bligh's testimony, I would like to respond to their comments regarding the *State Treasurer's Office Overview of Issues Surrounding SCEIS Fund 30350993 and Other Allegations* ("STO Report"), and the *State Treasury Forensic Accounting Review Final Report* ("AP Report").

<u>The Origin of the Appropriations in SCEIS Fund 30350993</u>

Mr. Bligh testified on the AP Report's conclusion regarding the origin of the non-cash entries that were ultimately incorrectly recorded as cash in SCEIS Fund 30350993. The AP Report provides as follows on page 10:

> We determined that approximately $1.6 billion of the $1.8 Billion did not represent real cash. It is attributed to balances in certain ACFR-Only business areas ("ACFR BAs") that were incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion. These balances represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process, and as

> such, the failure to recognize what these accounts represented had the unintended consequence of artificially inflating the balance in Fund 30350993.

Mr. Bligh clarified that the entries that comprised the ACFR Business Areas were not problematic in and of themselves, but became incorrect when they were transferred into SCEIS Fund 30350993 as cash, resulting in a $1.6 billion balance. He testified that the CGO did not perform the transferring entries, and that the entries were performed by two STO employees, one Department of Administration employee, and one set of entries was "batched" and not attributable to a specific SCEIS user.

I believe Mr. Bligh's testimony is generally consistent with the facts presented in the STO Report, which acknowledges that the STO made some of the entries in question. However, I would add that the STO Report has provided documentary evidence showing that the CGO was directly involved in, and directed STO to make, these entries. See STO Report, pp. 13-19; Exhibits 3, 6.

Footnote 120

In her testimony, Ms. Markel testified that the STO Report's interpretation of footnote 120, appearing on page 61 of the AP Report, is inaccurate. The footnote states: "The CGO did not accept our offer to review a more recent version of the Crosswalk (i.e. fiscal year 2022 or 2023). We therefore cannot comment on whether the documentation had improved since 2020." Ms. Markel indicates that the offer to review the crosswalk referenced in footnote 120 was specific to a particular area of review ("CGO Adjustments"), and that the CGO's staff indicated that its later crosswalks would be no different from the 2020 crosswalk, and that there was no point in having AlixPartners review them.

While I appreciate Ms. Markel's clarification, it does not appear to me that her testimony contradicts the basis of the STO Report discussion on this matter. (See pp. 22-23). The CGO's crosswalks, particularly as it relates to ACFR adjustments for Fiscal Year 2022 (the year that the Comptroller General released its $3.5 billion restatement to ACFR General Fund cash), are a matter of significant concern, and they should have been reviewed in their entirety.

The CGO's "March 2024 Memo"

Additionally, Mr. Bligh testified that the STO Report erred factually in its interpretation and characterization of the AP Report description regarding the CGO's "March 2024 memo," which incorrectly states that the STO requested approximately $324 million to be moved into SCEIS Fund 30350993. The AP report provides the following description of this memo on page 42:

> A current CGO employee drafted a memo in March 2024 that explains that the entry was requested by the STO. The memo explains, that during the STO's cash conversion from STARS to SCEIS, the STO could not convert funds held in a certain general

> ledger account because they did not have access. It then explained how the STO requested that the CGO (who had control over those accounts) move those funds to a general ledger account that the STO had access to so they could include the funds in the accounts they did not have access to in the conversion. Despite this recounting, we identified other information which suggests that the request was made by the CGO, *potentially undermining the credibility of the March 2024 memo.*

(emphasis added). Mr. Bligh indicates that the CGO didn't "provide" AlixPartners with the memo, but that AlixPartners discovered it on their own, and that AlixPartners does not believe the March 2024 memo represented an attempt to deceive them.

While I am relieved to learn that AlixPartners does not believe the CGO intended to mislead them, it is unclear to me what was intended by including a reference to this memo in the AP Report, if not to raise a concern about the credibility of the information CGO provided, or regarding the existence of the March 2024 memo. AlixPartners references only one memo in the entire AP Report, and it happens to be the CGO's March 2024 memo which falsely blames the STO for requesting a $324 million transfer into SCEIS Fund 30350993. The fact that AlixPartners "found" the March 2024 memo is hardly a defense of the CGO's creation of a memo falsely blaming STO for an incorrect entry that the CGO directed.

In closing, the STO Report represents a significant effort by our staff to provide a thorough and evidentiarily supported response to questions surrounding SCEIS Fund 30350993. While I was disappointed to learn that Ms. Markel and Mr. Bligh disagreed with even a small part of the STO Report, I am relieved to know that their disagreement is primarily a matter of interpretation rather than any significant factual discrepancy.

Thank you in advance for your consideration of my response to testimony.

Sincerely,

Curtis M. Loftis, Jr.

Curtis M. Loftis, Jr.
South Carolina Treasurer

CC:
The Honorable Wes Climer
The Honorable Stephen L. Goldfinch
The Honorable Brad Hutto
The Honorable Margie Bright Matthews
The Honorable Rex F. Rice
The Honorable Ronnie A. Sabb
The Honorable Tom Young, Jr.

Transition Report

The Honorable Curtis M. Loftis, Jr.
Treasurer, South Carolina

February 2011

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Introduction

February 2011

As I traveled across South Carolina this past year, I shared my message with South Carolinians at every opportunity – at election rallies and civic clubs, on radio and television, by mail and e-mail, on the sidewalk and in their homes and backyard gatherings.

I shared with them my message of fiscal conservatism and my desire for smaller government with more accountability, transparency and openness, elimination of waste, fraud and abuse, and my goal of a government more responsive to the needs of South Carolinians. I shared with them that, as a small businessman, I understand the need for government to help small business by lifting the burden of unnecessary regulation , thereby allowing them to create jobs for South Carolinians and a stronger economy for South Carolina.

The State Treasurer’s Office is a critically important office. It requires the full time, attention, and effort of a state treasurer who will improve the functioning of the State Treasurer’s Office and make it more effective, efficient, productive, and responsive as it serves the best interests of South Carolinians.

In each of South Carolina’s 46 counties, citizens heard my message and voted in support. It was a humbling message to me from the electorate and one that affirmed my convictions. I set out on a path to develop a plan of action to meet the wishes, the mandate, of the people of South Carolina.

I assembled a Transition Team composed of volunteers from across South Carolina to lead the effort in identifying and prioritizing my agenda, so that I could be effective immediately upon inauguration. These men and women willingly came together, with their variety of relevant backgrounds and experiences, to develop a sensible and direct plan of action that will benefit the citizens of South Carolina.

The recommendations of the Transition Team are realistic, meaningful and attainable. They are not idealistic and long range – rather they are practical and address the real and current need for change. While the report of the Transition Team focuses on the role and responsibilities of the State Treasurer, its recommendations go beyond the realm of those the State Treasurer can accomplish by individual action. Some of the recommendations will require the collaborative assistance and approval of other State officials, including the Governor, the State Legislature and the Budget and Control Board. I invite all parties to join me in addressing these recommendations.

Respectfully,

Curtis M. Loftis, Jr.

Curtis M. Loftis, Jr.
State Treasurer, South Carolina

The Transition Team

Mission of the Transition Team

The Curtis Loftis Transition Team is a skilled and diverse group of leaders from around the state. Its mission is to engage in thoughtful discussion, observation, and investigation in order to facilitate an orderly transfer of duties from one administration to another, to identify strengths and uncover weaknesses and inefficiencies in the sphere of responsibility of the South Carolina State Treasurer's Office, to greater promote economic development using the resources of the Treasurer's Office, and to recommend solutions and opportunities for reform.

The Team worked to recommend appropriate and meaningful changes to the Treasurer's Office designed to increase efficiency and accountability while making the office the most transparent Treasurer's Office in the nation.

Organization of the Transition Team

The Team was organized into three subcommittees:

- Budget and Control Board Subcommittee
- State Treasurer Subcommittee
- Board of Financial Institutions Subcommittee

Budget and Control Board Subcommittee

The Budget and Control Board Subcommittee focused on the meaningful and material aspects of the State Retirement System investments, investment management, rates of return, investment policies, independent/internal auditor, periodic independent outside review of all aspects of investment program, and other significant matters approved by the Transition Team.

The Subcommittee considered the procurement procedures and how to use this process as an economic development tool.

The Subcommittee also considered the use of retirement investment funds and all state financial assets as an economic development tool and examined what other states are doing in this regard.

State Treasurer's Office Subcommittee

The State Treasurer's Office Subcommittee focused on the meaningful and material aspects of the functions and operations of the State Treasurer's Office including:

Banking and Accounting: The Subcommittee researched the use of State deposits and investments as an economic development tool what other states are doing in this regard; the type and number of South Carolina and out-of-state depositories; the competitive nature for selecting depositories;

current rates of return; depository management and independent review of all aspects of depositary activities and programs; collateralization types, requirements, and options; and the Local Government Investment Pool.

Debt: The Subcommittee examined debt policy and practices; the current process of independent review of State debt policy and practices; and the use of sufficient available debt capacity as economic development tool and examination of what other states are doing in this regard. It reviewed State and local government bond statutes for modernization and re-codification, identified additional measures to maintain State's AAA rating; reviewed the rotational system of bond counsel and other parties engaged by State in the issuance of debt; and investigated opportunities to strengthen local government debt policies and practices, including a review of the use of derivatives.

Technology: The Subcommittee reviewed and made appropriate recommendations regarding the need to upgrade/acquire/retire any stand-alone IT systems in the Treasurer's Office to achieve economies, efficiencies, savings, and increased productivity. Members ascertained the Treasurer's Office progress in implementing SCEIS, the State's enterprise system, and considered the benefits and merits of the State implementing modules of the State's new enterprise information system beyond the accounting, HR, and payroll, and procurement modules initially being implemented statewide.

Programs:
Unclaimed Property: The Subcommittee investigated opportunities for improvements in employed processes to improve return of unclaimed property and reduce levels of outstanding unclaimed property, including a review of "Best Practices" by other states.

Investments: The Subcommittee considered investment programs conducted by the Treasurer's Office, utilizing the same considerations given to the State Retirement Systems. The Subcommittee coordinated in this area with the subcommittee reviewing the functions and operations of the Treasurer's Office.

Higher Education: The Subcommittee reviewed the marketing and advertising plan for the 529 college tuition program, and reviewed tuition prepayment plan fee options.

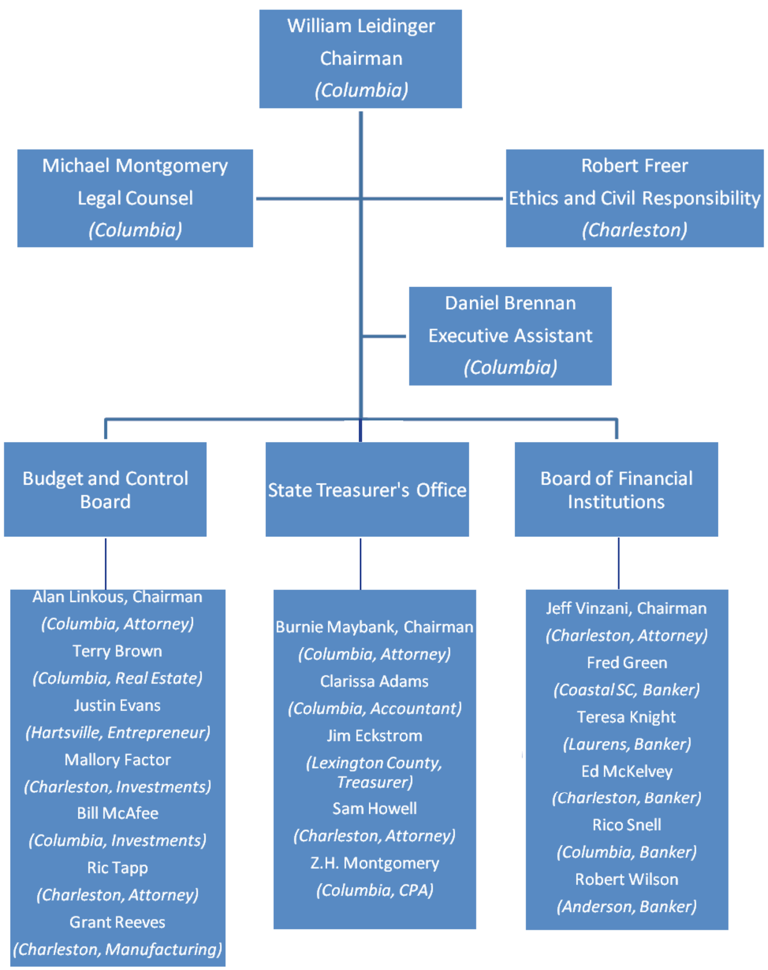
Local Government: The Subcommittee reviewed opportunities to increase communication between the State Treasurer's Office and county and municipal treasurers and officers, as well as ways to conduct training and creating availability for experts in the field.

Board of Financial Institutions Subcommittee

The Board of Financial Institutions Subcommittee focused on the meaningful and material aspects and operations of the State's supervision and regulation of State chartered banks, trust companies, savings banks, and credit unions, and identified opportunities for improving its supervisory and regulatory services and function.

The Subcommittee likewise reviewed the licensing and regulation of consumer finance deferred presentment, check cashing, and mortgage lending companies, and identified opportunities for improving its licensing and regulatory services and function.

Members of the Transition Team



Transition Team Report
Summary of Recommendations

This summary is provided to assist the reader. Readers are encouraged to read the entire Transition Team Report and its detailed recommendations, including related discussion and background information for each specific recommendation, in order to gain a full appreciation of the recommendations.

Summary of Report and Recommendations of the Budget and Control Board Subcommittee

The Loftis Transition Team Budget and Control Board Subcommittee was organized to assist Mr. Loftis in preparing for his duties as a voting member of the South Carolina State Budget and Control Board. The Subcommittee Report is divided into four categories of recommendations, as follows: Pension and OPEB Needs; External Audit; Procurement Procedures; and Fraud, Waste, and Abuse.

Acknowledging that there appears no greater challenge facing the new Treasurer, Section A of the Subcommittee Report focuses on South Carolina's public pension and other post employment benefits (OPEB) funding needs. This section explains the decade-long trend of falling funding levels for the South Carolina Retirement Systems, the State's public pension systems. In it, the Subcommittee recommends both specific and immediate modifications to the State's pension systems. The Subcommittee next recommends an immediate review of our State's pension systems' disclosure practices. This recommendation is put forth in light of anticipated industry and regulatory responses to the nationwide public pension crisis, and the Subcommittee suggests this review could help South Carolina avoid potential liability for deficient disclosure. The Subcommittee next recommends that South Carolina shift away from its traditional defined benefit retirement plan, which represents the State's "default" plan, and position a defined contribution retirement plan structure as the sole option for all new State employees. The Subcommittee further recommends that the Budget and Control Board require a review of the State pension systems' 8.0 percent Actuarial Rate of Return Assumption to determine whether such an assumed rate is reasonably based on market realities. Finally, the Subcommittee recommends the use of existing assets and financial opportunities to bolster the funding level of South Carolina's public pension plans.

Section B of the Subcommittee Report explores our State's unique Budget and Control Board model. This agency possesses the enormous responsibility to provide basic administrative functions necessary for the day-to-day operation of the State of South Carolina and its various other governmental agencies. The Subcommittee Report urges that annual management and financial audits of the Budget and Control Board be performed by an external auditing entity, such as the Legislative Audit Council of the South Carolina General Assembly, in order to establish an independent baseline against which to measure the effectiveness of the organization.

Section C of the Subcommittee Report contains recommendations which highlight specific opportunities to improve present-day procurement procedures administered by the Budget and Control Board with changes to the South Carolina Consolidated Procurement Code, including: interstate cooperative purchasing, acquisition of certain intellectual property rights by the State, South Carolina small business “buy local” measures, and share-in-savings contracts.

Finally, the title of Section D of the Subcommittee Report, “Fraud, Waste, and Abuse,” is a catchall category for the Subcommittee’s specific recommendations for the Treasurer and other members of the Budget and Control Board. These recommendations reveal opportunities to increase the efficiency of State government, enhance accountability by increasing transparency, and, through their implementations, save money for South Carolina taxpayers. The Subcommittee urges the Treasurer to prepare, maintain, and make available to the public, a report which lists and provides detailed information regarding the terms of each of the State’s debt obligations, its agencies, and institutions. The Subcommittee next asserts that corrective actions should be implemented as recommended in the Legislative Audit Council’s report regarding the State’s procurement card (P-Card) program and that on-going, periodic, independent reviews of the State’s P-Card program are required to prevent future fraud and abuse of State resources. The Subcommittee also suggests that the Treasurer’s Office should take the lead role in implementing the recovery audit process required by the 2010–2011 General Appropriations Act, Proviso 89.148, and then manage this process to achieve the maximum benefit for the State.

The Subcommittee Report concludes with general recommendations regarding the utilization of State-owned office facilities by State agencies, and by making specific recommendations regarding the Budget and Control Board’s meeting facilities and the Board’s meeting schedule.

Summary of Report and Recommendations of the State Treasurer’s Office Subcommittee

The Loftis Transition Team Treasury Subcommittee examined and contemplated the use of a small portion of the South Carolina Retirement Systems’ assets to promote economic development in our State, the State’s bond provision, the STO’s depository contract, the STO’s trust functions, SCEIS, the STO’s 529 plans, local treasurers and the Local Government Investment Pool, and independent audits.

With regards to economic development, the Subcommittee recommends dedicating a small percentage (0.5 to 1 percent) of the South Carolina Retirement Systems’ assets to promote economic development in South Carolina.

Concerning the state’s bonds, the Subcommittee recommends that the Treasurer’s Office provide the public considerably more information pertaining to the debt obligations of the State, and that the Treasurer’s Office aggressively pursues the identifications of savings which may be generated from restructured or refunded General Obligation debt arising from historically low long-term interest rates.

With reference to the State’s depository contract, the Subcommittee recommends a thorough review of the State’s banking activity. Through this review, officials should seek to identify opportunities to reduce service charges. They should also consider implementing an account analysis system similar to that developed by the Weiland Financial Group.

Regarding the STO’s trust functions, the Subcommittee recommends that the Treasurer’s Office determine whether indenture trust functions currently performed internally should be outsourced, and that the STO conduct an open procurement for trustee services.

With reference to the South Carolina Enterprise Information System (SCEIS), the Subcommittee recommends the STO should endeavor to fully implement SCEIS by June 2011.

Regarding the State’s 529 plans, the Subcommittee recommends the STO regularly bid out the 529 plans through a request for proposals (RFP) issued by the National Association of State Treasurers (NAST).

Regarding local treasurers and the Local Government Investment Pool (LGIP), the Subcommittee recommends the STO regularly consult with local treasurers about the advantages of the LGIP, assigning specific deputies to a manageable group of counties.

Lastly, the Subcommittee recommends that the Treasurer request a GAAS and Internal Control Audit.

Summary of Report and Recommendations of the Board of Financial Institutions Subcommittee

The Loftis Transition Team Board of Financial Institutions Subcommittee examined the following critical issues: how the State can attract more state-chartered banks and keep existing ones; the Banking Division staffing and revenue needs; the possibility of term limits for members of the Board of Financial Institutions; whether an economic impact study should be completed to determine the impacts of the Taxation Realignment Commission (TRAC) changes on banks; the business relationships of the State with its state-chartered banks and the implementation of the pooling mechanism; whether there is a need to update the technology of the Board of Financial Institutions (BFI); the revenue and fees of the Consumer Finance Division, and its proper regulation of the various consumer finance and mortgage companies; payday lending in the State, and whether it should be further regulated; and effects of the new Federal Consumer Protection aspects of the Dodd-Frank Act, with much attention given to the question of how this legislation will impact the Consumer Finance Division and the State.

With regards to state-chartered banks, the Subcommittee recommends that the BFI become involved at the organizational stage when any new banks are being formed; that the BFI contact federal thrifts and other federal banks headquartered in the State to determine if there is any interest in converting to a state-chartered bank; and that the BFI contact existing state-chartered banks to confirm they are both satisfied and have full knowledge of the benefits of being chartered in our State.

Concerning the Banking Division’s staffing and revenue needs, the Subcommittee recommends that the Treasurer’s Office meet with the Banking Division’s leadership to review its expected revenue, its budget, and its staffing needs and hiring practices.

With regards to term limits for the Board of Financial Institutions, the Subcommittee urges the Treasurer's Office to review the current situation and determine whether there should be term limits imposed on Board membership.

Regarding the TRAC recommendations, the Subcommittee recommends that the Treasurer meet with the necessary stakeholders to determine if it would be feasible to conduct an economic impact study to determine how TRAC will impact banks in the State.

With regards to doing business with state-chartered banks, the Subcommittee recommends that the Treasurer take the lead in both implementing the pooling mechanism and educating state-chartered banks on the various methods of collateralization which could allow them to gain more deposit business from the State.

With reference for the need to update the technology of the BFI, the Subcommittee recommends that the Treasurer seek uniformity with the Federal regulators in the reporting process and determine how best to fund such technology updates.

Concerning the Consumer Finance Division, the Subcommittee recommends that the Treasurer work with the Division to review its current revenue streams, along with its proper implementation of regulation of mortgage companies.

On the payday lending issue, the Subcommittee recommends that the Treasurer initiate conversations with officials from Georgia and North Carolina to develop a better understanding of their positions on this issue. Further examination of other states' experiences this issue will help determine if further regulation in South Carolina is advisable.

Finally, the Subcommittee recommends that the Treasurer encourage the Consumer Finance Division to fully educate its staff on Dodd-Frank-related issues, especially the powers of the Federal Bureau of Consumer Financial Protection.

Budget and Control Board Subcommittee Report

Introduction and Purpose

The Loftis Transition Team Budget and Control Board Subcommittee was organized on August 25, 2010, as one of three subcommittees comprising South Carolina Treasurer-Elect Curtis Loftis' transition team. The State Treasurer, by virtue of his office (ex officio), is one of the five voting members of the South Carolina State Budget and Control Board, which calls itself the Central Administrative Agency for South Carolina State Government. The Budget and Control Board employs more than 1,000 people, and possesses broad statutory authority and powers in administering many aspects of the State's finances, property, personnel, and records, including responsibility for the South Carolina Retirement Systems, approval of State debt issuance, purchasing/procurement on behalf of the State (including real property, motor vehicle fleet, and other products and services), insurance services, asset management, contract administration, and much more. The Subcommittee was organized to assist Mr. Loftis in preparing for his duties as a member of the Budget and Control Board, and make recommendations for immediate action by the Treasurer upon his taking office in January 2011.

Specifically, the Subcommittee's focus areas included the meaningful and material aspects of the South Carolina Retirement Systems' investments, investment management, rates of return on these investments, investment policies, independent/internal auditor, and periodic independent outside review of all aspects of the investment program. The Subcommittee was asked to examine the State's procurement procedures and how to use this process as an economic development tool. The Subcommittee was also asked, along with the Treasury Subcommittee, to consider the use of retirement investment funds and all State financial assets as an economic development tool, and its members studied what other states are doing in this regard. Finally, the Subcommittee was encouraged to investigate and make recommendations with regard to other significant matters approved by the Transition Team upon which the Treasurer could have a positive impact.

It is important to note that, unlike most of the recommendations of the Treasury Subcommittee and Board of Financial Institutions Subcommittee, the recommendations of the Budget and Control Board Subcommittee can only be implemented with the affirmative vote of a majority of the other Members of the Budget and Control Board and, in some cases, upon the passage of legislation. It is the Subcommittee's view that the Treasurer can be most effective showing leadership on these issues through his consensus-building efforts among the Members, and through his work with State legislators.

The Subcommittee has chosen to divide its recommendations into four categories: A) Pension and OPEB Crisis; B) External Audit; C) Procurement Procedures; and D) Fraud, Waste, and Abuse. This report and the recommendations of the Subcommittee are organized in this manner.

A. Pension and OPEB Crisis

A.1. Immediate Changes to Pension Systems

Specific Recommendation: Advocate immediate legislative action that limits prospective pension and OPEB benefits, and implements changes that reduce the unfunded South Carolina Retirement Systems' liability to a funded ratio of 80 percent or greater within five years.

Rationale: There is no greater challenge for the newly-elected Treasurers of each state than reforming state pension plans, particularly as half of these states are likely to exhaust their pension assets in the next decade. According to some accounts, South Carolina will exhaust its pension assets within 10-14 years. Across the nation, state Treasurers are realizing their stewardship of state finances leaves them exposed to unfunded pension liabilities that are complex, difficult to quantify, and quite large. In South Carolina the official estimate of the unfunded pension liability is $12 billion, or approximately a 70 percent funded ratio, and the funding percentage continues to fall each year. The official estimate of the unfunded liability of other post-employment medical benefits (OPEB) is $10 billion, which is essentially a pay-as-you-go system.[1] Paying for these benefits could exceed 30 percent of tax revenues in future years if left unchecked. Independent experts also suggest the liability is greatly understated because of unrealistic discount rates and 30-year amortization rules used in the calculations that push the costs into the future. Meredith Whitney, an analyst who made her name forecasting the banking crisis, believes the states could be the next source of systemic financial risk.[2]

Acknowledging the scope of the problem and committing to a sustainable solution must be a top priority of South Carolina's legislative agenda if the State is to keep its promise to the 522,000 participants in the South Carolina Retirement Systems (SCRS). It will require an honest and stark assessment of the benefits given earlier this decade, and the true cost that future taxpayers face if nothing changes. Likewise, pensioners must face the growing threat of an insolvent plan, or more severe cuts in benefits later. An underfunded pension system means higher contribution rates, less money for services, higher taxes, lower bond ratings, and potentially worse problems down the road. South Carolina's problem is one shared with at least 21 other states that have less than 80 percent of their pension obligations funded, a level suggested by the U.S. Governmental Accounting Office to be "healthy."[3]

Discussion: As recently as 1999, our State's pension plans were fully funded with ratios of 98.9 percent and 97.2 percent for SCRS and Police Officers Retirement System (PORS) plans, respectively. Since then, the amount of unfunded actuarial accrued liability (UAAL) for the state's two largest plans has grown from $232 million to $12 billion, and it continues to grow by about $1 billion each year.[4] It is therefore helpful to understand the events that contributed to this gap so that the right corrective action is prescribed.

The first significant change became effective in July 2000, when eligibility for an unreduced pension under SCRS was reduced from 30 years' service to 28 years' service for 193,000

[1] "A Trillion Dollar Gap," The Pew Center on the States, February 20, 2010.
[2] "A Gold-plated Burden," The Economist, October 16, 2010.
[3] "A Trillion Dollar Gap," The Pew Center on the States, February 20, 2010.
[4] State of South Carolina 2009 Comprehensive Annual Financial Report, Actuarial Section, available at http://www.cg.sc.gov/publications/cafrfy2009.html.

active members in 1999. A deferred retirement option plan (TERI) was also adopted that year. The UAAL increased $2 billion that year, and the funded ratio dropped from 99 percent to 89 percent.

Effective July 2003, actuarial assumptions were changed as a result of a five-year experience study. The net effect of changes to salary rates, retirement rates, disability rates, and mortality rates resulted in the UAAL increasing $1 billion and the funded ratio dropping from 86 percent in 2002 to 83 percent in 2003. Actual experience had been unfavorable as compared to plan assumptions.

In 2004, the South Carolina Retirement Systems reported they could no longer absorb ad hoc Cost of Living Adjustments (COLAs) as early as 2006-07, which led to changes enacted by the General Assembly in 2005.

In 2005, the General Assembly recognized the unfunded liability trend and enacted reforms that included increased member contributions, requiring retired members who return to work to make contributions, and guaranteed a 1 percent COLA. The UAAL increased by $3.4 billion in 2005 and the funded ratio dropped from 80 percent to 72 percent. The unfunded liability grew to $9 billion in just six years.

Effective July 2008, actuarial assumptions were changed once again as a result of a five-year experience study. At the same time, the investment rate of return assumption was changed from 7.25 percent to 8.0 percent and the COLA was amended, in accordance with state law, by increasing the limit from 1 percent to 2 percent, creating over $2.6 billion of net new liabilities. One final act of financial engineering by the Budget and Control Board was approving a revised method to determine asset values that effectively uses a 10-year average to smooth volatility in the market, while 87 percent of similar plans have a five-year or less smoothing period and only 3 percent use ten years or longer.[5] This allows the plan to defer recognizing asset losses from the 2008 recession, and maintain the appearance of level contribution. Because only a portion of the 2008 losses are recognized each year, funding levels will continue to be negatively affected for the next several years even at an assumed 8.0 percent return.

SCRS provides a breakdown of the UAAL changes since 1999 and resulting cost as follows:

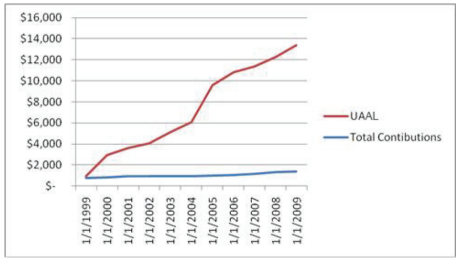
- TERI and 28 Year Retirement – $1.8 billion;
- Automatic COLA's – $4.9 billion;
- Ad-hoc COLAs – $2.3 billion;
- Actuarial assumption changes – $1.2 billion;
- Experience – $4.5 billion; and
- An offset gain of $3 billion for the change to an 8 percent rate of return.[6]

It is evident that increased benefits are a main reason for the growth in the UAAL. Unfavorable investment performance in recent years, however, has failed to provide the funding expected to pay for the added benefits. The actuarial assumptions that reflect salary rates, disability rates, retirement rates, and mortality rates were changed to recognize the actual ex-

[5] "Long-term Liability Challenges for South Carolina Taxpayers," by Richard C. Dreyfuss, in cooperation with The South Carolina Policy Council, April, 2009.
[6] "South Carolina Retirement Systems Update," by Peggy G. Boykin, CPA, September 1, 2010.

perience, the cost of which was greater than expected - further widening the gap. Changing the rate of return assumption to 8.0 percent, and other actuarial changes, temporarily made it appear the State did not have to increase its funding and kept the UAAL within the require 30-year amortization period, but just barely.

The net impact of these events on the UAAL can be illustrated graphically as follows:



The harshness of hindsight should be enough inspiration to reverse many of the changes of the past decade and make recommendations that are sustainable and fair. Learning from other states and applying some of the best practices to South Carolina's situation is the most sensible approach for moving forward.

Specific changes that should be seriously considered include:

- Increase eligibility for an unreduced retirement annuity under SCRS, based on an extension of the anniversary for eligibility from 28 years of service to 30 years of service, and establish a minimum age for retirement. Pension reform nationally and internationally has focused on raising the retirement ages as the logical offset for longer life spans which result in more expensive pensions. The retirement age for new employees should be increased if a defined benefit plan is going to be supported in the future. One estimate indicates that raising the retirement age by one year would trim costs by 2 to 4 percent.
- Limit the amount of cost of living increases to current and future retirees. Lawmakers in Colorado, Minnesota, and South Dakota voted earlier this year to limit COLAs to current and future employees. Expectedly, a legal challenge was filed and many states are closely watching the outcome. The lawmakers are hoping the courts will agree that the current financial turmoil the states face will imperil public pensions, which calls for a new approach. The argument is that if legislatures are not permitted to cut retirement costs now, the ability of the pension systems to pay future benefits is jeopardized. There are numerous examples of private pension plans that went bust, including United Airlines, and General Motors.[7] If South Carolina is the guarantor of pension promises and it also has exhausted its resources to fund contributions,

[7] "States Test Whether Public Pension Benefits Given Can Be Taken Away," by Stephen C. Fehr, stateline.org, August 10, 2010.

then default becomes a very real risk. California and New Jersey also favor scaling back benefits already promised. A 1 percentage point reduction in the annual COLA could reduce the liability by 9 to 11 percent.
- Close the TERI program, and wind it down. Participation has been declining and the program prevents other active employees from taking those jobs. The program appears to address the problem of generous early retirement options by creating counter incentives to stay at work. The assets held in trust for future payment of accrued TERI benefits decreased from $552 million to $431 million in fiscal year 2009, with members active in the program declining from 7,899 to 6,571 at fiscal year-end 2009. The independent auditor's report for June 2009 states there are a large number of retirees who continue to work for covered employers after retirement or after ending TERI participation.[8] Once an employee retires, there should be a policy that prevents employees from coming back to work and "double dipping" by collecting a pension and working for a new salary. New Mexico lawmakers, for example, say they will approve a bill preventing state workers from retiring with a monthly check and going right back on state payroll. While not a major source of abuse, Utah's Auditor found this practice would cost his state $879 million over the next decade if not changed.[9]
- Eliminate the practice of "spiking" final salary. For non-vested employees, base retirement income on salary from the last five years. This will prevent the current practice of giving large raises and promotions to employees at the end of employment, as a way of increasing benefits. Discontinue the practice of applying unused vacation pay when calculating retirement pay. Discontinue the practice of adding unused sick pay to length of service.
- Increase employee and employer contributions to start paying down the unfunded liability. Members of SCRS and PORS contribute 6.5 percent to the plan, whereas employer contributions are established by the Budget and Control Board. The employer's 9.385 percent contribution rate effective July 1, 2011 and 9.53 percent rate effective July 1, 2012 may be responsible contribution levels while the economy rebuilds from the recession, but there must be a committed effort to phase-in higher contribution rates beginning with 2013 to offset lower investment income and reduce the unfunded liability.
- Lengthen the period for full vesting eligibility in the plan.
- Advocate the sale, at nominal cost to SCRS, and lease-back at market rates, of State owned office buildings and other income-producing properties to bolster the plan asset value and revenue stream.
- Advocate a special appropriation from the General Assembly to pay down the unfunded liability over a 5-year period, to maintain a funding ratio of 80 percent.
- Advocate a sustainable funding mechanism for OPEB benefits with greater prefunding rather than a "pay-as-you-go" approach.

South Carolina's growing unfunded pension liability trend can be compared to a rising needle on an engine's temperature gauge. We all know that the problem can go on for a while before catastrophe occurs, but at some point the crisis manifests. In this circumstance, the sheer size of the growing liability is such that failing to address the problem threatens the overall financial stability of South Carolina, as well as the retirement needs of hundreds of

[8] State of South Carolina 2009 Comprehensive Annual Financial Report, Actuarial Section, available at http://www.cg.sc.gov/publications/cafrfy2009.html.
[9] "States Tackling Public Employee Retirement Benefits in 2010," by Stephen C. Fehr, stateline.org February 19, 2010.

thousands of our State's retirees.

A.2. Immediate Review of Pension Systems Disclosure Practices

Specific Recommendation: Implement an immediate review of the disclosure materials produced by the State in bond offering documents, assessing their quality, accuracy, and completeness with regard to the description of the State's obligations and financial liabilities related to the South Carolina Retirement Systems.

Specific Recommendation: Develop disclosure procedures and best practices in light of anticipated regulatory and industry changes.

Rationale: Changes in industry standards and regulatory requirements, as well as the interest of greater transparency, compel a top-down review of what South Carolina is telling its bond investors, and how it goes about the process of preparing that disclosure.

Discussion: The pension funding crisis is not limited to South Carolina. In fact, the level of unfunded pension liability has reached a crisis point in many states, and, for some, much more so than the Palmetto State. These looming financial crises will threaten the overall financial stability of some states in the current economic environment. This growing problem has become more of the norm than the exception. Still, there is little comfort to be had in the fact that South Carolina is not alone, particularly as one unpleasant consequence of this fiscal epidemic will be a wave of responsive regulatory and financial industry action. Three important forces are now converging. Each of them could perpetuate a dramatic shift in public perceptions about the underfunded pension liability problem, and as they converge during the next few years these forces will radically change the public pension landscape. They are:

1) New, unprecedented securities fraud enforcement actions being brought by the U.S. Securities and Exchange Commission (SEC);

2) Significantly-revised accounting standards being promulgated by the Government Accounting Standards Board (GASB); and

3) Focused attention to pension-related credit weakness being directed by the national credit rating agencies.

These changes are happening now, and will take place whether or not the State of South Carolina takes action to improve the level of actuarial funding for the South Carolina Retirement Systems. It would be prudent for South Carolina to take immediate steps to meet this coming challenge.

Criminal and Civil Liability for Deficient Disclosure: In October,[10] as part of its response to

[10] On September 30, 2010, in prepared testimony presented to the U.S. Senate Banking Committee, U.S. Securities and Exchange Commission Chairman Mary Schapiro announced the SEC's plans to launch a new office of municipal securities and public pension fund enforcement by the end of October.

the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC launched a new office of municipal securities and public pension fund enforcement. From this office, it is anticipated the SEC will launch a vigorous regulatory response to address the problem of underfunded public pension liabilities. The SEC's strategy, which has already been put into action, is to hold individuals responsible for incomplete, misleading, or poor quality disclosure regarding public pension systems in offering documents for the sale of securities. When used to sell securities, such defective disclosure violates the U.S. securities laws[11] in the form of securities fraud committed against the purchasers of such securities. Although the antifraud laws are not new, the SEC's specific focus on the issue of adequate disclosure with regard to pension liability is, and it is in direct response to the growth of enormous unfunded liabilities. This new focus will have far-reaching consequences since each time a state or other governmental entity with an underfunded pension plan tries to access the credit markets, it must prepare and distribute an offering document related to the transaction. The likely outcome of the SEC's campaign, and also its goal, is a much more thorough, complete, and honest explanation of the issues and problems associated with public pension plans. As part of this new focus the SEC has embarked on an educational campaign for securities industries professionals and the general public,[12] including tough talk on disclosure practices.[13]

But in addition to tough talk about the coming crack-down on pension system disclosure, there is already ample evidence the SEC will follow through. Two recent examples are worth noting. First, in August 2010, the SEC filed a lawsuit against the State of New Jersey[14] in which the agency charged New Jersey with securities fraud, a criminal offense, by failing to disclose to bond investors that it was underfunding its two largest pension plans. The case marked the first time a state has ever been charged with securities fraud. The SEC actually used both the official statements for the state's bond offerings and the New Jersey State Treasurer's Annual Reports made for continuing disclosure purposes as the sources of the alleged fraudulent representations. Had the case not been settled,[15] someone in the New Jersey State Treasurer's Office would likely have faced jail time.

Secondly, at the end of October 2010, the SEC again broke new ground when it secured financial penalties totaling $80,000 against four individual city officials[16] (former City Manager, City Auditor and Comptroller, Deputy City Manager of Finance, and City Treasurer) of

[11] Namely, Section 17 of the Securities Act of 1933, and Section 10 of the Securities Exchange Act of 1934 (the "antifraud provisions"), and SEC Rule 10b-5, promulgated thereunder, which states in pertinent part, "It shall be unlawful for any person . . . to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security."

[12] On September 21, 2010, in San Francisco, California, the SEC conducted the first in a series of planned "Field Hearings" entitled, "The State of the Municipal Securities Market." The hearing panels were focused largely on disclosure, and included panels entitled, "Selected Disclosure Practices: Transparency and Presentation," and "Disclosure of Certain Liabilities," which focused on disclosure practices with regard to public pensions and retiree health plans. See Appendix page 115 for the introductory speech of SEC Commissioner Elisse B. Walter.

[13] "SEC Stresses Disclosure Procedures," by Andrew Ackerman, The Bond Buyer, Monday, November 1, 2010 ("Issuers that want to avoid disclosure mishaps – and possible federal enforcement action – should develop and closely follow policies as well as procedures that lay out who must review and sign off on their disclosure documents, Securities and Exchange Commission officials are stressing.")

[14] The lawsuit was subsequently settled by consent Order Instituting Cease-and-Desist Proceedings, attached hereto on page 122.

[15] As a mitigating factor in its decision to settle the charges by consent Order, the SEC highlighted the subsequent remedial measures taken by the State of New Jersey to improve disclosure practices, stating, "With the assistance of disclosure counsel, the State has reviewed, evaluated, and enhanced its disclosure process by instituting formal, written policies and procedures." See Order at paragraph 45.

[16] The consent agreements which settled the case prohibited the individuals from seeking any form of reimbursement, including compensation from employers or insurance.

the City of San Diego, California, for securities fraud violations stemming from pension disclosure. The SEC charges against these individuals alleged they knew San Diego had been intentionally underfunding its pension obligations to increase benefits while deferring costs. Concurrently, the SEC alleged these officials were aware the city would encounter severe difficulty funding its future retirement obligations without new revenues or cuts to employee benefits or city services. The case marks the first time the SEC has secured civil financial penalties against individual city officials in a municipal bond fraud case.

It is likely the SEC will bring about rapid change to pension plan disclosure practices by holding individuals liable for poor disclosure. It is worth noting, however, that in addition to this new level of regulatory scrutiny of pension plan disclosure, some help is also on the way. The National Association of Bond Lawyers is currently in the process of drafting model pension plan disclosure guidance,[17] but it is not certain when that guidance will be available.

What kind of inconsistencies may lurk in South Carolina's State Pension Systems disclosure, and what formal process is in place to ensure the best possible disclosure regarding the pension plans is being made in South Carolina's offering documents? Can investors in South Carolina's bonds be certain they are getting the whole story, and are those employees of the Treasurer's Office, Comptroller General's Office, and Budget and Control Board who are responsible for the disclosure confident they are not risking criminal and civil liability in their current approach to preparing the disclosure?

> *Changing the Way Liabilities Are Reported:* The Government Accounting Standards Board (GASB) is an independent, private-sector, not-for-profit organization that establishes and improves standards of financial accounting and reporting for U.S. state and local governments.[18] GASB's accounting and reporting standards are almost universally adhered to by large governmental entities in the U.S., including states. But GASB's valuation and accounting standards for public pension plans have been criticized as very vague and sometimes arbitrary[19] because of, among other things, the wide variety of permissible cost accounting methods, the ability to choose amortization and smoothing periods, and the ability to change methodologies from year to year. This variety of accounting options, and the ability to change from one to another, makes understanding the financial "health" of a pension plan difficult, makes comparing one plan to another nearly impossible, and lends itself to abuse. Now, in response to industry-wide pressure, GASB is moving rapidly through its processes to streamline its standards for public pension plan accounting. The move will bring much-needed transparency and consistency to this area of government accounting, but is also likely to have the effect of "pulling back the curtain" on the states' pension problems.

Although GASB's changes to public pension accounting standards have not yet been finally determined, there are indications that they will include: a move to make the unfunded portion of a plan a reportable liability on the balance sheet, rather than a note to the financial statement; a move to require more conservative (lower) discount rates with regard to the calculation of expected payments of benefits (significantly increasing the present value of the

[17] The initiative to draft model pension plan disclosure guidance was announced at the National Association of Bond Lawyers' Bond Lawyer Workshop in San Antonio, Texas, October 27-29, 2010.
[18] "GASB at a Glance," http://gasb.org.
[19] See, for example, 2010 State Pension Funding Review, by Loop Capital Markets, October 22, 2010, at p.1, attached on page 138.

plan's future payments, and the size of the unfunded liability); and a move to decrease the period over which retroactive plan benefits are amortized (reflected in the actuarial calculations as liabilities that occur sooner, and therefore inflate the unfunded liability).[20] All of the contemplated changes are a move toward more conservative and consistent accounting practices, and it is fair to say that the result will reflect a new accounting "reality" which shows the pension plans to have greater financial problems than before the changes were implemented. This is almost certainly bad news for South Carolina's overall financial picture, but just how bad is anyone's guess.

> *Pension Liabilities are "Increasingly Important" to Rating Agencies:* There are three major credit rating agencies for state and municipal government credits in the United States. These agencies review the credit quality of a state or other government entity, and issue a rating (based on an applicable scale) that indicates the agency's overall assessment of the credit risk. Although they use similar criteria to make their evaluations, each rating agency employs a slightly different methodology based upon its view of the appropriate credit criteria and appropriate weight to be given to each criterion in the analysis. The ratings are then used by investors, lenders, investment bankers, other government entities, bond insurers, credit enhancement providers, and other participants in the governmental finance industry to assess the financial risk of doing business with the rated entity and to set the price (normally in the form of an interest rate) for bonds, loans, and other financial products.

The rating agencies have been criticized for failing to forewarn the financial sector about the present financial crisis, and have even been accused of failing to issue such warnings because of conflicts of interest. Whether as a response to the criticism or simply out of a legitimate growing concern about the size of the states' unfunded pension liabilities, the rating agencies now appear poised to direct a very critical eye toward the problem. As one recent report stated, "While state and local unfunded pension levels have been part of the [Moody's Investors Service] rating methodology 'for quite some time,' they are playing an increasingly important role as the liabilities have soared in size."[21] While that statement hardly inspires panic, the rating agencies are loath to sound alarmist. Yet proof of their resolve can be found in their recent ratings actions and stated rationale for those actions. After downgrading the credit rating of the State of Illinois in June 2010, based in part on the size of the state's pension obligations, on September 24, 2010, Moody's Ratings Service again revised the outlook for Illinois to negative (anticipating a future downgrade) from stable, due to "escalating strains from massive pension obligations."[22] Likewise, on September 23, 2010, Moody's took similar action against the State of New Jersey, changing the outlook to negative from stable, due largely to the same stated concerns about unfunded retirement costs.[23] In the same period, Moody's has placed a number of large municipalities on negative watch, or downgraded them, based upon the same concerns.

Readers should be slow to embrace a complete comparison of South Carolina's financial condition, which is relatively strong compared to many states, to states like Illinois and New Jersey, which have a reputation for constant financial problems. But in this case, it is South Carolina's triple-A credit rating that is at risk, and our State's most recent credit reports,

[20] "GASB to Hold Pension Disclosure Hearings," by Andrew Ackerman, The Bond Buyer, October 7, 2010.
[21] "Zehner: Don't Bury Key Info – Warns Against Murky Disclosure," by Andrew Ackerman, The Bond Buyer, September 16, 2010 (quoting Robert Kurtter, Managing Director for State and Regional Ratings, Moody's Investors Service).
[22] "Moody's Changes Illinois' Outlook to Negative," by Yvette Shields, The Bond Buyer, September 24, 2010.
[23] "Moody's Drops New Jersey Outlook to Negative from Stable," by Michelle Kaske, The Bond Buyer, September 23, 2010.

dated March 19, 2010, from both Moody's and Standard and Poor's, include similarly ominous language regarding our unfunded pension liabilities.[24]

So the SEC and GASB are about to force an unvarnished, more conservative "story" to be told about the states' unfunded public pension plan liabilities, and the rating agencies are determined to punish the offending states accordingly. The result is likely to be a much more somber view of the South Carolina Retirement Systems, and South Carolina's general financial condition. This could precipitate a ratings downgrade for South Carolina (especially if combined with other bad financial news, like the end of the federal stimulus money disbursements to the State, lingering high unemployment, etc.). This ratings downgrade would have a significant, measurable, long-term cost in the form of higher interest rates for State borrowing. And perhaps less obviously, it would adversely impact the cost of borrowing for the towns, cities, counties, and other local governments in the State.[25]

The changes coming to the pension landscape are considerable. Moreover, these changes should prompt a vigorous effort to anticipate and mitigate the detrimental impacts they could have on South Carolina's financial condition.

A.3. Defined Contribution Retirement Plan as Sole Option for New Employees

Specific Recommendation: Close the defined benefit pension plan to new entries and only offer the defined contribution plan for new employees. Consider conversion of existing defined benefit plan to a hybrid option such as a cash balance plan.

Rationale: There is a growing sense that the compensation structure for state employees, with guaranteed pensions for life, are out of touch with today's economic realities. Defined contribution plans are the norm for most taxpayers who are fortunate enough to have a retirement plan, and South Carolina's financial condition compels evaluation of the question: Is it time to close the defined benefit plan to new hires?

Discussion: There are two basic forms of pension plans: The defined benefit (DB) plan and the defined contribution (DC) plan. The defined benefit plan pays a level, predetermined benefit to its pensioners from the point of their retirement until death, based on salary, years of service, and other factors from the period of employment. The SCRS plans, and many other public pension plans, are DB plans. The defined contribution plan is based on an account established for each participant, where the pension benefits eventually paid from the account are a function of the amount of money paid into the account during the period of employment and the investments associated with that account. Most private sector retirement plans are DC plans.

In fact, DB pension plans have essentially vanished in the private sector, and the actuarial

[24] The Moody's report states, "Low Pension Funding Levels" under the section entitled, "Credit Challenges" at p.2. The S&P report states, "Offsetting factors in our opinion include . . . a sizable unfunded pension liability and other post employment benefits" at p.2.
[25] See, for example, "Paying a Penalty for Illinois – Chicago Seeks to Ease Investor Fears," by Yvette Shields, The Bond Buyer, November 3, 2010.

math of what it really costs to fund a state pension is largely misunderstood and understated. Since the 1980's, private sector workers' participation in DB plans dropped from 60 percent to 10 percent by 2006, while DC plans have increased from 17 percent in 1980 to 65 percent by 2006.[26] This represents a total shift in individual responsibility and market risk in the last 26 years. According to Tower Watson, a global consulting firm, only 17 Fortune 100 companies still offer a DB plan, down from 68 percent in 1998 – while DC plans have grown from only 11 plans at Fortune 100 companies in 1985, to 83 percent today.[27]

This shift is a natural evolution of demographics, mobility of new generations and individual responsibility and independence over retirement decisions. The old notion of cradle-to-grave service at one employer is obsolete. Whether induced by layoffs and downsizing, or pursuing career advancement, changing jobs is normal in today's times. Given the gap in retirement benefits for job-hoppers at retirement, the traditional DB plans designed for career service with one employer were no longer attractive to the suddenly mobile workforce. Boomers set to retire in the next decade will stress public pension plans in unprecedented ways. Standard and Poor's Global Aging 2010: An Irreversible Truth defines the problem in stark terms: "No other force is likely to shape the future of national economic health, public finances and policy making as the irreversible rate at which the world's population is aging." The report predicts, "Population aging will lead to profound changes in economic growth prospects for countries around the world, alongside heightened budgetary pressures from greater age-related spending needs. In the absence of appropriate budgetary adjustment, additional reforms to pension and health-care systems, or structural measures to improve sovereign's growth potential, our projections show future fiscal burden will increase significantly across the board."[28] Contribution rates over 30 percent within 14 years for South Carolina, for example, are projected if there are no changes to existing SCRS plan structure.

The traditional argument that the State needs to offer a generous pension to offset lower pay and recruit employees does not resonate with most taxpayers anymore. Most citizens are rebuilding their own portfolios and will increasingly loath higher taxes so that public employees can have a guaranteed pension. As times change so should outdated compensation models such as state guaranteed pensions, and just as the private sector has benefited from the mobility of its workforce, so will the government sector. The concern over a lost pension should not be the reason successful State employees cling to positions they have outgrown, nor should it be the reason managers hesitate to fire employees that are no longer productive.

Historically there have been two divergent views on the best type of pension scheme for government workers. It is well observed and accepted that private industry has migrated away from DB plans because they are cumbersome to administer and retain market risk for the plan's provider. Now a wave of reform-minded citizens call for reducing the role of state and local government in providing DB pension benefits and switching state pension plans to defined contribution models. Politically, this has been primarily a Republican Party position with Democratic Party opponents preferring to keep the current system with tweaks to trimming cost, increasing contributions and changing the retirement age and COLA adjustments. The contrast reflects a fundamental political reality that public employee unions want to pre-

[26] "The American Retirement Security Crisis: An Introduction," by Lauren Damme , New America Foundation, May 27, 2010.
[27] "Only 17 Fortune 100 Companies Still Offer Defined Benefit Retirement Plans", by Tim Cavanaugh, reason.com, August 20, 2010.
[28] "Global Aging 2010: An Irreversible Truth," Standard & Poor's, October 7, 2010.

serve DB plans and usually provide support for Democrats.

Changes should be transitioned so all members in the plan are treated fairly and with recognition of accrued benefits under existing rules, but with the understanding that prospective changes are necessary and within the authority of the State. It is just as important that we keep our promises to those who have served South Carolina as it is that we restore the financial health of our State, but it is imperative that we move to a financially-sustainable retirement plan model.

There is a growing perception the State should not be in the pension business, as this is a service that is best provided by the private sector. The popular argument that DB plans provide the same retirement income for less cost does not fully tell the story. A study by the Center for Retirement Research at Boston College finds DB plans outperform DC plans by only 1 percent.[29] The small gain by DB plans is primarily due to their size and longer investment horizon. This small advantage is far outweighed by advantages of a DC plan. Employees should be able to leave State jobs without losing accrued benefits as is the case with DB plans. A DC plan is portable when a person changes jobs, allowing the assets and liabilities to follow the person. This is the best practice adopted by most private companies to manage funding contributions and reduce liabilities.

The most persuasive point for closing the DB plan is its structural flaw that allows lawmakers to make promises today about benefits that have to be paid in the future. The incentive to give pension benefits instead of cash compensation is a clever way to push cost into the future, and because the actuarial math is complicated and subjective, it is difficult for legislators and pension experts to agree on the real cost. "This accounting suggests that government can provide pension benefits at half the cost of a private-sector fund," says Andrew Biggs of the American Enterprise Institute, a conservative think-tank.[30] It is interesting that SCRS states that, "SCRS is financially and actuarially sound, and that there is a current funding mechanism in place to pay off the UAAL in 30 years if all actuarial assumptions are met,"[31] and yet the funding ratio has dropped consecutively for the last 10 years as a result of not adequately funding promised benefits. By changing actuarial assumptions, contributions have been kept relatively low and the burden has been shifted to future taxpayers. This actuarial affect of shifting the financial burden into the future has been coined "generational theft" by Pennsylvania State Representative Sam Rohrer.

More Sustainable Structures: Four states and the District of Columbia have adopted DC plans, including Alaska in 2005, D.C. in 1987, Michigan in 1997, Nebraska in 1967, and West Virginia in 1991. Utah is closing its DB plan to new hires next June. Other states including Colorado, Florida, Georgia, Montana, North Dakota, and Ohio have created optional DC plans. Florida, Georgia, Indiana, Ohio, Oregon, and Washington have created what is known as hybrid plans over the last 10 years.[32] In Michigan and Utah, new state workers will get a combination of DC plan and DB plan that shifts more responsibility for funding the benefits and investment risk to employees. This is a trend that is growing and should be

[29] "Investment Returns: Defined Benefit vs. 401(k) Plans," by Alicia Munnell, Mauricio Soto, Jerilyn Libby, and John Prinzivalli, Center for Retirement Research at Boston College, September, 2006.
[30] "A Gold-plated Burden," The Economist, October 16, 2010.
[31] "South Carolina Retirement Systems Update," by Peggy G. Boykin, CPA, September 1, 2010.
[32] "2010 State Pension Funding Review," by Ann Kibler, Tiffany Glover, and Chris Mier of Loop Capital Markets, October 22, 2010.

seriously considered as a way to significantly reduce future costs.[33]

Conversion could be employee choice, giving employees a choice between the old plan and the new plan. The employer still has the investment risk because the company was contributing to the hybrid plans, and they were "defined benefit" because they had to pay out these promised accounts with an option for an annuity at retirement. The fundamental concept of a secure retirement remains, where the employer is taking the investment risk coupled with the option to pool the employees' longevity risks through the payment of annuity benefits. The employer can limit market risk by purchasing an annuity and have an insurance company cover the risk.

Additionally the hybrid plan is portable when an employee chooses to change jobs by simply taking the accrued benefit at termination as a lump sum and rolling it over into the new employer's 401(k) plan or an IRA account.

Another option is known as a Pension Equity Plan (PEP) where the benefit is paid as a lump sum based on a percentage of final average pay. Each year employees would earn a certain percentage of final average pay, ultimately payable as a lump sum rather than as an annuity. Unlike a cash balance plan which is an account-based, indexed career average plan, a PEP plan was truly based on final average pay.

Current federal law protects benefits earned at the time of a conversion. Future hybrid plan conversions would have to satisfy one of three requirements under new rules proposed by Congress, known as the HELP Substitute, that would:

- Prohibit wear-away of normal and early retirement benefits and offer specified transition benefits (benefits for all participants at least as great as under the prior formula for five years or choice or "greater of" for those at least age 40 whose age and service combined is at least 55);
- Provide to all participants the choice between the prior and new formula or the greater of the benefits under the prior or new formulas; or
- Provide additional pay credits or opening account balance amounts substantially equivalent to the benefits under the first and second requirements.

These guidelines and related IRS regulations have established ground rules for converting traditional defined benefit plans to hybrid DB plans and how to treat accrued benefits. The new rules clarify the terminology, protect earned benefits at the time of conversion and address age discrimination issues that stalled earlier conversions.

Results/Benefits: Conversion to hybrid defined benefit plans should be seriously considered as an option for restructuring the SCRS pension plans. Vested employees would be

[33] Policy makers looking for middle ground in the debate between differing views may want to consider hybrid plans that are defined benefit plans with an individual account feature that resembles a defined contribution plan. A hybrid defined pension plan is generally a DB plan where the accumulated benefit of the employee is expressed as the balance of a hypothetical individual account or as the current value of the accumulated percentage of an employee's final average salary. The primary distinction is that employees earn pay and interest credits evenly over their careers that are determined in hypothetical individual account balances. The balance at retirement is used to purchase an annuity or provide a lump-sum distribution. The state employer is still responsible for the investment risk while the employee is guaranteed a specific annuity on retirement. However, that is where things change, once an employee retires, the state's liability is locked-in either through an annuity, as covered in a large traditional DB plan, or the plan could purchase an annuity and have an insurance company cover the risk. The accounting is less confusing and employees earn accruals evenly. Employees near retirement age could be "grandfathered" to provide guaranteed annuity benefits.

protected with existing pension benefits whereas non-vested employees would be given reasonable options to encourage conversion. The adoption of cash balance actuarial math will allow lawmakers and policy leaders to calculate liabilities more objectively. The result should be sensible reforms to benefits based on what is affordable, contribution rates that are sustainable over the long-term, and liabilities that are easily calculated.

A.4. Review Actuarial Rate of Return Assumption

Specific Recommendation: That the Budget and Control Board, as part of its oversight function of the South Carolina Investment Commission, require a review and report by that body regarding the appropriate actuarial rate of return assumption for the SCRS pension plans.

Rationale: In June of 2008, at the peak of the last economic cycle, the South Carolina Investment Commission (Investment Commission) voted to raise the assumed actuarial rate of investment return (Assumed Rate) on the SCRS plans' assets to 8.0 percent from the historical, more conservative assumption of 7.25 percent. Since that time, our economy has reversed course in an unprecedented way, and investment values and returns in nearly all sectors have plummeted. The higher Assumed Rate now seems unrealistic, and many large public pension plans have now revised their Assumed Rates downward to reflect this unpleasant reality. Since the Assumed Rate drives many important policy decisions about the pension plans, it is critical that South Carolina's rate assumption is realistic.

Discussion: At the time when the Assumed Rate was raised to 8.0 percent, our economy was at the peak of an unprecedented expansion, and investment yields had consistently exceeded expectations for a decade. Those conditions created a seductive atmosphere in which even the most seasoned financial professionals were tempted to ignore the other part of the economic cycle that inevitably ensues – the correction. This temptation was especially strong in light of the appealing affect on the SCRS pension plans' unfunded accrued actuarial liability (UAAL) of raising the Assumed Rate, which was to immediately make a large portion of the UAAL disappear. And had the economy continued on its upward trend, that higher Assumed Rate might have been reasonable. Unfortunately, however, the economic downturn that has followed the last decade's economic expansion has also proven to be of historic proportions and almost certainly makes an 8.0 percent Assumed Rate unrealistic.

Higher Assumed Rate Means Greater Risk: But the 8.0 percent Assumed Rate not only understates the UAAL, it also creates greater risk for the SCRS pension plans. An increase in assumed rates of return means the pension plans must also take on greater risks (risk and return are linear in terms of their relative increases) in order to achieve those returns. In other words, the pension plans must take on additional investment risks at least as great as the expected increase in returns. These risks mean that the likelihood of downside exposure, and thus plan underperformance and underfunding, actually increases as the plan strives for the additional returns that supposedly will make up the gap in the current plan funding.

According to a presentation made by the South Carolina Retirement Systems, 48 percent of all plan funding is associated with the investment performance of the plan's investments while 22 percent comes from employee contributions. With this high level of pressure to

earn returns to keep the plan solvent, it is highly likely that the plan will continue to take higher levels of risk than would otherwise be prudent.

The risks associated with the drive for greater return are illustrated in the recent proposal to form a state-owned private equity investment company to manage SCRS pension funds, which was defeated by vote of the Budget and Control Board at its September 29, 2010, meeting. Under this proposal, the new company (NewCo) would have received 24 percent of SCRS funds, or approximately $5.8 billion, for investment in equity positions in emerging companies in pursuit of greater yield on pension investments through cost savings and the opportunity for higher returns.[34] The complicated investment vehicle would have required an enormous fixed investment in a highly-specialized staff of investment managers, and would have resulted in nearly a quarter of the State's pension investments in relatively illiquid investments that are difficult to value. Cost savings and higher investment yields would have been uncertain, and transparency with regard to the SCRS plans' investments would surely have suffered.

There are no recorded returns for the investments of SCRS plan assets already made into similar private investments. In fact, the Commission's 2009 report states that it does not record the investment returns for those types of investments in reports because the valuations on those investments can only be understood at exit. With no way to understand the returns South Carolina is getting on these alternative investments, it is virtually impossible to understand whether we are getting any closer to the Assumed Rate and a reduced UAAL. Likewise, although the thought of the pension system making direct investments into South Carolina based companies is attractive politically, there are significant risks in a geographical/market concentration of investments in any investment portfolio. There are also additional risks to private equity investments, generally, that are not found in other, more traditional pension fund investments.

Finally, if there is a significant increase in direct private equity investments (as proposed in the NewCo plan), it significantly limits our options on pension reform since the largest portion of the plan assets will be tied up in relatively illiquid investments for an inestimable period of time.

South Carolina Was Adding Risk While Other Retirement Plans Were Reducing Risk: Most private industry plans have terminated in the last 15 years, meaning they have closed to new participants. Those that remain in place have significantly reduced investment risks by limiting exposure to equity investments. In fact, according to The Wall Street Journal:

> *"Boeing Co. began de-emphasizing stocks in late 2006. Its pension plan had been hurt by the crushing 2000-2002 bear market. During the bull market that followed, Boeing decided it needed to make its holdings less volatile.*
>
> *'In the past four or five years it dawned on us that it would be better to find a different*

[34] It was also discussed in the September 29, 2010, Budget and Control Board meeting by one of the Investment Commission members that the "NewCo" idea originated as a concept to allow for Investment Commission employees to own a stake in the company and receive higher compensation as a result. The legality of this concept is questionable, however, as Code of Laws of South Carolina 1976 Annotated, as amended, §§ 8-13-760 states, ". . . it is a breach of ethical standards for a public official, public member, or public employee who is participating directly in procurements, . . . to resign and accept employment with a person contracting with the governmental body if the contract falls or would fall under the public official's, public member's, or public employee's responsibilities."

way,' said a Boeing spokesman, Todd Blecher. 'We wanted to bring more stability to the assets.'

At the end of last year, Boeing cut the plan's stock holdings to 34% of assets, from 60% in 2004."[35]

At the same time that Boeing was cutting its exposure to riskier assets, the South Carolina Retirement Systems were moving toward greater risks by increasing exposure to higher risk assets and increasing the expected return for the plan. Even if there are increases in returns, they will not be great enough to "catch up" the previously lost ground represented by current liabilities given the need to provide funding for the future average investment returns required for plan distributions.

Excessively High Assumed Rate Creates the Wrong Incentives for Investment Managers: The Investment Commission provides compensation incentives for the investment management team of the SCRS for the performance of the plans' investments. These incentives are based on performance above market rates of return in each period.

In investment management, tying incentives purely to outperforming a relative market index is dangerous for two reasons:

1) It creates an incentive to take on additional risk; and
2) It fails to align the objectives of the plan participants with those of the investment managers.

When managers receive their maximum incentive compensation for achieving a return that is better than the market index by which they are measured, but fail to achieve the plan's actuarially required rate of return, they have been paid for performance deemed to be superior yet without achieving the plan's objectives. The managers win and the State employees and taxpayers lose in this scenario.

Results/Benefits: It is impossible to estimate the savings to the State that are possible if these recommendations are implemented or, conversely, the cost to the State for failing to do so. The unfunded pension liability problem is one of the largest financial issues South Carolina has ever faced – quite possibly the largest – and it is not unrealistic to estimate the potential savings, over time, in the tens of billions of dollars.

A.5. Use Existing State Assets and Opportunities to Bolster Pension Plans

Specific Recommendation: That the Budget and Control Board examine the State's real property assets and provide a detailed proposal as to how these assets and other infrastructure may be used to provide value to offset the SCRS unfunded pension liability.

[35] "Pension Funds Flee stocks in Search of Less-Risky Bets," by E.S. Browning, The Wall Street Journal, October 16, 2010.

Rationale and Discussion: The State of South Carolina and its agencies and institutions own or lease substantial real property holdings in the form of office and commercial properties and undeveloped land. They also hold investments in port facilities and other infrastructure that have great economic value. Many of these properties are recognized at little or no book value on the State's financial statements since they were acquired many years ago and are reflected at depreciated book values. Despite having little or no book value, these assets have significant actual market value and many provide substantial opportunities to exploit significant commercial value and revenue through leasing, timber harvesting, mineral extraction, and through other creative economic opportunities.

With the SCRS pension plans experiencing crisis-level funding problems, it makes sense to transfer a portion of the value of the State's assets to the pension funds. This could be done by transferring some of the State's income-producing properties directly into the pension funds, thereby boosting the funds' asset holdings (by recognizing the current fair market value of the assets upon the transfer), and bolstering the funds' revenue streams through long-term lease revenues and other income streams. This could also be accomplished by the outright sale of some of these assets, and the transfer of the proceeds of sale into the pension funds.

Some possible examples include:

- Transferring a portion of the State's port facilities to the pension funds, allowing the funds to reap the benefit of a regular stream of revenue from port operations for the indefinite future.
- Managing timber on a portion of the State's forest holdings for regular cash infusions to the plan from periodic, managed timber harvesting.
- Transferring some State-owned, agency-occupied office buildings to the plans, and creating a regular stream of revenue to the funds through long-term leasing arrangements.
- Sale of some State-owned, agency-occupied office buildings to real estate investment trusts, under a sale and lease-back arrangement. The proceeds of the sale could then be contributed into the pension funds and invested as other fund assets are invested.

The SCRS pension plans are in desperate need of financial help, and the State has assets with unrecognized value that could be used to address the problem. We have reached a point where South Carolina's existing assets must be examined to determine if they can be made more productive, or if value can be created by using the assets in a new way.

There will also be opportunities in the future to invest a portion of the pension plans' assets in revenue-producing South Carolina infrastructure projects, which would produce the dual benefit of in-state job creation. Pension funds around the world consider infrastructure investments an appropriate aspect of their investment portfolios,[36] and there is no reason why South Carolina, using a measured approach, should not also. For example, in the years during which our State has been debating whether a port facility should be built in Jasper County and, if so, how the State would fund it, the SCRS could have funded the construction of a port facility which would now have created, by some accounts, 10,000 jobs in one of our

[36] "Pension Fund Investment in Infrastructure," by Georg Inderst, OECD Working Papers on Insurance and Private Pensions, No. 32, OECD Publishing, 2009.

State's most unemployment-plagued regions and which would have been entirely owned by the State's retirement systems.

Results/Benefits: The degree of value generated by this measure is uncertain, but potentially substantial. The most significant benefit of this recommendation is that it utilizes existing resources to create value that would otherwise go untapped.

B. External Audit

B.1. External Audit of Budget and Control Board

Specific Recommendation: That annual management and financial audits of the Budget and Control Board be performed by an external auditing entity, such as the Legislative Audit Council of the South Carolina General Assembly.

Rationale and Discussion: The Budget and Control Board is a unique aspect of South Carolina State government, with enormous responsibility to provide basic administrative functions necessary for the day-to-day operation of the State and its governmental agencies. The functions performed by the Budget and Control Board are so basic and essential to the State's operations, that the mechanism for providing them should be impartial, politically neutral, and, for the most part, insulated from "tinkering." Such services should be delivered from a stabilized platform. Ensuring that the State receives the most competitive contract terms for its Prescription Drug Card program, for example, should be a matter of good business practices, rather than a matter of politics.

Unfortunately, such political neutrality has not always been the case. In recent years the Budget and Control Board has been the subject of significant political debate and a major funding battle. Today, it remains to be seen whether the Budget and Control Board will survive in its current state.

But the functions of the Budget and Control Board, in whatever form the entity takes in the future, are nevertheless ones that should be measured objectively, based on sound financial and managerial practices. While the staff of the Budget and Control Board has worked hard to foster best management practices, they also acknowledge that there have been fewer audits than would be ideal due to funding pressures in recent years. Through annual management and financial audits provided by an independent, outside auditing entity, free of political motivation, an appropriate critique of the Budget and Control Board is possible. Such an independent analysis will provide an apolitical basis upon which to determine where improvement can be made and, perhaps, whether the Budget and Control should be restructured.

With its track record of delivering an excellent work product at a reasonable cost, the Legislative Audit Council[37] of the South Carolina General Assembly (LAC) is ideally suited to perform this external audit function. But the LAC is not the only option for such services. Selection of an auditing entity should entail examination of the entity's independence and

[37] The Legislative Audit Council's website is accessed at the following address: http://www.lac.sc.gov/.

reputation for integrity.

Results/Benefits: It is impossible to quantify the potential benefits of the recommended external management and financial audits in advance. They are, nevertheless, an essential step toward ensuring the integrity and stabilized functioning of the Budget and Control Board. At a minimum, such audits will establish an independent baseline against which to measure the effectiveness of the organization. A similar audit of the South Carolina Department of Social Services might have identified the fraud that eventually led to the theft of more than $5 million from that agency. The Subcommittee believes that the most likely outcome of these audits will be the establishment of a mechanism to provide the members of the Budget and Control Board, the State Legislature, and the citizens of South Carolina with a valuable, periodic critique of the financial and management practices used in the operation of the Budget and Control Board. Ultimately, these audits could be used to increase the efficiency and stability of this necessary and important aspect of South Carolina government.

C. Procurement Procedures

C.1. Interstate Cooperative Purchasing

Specific Recommendation: Advocate amending portions of the South Carolina Consolidated Procurement Code[38] to permit the State to better participate in cooperative purchasing with another state or another state's agencies (using source selection methods substantially equivalent to South Carolina's) to exploit volume discounts and pricing benefits.

Rationale and Discussion: The South Carolina Consolidated Procurement Code (State Procurement Code) provides for the cooperative purchasing of goods and services by agencies[39] but does not expressly contemplate interstate cooperative purchasing – a common practice in many states. By permitting interstate cooperative purchasing and allowing the procurement staff the flexibility to exploit pricing by participating in awards after their issuance, the State can save money. Such savings are particularly beneficial for materials that are infrequently purchased or purchased only in small quantities (for example, outboard motors or patrol boats by the Department of Natural Resources).

Results/Benefits: The State should be able, through cooperative purchasing with another state or another state's agencies (using source selection methods substantially equivalent to South Carolina's), to exploit volume discounts and pricing benefits and, resultantly, save money.

C.2. Acquisition of Intellectual Property Rights

Specific Recommendation: Advocate amending portions of the State Procurement Code to provide that the intellectual property rights in the design and drawings prepared by engineers and architects in response to State procure-

[38] Codified as Code of Laws of South Carolina 1976 Annotated, as amended, §§ 11-35-10, *et. seq.*
[39] Code of Laws of South Carolina 1976 Annotated, as amended, §§ 11-35-4810 through 4840.

ment contracts become the property of the State.

Rationale and Discussion: Currently, the State Procurement Code does not address the property rights in the design and drawings prepared by engineers and architects in response to State procurement contracts. In practice, no rights beyond the final construction of the contemplated project inure to the State (or, typically, to those political subdivisions which follow procurement policies substantially similar to the State Procurement Code). Simply stated, although the State has, in fact, paid for the design of buildings, bridges, and other facilities, the State is unable to reuse such designs and drawings for other projects. Conversely, other states – such as North Carolina – are deemed to have procured such intellectual property rights and are, therefore, able to utilize design and drawings prepared by engineers and architects in response to prior state procurement contracts for future projects. While every project would presumably still require engineers or architects to confirm that all or portions of any prior design and drawings are adequate, avoiding having to "re-create the wheel" so-to-speak on each and every project should result in substantial savings over time as projects are replicated.

Results/Benefits: The ability to use historic designs and drawings prepared by engineers and architects in response to prior State procurement contracts is expected to save money and presumably reduce construction time in State construction projects.

C.3. South Carolina Small Business "Buy Local" Measures

Specific Recommendation: Advocate reserving a portion of the State procurement budget (for example, $10 million to $15 million) for South Carolina small businesses[40] producing end products in South Carolina.[41]

Specific Recommendation: Evaluate establishment of a small business enterprise program for South Carolina small businesses.

Rationale and Discussion: A more in-depth analysis of the benefits of retaining taxpayer cash in-State is presumably better handled by others (for example, the Board of Economic Advisors[42]), but the commonly understood benefits of infusing cash into communities – the foundation of the State's economic development efforts – supports the concept. A capped amount reserved for the State's small businesses represents a small fraction of the overall procurement - the State of South Carolina's Materials Management Office processes procurements valued at more than $1 billion annually. The use of a criterion based upon size – for example in the lower 50th percentile of gross revenue[43] – avoids certain of the legal issues associated with selection of vendors using a weighted preference based upon gender or race while still benefitting those targeted groups.

There is also an alternative to the traditional set-aside program which is considered by some as a more innovative, affirmative small business measure. This program – a small business certification program – was pioneered by the procurement office of one of South Carolina's

[40] The Procurement Code currently recognizes minority businesses at § 11-35-5010, but small businesses are undefined.
[41] This is similar to a recommendation made by the Governor's Commission on Management, Accountability and Performance, September 30, 2003, p.135, 137-138.
[42] This would be a function, in part, of the State's citizenry's average propensity to consume.
[43] The Governor's Office of Small and Minority Business Assistance should provide guidance as to a determination of what size business would qualify.

local governments.[44] It has dramatically increased the successful participation of local small businesses in that government's procurement opportunities without sacrificing competitive pricing, and can serve as a model for State procurement opportunities. This program, known as the Small Business Enterprise Program,[45] is a race- and gender-neutral program which seeks to pre-certify local small businesses for procurement opportunities and ensure those businesses have an opportunity to participate in the competitive bidding process. This innovative initiative assists local small businesses in overcoming the disadvantages those businesses typically face before the procurement process begins, ensuring that local small businesses are ready to compete – without set asides – when the opportunity arises. This certification system prepares local businesses for procurement opportunities and streamlines subsequent procurements. Anyone can participate.

Results/Benefits: The economic impact of ensuring that a portion of the procurement expenditures remain in-State via small businesses would outweigh the benefit of mere "best value" purchasing criteria, and it is possible through a small business enterprise program to achieve the most competitive pricing using South Carolina companies.

C.4. Share-in-Savings Contracts

Specific Recommendation: Advocate that South Carolina's Materials Management Office study the concept of potentially adopting share-in-savings contracts similar to the procurement processes contemplated by the federal government.[46]

Rationale and Discussion: Share-in-savings contracts are those in which the vendor is compensated, in an agreed amount, based upon a pre-agreed calculation of savings recognized by the government as a result of the vendors' efforts – typically in an information technology setting. Share-in-savings contracts embody the risk-reward concept in that the vendor risks not being compensated should its efforts not result in a pre-agreed amount of savings. Conversely, should the vendors' efforts result in vast savings, then the vendor, consistent with the agreement, may be compensated in excess of the compensation available under historic procurement contracts. One possible example where such a contract may be productive is the Department of Social Services' child support payment tracking software (the failure of which has resulted in tens of millions of dollars in federal fines being levied against the State). The key to the success of share-in-savings contracts is to very clearly define both the savings calculation and the potential compensation calculation, each of which can be very complex.

Results/Benefits: Share-in-savings contracts motivate the private sector to scrutinize government spending and proactively seek ways to reduce government costs. Share-in-savings contracts have the potential to dramatically reduce costs. Moreover, during very tight budgeting years, share-in-savings contracts would permit the State to invest in cost saving contracts which would otherwise be unaffordable.

[44] The Small Business Enterprise Program is an initiative of Charleston County, South Carolina.
[45] Learn more about Charleston County's Small Business Enterprise Program at http://www.charlestoncounty.org/SBE/index.htm.
[46] See, for example, 10 U.S.C. § 2332.

D. Fraud, Waste, and Abuse

D.1. Debt Report

Specific Recommendation: That the Treasurer's Office prepare, maintain, and make available to the public a report which lists and provides detailed information regarding the terms of each of the debt obligations of the State, its agencies, and institutions.

Rationale and Discussion: While the responsibilities of authorizing and issuing State debt obligations, accounting for them, and managing their proceeds are shared among the State Budget and Control Board,[47] the State Comptroller General,[48] and the State Treasurer, the Treasurer possesses primary responsibility for reporting[49] with regard to at least some of the State's bond issues. And regardless of the statutory responsibility, in order to adequately perform the debt management function of the Treasurer's Office there must be readily-accessible information regarding the details of debt issues. Making this information readily available to the public will expand fiscal transparency in State government. Further, common sense suggests that this information should be maintained by the Treasurer's Office and made available to the other divisions of State government and the general public.

Despite this obvious need, the Subcommittee was unable to find a publicly-available source of this information. Surprisingly, in the Subcommittee's investigation, we were informed by the Budget and Control Board's Executive Director that he is also unaware of an available source for this information. The Executive Director also advised the absence of this information substantially hinders his staff's planning capabilities.

An immediate example of the problem was apparent in the context of the recent debate about the uncontrolled, rising tuition cost at South Carolina colleges and universities, and the resulting moratorium on college construction projects[50] imposed by the Budget and Control Board. It was revealed in our discussions that the Budget and Control Board staff had not evaluated, due to a lack of necessary information, the impact of the policy of the present Treasurer's Office to require that bonds which finance college dormitories be repaid over 15 years, despite the fact that the dormitories themselves have useful lives of 40 years or more. The obvious result is that those paying college tuitions at South Carolina colleges and universities are paying more than their share of the costs associated with these facilities, driving up tuition unnecessarily. While the decision as to the appropriate length of time for amortization of State institution bonds is an obvious matter for policy makers, the missing information could have provided unexplored alternatives in the analysis.

It seems unimaginable that the administrative body of South Carolina government with sole responsibility for borrowing on behalf of the State does not have ready access to detailed

[47] See, for example, Code of Laws of South Carolina 1976 Annotated, as amended, Section 11-9-230.
[48] See, for example, Code of Laws of South Carolina 1976 Annotated, as amended, Section 11-9-340.
[49] See Code of Laws of South Carolina 1976 Annotated, as amended, Section 11-5-220, which states "The State Treasurer shall report to the Joint Bond Review Committee, the House Ways and Means Committee, and the Senate Finance Committee immediately after selling any General Obligation Bonds or Anticipation Notes. The report shall include the total amount of the issue, the interest rate charged . . . , the time contracted to pay the debt service, and the principal payment schedule."
[50] At the Budget and Control Board's September 29, 2010, meeting, the Board took the extraordinary measure of voting unanimously to suspend building projects at four-year schools that had raised in-state tuition more than seven percent as a means of controlling tuition costs.

information regarding the terms and conditions of the State's existing debt obligations. Whether the present Treasurer maintains this information, but does not provide ready access to it, or simply does not maintain this information in a form that lends itself to dissemination is not clear. The Treasurer's Office does, however, seem to be the appropriate repository for that information under State law, and should maintain it and provide public access to it.

Results/Benefits: The benefit of maintaining and providing this information publicly is potentially substantial, has several aspects, and yet is difficult to quantify. By making this information available to the public, those who need it for planning purposes (like the staff of the Budget and Control Board) will be able to work more effectively, public finance professionals will be encouraged to bring creative ideas for cost savings to the Treasurer's attention, and the taxpayers of South Carolina will have a better understanding of the true cost of the State's public projects.

D.2. P-Card (Procurement Card) Program

Specific Recommendation: That the Treasurer, in conjunction with the Budget and Control Board and the Comptroller General, ensure corrective action is implemented as recommended in the upcoming Legislative Audit Council's P-Card report[51] and champion the initiative to require on-going, periodic, independent reviews of the State's P-Card program to prevent future fraud and abuse of State resources.

Rationale and Discussion: The State's Procurement Card (P-Card) is simply a Visa credit card issued and serviced by Bank of America, based on a multi-year contractual arrangement with the bank. Authorized, full-time employees of State agencies and certain State colleges and universities are empowered to use the P-Cards to purchase job-related supplies and merchandise on behalf of their employer. There are currently approximately 17,200 "open" P-Cards accounts in use in South Carolina, with approximately 11,000 of those considered "active" accounts.

The P-Card program provides an electronic purchasing tool which offers an alternative to the traditional State purchasing process, enabling employees to obtain supplies directly from vendors without first completing purchase orders or departmental orders requiring pre-approval by managers. The P-Card streamlines the purchasing process, significantly reducing the manual workload and processing costs for smaller transactions, generally limited to $2,500 or less.

As part of the P-Card program, merchandise category codes (MCCs) are assigned by the bank to each merchant/vendor based on the types of goods and services that merchant/vendor typically provides. Allowing or blocking transactions based on certain MCCs provides a threshold measure of control against unauthorized or prohibited purchases. But the MCC controls do not provide a fail-safe protection against prohibited transactions.

The P-Card program is also a source of revenue, as Bank of America rebates a negotiated

[51] See the reference to the State Agencies' Use of Procurement Cards audit at the "Work in Progress" section of The Legislative Audit Council's website at the following address: http://www.lac.sc.gov/.

portion of merchant card service revenues to the State each year. Under the current contract the annual rebate is approximately $3 million.

The virtues of a P-Card program are many; however, the potential for fraud and abuse of State resources exists. Fraud in P-Card programs can take many forms. It can be as simple as an employee buying a personal item with the intent of having the employer pay the bill. Or an employee can appear to be making legitimate purchases based on job duties, but actually making unauthorized buys, such as:

- Facilities maintenance staff buying paint, wall coverings, tools and other maintenance related items for part-time, non-business related, personal handyman businesses.
- Information systems staff purchasing excessive quantities of peripherals and electronic components for repairs and upgrades to friends' and family members' personal computers, or outright sale to an unsuspecting customer through part-time computer businesses.
- Mixed purchases (i.e., business and personal items on one purchase receipt) at discount stores that are fully charged to the organization because of inadequate after-the-fact monitoring.
- Purchases of materials that, under any other purchasing process, would have been questioned before the transaction was completed, but ease of use of the P-Card allowed unsupervised purchases.[52]

Initiate an internet search on P-Cards and one finds numerous examples where employees of states, their agencies, and municipalities have been cited for fraud and abusive waste. Hundreds of thousands of dollars have been stolen and government resources misdirected due to deceptive employees and weak internal accounting controls. As described in a Knoxnews.com news article dated March 5, 2009,[53] "An item intended to empower individual workers with a level of responsibility for buying supplies they need for their jobs has proved too tempting for some who consider the card a blank check to spend money they don't have to pay back."

More examples of abuse can be found in recent news articles,[54] including one egregious example right here in South Carolina. In a story from September 2010, a Winthrop University employee was arrested for misuse of the State P-Card, the cost of which totaled more than $200,000. In this case, increased costs in printing services, when all units of the University had been required to reduce costs, alerted officials to the fraud. An internal audit of the print shop where the suspect worked revealed someone was ". . . defrauding the University and receiving payment from a Winthrop credit card through PayPal." Other recent examples of P-Card fraud also illustrate how employees in Georgia have purchased TVs, computers, gift cards, clothing, jewelry, video games, furniture, bedding, patio furniture, and music compact discs.

The South Carolina Comptroller General's Office (CG) recently began to post P-Card usage reports on its website for all state agencies, and colleges and universities. Details of the purpose for the charges found in the "monthly spending details" report, however, are only available for State agencies. Unlike State agencies, similar spending reports for State-supported colleges and universities are not on the CG's website since details of their spending are not available to the CG. Each State-supported college and university independently operates its own accounting system rather than using the State's centralized accounting system, SCEIS.[55]

[52] See, "Fraud Resistant P-Cards: Procurement Card Programs Can't Be Foolproof, but There Is Help," by Donald Holdegraver, Internal Audit, April, 2005.

[53] "Editorial: TVA P-Card Holders Should Be on a Tight Leash," www. knoxnews.com, March 5, 2009.

[54] See P-Card fraud news articles, beginning on page 173 in the Appendix.

According to the South Carolina Legislative Audit Council's (LAC) website, the LAC is in the process of independently reviewing the effectiveness of the State's procurement card program. LAC is focusing on identifying cost savings associated with using the P-Card, and whether there are adequate controls in place to prevent fraud and misuse. A report of LAC's findings is expected to be completed in due course.

Results/Benefits: Even though the State's P-Card usage reports are being posted on the Comptroller General's website as a method to provide transparency with regard to the State's expenditures, the opportunity for fraud is present and this website is only one control of several needed to prevent fraudulent P-Card transactions. The benefits of acting on this recommendation include increased transparency and, potentially, substantial savings by thwarting fraud and waste.

D.3. Recovery Audits

Specific Recommendation: That the Treasurer's Office take the lead role in implementation of the Recovery Audit Process as required in 2010–2011 General Appropriations Act, Proviso 89.148,[56] and manage/fine tune the Recovery Audit Process to achieve the maximum benefit for the State.

Rationale and Discussion: Each year government and private sector entities lose untold millions of dollars to accounts payable errors and fraud. But most of the lost revenues can be reclaimed and fraud thwarted with an effective recovery audit. Recovery consultants are specialized auditing firms that employ state-of-the-art tools and technology to examine an entity's bookkeeping records and uncover potential problems with:

- Duplicate payments
- Fictitious vendors
- Missed cash discounts
- Contract compliance issues
- Improperly applied taxes
- Overpayments
- Pricing and shipping errors

Once a disputed item is identified and verified, the recovery consultant files a claim to recover money from the vendor. Only once the financial recovery is complete, the recovery consultant is paid a contingency fee based on the amount of the recovery. Additionally, the recovery consultant provides a detailed assessment report outlining audit findings, and recommends specific actions to improve accounts payable operations and internal controls. In a recent development, the South Carolina General Appropriations Act, Proviso 89.148,

[55] See State Government Spending Transparency website at the following address: http://www.cg.state.sc.us/agencytransparency/.

[56] See excerpt from the 2010-2011 General Appropriations Act, Proviso 89.148, attached hereto on Appendix page 179.

directs the Budget and Control Board to contract with one or more consultants to conduct recovery audits of payments made by state agencies to vendors. The audits must be designed to detect and recover overpayments and erroneous payments to the vendors and to recommend improved State agency accounting operations. The Budget and Control Board released a Request for Proposals (RFP) for these audit services on November 5, 2010, and expects to award the contract on January 28, 2011.[57]

As the State Treasurer is charged with the responsibility to provide fiscal management services, including receipt and disbursement of State funds, we recommend the State Treasurer's Office takes a proactive role in this important audit process to recover misspent resources and ensure proper accounting weaknesses are corrected to protect State funds. Discussions with accounting consultants and Budget and Control Board management revealed deficiencies in both the Recovery Audit budget proviso and the outstanding RFP. Some examples include:

Budget Proviso Weakness:

- The Budget Proviso dictates the consultant's compensation based on non-standard terms and rates that are below market rates. It also provides an arbitrary cap on the amount of money the consultant can be paid under the contract. Since the consultant is paid on a contingency arrangement based on the amount of money recovered, why should there be any cap on how much the consultant is paid? It is anticipated that either few consultants will respond to the RFP or, more likely, services will not be sufficiently tailored to the specific needs of State agencies. The budget proviso should be revised either to allow for competitive, market-based compensation terms, or simply allow RFP respondents to price the requested services through a competitive bid process.

RFP Weaknesses:

- The Budget and Control Board expects to select one consultant to win the solicitation for all State agencies with minimum annual expenditures of $100,000,000. Given the diversity in each agency's activities and related expenditures, an RFP awarded to a one-size-fits-all consultant may not be the best option for the State. Most recovery audit firms specialize in the recovery of certain types of expenditures (for example Medicare/Medicaid), and may be best suited to bid for a particular agency's audit rather than every large agency of State government. As such, the State may be limiting its ability to maximize recovery efforts by selecting a single consultant to review all applicable agency expenditures.
- The RFP indicated the State utilizes the SCEIS accounting system, an SAP product. This statement will lead the RFP respondents to believe expenditure data for the last several years is available for their data mining on SCEIS. Instead, we know the State is in its final phase of converting to SCEIS and information from prior years is available on various replaced systems as well as the SCEIS system. This representation alone regarding the availability of the data is misleading and will potentially lead to a disgruntled consultant, and a renegotiated contract.
- The RFP does not list the names of agencies included in the review. The RFP respondents do not know how many or which agencies qualify for review under the budget requirement, so how can they know whether they are capable of meeting the specific audit needs of each agency?

[57] See The Budget and Control Board's procurement website at the following address http://webprod.cio.sc.gov/SCSolicitation-Web/contractSearch.do?solicitnumber=5400002053 to view the Recovery Audit Services solicitation currently pending award.

Respondents typically price their services or decide to submit a bid based upon several factors, including the difficulty or ease at which information is made available, the scope of the audit and potential for a profitable engagement, and their past experiences and expertise. A well-written solicitation for services would benefit both the State and the RFP respondents.

Results/Benefits: An audit encompassing all eligible State units, either directly funded with State resources or funded with other revenues, is necessary to enhance efficiency and minimize error recurrence. Ensuring several, well-qualified vendors submit proposals is essential to maximizing recovery opportunities.

Based upon discussion with recovery consultants, these types of audits usually recover significant amounts of money for the entities being audited and identify accounting control weaknesses. Taking a proactive role in the recovery audits will allow the State Treasurer to meet his goals of reducing fraud and waste in state government. The potential recovery from these audits, if done correctly, is enormous.

D.4. Utilize State-Owned Office Facilities

Specific Recommendation: Require the General Services Division to report to the Board all agencies which refuse to move from commercial space to State space when adequate State space is available to meet the agency's needs.

Specific Recommendation: Propose legislation authorizing the General Services Division to require the relocation and termination of all funding of the leased commercial space, including necessary regulations to effect the same.

Rationale and Discussion: Although the use of commercial space is authorized only when adequate State space is not available, a state agency which occupies commercial facilities cannot be required to vacate the commercial space it leases when adequate State space subsequently becomes available. This is true despite the fact that the commercial lease contains a provision that permits State agencies to terminate the lease to move into State space.

Results/Benefits: Reduced waste.

D.5. General Services Division Management of Real Property

Specific Recommendation: Authorize the General Services Division to (1) obtain all information necessary to make determinations concerning available State space and the status of real property as surplus and (2) to require the reporting of information in an electronic format to be used to populate an efficient data base designed for property management reporting.

Specific Recommendation: Authorize the General Services Division to report and seek Board authorization for the sale, as surplus, of any real property for which there is inadequate justification to retain.

Specific Recommendation: Require all State agencies, boards, and commissions to provide all information, data and documents electronically to populate the data base of the RPMS system. (The data required consists of detailed explanations concerning the number of FTEs by floor, space allocated, the use of space, the amount of vacant space, surplus property, and other information concerning how the State leases and utilizes space. This will be a task which requires all State agencies and other entities, depending upon the amount of property in possession, to devote an estimated seven to 100 man hours to the task.) Attempting to perform this task without the full cooperation of State agencies would require at least two persons assigned to the task for two years.

Rationale and Discussion: Although each agency currently makes annual reports to the General Services Division of real property in its possession, the agencies are not required to provide detailed information concerning use of the space such as the number of employees or persons using the space, the frequency of use, and other information needed by the Division to determine if the real property should be declared surplus property.

In addition, for several years there have been insufficient funds and personnel to populate the Real Property Management System (RPMS) as designed with the minimum data required to properly utilize the system. There are insufficient funds to staff an operable RPMS at the level required. (See 2010 Act No. 291 § 90.2.) It is possible to populate the system electronically if the agencies using or in possession of the real property throughout the State will provide the necessary information. If the necessary information is provided in a timely manner, it is expected that the system will be operational within six months.

D.6. Property Use Guidelines and Exemptions

Specific Recommendation: Limit the use of commercial space to actual need.

Specific Recommendation: Require State agencies to vacate commercial space when State-owned space is available or other commercial space is available and less expensive.

Specific Recommendation: Require the Division of General Services to study and propose space management and property use guidelines for adoption by the Board.

Specific Recommendation: Revoke all property reporting exemptions issued

by the Board from all agencies, commissions and institutions. Require that a new application (and justification) be submitted for any such exemption after an initial report of owned property is provided.

Rationale and Discussion: The General Services Division has no authority to limit the use of State or commercial space sought by agencies to only the space necessary to accomplish the mission of the agency nor to apply efficiency and space guidelines for the use of such space and property. Some agencies refuse to occupy State space, claiming that the State has no available space which is sufficiently attractive.

All State property use and ownership is not reported annually as required by S.C.Code Ann. § 1-11-58. Complete reports have not been received from all agencies as defined by section 1-19-40 and as a result there is no central record of all real property owned by the State.

D.7. Board Meeting Facilities

Specific Recommendation: That the Budget and Control Board move its public meetings to a larger meeting space that will better accommodate participants in the meeting.

Rationale and Discussion: The Budget and Control Board's public meetings have long been held in the Governor's Conference Room, on the first floor of the Wade Hampton Building, Statehouse Grounds, at 1200 Senate Street. Although the meeting location is convenient for the Board Members and most participants, the meeting room is not adequately-sized to accommodate the many participants with business before the Board. As a result, the room tends to be packed, with standing room only, and attendees spill out into the hallway – hoping to be able to make their way into the conference room at the appropriate moment when their business comes up for a vote. The arrangement is not conducive to a productive meeting, does not promote the exchange of information, and in fact discourages public attendance and participation. The Budget and Control Board, those with business before the Board, and the public interest in transparency deserve and require a better arrangement.

The Budget and Control Board has alternative space available in the nearby Edgar Brown Building, also located on the Statehouse Grounds at 1205 Pendleton Street. This space could be modified to create a large public meeting room. Unlike the Governor's Conference Room, this space could also be permanently wired to permit the live broadcast of the Board's meetings.

Results/Benefits: The benefits of this recommendation are much-needed added transparency and increased efficiency for Budget and Control Board meetings.

D.8. Board Meeting Schedules

Specific Recommendation: That the Budget and Control Board establish a fixed schedule of meetings, to include at least six meetings each year at regular intervals.

Rationale and Discussion: Much of the business of the Budget and Control Board requires the approval of the Members of the Board in an assembled public meeting. Until approved at such a meeting, many transactions cannot proceed. In recent years, the Board has reduced the number of planned meetings down to four meetings per year, with an extra meeting scheduled as needed. Meetings do not occur according to a predictable schedule. For example, in 2010 meetings were planned for February 23, June 30, August 12, and December 14. Additional meetings were added to the schedule based on specific needs on January 13 and September 29, but there were limitations as to what business could be conducted at those meetings.

The financing schedules for many public finance transactions, for example, must be planned around the meeting and agenda deadline cycle of the Budget and Control Board. This is difficult to do without a fixed schedule of meetings, especially during the busy cycle for such transactions prior to the calendar year end. It would increase the efficiency of those transactions, and many others, if Board meetings occurred more frequently, and at fixed intervals.

An example of an improved meeting schedule would be for meetings to take place every other month, on the first Tuesday of the month, beginning in February. So, according to that methodology, the necessary approvals could be obtained on the first Tuesday of February, April, June, August, October, and December. The Board's corresponding agenda deadline could likewise be set for the first Tuesday of January, March, May, July, September, and November.

Results/Benefits: The result of a greater number of meetings would be to decrease time necessary to complete the approval process for many transactions, with corresponding savings in some of them. The benefit of a more predictable schedule would be greater efficiency.

State Treasurer's Office Subcommittee Report

Introduction and Purpose

The State Treasurer is responsible for: receipt, investment, and disbursement of all public funds for the State; collateral pledged by banks to secure state deposits; coordination of all banking relationships for the State; issuance of all state debt, including the payment of and principal and interest on outstanding debt issues; communications with bonding rating services; and acting as trustee for abandoned property holdings, the S.C. Tuition Prepayment Program and the S.C. College Investment Program. The Treasurer serves as member of the State Budget and Control Board along with the Governor, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee. The Treasurer also serves as Chairman ex officio of the State Board of Financial Institutions and as a member of the S.C. Retirement System Investment Commission, the Tobacco Settlement Revenue Management Authority, and the South Carolina Education Assistance Authority.

In August 2010, Curtis Loftis established a transition team that he divided into three subcommittees. This is the report of the Treasury Subcommittee. As detailed below, this subcommittee reviewed the following subject areas: (E) economic development; (F) bond provisions; (G) the STO's depository contract with Bank of America; (H) the STO's Trust relationships; (I) the SCEIS software system; (J) the state's 529 Plan; (K) local treasurers and the Local Government Investment Pool; and (L) the need for an independent audit of the Treasurer's Office.

E. Economic Development

E.1. Retirement Systems Assets

Specific Recommendation: The Retirement Systems should consider dedicating a small percentage of assets (0.5 to 1 percent) to be used for economic development in South Carolina. Such assets could be used for (1) bridge loans; (2) acquiring and leasing unimproved real property; or (3) constructing and leasing improved real property (e.g. sale and leaseback of buildings).

Rationale and Discussion:
1. SC Retirement Systems Assets
The State Retirement Systems Investment Commission was established in 2005 to invest the state's retirement funds (some $17 billion). The State Treasurer sits ex-officio on the Board. The enabling legislation is in Article 3 of Chapter 16 of Title 9 of the S.C. Code. Section 9-6-315 provides:

SECTION 9 16 315. Retirement System Investment Commission; membership; terms; qualifications; chief investment officer and administrative staff.

(A) There is established the Retirement System Investment Commission (RSIC) consisting of six members as follows:
(1) one member appointed by the Governor;
(2) the State Treasurer, ex officio;
(3) one member appointed by the Comptroller General;
(4) one member appointed by the Chairman of the Senate Finance Committee;
(5) one member appointed by the Chairman of the Ways and Means Committee of the House of Representatives;
(6) one member who is a retired member of the retirement system who shall serve without voting privileges. This representative member must be appointed by unanimous vote of the voting members of the commission.
(B) The State Treasurer may appoint a member to serve in his stead. A member appointed by the State Treasurer shall serve for a term coterminous with the State Treasurer and must possess at least one of the qualifications provided in subsection (E). Once appointed, this member may not be removed except as provided in subsection (C).
(C) Except as provided in subsection (B), members shall serve for terms of five years and until their successors are appointed and qualify, except that of those first appointed, the appointees of the Comptroller General and the Chairman of the Senate Finance Committee shall serve for terms of three years and the appointee of the Chairman of the Committee on Ways and Means and the representative appointee shall serve for terms of one year. Terms are deemed to expire after June thirtieth of the year in which the term is due to expire. Members are appointed for a term and may be removed before the term expires only by the Governor for the reasons provided in Section 1 3 240(C).
(D) The commission shall select one of the voting members to serve as chairman and shall select those other officers it determines necessary, but the State Treasurer may not serve as chairman.

(E) A person may not be appointed to the commission unless the person possesses at least one of the following qualifications:
(1) the Chartered Financial Analyst credential of the CFA Institute;
(2) the Certified Financial Planner credential of the Certified Financial Planner Board of Standards;
(3) at least ten years professional securities broker experience;
(4) at least ten years professional actuarial experience;
(5) at least ten years professional teaching experience in economics or finance; or
(6) an earned Ph.D. in economics or finance.
(F) Not including the State Treasurer, no person may be appointed or continue to serve who is an elected or appointed officer or employee of the State or any of its political subdivisions, including school districts.
(G) The Retirement System Investment Commission is established to invest the funds of the retirement system. All of the powers and duties of the State Budget and Control Board as investor in equity securities and the State Treasurer's function of investing in fixed income instruments are transferred to and devolved upon the Retirement System Investment Commission. To assist the commission in its investment function, it shall employ a chief investment officer, who under the direction and supervision of the commission, and as its agent, shall develop and maintain annual investment plans and invest and oversee the investment of retirement system funds. The chief investment officer serves at the pleasure of the commission and must receive the compensation the commission determines appropriate. The commission may employ the other professional, administrative, and clerical personnel it determines necessary and fix their compensation. All employees of the commission are employees at will. The compensation of the chief investment officer and other employees of the commission is not subject to the state compensation plan.
(H) The administrative costs of the Retirement System Investment Commission must be paid from the earnings of the state retirement system in the manner provided in Section 9 1 1310.

Section 9-6-315 states:

SECTION 9 16 320. Adoption of annual investment plan; quarterly review; delibera tions in executive session; independent advisors.

(A) The commission shall meet no later than May first of each year to adopt the proposed annual investment plan for the retirement systems for the next fiscal year. The annual investment plan must be developed by the chief investment officer. No later than April first of each year, the chief investment officer shall submit the proposed plan to the commission. Amendments may be made to the plan by the commission during the fiscal year.
(B) The commission shall meet at least once during each fiscal year quarter for the purposes of reviewing the performance of investments, assessing compliance with the annual investment plan, and determining whether to amend the plan. The commission shall meet at such other times as are set by the commission or the chairman or requested by the board.
(C) The commission may discuss, deliberate on, and make decisions on a portion of the annual investment plan or other related financial or investment matters in execu-

tive session if disclosure thereof would jeopardize the ability to implement that portion of the plan or achieve investment objectives.
(D) A record of the commission that discloses discussions, deliberations, or decisions on portions of the annual investment plan or other related financial or investment matters is not a public record under Section 30 4 20 to the extent and so long as its disclosure would jeopardize the ability to implement that portion of the plan or achieve investment objectives.
(E) [Reserved]
(F) [Reserved]
(G) The commission may retain independent advisors to assist it and periodically shall provide for an outside evaluation of the investment strategy.

Lastly, Section 9-16-330 provides:

SECTION 9 16 330. Statement of actuarial assumptions and investment objectives; components of plan; diversification; verification of investment facts.

(A) The commission shall provide the chief investment officer with a statement of general investment objectives. The commission shall also provide the chief investment officer with a statement of actuarial assumptions developed by the system's actuary and approved by the board. The commission shall review the statement of general investment objectives annually for the purpose of affirming or changing it and advise the chief investment officer of its actions. The retirement system shall provide the commission and its chief investment officer that data or other information needed to prepare the annual investment plan.
(B) The annual investment plan must be consistent with actions taken by the commission pursuant to subsection (A) and must include, but is not limited to, the following components:
(1) general operational and investment policies;
(2) investment objectives and performance standards;
(3) investment strategies, which may include indexed or enhanced indexed strategies as the preferred or exclusive strategies for equity investing, and an explanation of the reasons for the selection of each strategy;
(4) industry sector, market sector, issuer, and other allocations of assets that provide diversification in accordance with prudent investment standards, including desired rates of return and acceptable levels of risks for each asset class;
(5) policies and procedures providing flexibility in responding to market contingencies;
(6) procedures and policies for selecting, monitoring, compensating, and terminating investment consultants, equity investment managers, and other necessary professional service providers; and
(7) methods for managing the costs of the investment activities.
(C) In developing the annual investment plan, the chief investment officer shall:
(1) diversify the investments of the retirement systems, unless the commission reasonably determines that, because of special circumstances, it is clearly not prudent to do so; and
(2) make a reasonable effort to verify facts relevant to the investment of assets of the retirement systems.

At issue is whether Treasurer elect Loftis should recommend that a certain percentage of the Retirement System's considerable assets be dedicated to economic development within the state of South Carolina. The percentage of the total assets dedicated to economic development would be small (0.5 to 1 percent) and any amounts so invested would be done in conjunction with the South Carolina Department of Commerce and the Coordinating Council for Economic Development. Alabama has followed this model as detailed in the next section.

2. Alabama Pension Fund
The Treasury Subcommittee interviewed several persons with extensive knowledge of the Alabama Retirement Systems. These include real estate developer Dom Tomlin; Clarke Gillespi, who works on economic development matters for Duke Energy; site selection consultants Ed McCallum and Mark Williams; and, on the tourism side, Chad Prosser, PRT Director, and Dr. Rich Hamill, Director of the International Tourism Research Institute at the University of South Carolina.

The Subcommittee learned that the Alabama Retirement System's role in economic development was extremely helpful to that state. Specifically, one of the national site selection consultants testified that he brought large projects to look at Alabama because of the Alabama Retirement Systems' willingness to loan funds on very little notice. While the Retirement Systems did make equity investments, the majority of its support was in the form of short-term (2 year) bridge loans at market or above market interest rates. These loans are extremely attractive from an economic development perspective because the Alabama Retirement Systems was able to make a loan commitment on a remarkably short timeframe with a minimum of bureaucracy. (Presumably, once the commitment was made and the project committed and came to Alabama, the Systems "papered" the deal in a commercially reasonable fashion.)

According to a study commissioned by the Retirement Systems of Alabama, Economic impacts of RSA-Owned Investments on Alabama (Dec. 2008), the RSA also made direct equity investments.

The RSA-owned investments in Alabama are diverse, involving at least 14 primary recipient companies in various manufacturing and service sector industries, with activities in many different parts of the state for the time period considered in this report. Capital expenditures over the 2002-2008 period totaled $854.3 million. Operating expenditures by the companies in 2007 were nearly $1.6 billion and included a $254.3 million payroll for 5,836 workers. The report found that during 2002-2008, the $854.3 million capital expenditures had statewide impacts of $1,947 billion in output, $620.9 million in earnings to Alabama households, 19,225 direct and indirect jobs, and $42.9 million local (county and city) sales taxes.

The RSA has also invested heavily in tourism. According to the report, Best Practices in Southern Tourism and Destination Management (RGA 2006), the RSA lured famed golf architect Robert Trent Jones out of retirement to design an acclaimed 24-course public golf trail. Funding for the effort came from the Retirement System of Alabama (RSA). The three-year construction effort of the greens, reportedly the largest golf construction project in history, cost $165 million. It was recently expanded and, at the time of the report, averaged 2 to 3 percent in cash returns. Because of the trail, Alabama was named one of the top 10 destinations in the world for golf by the International Association of Golf Tour Operators.

Since it opened in 1992, approximately half a million golfers have hit the trail through 2006, an estimated 300,000 of them having come from out-of-state. According to a Business Alabama article, tourism in the state was a $1.9 billion industry in 1992. In the following years, it grew to $6.8 billion, driven in part by golf visitors.

The New York Times noted in September 2002 that the trail pulled in a $6 million profit the preceding year, also observing that the trail serves as "the centerpiece of a roundly successful effort to bolster tourism and attract industry to Alabama over the past decade."

As part of its community and economic development activities, RSA has provided more than $670 million in advertisement benefits that have helped expand Alabama tourism into a $9.3 billion industry from $1.8 billion. The ad benefits comprise $30 million per year in TV for 13 years, $25.4 million per year in print for 11 years, and $362,400 per year in billboards for the last three or four years. The RSA has an ownership interest in the media outlets and derived "free" advertising.

In summary, the major attraction of the Alabama Retirement Systems is the speed of the loan commitment, rather than below-market interest rates or any relaxation of collateral requirements. (Indeed, some, if not most, loans were at or above market interest rates.)

The South Carolina Retirement Systems could obtain an even greater economic development advantage by, for example, purchasing and leasing real property or making below market interest rates.

E.2. Collateralization

Specific Recommendation: The STO should implement the Pooling Mechanism set forth in the 2008 legislation. The STO should seek legislation conforming to state and local public subdivisions' collateral requirement.

Rationale and Discussion: The state deposits hundreds of millions of dollars in state depository institutions each year. While the safety and security of public funds deposited with financial institutions is of paramount concern to the Treasurer's Office, state deposits, particularly those made with in-state banks, can be a vital economic development tool. Banks, of course, make loans based on deposits in accordance with FDIC margin requirements. The greater the deposits banks enjoy, the more loans they can make. This is particularly true for South Carolina, which historically has suffered from a lack of capital.

The Committee researched whether the state's collateralization requirements have hampered economic development. South Carolina has two collateralization statutes. State deposits are regulated by Title 11, Chapter 13. Section 11-13-20 provides:

SECTION 11 13 20. Deposit of State funds in banks or trust companies.

To facilitate the disbursement of public moneys, the State Treasurer shall deposit in such bank or banks or trust companies in this State as shall be agreed upon by the

State Budget and Control Board or a majority thereof, and as in its opinion shall be secure, all moneys belonging to the State, other than those he may keep in the safe in the vault of the designated bank or trust company, the moneys so deposited to be placed to the credit of the State Treasurer. Such deposits shall draw the best rate of interest obtainable.

Section 11-13-60 is the substantive collateralization statute. It provides:

SECTION 11 13 60. Security for state funds deposited in excess of FDIC coverage.

(A) A qualified public depository, as defined in subsection (E) of this section, upon the deposit of state funds by the State Treasurer, must secure these deposits by deposit insurance, surety bonds, investment securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. To the extent that these deposits exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation, the qualified public depository, at the time of deposit, shall:
(1) furnish an indemnity bond in a responsible surety company authorized to do business in this State; or
(2) pledge as collateral:
(a) obligations of the United States;
(b) obligations fully guaranteed both as to principal and interest by the United States;
(c) general obligations of this State or any political subdivision of this State; or
(d) obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation; or
(3) provide an irrevocable letter of credit issued by the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation, in which the State Treasurer is named as beneficiary and the letter of credit otherwise meets the criteria established and prescribed by the State Treasurer. The State Treasurer shall exercise prudence in accepting collateral securities or other forms of deposit security.
(B)(1) A qualified public depository has the following options:
(a) To secure all or a portion of uninsured state funds under the Dedicated Method where all or a portion of the uninsured state funds are secured separately. The qualified public depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.
(b) To secure all or the remainder of uninsured state funds under the Pooling Method where a pool of collateral is established by the qualified public depository under the direction of the State Treasurer for the benefit of the State. The State Treasurer shall determine the requirements and operating procedures for this pool. The depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.
(2) Notwithstanding the provisions of item (1) of this subsection, the State Treasurer,

when other federal or state law applies, may require a qualified public depository to secure all uninsured state funds separately under the Dedicated Method.
(C) A qualified public depository shall not accept or retain any state funds that are required to be secured unless it has deposited eligible collateral equal to its required collateral with some proper depository pursuant to this chapter.
(D) The State Treasurer may assess a fee against the investment earnings of various state funds managed or invested by the State Treasurer to cover the operation and management costs associated with this section and Section 6 5 15(E)(1)(b). These fees may be retained and expended to provide these services and may not exceed the actual costs associated with providing the services.
(E) "Qualified public depository" means any national banking association, state banking association, federal savings and loan association, or federal savings bank located in this State, and any bank, trust company, or savings institution organized under the law of this State that receives or holds state funds that are secured pursuant to this chapter.

Deposits made by political subdivisions (e.g., cities and counties) are regulated by Section 6-5-10. It states:

SECTION 6 5 10. Authorized investments by political subdivisions.

(a) The governing body of any municipality, county, school district, or other local government unit or political subdivision and county treasurers may invest money subject to their control and jurisdiction in:
(1) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
(2) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
(3)(i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
(4) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
(5) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
(6) Repurchase agreements when collateralized by securities as set forth in this section.
(7) No load open end or closed end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.
(8) A political subdivision receiving Medicaid funds appropriated by the General Assembly in the annual general appropriations act may utilize appropriated funds and other monies generated by hospital operations to participate in principal protected investments in the form of notes, bonds, guaranteed investment contracts, debentures, or other contracts issued by a bank chartered in the United States or agency of a bank if chartered in the United States, financial institution, insurance company, or other entity which provides for full principal payment at the end of a contract term not to exceed twelve years if the issuer has received a rating in one of three highest general rating categories issued by no fewer than two nationally recognized credit rating organizations. No more than forty percent of the appropriated funds and other monies generated by hospital operations may be invested in the manner provided in this item. Revenue realized pursuant to these investments must be expended on health care services.
(b) The provisions of this chapter shall not impair the power of a municipality, county, school district or other local governmental unit or political subdivision or county treasurer to hold funds in deposit accounts with banking institutions as otherwise authorized by law.
(c) Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.
(d) For purposes of subsection (a), in the case of a defeased obligation, an obligation shall be treated as the obligation of the issuer of the obligation included in the qualifying defeasance escrow for the defeased obligation. A "defeased obligation" means any obligation the payment of which is secured and payable solely from a qualifying defeasance escrow and the terms of which may not be amended or modified without the consent of each of the holders of the defeased obligation. A "qualifying defeasance escrow" means a deposit of securities, including defeasance obligations, with a trustee or similar fiduciary under the terms of an agreement that requires the trustee or fiduciary to apply the proceeds of any interest payments or maturity of the defeasance obligation to the payment of the defeased obligation and when the trustee or fiduciary has received verification from a certified public accountant that the payments will be sufficient to pay the defeased obligation timely. A defeasance obligation must not be callable or subject to prepayment by the issuer and it must be a direct general obligation of the United States and its agencies, or an obligation the payment of principal and interest on which is fully and unconditionally guaranteed by the United States.

There are key differences in the state and local collateralization requirements. This is likely to lead to confusion.

The Committee contacted the National Association of State Treasurers (NAST) for a recommendation of another state treasurer who had recently revamped or modernized his state's collateralization requirements. Pursuant to NAST's recommendations, the Committee spoke with Wolfgang Opity with the Washington State Treasurer's Office and reviewed the Office of State Treasurer's 2009 Report to the Washington State Legislature on actions taken by the Public Deposit Protection Commission.

The Washington State Treasurer's Office told the Committee that the South Carolina State statutes were an excellent model and he offered no further recommendations.

The Committee also took testimony from some 6-8 large and small banks, including Bank of America, NBSC, BB&T, First Citizens, and the South Carolina Banker's Association (SCBA). With one exception (see below), all expressed no desire or need to expand or otherwise liberalize the collateralization statutes. Specifically, the general consensus among the bankers were that banks are currently flush with cash and that poor loan demand (for non-real estate based loans) was a much greater problem to the economy than a lack of bank liquidity.

The one issue for action is that the Treasurer's Office has not fully implemented the statutory reforms passed in 2008. In 2008, then State Treasurer Thomas Ravenel convened a committee composed of his office, the SCBA, and a number of banks for purposes of modernizing and liberalizing the collateralization requirements. Legislation that modestly liberalized the requirements was passed into law effective January 1, 2009. The new legislation authorized a pooling mechanism under the Treasurer's Office. The Committee heard testimony that the Treasurer's Office has not implemented the pooling mechanism.

F. Bond Provisions – Debt Management and Bond Transaction Administration

F.1. Debt Report

Specific Recommendation: That the Treasurer's Office prepare, maintain, and make available to the public a report that lists and provides detailed information regarding the terms of each of the debt obligations of the State, its agencies, and institutions.

Rationale and Discussion: As described in the Report and Recommendations of the Budget and Control Board Subcommittee of the Transition Team, there is currently no publicly-available source of detailed information regarding the terms of each of the debt obligations of the State, its agencies, and institutions. As discussed later in this report, several State constitutional officers and State boards and agencies, including the State Treasurer, have various roles and responsibilities regarding debt issuance and administration. Depending on the type of debt instrument, the issuer of the debt instrument, the beneficiary of the debt instrument, and specific statutory requirements, these roles vary from issue to issue. Under current conditions, it appears that each of the constitutional officers, members of boards and commissions, and members of the general public are nearly completely dependent on the

"institutional memories" of the bureaucracy and a small cadre of lawyers who are familiar with the particular debt obligation for fundamental information necessary for them to perform their statutory and fiscal responsibilities.

Whether the present Treasurer maintains this information, but does not provide ready access to it, or simply does not maintain this information in a form that lends itself to dissemination is not clear. As the Budget and Control Board Subcommittee noted, the Treasurer's Office does seem to be the appropriate repository for that information under State law and should maintain it and provide public access to it.

Results/Benefits: For the State's constitutional officers and the boards and commissions charged by law with responsibilities regarding the issuance and administration of debt obligations, the benefits of such a report include:

- Providing the historical record upon which to base current decisions regarding debt issues
- Providing the data necessary to recognize and understand trends in debt issues
- Providing a basis upon which to measure current performance
- Providing a factual foundation for policy decisions which impact debt issuance.

For policymakers and staff of other State agencies, the report will provide needed data to evaluate anticipated consequences of short-term and long-term planning decisions.

For the general public, critical review of the activities of the State, its agencies and institutions becomes more meaningful as it is factually-based. Moreover, the public can apply performance standards to decisions of the applicable elected official or agency.

F.2. State Treasurer's Debt Issuance Responsibility Analysis, Report, and Procedures

Specific Recommendation: After a thorough analysis, prepare a report that identifies (i) the statutory responsibilities of the State Treasurer for each specific type of debt issue and (ii) the responsibilities of the State Treasurer to the Budget and Control Board and other boards and commissions for each type of debt issue.

Specific Recommendation: After completion of the report, prepare publicly-available applications to be submitted and procedures followed by the agencies and institutions requesting debt issuance.

Rationale and Discussion: The role of the State Treasurer in the planning and approval of debt obligations varies considerably from one obligation to another, based primarily upon statutory provisions contained in the state bond acts. The Treasurer's role can be as involved as actually "issuing the Bonds" or as removed as merely receiving a report filed with his office from the issuing board after the transaction has closed. As to the administration of debt obligations, the Treasurer may be responsible like a bond trustee for the administration of construction funding, or as a paying agent for paying the bondholders principal and interest when due, or providing periodic review, reports, and disclosure regarding the debt obligation. Under other statutes, the Treasurer may have no role or responsibility after the bonds are issued.

Similarly, the Budget and Control Board has statutory duties and responsibilities regarding the issuance and administration of debt obligations of the State, its agencies, institutions, and local governments across South Carolina. The practice has developed that many of the responsibilities of the Budget and Control Board regarding debt obligations have become the de facto responsibilities of the State Treasurer's Office, without clear guidance regarding that "delegation" of responsibility.

Results/Benefits: As discussed elsewhere in this report, this Subcommittee is recommending that State Bond Statutes be recodified for the reasons discussed in that section. As part of that recodification process, the role and responsibility of the State Treasurer (directly and as a member of the Budget and Control Board) should be considered before recodification takes final form. The identification and analysis report recommended in this section will assist recodification of the Bond Statutes so that they take into account the resources of the State Treasurer's Office when duties and responsibilities are imposed on the Treasurer for debt issuance and administration.

As discussed in the Indenture Trustee Services section of this report, the role and responsibilities of the Treasurer's Office, with respect to those aspects of debt obligation administration which are routinely provided by corporate trustees, will also be impacted by the analysis and report recommended in this section.

After the identification and analysis report has been prepared (and any expected statutory changes in the responsibility of the State Treasurer as the result of recodification of the Bond Statutes have been passed), formal application and procedures should be developed for each category of debt obligation that requires the review, approval, or administration by the State Treasurer's Office. The benefits of such procedures include:

- Establishment of a transparent approval process for all boards and commissions
- Uniformity and streamlining of data necessary for debt issuance
- Documentation of all required information and procedures for the State Treasurer to perform his statutory responsibilities
- Provides more open government for the general public.

F.3. State Bond Counsel and Disclosure Counsel Services

Specific Recommendation: Implementation of the report and recommendation regarding engagement of bond counsel, disclosure counsel, and underwriter's counsel, including rigorous enforcement of fee caps and conflict of interest rules.

Rationale and Discussion: On June 29, 2009, the Budget and Control Board approved the report and recommendation on the engagement of bond counsel, disclosure counsel, and

underwriter's counsel for the State and certain of its designated agencies and institutions named in that report. The report, based on the study of best practices for the selection and engagement of bond counsel, commits to follow the guidelines published by the Government Finance Officers Association and the National Association of Bond Lawyers. That report appears to have been the first time that the State affirmatively recognized the need for an independent disclosure counsel distinct from bond counsel. It also appears to be the first time the State Treasurer's Office considered a formal written policy regarding the identification and management of conflicts of interest by bond counsel.

The use of independent disclosure counsel in state bond finance has become more commonplace, especially in light of recent enforcement action by the Securities and Exchange Commission against the State of New Jersey and the City of San Diego. In August 2010, the SEC filed a lawsuit against the State of New Jersey[58] in which the agency charged New Jersey with securities fraud, a criminal offense, for failing to disclose to bond investors that it was underfunding its two largest pension plans. The case marked the first time a state has ever been charged with securities fraud. The SEC actually used both the official statements for the state's bond offerings and the New Jersey State Treasurer's Annual Reports made for continuing disclosure purposes as the sources of the alleged fraudulent representations. Had the case not been settled,[59] someone in the New Jersey State Treasurer's Office would likely have faced jail time.

Secondly, at the end of October 2010, the SEC again broke new ground when it secured financial penalties totaling $80,000 against four individual city officials[60] (former City Manager, City Auditor and Comptroller, Deputy City Manager of Finance, and City Treasurer) of the City of San Diego, California, for securities fraud violations stemming from pension disclosure. The SEC charges against these individuals alleged they knew San Diego had been intentionally underfunding its pension obligations to increase benefits while deferring costs. Concurrently, the SEC alleged these officials were aware the city would encounter severe difficulty funding its future retirement obligations without new revenues or cuts to employee benefits or city services. The case marks the first time the SEC has secured civil financial penalties against individual city officials in a municipal bond fraud case.

It is likely the SEC will bring about rapid change to pension plan disclosure practices by holding individuals liable for poor disclosure. The engagement of independent disclosure counsel by the State Treasurer in accordance with the report would go a long way to satisfying the expected changes regarding disclosure requirements for State bonds. It is also worth noting that in addition to this new level of regulatory scrutiny of pension plan disclosure, some help is also on the way. The National Association of Bond Lawyers is currently in the process of drafting model guidelines regarding the role of disclosure counsel,[61] but it is not certain when that guidance will be available.

Results/Benefits: Although approved by the Budget and Control Board in 2009, it appears

[58] The lawsuit was subsequently settled by consent Order Instituting Cease-and-Desist Proceedings, attached on page 122.
[59] As a mitigating factor in its decision to settle the charges by consent Order, the SEC highlighted the subsequent remedial measures taken by the State of New Jersey to improve disclosure practices, stating, "With the assistance of disclosure counsel, the State has reviewed, evaluated, and enhanced its disclosure process by instituting formal, written policies and procedures." See Order at paragraph 45.
[60] The consent agreements that settled the case prohibited the individuals from seeking any form of reimbursement, including compensation from employers or insurance.
[61] The initiative to draft model pension plan disclosure guidance was announced at the National Association of Bond Lawyers' Bond Lawyer Workshop in San Antonio, Texas, October 27-29, 2010.

that the implementation of the report by the State Treasurer's Office has been slow. Only in 2010 does there appear to have been a State institution transaction where independent disclosure counsel may have been engaged. Given the problems identified by the SEC with disclosure regarding state pension plans (and discussed at length in the Budget and Control Board Subcommittee Report) and the recommendations of this Subcommittee regarding maintenance and improvement of bond ratings discussed later in this report, this Subcommittee advises that it is time to fully implement the provisions of the report regarding the engagement of independent disclosure counsel by the State Treasurer for all issues, agencies, and institutions covered by the report. As part of its responsibilities, disclosure counsel would be expected to develop standardized disclosure for the retirement system for use by all relevant State agencies, institutions, and other political subdivisions of the State, in addition to the agencies covered by the report.

The report describes the responsibilities of the various counsel roles, which have been implemented since approval of the report by the Budget and Control Board, and the compensation schedule for the services described in the report. It is not clear if the State Treasurer has enforced the caps on maximum legal fees by bond counsel and disclosure counsel to date. It is the Subcommittee's recommendation that the State Treasurer's Office rigorously enforce the cap on the maximum amount of legal fees charged by bond counsel and disclosure counsel. This enforcement should produce substantial savings to the State and its agencies and institutions over the level of fees charged under the past fee schedule, under which bond counsel law firms enjoyed windfall profits as a result of handling the larger bond issues for the State. In addition, the Subcommittee recommends elimination of the separate fees for the maintenance of a forms depository permitted by the report, as they are a superfluous charge on all transactions for services that should be included in basic bond counsel services under the report. A copy of the salient provisions of the report (describing the responsibilities of the various counsel roles and approved compensation schedules) is attached to this report.

It is also unclear if the provisions of the report (including the fee caps and conflict of interest rules) have been implemented and enforced with respect to the agencies and institutions covered by the report. The Subcommittee recommends implementation and enforcement of those provisions, as well as the use of the State's disclosure counsel to assure uniform disclosure practices.

As with his predecessor, the State Treasurer-elect should continue the policy of selecting bond counsel from the approved list of qualifying firms named in the report on an as-needed basis. The requirements of the report that underwriter's counsel and conduit bond counsel should likewise be selected from the approved list of qualifying firms named in the report should also be fully-implemented and enforced.

F.4. State Bond Rating Strategy

Specific Recommendation: Implement immediate action to maintain and improve the State's bond ratings by developing (i) effective and timely communications with the rating agencies and (ii) strategies to address the credit weaknesses and concerns voiced by the rating agencies.

Rationale and Discussion: There are three major credit rating agencies for U.S. state and municipal government credits. These agencies review the credit quality of a state or other government entity and issue a rating (based on an applicable scale) that indicates the agency's overall assessment of the credit risk. Although they use similar criteria to make their evaluations, each rating agency employs a slightly different methodology based upon its view of the appropriate credit criteria and appropriate weight for each criterion in the analysis. The ratings are then used by investors, lenders, investment bankers, other government entities, bond insurers, credit enhancement providers, and other participants in the governmental finance industry to assess the financial risk of doing business with the rated entity and to set the price (normally in the form of an interest rate) for bonds, loans, and other financial products.

The bond ratings impact the costs of not only the State's direct borrowing, but also the borrowings by the State agencies, institutions, and political subdivisions. They also are the basis for the more efficient provision of funding and investment programs that are or can be sponsored by the State.

The State's current general obligation bond ratings are AA+ (Standard & Poor's), AAA (Moody's), and AAA (Fitch). All have a "stable outlook." S&P's credit assessment of the State appears to put greater emphasis on the wealth levels and the composition of the State's economy. State government can influence economy and wealth levels on a policy basis and by helping to develop and formulate the necessary capital formation.

A concern with all three rating agencies would be continued revenue shortfalls with the State budget. Effective and timely communication with the bond market in general, and the rating agencies in particular, can help to avoid surprises and manage expectations. Managing expectations of municipal bond market participants could influence credit outlooks and rating trends. It has been suggested by a major investment banking firm that a highly regarded independent disclosure counsel providing uniform disclosure standards can enhance market confidence, creating a qualitative positive at the initial offering, while helping to set the tone for future disclosures that can impact secondary trading levels and liquidity. This Subcommittee discusses the need for independent disclosure counsel in another section of this report. The Budget and Control Board Subcommittee discusses the importance of independent disclosure counsel in their recommendation for an immediate review of Pension System disclosure practices.

As discussed in depth in the Budget and Control Board Subcommittee Report, the unfunded pension obligation of the State Retirement System, and related disclosure of its status, has become a grave credit concern. At the very least, it is a headline risk factor.

Results/Benefits: The maintenance and improvement of the State's bond ratings are important to providing services to citizens at the most cost-effective rates (tax levels) by delivering capital improvements at lower costs than would otherwise prevail with lower bond ratings.

F.5. Savings to be Generated from Restructured or Refunded General Obligation Bonds

Specific Recommendation: Review the current policy of the Treasurer's Office to schedule the rapid retirement of State bonded indebtedness and its impact on the State's current revenues, bond ratings, and fairness and equity to taxpayers and ratepayers.

Rationale and Discussion: As with a lack of a published report on the terms of all outstanding State bond issues, there appear to be no systems in place in the State Treasurer's Office to monitor opportunities to generate present value savings through the refunding of the State's bond issues. In light of the historically low long-term interest rates that currently prevail in the financial markets, the State's taxpayers and ratepayers would benefit by securing lower debt service payments on those issues of State bonds that can be refunded under current market conditions, resulting in savings. From information regarding the State's bond issues that is available in the public bond market, it appears that issues of State School Bonds, State Capital Improvement Bonds, and State Institution Bonds can be refunded to generate savings with a present value of over $32 million.

Results/Benefits: From information available in the public bond market, it appears that much of the State's general obligation debt will mature in 10 years. The assets funded with those bonds could be expected to have a useful life well in excess of that period of time. Although it reduces the overall interest costs of the bonds, rapid retirement of public bond debt has the effect of making the current taxpayers pay more than their fair share of the costs of the assets, and thereby relieving taxpayers 20 to 30 years in the future from paying for a portion of the costs of those assets still in use at that time. Moreover, the rapid retirement of bonded debt creates additional strain on current revenues needed to provide services to taxpayers and ratepayers. The State Treasurer should consider the policy of scheduling the rapid retirement of debt and its impact on current revenues, bond ratings, and fairness and equity to the taxpayers.

F.6. Concerns Regarding the Scheduled Expiration of Credit Support Instruments for State Transportation Infrastructure Bank Debt

Specific Recommendation: Immediately form a task force to make recommendations to the State Treasurer on determining and negotiating the optimal course of action and terms regarding the scheduled expiration, in June 2011, of credit support instruments for $320 million of State Transportation Infrastructure Bank Bonds.

Rationale and Discussion: The State Transportation Infrastructure Bank (SIB) issued auction rate bonds in 2003, which were converted to variable rate demand bonds in June 2008 when the auction rate market collapsed. SIB also entered into three interest rate swap agreements in 2003 with respect to the bonds. The three bank letters of credit (LOCs) which support the variable rate bonds are scheduled to expire in June 2011. With that deadline coming fast on the heels of the Treasurer taking office in January 2011, major decisions must

be made fairly quickly regarding this large transaction. Options include:

- Continue the variable rate bond structure, notwithstanding greatly increased costs for the LOCs.
- Synthetic Fixed Rate Swap, which also has associated risks.

Results/Benefits: Immediately forming a task force of staff and necessary professionals will allow the Treasurer the most time in which to consider all options, develop a plan of finance, and negotiate the most favorable terms for the SIB.

F.7. State Investment Banking Relations

Specific Recommendation: Collect data regarding the current investment banking relations of the State, its agencies, and institutions, including data regarding terms of any contracts, method and history of procurement of services, and history of services of current providers in order to develop guidelines based on best practices in the procurement and use of investment banking firms.

Rationale and Discussion: From the information that the Subcommittee has been able to garner, there does not appear to be any master program monitored or administered by the State Treasurer's Office regarding the procurement of investment banking services by the State, its agencies, and its institutions.

Results/Benefits: In order to consider any reforms necessary to implement best practices for these services, the State Treasurer should form a task force of staff and any necessary professionals to collect the data and report to him its findings. Guidelines, including any necessary statutory or regulatory changes, should then be developed to conform the past practices to current best practices as promulgated by industry regulators and watchdogs.

F.8. "Build America Bonds" and other Recent Federal Bond Programs

Specific Recommendation: In order to avoid the problems experienced in South Carolina with the initial round of federal bond programs included in the Stimulus Act, implement monitoring activities to follow the possible extensions to these programs so that the State Treasurer can recommend timely action to be taken by the State Legislature, the Budget and Control Board, or other bodies in order to maximize the benefits of these programs for South Carolina.

Rationale and Discussion: When the initial round of federal bond programs was approved by Congress in February 2009, many of the programs required State implementing or conforming action in order to make them available to State and local government, their agencies, and qualifying businesses. No statutory action, however, was taken in South Carolina until June 2010. Implementing procedures by the Budget and Control Board were not completed until August 2010. With many of these federal programs scheduled to expire on December 31, 2010, there was little time to utilize these federal programs effectively. Many are expected to expire without having been fully used.

Results/Benefits: To avoid repetition of this underutilization, the State Treasurer should appoint staff or qualified professionals to monitor and promptly report to him on any extensions of the expiring programs or the creation of new programs that could benefit the citizens of the State, through their governments or qualifying businesses. Any report should contain recommendations as to any necessary statutory or regulatory action needed to maximize the programs' benefits to the State and its citizens.

F.9. Unemployment Compensation System and Unemployment Trust Fund Loans

Specific Recommendation: Appoint a task force of staff and qualified professionals to review and recommend action regarding funding for the interest payments due to the federal government beginning in 2011, for the State's loan from the U.S. Treasury for unemployment benefits during the current recession.

Rationale and Discussion: Basic unemployment benefits are primarily funded by State payroll taxes on employers, which are deposited in the Unemployment Trust Fund held by the U.S. Treasury. States are required to pay out benefits even if the State's account in the Trust Fund is fully depleted. Under those circumstances, the State borrows the necessary moneys from the U.S. Treasury. As of September 30, 2010, South Carolina had borrowed $886 million from the U.S. Treasury. Newspaper accounts quote estimates that the State's borrowing could grow to $2 billion.

Interest accrues on this balance at a rate of approximately 4 percent. Interest payments are due by September 30, 2011. Legally, the interest payment is an obligation of the State, but historically most states have paid interest with a separate tax on employers, which is what South Carolina is doing. The State repays principal of the loan with a combination of (i) annual statutory increases in the federal unemployment compensation taxes on employers and (ii) increases in State unemployment taxes.

Results/Benefits: Major policy concerns are impacted by the funding mechanism or combination of mechanisms that are chosen to repay these amounts. The federal funding provisions for the loan include increases in the tax rates if the loan is not repaid by certain designated dates. The interest rate charged by the U.S. Treasury is higher than rates the State could get by selling short-term obligations based on special assessments levied against employers. These savings could be used to soften the increased burden on employers to repay this loan and reduce the period of time needed to repay the loan.

F.10. Bond Recodification

Specific Recommendation: That Treasurer-Elect Loftis recommend that the state's General Obligation Statutes be recodified and appoint a drafting committee for such recodification.

Rationale and Discussion: The Subcommittee met with attorneys from the state's major bond and public finance law firms. These included Haynsworth Sinkler Boyd, McGuire Woods, Nexsen Pruet, and Pope Zeigler. The law firms unanimously recommended that the General Obligation (GO) bond statutes be recodified. (The law firms also suggested looking at the state's Utility Bond and Revenue Bond statutes.) The rationale for recodification is that the relevant statutes are scattered through the public finance portions of the South Carolina Code and constitute a pitfall for the unwary; are replete with old and antiquated provisions and "rifle-shot corrections," and accordingly lack transparency and efficiency. The net effect is an increase in legal fees for both borrower and lender counsel.

Note that recodification would be a major effort and would require resources from the Treasurer's Office to accomplish.

G. STO's Depository Contract with Bank of America

G.1. Depository Banking Review

Specific Recommendation: That the State Treasurer undertake a review of its depository banking relationship with Bank of America to ensure the State is paying a competitive rate for services.

Specific Recommendation: That the State Treasurer perform an analytical review of STO banking activity to determine which day-to-day processing can be eliminated, modified and/or automated to reduce banking service charges. Additionally, that the State Treasurer's Office consider implementing an account analysis system, like Weiland Financial Group, Inc.'s, a nationally recognized provider of software, to assist with the periodic management and verification of banking activities and fees.

Specific Recommendation: That the State Treasurer evaluate the effectiveness of adding a second daily repurchase agreement provider to ensure the State earns a competitive rate on daily available funds.

Rationale and Discussion:

Review of Depository Banking Relationship
By way of background, the 2009 NAST Report, State Treasury profiles, stated that the Treasurer's Office has 61 employees. Of these, 15 are involved in Treasury Management, four in Bond Management, one in Cash Management and five in Investment.

The State Treasurer's Office has 10 or more depository accounts with banks doing business in South Carolina. The large number of accounts is probably necessary and exists as a convenience to the State Treasurer's Office.

The State Treasurer's Office primary deposit banking relationship is with the Bank of America. This depository account is for daily operations and has an average balance of approximately $250 million. The relationship with the Bank of America has existed for at least 15 years and probably originated through the merger of various banks into Bank of America.

It is our understanding the State Treasurer's Office has not solicited a request for proposals from banks for depository account relationship for at least a decade and for reasons outlined below, the State Treasurer's Office may not be able to legally move it at the current time without settling a carry-forward deficit.

Due to the large size and processing complexities, relatively few banks would desire the account, could properly manage it and could offer competitive pricing. It is doubtful if any domestic South Carolina bank could adequately service it and provide the necessary collateralization.

The State Treasurer's Office does not actually pay service fees to the Bank of America. Indeed, the Subcommittee heard testimony that (incredibly) the State Treasurer's Office lacks the necessary statutory authorization to pay deficit service fees. Instead, depending upon the size of the balances on deposit with Bank of America, the State Treasurer's Office generates Earnings Credits, which are applied against accrued Service Charges. Any deficit or balance is then routinely rolled over to the next year. For example, for the month ending October 31, 2010, the State Treasurer Office's had an earnings credit of $86,260.92, which was applied against service changes for the month of $95,316, equaling a deficit for the month of $9,055.42. The year to date service charge balance was a deficit of $233,837.

Presumably, the State Treasurer's Office would have to pay the $234,000 deficit or negotiate a reduction before transferring the account to another (more competitive) bank; however, it lacks the statutory authorization to settle the deficit with current funds.

Analytical Review of Banking Activity

The State Treasurer's Office provided the Subcommittee a copy of its' master contract with the Bank of America, as well as monthly account statements for August, September, and October of 2010. The account statements contain a lengthy list of itemized service charges for various banking services, including depository, cash vault, ACH, wire transfer, account reconciliation information, automated, EDI, international, cashpay, remote deposits, image and miscellaneous. There were well over 100 different itemized service charges.

The Subcommittee reviewed the three monthly analysis statements to gain an understanding of banking services provided and their related costs. The Subcommittee heard testimony concerning these statements from industry and state agency users and providers of complex, high-volume banking services. Their comments for areas of review and improvement are presented in the Appendix on page 185.

Overall, the results of the review revealed the following areas of concern:

- The Subcommittee was not provided with a schedule of fees and, apparently, none exists. As such, we could accordingly find no basis for the respective charges.
- Testimony revealed certain charges were above market rate and should be re-negotiated.

- Certain service charges appeared contradictory (different charges for the same services and pricing higher for services performed by the State instead of the bank.)
- A thorough, detailed analysis of each banking service utilized by each agency is required to determine if the State has implemented the most cost efficient and effective operational procedures.
- Active, day-to-day management of banking services is required to drive down pricing and at the same time decrease cash held for compensating balances, thereby allowing the State Treasurer to re-invest cash in other investment vehicles earning a higher rate of return. Utilization of an account analysis system, like one provided by Wieland Financial Group, Inc., will assist the State in identifying processing trends, variances and perform an audit of services charged versus agreed upon pricing. Additionally, the system will provide valuable metrics needed when negotiating pricing with banks. See page 186 for a detailed description of the account analysis services provided by Wieland. Other providers could provide similar services.

Consideration of Establishing a Second Repurchase Agreement Provider

Cash balances needed for daily operations, but not required for service charge compensating balances, are swept into a daily repurchase agreement (repo) with Bank of America. Unlike other large corporations or Santee Cooper, the State Treasurer's Office maintains a repo only with the Bank of America. Other entities invest in more than one repo to ensure competitive pricing and to allocate their business to more than one provider.

Results/Benefits: Active, day-to-day management of banking services utilized will drive down pricing, improve operational efficiencies, and result in savings to the citizens of the State of South Carolina.

H. STO's Trust Function

H.1. Outsource Indenture Trustee Services

Specific Recommendation: That the State Treasurer's Office determine whether indenture trustee functions currently performed by its Debt Management Group should be outsourced to a corporate trustee bank.

Rationale and Discussion: The State Treasurer's Office can save money, significantly reduce liability, and avoid conflicts of interest by avoiding the practice of serving as indenture trustee in the State's bond issues.

The Debt Management Group (DMG) of the Treasurer's Office provides debt management services to the State, its agencies, and institutions. Debt management functions include: paying all debt accurately and on time, closing all new debt issuances by deadlines, issuing debt at lowest possible interest rate, and developing debt and finance policies to optimize value to taxpayers and constituency. To provide a system of controls and automation, the group utilizes the Debt Management System (DMS). This system provides a mechanism for recordkeeping and reporting, and provides automation for electronic debt payment through the Automated Clearing House to the State's paying agents. It also provides functionality for tracking agency payments for authorized capital projects to ensure timely and accurate payments for projects approved by the Joint Bond Review Committee of the South Carolina General Assembly and as appropriated by the General Assembly.[62] The DMG currently manages over 130 bond issues totaling more than several billion dollars in outstanding debt.[63]

While the payment of principal and interest, when due, for these issues is the DMG's top priority, there are also other on-going administrative functions performed by the DMG for debt issues over which it has oversight. For some number[64] of bond issues, the State has actually appointed the State Treasurer as its indenture trustee, a role typically handled by an independent, third-party corporate trust department.

When the State Treasurer serves as indenture trustee, the DMG's role and duties are expanded and include:

- Assumption of significant fiduciary duties to the bondholders.
- Monitoring fund balances for adequate debt service reserve funds and capital reserve fund allocations.
- Ensuring issuers adhere to provisions of the trust indenture and other bond documents.
- Undertaking other operational risks.

Not surprisingly, the State Treasurer also assumes significantly more liability in the role of indenture trustee.

Again, the State Treasurer is not appointed as indenture trustee on all state revenue bond issues, but may be appointed as indenture trustee when fixed rate revenue bonds are issued. For other types of revenue bonds, the State selects a bank to serve as corporate trustee. For State general obligation bonds, only a paying agent is required to serve the bondholders and the Treasurer's Office appoints a bank to perform this service. Further review of South Carolina Code regarding the selection of a trustee revealed several provisions permitting selection of the State Treasurer or a corporate trustee.

Due in large part to the added liability associated with serving in the capacity of indenture trustee, South Carolina is now unique in appointing the State Treasurer as indenture trustee for our State's own debt obligations. Our subcommittee's review of municipal bond data from Securities Data Corporation for the last five years revealed that only California also had a consistent practice of serving as its own trustee. In the southern states, only Virginia had served as its own trustee on a few transactions in 2005.[65]

The inherent conflict of interest in the practice is another reason why most states refuse to act as trustee of their own bond issues. When acting as indenture trustee, the State Treasurer has a fiduciary duty to serve the best interest of the bondholders (the lenders) in en-

[62] Description of the DMG is taken from the 2009 - 2010 Annual Accountability Report for the Office of State Treasurer.
[63] Data provided by the DMG.
[64] At the time of submission of this report, the DMG had only confirmed State Treasurer as trustee for the State Infrastructure Bank bond issues. However, a review of a website source of municipal disclosure and market data called EMMA (Electronic Municipal Market Access) at www.emma.msrb.org indicated a great number of instances where the State Treasurer was appointed trustee. For example, the State Treasurer was appointed trustee of the University of South Carolina bond issuances.
[65] Bond issuance data from 2005 to present from Securities Data Corporation, a Thomson Reuters business and trusted source of municipal securities information, are attached on page 186.

forcing certain provisions and covenants under the bond documents as against the State (the borrower). As a component of South Carolina State government, a member of both the Budget & Control Board and the State Retirement System Investment Committee, he is generally considered the State's fiscal "watchdog." The State Treasurer also has a duty to serve the best interest of the citizens of the State. This places the State Treasurer in an untenable position when asked to enforce provisions in bond documents against the State. This should be a primary factor to consider when completing the out-sourcing review.

Other states avoid this conflict of interest by appointing an independent bank trust department to serve as corporate trustee. Likewise, in the corporate debt arena the Trust Indenture Act actually prohibits corporate borrowers from acting as trustee for their own debt obligations.[66] The Trust Indenture Act's purpose is to protect the interest of investors in debt securities. It created standards of care for trustees and, although it only applies to publicly-issued corporate bond issues, its rules are the basis for the standards of care used by trustees for municipal bond issues.

Finally, the cost of hiring a trustee bank to act as indenture trustee is likely to be insignificant compared to the efficiencies created by placing these responsibilities in the hands of a qualified entity set up solely for the purpose of handling these types of transactions. In fact, there will likely be a cost savings that can be measured, such as reduced personnel costs, and operational risks will be transferred to a bank, permitting staff resources to be re-allocated to other debt-related functions. The added benefits of employing a professional organization with industry-standard tracking software, and free of potential conflicts of interest, are much greater than any cost associated with outsourcing.

Results/Benefits: The State Treasurer's Office can save money, significantly reduce liability, and avoid conflicts of interest by avoiding the practice of serving as indenture trustee in the State's bond issues. The cost savings are uncertain, and should be quantified prior to outsourcing, but the added efficiencies, avoidance of operational risks, and mitigation of potential liability would produce significant immediate, albeit unquantifiable, benefits.

H.2. Procurement of Trustee and Paying Agent Services

Specific Recommendation: That the State Treasurer serve as the State's paying agent in State bond transactions, rather than continue to pay for these services.

Specific Recommendation: That, as soon as reasonably practicable, the State Treasurer publish criteria for trustee minimum competency, and conduct a competitive, open, and fair procurement for trustee services from qualified bidders.

Rationale and Discussion: The State Treasurer's Office currently pays for agent services it does not need, and potentially pays more than the market rate for trustee services it does

[66] Section 310(5) of the Trust Indenture Act of 1939, as amended in 1990, states in pertinent part, "No obligor upon the indenture securities or person directly or indirectly controlling, controlled by, or under common control with such obligor shall serve as trustee upon such indenture securities."

need. There appears to be an opportunity for substantial savings through a competitive, open, and fair procurement process for trustee services. South Carolina law and basic notions of fairness require such a process.

Eliminate Outside Paying Agents:
The State of South Carolina can save money and eliminate a "middle man" by undertaking the activities of paying agent in each of the State's bond issues. In fact, due to the functionality of the Depository Trust and Clearing Corporation (DTCC) in recent years, this has become a common practice among state debt issuers. South Carolina, however, continues to pay for this service.

The traditional role of paying agent in a bond transaction was to receive debt service payments from the issuer of bonds and distribute those payments to the bondholders in a timely way. Due to the creation and popular use of DTCC, however, the role of paying agent has been dramatically simplified in all but a rare few bond transactions. Established in 1973, DTCC was created to reduce costs and provide clearing and settlement efficiencies by immobilizing securities and making "book-entry" changes to ownership of debt and equity securities.[67] This company's processing lead to the elimination of most certificated securities held in physical form and instead to an evolution to "book-entry" bonds, where DTCC is the registered security owner. Excluding mini-bonds, the State's debt is now issued in book-entry form. Paying agents can now send DTCC wire transfers for principal and interest payments due on each payment date, and DTCC distributes those payments to the ultimate owners of the bonds. Likewise, South Carolina, acting as its own paying agent, can send debt service payments directly to the DTCC for further processing.

The subcommittee's review of data from Securities Data Corporation[68] revealed that other southern states as well as many other states across the country serve as their own paying agent. Unlike the case of the State Treasurer serving as trustee, there are no conflict of interest concerns for the State acting as paying agent, since the same fiduciary duties do not apply.

Presently, the State employs The Bank of New York/Mellon as independent paying agent for each of the State's bond transactions. Based upon information provided to the Subcommittee by the State Treasurer's Office, the terms of that relationship are as follows:

- The Bank of New York/Mellon typically charges a one-time, up-front fee (versus an annual fee) to administer services over the life of each bond issue.
- The Bank of New York/Mellon is charging ten times more than the market rate in South Carolina for this service based on competitive bids submitted in response to the 2006 Request for Proposals,[69] or an average annual fee of $601 per bond issue compared to the proposed annual fee of $60[70] per bond issue of one of the losing bidders in 2006.[71]

[67] Description from DTCC's website at www.dtcc.com.
[68] See page 194.
[69] The Treasurer's Office initiated a request for proposals for trustee services in 2006, which was terminated without an award. See "Competitive, Open, and Fair Procurement" below for a detailed explanation of the Subcommittee's findings regarding the 2006 Request for Proposals.
[70] The Subcommittee confirmed that this bank would charge approximately the same fee today as was submitted in 2006.
[71] See fee comparison report prepared by the subcommittee, attached on page 206, which was compiled from actual fee information of The Bank of New York/Mellon provided by the Treasurer's Office and the actual responses of two proposing banks to the 2006 Request for Proposals. One-time fees were converted to average annual fees by dividing fee by the number of years to original bond maturity.

- The Treasurer's Office pays $70,000 a year in average annual paying agency fees.[72]
- Implementing the direct pay to DTCC will reduce future paying agency costs, but will not recapture one-time fees already paid to The Bank of New York/Mellon.

Despite the issue of the appropriate amount of the paying agent's fee, accepting a one-time fee for long-term contracts (15 years is the average maturity of State debt) is not always the best option when considering possible future events. For example, the State may desire to replace the paying agent due to poor performance; the paying agent may sell the business and the State could end up working with an unhappy successor paying agent that is not earning a fee; the State may have pre-paid for a multi-year service no longer required due to an early bond redemption; or technology may change, and the paying agent may no longer be needed.

Results/Benefits: For future bond issues, the State Treasurer should undertake the responsibilities of paying agent, saving taxpayers approximately $70,000 annually.

Competitive, Open, and Fair Procurement:
Prior to 2006, the Treasurer's Office awarded trustee and paying agent business to a variety of banks based upon a competitive procurement process. That practice ended abruptly in 2006, when a procurement process initiated by the Treasurer's Office ended without an official award trustee. The Subcommittee's inquiry regarding the procurement (the 2006 Request for Proposals) produced testimony and other information supporting the following conclusions:

- In 2006, the Treasurer's Office opened a request for proposals from corporate trustees to serve as a master paying agent on the State's existing and future debt obligations.
- Several banks submitted proposals in response to the 2006 Request for Proposals.
- No bank was ever formally awarded the State's business, and the Treasurer's Office neither produced documentation nor answered questions as to the outcome of the procurement.
- When banks inquired about new business opportunities with the State, they were advised by the Debt Management Group (DMG) that The Bank of New York/Mellon was the only qualified provider of services. Further, banks were told the Treasurer's Office did not believe these other banks would remain in the corporate trust business and the Treasurer Office's did not want its business "sold" to another bank.
- The State Treasurer entered into a Master Paying Agent Agreement with The Bank of New York/Mellon in 2008 (the Master Paying Agent Agreement). The agreement covered services for State bonds issued after the agreement's execution date. Other banks were not afforded the opportunity to submit their qualifications or a fee proposal for the Master Paying Agent Agreement.
- Some banks have also encountered resistance from the DMG to serving as trustee on other State debt not managed by the Treasurer's Office. Despite the fact that the Treasurer's Office does not publish a listing of qualifications to serve as a corporate trustee, some banks (including national banks) were advised that they were not qualified to conduct corporate trust business in the State.

[72] This total was extrapolated from information provided by the Treasurer's Office.

- The DMG has requested that other issuers of State debt select The Bank of New York/Mellon to serve as trustee, instead of the bank of their choosing.
- The Master Paying Agent Agreement references The Bank of New York/Mellon's "standard fee schedule" in place when bonds are issued as the governing fee schedule for South Carolina's transactions, and has no specific information about fees.
- DMG indicated they do not have The Bank of New York/Mellon's standard schedule of fees nor do they have a standing fee agreement with the bank. Instead, the bank provides proposed pricing for each issue at inception, which is reviewed by the office of state Treasurer for reasonableness.

Although no informed conclusions can be made about what happened to the 2006 Request for Qualifications or why all but one of the responding financial institutions were eliminated from consideration, it is clear that the process failed. First, there were, and still are, no published criteria for qualifying trustees to serve the State. Secondly, transparency was completely absent from the process.

There are several very capable banks doing business in South Carolina that regularly provide corporate trust services, some of which are recognized nationally as leading competitors in this service area. These banks are good corporate citizens employing, in some cases, hundreds of South Carolinians. They have branches throughout our State, and pay millions of dollars in property, payroll, and other taxes to our State and its subdivisions each year. These banks have a significant financial impact on the State's economy, and are actively involved in our communities. All they have asked for is an opportunity to win the State's business by being the most competitive. The Treasurer's Office owes them a competitive, open, and fair procurement process.

The Treasurer's Office should distribute a request for proposals for trustee services from qualified banks, based on published criteria for qualification. The proposal's scope should be for existing trustee business based on a competitive fee and other delineated factors of importance to the Treasurer's Office.[73] As new bonds are issued, subsequent or periodic requests for proposals should then be distributed. As legislated by the General Assembly in Act 72, all requests for proposals should afford the appropriate preference to banks with a presence in our State to encourage employment and economic development when the State expends funds.[74]

The establishment of formalized qualifications to serve as trustee for debt of the State, its agencies, and institutions will provide much-needed transparency and consistency. Qualifications should be incorporated into the DMG's procedures and posted on the State Treasurer's website for reference purposes. Indenture trustee qualifications should include, among other things:

- Standard rating threshold of Investment Grade.
- Audited annual financial statements.
- No major audit findings in Statement of Accounting Standards (SAS) 70 report of

[73] Example of a Trustee Requests for Proposal where preference is awarded to entities operating in the State of South Carolina is attached hereto on page 204.
[74] South Carolina General Assembly , 118 Session, 2009-2010, Act 72, states, "Whereas, the General Assembly finds that it is crucial to this state's economic recovery to purchase goods manufactured and produced in the State, maintain the circulation of the funds of the citizens of this State within this State, and encourage and facilitate job development and economic growth by providing both assistance and opportunity to this state's small businesses to participate as providers and vendors of goods and services to the State…"

trustee operations.

- Minimum Errors & Omission and other insurance coverages.
- Minimum capital requirements.

Results/Benefits: Transparency, fairness, and lowest cost provider.

H.3. Audit Debt Management Group

Specific Recommendation: That the Treasurer's Office hire a qualified auditor to conduct a review of bond activities performed by the Debt Management Group.

Rationale and Discussion: As previously stated, the Treasurer's Office manages several billion dollars of outstanding debt. The office administers various types of debt including general obligation and revenue bonds. Legal documents can be voluminous and contain complex compliance and regulatory reporting requirements. Ever changing market conditions affect revenue streams, investment options, and regulatory oversight. Given the dollar amount of the transactions, errors or oversights may result in potentially significant exposure to State. These factors mandate a thorough review of Treasurer's Office functions by an auditor who is well versed in the nuances of public finance to ensure State resources are adequately protected.

The Treasurer's Office is audited annually. Both the Independent Accountant's review of agreed upon procedures and the statewide GAAP audit test appropriateness and accuracy of cash receipts and revenues, non payroll disbursements and expenditures, journal entries, operating transfers and appropriation transfers.[75] However, the typical scope of these exams involves the review of isolated, large dollar transactions versus the review of bond activity by issuance over the course of a year. Such recommended review should examine compliance, investment, fund balance, cash flows, and bond payments. An auditor should review a sample of various types of bond accounts in their entirety to verify adherence to terms of governing documents and department policy and procedures, identify internal control weaknesses, and recommend areas of improvement. Additionally, the review should examine the processing capabilities, reporting and access controls of the Debt Management System, and the legacy system developed and supported internally.

Results/Benefits: Sound operating practices dictate a thorough review of significant department functions where the potential risk for exposure is high. Periodic review of bond activity by a qualified auditor will provide the State Treasurer with an independent report indicating whether the bond issuances have been administered in accordance with legal documents and regulatory requirements.[76]

[75] Descriptions of examinations are extracted from State Treasurer's Office Accountability Report and Independent Auditors Agreed Upon Procedures Report as listed on the State Treasurer's website.
[76] Draft example of Debt Management Group audit scope and bond issuance review form is attached on page 212.

I. SCEIS

I.1. South Carolina Enterprise Information System (SCEIS)

Specific Recommendation: That the Treasurer's Office evaluate and consolidate existing technology to reduce the number of systems, in an effort to increase efficiencies and streamline technology. Ensure the implementation of the South Carolina Enterprise Information System (SCEIS) is successfully completed by June 2011.

Rationale and Discussion: The STO has approximately fourteen (14) different systems in addition to SCEIS.

SCEIS, built on SAP software and mandated by the SC Legislature (Act 151 of 2005), has been successfully implemented in 69 agencies. The enterprise system has human resource, payroll, finance, and procurement functions. The goal of the single integrated platform is to streamline processes and increase efficiencies.

SCEIS, when fully implemented, will include seventy-two state entities, including the legislative branch; higher education institutions are exempt from SCEIS. The Department of Transportation and the legislative branch have not converted to SCEIS. This is a critical step in the successful retirement of the legacy Statewide Accounting and Reporting System (STARS). Conversion of legislative branch entities has yet to be resolved. The interface between the two systems requires a "cross walk" of almost every transaction between the two systems that will continue until these remaining agencies are converted. The Comprehensive Annual Financial Report (CAFR) was recently completed using the 30-year-old legacy accounting system – not SCEIS.

In addition to SCEIS, other STO systems (approximately 14) include debt management, investment, and cash management. The sheer number of STO systems, is difficult to manage and many of the systems have been in existence for a number of years and often do not integrate with SCEIS. The integration of these systems to SCIES should be examined.

Results/Benefits: STO involvement in SCEIS is critical to ensure the legacy system is retired and all 71 agencies are converted to SCEIS by the end of the 2010-2011 fiscal year. Timely, accurate, and complete information provided through SCEIS will benefit and empower decision-makers, ensure transparency, and improve the way government works for the citizens of South Carolina.

All other systems should be reviewed to ensure they are necessary and benefit the agency's mission.

J. 529 Plan

J.1. Regular Bids for 529 Plan

Specific Recommendation: That the STO regularly bid out the state's 529 Plan. The STO could issue a RFP Plan, issue a RFP through NAST, or issue select RFPs to the top five plan administrators, as selected by the 2010 Morningstar Survey.

Rationale and Discussion: The State Treasurer's Office currently administers three 529 College Savings Plans: (1) Future Scholar 529 College Savings Plans – Advisor Programs; (2) SC Tuition Prepayment Program; and (3) Future Scholar 529 College Savings Plan – Direct Investment Program. (One of these programs, the Prepayment Program, is currently inactive.) These programs are administered through Banc of America Capital management, LLC, a subsidiary of Bank of America, N.A. The subcommittee reviewed a Contract for Program Management Services to the South Carolina College Investment Program, dated January 1, 2002. It does not appear that the program has been put out for bids since that time.

The Subcommittee heard conflicting reports regarding the plan's performance. Savingforcollege.com's website ranked state's performances for direct-sold 529 Plans. These rankings (page 221) were updated for September 1, 2010. South Carolina's Future Scholar 529 College Savings Plan (direct-sold) were ranked (2010, 2nd Qtr) as follows (with 1 being the best and 51st the worst):

One-year top Performing: 34th
Three-year: 12th
Five-year: 6th

This website also provided five cap rankings, which report their opinion of the overall usefulness of the state's 529 Plan based upon many considerations. South Carolina's Plan ranked as follows, with one to five caps, with one being least attractive:

Program	Resident Ranking	Non-Resident
Future Scholar (Advisor Sold)	5 Caps	4 Caps
Future Scholar (Direct Sold)	5 Caps	(Not Open)
Tuition Prepayment Program	(Not Open)	(Not Open)

Morningstar recently issued a detailed survey in 2010 called the 2010 529 College – Savings Plans Research Paper and Industry Survey. The Morningstar Report noted that 529 college-savings plans were created in 1997 by Internal Revenue Code Section 529, which allowed individuals to grow college savings in tax-free programs sponsored by the states. The plans took off in the early 2000s after a set of 2001 tax reforms made withdrawals for postsecondary educational expenses tax-free. Savers don't get federal tax breaks on their contributions, but many states provide incentives such as fee waivers, matching grants, scholarship programs, and, perhaps most importantly, state income-tax breaks on at least a portion of one's annual contributions to a 529 account.

As of October 2010, there were 82 529 plans, with many states having more than one plan, and three states –Washington, Wyoming, and Tennessee—having none. Often, states have one plan sold directly to individuals (direct-sold plans) and another plan sold through financial advisors (advisor-sold plans). Direct-sold and advisor-sold plans from the same states often feature different sets of options run by different asset-management companies, and the fee schedules usually are wide apart, with direct-sold plan options costing a fraction of their advisor-sold counterparts. Those lower-cost, direct-sold plans represent $57 billion of assets, or 48 percent of the industry's total. (As may be seen below, South Carolina has a considerably smaller percentage of direct-sold plans.

South Carolina's assets under management were structured as follows:

Total Assets	Advisor-Sold Assets $	Advisor-Sold %	Direct-Sold Assets $	Direct-Sold %
$1,126,786,173	$815,673,488	72%	$311,112,685	38%

The Morningstar Report contains a host of surveys. One was the average Morningstar Ratings for Investment Options within 529 Plans. Franklin Templeton 529 College Savings Plan for New Jersey topped the list with an average Morningstar Rating of 4.29 stars. Three of the top ten Plans were administered by College America, College Advantage and Vanguard 529 College Savings Plan. South Carolina's rankings out of 76 ranked were as follows:

Future Scholar 529 (Direct): 25th
Future Scholar 529 (Advisor): 46th

Morningstar also looked at five year annualized returns for 529 Plans' age-based tracks. Out of the 81 Plans measured with 1st being the best, South Carolina ranked as follows:

Future Scholar 529 (direct): 47th
Future Scholar 529 (Advisor): 54th

Morningstar also looked at fees. Morningstar noted that program-management fees coming down as 529 contracts have been put up for bid or renewed with existing program managers. For example, Nebraska's College Savings Plan recently announced it was hiring First National Bank of Omaha as its program manager, replacing Union Bank & Trust, and cutting the program-management fee to 0.29 percent from 0.60 percent - a considerable savings for shareholders. Fidelity, T. Rowe Price, and Vanguard also made high-profile cuts to many of the fees associated with their plans, and those savings typically came by lowering the program-management fee. The Fidelity plans in states such as California and New Hampshire, for instance, trimmed their program-management fees on the indexed age-based options by half, to 0.15 percent. Meanwhile, the program-management fees on its actively managed

age-based options dropped by a third, to 0.10 percent.

Much of the variability in fees among 529 plans stems from the program-management fees. Some 39 plans had greater asset-weighted program management fees than South Carolina's (0.20 percent). Thirteen states had the same fees (0.20 percent), and 19 plans had lower fees.

Morningstar also looked an Plan's asset-weighted expense ratios. South Carolina fared poorly in this regard. Only eight Plans have a higher expense ratio than the Future Scholar 529 (Advisor) with an expense ratio of 1.69 percent. Future Scholar 529 (Direct) fared much better at 0.52 percent).

Lastly, Morningstar evaluated 529 plans in five different areas – portfolio, performance, price, parent, and people – to determine an overall analyst rating.

Plans that earned the top rating were best-in-class across all five areas. The plan's investment options are easy to own and are run by experienced managers who work for firms with excellent stewardship practices. These plans have performed well given their strategies and charge a fair price.

Morningstar 529 Plan Analyst Rating — Top

State	Plan Name	Sales Channel
Alaska	T. Rowe Price College Savings Plan	Direct
Maryland	Maryland College Investment Plan	Direct
Nevada	The Vanguard 529 College Savings Plan	Direct
Ohio	CollegeAdvantage 529 Savings Plan	Direct
Virginia	CollegeAmerica	Advisor

Morningstar's rankings were Top, Above Average, Average, Below Average and Bottom. (Only three states received Below Average, and only one state was rated Bottom.) South Carolina's Plan was ranked Average. As Morningstar noted, "there's nothing wrong with investing in a plan that earns Morningstar's Average rating, particularly if an investor is sticking with a local plan to take advantage of in-state tax benefits and probably isn't going to save more than $20,000 for a beneficiary. To be sure, Average plans aren't best-in-class in all areas. Usually, the quality of their investments is fine but not outstanding. Some Average plans' fees are too high — especially absent tax breaks from the state."

K. Local Treasurers and Local Government Pool

Treasurer-Elect Curtis Loftis has expressed the desire to manage the State Treasurer's Office (STO) with an emphasis on how the STO may better serve the local county treasurers. It is anticipated that this approach will include a renewed degree of communication between the STO and local treasurers. The initial objective would be to establish a training curriculum to make the STO's resources of experts available to the local treasurers on a regular basis. Training would be driven by current needs of the local governments.

Specifically, in regards to the Local Government Investment Pool (LGIP), the Subcommittee discovered that a number of counties are not aware of this state-run investment pool. It is the intent of the STO to promote this resource and further educate local governments regarding the benefits of this investment option.

Furthermore, the STO proposes to assign a specific deputy to a manageable number of counties taken from every population group (see source, Table 1, Population Groups, S. C. Association of Counties) so that every local treasurer would have personal access to the STO.

Finally, in an attempt to establish a new paradigm, the STO anticipates that it would be a ready resource for the interpretation of the duties of the county treasurers as per the codification of duties enumerated in the SCATT (S.C. Auditors, Treasurers and Tax Collectors)

Treasurers Manual. A centralized, interpretative resource at the STO would keep forty-six (46) individual local treasurers from having to seek Attorney General's opinions.

Table 1
Population Groups

	Group 1	Group 2	Group 3	Group 4
Population -- 2000 Census	Over 100,000	50,001-100,000	25,001-50,000	25,000 and under
Counties	Aiken Anderson Beaufort Berkeley Charleston Florence Greenville Horry Lexington Pickens Richlands Spartanburg Sumter York	Cherokee Darlington Dorchester Georgetown Greenwood Kershaw Lancaster Laurens Oconee Orangeburg	Abbeville Chester Chesterfield Clarendon Colleton Dillon Marion Marlboro Newberry Union Williamsburg	Allendale Bamberg Barnwell Calhoun Edgefield Fairfield Hampton Jasper Lee McCormick Saluda
	14 Counties	10 Counties	11 Counties	11 Counties

K.1. SCDMV

Specific Recommendation: That the SC Department of Motor Vehicles (SCD-MV) print and mail county vehicle tax receipts along with registration renewals and decals.

Rationale and Discussion: There is sufficient room on SCDMV vehicle registration stock (491-AVC Registration Mailer Forms) to add a generic county paid tax receipt.

This move would eliminate duplication of services and save a significant amount of taxpayer dollars.

Results/Benefits: (Annual and Recurring) Savings of approximately $2,000,000 per year to the counties.

L. Independent Audit

L.1. Independent Audit

Specific Recommendation: That the Treasurer-Elect request a GAAS and Internal Control Audit.

Rationale and Discussion: In light of the vast responsibilities of the STO, an audit of the agency will:

- Provide assurance to the taxpayers, the Governor, the Legislature, the rating agencies, and the financial community
- Could produce findings and recommendations that would ultimately lead to improving performance, internal controls, and stewardship
- Demonstrate openness and transparency
- Set a high and consistent standard that could be followed annually

The Request for Proposal (RFP) should include the cost of each audit and an estimated ending date. Timely completion of the audit is critical to the transition.

Results/Benefits: A GAAS and internal control audit is necessary. The STO will benefit from the audit and the cost should be considered reasonable bearing in mind the billions of dollars for which the Office of the State Treasurer is responsible.

Board of Financial Institutions Subcommittee Report

Introduction and Purpose

The South Carolina State Treasurer and accompanying State Treasurer's Office (STO) serve as the 'private banker' for South Carolina. The STO 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 the receipt and disbursement of all funds; coordination of all banking services; issuance and maintenance of all State debt; and trusteeship of unclaimed property. The STO works and communicates regularly with the credit rating agencies about the State's debt in order to achieve the highest credit rating possible.

The Treasurer is also Vice Chairman of the State Budget & Control Board. The five-member Board is the core of South Carolina's State Government, handling functions managed by the Governor's office such as the SC Retirement System, State Procurement, State Insurance Programs, The Budget Office, the State Auditor's Office, the State Human Resources' Office, and the State Technology Office.

The Treasurer is additionally one of the five members in the South Carolina Retirement System Investment Commission, which controls a thirty billion dollar investment pool that endeavors to maximize the return of the System's assets while safeguarding the funds for the State's retirees.

Lastly, the Treasurer is the Chairman of the State Board of Financial Institutions (BFI). The BFI supervises the financial institutions under its jurisdiction through two divisions: the Bank Examining Division and the Consumer Finance Division. Oversight of the divisions includes the promulgation of regulations and instructions relating to the supervision of financial institutions; the consideration of applications for new banks, trust companies, savings and loan associations, credit unions, consumer finance licenses, and pre-need funeral contract licenses for funeral homes; and the consideration of applications for branches of banks, savings and loan associations, credit unions, and trust companies.

As set forth below, this subcommittee reviewed the following subject areas:

M. Attracting and Keeping State-Chartered Banks
N. BFI Budget, Workforce, and Performance
O. Taxation Realignment Commission (TRAC) Review
P. State Business with State-Chartered Banks
Q. BFI Technology
R. Payday Lending
S. Frank-Dodd Act

THE SOUTH CAROLINA BOARD OF FINANCIAL INSTITUTIONS

The South Carolina Board of Financial Institutions, formerly known as the South Carolina State Board of Bank Control, supervises financial institutions under its jurisdiction. This supervision is handled through its two divisions – the Banking Division and the Consumer Finance Division.

The mission of the State Board of Financial Institutions is to serve the citizens of the State of South Carolina by preserving a sound State-chartered financial community and protecting the borrowing public by ensuring that the state banking and consumer finance laws and regulations are followed. The State Board of Financial Institutions is responsible for the supervision, licensing and examination of all State chartered banks, savings banks, credit unions, trust companies, mortgage companies (non-depository), consumer finance companies, deferred presentment companies, and regular check cashing companies.

The State Board of Financial Institutions consists of a ten member board that meets monthly. The State Treasurer is the Chairman and ex officio member. The Governor appoints the other nine members with the advice and consent of the Senate. The Commissioner of Banking heads the Banking Division, which examines and supervises State chartered banks, savings banks, credit unions and trust companies. The Consumer Finance Commissioner heads the Consumer Finance Division, which examines and supervises consumer finance companies, deferred presentment companies, and regular check cashing companies.

From 1936 to 1976, the Board was known as the South Carolina State Board of Bank Control. Effective July 1, 1976, all references to "the Board" means the State Board of Financial Institutions.

LEGISLATION RELATED TO THE BOARD OF FINANCIAL INSTITUTIONS

SECTION 34-1-10. Definitions applicable to Title.

Except when otherwise specifically provided "bank" as used in this title must be construed to include all institutions doing any kind of banking business whose deposits are eligible for insurance by the Federal Deposit Insurance Corporation, excluding a savings bank, and "building and loan association" as used in this title must be construed to include a mutual or stock savings association, savings and loan association, or savings bank and all other institutions doing any kind of building and loan business whose deposits are eligible for insurance by the Federal Savings and Loan Insurance Corporation.

SECTION 34-1-20. Appointment of members.

The State Board of Financial Institutions is composed of ten members, one of whom is the State Treasurer as an ex officio member and as the chairman. The remaining nine members must be appointed by the Governor with the advice and consent of the Senate. Four must be engaged in banking and recommended by the South Carolina Bankers Association, one must be recommended by the association of supervised lenders, one must be engaged in the licensed consumer finance business as a restricted lender or a supervised lender and recommended by the Independent Consumer Finance Association, two must be engaged *in the cooperative credit union business and recommended by the State Cooperative Credit Union League, and one must be unaffiliated with a financial organization and serve as a representative of the consumer of the State. The terms of the present members are not affected. Each member shall represent the best interests of the public and shall not serve more than two consecutive four-year terms. The association which is to provide a member to fill a vacancy on the board, except for a consumer representative, shall submit three names, from three different institutions, from which the Governor shall select one.*

SECTION 34-1-20. Appointment of members.

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This Section indicates that there are eleven (11) members of the Board. This should be reviewed.

SECTION 34-1-30. Terms of members; vacancies.

The Governor originally having appointed four members of the Board, one to serve for the term of one year, one for the term of two years, one for the term of three years and one for the term of four years, the successors of the present members, upon the expiration of their respective terms of office, shall be appointed for a term of four years and until their successors are appointed and have qualified. All vacancies shall be filled in the same manner as regular appointments.

BANKING DIVISION

The Commissioner of Banking heads the Banking Division, which examines and supervises State chartered banks, savings banks, credit unions and trust companies. Laws governing entities regulated by the Office of the Commissioner of Banking are primarily found in Title 34 of the South Carolina Code of Laws and Chapter 15 of the South Carolina Code of Regulations.

In addition to meeting the statutory requirements for the establishment and supervision of state-chartered banks, savings and loan associations, savings banks, and credit unions, the Bank Exam-

ining Division has several significant other duties. A review of capital adequacy, earnings, and past due and nonaccrual loans is performed quarterly on all banks, and the reviews are utilized to determine supervisory strategies. All examinations of financial institutions are completed within the time frames required by law. In addition to on-the-job training in the field, examiners are sent to Federal Deposit Insurance Corporation and Federal Reserve Board sponsored schools. Some examiners also attended the Graduate School of Bank Investments and Financial Management at the University of South Carolina. The Division continuously reviews and solicits ideas through staff meetings on ways to improve operations without compromising the mission of the agency. During fiscal year 2009, there were no bank failures, and in the last 30 years, there have been only two failures of institutions regulated by the Board of Financial Institutions.

The powers of the Board are enumerated in Section 34-1-60:

SECTION 34-1- 60. Powers.

The Board may supervise all banks and building and loan associations and provide regulations and instructions for the direction, control and protection of all such institutions, the conservation of their assets and the liquidation thereof, as may be necessary or proper to effectuate the purposes of this Title.

The duties are more fully spelled out in Section 34-1-70:

SECTION 34 1 70. Approval of charters of banks, building and loan associations, savings and loan associations, and savings banks; approval of branches.

No bank, building and loan association, savings and loan association, or savings bank may be granted a charter by the Secretary of State unless and until the Board has approved the application in writing. No branch bank, branch building and loan association, branch savings and loan association, or branch savings bank may be established without the approval in writing of the Board. Before any application for the incorporation of a bank, building and loan association, savings and loan association, or savings bank, or the establishment of a branch thereof may be approved, the Board shall make an investigation to determine whether or not the applicants have complied with all the provisions of law, whether in the judgment of the Board they are qualified to operate the institution and whether the establishment of the bank, building and loan association, savings and loan association, or savings bank or of a branch thereof, would serve the public interest, taking into consideration local circumstances and conditions at the place where it proposes to do business. A remote service unit as defined in Section 34 28 30 is not considered a branch of a bank, building and loan association, savings and loan association, or a savings bank and is not subject to any of the provisions of this section applicable to branch applications.

As the main role of the Commissioner of Banking is to examine banks, it is more fully explained in Section 34-1-80 and Section 34-3-310:

SECTION 34 1 80. Examining department; Commissioner of Banking.

The board shall set up an examining department, appointing a Commissioner of Banking in *charge with assistants, to be appointed by him subject to the consent of the board, as necessary to perform the duties incidental to the work of the board. The term of office of the Commissioner of Banking and his assistants is at the pleasure of the board. The board may also examine the Business Development Corporation of South Carolina and Carolina Capital Investment Corporation.*

SECTION 34-3-310. Examination of banks.

The State Board of Bank Control may cause to be made at any time such examination of the affairs of any bank as it may deem necessary to inform it as to the financial condition of such bank and the Commissioner shall make a report thereon to the Board at the earliest practicable date.

COMMISSIONER OF BANKING DIVISION

The current Commissioner of Banking is nearing retirement age. Members of the subcommittee met with the Commissioner on November 10, 2010. He stated that the main job of the Banking Division is to determine compliance with the laws and regulations of the State and to monitor the operations of these institutions. Currently the Division supervises 49 banks, 15 credit unions, a savings and loan, a savings bank and two trust companies. Assets under the Banking Division's supervision total approximately $24 billion.

The Banking Division currently has a staff of 18 (six office, 11 bank examiners, one credit union examiner), but has seven vacancies – 25 full-time employees.

INTERVIEWS WITH STATE-CHARTERED BANKS

The Subcommittee interviewed 8-10 state-chartered banks as well as the South Carolina Banker's Association. Many issues were touched upon during the interviews.

M. Attracting and Keeping State-Chartered Banks

M.1. Increased STO Involvement in State-Chartered Bank Retention and Expansion

Specific Recommendation: Become involved at the organizational stage when any new banks are being formed.

Specific Recommendation: Contact federal thrifts and other federal banks headquartered in the state and see if there is an interest in converting to a state-chartered bank.

Specific Recommendation: Reach out to existing state-chartered banks to be sure they are happy and have full knowledge of the benefits of being chartered here.

Rationale and Discussion: The key goal of the Banking Division is to ensure that procedures are in place to adequately monitor the safety and soundness of financial institutions under the State Board of Financial Institutions jurisdiction, to ensure that statutory responsibilities are met, and to ensure that the interests of the citizens of South Carolina are protected.

It was apparent the two main benefits for being a state chartered financial institution are as follows:

- Direct contact with the regulator, who is assigned to your bank, and with the Commissioners over each division.
- Supporting the State of South Carolina.

Here are some of the comments from the interviews, not in any particular order:

- "State banks can do all that a Federal bank can do, interstate banking, etc."
- "As a state-chartered bank he can't open a branch in North Carolina without a new charter with the state of North Carolina. The Dodd-Frank law may have overruled that."
- "There is not much difference between a state bank and a Federal bank. You still need FDIC approval to sell stock."
- "The main advantage of being state-chartered bank is that you can use political clout with state guys."
- "The State needs to take a bigger role in governing banks rather than letting the FDIC be in charge."
- "The income tax rate on banks in South Carolina is only four and a half percent."
- "There is no personal property tax on banks' personal property in South Carolina."
- "We feel like our destiny is controlled by someone in Columbia rather than in Dallas, Atlanta or D.C."
- "Whether to be a state or federal bank is up to where we are in the 'life cycle.' Right now the OCC is very rigid. It changes over time."
- "Several federal banks that are regulated by the OCC would probably prefer to be a state bank. The OCC has become draconian."
- "I think the state could get more banks to become state-chartered banks if the BFI would be more pro-active in the organizational stage."
- "I think the OCC has taken a draconian approach to bank exams."
- "OCC has told its supervisors to get rid of community banks. BFI should not take risky banks but build the department up with state-chartered banks. OCC is on a mission. They like the Canadian model – only 8 or so banks in the whole country. Our banking industry employs a great number of folks. OCC has no concern about closing banks and putting people out of work."

IS THE NUMBER OF STATE CHARTERED BANKS SHRINKING?

The first challenge facing the Banking Division is the shrinking number of state chartered banks and credit unions in South Carolina. This is a concern as the operating budget of The State Board of Financial Institutions is met from the operating fees assessed to the financial institutions which it regulates and licenses. This means that the agency operates on 100 percent Other Funds (revenue derived from supervisory and licensing fees). As a reduction in financial institutions occurs, it seems logical the remaining financial institutions operating fees will have to increase to offset the decline in number. We need small banks as banks with assets of less than $1 billion have been declining. These trends are worrisome as small banks originate a disproportionately large share of small business credit.

In evaluating whether to be maintain a federal charter or state charter, each financial institution must analyze the "Value Equation" and/or "Value Proposition". That means that organizations make choices based upon what they value. Many people will pay more for a high-quality product, outstanding service, or for the ultimate in convenience.

All indications are that, over the next five years, the total number of financial institutions will shrink due to mergers, closures, and/or liquidations. It stands to reason that some state chartered financial institutions may look to convert to federal charter if they do not see the overall "value" of remaining state chartered. Hypothetically, federal chartered financial institutions may consider converting to state chartered if there is a perceived "value" to warrant and/or encourage such a conversion. If an increase in state chartered financial institutions occurs, it should result in operating fees leveling off or declining.

The BFI may see an increase in state-chartered banks due to the enactment of the Dodd-Frank Act. The Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173) is a federal statute that was signed into law by President Barack Obama on July 21, 2010. In the past, state-chartered banks were at a disadvantage with regards to *de novo* branching into neighboring states. With the passage of the Dodd-Frank Act, the Federal Deposit Insurance Act and the National Bank Act have been amended to remove the "opt-in" concept introduced by the Riegle-Neal Act. The FDIC and the OCC now have the authority to approve applications by insured state nonmember banks and national banks, respectively, to establish *de novo* branches in states other than the bank's home state if "the law of the State in which the branch is located, or is to be located, would permit establishment of the branch, if the bank were a State bank chartered by such State." Accordingly, if a bank located in the target state can branch, then so can all other out-of-state banks – subject, of course, to standard regulatory reviews and approvals. It will certainly take some time for community bankers and regulators to fully digest the complete regulatory impact of the Dodd-Frank Act, and interpretations of certain provisions of the Act are likely to vary until final regulations are issued. However, bank regulators in many states have indicated that they will begin accepting *de novo* interstate branch applications from out-of-state institutions effective immediately.

It's interesting to note that, in the past, the Riegle-Neal Act barred all financial institutions, **except for federal savings associations**, from branching into other states unless they purchased or merged with a bank located in the other state. This change makes state and national banks more competitive with savings associations, which have always been able to

create *de novo* branches in other states. Now that there is one less competitive advantage to being a federal thrift, such savings associations based in South Carolina may want to convert to state chartered status.

Another reason a federal savings association may want to convert to a state charter is that they will soon be regulated by the OCC. Previously they have been regulated by the OTS. The Dodd-Frank Act will eliminate the OTS. The supervision of federal savings associations will be transferred to the OCC, and supervision of state savings associations will be transferred to the FDIC. The OCC will also have rulemaking authority over both state and federal savings associations, except that the Federal Reserve Board will have rulemaking authority with regard to affiliate transactions, loans to insiders and tying arrangements. Supervision and rulemaking authority over savings and loan holding companies will be vested in the Federal Reserve Board.

The Home Owners Loan Act, which currently governs savings associations, will remain largely intact. The federal thrift charter is preserved, and the OCC is given the authority to grant new thrift charters at its discretion, although the OCC has not indicated whether it intends to authorize new federal savings associations in the future.

The transfer of OTS authority to the other regulators will occur in July 2011 unless extended for six additional months, as is permitted in the Act. While these changes do not occur immediately, the pending change in the oversight of savings associations, along with certain provisions of the Dodd-Frank Act that even the playing field between savings associations and other banks (such as the *de novo* branching provisions), may affect the value of thrift charters today.

Many believe that regulation by the OCC instead of the OTS will be more difficult and expensive. Is it easy for a Federal bank or thrift (supervised by the OCC) to convert to a state-chartered bank? One banker interviewed thinks the STO should call every bank that is regulated by the OCC. He says every one of them would prefer not to be regulated by the OCC. OCC regulators are inconsistent and have sometimes told a bank that they are "satisfactory" one year and then, the very next year, issue a "cease and desist".

Southern Bank & Trust, based out of the Aiken area, is an example of a federal thrift that converted to a state chartered bank. Their conversion occurred in 2010. The process to convert was very smooth and BFI was very accommodating. The time may be right to determine if any of the remaining 21 federal savings associations based in South Carolina would be interested in converting to a state charter.

N. BFI Budget, Workforce, and Performance

N.1. Review of Banking Division Staffing and Revenue Needs

Specific Recommendation: Meet with the Banking Division to determine its staffing needs and what revenue is expected. If increased salaries and more staff are needed, closely review license fees and determine if an increase is needed and viable.

Rationale and Discussion: As stated previously, the operating budget of The State Board of Financial Institutions is met from the operating fees assessed to the financial institutions which it regulates and licenses. This means that the agency operates on 100 percent Other Funds (revenue derived from supervisory and licensing fees). This applies to the Banking Division as well as the Consumer Finance Division. The following code sections make it clear that the fees must be sufficient to defray the cost of operating the BFI.

SECTION 34-3-320. Examination fees; number of examinations annually.

The State Board of Financial Institutions shall fix the examination fees of banks and savings and loan associations on a scale which will yield sufficient revenue to defray the entire expense of examinations for each bank and savings and loan association. Provided, that the board shall make at least one examination every twenty-four months of all banks and savings and loan associations.

SECTION 34-29-30. Application for license; fees.

Application for a license shall be in writing under oath and in the form prescribed by the Board. The application shall contain such information as the Board may require, including the names and addresses of the partners, officers, directors or trustees, and such of the principal owners or members as will provide the basis for investigations and findings contemplated by Section 34-29-40. At the time of making such application, the applicant shall pay to the Board a fee for investigating the application and the sum for a license, as prescribed by the Board, which will yield sufficient revenue to defray the entire expense of operating the Consumer Finance Division of the Board of Financial Institutions for the period ending on the last day of the current calendar year. Such fee shall be computed on the outstanding loan balance of the applicant for license at the end of the last previous calendar year.

To make matters more interesting, the two divisions have their own revenue and it is not commingled. According to the Consumer Finance Division, there is a "carry over" fund because they collect most of their funds in the third quarter (September-December) of the state fiscal year. The BFI can't get funds from the state general fund, but this may not be a bad thing. Although it would nice to have more revenue, BFI would have to go before the state legislature in order to raise its fees – they need legislative approval. Licensing fees are set by statute. It may be difficult to get the legislature to approve an increase (similar to a tax increase) unless BFI got the backing of its member institutions. As our interviews indicated, some bankers were fine with a fee increase if it meant more and better examiners and thus better exams; however, some bankers that were interviewed already feel like they are being hit hard with fees because they pay fees to both the federal government and the state government.

Is this a bad thing for the BFI? As the State of South Carolina has had to face a 17 percent across the board cut, the BFI's revenues have not taken such a hit. The BFI has not had to lay anyone off. Their revenue has been somewhat steady. It does seem clear that fill-

ing examiner positions has been difficult as the pay is not sufficient to keep examiners from jumping to jobs in the private sector. A thorough review of the budgeting issues should be a priority for the STO.

N.2. Review of Banking Division Hiring Practices and Budget

Specific Recommendation: The STO needs to review the Banking Division's current hiring practices and budget. The Banking Division currently has seven openings and it is not shown how the Division is going about filling these positions or even if the budget allows for seven additional full-time employees.

Rationale and Discussion: It is critical that the Banking Division, as well as the Consumer Finance Division, maintain a competent workforce. Because of the travel required for the agency's examiners, attracting and retaining competent employees is a major challenge, which ties into the "Value Proposition" discussed above. If financial institutions do not feel they are receiving a quality examination from their regulator, what is the "value" of remaining state chartered?

Since having a competent and effective staff is crucial to fulfilling the mission of the agency, the agency must seek new opportunities for examiners and support staff development and effective recruitment procedures. This stood out as a major challenge for the agency.

In the area of maintaining a competent workforce, it was mentioned that with the increasing complexity of financial products and the ever-changing regulatory environment, more training of examiners and detailed review are required. The agency must ensure a systematic approach is taken with regards to ensuring that on-going training and education is continued for the examiners and support staff of the agency. As the training and education occurs, the examiners and support staff need to be held accountable for understanding and communicating effectively with the financial institutions they are regulating.

An examiner and/or regulatory agency will lose immediate credibility if they do not know or understand the information that they are reviewing and on which they must pass findings. This of course ties back into the "Value Proposition" discussed above. The bankers interviewed believe that the young examiners leave and go to work for a CPA firm or a bank. State examiners are not the brightest or best; federal examiners are much better. Banks could actually mislead state examiners and get away with it. It's a real challenge.

One good way of educating and training the examiners would involve working closely with the Federal Deposit Insurance Corporation, Office of the Comptroller Currency, and the National Credit Union Administration as well as other regulatory bodies. These agencies have good training and education programs, many of which are online.

N.3. Review of Banking Division Management Succession Plan

Specific Recommendation: As the current Commissioner of Banking is reaching retirement age, there is a need to examine what plans the Banking Division has for succession. Finding a good person may not be easy, as the Banking Commissioner only makes between $70,000 and $80,000. The head of the Consumer Finance Division also recently retired. Succession planning within both divisions of the State Board of Financial Institutions would ensure a smooth transition.

Rationale and Discussion: Obviously, there is a fine line between the regulators and the regulated. That does not mean that the BFI and the bankers that it governs can't get to know each other better. The consensus among the bankers interviewed is that the current Commissioner of Banking does a good job, but could do an even better job if he spent more time visiting banks and bankers and learning first hand from them the issues the banks face every day. The BFI needs to conduct more "outreach" as well as conduct an annual conference focused on industry trends, challenges, opportunities, and information exchange.

N.4. Review of Banking Division Turnover

Specific Recommendation: Consider term limits for Board members.

Rationale and Discussion: Some of the bankers interviewed think there should be term limits. It's important for the Board to benefit from the various perspectives in the banking community.

O. Taxation Realignment Commission (TRAC) Review

O.1. TRAC Economic Impact Study

Specific Recommendation: Meet with necessary stakeholders and determine if an economic impact study should be economically completed to determine the effect of the TRAC changes on banks. It may be that the tax revenue generated may be offset by loss of jobs and loss of bank business in the State.

Rationale and Discussion: Banks and other financial institutions currently enjoy a break on the rate at which they are taxed and are exempt from payment of personal property tax. The Final Report of the South Carolina Taxation Realignment Commission (TRAC) dated December 2010 recommends that both of these breaks be repealed.

The relevant code sections are as follows:

SECTION 12-11-10. "Banks" and "taxpayers" defined.

For the purpose of this chapter and unless otherwise required by the context, the

words "banks" and "taxpayers," whenever used in this chapter, shall mean any person engaged in a banking business, whether incorporated under the laws of this State, any other state or the United States or whether unincorporated, except cash depositories.

SECTION 12-11-20. Tax on income of banks; rate.

A tax is imposed upon every bank engaged in business in the State which shall be levied, collected and paid annually with respect to the entire net income of the taxpayer doing a banking business within this State or from the sales or rentals of property within this State, computed at the rate of four and one half per cent of the entire net income of such bank or taxpayer.

SECTION 12-11-30. Income tax to be instead of other taxes; exceptions.

The income tax provided for in this chapter is instead of all other taxes on banks, except the use tax, the deed recording fee, and taxes on real property. The real property of a bank is taxed in the place where it is located.

As a result of legislation passed in the 1940s, banks, savings and loans, and certain credit unions pay income tax in lieu of all other taxes except deed recording fees, real property, and use taxes. As such, these institutions pay no sales taxes, personal property taxes, or local business license taxes. One would surmise that such financial institutions would therefore pay an income tax at a higher rate than other businesses. In fact, the converse is true; the income tax rate for banks is lower than virtually every other business enterprise tax rate (4.5 percent versus five percent for C Corporations and five or seven percent for individuals, LLCs, S Corporations and the like.) In addition, federally chartered credit unions pay no income taxes.

TRAC has recommended the repeal of the property tax exemption for banks, credit unions, and savings and loans.

As stated above, South Carolina Code Section 12-11-30 (Banks) provides that the income tax paid by banks is in lieu of all other taxes on banks, except the use tax, the deed recording fee, and taxes on real property. The real property of a bank is taxed in the place where it is located.

In addition to banks, South Carolina Code Section 12-13-50 (Building and Loan Associations) provides that the income tax paid by building and loan associations shall be in lieu of any and all other taxes on such association except use taxes, deed recording fees, and taxes on real property. The real property of any such association shall be taxed in the place where it may be located, the same as the real property of individuals.

Although this seems fair and reasonable, don't tell that to the banks. TRAC is looking for revenue and is proposing comprehensive tax reform. Banks pay a flat 4½ percent for every dollar they earn – it is not graduated. Banks plan five to 10 years in advance and to change the tax rate would be disastrous. Banks need time to implement this change in tax rate.

HEREIN IS THE PROBLEM:

1. For every $100,000 in capital that a bank has, it can generate $2.5 million in loans. If you increase their tax rate, that decreases their capital and thus does not allow the bank to grow. This is because of regulated capital/asset ratios.
2. Banks started to move their data centers out of state, but because SC does not charge personal property taxes on banks they elected to stay. If TRAC changes this, then all data centers and other services will move out of state (except retail centers).

According to the bankers interviewed, these TRAC changes will be harmful. No economic impact study has been done to determine the effect of such a dramatic change in the way banks do business. They are concerned that jobs will be lost and banks may go out of business.

P. State Business with State-Chartered Banks

P.1. Collateralization and Pooling Mechanism

Specific Recommendation: The STO should implement the Pooling Mechanism set forth in the 2008 legislation. The STO should seek legislation conforming to state and local public subdivision's collateral requirement. The STO and BFI should educate state-chartered banks on the various methods of collateralization.

Rationale and Discussion: It would make sense for the State of South Carolina to give more of its banking business to state-chartered banks. As many of these banks are small community banks, it has been very difficult for them to compete for the State's deposits. The State of South Carolina deposits millions of dollars in banks big and small. As mentioned above, the bankers interviewed used as a rule of thumb that for every $100,000 in capital (or deposits) that a bank has, it can generate $2.5 million in loans. Therefore, placing state deposits with state-chartered banks will help them to grow. South Carolina has two collateralization statutes. State deposits are regulated by Title 11, Chapter 13. Section 11-13-20 provides:

> SECTION 11 13 20. Deposit of State funds in banks or trust companies.
>
> *To facilitate the disbursement of public moneys, the State Treasurer shall deposit in such bank or banks or trust companies in this State as shall be agreed upon by the State Budget and Control Board or a majority thereof, and as in its opinion shall be secure, all moneys belonging to the State, other than those he may keep in the safe in the vault of the designated bank or trust company, the moneys so deposited to be placed to the credit of the State Treasurer. Such deposits shall draw the best rate of interest obtainable.*

SECTION 11 13 60. Security for state funds deposited in excess of FDIC coverage.

(A) A qualified public depository, as defined in subsection (E) of this section, upon the deposit of state funds by the State Treasurer, must secure these deposits by deposit insurance, surety bonds, investment securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. To the extent that these deposits exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation, the qualified public depository, at the time of deposit, shall:
(1) furnish an indemnity bond in a responsible surety company authorized to do business in this State; or
(2) pledge as collateral:
(a) obligations of the United States;
(b) obligations fully guaranteed both as to principal and interest by the United States;
(c) general obligations of this State or any political subdivision of this State; or
(d) obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation; or
(3) provide an irrevocable letter of credit issued by the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation, in which the State Treasurer is named as beneficiary and the letter of credit otherwise meets the criteria established and prescribed by the State Treasurer. The State Treasurer shall exercise prudence in accepting collateral securities or other forms of deposit security.
(B)(1) A qualified public depository has the following options:
(a) To secure all or a portion of uninsured state funds under the Dedicated Method where all or a portion of the uninsured state funds are secured separately. The qualified public depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.
(b) To secure all or the remainder of uninsured state funds under the Pooling Method where a pool of collateral is established by the qualified public depository under the direction of the State Treasurer for the benefit of the State. The State Treasurer shall determine the requirements and operating procedures for this pool. The depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.
(2) Notwithstanding the provisions of item (1) of this subsection, the State Treasurer, when other federal or state law applies, may require a qualified public depository to secure all uninsured state funds separately under the Dedicated Method.
(C) A qualified public depository shall not accept or retain any state funds that are required to be secured unless it has deposited eligible collateral equal to its required collateral with some proper depository pursuant to this chapter.
(D) The State Treasurer may assess a fee against the investment earnings of various state funds managed or invested by the State Treasurer to cover the operation and management costs associated with this section and Section 6 5 15(E)(1)(b). These

fees may be retained and expended to provide these services and may not exceed the actual costs associated with providing the services.

(E) "Qualified public depository" means any national banking association, state banking association, federal savings and loan association, or federal savings bank located in this State, and any bank, trust company, or savings institution organized under the law of this State that receives or holds state funds that are secured pursuant to this chapter.

The deposits made by cities and counties are covered by Section 6-5-10.

SECTION 6 5 10. Authorized investments by political subdivisions.

(a) The governing body of any municipality, county, school district, or other local government unit or political subdivision and county treasurers may invest money subject to their control and jurisdiction in:

(1) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.

(2) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(3)(i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(4) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

(5) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.

(6) Repurchase agreements when collateralized by securities as set forth in this section.

(7) No load open end or closed end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this

subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

(8) A political subdivision receiving Medicaid funds appropriated by the General Assembly in the annual general appropriations act may utilize appropriated funds and other monies generated by hospital operations to participate in principal protected investments in the form of notes, bonds, guaranteed investment contracts, debentures, or other contracts issued by a bank chartered in the United States or agency of a bank if chartered in the United States, financial institution, insurance company, or other entity which provides for full principal payment at the end of a contract term not to exceed twelve years if the issuer has received a rating in one of three highest general rating categories issued by no fewer than two nationally recognized credit rating organizations. No more than forty percent of the appropriated funds and other monies generated by hospital operations may be invested in the manner provided in this item. Revenue realized pursuant to these investments must be expended on health care services.

(b) The provisions of this chapter shall not impair the power of a municipality, county, school district or other local governmental unit or political subdivision or county treasurer to hold funds in deposit accounts with banking institutions as otherwise authorized by law.

(c) Such investments shall have maturities consistent with the time or times when the invested moneys will be needed in cash.

(d) For purposes of subsection (a), in the case of a defeased obligation, an obligation shall be treated as the obligation of the issuer of the obligation included in the qualifying defeasance escrow for the defeased obligation. A "defeased obligation" means any obligation the payment of which is secured and payable solely from a qualifying defeasance escrow and the terms of which may not be amended or modified without the consent of each of the holders of the defeased obligation. A "qualifying defeasance escrow" means a deposit of securities, including defeasance obligations, with a trustee or similar fiduciary under the terms of an agreement that requires the trustee or fiduciary to apply the proceeds of any interest payments or maturity of the defeasance obligation to the payment of the defeased obligation and when the trustee or fiduciary has received verification from a certified public accountant that the payments will be sufficient to pay the defeased obligation timely. A defeasance obligation must not be callable or subject to prepayment by the issuer and it must be a direct general obligation of the United States and its agencies, or an obligation the payment of principal and interest on which is fully and unconditionally guaranteed by the United States.

Many state banks do not realize that the 2008 legislation created a "Pooling Method" which greatly increases their chance at getting more deposits from the state. It is imperative that the STO push to have these new measures enforced. It would also be beneficial for the STO to look at the different method that cities and counties are using under Section 6-5-10.

Lastly, it was suggested that it would be very beneficial to community banks if they could pledge qualified South Carolina municipal paper for collateralization of state and local deposits.

Q. BFI Technology

Q.1. Uniformity in Reporting

Specific Recommendation: It is clear that the STO should push to have uniformity with the Federal regulations in the reporting process. That will require new technology that could be costly. The STO should determine whether the BFI can secure the funding from its own revenue and, if not, explore other funding sources.

Rationale and Discussion: This leads to the area of technology used by the State Board of Financial Institutions. A thorough review should be performed to ensure the agency uses technology to remain competitive, knowledgeable, and to create efficiencies. The agency wants to ensure key processes are revised to make them more efficient and effective. As knowledge grows and technology changes, key processes must be revised to make them more efficient and effective.

Interviews revealed that the agency uses computers and specialized computer software which assist in producing the primary product, which is the examination report. It was noted that information technology is evaluated periodically within the agency to ensure that examiners and support staff have the necessary tools and training to effectively and efficiently perform their jobs. How this review is performed and completed should be scrutinized to ensure the objectives being discussed are met.

Adequate use of technology could eliminate any duplication of process that may occur between federal regulators and the State Board of Financial Institutions, or any other entity the agency may be in contact with. For example, some state charted financial institutions stated they send their Call Reports required by the federal regulator electronically via a secure website while sending a printed copy to the State Board of Financial Institutions via the mail system. Some question whether a better use of technology could be served to reduce any duplication processes between regulators. There have been complaints that paper reports sent to the state have been lost.

R. Payday Lending

CONSUMER FINANCE DIVISION

The mission of the Consumer Finance Division is to serve the citizens of the State of South Carolina by protecting the borrowing public by ensuring that state consumer finance, check cashing, and mortgage lending laws and regulations are followed. To this end, the Consumer Finance Division is responsible for supervision, licensing, and examination of all non-depository mortgage lenders and their loan originators, consumer finance companies, deferred presentment companies, and regular check cashing companies.

It seems the key issue facing the Consumer Finance Division will be "predatory lenders" and legislation related to the consumer lenders. The industry of check cashing companies and finance companies have earned the label of "predatory lenders" by some in the financial industry, where customers allegedly are charged excessive fees, interest rates, and/or penalty rates for services provided. It has caught the attention of legislators in many states due to what many consider unfavorable practices.

The Commissioner of the Consumer Finance Division retired effective December 1, 2010. It is not known when he will be replaced.

The Consumer Finance Division is responsible for regulating licensing and compliance examinations for non-depository consumer lending licensed under Title 34 and Title 37. Consumer loans made by non-bank/depository lenders with an interest rate exceeding 12 percent must be licensed whether located in or outside of South Carolina. The lenders involved in these activities fall into the following licensing categories:

Restricted Lenders – Consumer Loans less than $7,500

Supervised Lenders – Consumer Loans up to $85,000

Mortgage Lenders/Servicers – All non-depository real estate secured transaction activity
- (A) Mortgage Branch License
- (B) Mortgage Loan Originator License

Deferred Presentment License – Nationally known as "Payday Lending"
$550 maximum

Level I Check Cashing License

Level II Check Cashing License

DISCUSSION OF CONSUMER LENDING IN SOUTH CAROLINA

Two laws regulate consumer lenders in South Carolina. The major loan statute is the South Carolina Consumer Protection Code, Section 37-1-101 *et seq*. (Consumer Protection Code). Chapter 3 of the Consumer Protection Code governs loans. The second body of law relevant to loans is the Consumer Finance Act, S.C. Code Section 34-29-10 *et seq*. The Consumer Finance Act regulates "restricted lenders." Restricted lenders are "restricted" to lending amounts of $7,500 or less. (See Section 34-29-20(a).) All other consumer lenders in South Carolina are regulated solely by the Consumer Protection Code and are known as "supervised lenders." The Code defines supervised loans as those having finance charges in excess of 12 percent a year. (See Section 37-3-501(1).)

The Consumer Finance Act regulates licensing procedures, rates, and charges for restricted lenders. In all other areas, such as advertising, disclosure, and limitations on remedies and penalties, restricted lenders are subject to the Consumer Protection Code (See Section 37-3-102). Sometimes inconsistencies between the two Acts occur in areas where the Consumer Protection Code would otherwise be followed. In those cases, the Consumer Protection Code provides that inconsistencies shall be resolved in favor of the Consumer Finance Act. (See Section 37-1-106.)

To make matters more complicated, one must remember the interplay between state and federal law when dealing with loans. The Truth in Lending Act (TILA) regulates the form of information contained in a loan contract, whereas state law regulates the content. The Consumer Protection Code incorporates TILA by requiring lenders to comply with TILA's provisions (Section 37¬3-301) and also authorizes a state cause of action for disclosure violations (see Section 37-5-203). This cause of action is in lieu of and not in addition to the federal cause of action. The Consumer Finance Act, at Section 34-29-150, also requires disclosures similar to those required under TILA except that the Consumer Finance Act contains no penalties for borrowers in the event a restricted lender does not follow the disclosure requirements.

In analyzing a loan contract, it is important to remember that everything in the contract is regulated in some fashion and violations of those regulatory provisions may give rise to claims in favor of the borrower. These claims usually arise in response to a collection action by a creditor following a default by the borrower.

DISCUSSION OF "RESTRICTED LENDERS"

Restricted Lenders – There are currently 13 licensed restricted lenders in South Carolina.

Licensed and regulated under Title 34 Chapter 29 (Consumer Finance Act) to make consumer loans less than $7,500. Interest rates and terms are regulated by statute.

Requirements for licensure:

- $25,000 unencumbered assets for each license
- Location separate and distinct from any other business where goods are sold or leased
- Owners/officers must meet character and fitness criteria (via credit checks, business references, regulatory references in operating in another state, personal references, name based criminal background searches through SLED)
- Meet convenience and advantage to public by written explanation of business model. Other license types in area may protest additional license issuance unless there is less than two in area.
- Disclosure of any regulatory actions, fines, and/or revocations from any governmental entity
- File rates with SC Department of Consumer Affairs and post rates in location
- Renewal fees paid annually
- Exams required annually by statute for compliance with Title 34, Chapter 29, and Federal Truth in Lending guidelines
- Submission of annual reports for review and analysis

According to the Consumer Finance Division, the number of restricted lenders has decreased substantially over the years and has plummeted since Section 34-29-140 put a

legislative cap on loans of less than $600. There are only 13 left. Act 602, enacted in 1994, restricted loans of less than $600. It created a formula that determined what the interest rate would be. Therefore, payday lenders got out of that business. For loans over $600, the rate is not restricted.

DISCUSSION OF "SUPERVISED LENDERS"

Supervised Lenders – There are currently 1,402 licensed supervised lenders in South Carolina.

"Supervised Lenders" are licensed under Title 37 Chapter 3 to make consumer loans up to $85,000. They are regulated under Title 37 Chapters 1, 3, 4, 5, 6, 10; portions of Title 36 (UCCC). Terms and rates on loans $600 and less are regulated by statute. Loans over $600 have unregulated interest rates as long as rates are filed with SC Department of Consumer Affairs and posted in location and/or internet site if applicable.

Requirements for licensure:

- $25,000 unencumbered assets for each license
- Location separate and distinct from any other business where goods are sold or leased
- Owners/officers must meet character and fitness criteria (via credit checks, business references, regulatory references in operating in another state, personal references, name based criminal background searches through SLED)
- Meet convenience and advantage to public by written explanation of business model. Other license types in area may not protest additional license issuance.
- Disclosure of any regulatory actions, fines and or revocations from any governmental entity
- File rates with SC Department of Consumer Affairs and post rates in location
- Examinations per statute are determined as needed by Director and/or Board
- Submission of annual reports for review an analysis

DISCUSSION OF MORTGAGE LENDING ACT ENACTED AS OF JANUARY 1, 2010

Senate Bill #673 (Now Section 37-22-110 et. seq.) enacted the South Carolina Mortgage Lending Act in response to the national S.A.F.E Mortgage Licensing Act of 2008. South Carolina's Mortgage Lending Act requires the licensing of mortgage lenders and loan originators and establishes qualifications for licensure and grounds for revocation, suspension, renewal, and termination; describes prohibited activities; outlines record-keeping, annual reporting and renewal requirements; provides for enforcement through administrative action by the Commissioner of Consumer Finance Division of the Board of Financial Institutions and through criminal penalties. It also authorizes participation in the National Mortgage Registry, a nationwide database licensing system for the residential mortgage industry that will improve supervision of the mortgage industry, streamline the licensing process and enhance consumer protection.

Mortgage Lenders/Servicers/Mortgage Loan Originators (Effective 1/1/10)

(Current company applications received 327; 407 branch applications received; 2796 mortgage loan originator (MLO) applications received

- Licensed and regulated under Title 37 Chapter 22. Other licensing and regulation also mandated by Title 37 Chapter 23, Chapter 10, Chapter 3
- Federal S.A.F.E. Act, Federal Truth in Lending, Federal Reserve Regulation Z and Federal Real Estate Settlement and Procedures ACT (RESPA)
- Under federal and state statutes, licensing applications are facilitated through the National Mortgage Licensing Systems & Registry (NMLS) and forwarded via internet-based database to respective state jurisdictions requested by applicant.

Requirements for licensure:

- Companies must disclose their financial condition and obtain and assign surety bond based on prior year's volume of business state. A minimum of $50,000 must be assigned to Consumer Finance Division.
- National and state fingerprint criminal background checks are required for officers, control persons, managing principals, branch managers and mortgage loan originators.
- Non conviction of any felony in last ten years. Non conviction of felony that is financial services related (ever) and non conviction of misdemeanor involving financial services or breach of trust last ten years
- Submission of credit reports on all officers, control persons, managing principals, branch managers and mortgage loan originators
- Disclosure of business history on all above and business plan regarding lending and/or servicing operation
- Disclosure of any regulatory actions, fines or penalties by any governmental entity
- Disclosure of any civil action/lawsuits that any control person or officer was involved or named
- Filing and posting of interest rates (rates not regulated)
- Submission of annual reports, annual mortgage log and quarterly call reports for review and analysis
- Annual renewal fee paid
- Managing principals, branch managers and mortgage loan originator have additional requirements
- Twenty hours of pre-licensing education approved by NMLS
- Passage of a federal and state test
- Completion of 8 hours continuing education annually approved by NMLS

SECTION 37-22-200. Powers of commissioner relating to denial, suspension, revocation or refusal to renew license; surrender; investigations and subpoena of documents.

SECTION 37-22-210. Commissioner's records; segregated escrow funds; licensee ceasing business activities.

(A) The commissioner shall keep a list of all applicants for licensure pursuant to this chapter which includes the date of application, name, and place of residence and

whether the license was granted or refused.

SECTION 37-22-220. Maintenance of records by licensee; annual mortgage reports.

(A) A licensee shall maintain records in conformity with generally accepted accounting principles and practices in a manner that will enable the commissioner to determine if the licensee is complying with the provisions of this chapter and other state and federal laws. The recordkeeping system of a licensee is sufficient if it makes the required information reasonably available. The records need not be kept in the place of business where loans are made if the commissioner is given free access to the records wherever located and the licensee pays the reasonable cost of their examination.
(B) On or before March thirty-first each year, a licensee shall file with the commissioner an annual report in the form prescribed by the commissioner relating to all mortgage loans made, serviced, or brokered by it. The licensee shall pay a fine of one hundred dollars a day for each late or incomplete annual report.
(C) The mortgage loan report shall include, but is not limited to, the total number and dollar amounts in connection with all mortgage loans, of:
(1) first and subordinate lien loans originated by licensee and closed in the name of another party;
(2) first and subordinate lien loans originated by another party and closed in the name of the licensee;
(3) first and subordinate lien loans originated by and closed in the name of the licensee;
(4) first and subordinate lien loans originated by and closed in the name of another party but funded by licensee;
(5) loans purchased by licensee;
(6) first and subordinate lien loans serviced by licensee;
(7) loans owned with and without servicing rights;
(8) loans sold with and without servicing rights;
(9) loans paid off before and at maturity;
(10) unpaid loans at the beginning and end of the reporting year;
(11) delinquent loans that are 30-59, 60-89, and ninety days or more delinquent, of all the loans the licensee owned as of December thirty-first;
(12) loans in foreclosure as of December thirty-first and foreclosed in the previous calendar year by licensee;
(13) mortgage loans charged against reserve for loan losses as a result of foreclosures during the reporting year; and
(14) loans repurchased during the previous calendar year.
(D) The annual report also must include the total gross revenue earned in this State under this license, the total dollar amount of points paid to the licensee by borrowers on first and subordinate lien mortgage loans, the total dollar amount of points paid to brokers by the licensee on first and subordinate lien mortgage loans, including yield spread premiums, and the lending institution, maximum amount available, outstanding balance, and expiration date of licensee's four largest warehouse lines of credit during the previous calendar year.
(E) Information contained in annual reports is confidential and may be published only in composite form.
(F) The commissioner annually shall submit to the department, in a form prescribed

by the Department of Consumer Affairs and no later than April thirtieth, the data that it collected. The department shall prepare and make available to the public a report based on the data. The report must be available by June thirtieth each year.

DISCUSSION OF PAYDAY LENDING

The Subcommittee reviewed Deferred Presentment also known aspayday lending. There are currently 532 licensed payday lenders in South Carolina.

Licensed and regulated under Title 34 Chapter 39 for providers to accept a personal check, provide cash, and hold or defer presentment of the check for a specified time (maximum 31 days) for a fee of 15 percent of the face amount of check. The maximum allowable transaction amount is $550. Disclosures must be in compliance with Federal Truth in Lending Act.

Required for licensure:

- Minimum net worth of $25,000 available to operate each license
- Owners/officers meet financial responsibility, character and fitness criteria to command confidence of public. (audited financials or certified bank letters or statements)
- Credit checks on owners/officers as well as name based criminal background checks
- Have location separate from any other business
- Filed rates with Consumer Finance Division
- Licensee and all locations must utilize third-party databases to enter all transaction activity limited consumer to one open transaction at a time pursuant to §34-39-175
- Compliance exams required annually
- Submissions of annual reports for reviews and analysis

DISCUSSION OF CHECK CASHING

Level I and Level II Check Cashing (# Currently Licensed – 431)

Section 34-41-10(3) "Level I check-cashing service" means any person or entity engaged in the business of cashing checks, drafts, or money orders for a fee, service charge, or other consideration.

Section 34-41-10(4) "Level II check-cashing service" means any person or entity engaged in the business of cashing checks, drafts, or money orders for a fee, service charge, or other consideration. A Level II licensee may not be licensed to engaged in the business of deferred presentment

- Licensed and regulated under Title 34 Chapter 41 for Level 1 and mobile armored car check cashers and Level II check cashers to cash checks, money orders, drafts, etc. for fee

Requirements for licensure:

- Applicant must have and maintain $50,000 in liquid assets for operation of license verified by audited financial statements, banking letters or certificate of deposit in a depository institution
- Owners/officers must submit credit reports and have a name based criminal background search to meet character and fitness requirements
- Level I licenses only allowed in Deferred Presentment location with same restrictions on activity
- Level II licenses may be in any retail establishment except one where money is loaned.
- File rates with Consumer Finance Division and post in location
- Examinations are not on a required schedule, but as needed for compliance concerns
- No required annual reporting

Check Cashing Services
Often times, businesses offering deferred presentment services also engage in check-cashing services where the business does not "hold" the check before cashing it. Section 34-41-10, *et seq*., governs check cashing services. In order for a business to receive a license authorizing the business to provide check-cashing services, the business must have $50,000 in liquid assets for each licensee. Like with deferred presentment licenses, the business must also post the license as well as the fees charged for the check-cashing service.

Section 34-41-60 limits the fees check-cashing businesses can charge as follows:

(i) for government, county, municipality, or any printed payroll check, the greater of either 2% of the check's face value or $3.00;
(ii) for all other checks (e.g. handwritten payroll checks) and money orders, the greater of 7 % of the check's face value or $5.00.

Each check that the licensee cashes must have a written agreement accompanying it that both the customer and licensee signs. §34-41-60(E). The penalties for violating this Chapter mirror the deferred presentment penalties and can be found in §§34-41-1l0 and -120.

R.1. Compare Payday Lending Revenue Lost to Mortgage Lending Revenue Gained

Specific Recommendation: Although fees received from restricted lenders and payday lenders will continue to decrease, the Consumer Finance Division is receiving new revenue from the licensing of mortgage lenders, mortgage branches and mortgage loan originators. The STO must determine whether the new revenue will be sufficient.

The STO must work with the Consumer Finance Division to get a better handle on exactly what remains to be done in order to complete the work required to regulate mortgage lenders. The main issues are: (1) It is very important for the

Consumer Finance Division to get all the new programs implemented; and (2) It must have staff that truly understands the new law so that it can determine whether further regulations will be required (See Section 37-22-260 which states that the commissioner may promulgate regulations necessary to effectuate the purposes of the Mortgage Lending Act).

Once these questions are answered, the STO and the Consumer Finance Division can determine if revenues are sufficient.

Rationale and Discussion: The Subcommittee interviewed representatives of the Consumer Finance Division as well as others involved in consumer finance issues. Information provided indicates examinations decreased, as did the number of licensees, over the course of 2009 into early 2010. This was comparable to other Southeastern state agencies, which showed a decline in the number of licensed lenders and applications, indicative of a market that has slowed. However, other states experienced an increase in the number of check cashing applications, resulting from the continued cooperation between the banking industry and the Federal Government, which requires licensing of money service businesses. However, examinations have skyrocketed in 2010 now that mortgage companies are regulated by the Consumer Finance Division.

Six hundred payday licenses have not been renewed because of changes to the law; therefore, there has been a hit in revenue. With the enactment of the South Carolina Mortgage Lending Act, the Consumer Finance Division now supervises mortgage companies (non-depository lenders). As this law is new, it is now up to the Consumer Finance Division to devise an examination program for lending compliance for mortgage companies and safety and soundness reports. They also have to review quarterly call reports under the Home Mortgage Disclosure Act.

The National Mortgage Licensing System under HUD went live as of January 4, 2010, in South Carolina. The Consumer Finance Division received approximately 3,700 applications from existing non-depository mortgage lenders who are required to file applications with South Carolina to be regulated. By January 2011, if they hadn't applied for the license, they can no longer operate. This has been a staffing nightmare. The Consumer Finance Division has, however, hired two new employees. The only money they have to run the department is from licensing fees and renewal fees as well as examination fees. They take nothing from the state General Fund. It is very important for the Consumer Finance Division to get all the new programs implemented. Although there is a lack of funding, they have to deal with what they have with the limited funds.

The Consumer Finance Division was forced to pull examiners out of the field to work on the mortgage licenses. They have to determine if the applicant is qualified. It's a complicated law, and the staff needs to understand what the statute says. Applications for 292 out of 320 companies have been processed. Applications for 300 out of 450 branches have been processed. Now, they need to run all the mortgage loan originators (MLO's). Applications for 1,700 of 3,100 MLO's have been approved. The Consumer Finance Division has to review the person's education, criminal background check (FBI), and state background check (SLED), and follow up with the state and federal statutes for the approval.

As mentioned above, the two divisions have their own revenue and it is not comingled. According to the Consumer Finance Division, there is a "carry over" fund because they collect most of their funds in the third quarter (September-December) of the state fiscal year. The STO must work with the Board of Financial Institutions to assure that both Divisions are adequately funded to fully meet their responsibilities.

WHAT FEES ARE COLLECTED?

Restricted Lender Fees: 34-29-30

SECTION 34-29-30. Application for license; fees.

Application for a license shall be in writing under oath and in the form prescribed by the Board. The application shall contain such information as the Board may require, including the names and addresses of the partners, officers, directors or trustees, and such of the principal owners or members as will provide the basis for investigations and findings contemplated by Section 34-29-40. At the time of making such application, the applicant shall pay to the Board a fee for investigating the application and the sum for a license, as prescribed by the Board, which will yield sufficient revenue to defray the entire expense of operating the Consumer Finance Division of the Board of Financial Institutions for the period ending on the last day of the current calendar year. Such fee shall be computed on the outstanding loan balance of the applicant for license at the end of the last previous calendar year.

SECTION 34-29-50. Contents of license; posting; nonassignability; duration; annual fee.

(a) Each license shall state the address at which the business is to be conducted and shall state fully the name of the licensee, and if the licensee is a copartnership or association, the names of the members thereof, and if a corporation, the date and place of its incorporation. Each license shall be kept posted in the licensed place of business and shall not be transferable or assignable.
(b) Each license shall remain in full force and effect until surrendered, revoked or suspended as hereinafter provided. Each licensee shall, on or before the first day of each February, pay to the Board the sum, as prescribed by the Board, for each license held by the licensee as a license renewal fee for the current year, computed as of December thirty-first of the preceding calendar year.

SECTION 34-29-190. Disposition of fees and other funds.

All license fees, investigation fees, and other funds collected by the Board under the terms of this chapter, shall be paid over to the State Treasurer and shall be used to defray costs of administering this chapter, including salaries of assistant examiners and other clerical help found necessary and necessary travel expenses and subsistence.

Payday lender fees:

SECTION 34-39-150. Application for licensure.

(A) An application for licensure pursuant to this chapter must be in writing, under oath, and on a form prescribed by the board. The application must set forth all of the following:
(1) the legal name and residence and business addresses of the applicant and, if the applicant is a partnership, association, or corporation, of every member, officer, managing employee, and director of it;
(2) the location of the registered office of the applicant;
(3) the registered agent of the applicant if the applicant is required by other law to have a registered agent;
(4) the addresses of the locations to be licensed; and
(5) other information concerning the financial responsibility, background experience, and activities, such as other partnerships, associations, and corporations located at or adjacent to the licensed location of the applicant and its members, officers, managing employees, and directors as the board requires.
(B) Upon receipt of an application in the form prescribed by the board, accompanied by the required fee, the board shall investigate whether the qualifications for licensure are satisfied. If the board finds that the qualifications are satisfied, it shall issue to the applicant a license to engage in the deferred presentment services business. If the board fails to issue a license, it shall notify the applicant of the denial and the reasons for it. The provisions of the Administrative Procedures Act apply to the appeal of the denial of a license.
(C) The application must be accompanied by payment of an application fee of one thousand dollars and an investigation fee of five hundred dollars. These fees are not refundable or abatable. If the license is granted, however, payment of the application fee satisfies the fee requirement for the first license year or its remainder.
(D) A license expires annually and may be renewed upon payment of a license fee of one thousand dollars. The annual license renewal fee for an applicant with more than one location is one thousand dollars for the first location and two hundred fifty dollars for each additional location.
(E) One-half of the renewal fees collected pursuant to subsection (D) must be credited to the Board of Financial Institutions for enforcement of this chapter and one-half must be credited to the Attorney General to prosecute actions brought for violations of this chapter.

Supervised lender fees:

See 37-3-503(8) - *The State Board of Financial Institutions, for the purposes of execution of its responsibilities under this Title, shall be entitled to collect from applicants and licensees the regulatory fees provided in Chapter 29 of Title 34. But all lenders shall pay the notification fee provided in this Title to the Administrator of the Department of Consumer Affairs.*

Mortgage Lending fees:

37-22-140 *(E) Every applicant for initial licensure shall pay a filing fee of one thousand dollars for licensure as a mortgage lender or fifty dollars for licensure as a loan originator, in addition to the actual cost of obtaining credit reports and national and state fingerprint-based criminal history record checks. If a licensed loan originator changes employment, a new license must be issued and a fee of twenty-five dollars must be paid.*

37-22-140 *(H) Each principal office and each branch office of a licensed mortgage lender at which business is conducted must be licensed pursuant to this chapter and must be issued a separate license. A licensed mortgage lender shall file with the commissioner an application on a form prescribed by the commissioner which identifies the address of the principal office and each branch office and branch manager. A licensing fee of one hundred fifty dollars must be assessed by the commissioner for each branch office issued a license.*

SECTION 37-22-150. Expiration and renewal of licenses; fingerprint check; assignment or transfer of license.

(A) All licenses issued by the commissioner pursuant to this chapter expire annually on the thirty-first day of December or on another date that the commissioner may determine. The license is invalid after that date unless renewed. The renewal period for all licensees is from November first through December thirty-first annually or on another date the commissioner may determine. A licensee desiring to renew its license must submit an application to the commissioner on forms and containing information the commissioner requires. Applications received after December thirty-first or another date the commissioner determines, are late and the late fees in subsection (B) apply. A license may be renewed by compliance with this section and by paying to the commissioner, in addition to the actual cost of obtaining credit reports and national and state fingerprint-based criminal history record checks as the commissioner may require, a renewal fee as prescribed by the board for each of the following:
(1) for a licensed mortgage lender, an annual renewal fee of no more than eight hundred dollars and no more than one hundred fifty dollars for each branch office; and
(2) for a licensed loan originator, an annual fee of no more than fifty dollars.
(B) If a license of a licensed mortgage lender is not renewed during the renewal period, a late fee of not more than five hundred dollars as prescribed by the board, in addition to the renewal fee in subsection (A)(1), must be assessed. If a license of a licensed loan originator is not renewed during the renewal period, a late fee of not more than one hundred dollars as prescribed by the board, in addition to the renewal fee in subsection (A)(2) of this section, must be assessed as a late fee to a renewal. If a licensee fails to renew its license within thirty days after the date the license expires or otherwise fails to maintain a valid license, the commissioner shall require the licensee to comply with the requirements for the initial issuance of a license pursuant to this chapter, in addition to paying any fee that has accrued.
(C) At any time required by the commissioner, each person described in Section 37-22-140 shall furnish to the commissioner consent to a national and state fingerprint-based criminal history record check and a set of fingerprints in a form acceptable to the commissioner. Refusal to consent to a criminal history record check may constitute grounds for the commissioner to deny renewal of the license of the person as well as the license of another person by which he is employed, over which he has control,

or as to which he is the current or proposed managing principal or a current or proposed branch manager.
(D) A license issued pursuant to this chapter is not assignable or transferable. Control of a licensee must not be acquired through a stock purchase or other device without the prior written consent of the commissioner. The commissioner may not give written consent if the commissioner finds that any of the grounds for denial, revocation, or suspension of a license pursuant to Section 37-22-200 are applicable to the acquiring person.

SECTION 37-22-250. Funds payable to commissioner.

All funds specified in this chapter must be paid to the commissioner, must be used to implement the provisions of this chapter, and are nonrefundable.

Check Cashing License Fees:

Section 34-41-40 *(C) The application must be accompanied by payment of a two hundred fifty dollar application fee and a five hundred dollar investigation fee. These fees are not refundable or abatable, but, if the license is granted, payment of the application fee shall satisfy the fee requirement for the first license year or remaining part of it.*

(D) Licenses shall expire annually and may be renewed upon payment of a license fee of two hundred fifty dollars plus a fifty dollar fee for each branch location certificate issued under a license.

R.2. Continued Legality of Payday Lending and Consideration of Rate Cap

Specific Recommendation: As our two closest states, North Carolina and Georgia, have prohibited payday lending, the STO should initiate conversations with officials from those states to get a better understanding of their position on this issue.

If the STO determines that prohibiting payday lending is not the appropriate course of action, then an interest rate cap should be considered. Under the Military Lending Act of 2007, the amount of interest that can be charged to any active military employee or family member is limited to 36 percent APR. The Act also instituted a complete ban on securing a loan with a personal check, electronic authorization to debit a bank account, or title to a car or military allotment. If such limitations are sufficient for the military, they should protect the citizens of South Carolina.

If prohibiting payday lending or capping the interest rate is not possible, then

further review of existing laws would be prudent. Where payday lending causes the most harm is with chronic, repeat borrowers. These individuals use one payday loan to pay off the last, and find themselves in a continual cycle of borrowing that becomes nearly impossible to break. The new payday lending law has limited the number and frequency of payday loans which hopefully will allow repeat borrowers to break out of the payday loan cycle. Whether the law is restrictive enough should be determined.

Two other areas that should be reviewed are as follows:

1. Review the disclosures payday lenders must provide to borrowers. Information is power, and borrowers should fully understand the implications of their choices.
2. Educate consumers about personal finance. Sound personal financial decisions can help avoid the need to access payday loans or many other sources of credit. The BFI should develop and conduct a public information campaign via the internet and utilizing state and local consumer-oriented groups to assist in carrying the message to consumers.

Rationale and Discussion:
Deferred Presentment (Payday Lending)

The Law prior to February 1, 2010:
When low-income consumers need money, they often turn to businesses offering “payday loans” rather than banks or other more traditional lenders. The payday lender allows the borrower to write a post-dated check for the amount the borrower needs. In the legislation passed in 1999 lenders were limited to advancing up to $300.00, plus the lender’s fee of 15 percent. This amount has been increased to $550.00, plus the lenders fee of 15 percent beginning February 1, 2010.

For example, if a borrower needs $100, he would write a check for $115, and the lender would not cash it until the borrower’s next payday. This practice of holding a consumer’s check in exchange for a fee is called “deferred presentment.” When this industry first began to emerge, businesses providing deferred presentment services have thrived by charging high fees and allowing borrowers to extend, or “flip,” the original loan if they still did not have the money to cover the check in exchange for another fee.

For example, the borrower could pay $20 every two weeks for a year to avoid having their check deposited. This would result in paying $520 in fees for “borrowing” $100.00. In an effort to protect the consumer from this perpetuation of debt, the Legislature in 1999 passed the South Carolina Deferred Presentment Services Act, §34-39-110, et. seq. which regulates payday lenders.

Under this Act, businesses offering deferred presentment services, as defined in §34-39¬120(3), must obtain (and post thereafter) a license from the State Board of Financial

Institutions for each of its locations. §34-39-130(A). To receive a license, the business must, among other things, have a minimum net worth of $25,000 for each location it wishes to operate. §34-39¬160(1). As of February 1, 2010, a company wishing to engage in this business with a consumer who resides in South Carolina, whether or not the company has a location in the state, must be licensed by the Board of Financial Institutions. This is intended to make internet lending illegal for those who are not licensed and complying with the limitations on number of and amount of loans.

Once a business obtains a license, §34-39-180 regulates the deferred presentment transaction. Under this section, the licensee cannot: (i) lend more than $300; (ii) hold the check longer than 31 days; (iii) charge more than 15 percent of the amount loaned; (iv) extend, or "flip," the loan; (v) accept another deferred presentment check to pay for a previous check; or (vii) prosecute or threaten to prosecute for a check that does not clear due to lack of funds.

Furthermore, businesses offering deferred presentment services may not sell retail goods unless those goods are among the very limited list of items set forth in §34-39-200(9), such as money orders, postage stamps, and food/beverages in vending machines.

For each check, both the borrower and the lender must sign a written agreement documenting the business's name, the transaction date, the amount of the check, the actual fee charged, and the fee's corresponding annual percentage rate. (§34-39-180(C).) Also, the lender must comply with the notification and disclosure requirements of the Truth in Lending Act and must give these forms to the borrower before he enters into the deferred presentment agreement. (§34-3-180(D).)

In addition to these disclosure requirements, licensees must also to post their fees in a conspicuous spot at each of their locations. (§34-39-170(B).)

The State Board of Financial Institutions may impose civil penalties on check cashers who violate the provisions of this Act. For each violation, the Board can fine up to $1,000, and the Board may also order the business to refund any unlawful or excessive fee. (§34-9-230.) On top of civil penalties, the Board can refer any person it believes to have willfully violated the provisions of this Act to the prosecutor for criminal sanctions. (§34-39-240.)

The Subcommittee interviewed advocates who are against payday lending. It was their view that, under the old law, the lenders were very clever in their effort to keep consumers in the cycle of debt of payday loans and consumers began running into difficulty with deferred presentment when they entered into multiple contracts. What often happened was the consumer entered into a contract with a second company to payoff an existing check. Then, the consumer entered into a second contract with the original company in order to maintain cash flow. Although this is a form of "flipping," since the same business was not used to pay off the original check, it did not violate the letter of the law. It was not unusual to encounter consumers indebted to more than ten companies at one time and who paid over $500 every two weeks in fees.

<u>The Law after February 1, 2010:</u>
In 2009, the legislature amended the deferred presentment statutes. While the initial effort in-

cluded an attempt to mirror federal laws that protect military borrowers, this ultimately did not pass. Federal law limits the amount of interest that can be charged to any active military employee or family member to 36 percent APR (See the Military Lending Act). While the new South Carolina law, effective February 1, 2010, does not cap the interest rate, it will provide some additional protections for consumers to limit the number or loans that can be entered into at any given time to just one per consumer. (§34-39-270.) To enforce the provision mandating that a consumer shall not have more than one loan at a time from any lender, the legislature has authorized the enactment of a database and requires that every lender shall: (i) Check the data base before entering into a loan with a consumer; (ii) Note in the data base when it enters into a loan with a consumer and then when the loan is paid in full; (iii) Note if the consumer has entered into an Extended Payment Plan (EPP) with the lender and when the loan is paid through the EPP; (iv) Not make a loan to a consumer that has an outstanding payday loan or EPP with any lender; (v) Not make a loan to a consumer on the same day that s/he has paid her loan off in full and once the consumer has made seven consecutive loans the lender must wait two full business days; (vi) The consumer can be charged one-half of the actual fee charged by the database provider, but the consumer cannot be charged more than $0.50, and only when the loan is consummated. (§34-29-270)

While the new law will finally limit the number of loans that a consumer may have to one at a time, the amount that can be borrowed has been increased to $550.00. (§34-39-180(B).) The lender must give the consumer the right to rescind the loan, at no cost, on or before the close of the next business day.

A consumer must be afforded the right by each lender, to enter into an Extended Payment Plan (EPP) once during a 12 month period of time. (§34-39-280.) Consumer advocates feel that, unfortunately, this section provides little to no protection for the consumer. An EPP must be provided to a consumer if the consumer makes a request for the payment plan prior to the due date of the loan. Most borrowers will not even attempt to contact the lender until the day the loan is due, thus the mandate to provide this service will never really be available to those who could use it to get out of debt. More troubling is that the law only requires that the lender provide a consumer an EPP with four substantially equal payments to pay the debt in full. This provision is likely to create a greater financial hardship to the consumer than if he paid the loan in full and entered into a new loan the following day. For example, a consumer that borrows $550.00 on the first of the month will owe the lender $632.50 on the 15th ($550.00 +$82.50). If the consumer cannot afford to turn over her entire paycheck to the lender for the two week period her choice is:

1. Pay $632.50 and come back the next day and borrow $550.00. By borrowing the $550.00 the consumer will only be spending $82.50 during that two week period of time.
2. The consumer enters into an EPP with four installments of $158.13 every two weeks. This is $75 more each week than example #1 and for someone on a tight budget could be attractive.

For a consumer that is living paycheck to paycheck, it may appear to be less financially burdensome to pay the loan in full and then borrow the money the following day, regardless of whether or not she is incurring a new charge each time. It seems much easier to pay "only" $82.50 during the pay period rather than the higher amount of $158.13. Clearly, for the lender the financial incentive is to collect that fee with each new contract rather than enter into a plan for repayment. In those states where this program has been legislated, the percentage of borrowers entering into these plans has been extremely low. It really does not address the problem of getting out of the cycle of debt. This explains why it has been pushed so hard by the industry in states that are looking at reform. .

The new law has increased the licensing fee for payday lenders with one half of the fee going to the SC Attorney General's office to prosecute violations. In addition, a detailed report on payday lending activity must be presented to both chambers of the legislature to provide information as to trends in the industry based on information from the database.

Regardless of when a payday loan was entered into, there are steps that can be taken to help consumers protect themselves. First, it is important to remember that a consumer cannot be prosecuted if a check is returned due to insufficient funds, closed account or stop payment order.

The only remedy that is available is to pursue the consumer in a civil action. (§34-39-180(G).) A payday lender cannot even threaten criminal prosecution as it is prohibited act under the statute and doing so would violate our state debt collection laws. (§37-5-108.)

Payday lenders are subject to the provisions of the SC Consumer Protection Code that prohibit unconscionable activity. (§34-39-200(5).) Unconscionable activity is defined by prohibitions contained in §37-5-108. This means that if a lender enters into a loan with a consumer without determining whether or not he has the ability to repay and the individual defaults, this can be used as a defense to a collection action. In addition, payday lenders are prohibited from acting in an unfair, deceptive and fraudulent manner and doing so would trigger a South Carolina Unfair Trade Practices Claim.

Consumer Advocates would love to see payday lending outlawed. They have fought for years on behalf of poor and elderly consumers who they believe have been exploited. At a minimum, they would like to see an interest rate cap to rein in what they believe to be exorbitant and unconscionable interest rates. When asked what would be reasonable, they responded 99 percent APR!

Payday Lenders Response:
In May 2001, the Credit Research Center at the McDonough School of Business at Georgetown University released "Payday Advance in America: An Analysis of Customer Demand," the first-ever, comprehensive economic analysis of consumer demand for and use of payday advance services. Until the release of this study, only anecdotal evidence has been used to discuss the payday advance consumer. The Georgetown study presents the first impartial observation of payday advance in America. Highlights of the analysis include:

Payday advance fees are lower than many of consumers' alternatives. Bank NSF and merchant fees on a bounced check typically cost more than three times the cost of a $100 payday advance

Payday advance APRs are often lower than customers' alternatives, even on the same two-week term. For example, on a 30-day term, a standard $29 late fee on a $100 credit card

payment would have an APR of 771 percent. Similarly, a $100 check with a $25 NSF and a $25 merchant fee would have an APR of 1,303 percent.

Consider a consumer who incurs a $1.00 fee to withdraw $100 from an ATM. Under the interpretation of annualizing payday advance fees, the APR for withdrawing $100 for one day for a $1 fee would be 365 percent.

PricewaterhouseCoopers conducted a survey that examines the interest rates associated with payday advances, and found that when compared to other types of short-term loans, payday loans are a common sense financial option.

Customers overwhelmingly appreciate payday advances. Ninety-two percent of payday advance customers believe payday advance is a useful service. Over 75 percent of customers were satisfied with their most recent payday advance transaction and only 12 percent were dissatisfied.

Payday advance consumers take responsibility for their own financial situations. More than three quarters of customers (79 percent) believe overspending is the responsibility of the consumer, not the lender.

Payday advance customers use the service responsibly. Sixty-six percent of customers use payday advances to pay unexpected expenses or a temporary reduction in income. Thirty-four percent use payday advance for planned expenses or other discretionary uses.

Payday advance customers understand the cost of the service. Ninety-six percent of customers were aware of and reported the finance charge and could compare it with similar fees, including late fees.

Most customers use payday advance infrequently or moderately. Sixty percent either did not renew payday advances at all in the last year or renewed only one to four times. ("Renewals" include both rollovers and new advances taken out on the same day a prior advance was paid in full.)

Most customers fit the expected economic profile of consumers in early life-cycle stages. Forty-two percent own homes and 100 percent have steady incomes and checking accounts. Only one in ten payday advance customers is 55 or older, while seniors represent three out of 10 of all adults in America.

PAYDAY LENDING IN NORTH CAROLINA AND GEORGIA

North Carolina:
North Carolina became the first state to close down a once legal payday lending industry. The state allowed the law that authorized payday lending to sunset in 2001. Some payday lending chains continued to operate under partnerships with out-of-state banks, arguing that this arrangement exempted them from North Carolina laws. The North Carolina Attorney General prosecuted one of these chains, Advance America, and the North Carolina Commissioner of Banks ruled against Advance America's continued payday lending in the state. On March 1, 2006, the remaining chains entered consent agreements with the Attorney General, and all stores operated by out-of-state chains were eliminated. Internet payday lending in the

state is also subject to North Carolina law, even if the offer comes from outside the state.

The UNC Center for Community Capital undertook a study at the request of the North Carolina Office of the Commissioner of Banks to assess the household credit market since the closure of payday lending stores in North Carolina. The study entitled North Carolina Consumers After Payday Lending: Attitude and Experiences With Credit Options (November 2007).

Researchers were asked to determine:

- What effect has the end of storefront payday lending had on low- and middle-income households?
- Do residents have adequate options to deal with financial hardships?
- What options are most commonly used, and how do they compare to payday loans?
- Are North Carolina residents faring better or worse without payday lending?

The Center conducted two phases of consumer research:

1. A survey of 400 low- and middle-income North Carolinians about financial shortfalls their households faced, and how they managed these shortfalls when they occurred.
2. Focus groups of former payday borrowers to understand their experiences with payday lending, and the impact payday de-authorization had on their ability to manage financial shortfalls.

Researchers concluded that the absence of storefront payday lending has had no significant impact on the availability of credit for households in North Carolina. The vast majority of households surveyed reported being unaffected by the end of payday lending. Households reported using an array of options to manage financial shortfalls, and few are impacted by the absence of a single option - in this case, payday lending.

More than twice as many former payday borrowers reported that the absence of payday lending has had a positive rather than negative effect on their household. The ban on payday lending has made no difference to most, and helped more households than it has harmed.

Payday borrowers gave first-hand accounts of how payday loans are easy to get into but a struggle to get out of. These borrowers universally agreed that the cost of payday loans was excessive.

Nearly nine out of 10 households surveyed think that payday lending is a bad thing. This overwhelming negative view of the product did not vary significantly for households that had experienced a financial shortfall.

Georgia:
On April 15, 2004, Georgia passed a law that makes payday loans lending punishable with a one-year prison term and a $5,000 maximum fine per loan. After due consideration, the bill was passed prescribing harsh felony penalties to those who violate the law. The new law prohibits loans of $3,000 or less if the loan violates Georgia's usury laws. The new payday lending law caps the annual percentage rate at 16 percent. The Payday Lending Act of 2004

authorizes felony and racketeering charges against violators as well as a fine of $25,000 and a possible jail sentence of 25 years. Payday loans are illegal in the State of Georgia. The Georgia State Payday Lending law has been regarded as model legislation in the fight against what some call "the plague of payday lending."

S. Frank-Dodd Act

S.1. Effects of Frank-Dodd Act on South Carolina

Specific Recommendation: The Dodd-Frank Act is complicated Federal legislation, and it may be years before it is truly understood. The STO should encourage the Consumer Finance Division to have its staff fully educated on Dodd-Frank issues, especially the powers of the Federal Bureau of Consumer Financial Protection.

Rationale and Discussion: The Dodd-Frank Act created the Federal Bureau of Consumer Financial Protection. The Bureau will gain exclusive rulemaking authority over a wide range of Federal consumer protection laws. The Bureau will also have authority over any non-depository company that provides payday loans to consumers. It is clear that the substantive consumer protection provisions of the Dodd-Frank Act and the regulations issued by the Bureau do not prevent State laws and regulations that afford greater protection to consumers, as determined by the Bureau. It is also clear that an appropriate state regulator may enforce the Dodd-Frank Act and the Bureau's regulations against a state-chartered or licensed entity or that is authorized to do business in the state.

Appendix

Appendix

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Budget and Control Board Subcommittee Summary:

Subcommittee Meetings and Action:
In addition to numerous interviews, meetings, and research sessions conducted by individual members of the Subcommittee, the Subcommittee met formally on the following dates:

Wednesday, August 25, 2010, 2:00 pm. (Organizational meeting)
Friday, September 24, 2010, 2:30 pm.
Friday, October 15, 2010, 2:30 pm.
Friday, October 22, 2010, 2:30 pm.
Friday, November 5, 2010, 10:30 am.
Wednesday, November 17, 2010, 10:00 am.
Monday, November 29, 2010, 10:30 am.

This report was approved in meeting of the Subcommittee at Charleston, South Carolina, on November 29, 2010.

Members of the Subcommittee:
Justin Evans
Mallory Factor, Co-Chairman
Alan B. Linkous, Esq., Co-Chairman
William H. McAfee, Jr.
Grant Reeves
Michael S. Smith II
Ric Tapp, Esq.
Leslie Whiddon

Speech by SEC Commissioner:

U.S. Securities and Exchange Commission

Speech by SEC Commissioner: Statement at SEC Field Hearing on the State of the Municipal Securities Market

by

Commissioner Elisse B. Walter

U.S. Securities and Exchange Commission

San Francisco, California
September 21, 2010

Good morning. Welcome to the Securities and Exchange Commission's inaugural field hearing on the State of the Municipal Securities Market. We are grateful that state and local government officials, municipal securities investors, and experienced municipal market professionals have agreed to participate as panelists in today's meeting. Thank you so much for devoting your valuable time to this important effort. And, we are looking forward to an instructive day, listening to these participants' comments, insights, and recommendations on critical issues in the municipal securities market — particularly in the areas of disclosure, credit ratings, significant liabilities, internal controls and investor experiences. We also look forward to any written materials the participants here today and all other interested persons submit for the record.

As you know, the purpose of these hearings is to explore the issues relating to the municipal securities market that arise under the federal securities laws. At the conclusion of all of the hearings, the Commission staff will prepare a report concerning what we have learned, including their recommendations for further action that we should pursue, which may include legislation, rulemaking and changes in industry practice. These hearings will be instrumental in informing those recommendations. Thus, the Commission's standard disclaimer, which I make for myself and all other Commission participants, is particularly apt — that our remarks today represent our own views, and not necessarily those of the Commission, other Commissioners, or members of the staff.[1] And, I would like to add that the views we express today may well change in light of the valuable input we will receive today and throughout the course of the field hearing process.

Before I go any further, I would like to introduce you to my colleagues and our fellow regulators, who are here with us today. Joining me on the stage will be two of the Commission's senior experts in this area — Meredith Cross, Director of our Division of Corporation Finance and Henry Hu, Director of our Division of Risk, Strategy, and Financial Innovation.

The moderators of today's panels are two staff members, well-known to

most of you — Amy Starr, Senior Special Counsel for Capital Markets, Office of the Chief Counsel, Division of Corporation Finance and Martha Haines, Chief of the Office of Municipal Securities, Division of Trading and Markets. My appreciation goes as well to Kayla Gillan, Chairman Schapiro's Deputy Chief of Staff, who is leading this effort for the Commission, my counsels Alicia Goldin and Lesli Sheppard who have been indispensable to this effort, and Rachel Hurnyak from Chairman Schapiro's office who has handled the logistics for this hearing and has done a phenomenal job of keeping us all organized.

I am also very pleased that we are joined today by Mike Rufino of FINRA and Alan Polsky and Lynette Hotchkiss of the Municipal Securities Rulemaking Board (MSRB). The MSRB and FINRA, as you well know, play critical roles in regulating professionals who operate in the municipal market and their assistance has been invaluable. Among those participating as panelists are several knowledgeable state and local officials — the Honorable Bill Lockyer, California State Treasurer; the Honorable Jim McIntire, Washington State Treasurer; the Honorable Michael Belsky, Mayor of Highland Park, Ill.; David Crane with the Office of Governor Schwarzenegger; Mark Blake, Deputy City Attorney of San Francisco; Brian Mayhew, Chief Financial Officer for the Bay Area Toll Authority; and Ed Harrington, General Manager of the San Francisco Public Utilities Commission. Additionally, in the audience with us today is California Corporations Commissioner Preston DuFauchard. Welcome and our thanks to you all.

Next, I'd like to provide a brief overview of the current state of the municipal securities market, which will be followed by a description of today's field hearing. And finally, I will highlight for you the types of issues we are hoping to explore during today's panel discussion.

Overview of the Municipal Securities Market

Over the past 30 years, the municipal securities market has grown tremendously on many fronts, and serves as an increasingly significant part of the U.S. capital markets. The current amount of municipal bonds outstanding is estimated to be roughly 2.8 trillion[2] and more than $470.5 billion of new bonds and notes were issued last year.[3] The Build America Bonds ("BAB") program was launched in April 2009, and as of April 2010, it had enabled states and localities to issue more than $90 billion of BAB bonds to fund new building projects.[4]

Despite the reputation of the muni market as a "buy and hold" market, trading volume is substantial, with approximately $3.8 trillion of long and short-term municipal securities traded in 2009 in over 10 million transactions.[5]

With an estimated 51,000 or more state and local issuers[6], it is an extremely diverse market. Depending on the type of financing, payments may come from general revenues of the municipal issuer, specific tax receipts, revenues generated from a public project or other specific revenue, payments from private entities or from a combination of sources. The interest paid on municipal debt securities is often, but not always, exempt from federal income taxation and, in some cases, also may be exempt from state income and other taxes.

Retail investors hold approximately 36 percent of outstanding municipal securities directly, up to another 34 percent indirectly through mutual funds and closed-end funds[7], and retail-sized trades account for roughly 81 percent of trading volume.[8]

And, in spite of their well-deserved reputation for safety, municipal securities can and do default. From 1999 to 2009, issuers defaulted on over $24 billion in municipal bonds out of a total of $3.4 trillion issued. In 2009 alone, 194 municipal bond issues defaulted with an overall dollar amount of almost $7 billion in bonds.[9]

It is hard to overestimate the importance of the municipal securities market to building and maintaining the infrastructure of our nation. The billions of dollars that the muni market raises each year supports projects that are needed by all of us as taxpayers and residents in the towns, cities, counties, and states across our country. Many of us also play a dual role in the market. Not only are we recipients of the benefits that our states and localities provide with the funds they raise, we are also the source of those funds — as purchasers of municipal securities. A core mission of the SEC is to protect investors and we are here today in furtherance of that mission — specifically, to focus on protection of those purchasers of municipal securities.

Despite its size and obvious importance, the municipal securities market lacks many of the protections customary in many other sectors of the U.S. capital markets. Investors in municipal securities should have the same rights as investors in other types of securities to receive information that is not materially misleading and does not contain material omissions — that includes receiving financial and other material information that is not stale. These precepts are central to informed investment decision-making and investor protection. As I have previously bemoaned, investors in municipal securities are, in certain respects, afforded "second-class treatment" today.[10] I, for one, believe that needs a hard look.

Some have suggested looking to the corporate disclosure scheme as a framework for municipal disclosure. I believe that we can learn from the corporate world, but it is also essential that we recognize the differences in the municipal and corporate finance worlds and that we work together to evaluate what an appropriate framework for municipal finance disclosure should be in the future.

Introduction and Format of Today's Field Hearing

Chairman Schapiro shares my interest in strengthening investor protection mechanisms applicable in this important sector of the capital markets, which is why she has asked me to lead a series of field hearings across the country to elicit the analyses and opinions of a broad array of municipal market participants.[11] As the Chairman has noted, to grapple with the complex issues presented by the municipal securities market, we need to harness the ideas of a wide range of people who have experienced this market from many different perspectives.[12]

Over the course of the next several months, we anticipate holding additional field hearings in Chicago, Washington D.C., Birmingham, Ala., Tallahassee, Fla. and Austin, Texas. Each field hearing will include

participants from the local region and will examine different sets of issues. The Western Region is an essential player in this market, and holding our first hearing here in San Francisco will provide us an important base of information going forward.

I view these field hearings as a fantastic opportunity to take a fresh look at the way the municipal securities market works and to effect real regulatory change. I am confident that by soliciting input from market participants around the country, our staff will be well equipped to develop meaningful and practical recommendations to improve the state of the market.

We have an impressive group of panelists lined up for the day, and on behalf of my colleagues and myself, I would like to thank all of them for so generously agreeing to participate in this field hearing. A heartfelt thank you also goes to our host for today's event — the Port of San Francisco — and Monique Moyer, its Executive Director, who has been incredibly helpful and welcoming to us.

The format of today's field hearing will entail five panels covering topics relating to disclosure, credit ratings, significant liabilities, internal controls and investor experiences. Once I conclude my opening remarks, we'll launch right into the first panel.

As moderators, Amy and Martha will introduce their topics and panelists. Each panelist will then make brief opening remarks. The moderator, Meredith, Henry, and I will then ask the panelists some questions. We look forward to a lively and fruitful discussion, and I encourage the panelists to engage in a dialogue with each other in addition to addressing our questions.

Discussion

Our agenda for today is certainly ambitious. We will be covering a number of complex and interesting topics and will look to each panel to help us to understand better the particular concerns of different market participants, highlight key areas for improvement, and provide some concrete ideas for moving forward. I want to emphasize that last point — this endeavor is about the desired future state of the market.

I am particularly excited about this first field hearing, as today's panels will be addressing two areas that I care deeply about: transparency and the investor experience. Let me tell you a bit about what we hope to address on each of the panels:

Our first panel of the day — entitled *Selected Disclosure Practices: Transparency and Presentation* — will touch on a number of important substantive topics, including: disclosure of "key" or material events and conflicts of interest, such as broker-dealer affiliate relationships and issues relating to the role of insurers and credit enhancers, including, for example, credit worthiness and consequences of default by an insurer or credit enhancer and disclosure of issuer information in the presence of insurance or credit enhancement.

The disclosure panel will also address important issues surrounding timing, availability, and format of disclosure, including: transparency of pre- and post-trade information; timeliness, accessibility and clarity of disclosure; and presentation or format of disclosure, including disclosure principles, use of an executive summary, comparability of disclosures by different issuers, possible tiering of disclosure requirements, and voluntary data-tagging.

Because it has long been my view that our principal goal in this area should be to improve the quality and timeliness of information available to municipal securities investors,[13] I am especially interested in hearing from this first panel.

Our second panel: *Ratings — Impact and Practices* — will explore: rating agency practices and protocols, for example, comparing the way ratings firms handle municipal securities and corporate securities; the impact of bond insurance on ratings; comparability of ratings from different agencies; and conflicts of interest.

After lunch, we will jump into our third panel — *Disclosure of Certain Significant Liabilities* — which will focus on public pensions, retiree health, and derivatives. For instance, how reliable are asset and liability valuations and underlying assumptions with respect to pensions and retiree health? Do we have appropriate accounting standards for reporting the economic value of pension liabilities? How do issuers of variable rate debt use derivatives for purposes of hedging interest rate risk? What kinds of disclosure do issuers make regarding their use of derivatives? How can we address better the needs of investors and regulators?

Next, we will focus on disclosure controls and internal controls, including standards for issuer officials who approve offering documents and best practices for disclosure controls involving securities offerings and secondary market disclosure.

Last, but certainly not least, we will hear from investors. In order to think about ways in which we can combat the "second-class" treatment of municipal securities investors, we need to listen to investors and understand their needs: Tell us about yourselves. What prompted you to invest in municipal securities? How do you go about investing? Do you use an intermediary? What kinds of information does your advisor or salesperson provide you about your investing options? Do you conduct other research before investing? Have you found information about the municipal securities market to be accessible and clear? What kind of information would be most helpful to you in making investing decisions in the municipal market? In what form would that information be most useful? Do you have specific complaints about your experience as a municipal securities investor? How does your experience investing in the municipal securities market compare with your experience investing in other parts of the capital markets? Do you think the municipal securities market is fair?

At our future hearings, we will revisit some of these topics, and cover many others, such as: investor protection; investor education; financial reporting and accounting; the Municipal Securities Rulemaking Board; municipalities acting as conduit borrowers for private companies or non-profit entities; market stability and liquidity; offering participants, professionals and market intermediaries; Build America Bonds and other taxable municipal securities; and 529 Plans.

We encourage investors and all other interested parties to submit comments related to the field hearing topics and any other topics related to the municipal securities market to assist the Commission staff in determining whether to recommend changes to laws, regulations, or best practices to better protect municipal securities investors. Comments may be submitted by using the comment form on the SEC website or sending an e-mail to munifieldhearings@sec.gov.

Conclusion

The Commission is committed to a strong and vibrant municipal securities market, and I know that our talented and dedicated staff is already hard at work thinking about these issues and developing possible regulatory and market participant responses. I hope that today's presentations and our upcoming field hearings will help inform us in taking the right steps to ensure the integrity of this vital market. Our panelists today represent a range of constituencies, including: state and local government, regulators, national associations, retail and institutional investors, and various market participants. We are privileged to have them here, and grateful for the effort they have made to take part. We look forward to a spirited and substantive discussion.

A few housekeeping items. First, we'd like to ask the panelists, moderators, and other questioners to please stand your nameplate vertically when you would like a turn to speak. Second, there will be a lunch break from 12:15 to 1 p.m. and our last panel of the day will conclude at 4:30 p.m. Finally, a transcript of today's event will be made available on the Commission's website, in addition to any written statements provided by the panelists.

I'll now turn it over to Amy Starr, who will introduce our first panel to you.

Endnotes

[1] The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publications or statements by any of its employee. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission, other Commissioners, or the staff.

[2] Federal Reserve Board, Flow of Funds Accounts, Flows and Outstandings (Second Quarter 2010) *available at* http://www.federalreserve.gov/releases/z1/current/z1.pdf.

[3] Thomson Reuters' SDC Platinum, Global Public Finance Module. Statistics are based on 2009 public issuances of U.S. municipal debt.

[4] Treasury Analysis of Build America Bonds and Issuer Net Borrowing Costs, U.S. Treasury Department, April 2, 2010 *available at* http://treas.gov/offices/economic-policy/4%202%2010%20BABs%20Savings%20Report%20FINAL.pdf.

[5] *See* the Municipal Securities Rulemaking Board 2009 Fact Book ("MSRB

Fact Book"), *available at* http://www.msrb.org/msrb1/pdfs/MSRB2009FactBook.pdf.

[6] *See, e.g., Report on Transactions in Municipal Securities* prepared by Office of Economic Analysis and Office of Municipal Securities, the Division of Market Regulation, Commission, (July 1, 2004) (available at http://www.sec.gov/news/studies/munireport2004.pdf).

[7] See Securities Industry and Financial Markets Association, US Municipal Securities Holders (quarterly data to Q1 2010), *available at* http://www.sifma.org/research/research.aspx?ID=10806.

[8] *See* MSRB Fact Book.

[9] *See* Mysak, Joe, "Buy Stocks as Municipal Yields Reach 43-Year Lows: Joe Mysak," Bloomberg (August 30, 2010).

[10] Commissioner Elisse B. Walter, Regulation of the Municipal Securities Market: Investors Are Not Second-Class Citizens, 10th Annual A. A. Sommer, Jr. Corporate, Securities and Financial Law Lecture, New York, NY (October 28, 2009) *available at* http://www.sec.gov/news/speech/2009/spch102809ebw.htm.

[11] Chairman Mary L. Schapiro, Remarks at Investment Company Institute 2010 General Membership Meeting (as delivered by Andrew J. Donohue), Washington, D.C. (May 7, 2010) *available at* http://www.sec.gov/news/speech/2010/spch050710mls.htm.

[12] *Id.*

[13] *See, e.g.*, Commissioner Elisse B. Walter, Remarks at 42nd Annual Rocky Mountain Securities Conference, Marriott City Center, Denver, Colorado (May 7, 2010) *available at* http://www.sec.gov/news/speech/2010/spch050710ebw.htm.

http://www.sec.gov/news/speech/2010/spch092110ebw.htm

Order Instituting Cease-and-Desist Proceedings:

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9135 / August 18, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-14009

In the Matter of

STATE OF NEW JERSEY,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), against the State of New Jersey (the "State," "New Jersey" or "Respondent").

II.

In anticipation of the institution of these proceedings, the State has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, the State consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and the State's Offer, the Commission finds that:

Summary

1. This matter involves New Jersey's violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act in connection with the offer and sale of over $26 billion in municipal bonds from August 2001 through April 2007. In 79 municipal bond offerings, the State misrepresented and failed to disclose material information regarding its under funding of New Jersey's two largest

pension plans, the Teachers' Pension and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"). More specifically, the State did not adequately disclose that it was under funding TPAF and PERS, why it was under funding TPAF and PERS, or the potential effects of the under funding.

2. In disclosure documents prepared in connection with each of the bond offerings, including preliminary official statements, official statements,[1] and Treasurer's Annual Reports[2] (collectively, "disclosure documents" or "bond offering documents"), the State made material misrepresentations and omissions regarding: (1) legislation adopted in 2001 (the "2001 legislation") which increased retirement benefits for employees and retirees enrolled in TPAF and PERS; (2) special Benefit Enhancement Funds ("BEFs") created by the 2001 legislation initially intended to fund the costs associated with the increased benefits; (3) the State's use of the BEFs as part of a five-year "phase-in plan" to begin making contributions to TPAF and PERS; and (4) the State's alteration and eventual abandonment of the five-year phase-in plan. These misrepresentations and omissions created the fiscal illusion that TPAF and PERS were being adequately funded and masked the fact that New Jersey was unable to make contributions to TPAF and PERS without raising taxes or cutting other services, or otherwise impacting the budget. Accordingly, disclosure documents failed to provide adequate information for investors to evaluate the State's ability to fund TPAF and PERS or the impact of the State's pension obligations on the State's financial condition.

Respondents and Related Entities

3. New Jersey possesses all powers, functions, rights, privileges and immunities authorized by the New Jersey Constitution and the State's laws, including the power to issue debt. The State has approximately 8.7 million residents, and is the second wealthiest State based on per capita personal income.

4. Teachers' Pension and Annuity Fund is a defined benefit plan[3] operated by the

[1] An official statement is a document prepared by an issuer of municipal bonds that discloses material information regarding the issuer and the particular offering. A preliminary official statement is a preliminary version of the official statement which is used to describe the proposed new issue of municipal securities prior to the determination of the interest rate(s) and offering price(s). The preliminary official statement may be used to gauge interest in an issue and is often relied upon by potential purchasers in making their investment decisions.

[2] Treasurer's Annual Reports are continuing disclosures filed by the State with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") under Rule 15c2-12 of the Securities Exchange Act of 1934 ("Exchange Act").

[3] A defined benefit plan is a pension plan that specifies the amount of pension benefits to be provided at a future date based on various factors, including age, years of service, and compensation.

State to provide retirement, death, and disability benefits to its members.[4] TPAF is the State's largest pension plan, and, as of June 30, 2009, had an actuarial value of assets of more than $34 billion. As of June 30, 2009, TPAF had an active membership of 157,109 as well as 78,782 retirees and beneficiaries receiving annual pensions totaling more than $2.8 billion.

5. Public Employees' Retirement System is a defined benefit plan operated by the State to provide retirement, death, and disability benefits to its members. PERS is the State's second largest pension plan, and, as of July 1, 2009, had an actuarial value of assets of more than $28 billion. In addition to the State, local governments within New Jersey participate as employers. As of July 1, 2009, the State portion of PERS had assets of more than $10 billion. As of July 1, 2009, PERS had an active membership of 316,849[5] as well as 136,957 retirees and beneficiaries[6] receiving annual pensions totaling more than $2.2 billion.

State Law Requires Certain Annual Calculations and Measures of New Jersey's Pension Plans

6. State law regulates the administration of New Jersey's pension plans. The Division of Pensions and Benefits ("DPB"), a division of New Jersey's Department of the Treasury ("Treasury"), administers all aspects of TPAF and PERS, except the investment of pension plan assets. Plan assets consist of contributions by employers, including the State, contributions by TPAF's and PERS' members, and investment returns. Liabilities of the plans consist of pension benefits owed to current and retired TPAF and PERS members based on past years of service and the plans' administrative expenses.

7. State law requires that TPAF and PERS engage actuaries to conduct actuarial valuations at the end of each fiscal year – June 30. These valuations include calculating the "annual required contribution" and the "statutory contribution." While the annual required contribution is governed by industry standards,[7] the statutory contribution is calculated in accordance with State law. According to State law and as disclosed in bond offering documents, employers are required to contribute to TPAF and PERS at an actuarially determined rate.

8. In addition to calculating both the annual required contribution and the statutory contribution, an actuarial valuation also calculates the actuarial accrued liability and the actuarial

[4] Plan members include employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

[5] This includes 93,283 State employees and 223,566 employees from local employers.

[6] This includes 43,764 State employees and 93,193 employees from local employers.

[7] The annual required contribution is calculated in accordance with Statements 25 and 27 of the Governmental Accounting Standards Board ("GASB").

value of assets of each of the pension plans.[8] The actuarial accrued liability estimates on the basis of demographic and economic assumptions the present value of pension benefits TPAF and PERS owe to their active and retired members based on past years of service. The actuarial value of assets is the value of cash, investments, and other property belonging to a pension plan using a five-year smoothing method that smoothes the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent short-term fluctuations that may result from economic and market conditions. For each year, this method recognizes 20 percent of the investment gains or losses for the prior five years.

9. The actuarial valuations compare the actuarial accrued liability with the actuarial value of assets for TPAF and PERS and any excess of that liability over the assets forms an unfunded actuarial accrued liability ("UAAL"). The UAAL is the State's unfunded obligation to TPAF's and PERS' members for past service. The actuarial valuations also express the percentages that the plans are funded through a "funded ratio" which represents the quotient obtained by dividing the actuarial value of assets of TPAF and PERS by the actuarial accrued liability of each plan. The trend in the funded ratio provides information as to whether the financial strength of a pension plan is improving or deteriorating over time. The financial strength of a pension plan is generally improving if the funded ratio is increasing. During the relevant time period, New Jersey's funded ratio decreased significantly. As of June 30, 2001, TPAF had a funded ratio of 108 percent and the State portion of PERS had a funded ratio of 112.5 percent. As of June 30, 2009, TPAF had a funded ratio of 63.8 percent and an unfunded actuarial accrued liability of $18.7 billion, and the State portion of PERS had a funded ratio of 56.4 percent and an unfunded actuarial accrued liability of $8.2 billion.[9]

10. The statutory contribution for TPAF and PERS consists of two main components: (1) the normal cost, which represents the portion of the present value of pension benefits that are allocated to active members' current year of service, and (2) an amortized portion of the UAAL. TPAF and PERS use a statutorily set closed 30-year amortization period[10] for calculating the amount of the UAAL that is included in the statutory contribution.[11]

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[8] The actuarial valuations calculate the actuarial accrued liability and actuarial value of assets in accordance with New Jersey statutes and Statements 25 and 27 of GASB.

[9] Although contributions by State and local governments to PERS are invested together, PERS segregates the actuarial accrued liabilities between the State and local governments.

[10] As of the June 30, 2006 actuarial valuations, the State used an open 30-year amortization period.

[11] The State's amortization method amortizes the UAAL over a 30-year period as a level percentage of the projected payroll or "level percent of pay." Under this method, the UAAL amortization payments are calculated so that they are a constant percentage of the projected payroll of active members over the 30-year period. Because the actuarial valuations assume a payroll growth rate of 4 percent each year, the amortization payments increase over time.

11. Although bond offering documents disclosed that the State was required to contribute to TPAF and PERS at an actuarially determined rate and discussed the budget process generally, bond offering documents did not adequately disclose that the amount actually contributed to the pension plans is subject to the Governor's budget request and annual appropriations by the State legislature. Each year, the Governor, based on recommendations received from Treasury, presents a budget request to the legislature, which may include a request for the State's pension contribution. Once the legislature adopts the budget, it is signed into law as the Appropriations Act for the coming fiscal year. In adopting the budget, the legislature is not required to follow the recommendations of the actuaries or the Governor in determining the State's contribution to the pension plans. The appropriations for the State contribution to the pension plans are credited to "Contingent Reserve Funds," existing funds within TPAF and PERS.

12. State law requires members of TPAF and PERS to contribute annually to the pension plans. Member contributions are based on a percentage of compensation. The State legislature must approve any changes to employer or member contributions. State law also provides that any changes in the pension benefits for TPAF's and PERS' members or any changes in the funding methods of the plans must be approved by the State legislature. In addition, each pension related bill submitted to the State legislature must be accompanied by a fiscal note stating the cost of the proposal.

New Jersey Has Access to the National
Public Markets through Municipal Bond Offerings

13. From August 2001 through April 2007, New Jersey issued over $26 billion in municipal bonds in approximately 79 offerings. The State's preliminary official statements and official statements contained an appendix with several subsections, three of which provided information relating to the State's funding of TPAF and PERS (the "State Appendix"). Appendix I provided financial and other information relating to the State, including a section titled "Financing Pensions." The Financing Pensions section provided a description of the State's pension plans, a description of pension related legislation, a summary of the State's contributions to its pension plans for the current and upcoming fiscal years, and a table setting forth the actuarial accrued liability and the actuarial value of assets from the most recent actuarial valuations for each of the State's pension plans. Appendix I-A, which was an excerpt from the State's most recent Comprehensive Annual Financial Report ("CAFR"),[12] contained a footnote to the financial statements titled "Retirement Systems" that provided general information regarding the State's pension plans, including significant legislation and contribution requirements, as well as a table setting forth statistical information relating to the pension plans. Appendix I-D, an unaudited appendix found in the back of the State's disclosure documents, contained statistical tables for each of the State's three largest pension plans, including TPAF and PERS, that provided the actuarial value of assets and accrued liabilities, and the funded ratio for the previous six years.

14. Various divisions and offices within Treasury were responsible for the pension funding disclosures in the State Appendix. The updating of the pension funding sections generally

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[12] The State's CAFR included audited financial statements prepared pursuant to standards established by GASB.

occurred three times a year – following the issuance of the Governor's budget message, after the passage of the Appropriations Act, and following the issuance of the actuarial valuations. At these times, various divisions and offices within Treasury updated their sections of the State Appendix. They viewed the updating of the pension funding sections as a routine process, requiring the insertion of new numbers or facts into an existing document. The DPB updated the pension disclosures at the request of the Office of Public Finance ("OPF"), another office of the Treasury. The OPF inserted the new information into the State Appendix without verifying the information. The Office of Management and Budget ("OMB") included in the State's CAFR the pension fund related excerpts which were also found in the State Appendix.

15. Prior to the release of an official statement, the State Treasurer, or his designee, signed a Rule 10b-5 certification, certifying that the official statement did not contain any material misrepresentations or omissions. During the relevant time period, the Treasurers did not read official statements, and relied on their staff to ensure the accuracy of information contained in the documents.

16. Treasury had no written policies or procedures relating to the review or update of the bond offering documents. In addition, Treasury did not provide training to its employees concerning the State's disclosure obligations under the accounting standards or the federal securities laws. Accordingly, the State's procedures were inadequate for ensuring that material information concerning TPAF and PERS or the State's financing of TPAF and PERS was disclosed and accurate in bond offering documents.

New Jersey Did Not Adequately Disclose the Creation of the BEFs

17. On June 29, 2001, the State legislature approved legislation (P.L. 2001, c. 133) that, effective November 1, 2001, increased retirement benefits for employees and retirees enrolled in TPAF and PERS by 9.09 percent. In order to fund the enhanced benefits, without increased costs to the State or taxpayers, the legislation revalued TPAF and PERS assets to reflect their full market value as of June 30, 1999, near the height of the bull market.[13] Bond offering documents did not disclose the retroactive mark-to-market revaluation of the pension assets under the 2001 legislation until March 2003 or the reason for the reevaluation. More specifically, bond offering documents did not disclose that the State used the market value as of June 30, 1999 in order to make it appear that the State could afford the benefit improvements.

18. The legislation contemplated that the increased assets resulting from the retroactive mark-to-market revaluation would be used to offset the additional liabilities created by the increased benefits. The additional liabilities included the accrued liability resulting from providing the increased benefits to existing members and retirees as well as the normal cost to ensure that the future liability for the benefit enhancement was funded.

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[13] In the actuarial valuations as of June 30, 1999 for TPAF and PERS, the actuarial value of assets was replaced with the market value of assets. Subsequent actuarial valuations, including actuarial valuations as of June 30, 2000 and June 30, 2001, applied the five-year smoothing method.

19. The legislation created "benefit enhancement funds" or BEFs in TPAF and PERS to set aside a portion of the increased assets or "excess valuation assets"[14] to pay the future annual normal cost associated with the enhanced benefits. After the increased assets were used to fund the accrued liability, a portion of the remaining excess valuation assets were placed in the BEFs to cover the future costs associated with the enhanced benefits. Bond offering documents did not disclose the creation of the BEFs until March 2003.

20. The BEFs were special accounts within TPAF and PERS. Each of the BEFs was credited with excess valuation assets, from the Contingent Reserve Funds, which are existing funds within TPAF and PERS used to hold employer contributions, which excess valuation assets resulted from the revaluation in 2001.

21. On July 11 and 13, 2001, approximately two weeks after the passage of the 2001 legislation, the Office of Legislative Services ("OLS")[15] issued fiscal notes analyzing the impact of the Assembly and Senate bills which had been adopted as the 2001 legislation. The fiscal notes acknowledged that valuing the pension assets as of June 30, 1999 did not reflect recent market losses in TPAF and PERS. The fiscal notes further acknowledged that, had the 2001 legislation revalued the pension assets as of April 30, 2001 rather than June 30, 1999, the remaining balance of excess assets in TPAF and PERS would have been $2.4 billion less. Bond offering documents did not disclose the $2.4 billion decline in the market value of the pension assets used to create the BEFs.

22. Bond offering documents did not disclose the reason for and impact of the retroactive mark-to-market revaluation of the pension assets. By revaluing TPAF and PERS assets and creating the BEFs to fund the ongoing costs of the benefit enhancements, the State gave the false appearance that it could afford the increased benefits. The revaluation of the pension assets to reflect their full market value as of June 30, 1999 resulted in a significant difference between the actuarial value and market value of assets in TPAF and PERS. Because the State's contributions to TPAF and PERS are based on the actuarial value of assets, the revaluation created the false appearance that the plans were "fully funded" and allowed the State to justify not making contributions to the pension plans despite the fact that the market values of the plans' assets were rapidly declining.

23. On May 25, 2005, the State's Acting Governor created the Benefits Review Task Force to examine and make recommendations regarding employee benefits. On December 1, 2005, the New Jersey Benefits Review Task Force issued its final report (the "Benefits Review Task Force Report") which offered strong criticism of the State's pension funding practices. In particular, the report recommended that the State stop using actuarial and valuation "gimmicks," like the State's alteration of the valuation method in the 2001 legislation. The report advised that

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[14] Excess valuation assets is a term defined by New Jersey statute (P.L. 1997, c. 115), which refers to the difference between the valuation assets and the actuarial accrued liability, and other enumerated deductions.

[15] OLS is a nonpartisan agency of the State legislature that provides support services to the legislature and its members.

"[m]ethodologies for determining pension fund values and contribution requirements should not again be changed in order to mask the true cost of benefit enhancements." The Benefits Review Task Force Report also concluded that the State must regularly contribute to its pension plans and end its use of "pension holidays" – not contributing to its pension plans.

24. The Benefits Review Task Force Report was publicly available and published on the Benefit Review Task Force's website. New Jersey, however, did not disclose the existence of, or the findings from, the Benefits Review Task Force Report in its bond offering documents.

New Jersey Faced Financial Challenges Due, in Part, to Its
Historical Failure to Contribute to TPAF and PERS

25. During fiscal year 2002, the State learned from the actuaries for TPAF and PERS that New Jersey would be required to begin contributing to the State's pension plans in fiscal year 2004 based on the actuaries' calculations.[16] Between fiscal years 1997 and 2003, the State had made no or only minimal contributions to TPAF and PERS because based upon the actuarial value of assets, both plans were fully or over funded prior to fiscal year 2003. From 1997 through 2003, the State did not contribute approximately $916.4 million and $487.4 million to TPAF and PERS, respectively. During this period and continuing through 2006, in the context of the State's budgetary process, the State viewed monies not contributed to pension funds as "savings" in that any monies not contributed could be used for other budgetary purposes.

26. Beginning in fiscal year 2003, TPAF and PERS experienced a significant increase in each plan's UAAL and a decrease in the funded ratios. TPAF and the State portion of PERS went from being over funded to having UAALs of $2.7 billion and $1.1 billion, respectively. TPAF's funded ratio decreased from 103.9 percent in fiscal year 1997 to 92.7 percent in fiscal year 2003. The funded ratio for the State portion of PERS decreased from 105.8 percent in fiscal year 1997 to 90.7 in fiscal year 2003. The significant change in the financial health of TPAF and PERS was due to a variety of factors, including, the State's failure to contribute to the plans since 1997, market declines, and the enactment of various benefit enhancements, including the 2001 legislation.

27. After a seven-year pension holiday, during which virtually no monies were appropriated in the State's budget for pensions, the State recognized that it would have to begin contributing to TPAF and PERS. The State, however, now faced significant budget pressures which made it difficult for New Jersey to fund its pension plans absent cutting other programs and services, or raising taxes. Following Treasury's recommendation, the Governor requested and the legislature provided in the annual Appropriations Act that the BEFs be used in lieu of the State contributing to TPAF and PERS.

[16] Actuarial valuations of TPAF and PERS are completed approximately 6 to 8 months after the end of a fiscal year. Because of the delay, the statutory contribution calculated by the actuaries applies not to the fiscal year immediately following the fiscal year covered by the actuarial valuations, but to the second fiscal year. For example, the statutory contribution in the actuarial valuations as of June 30, 2003 applied to the fiscal year ended June 30, 2005.

New Jersey Continued to Forego Making Contributions to
Its Pension Plans Through the Use of the BEFs and the Five-Year Phase-In Plan

28. In 2003, while preparing the 2004 fiscal year budget, the State, faced with increased UAALs and declining funded ratios, had to choose between making contributions to the pension plans, or raising taxes or reducing spending in other areas. Accordingly, Treasury recommended, and the State announced, a five-year phase-in plan, in conjunction with using the BEFs, designed to gradually put New Jersey on track to making the State's full statutory contributions to its pension plans. Under the initial five-year phase-in plan, the State would contribute, subject to Constitutional provisions restricting each legislature's ability to mandate spending by future legislatures, 20 percent of the required statutory contribution to its pension plans in fiscal year 2004, 40 percent in fiscal year 2005, 60 percent in fiscal year 2006, 80 percent in fiscal year 2007, and 100 percent in fiscal year 2008. Beginning with fiscal year 2008, the State would be making the full statutory contribution to its pension plans.

29. Disclosures in bond offering documents regarding the State's five-year phase-in plan and use of the BEFs likely falsely led investors to believe that: (1) the State would be contributing to TPAF and PERS in fiscal years 2004, 2005, and 2006; (2) the State had a plan for making its full statutory contributions; and (3) the State would begin making full statutory contributions in fiscal year 2008.

30. Rather than making phase-in contributions to the pension plans, beginning in fiscal year 2004, the State began using the BEFs in conjunction with the five-year phase-in plan. The State continued to use the BEFs as part of the phase-in plan in fiscal years 2005 and 2006. As a result, the State did not contribute any monies to TPAF and PERS in fiscal years 2004 and 2005. In fiscal year 2006, the State did not contribute to PERS, but did contribute a minimal amount to TPAF to cover the portion of the State's contribution not covered by the BEF.

31. Bond offering documents did not disclose that the State was not contributing to TPAF and PERS during this time. When assets from the BEFs were used to fund the State's pension contributions in fiscal years 2004, 2005, and 2006, funds were transferred from the BEFs back to the Contingent Reserve Funds, the original source of the assets in the BEFs. These inter-fund transfers created the false appearance that the State was making contributions to TPAF and PERS, when no actual contributions were being made. Bond offering documents did not disclose that the BEFs allowed the State to forego making contributions to TPAF and PERS. Rather, disclosures in bond offering documents created the false impression that the BEFs were being used to make New Jersey's pension contributions even though no incremental funds were being received by TPAF and PERS. Disclosure documents misleadingly referred to the BEFs as "reserves" that were being utilized to fund the State's contributions to TPAF and PERS which created the misleading impression that the State was making cash contributions to its pension plans.

32. Although bond offering documents referenced the BEFs in connection with the State's contributions, they never disclosed what they were, how they were being used, or why they

were being used. Bond offering documents did not disclose that the State was using the BEFs in conjunction with a five-year phase-in plan because of significant budgetary constraints, and was unable to contribute to TPAF and PERS. In addition, bond offering documents did not disclose the impact of using the BEFs as part of the five-year phase-in plan. The State recognized that delaying the resumption of the State's contributions could result in substantially increasing the pension plans' unfunded liabilities in the future. The State also recognized that by depleting the BEFs, the State would now be faced with paying the normal costs of the enhanced benefits granted by the 2001 legislation. More than $704.2 million was used from the BEFs to fund the State's fiscal year 2004, 2005, and 2006 pension obligations, and thus this amount was no longer available to offset the future costs of the benefit enhancement legislation.

33. By the end of fiscal year 2006, the State had depleted the BEFs. Bond offering documents did not disclose that the State, during each budget cycle, intended to forego making contributions to TPAF and PERS until it had exhausted the BEFs. By disclosing that the State had adopted a five-year phase-in plan, the bond offering documents gave the impression that the State would be contributing its full statutory contributions to TPAF and PERS by fiscal year 2008.

New Jersey Altered and Then Abandoned
the Five-Year Phase-In Plan Because of Financial Difficulties

34. Although New Jersey's bond offering documents referenced the five-year phase-in plan, the State treated the phase-in plan as a flexible plan that could be altered on a year-to-year basis depending on other budgetary demands. Because other budgetary priorities existed, the State's contributions to TPAF and PERS were reduced to 30 percent of the statutory contribution in fiscal year 2005 and 40 percent in fiscal year 2006. Bond offering documents did not disclose the changes to the phase-in plan or the reasons for the State's reduced contributions. These reduced contributions increased, in part, the UAALs for TPAF and the State portion of PERS by $8.2 billion and $3 billion, respectively.

35. Funding for TPAF and PERS was governed by the annual Appropriations Act. The Appropriations Act for fiscal years 2004, 2005, and 2006 also set forth the State's use of the BEFs. In fiscal year 2004, the Appropriations Act specified the amounts to be used from the BEFs in lieu of the State's contributions to TPAF and PERS. However, the Appropriations Act for fiscal years 2005 and 2006 did not identify the amounts to be used from the BEFs or the phase-in percentages. Rather, for those years, the Appropriations Act provided that the Treasurer would determine the amount to be used from the BEFs.

36. The language in the Appropriations Act for fiscal years 2005 and 2006 gave the Treasurer the flexibility to alter the amount of the BEFs to be used to cover the State's contributions to TPAF and PERS, up until the last day of the fiscal year when the contributions were due. In addition, this language gave the Treasurer the ability to alter the phase-in percentages under the phase-in plan. This was particularly important, since by adjusting the amount of the BEFs to be used in fiscal year 2005 and the phase-in percentage, the Treasurer was able to ensure that there were sufficient assets in the BEFs in fiscal year 2006 to cover all or almost all of the State's contributions to TPAF and PERS. In fiscal year 2005, the Treasurer exercised his authority

under the Appropriations Act by reducing the amount of the State's contributions to TPAF and PERS, and thus the phase-in percentage, following the enactment of the Appropriations Act. This change in the phase-in plan, however, was not disclosed in bond offering documents.

37. The State recognized that because of severe budgetary constraints, it would not be able to achieve full funding of its pension plans by fiscal year 2008 without cutting State services or finding other sources of revenue. In fact, the State only contributed 57.5 percent of the required statutory contribution to its pension plans in fiscal year 2007 and 50 percent in fiscal year 2008.

38. The State abandoned its five-year phase-in plan in approximately May 2006. Bond offering documents did not disclose that the State had abandoned the five-year phase-in plan. Rather, the State stopped using the term "five-year" when referring to the phase-in plan in disclosure documents. The State's continued use of the term "phase-in plan" gave the false impression that New Jersey still had a plan to achieve full statutory contributions. Moreover, bond offering documents did not disclose that New Jersey was unable to fully implement the five-year phase-in plan without causing New Jersey to suffer severe economic hardship.

New Jersey Failed to Provide Certain Present and
Historical Financial Information Regarding Its Pension Funding

39. The State's bond offering documents contained inadequate information regarding the State's present and historical contributions to TPAF and PERS. Statistical tables for TPAF and PERS found in Appendix I-D set forth the amount of the State's contributions for the most recent fiscal year and the prior five fiscal years. This information, however, was misleading to investors because the amounts set forth included pension contributions, if any, as well as payments made by the State to members of TPAF and PERS for post-retirement medical benefits.[17] This contribution information conflicted with other statistical information found in the Retirement Systems footnote of Appendix I-A, which showed the actual pension contributions made by the State, but did not include payments for post-retirement medical benefits, for the most recent fiscal year as well as the two prior fiscal years. In addition, the State's bond offering documents lacked sufficient information for investors to understand the State's historical failure – since 1997 – to contribute to TPAF and PERS.

40. Appendix I-A of the State's disclosure documents also excluded a key statistical table from the State's CAFR called the "Required Supplementary Information Schedule of Funding Progress" ("RSI Schedule"), which is defined by GASB. The RSI Schedule is designed to provide a long-term actuarial perspective on the State's funding of its pension plans. The RSI Schedule provided important financial information regarding TPAF and PERS for the three prior fiscal years, including the UAAL and the UAAL as a percentage of covered payroll.[18] The ratio of

[17] Under statutes for TPAF and PERS, the State's contributions for post-retirement medical benefits flowed through the pension plans.

[18] Covered payroll includes all elements of compensation paid to active employees on which contributions to the pension plans are based.

UAAL to covered payroll is a measure of the significance of the UAAL relative to the capacity to pay it. The trend in the ratio provides information as to whether the financial strength of the pension plan is improving or deteriorating over time. The financial strength of a pension plan is generally improving if the ratio of UAAL to covered payroll is decreasing. In fact, from 2002 through 2007, the UAAL as a percentage of covered payroll steadily increased. The UAAL and the UAAL to covered payroll for TPAF and PERS is shown below.

TPAF

Fiscal Year	UAAL	UAAL as a Percentage of Covered Payroll
2002	$(1,654,591)	0.0%
2003	$2,731,906,950	35.5%
2004	$5,813,899,790	72.2%
2005	$9,178,537,424	108.6%
2006	$11,008,573,863	125.8%
2007	$12,446,668,618	137.1%

PERS (State Portion)

Fiscal Year	UAAL	UAAL as a Percentage of Covered Payroll
2002	$(312,599,482)	(8.9)%
2003	$1,112,345,981	31.1%
2004	$1,926,870,843	51.4%
2005	$2,801,180,057	69.5%
2006	$4,129,039,284	97.1%
2007	$5,004,619,993	112.8%

41. The bond offering documents failed to provide information regarding the actuarial methodology used by the State to calculate the actuarial value of assets, and the impact of using this methodology on the State's funding of its pension plans. The bond offering documents did not disclose the effect of the State's use of a five-year smoothing method to measure the actuarial value of assets. As a result of the 2001 legislation and market declines, the actuarial value of assets exceeded the market value of assets for TPAF and PERS, resulting in net unsmoothed losses in both plans beginning in fiscal year 2002. The ratio of the actuarial value of assets to market value of assets for TPAF and PERS is shown below.

Actuarial Value as a Percent of Market Value

Fiscal Year	TPAF	PERS
2002	129.5%	126.8%
2003	131.0%	127.7%
2004	121.0%	118.3%
2005	117.4%	113.9%
2006	112.8%	106.7%
2007	104.7%	101.9%

Since the State's contributions to TPAF and PERS are based on the actuarial value of assets, the significant difference between the actuarial value of assets and the market value of assets reduced the State's statutory contributions to the pension plans.

42. The bond offering documents also failed to provide information regarding the actuarial methodology used by the State to calculate the actuarial accrued liabilities of TPAF and PERS, and the impact of using this methodology on the State's funding of its pension plans. The bond offering documents did not disclose the effect of the State's use of a closed 30-year amortization period[19] based on a level percent of pay for measuring the actuarial accrued liability. Under this recognized actuarial method, the UAALs of TPAF and PERS will continue to rise indefinitely even if the State were to contribute the full statutory contribution to the pension plans. Under New Jersey statute, if the UAALs for TPAF and PERS increase from one year to the next, the actuarial valuations will continue to use the full 30-year amortization period. As a result, the State has been unable to and will continue to be unable to effectively amortize TPAF's and PERS' UAALs.

43. In addition, although available in actuarial reports for TPAF and PERS, the bond offering documents did not provide asset and funded ratio information on a market value basis. Because of the significant difference between the actuarial value and market value of assets in TPAF and PERS, the actuarial value did not accurately present the current value of the pension plans. Rather, the actuarial value of assets for TPAF and PERS provided a limited measure of the pension plans' financial health since they did not fully reflect the effects of the 2001 legislation or market declines. Investors lacked sufficient information to assess the current financial health of TPAF and PERS as a result of the absence of asset and funded ratio information on a market value basis. New Jersey's historical funded ratios using actuarial value of assets and market value of assets are shown below:

TPAF

Fiscal Year	Actuarial Value of Assets	Market Value of Assets	Funded Ratio (actuarial value)	Funded Ratio (market value)
2002	$35,148,246,433	$27,121,744,264	100.0%	77.2%
2003	$34,651,825,932	$26,447,330,285	92.7%	70.7%
2004	$34,633,790,549	$28,618,463,144	85.6%	70.8%
2005	$34,789,389,875	$29,610,249,605	79.1%	69.0%
2006	$35,531,294,790	$31,495,000,296	76.4%	69.3%
2007	$36,714,578,745	$35,070,757,170	74.7%	72.9%

[19] As of the June 30, 2006 actuarial valuations, the State used an open 30-year amortization period.

PERS (State Portion)

Fiscal Year	Actuarial Value of Assets	Market Value of Assets	Funded Ratio (actuarial value)	Funded Ratio (market value)
2002	$11,073,156,965	$8,727,927,022	102.9%	81.1%
2003	$10,829,953,189	$8,479,326,527	90.7%	71.0%
2004	$10,693,508,592	$9,038,299,523	84.7%	71.6%
2005	$10,631,348,826	$9,325,929,009	79.1%	69.4%
2006	$10,668,645,162	$9,996,185,459	72.1%	67.6%
2007	$11,024,255,608	$10,817,111,560	68.8%	67.5%

New Jersey Enhances Its Pension Funding Disclosures

44. Subsequent to an April 2007 news article that raised questions regarding disclosures in the State's bond offering documents relating to New Jersey's funding of its pensions, the State hired disclosure counsel to advise the State on an on-going basis regarding its disclosure obligations under the federal securities laws. During 2007 and early 2008, the State, with the assistance of disclosure counsel, reviewed its bond offering documents and enhanced its disclosures.

45. With the assistance of disclosure counsel, the State has reviewed, evaluated, and enhanced its disclosure process by instituting formal, written policies and procedures. In its written policies and procedures, among other things, the State established a committee comprised of senior Treasury officials, representatives from the Attorney General's Office, and disclosure counsel to oversee the entire disclosure process and to review and make recommendations regarding the State's disclosures and disclosure practices. In addition, the State has implemented an annual mandatory training program conducted by disclosure counsel for the State's employees involved in the disclosure process to ensure compliance with the State's disclosure obligations under the federal securities laws.

Legal Discussion

46. Municipal securities represent an important part of the financial markets available to investors. At the end of 2009, individual investors held approximately 35 percent of outstanding municipal securities directly and up to another 34 percent indirectly through money market funds, mutual funds, and closed end funds. There is also substantial trading volume in the municipal securities market — almost $3.8 trillion of long and short-term municipal securities were traded in 2009 in over 10 million transactions. Issuers of municipal securities have an obligation to ensure that financial information contained in their disclosure documents is not materially misleading. Proper disclosure allows investors to understand and evaluate the financial health of the state or local municipality in which they invest.

47. New Jersey, as an issuer of municipal securities, is subject to the antifraud provisions of the federal securities laws. In addition, the Commission has promulgated a broker-dealer rule, Exchange Act Rule 15c2-12, which in general limits market access for certain municipal securities issues to those offerings in which the issuer agrees to file annual disclosures of

specified financial and operating information as well as notices of certain events, if material, and notices of any failures to file with certain repositories designated by the Commission.[20] The antifraud provisions apply to such disclosure and to any other statements made to the market.

48. Section 17(a) of the Securities Act prohibits the making of any untrue statement of material fact or omitting to state a material fact in the offer or sale of securities. A fact is material if there is a substantial likelihood that its disclosure would be considered significant by a reasonable investor. Basic Inc. v. Levinson, 485 U.S. 224, 231-32 (1987); TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438, 449 (1976). Violations of Sections 17(a)(2) and (3) may be established by showing negligence. SEC v. Hughes Corp., 124 F.3d 449, 453-54 (3d Cir. 1997); SEC v. Steadman, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992).

Violations

49. As a result of the negligent conduct described above, the State violated Sections 17(a)(2) and 17(a)(3) of the Securities Act. Specifically, the State made material misrepresentations and omissions in preliminary official statements, official statements, and continuing disclosures regarding the State's under funding of TPAF and PERS. TPAF and PERS represent a significant and growing obligation for New Jersey. The State's misrepresentations and omissions were material in that they failed, over the course of an almost six-year period, to provide investors with adequate information regarding the State's funding of TPAF and PERS as well as the financial condition of the pension plans. Information regarding the State's under funding of TPAF and PERS and their financial health was important to investors in evaluating New Jersey's overall financial condition and future financial prospects.

50. The State was aware of the under funding of TPAF and PERS and the potential effects of the under funding. However, due to a lack of disclosure training and inadequate procedures relating to the drafting and review of bond disclosure documents, the State made material representations and failed to disclose material information regarding TPAF and PERS in bond offering documents.

Remedial Efforts

51. In determining to accept the State's Offer, the Commission considered the cooperation afforded the Commission's staff during the investigation and remedial acts taken by the State, referenced in paragraphs 44 and 45.

[20] On December 5, 2008, the Commission amended Rule 15c2-12 to require issuers to agree to file annual disclosures of specified financial and operating information as well as notices of certain events, if material, and notices of any failures to file with the Municipal Securities Rulemaking Board. Issuers are no longer permitted to use other repositories. Rule 15c2-12 was further amended on May 27, 2010 to eliminate the materiality determination for certain types of events and to make other changes to improve the quality and timeliness of municipal securities disclosure.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in the State's Offer.

Accordingly, it is hereby ORDERED that pursuant to Section 8A of the Securities Act, the State shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act.

By the Commission.

Elizabeth M. Murphy
Secretary

2010 State Pension Funding Review:

AMENDED 10.26.10

Loop Capital Markets

Pensions, keeping you up at night?

2010 State Pension Funding Review

October 22, 2010

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October 22, 2010

Loop Capital Markets

Loop Analytical Services

Special Commentary

2010 State Pension Funding Review

Each year, Loop Capital Markets issues an in-depth review of state pension plans and their funded status. The following report is our eighth review and represents a significant expansion in breadth and scope from previous reports. In our 2010 analysis we have examined 244 of the largest state pension plans, up from 241 last year, and have expanded our prior focus on state employee and teacher retirement plans to capture legislative, military, and judicial plans as well. This year's report is further enhanced by two new dedicated sections and additional commentary. While our analysis encompasses all datasets previously included, the updated layout and additional data is provided in an effort to enable the reader to more easily navigate our review of this complex subject.

We begin the report with an overview of the current state of municipal pension plans, and explore GASB's role in increasing plan transparency, consistency, and comparability. Following our GASB update we provide an in-depth discussion of our findings regarding trends in changes of actuarial assumptions and general funding statistics. We include a detailed listing of all 244 municipal plans as well as their value of assets, amount of unfunded actuarial accrued liabilities, actuarial assumptions, and funded status from 2002—2009. In our first new section we delve into states' annual required contributions and amounts contributed over the past three years. Following this section we provide a breakdown of our "economic debt" variable, representing our calculation of states' total debt, and explore the rise in economic debt over the last three years. To conclude our pension review we investigate the changes states have made in an effort to draw down both current and future pension liabilities.

Our second new section is an extension of our pension report as it relates to other post employment benefits (OPEB). In this section we briefly examine other post employment benefits, their funded status and their relationship with state pension liabilities. Considering the slow implementation of GASB no. 45 reporting requirements, we expect a significant expansion of this section in years to come as more data becomes available. In this year's report we list out each state's OPEB plans, the value of assets in their OPEB trusts, amount of unfunded actuarial accrued liabilities, actuarial assumptions, and funded status from 2007—2009. We also discuss the effect of OPEB as an additional factor in our calculation of economic debt.

We hope that this expanded report will give analysts, investors, economists, and the general public a better understanding of the severity of underfunded pension plans in the public sector.

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Editors Note

While analysts disagree about the scope of the state pension problem and the optimal approach, essentially the problem is no more complex than the individual's need to save and invest for their retirement. Like an individual, it is very important that states contribute materially to their pension plans every year. If they do, additional steps to control pension costs will enable the financial burden facing states to be brought under control. If not, the financial burden will lead to substantial litigation and state budgetary stress beyond anything recently experienced.

All data presented in this report is directly gathered from each state's comprehensive annual financial reports. We have had a recommendation in the past that the report would be more useful if we made adjustments to reconcile the different accounting treatments that occur in various states. While we do agree this technique would be ideal, as a practical matter we do not have the time or ability to do so, and leave this exercise to our readers. Other clients have suggested that we use economic debt per capita, an excellent idea which we have incorporated into the report. We strive for 100% accuracy in the data presented throughout the report but acknowledge the possibility of human error. We welcome commentary and feedback to continue improving our annual report.

GASB Developments in Reporting Standards for Municipal Pension Plans

GASB has acknowledged that the current municipal pension accounting standards are insufficient in allowing analysts and investors the ability to use panel data. Unlike private sector pension plans, the valuation and accounting methodology for municipal plans is very vague. There are six acceptable costs methods, the ability to choose smoothing and amortization periods, and multiple other actuarial assumptions which almost seem to be arbitrarily chosen. To address this concern, GASB has taken various steps to streamline their accounting standards. After a study was begun in 2006, an official task force was appointed in January 2009, and a public invitation to comment was issued the following March. Preliminary views were released in June 2010, and an additional comment period was issued at that time that closed in September.

Out of all actuarial assumptions, the investment return assumption has been gaining the most attention. Municipal pension plans use the long term investment return assumption as the discount rate to determine their pension liability. The higher the rate, the lower the liability is stated, and the less the employer is required to contribute. Many economists and analysts have voiced their concern, and GASB issued four possible discount rates they would consider in their first invitation to comment. These options included: 1) continue using the long term investment rate of return of the plans assets, 2) using the risk-free rate of return, 3) a governments borrowing rate, and 4) the average return on a high-quality municipal bond. In GASB's second invitation to comment they have limited the possible discount rate options to a combination where each plan would use "the long-term expected rate of return on plan investments to the extent that current and expected future plan net assets available for pension benefits and a high quality municipal bond index rate beyond the point at which plan net assets available for the pension benefits are projected to be fully depleted." (GASB) Under this approach liabilities would still be grossly understated, as the largest portion of the plan, if not the whole plan, would still be discounted using fictitiously high investment return assumptions. Only in the case where assets do not cover the present value of the plans liabilities would a state use a lower discount rate on the underfunded portion.

In GASB's second invitation to comment they also refer to changing the previous six acceptable cost methods to just one - the entry age actuarial cost methodology. Using different cost methods has a significant effect on the funding ratio. As an example, the projected unit credit approach always reports a larger accrued liability regardless of the asset's value, while another methodology, the aggregate cost method, will always show a plan as being 100% funded. [1] Having just one acceptable cost method will be a huge victory for analysts, investors, economists, and all who attempt to use panel data as a basis of comparison between plans. Previously, each plan was not only allowed to choose which accounting method they wanted to use, but had the ability to change methodologies in any given year. When individual plans change methodologies in any given year, time-series data becomes irrelevant, along with the ability to use cross-sectional data amongst multiple plans. The ability to use panel data is paramount in an effort to truly assess the health of various plans.

GASB is clearly making an effort to increase transparency, consistency, and comparability of municipal pension plans. Like many others, GASB understands that pension liabilities are currently like a black box, largely due to acceptable variations in accounting methodologies. While it will take some time to phase in new accounting standards, it is a promising step in the right direction.

Our Findings

Investment Return

Overall, states' pension fund managers were optimistic due to last year's positive investment returns on their portfolios. While the average returns were significantly higher than the assumed average investment return assumption of 8%, the returns were still not sufficient to cover the severe losses experienced in the last two fiscal years as a result of the current recession. Out of the 244 plans we examined, the average investment return assumption was 7.81%, and the median was 8%. Many investors and economists feel the current average 8% return is far too high, as the private sector tends to assume a more conservative 6% rate of return.[2] Lowering the projected investment rate of return would vastly increase the present value of the pension liability — as Moody's notes, "as a general rule of thumb, a 100 bps movement in the discount rate results in an inverse movement in the obligation of approximately 8-12%."[3] In our report we note that five plans decreased their investment return assumption, while six plans increased their assumption. On average, those plans that did increase their investment return assumptions did so by 1.38%, while those who lowered the assumption did so on average by 0.86%. Considering the last three fiscal years of S&P 500 Index from July 1 – June 30th (-28% in 2009, -15% in 2008, and 18% in 2007), it does not seem wise that any plan should have increased their return assumption. In addition, as discussed in the GASB section, the higher the assumed return, the lower the state's annual required contribution (ARC).

In addition to lowering the investment rate of return, pension managers need to concentrate on diversification. The economic downturn exacerbated the problems with funding, as pension managers put the majority of their assets into the stock market. The most recent recession and extreme market volatility throughout the recovery should be a clear sign to pension managers that they need to be more prudent in selecting appropriate securities for their pension portfolios. While bonds or treasuries are safe in terms of risk, the average return on these products is not sufficient to cover the projected long-term rate of return of the portfolio. On the other hand, primary asset allocation in high-risk securities such as hedge-funds, private equity, REITs and derivatives may offer substantial returns, but risk the long-term solvency of the plan. The risk of the securities in the portfolio should be appropriate to cover the actuarial assumed long-term rate of return, while ensuring minimal loss.

Spread Between Investment Return and Salary Increase Assumptions

The spread between the investment return and salary increase assumptions helps identify the amount that will need to be contributed. The larger the gap between the two, the lower the funding requirement is projected to be, as the investment returns should offset salary increases. Of the 244 plans we examined, 79 had a spread that did not include a salary range. For those 79 plans the average spread was 3.05%, slightly down from last year, when we examined 73 plans without a salary range and the average spread was 3.13%. While this is positive, the spread is still larger than we would expect, as investment returns do not seem stable enough to cover the projected salary increases.

Inflation

Higher inflation is associated with higher expected investment returns and salary growth. Compared to last year, seven plans decreased the inflation assumption, while 26 increased it. This finding is in line with the slightly lower spread we observed between the investment return and salary increase assumptions. As liabilities have continued to grow and market conditions remain volatile, we would have hoped for the opposite trend in the inflation assumptions, as states become increasingly aware of the need to utilize more conservative accounting methods.

Amortization

Most municipal pension plans choose to amortize their liability over a 30-year period. The amortization period directly affects the annual required contribution - the amount necessary to ensure that the liability can be paid off over the amortization period. As with the smoothing interval, the shorter the amortization period, the higher the annual required contribution. Considering current economic conditions and the immense pressure on state budgets, we would not expect to see a decrease in amortization periods of more than a year, but we would also be cautious when looking at those plans which did increase their amortization period. Increasing the amortization period could be a sign that states do not have the ability to make their annual required contributions at a rate which would suffice to cover the liability. While it is ill-advised for a state to skip or miss its annual required contribution in any given year, it should be expected that they will be able to make-up for it in the following years though increased contributions. When a state changes the amortization assumption, one would draw the conclusion that the liability has grown so vast that lengthening the amortization period is the only option. This year, there were 22 plans which increased their amortization assumption, with an average increase of eight years. Alabama and Utah were the only states that increased amortization periods for all of their plans. Alabama increased its amortization period for its plans from 20 years to 30 years, and Utah increased the period from 20 to 25 years. Neither of these states changed any other actuarial assumption, but their funded ratios have declined over the last few years.

Smoothing

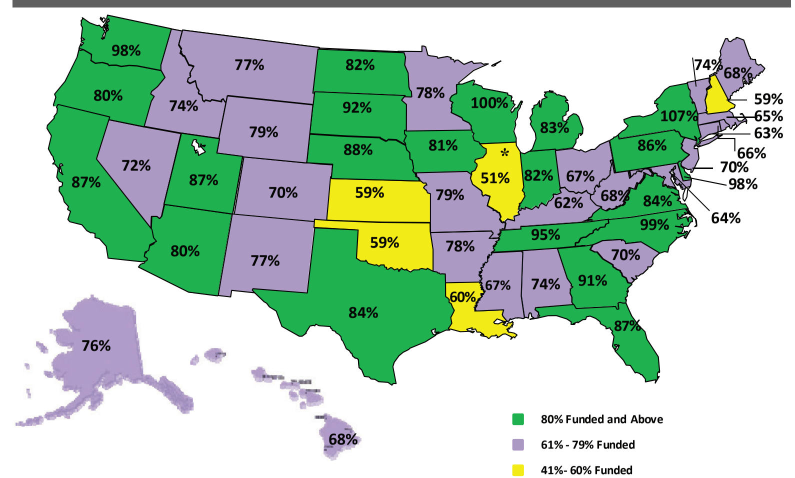
Municipal pension plans allow for a smoothing period to offset market volatility. In years of market declines, the losses are not immediately recognized but smoothed generally over a period of five years. Without the smoothing period, one year of market decline would have a severe effect on the pension plan, as the dramatic increase in the liability would have to be recognized in the period it occurred. This would mean enormous increases in the annual required contribution for any given year of market downturn. As we've already seen in the current recession, states are unable to make the ARC even with the smoothing adjustment. The allowable smoothing period has been an area of controversy, as many believe that allowing smoothing masks the true health of the plan. Funded ratios appear to be more constant than they would without smoothing. While we would not expect states to decrease their smoothing period, especially in the current economic climate, it would not be wise to increase the period, as this action would further mask the market downturns of 2008 and 2009. Of the plans we examined, six raised their smoothing period, and none lowered the assumption. South Carolina increased the smoothing period for all of its plans from five to ten years.

Funded Ratios

Unlike private sector plans, municipal plans are considered adequately funded at 80%. As we expected, funded ratios worsened for almost all plans in 2009. Of the 149 plans with funded ratios for 2009, only 58 had funded ratios over 80%, a significant decline from last year. Out of the 145 plans with funded ratios for both 2009 and 2008, **93% were less funded then they were the previous year**. Of the plans observed this year with funded ratios, 73 plans had assets in excess of $1 billion, and of those plans only 24 were funded over 80%. The funded ratio is one of the best ways to judge the health of a pension plan. As only 24 of 73 pension plans with assets over $1 billion are currently considered funded, it is clear there is a serious issue that needs to be addressed, as the largest funding shortfalls are in the plans with the largest liabilities.

When reviewing the overall funded status of state pension plans on a weighted average basis, as shown in Exhibit 1, our findings are concurrent with those above. While a fair amount of states are funded 80% or above, the majority of states are still underfunded. On a weighted average basis 21 states are considered funded, while 29 are not. The states in yellow, which include Louisiana, Illinois, New Hampshire, Oklahoma, and Kansas, are severely underfunded.

Exhibit 1
2009 Weighted Average Funded Ratios



Source: Individual State 2009 Comprehensive Annual Financial Reports

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Explanation of the Pension Fund Chart Columns

Actuarial Valuation Date: Changes in the general level of the stock market makes the funded ratios not comparable for pension plans with different valuation dates.

Investment Return Assumptions: This assumption incorporates the actuary's long-term view of the market given assumptions concerning asset allocation and inflation.

Inflation and Salary Increase Assumptions: The inflation assumption determines the real (inflation adjusted) investment returns and is part of the payroll increase assumption. GASB 25 requires that pension systems disclose their salary increase assumptions, but does not explicitly require an aggregate number. Many retirement systems disclose the inflation assumption and then list the merit increase assumptions by age or length of service, thus producing a range of projected wage increases. This disclosure approach makes it difficult to determine the gap between the investment return assumption and the payroll increase assumption. The size of the gap is important. The larger the gap, the lower state pension funding requirements are expected to be. That is, investment returns are expected to provide a larger portion of the funds needed to keep the pension plans' promise to pay special benefits. If actuarial investment returns differ from the actuarial assumed return for a number of years, the actuary may recommend that the assumption be changed. This change would mean that states would contribute more or less each year in funding pension benefits.

Actuarial Gains and Losses: In addition to funding retroactive pension benefits, states must also fund actuarial losses (offset by gains). Actuarial gains and losses occur when the outcome differs from the previous assumptions that were made.

Actuarial Value of Assets (AVA): Pension funds amortize or "smooth" actuarial gains and losses into the value of plan assets over a period of three to five years. This means that the full impact of a market downturn, or upturn, is not felt in the first year. Subsequent market rebounds may offset actuarial losses. Note that states that use less smoothing of investment returns and shorter amortization periods for their unfunded liabilities will see a greater short-term impact on pension fund requirements after material market moves.

Amortization of the Unfunded Accrued Actuarial Liability (UAAL): When actuarial liabilities exceed the actuarial value of pension assets, an unfunded actuarial liability exists. State pension plans normally amortize this amount over a long period of time (20-30 years is not atypical). States that use more aggressive actuarial assumptions may end up with larger pension contribution requirements in the later years than more conservative states.

Final Note: As long as a state is making its required contribution, it should be able to pay its promised benefits. Actuaries do not assume future under-funding of pension plans. When a state contributes less than its required actuarial amount, it is increasing the level of required future contributions and perhaps setting up future budgetary stress, especially if the market underperforms in the interim.

Table 1.1 State Pension System Review (Alabama - Georgia)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios 2009	2008	2007	2006	2005	2004	2003	2002	Remaining Amortization Period	Investment Smoothing Years
Alabama Teachers' Retirement System	$20,582	$6,955	2009	8.00%	4.50%	5.00%-7.75%	75%	78%	80%	83%	84%	90%	94%	97%	30	5
Alabama State Employees' Retirement Fund	$9,928	$3,828	2009	8.00%	4.50%	4.61%-7.75%	72%	76%	79%	81%	84%	90%	91%	95%	26-30	5
Alabama Judicial Retirement System	$253	$88	2009	8.00%	4.50%	5.00%	74%	80%	84%	86%	86%	86%	87%	85%	30	5
Alaska Public Employees' Retirement System	$7,211	$1,944	2008	8.25%	3.50%	4.00%-9.50%	*	79%	78%	78%	66%	70%	73%	75%	20	5
Alaska Teachers' Retirement System	$3,670	$1,562	2008	8.25%	3.50%	4.00% - 6.00%	*	70%	68%	68%	61%	63%	64%	68%	19	5
Alaska Judicial Retirement System	$123	$8	2008	8.25%	3.50%	4.00%	*	94%	*	69%	*	77%	*	89%	13	5
Alaska National Guard & Naval Military Retirement System	$28	$1	2008	7.25%	*	*	*	98%	*	61%	*	68%	*	59%	20	5
Alaska Elected Public Officers' Retirement System	$0	$22	2008	5.00%	3.50%	4.00%	*	0%	*	0%	*	*	*	*	25	market value
Arizona State Retirement System	$26,613	$5,812	2008	8.00%	4.25%	4.50% - 9.50%	*	82%	83%	84%	86%	93%	98%	106%	30	10
Arizona Public Safety Personnel Retirement System	$5,445	$2,333	2009	8.50%	5.50%	5.50% - 9.00%	70%	69%	65%	77%	81%	92%	101%	113%	20 or 27	7
Arizona Correctional Officers Retirement System	$1,309	$206	2009	8.50%	5.50%	5.50%-8.50%	86%	90%	89%	94%	96%	105%	107%	124%	20 or 27	7
Arizona Elected Officials' Retirement Plan	$361	$133	2009	8.50%	5.00%	5.00%	73%	79%	77%	90%	92%	104%	119%	126%	20 or 27	7
Arkansas Teachers' Retirement Fund	$10,617	$3,402	2009	8.00%	4.00%	4.00% - 10.10%	76%	85%	85%	80%	80%	84%	86%	92%	45	4
Arkansas Public Employees' Retirement System	$5,413	$1,525	2009	8.00%	4.00%	4.70% - 10.60%	78%	90%	89%	83%	82%	89%	95%	100%	18-30	4
Arkansas Highway Retirement System	$1,193	$42	2009	8.00%	3.50%	4.50%-11.50%	97%	102%	99%	97%	98%	*	*	*	7.4	5
Arkansas State Police Retirement System	$206	$120	2009	8.00%	4.00%	4.00%	63%	74%	76%	72%	71%	73%	81%	89%	30	4
Arkansas Judicial Retirement System	$167	$13	2009	7.50%	3.00%	4.00%	93%	102%	101%	93%	90%	91%	92%	100%	30	4
Arkansas District Judge Retirement System	$10	$16	2009	8.00%	4.00%	4.70% - 9.80%	39%	50%	52%	41%	31%	*	*	*	26 or 28	4
California Public Employees' Retirement Fund	$233,272	$35,052	2008	7.75%	3.00%	varies	*	87%	87%	87%	87%	87%	88%	95%	21 to 28	market value
California State Teachers' Retirement Fund	$155,215	$22,519	2008	8.00%	3.25%	4.25%	*	87%	89%	87%	86%	85%	85%	*	30	3
California Judges Retirement Fund II	$335	$32	2008	7.25%	3.00%	3.25%	*	91%	91%	97%	94%	94%	91%	94%	30	market value
California Legislators' Retirement Fund	$142	-$39	2008	7.00%	3.00%	3.25%	*	138%	139%	*	*	*	*	*	*	market value
California Judges Retirement Fund	$19	$3,588	2008	4.50%	3.00%	3.25%	*	1%	0%	*	*	*	*	*	*	market value
Colorado School Retirement System	$21,055	$9,358	2009	8.00%	3.75%	4.50% - 10.70%	69%	70%	76%	74%	74%	70%	75%	88%	30	4
Colorado State Public Employees' Retirement System	$13,383	$6,594	2009	8.00%	3.75%	4.50% - 10.17%	67%	68%	73%	73%	72%	70%	75%	88%	30	4
Colorado Local Government Retirement System	$2,933	$918	2009	8.00%	3.75%	4.50% - 11.47%	76%	76%	81%	80%	78%	77%	80%	94%	30	4
Colorado Fire & Police Retirement System	$856	-$8	2009	8.00%	3.50%	4.75% - 16.75%	101%	119%	123%	120%	113%	111%	114%	127%	30	3
Colorado Judicial Division Retirement System	$229	$67	2009	8.00%	3.75%	5.00% - 6.00%	77%	80%	88%	85%	86%	81%	84%	98%	30	4
Connecticut Teachers' Retirement Fund	$15,271	$6,530	2008	8.50%	4.00%	4.00% - 7.50%	*	70%	*	60%	*	65%	*	76%	29.2	4
Connecticut State Employees' Retirement Fund	$9,990	$9,253	2008	8.25%	4.00%	4.00% - 20.00%	*	52%	54%	53%	53%	55%	57%	62%	24	5
Connecticut Judicial Retirement Fund	$192	$75	2008	8.25%	5.25%	5.25%	*	72%	70%	69%	68%	69%	68%	66%	23	5
Delaware State Employees' Pension Plan	$6,744	$83	2009	8.00%	3.75%	4.30% - 10.10%	99%	103%	104%	102%	102%	103%	107%	110%	20	5
Delaware New State Police Pension Plan	$229	$12	2009	8.00%	3.75%	4.80%-16.70%	95%	101%	99%	99%	100%	104%	113%	119%	20	5
Delaware County & Municipal Police and Firefighters' Pension Plan	$120	$3	2009	8.00%	3.75%	4.30%-15.70%	98%	99%	98%	99%	97%	108%	112%	116%	10	5
Delaware Judiciary Pension Plan	$49	$9	2009	8.00%	3.75%	4.30%-13.10%	85%	85%	80%	77%	80%	85%	96%	96%	12.9	5
Delaware County & Municipal Other Employees' Pension Plan	$15	$2	2009	8.00%	3.75%	4.30%-10.10%	90%	91%	90%	93%	105%	128%	108%	108%	10	5
Delaware Diamond State Port Corporation Pension Plan	$14	$2	2009	8.00%	3.75%	4.80%	88%	95%	88%	81%	92%	90%	104%	101%	16	5
Delaware Volunteer Firemen's Pension Plan	$13	$13	2009	8.00%	3.75%	*	50%	50%	49%	47%	47%	46%	62%	63%	19	5
Delaware Closed State Police Pension Plan	$1	$306	2009	8.00%	3.75%	4.80%-5.30%	0%	0%	0%	1%	0%	1%	1%	1%	28	5
Delaware Special Pension Plan	$1	$0	2009	8.00%	3.75%	*	129%	125%	127%	108%	108%	119%	131%	247%	*	5
District Of Columbia Police & Firefighters' Retirement Fund	$2,932	$7	2008	7.00%	4.25%	5.30%-10.00%	*	100%	101%	92%	*	*	*	*	*	*
District Of Columbia Teachers' Retirement Fund	$1,448	-$110	2008	7.00%	4.25%	5.00%-8.90%	*	108%	112%	111%	*	*	*	*	*	*
Florida Retirement System	$118,765	$17,611	2009	7.75%	3.00%	5.85%	87%	105%	106%	106%	107%	112%	114%	115%	30	5
Georgia Teachers' Retirement System	$54,354	$4,779	2008	7.50%	3.75%	3.20% - 8.60%	*	92%	95%	97%	98%	101%	101%	102%	30	7
Georgia Employees' Retirement System	$14,017	$1,664	2008	7.50%	3.75%	5.45% - 9.25%	86%	89%	93%	95%	97%	98%	101%	101%	30	7
Georgia Public School Employees' Retirement System	$792	-$21	2008	7.50%	3.75%	*	*	103%	105%	111%	112%	112%	111%	115%	10	7
Georgia Judicial System's Retirement System	$313	-$45	2008	7.50%	3.75%	6.00%	*	117%	119%	122%	124%	127%	128%	130%	14	7
Georgia Legislative Retirement System	$31	-$6	2008	7.50%	3.75%	*	*	126%	123%	125%	121%	127%	124%	122%	*	7
Georgia Military Pension Fund	$5	$14	2008	7.50%	3.75%	*	*	28%	21%	18%	15%	10%	5%	0%	30	7

All plan valuations derived from state Comprehensive Annual Financial Reports.
Blue font represents a new plan.
Green font represents a change in actuarial assumptions.
Orange font represents no change in actuarial assumptions because 2009 data is not available
* Unavailable or N/A information is indicated by an asterisk.
AVA and UAAL are stated in millions.

Table 1.2 State Pension System Review (Hawaii - Massachusetts)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios 2009	2008	2007	2006	2005	2004	2003	2002	Remaining Amortization Period	Investment Smoothing Years
Hawaii Employees' Retirement System	$10,590	$5,107	2007	8.00%	3.00%	4.00% - 17.75%	*	*	68%	65%	69%	72%	76%	84%	25.5	4
Idaho Public Employees' Retirement Fund	$8,646	$3,027	2009	7.75%	4.50%	5.00% - 11.50%	74%	93%	106%	95%	94%	92%	84%	85%	25	market value
Idaho Firefighters' Retirement Fund	$225	$100	2009	7.75%	4.50%	4.50%	69%	*	93%	80%	74%	70%	59%	60%	30	market value
Idaho Judicial Retirement Fund	$48	$27	2009	7.50%	*	3.00%	64%	83%	94%	90%	*	*	*	*	25	market value
Illinois Teachers' Retirement System	$38,026	$35,001	2009	8.50%	3.50%	6.00%-11.10%	52%	56%	64%	62%	61%	62%	49%	52%	30	5
Illinois State University Retirement System	$14,282	$12,034	2009	8.50%	1.25%	5.00% - 10.00%	54%	59%	68%	65%	66%	66%	54%	59%	30	5
Illinois State Employees' Retirement System	$11,000	$14,298	2009	8.50%	3.00%	1%-5.35%	44%	46%	54%	52%	54%	54%	43%	54%	30	5
Illinois Judges' Retirement System	$617	$932	2009	8.00%	4.00%	5.00%	40%	42%	48%	46%	46%	46%	31%	34%	30	5
Illinois General Assembly Retirement System	$72	$174	2009	8.00%	4.00%	5.00%	29%	32%	38%	37%	39%	40%	25%	29%	30	5
Indiana Public Employees' Retirement Fund	$12,780	$323	2008	7.25%	3.00%	4.00%	*	98%	98%	98%	96%	100%	103%	99%	30	market value
Indiana Teachers' Retirement Fund	$9,034	$9,716	2008	7.50%	3.25%	3.50%-12.50%	*	48%	45%	44%	43%	45%	44%	42%	30	4
Indiana 1977 Police Officers' & Firefighters' Pension & Disability Fund	$3,281	-$392	2008	7.25%	*	4.00%	*	114%	108%	97%	96%	96%	94%	89%	30	market value
Indiana State Police Retirement Fund	$356	$98	2009	7.00%	3.50%	3.50%-9.00%	78%	88%	90%	86%	81%	82%	87%	91%	40	*
Indiana Judges' Retirement System	$235	$104	2008	*	3.00%	4.00%	*	69%	75%	65%	55%	65%	61%	64%	*	*
Indiana Excise Police, Gaming & Conservation Officers' Retirement Plan	$65	$12	2008	7.25%	3.00%	4.50%	*	85%	77%	75%	70%	78%	72%	67%	29	market value
Indiana Prosecuting Attorneys' Retirement Fund	$26	$12	2008	7.25%	3.00%	4.00%	*	69%	74%	69%	66%	65%	81%	53%	29	market value
Indiana Legislators' Retirement System	$5	$0	2008	7.25%	3.00%	3.00%	*	102%	97%	90%	87%	87%	85%	81%	14	market value
Iowa Public Employees' Retirement System	$21,124	$4,895	2009	7.50%	4.00%	4.00% - 12.00%	81%	89%	90%	88%	89%	89%	90%	93%	30	*
Iowa Municipal Fire & Police Retirement System	$1,898	$319	2009	7.50%	*	4.50%-15.11%	86%	90%	87%	*	*	*	*	*	30	5
Iowa Peace Officers' Retirement, Accident and Disability System	$300	$133	2009	8.00%	4.00%	4.75% - 6.75%	69%	74%	75%	75%	*	*	*	*	30	*
Iowa Judicial Retirement System	$93	$58	2009	7.50%	3.25%	4.50%	62%	63%	70%	70%	*	*	*	*	25	*
Kansas Public Employees' Retirement System - State/School	$8,252	$6,240	2008	8.00%	3.50%	4.00%-12.00%	57%	69%	68%	67%	69%	74%	76%	82%	24	5
Kansas Public Employees' Retirement System - Local	$1,991	$1,385	2008	8.00%	3.50%	4.00%-12.00%	59%	70%	69%	67%	67%	74%	82%	89%	24	5
Kansas Police & Firemen's Retirement System	$1,480	$619	2008	8.00%	3.50%	4.00%-12.50%	71%	86%	82%	80%	81%	84%	84%	96%	24	5
Kansas Retirement System For Judges	$104	$36	2008	8.00%	3.50%	4.50%	75%	89%	87%	85%	80%	85%	82%	89%	24	5
Kentucky Teachers' Retirement System - Retirement Funds	$14,886	$8,514	2009	7.50%	4.00%	4.00%-8.20%	64%	68%	72%	73%	76%	81%	84%	87%	30	5
Kentucky County Employees' Non-Hazardous - Pension	$5,651	$2,262	2009	7.75%	4.50%	*	71%	79%	82%	84%	94%	105%	120%	130%	*	*
Kentucky State Employees' Non-Hazardous - Pension	$4,795	$5,864	2009	7.75%	4.50%	4.75%-17.00%	45%	53%	57%	60%	74%	85%	97%	110%	28	5
Kentucky County Employees' Hazardous - Pension	$1,751	$827	2009	7.75%	4.50%	*	68%	73%	74%	75%	81%	89%	98%	112%	*	*
Kentucky State Employees' Hazardous Retirement Plan - Pension	$503	$172	2009	7.75%	4.50%	4.50%-21.00%	75%	81%	84%	84%	92%	98%	108%	117%	28	5
Kentucky State Police Retirement Plan - Retirement Funds	$330	$272	2009	7.75%	4.50%	4.50%-21.00%	55%	60%	64%	67%	77%	88%	100%	115%	28	5
Kentucky Judicial Retirement Plan - Retirement Funds	$212	$79	2009	7.00%	*	1.00%-4.00%	73%	89%	97%	104%	108%	*	*	*	25	market value
Kentucky Legislators' Retirement System - Retirement Funds	$43	$17	2009	7.00%	*	1.00%-4.00%	71%	104%	108%	112%	105%	*	*	*	25	market value
Louisiana Teachers' Retirement System	$13,501	$9,339	2009	8.25%	3.00%	3.50%-7.50%	59%	70%	71%	68%	65%	63%	69%	74%	20-30	4
Louisiana State Employees' Retirement System	$8,500	$5,487	2009	8.25%	3.00%	4.25%-14.00%	61%	68%	67%	64%	62%	60%	66%	70%	20-30	4
Louisiana School Employees' Retirement System	$1,410	$743	2009	7.50%	3.00%	4.00%-6.00%	66%	77%	80%	79%	75%	76%	79%	91%	20-30	4
Louisiana State Police Retirement System	$396	$282	2009	7.50%	3.00%	4.00%-15.50%	58%	69%	73%	70%	62%	61%	61%	70%	20-30	4
Maine State Employees' and Teachers' Pension Plan	$8,383	$3,994	2009	7.75%	4.50%	4.75%-10.00%	68%	74%	74%	71%	70%	69%	68%	70%	19	3
Maryland Teachers' Retirement System	$20,606	$10,567	2009	7.75%	3.50%	*	66%	80%	81%	84%	89%	93%	93%	92%	11	5
Maryland State Employees' Retirement System	$9,230	$5,850	2009	7.75%	3.50%	*	61%	75%	77%	81%	85%	89%	92%	96%	11	5
Maryland State Police Retirement System	$1,120	$591	2009	7.75%	3.50%	*	65%	84%	88%	98%	100%	107%	121%	126%	11	5
Maryland State Law Enforcement Officers' Pension System	$355	$330	2009	7.75%	3.50%	*	52%	64%	60%	63%	60%	63%	60%	62%	11	5
Maryland Judges' Retirement System	$271	$150	2009	7.75%	3.50%	*	64%	75%	79%	78%	79%	80%	86%	88%	11	5
Maryland Transit Administration Pension Plan	$143	$194	2009	7.50%	4.00%	4.00%	42%	42%	39%	37%	39%	*	*	*	10	*
Massachusetts Teachers' Retirement System	$18,928	$13,616	2009	8.25%	*	4.50%-10.00%	58%	74%	71%	67%	68%	70%	65%	76%	16	market value
Massachusetts State Employees' Retirement System	$16,992	$6,731	2009	8.25%	*	4.50%-10.00%	72%	89%	85%	82%	83%	84%	80%	94%	16	market value

All plan valuations derived from state Comprehensive Annual Financial Reports.
Blue font represents a new plan.
Green font represents a change in actuarial assumptions.
Orange font represents no change in actuarial assumptions because 2009 data is not available
* Unavailable or N/A information is indicated by an asterisk.
AVA and UAAL are stated in millions.

Table 1.3 State Pension System Review (Michigan - New Jersey)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios 2009	2008	2007	2006	2005	2004	2003	2002	Remaining Amortization Period	Investment Smoothing Years
Michigan Public School Employees' Retirement System - Pension	$45,677	$8,931	2008	8.00%	3.50%	3.50%-15.90%	*	84%	89%	88%	79%	84%	87%	92%	28	5
Michigan State Employees' Retirement System	$11,403	$2,363	2008	8.00%	3.50%	3.50%-14.40%	*	83%	86%	85%	80%	85%	89%	99%	28	5
Michigan Municipal Employees' Retirement System	$7,095	$2	2008	8.00%	4.50%	0.00%-8.40%	*	76%	77%	76%	76%	77%	79%	80%	28	10
Michigan State Police Retirement System	$1,266	$231	2008	8.00%	3.50%	3.50%-93.50%	*	85%	87%	87%	84%	89%	96%	101%	28	5
Michigan Judges' Retirement System - Pension	$296	-$51	2009	8.00%	3.50%	4.00%	121%	123%	122%	116%	114%	121%	124%	127%	27	5
Michigan Legislative Retirement System	$166	$6	2009	7.00%	4.00%	4.00%	97%	100%	103%	101%	*	*	*	*	5	5
Michigan Military Retirement Plan	$0	$42	2009	8.00%	3.50%	3.50%	0%	*	0%	*	0%	0%	0%	0%	27	market value
Minnesota Teachers' Retirement Association Plan	$17,882	$5,232	2009	8.50%	3.00%	4.50%-5.50%	77%	82%	88%	92%	99%	100%	103%	105%	28	5
Minnesota Public Employees' Retirement Fund	$13,158	$5,641	2009	8.50%	3.00%	4.00%-5.40%	70%	74%	73%	75%	75%	77%	81%	85%	22	5
Minnesota State Employees' Retirement Fund	$9,030	$1,482	2009	8.50%	3.00%	4.25%-5.75%	86%	90%	92%	96%	96%	100%	99%	105%	*	*
Minnesota Public Employees' Police & Fire Fund	$5,240	$1,056	2009	8.50%	3.00%	4.75%-11.00%	83%	88%	92%	95%	97%	101%	107%	121%	29	5
Minnesota Correctional Employees' Retirement Fund	$590	$231	2009	8.50%	3.00%	4.75%-6.75%	72%	75%	79%	83%	92%	93%	97%	102%	*	*
Minnesota State Patrol Retirement Fund	$585	$141	2009	8.50%	3.00%	5.25%-7.75%	81%	86%	92%	96%	106%	109%	110%	116%	*	*
Minnesota Public Employees' Correctional Fund	$218	$12	2009	8.50%	3.00%	5.25%-7.75%	95%	100%	98%	94%	90%	88%	90%	95%	14	5
Minnesota Judges' Retirement Fund	$147	$95	2009	8.50%	3.00%	4.00%	61%	64%	72%	75%	75%	73%	76%	76%	*	*
Minnesota Legislators' Retirement Fund	$29	$62	2009	8.50%	3.00%	5.00%	32%	46%	52%	60%	56%	55%	*	58%	*	*
Minnesota Elective State Officers' Retirement Fund	$0	$4	2009	8.50%	3.00%	*	5%	5%	5%	5%	5%	5%	*	5%	*	*
Mississippi Public Employees' Retirement System	$20,598	$9,997	2009	8.00%	4.25%	4.50%-15.00%	67%	73%	74%	74%	72%	75%	79%	83%	30	5
Mississippi Highway Safety Patrol Retirement System	$292	$102	2009	8.00%	4.25%	5.00%-10.52%	74%	78%	77%	76%	76%	81%	86%	92%	29.3	5
Mississippi Municipal Retirement System	$208	$160	2008	8.00%	4.00%	4.50%-6.00%	*	57%	56%	56%	56%	60%	63%	66%	26	5
Mississippi Supplemental Legislative Retirement Plan	$13	$3	2009	8.00%	4.25%	4.50%	81%	86%	85%	83%	79%	80%	83%	86%	26.2	5
Missouri Public School Retirement System	$28,826	$7,234	2009	8.00%	3.25%	5.00% - 10.25%	80%	83%	84%	83%	83%	82%	81%	95%	30	5
Missouri State Employees' Pension Plan	$7,876	$1,619	2009	8.50%	3.20%	4.30% - 7.50%	83%	86%	87%	85%	85%	85%	91%	96%	30	5
Missouri Local Government Employees' Retirement System	$3,331	$831	2009	7.50%	4.00%	4.00% - 8.00%	80%	98%	96%	95%	95%	96%	96%	100%	15 - 30	5
Missouri Public Education Employee Retirement System	$2,792	$666	2009	8.00%	3.25%	5.00% - 10.00%	81%	83%	83%	81%	83%	83%	82%	98%	30	5
Missouri Dep. of Transportation and Highway Patrol Employees' Retirement System	$1,471	$1,642	2009	8.25%	3.25%	3.75% - 11.75%	47%	59%	58%	56%	54%	53%	56%	62%	24	3
Missouri Judges' Pension Plan	$81	$288	2009	8.50%	3.20%	4.00% - 5.60%	22%	21%	19%	17%	15%	14%	13%	12%	30	5
Montana Public Employees' Retirement System - Defined Benefit Retirement Plan	$4,002	$791	2009	8.00%	3.25%	0.00-6.00%	84%	90%	91%	88%	85%	87%	*	100%	30	4
Montana Teachers' Retirement System	$2,762	$1,412	2009	7.75%	3.50%	4.50%	66%	80%	80%	76%	73%	77%	*	87%	Infinite	4
Montana Municipal Police Officers' Retirement System	$214	$131	2009	8.00%	3.25%	0.00%-7.30%	62%	65%	64%	60%	58%	57%	*	63%	22.1	4
Montana Firefighters' Unified Retirement System	$210	$96	2009	8.00%	3.25%	0.00%-7.30%	69%	72%	70%	65%	64%	62%	*	69%	12.7	4
Montana Sheriffs' Retirement System	$201	$23	2009	8.00%	3.25%	0.00%-7.30%	90%	98%	97%	95%	93%	95%	*	114%	*	4
Montana Highway Patrol Officers' Retirement System	$100	$38	2009	8.00%	3.25%	0.00%-7.30%	72%	75%	75%	78%	73%	76%	*	86%	21.5	4
Montana Game Wardens' & Peace Officers' Retirement System	$81	$11	2009	8.00%	3.25%	0.00%-7.30%	88%	93%	94%	92%	90%	90%	*	99%	*	4
Montana Judges' Retirement System	$62	-$20	2009	8.00%	3.25%	0.00%	148%	157%	157%	139%	138%	130%	*	146%	30	4
Montana Volunteer Firefighters' Compensation Act	$27	$6	2009	8.00%	3.25%	*	81%	84%	82%	73%	69%	70%	*	72%	6.9	4
Nebraska School Employees' Retirement System	$7,008	$1,085	2009	8.00%	3.50%	4.50% - 7.50%	87%	91%	91%	87%	86%	87%	91%	95%	28	5
Nebraska State Employees' Retirement Benefit Fund	$638	$21	2008	7.75%	3.50%	4.50% - 5.90%	*	97%	103%	103%	114%	109%	105%	*	25	5
Nebraska State Patrol Retirement Ststem	$274	$31	2009	8.00%	3.50%	4.50% - 9.00%	90%	94%	96%	94%	93%	97%	102%	109%	29	5
Nebraska Judges' Retirement System	$121	-$2	2009	8.00%	3.50%	4.50%	102%	105%	107%	99%	96%	97%	108%	114%	30	5
Nevada Public Employees' Retirement System	$23,972	$9,103	2009	8.00%	3.50%	4.50% - 14.75%	73%	76%	77%	75%	76%	79%	81%	82%	30	5
Nevada Judicial Retirement System	$40	$27	2009	8.00%	*	3.00% - 11.00%	59%	65%	59%	53%	44%	38%	17%	*	30	5
Nevada Legislators' Retirement System	$4	$2	2009	8.00%	*	*	71%	*	73%	*	70%	*	72%	*	20	5
New Hampshire Retirement System - Pension Plan	$4,937	$3,538	2009	8.50%	3.50%	4.50% - 16.25%	58%	68%	67%	*	*	*	*	*	28	5
New Hampshire Judicial Retirement Plan	$51	$4	2008	8.00%	*	*	*	92%	*	95%	98%	*	*	*	*	*
New Jersey Teachers' Pension & Annuity Fund	$36,665	$15,090	2008	8.25%	*	5.74%	*	71%	75%	76%	79%	86%	93%	100%	30	5
New Jersey Public Employees' Retirement System - State	$11,201	$5,872	2008	8.25%	*	5.45%	*	66%	69%	72%	79%	85%	91%	103%	30	5
New Jersey Police & Firemens' Retirement System - State	$2,316	$1,433	2008	8.25%	*	7.20%	*	62%	65%	68%	71%	77%	82%	99%	30	5
New Jersey State Police Retirement System	$2,127	$482	2008	8.25%	*	5.45%	*	82%	83%	85%	93%	97%	103%	107%	30	5
New Jersey Judicial Retirement System	$381	$172	2008	8.25%	*	5.45%	*	69%	72%	75%	79%	83%	86%	96%	30	5
New Jersey Consolidated Police & Firemens' Pension Fund	$16	$2	2008	2.00%	*	*	*	91%	92%	91%	73%	62%	67%	88%	1	5
New Jersey Prison Officers' Pension Fund	$13	-$6	2008	5.00%	*	*	*	190%	183%	170%	163%	158%	161%	152%	1	market value

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AVA and UAAL are stated in millions.

Table 1.4

State Pension System Review (New Mexico - Tennessee)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios								Remaining Amortization Period	Investment Smoothing Years
							2009	2008	2007	2006	2005	2004	2003	2002		
New Mexico Public Employees' Retirement System	$12,575	$2,357	2009	8.00%	4.00%	4.50% - 19.00%	84%	93%	93%	92%	92%	93%	97%	103%	13	4
New Mexico Educational Employees' Retirement System	$9,366	$4,517	2009	8.00%	3.00%	5.00% - 13.50%	68%	72%	71%	68%	70%	75%	81%	87%	30	5
New Mexico Judicial Retirement System	$73	$48	2009	8.00%	4.50%	5.30%	61%	78%	79%	78%	79%	76%	76%	81%	30	4
New Mexico Volunteer Firefighters' Retirement System	$41	-$22	2009	8.00%	4.00%	*	215%	286%	272%	166%	142%	186%	183%	185%	30	4
New Mexico Magistrate Retirement System	$32	$16	2009	8.00%	4.00%	4.75%	66%	93%	110%	101%	100%	100%	102%	111%	30	4
New York State & Local Employees' Retirement System	$128,916	-$8,733	2008	8.00%	3.00%	5.40%	*	107%	106%	104%	103%	*	*	*	10	5
New York Teachers' Retirement System	$88,255	-$5,477	2008	8.00%	3.00%	4.32% - 11.30%	*	107%	104%	103%	99%	99%	99%	100%	*	5
New York Police & Fire Retirement System	$22,767	-$1,695	2008	8.00%	3.00%	6.70%	*	108%	107%	105%	105%	*	*	*	10	5
North Carolina Teachers' & State Employees' Retirement System	$55,128	$391	2008	7.25%	3.75%	4.50% - 16.10%	*	99%	105%	106%	107%	108%	108%	108%	9	5
North Carolina Local Governmental Employees' Retirement System	$17,101	$73	2008	7.25%	3.75%	4.50% - 14.73%	*	100%	100%	100%	99%	99%	99%	99%	*	5
North Carolina Consolidated Judicial Retirement System	$434	$8	2008	7.25%	3.75%	5.75% - 11.75%	*	98%	103%	107%	108%	109%	108%	107%	9	5
North Carolina Firemen's & Rescue Squad Retirement System	$317	$22	2008	7.25%	3.75%	*	*	94%	95%	95%	96%	95%	96%	96%	9	5
North Carolina National Guard Retirement System	$78	$35	2008	7.25%	3.75%	*	*	69%	68%	64%	72%	58%	87%	79%	9	5
North Carolina Registers of Deeds' Retirement System	$37	-$19	2008	7.25%	3.75%	4.50% - 14.65%	*	203%	199%	186%	240%	198%	172%	140%	*	5
North Carolina Legislative Retirement System	$30	-$7	2008	7.25%	*	7.50%	*	130%	134%	136%	132%	133%	131%	132%	8	5
North Dakota Teachers' Fund for Retirement	$1,990	$546	2009	8.00%	3.00%	4.50% - 14.00%	78%	82%	79%	75%	75%	80%	85%	92%	30	5
North Dakota Public Employees' Retirement System	$1,617	$284	2009	8.00%	3.50%	4.50%	85%	93%	93%	87%	91%	94%	98%	104%	20	5
Job Service North Dakota	$75	-$3	2009	7.50%	5.00%	5.00%	105%	109%	107%	*	*	*	*	*	15	5
North Dakota Highway Patrolmen's Retirement System	$50	$7	2009	8.00%	3.50%	4.50%	87%	93%	94%	87%	88%	90%	93%	97%	20	5
Ohio Public Employees' Retirement System	$55,230	$18,116	2008	8.00%	4.00%	4.50% - 10.30%	*	75%	96%	93%	89%	88%	85%	86%	30	4
Ohio State Teachers' Retirement System	$54,903	$36,538	2009	8.00%	3.00%	3.25% - 12.00%	60%	79%	82%	75%	73%	75%	74%	77%	30	4
Ohio School Employees' Retirement System	$9,723	$4,498	2009	8.00%	3.50%	4.50% - 24.75%	68%	82%	81%	76%	75%	78%	84%	90%	30	4
Ohio Police & Fire Pension Fund	$9,309	$4,998	2009	8.25%	3.25%	5.00% - 11.00%	*	65%	82%	78%	78%	81%	86%	83%	30	5
Ohio State Highway Patrol Retirement System	$603	$301	2008	8.00%	4.00%	4.30%-14.00%	*	67%	81%	81%	77%	78%	78%	*	30	4
Oklahoma Teachers' Retirement System	$9,439	$9,512	2009	8.00%	3.00%	4.25% - 6.00%	50%	51%	53%	49%	50%	47%	54%	51%	30	5
Oklahoma Public Employees' Retirement System	$6,208	$3,083	2009	7.50%	3.00%	5.10% - 9.00%	67%	73%	73%	71%	72%	76%	77%	80%	18	5
Oklahoma Firefighters' Pension & Retirement System	$1,668	$1,407	2009	7.50%	3.00%	4.00% - 10.00%	54%	62%	62%	58%	64%	66%	77%	78%	24	5
Oklahoma Police Pension & Retirement System	$1,718	$535	2009	7.50%	3.00%	5.00% - 19.00%	76%	82%	80%	78%	79%	81%	85%	88%	9	5
Oklahoma Law Enforcement Retirement System	$660	$232	2009	7.50%	3.25%	4.25%-8.25%	74%	83%	83%	84%	84%	88%	88%	90%	12	5
Oklahoma Uniform Retirement System for Justices & Judges	$222	$40	2009	7.50%	3.00%	5.50%	85%	96%	99%	103%	109%	121%	140%	148%	18	5
Oklahoma Wildlife Conservation Retirement Plan	$68	$23	2009	8.00%	3.00%	2.00%	75%	81%	81%	80%	*	*	*	*	11	*
Oregon Public Employees' Retirement System	$43,521	$10,739	2008	8.00%	2.75%	3.75%	*	80%	112%	111%	104%	96%	97%	91%	16-20	3
Pennsylvania Public School Employees' Retirement System	$60,922	$9,924	2008	8.25%	3.25%	6.00%	*	86%	86%	81%	84%	91%	97%	105%	30	5
Pennsylvania State Employees' Retirement System	$30,205	$5,592	2009	8.00%	3.00%	4.90% - 20.20%	84%	89%	97%	93%	93%	96%	105%	107%	2 - 30	5
Pennsylvania Municipal Retirement System	$1,540	-$89	2009	6.00%	3.00%	4.10%-5.90%	106%	106%	104%	*	106%	*	114%	*	10 - 30	*
Rhode Island Employees' Retirement System: Teachers	$4,045	$2,661	2008	8.25%	3.00%	4.50%-13.25%	*	60%	55%	53%	55%	59%	64%	73%	21	5
Rhode Island Employees' Retirement System: State Employees	$2,700	$1,671	2008	8.25%	3.00%	4.50%-9.00%	*	62%	58%	55%	56%	60%	65%	72%	21	5
Rhode Island Municipal Employees' Retirement System	$1,175	$92	2008	8.25%	3.00%	4.50% - 14.75%	*	93%	90%	87%	87%	93%	101%	111%	21	5
Rhode Island State Police Retirement Benefits Trust	$55	$14	2008	8.25%	3.00%	4.50%-12.50%	*	80%	76%	86%	79%	76%	74%	76%	21	5
Judicial Retirement Benefits Trust	$35	$8	2008	8.25%	3.00%	4.50%	*	82%	84%	87%	87%	73%	72%	69%	21	5
South Carolina Retirement System	$24,700	$10,964	2008	8.00%	3.00%	4.00%-8.00%	*	69%	70%	70%	72%	80%	83%	86%	29	10
South Carolina Police Officers' Retirement System	$3,363	$956	2008	8.00%	3.00%	4.50% - 11.50%	*	78%	85%	85%	87%	88%	92%	93%	30	10
South Carolina Judges & Solicitors Retirement System	$138	$75	2008	8.00%	3.00%	3.25%	*	65%	58%	59%	58%	61%	64%	60%	16	10
South Carolina General Assembly Retirement System	$47	$22	2008	8.00%	3.00%	*	*	68%	66%	66%	67%	66%	67%	60%	17	10
South Carolina National Guard Retirement System	$17	$36	2008	8.00%	3.00%	*	*	33%	29%	29%	26%	29%	28%	26%	24	10
South Dakota Retirement System	$6,779	$609	2009	7.75%	4.00%	4.15% - 8.13%	92%	97%	97%	97%	97%	98%	97%	97%	20	*
Tennessee State Employees, Teachers, and Higher Education Employees' Pension Plan	$26,215	$1,025	2007	7.50%	3.00%	4.75%	*	*	96%	*	100%	*	100%	*	20	5
Tennessee Political Subdivision Defined Benefits Plan	$4,898	$578	2007	7.50%	3.00%	4.75%	*	*	89%	*	93%	*	92%	*	*	5

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Blue font represents a new plan.

Green font represents a change in actuarial assumptions.

Orange font represents no change in actuarial assumptions because 2009 data is not available

* Unavailable or N/A information is indicated by an asterisk.

AVA and UAAL are stated in millions.

Table 1.5

State Pension System Review (Texas - Wyoming)

State Pension System	AVA	UAAL	Actuarial Valuation	Investment Return	Inflation	Salary Increase	Funded Ratios								Remaining Amortization Period	Investment Smoothing Years
							2009	2008	2007	2006	2005	2004	2003	2002		
Texas Teachers' Retirement System	$106,384	$21,646	2009	8.00%	3.00%	4.25% - 26.40%	83%	91%	89%	87%	87%	92%	95%	96%	30	5
Texas Employees' Retirement System	$23,510	$3,398	2009	8.00%	3.50%	0.00% - 13.50%	87%	93%	96%	95%	95%	97%	98%	103%	30	*
Texas County & District Retirement System Pension Trust Fund	$16,564	$1,884	2009	8.00%	3.50%	5.40%	90%	89%	94%	94%	91%	91%	91%	89%	20	10
Texas Municipal Retirement System	$16,306	$5,219	2009	7.00%	3.00%	varies	76%	74%	74%	82%	83%	83%	83%	84%	*	10
Texas Law Enforcement & Custodial Officer Supplemental Retirement	$781	$126	2009	8.00%	3.50%	5.50% - 13.50%	86%	92%	98%	102%	103%	109%	112%	125%	30	*
Texas Judicial Retirement System Plan Two	$248	$7	2009	8.00%	3.50%	3.50%	97%	97%	96%	94%	90%	118%	117%	111%	4.8	*
Texas Emergency Services Retirement System	$61	$3	2008	8.00%	3.50%	*	*	95%	*	73%	*	74%	*	71%	6	5
Texas Judicial Retirement System Plan One	$0	$268	2009	8.00%	3.50%	3.50%	0%	0%	0%	0%	0%	0%	0%	0%	30	*
Utah Noncontributory Retirement System	$15,839	$2,467	2009	7.75%	3.00%	4.00% - 12.00%	87%	95%	96%	93%	92%	94%	92%	103%	25	5
Utah Public Safety Retirement System	$2,018	$456	2009	7.75%	3.00%	4.00% - 9.75%	82%	91%	92%	89%	88%	93%	93%	101%	25	5
Utah Contributory Retirement System	$1,098	$121	2009	7.75%	3.00%	4.00% - 12.00%	90%	94%	95%	93%	92%	93%	92%	98%	25	5
Utah Firefighters' Retirement System	$766	$11	2009	7.75%	3.00%	4.00% - 10.25%	99%	108%	110%	105%	106%	107%	106%	116%	25	5
Utah Judges' Retirement System	$126	$20	2009	7.75%	3.00%	4.00%	86%	96%	100%	100%	97%	100%	100%	108%	25	5
Utah Governors' & Legislators' Retirement System	$11	$0	2009	7.75%	3.00%	*	99%	119%	119%	118%	122%	124%	123%	143%	25	5
Vermont State Teachers' Retirement System	$1,374	$728	2009	8.25%	*	4.41%-10.68%	65%	81%	85%	85%	91%	90%	90%	90%	29	*
Vermont State Retirement System	$1,218	$327	2009	8.25%	*	4.50%-7.79%	79%	94%	101%	99%	98%	98%	98%	97%	29	*
Vermont Municipal Employees' Retirement System	$331	$36	2009	8.00%	*	5.00%	90%	102%	105%	104%	104%	104%	102%	110%	29	5
Virginia Retirement System	$52,548	$10,006	2008	7.50%	2.50%	3.75% - 5.60%	*	84%	82%	81%	81%	90%	96%	102%	20	5
Virginia Law Officers' Retirement System	$873	$408	2008	7.50%	2.50%	3.50% - 4.75%	*	68%	66%	60%	59%	55%	54%	52%	20	5
Virginia State Police Officers' Retirement System	$646	$198	2008	7.50%	2.50%	3.50% - 4.75%	*	77%	74%	74%	76%	78%	83%	85%	20	5
Virginia Judicial Retirement System	$374	$121	2008	7.50%	2.50%	3.50%	*	76%	77%	71%	72%	78%	81%	80%	20	5
Washington Public Employees' Retirement System Plan 2/3	$16,693	-$185	2008	8.00%	3.50%	6.10%	*	101%	102%	121%	127%	134%	142%	158%	*	8
Washington Public Employees' Retirement System Plan 1	$9,853	$4,048	2008	8.00%	*	6.10%	*	71%	71%	73%	71%	77%	81%	86%	16	8
Washington Teachers' Retirement System Plan 1	$8,262	$2,492	2008	8.00%	*	5.80%	*	77%	77%	80%	78%	84%	88%	92%	16	8
Washington Teachers' Retirement System Plan 2/3	$5,681	-$417	2008	8.00%	3.50%	5.80%	*	108%	113%	133%	134%	153%	155%	182%	*	8
Washington Law Enforcement & Firefighters' Retirement System Plan 1	$5,592	-$1,224	2008	8.00%	3.50%	11.00%	*	128%	122%	116%	113%	109%	112%	120%	16	8
Washington Law Enforcement & Firefighters' Retirement System Plan 2	$5,053	-$1,055	2008	8.00%	3.50%	11.00%	*	126%	120%	116%	114%	117%	125%	137%	*	8
Washington School Employees Retirement System Plan 2/3	$2,303	-$96	2008	8.00%	3.50%	6.90%	*	104%	107%	*	*	*	*	*	*	8
Washington State Patrol Retirement System Plan 1/2	$870	-$125	2008	8.00%	3.50%	4.00%	*	117%	114%	114%	113%	118%	123%	135%	*	8
Washington Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund	$161	-$8	2008	7.00%	*	*	*	105%	111%	99%	91%	104%	107%	113%	15	8
Washington Public Safety Employees Retirement System Plan 2	$39	-$6	2008	8.00%	3.50%	4.00%	*	118%	117%	*	*	*	*	*	*	8
Washington Judges' Retirement System	$4	$0	2008	8.00%	3.50%	*	*	103%	103%	103%	93%	94%	87%	85%	*	market value
Washington Judicial Retirement System	$1	$91	2008	8.00%	3.50%	4.00%	*	1%	1%	0%	2%	4%	7%	9%	*	market value
West Virginia Teachers' Retirement System	$4,134	$4,135	2008	7.50%	3.00%	3.50% - 5.50%	*	50%	51%	32%	25%	22%	19%	19%	26	fair value
West Virginia Public Employees' Retirement System	$3,939	$738	2008	7.50%	3.00%	3.75% - 6.00%	*	84%	97%	87%	84%	80%	73%	75%	28	fair value
West Virginia Public Safety Death, Disability, & Retirement Fund	$459	$88	2008	7.50%	3.00%	4.75% - 6.00%	*	84%	97%	89%	74%	26%	22%	22%	17	fair value
West Virginia Judges' Retirement System	$100	-$2	2008	7.50%	3.00%	4.50%	*	102%	108%	94%	83%	74%	55%	52%	10	fair value
West Virginia Deputy Sheriff Retirement System	$90	$30	2008	7.50%	3.00%	4.50% - 5.50%	*	75%	86%	75%	70%	68%	63%	61%	22	fair value
West Virginia State Police Retirement System	$42	$10	2008	7.50%	3.00%	4.75% - 6.00%	*	81%	99%	92%	97%	90%	87%	85%	22	fair value
West Virginia Emergency Medical Services Retirement System	$14	$5	2008	7.50%	3.00%	3.50% - 5.00%	*	74%	*	*	*	*	*	*	22	fair value
Wisconsin Retirement System	$77,159	$253	2008	7.80%	4.10%	4.10% - 9.90%	*	100%	100%	100%	100%	99%	99%	97%	21	5
Wyoming Public Employees Pension Plan	$4,836	$1,316	2009	8.00%	3.50%	4.50%	79%	94%	94%	95%	85%	92%	92%	103%	30	market value
Wyoming Law Enforcement Retirement Plan	$326	$65	2009	8.00%	3.50%	4.50%	83%	96%	97%	89%	89%	87%	90%	*	30	market value
Wyoming Paid Firemen's Pension Plan A	$163	$30	2009	8.00%	3.50%	*	85%	107%	102%	101%	104%	110%	91%	95%	10	market value
Wyoming State Patrol, Game and Fish Warden and Criminal Investigator Pension Plan	$91	$23	2009	8.00%	3.50%	4.50%	80%	89%	90%	89%	90%	94%	94%	101%	30	market value
Wyoming Paid Firemen's Pension Plan B	$62	$2	2009	8.00%	3.50%	4.50%	97%	106%	108%	110%	115%	123%	123%	152%	30	market value
Wyoming Volunteer Fireman's Pension Plan	$55	$6	2009	8.00%	3.50%	*	90%	97%	106%	105%	111%	115%	113%	120%	30	market value
Wyoming Judicial Pension Plan	$12	$2	2009	8.00%	3.50%	4.50%	88%	102%	104%	62%	59%	43%	49%	29%	30	market value
Wyoming Volunteer EMT Pension Plan	$0	$0	2009	8.00%	3.50%	*	0%	*	*	*	*	*	*	*	30	market value

All plan valuations derived from state Comprehensive Annual Financial Reports.

Blue font represents a new plan.

Green font represents a change in actuarial assumptions.

Orange font represents no change in actuarial assumptions because 2009 data is not available

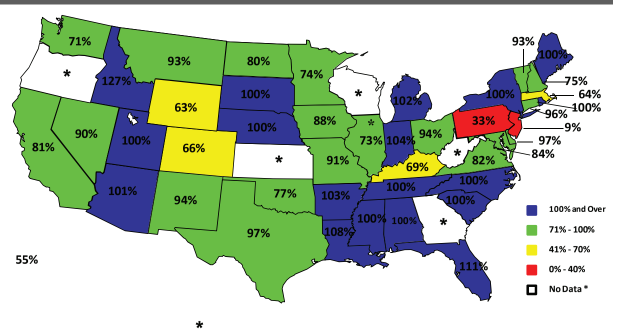
* Unavailable or N/A information is indicated by an asterisk.

AVA and UAAL are stated in millions.

Annual Required Contributions

Municipal pension plans are constructed in such a way that allows the liability to be amortized over a period of approximately 30 years. The annual required contribution (ARC) is the funding level necessary to pay off the liability over the prescribed amortization period. States are not legally required to contribute the stated annual required contribution for their pension plans. In cases of severe, or even mild, but prolonged budgetary distress, a state may choose to forgo their entire annual required contribution. When a state forgoes or even shorts the ARC, the liability becomes even larger, and higher contribution rates will be necessary to cover the shortfall in the future. If states are unable to meet the current contribution rate, higher contribution rates in the future lead to prolonged budgetary pressure. As shown at the bottom of Exhibit 2, we found that **23 states did not meet annual required contribution levels for fiscal year 2008, and 26 states did not meet their ARC for fiscal year 2009.** Alaska, California, Colorado, Delaware, Illinois, Iowa, Kentucky, Maryland, Minnesota, Missouri, Nevada, New Jersey, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Vermont, Virginia, and Washington did not meet their contribution levels for all plans in 2007, 2008, or 2009. As to be expected, the states that face the most severe budgetary issues are those that did not fully contribute to the state's pension plans. In Exhibit 2, we note extremely low levels of contributions in red states such as New Jersey, where only 9% of the prescribed annual required contribution was actually contributed, and Pennsylvania, where only 33% of the ARC was contributed. As discussed earlier, whenever the state does not meet their ARC, future contribution levels may increase drastically.

Exhibit 2
2009 Weighted Average Annual Required Contributions



Red Shaded States Did Not Meet Annual Required Contributions

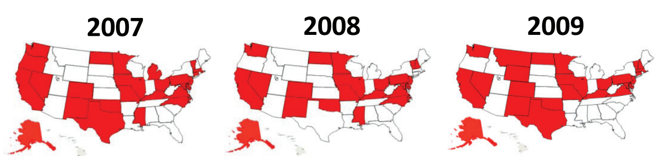


Table 2.1 **Annual Required Contributions (Alabama - Illinois)**

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Alabama Teachers' Retirement System	$753	$754	$730	$730	$541	$541
Alabama State Employees' Retirement Fund	$451	$451	$329	$329	$277	$277
Alabama Judicial Retirement System	$10	$10	$10	$10	$9	$9
Alaska Public Employees' Retirement System	$166	$113	$141	$100	$269	$197
Alaska Teachers' Retirement System	$94	$27	$135	$31	$170	$106
Alaska Judicial Retirement System	$5	$5	$4	$41	$3	$3
Alaska National Guard & Naval Military Retirement System	$2	$2	$2	$2	$2	$2
Alaska Elected Public Officers' Retirement System	*	*	$2	$2	$2	$2
Arizona State Retirement System	$754	$754	$759	$759	$664	$664
Arizona Public Safety Personnel Retirement System	$316	$326	$222	$231	$167	$178
Arizona Correctional Officers Retirement System	$54	$58	$44	$47	$23	$27
Arizona Elected Officials' Retirement Plan	$18	$18	$11	$12	$10	$11
Arkansas Teachers' Retirement Fund	$344	$359	$344	$350	$322	$332
Arkansas Public Employees' Retirement System	$159	$159	$173	$173	$163	$163
Arkansas Highway Retirement System	*	$17	*	*	*	*
Arkansas State Police Retirement System	$11	$12	$10	$12	$10	$11
Arkansas Judicial Retirement System	$4	$4	$5	$5	$5	$5
Arkansas District Judge Retirement System	$2	$2	$2	$2	$2	$2
California Public Employees' Retirement Fund	$6,912	$6,912	$7,243	$7,243	$6,442	$6,442
California State Teachers' Retirement Fund	$4,547	$2,867	$4,362	$2,864	$3,980	$2,649
California Judges Retirement Fund II	$43	$40	$32	$37	$29	$27
California Legislators' Retirement Fund	*	*	*	*	*	*
California Judges Retirement Fund	$791	$191	$624	$163	$561	$131
Colorado School Retirement System	$735	$478	$630	$428	$622	$373
Colorado State Public Employees' Retirement System	$481	$293	$425	$268	$413	$231
Colorado Local Government Retirement System	$87	$83	$80	$78	$81	$68
Colorado Fire & Police Retirement System	$27	$27	$25	$25	$22	$22
Colorado Judicial Division Retirement System	$7	$6	$6	$5	$6	$4
Connecticut Teachers' Retirement Fund	$539	$539	$519	$2,519	$416	$412
Connecticut State Employees' Retirement Fund	$754	$701	$717	$711	$664	$664
Connecticut Judicial Retirement Fund	$14	$14	$13	$13	$12	$12
Delaware State Employees' Pension Plan	$97	$97	$102	$102	$97	$97
Delaware New State Police Pension Plan	$7	$7	$7	$7	$6	$6
Delaware County & Municipal Police and Firefighters' Pension Plan	$12	$12	$6	$6	$6	$6
Delaware Judiciary Pension Plan	$3	$3	$3	$3	$2	$2
Delaware County & Municipal Other Employees' Pension Plan	$2	$2	$1	$1	$1	$1
Delaware Diamond State Port Corporation Pension Plan	$1	$1	$1	$1	$1	$1
Delaware Volunteer Firemen's Pension Plan	$2	$1	$2	$1	$2	$1
Delaware Closed State Police Pension Plan	$26	$22	$25	$21	$25	$19
Delaware Special Pension Plan	*	*	*	*	*	*
District Of Columbia Police & Firefighters' Retirement Fund	$106	$106	$137	$137	$140	$140
District Of Columbia Teachers' Retirement Fund	*	*	$6	$6	$15	$15
Florida Retirement System	$2,536	$2,815	$2,613	$2,796	$2,455	$2,725
Georgia Teachers' Retirement System	*	*	$987	$987	$927	$927
Georgia Employees' Retirement System	$281	$281	$286	$286	$270	$270
Georgia Public School Employees' Retirement System	*	*	$3	$3	$6	$6
Georgia Judicial System's Retirement System	*	*	$2	$2	$2	$2
Georgia Legislative Retirement System	*	*	*	*	*	*
Georgia Military Pension Fund	*	*	$1	$1	$1	$1
Hawaii Employees' Retirement System	*	*	*	*	*	*
Idaho Public Employees' Retirement Fund	$232	$285	$251	$273	$235	$260
Idaho Firefighters' Retirement Fund	$2	$13	*	*	$5	$12
Idaho Judicial Retirement Fund	$2	$2	$3	$2	$3	$2
Illinois Teachers' Retirement System	$2,109	$1,601	$1,949	$1,170	$2,052	$817
Illinois State University Retirement System	$1,147	$725	$972	$609	$968	$524
Illinois State Employees' Retirement System	$1,003	$775	$986	$588	$824	$359
Illinois Judges' Retirement System	$78	$60	$75	$47	$73	$35
Illinois General Assembly Retirement System	$11	$9	$11	$7	$10	$5

In Millions

Table 2.2

Annual Required Contributions (Indiana - Missouri)

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Indiana Public Employees' Retirement Fund	$316	$323	$291	$304	$275	$254
Indiana Teachers' Retirement Fund	$820	$854	$800	$808	$743	$753
Indiana 1977 Police Officers' & Firefighters' Pension & Disability Fund	*	*	$118	$133	$109	$123
Indiana State Police Retirement Fund	$10	$9	$9	$9	$9	$9
Indiana Judges' Retirement System	$16	$21	$10	$16	$12	$15
Indiana Excise Police, Gaming & Conservation Officers' Retirement Plan	$4	$5	$4	$5	$3	$3
Indiana Prosecuting Attorneys' Retirement Fund	$1	$0	$1	$0	$1	$0
Indiana Legislators' Retirement System	$0	$0	$0	$0	$0	$0
Iowa Public Employees' Retirement System	$473	$415	$433	$377	$412	$343
Iowa Municipal Fire & Police Retirement System	$45	$45	$57	$57	$60	$60
Iowa Peace Officers' Retirement, Accident and Disability System	$13	$8	$14	$7	$12	$6
Iowa Judicial Retirement System	$9	$8	$8	$5	$8	$2
Kansas Public Employees' Retirement System - State/School	*	*	*	*	*	*
Kansas Public Employees' Retirement System - Local	*	*	*	*	*	*
Kansas Police & Firemen's Retirement System	*	*	*	*	*	*
Kansas Retirement System For Judges	*	*	*	*	*	*
Kentucky Teachers' Retirement System - Retirement Funds	$600	$401	$564	$440	$495	$435
Kentucky County Employees' Non-Hazardous - Pension	$161	$179	$138	$151	$113	$124
Kentucky State Employees' Non-Hazardous - Pension	$294	$112	$265	$105	$177	$88
Kentucky County Employees' Hazardous - Pension	$69	$78	$64	$72	$54	$62
Kentucky State Employees' Hazardous Retirement Plan - Pension	$16	$16	$14	$15	$12	$13
Kentucky State Police Retirement Plan - Retirement Funds	$16	$8	$14	$7	$9	$6
Kentucky Judicial Retirement Plan - Retirement Funds	$5	$4	$2	$2	$3	$3
Kentucky Legislators' Retirement System - Retirement Funds	$0	$0	$0	$0	$1	$1
Louisiana Teachers' Retirement System	$697	$787	$637	$740	$579	$617
Louisiana State Employees' Retirement System	$492	$506	$457	$527	$435	$422
Louisiana School Employees' Retirement System	$58	$56	$50	$52	$47	$50
Louisiana State Police Retirement System	$21	$20	*	*	*	*
Maine State Employees' and Teachers' Pension Plan	$320	$320	$305	$305	$303	$303
Maryland Teachers' Retirement System	$753	$673	$665	$622	$569	$485
Maryland State Employees' Retirement System	$373	$263	$348	$264	$316	$201
Maryland State Police Retirement System	$31	$17	$23	$13	$12	$12
Maryland State Law Enforcement Officers' Pension System	$32	$32	$34	$34	$29	$29
Maryland Judges' Retirement System	$18	$18	$17	$17	$16	$16
Maryland Transit Administration Pension Plan	$25	$27	*	*	*	*
Massachusetts Teachers' Retirement System	$1,150	$781	$750	$809	$764	$747
Massachusetts State Employees' Retirement System	$697	$397	$370	$461	$432	$436
Michigan Public School Employees' Retirement System - Pension	$989	$1,000	$904	$999	$920	$835
Michigan State Employees' Retirement System	$352	$344	$308	$356	$316	$192
Michigan Municipal Employees' Retirement System	$228	$253	$224	$244	$258	$237
Michigan State Police Retirement System	$37	$35	$34	$34	$32	$24
Michigan Judges' Retirement System - Pension	$0	$0	$0	$0	$0	$0
Michigan Legislative Retirement System	$0	$0	$0	$0	$0	$0
Michigan Military Retirement Plan	$4	$3	$4	$3	$4	$3
Minnesota Teachers' Retirement Association Plan	$355	$241	$280	$232	$230	$209
Minnesota Public Employees' Retirement Fund	$381	$329	$375	$303	$336	$283
Minnesota State Employees' Retirement Fund	$180	$107	$166	$97	$122	$86
Minnesota Public Employees' Police & Fire Fund	$141	$102	$145	$87	$116	$75
Minnesota Correctional Employees' Retirement Fund	$32	$20	$35	$19	$29	$14
Minnesota State Patrol Retirement Fund	$15	$9	$12	$8	$11	$7
Minnesota Public Employees' Correctional Fund	$11	$14	$10	$13	$9	$12
Minnesota Judges' Retirement Fund	$9	$8	$10	$8	$8	$8
Minnesota Legislators' Retirement Fund	$5	$1	$3	$2	$2	$2
Minnesota Elective State Officers' Retirement Fund	$1	$0	$1	$0	$0	$0
Mississippi Public Employees' Retirement System	$657	$657	$637	$617	$621	$559
Mississippi Highway Safety Patrol Retirement System	$12	$12	$10	$10	$10	$10
Mississippi Municipal Retirement System	*	*	$15	$16	$15	$15
Mississippi Supplemental Legislative Retirement Plan	$0	$0	$0	$0	$0	$0
Missouri Public School Retirement System	$670	$563	$656	$521	$645	$472
Missouri State Employees' Pension Plan	$252	$252	$250	$250	$239	$239
Missouri Local Government Employees' Retirement System	$133	$133	$130	$130	$129	$129
Missouri Public Education Employee Retirement System	$97	$86	$91	$78	$90	$69
Missouri Dep. of Transportation and Highway Patrol Employees' Retirement System	$123	$123	$125	$125	$122	$122
Missouri Judges' Pension Plan	$28	$28	$26	$26	$24	$24

In Millions
Minnesota Elective State Officers' Retirement Fund: is a closed plan. There are no active contributing members. For the Legislators and Elective State

Table 2.3

Annual Required Contributions (Montana - Oregon)

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Montana Public Employees' Retirement System - Defined Benefit Retirement Plan	$96	$76	$65	$72	$60	$67
Montana Teachers' Retirement System	$81	$81	$81	$81	$113	$146
Montana Municipal Police Officers' Retirement System	$3	$5	$5	$5	$4	$4
Montana Firefighters' Unified Retirement System	$0	$5	$4	$4	$3	$4
Montana Sheriffs' Retirement System	$7	$5	$4	$5	$4	$4
Montana Highway Patrol Officers' Retirement System	$3	$4	$4	$4	$4	$4
Montana Game Wardens' & Peace Officers' Retirement System	$3	$3	$3	$3	$2	$3
Montana Judges' Retirement System	$0	-$1	$0	-$1	$0	-$1
Montana Volunteer Firefighters' Compensation Act	$2	$2	$2	$2	$2	$2
Nebraska School Employees' Retirement System	$131	$131	$122	$122	$123	$123
Nebraska State Employees' Retirement Benefit Fund	*	*	$29	$29	$23	$23
Nebraska State Patrol Retirement Ststem	$5	$5	$5	$5	$5	$5
Nebraska Judges' Retirement System	$3	$3	$3	$3	$3	$3
Nevada Public Employees' Retirement System	$1,341	$1,206	$1,259	$1,171	$1,141	$1,095
Nevada Judicial Retirement System	$4	$4	$3	$4	$3	$4
Nevada Legislators' Retirement System	*	$0	*	$0	*	$0
New Hampshire Retirement System - Pension Plan	$261	$196	$251	$188	$178	$178
New Hampshire Judicial Retirement Plan	*	*	$1	$1	$1	$1
New Jersey Teachers' Pension & Annuity Fund	$1,601	$96	$1,551	$695	$1,407	$691
New Jersey Public Employees' Retirement System - State	$622	$79	$557	$235	$380	$216
New Jersey Police & Firemens' Retirement System - State	$275	$40	$253	$134	$217	$127
New Jersey State Police Retirement System	$86	$10	$79	$36	$57	$30
New Jersey Judicial Retirement System	$30	$4	$27	$13	$25	$13
New Jersey Consolidated Police & Firemens' Pension Fund	$2	$1	$2	$1	$8	$2
New Jersey Prison Officers' Pension Fund	*	*	*	*	*	*
New Mexico Public Employees' Retirement System	$303	$311	$293	$293	$257	$257
New Mexico Educational Employees' Retirement System	$375	$324	$368	$291	$364	$256
New Mexico Judicial Retirement System	$5	$5	$5	$5	$4	$4
New Mexico Volunteer Firefighters' Retirement System	$0	$0	$0	$0	0 – .446	*
New Mexico Magistrate Retirement System	$1	$1	$1	$1	$1	$1
New York State & Local Employees' Retirement System	$1,963	$1,963	$2,135	$2,135	$2,216	$2,216
New York Teachers' Retirement System	$1,096	$1,096	$1,188	$1,188	$1,104	$1,104
New York Police & Fire Retirement System	$493	$493	$513	$513	$502	$502
North Carolina Teachers' & State Employees' Retirement System	$472	$472	$407	$403	$332	$332
North Carolina Local Governmental Employees' Retirement System	$266	$266	$246	$246	$233	$233
North Carolina Consolidated Judicial Retirement System	$8	$9	$8	$8	$7	$7
North Carolina Firemen's & Rescue Squad Retirement System	$10	$10	$9	$9	$8	$8
North Carolina National Guard Retirement System	$6	$6	$6	$7	$7	$7
North Carolina Registers of Deeds' Retirement System	*	*	*	*	*	*
North Carolina Legislative Retirement System	*	*	*	*	*	*
North Dakota Teachers' Fund for Retirement	$42	$37	$44	$34	$51	$32
North Dakota Public Employees' Retirement System	$40	$28	$36	$25	$38	$23
Job Service North Dakota	*	*	*	*	*	*
North Dakota Highway Patrolmen's Retirement System	$1	$1	$1	$1	$1	$1
Ohio Public Employees' Retirement System	$1,020	$1,020	$893	$893	$1,052	$1,052
Ohio State Teachers' Retirement System	$1,520	$1,353	$1,329	$1,329	$1,540	$1,278
Ohio School Employees' Retirement System	$236	$236	$243	$243	$261	$235
Ohio Police & Fire Pension Fund	*	*	$371	$278	$364	$280
Ohio State Highway Patrol Retirement System	$20	$21	$20	$19	$20	$18
Oklahoma Teachers' Retirement System	$714	$619	$590	$597	$576	$536
Oklahoma Public Employees' Retirement System	$323	$243	$364	$220	$339	$198
Oklahoma Firefighters' Pension & Retirement System	$158	$83	$147	$83	$147	$117
Oklahoma Police Pension & Retirement System	$103	$59	$101	$56	$95	$56
Oklahoma Law Enforcement Retirement System	$37	$25	$33	$25	$33	$24
Oklahoma Uniform Retirement System for Justices & Judges	$8	$2	$8	$2	$6	$1
Oklahoma Wildlife Conservation Retirement Plan	$3	$3	*	*	*	*
Oregon Public Employees' Retirement System	*	*	$707	$707	$806	$596

In Millions
Jobs Service North Dakota: Scheduled contribution will be zero as long as the plan's actuarial value of assets exceeds the actuarial present value of projected benefits. The scheduled contribution and amortization will be determined when the plan is not in surplus and will be based on a funding policy adopted by the employer.
North Carolina Registers of Deeds' Retirement System: No contributions were required or made. Significant fees and collections are contributed not directly related to ARC.
North Carolina Legislative Retirement System: No contributions were required or made. For the year ending 2009 there was no actuarial based required contribution. Employers contributed an additional .04% of the employees 7% to make up for the difference between the actual and statutorily required 7% of covered payroll.

Table 2.4

Annual Required Contributions (Pennsylvania - Wyoming)

State Pension System	2009 ARC	2009 Amount Contributed	2008 ARC	2008 Amount Contributed	2007 ARC	2007 Amount Contributed
Pennsylvania Public School Employees' Retirement System	$1,761	$503	$1,852	$754	$1,709	$660
Pennsylvania State Employees' Retirement System	$644	$252	$584	$233	$617	$243
Pennsylvania Municipal Retirement System	$31	$35	$29	$32	$27	$29
Rhode Island Employees' Retirement System: Teachers	$189	$189	$205	$205	$180	$180
Rhode Island Employees' Retirement System: State Employees	$126	$126	$132	$132	$118	$118
Rhode Island Municipal Employees' Retirement System	$34	$34	$33	$33	$27	$27
Rhode Island State Police Retirement Benefits Trust	$3	$3	$4	$4	$4	$4
Judicial Retirement Benefits Trust	$2	$2	$2	$2	$2	$2
South Carolina Retirement System	$828	$828	$774	$774	$644	$644
South Carolina Police Officers' Retirement System	$124	$124	$114	$114	$107	$107
South Carolina Judges & Solicitors Retirement System	$8	$8	$8	$8	$7	$7
South Carolina General Assembly Retirement System	$2	$2	$2	$2	$2	$2
South Carolina National Guard Retirement System	$4	$4	$4	$4	$4	$5
South Dakota Retirement System	$94	$94	$90	$90	$85	$85
Tennessee State Employees, Teachers, and Higher Education Employees' Pension Plan	$584	$584	$593	$593	$563	$563
Tennessee Political Subdivision Defined Benefits Plan	$253	$253	$245	$245	$232	$232
Texas Teachers' Retirement System	$2,011	$2,172	$2,020	$2,060	$2,046	$1,739
Texas Employees' Retirement System	$530	$362	$378	$342	$370	$329
Texas County & District Retirement System Pension Trust Fund	$489	$510	$452	$461	$423	$430
Texas Municipal Retirement System	$757	$642	$565	$567	$513	$513
Texas Law Enforcement & Custodial Officer Supplemental Retirement	$33	$21	$20	$20	$7	$0
Texas Judicial Retirement System Plan Two	$11	$11	$11	$11	$11	$11
Texas Emergency Services Retirement System	*	*	$3	$11	$3	$3
Texas Judicial Retirement System Plan One	$25	$28	$27	$29	$29	$29
Utah Noncontributory Retirement System	$535	$535	$523	$523	$488	$488
Utah Public Safety Retirement System	$99	$99	$94	$94	$81	$81
Utah Contributory Retirement System	$11	$11	$11	$11	$11	$11
Utah Firefighters' Retirement System	$16	$16	$10	$10	$14	$14
Utah Judges' Retirement System	$4	$4	$4	$4	$3	$3
Utah Governors' & Legislators' Retirement System	$0	$0	$0	$0	$0	$0
Vermont State Teachers' Retirement System	$40	$39	$41	$41	$39	$38
Vermont State Retirement System	$29	$25	$42	$39	$40	$39
Vermont Municipal Employees' Retirement System	*	*	*	*	$9	$9
Virginia Retirement System	$1,501	$1,220	$1,379	$1,277	$1,300	$1,116
Virginia Law Officers' Retirement System	$60	$51	$61	$56	$56	$48
Virginia State Police Officers' Retirement System	$24	$20	$23	$21	$19	$16
Virginia Judicial Retirement System	$23	$21	$24	$22	$23	$21
Washington Public Employees' Retirement System Plan 2/3	$370	$440	$363	$319	$331	$243
Washington Public Employees' Retirement System Plan 1	$620	$325	$453	$222	$397	$119
Washington Teachers' Retirement System Plan 1	$391	$179	$295	$113	$250	$61
Washington Teachers' Retirement System Plan 2/3	$187	$161	$209	$110	$168	$102
Washington Law Enforcement & Firefighters' Retirement System Plan 1	*	*	*	*	$0	$0
Washington Law Enforcement & Firefighters' Retirement System Plan 2	$105	$78	$61	$73	$57	$58
Washington School Employees Retirement System Plan 2/3	$72	$64	$76	$52	$72	$46
Washington State Patrol Retirement System Plan 1/2	$5	$6	$7	$6	$5	$3
Washington Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund	$1	$1	$1	$1	$1	$1
Washington Public Safety Employees Retirement System Plan 2	$14	$15	$12	$12	$7	$7
Washington Judges' Retirement System	*	*	*	*	*	$0
Washington Judicial Retirement System	$21	$10	$27	$10	$37	$10
West Virginia Teachers' Retirement System	*	*	$345	$371	$327	$1,485
West Virginia Public Employees' Retirement System	*	*	$125	$128	$122	$123
West Virginia Public Safety Death, Disability, & Retirement Fund	*	*	$6	$5	$6	$6
West Virginia Judges' Retirement System	*	*	$3	$4	$3	$6
West Virginia Deputy Sheriff Retirement System	*	*	$4	$4	$4	$4
West Virginia State Police Retirement System	*	*	$2	$2	$2	$2
West Virginia Emergency Medical Services Retirement System	*	*	*	*	*	*
Wisconsin Retirement System	*	*	$623	$623	$593	$593
Wyoming Public Employees Pension Plan	$145	$88	$83	$83	$73	$72
Wyoming Law Enforcement Retirement Plan	$11	$12	$9	$12	$8	$11
Wyoming Paid Firemen's Pension Plan A	$5	$0	$0	$0	$0	$0
Wyoming State Patrol, Game and Fish Warden and Criminal Investigator Pension Plan	$3	$3	$2	$3	$2	$2
Wyoming Paid Firemen's Pension Plan B	$4	$2	$3	$2	$2	$2
Wyoming Volunteer Fireman's Pension Plan	$1	$1	$1	$2	$1	$2
Wyoming Judicial Pension Plan	$1	$1	$0	$1	$0	$0
Wyoming Volunteer EMT Pension Plan	$0	$0	*	*	*	*

In Millions

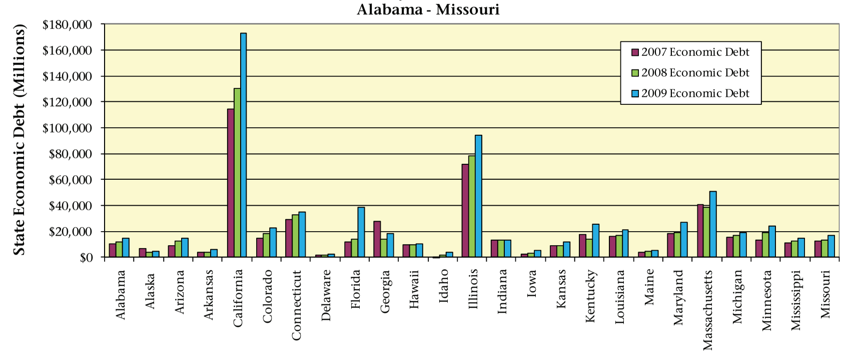
Texas: The plan for JRS1 is closed to new participants and the state contributions are based upon benefits paid to partici-
pants during the year. Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and

Economic Debt

Economic Debt, which comprises the state general fund deficits, net bonded debt, and pension obligations, has significantly risen over the last three years (See Exhibit 3). Since last year, out of the top ten states with the highest economic debt, nine have remained there while Florida has moved to 9th from 20th last year (See Table 3). On average, the top ten states increased their economic debt by 30.08%. Most notably 3 states - California, Ohio, and Florida - have increased their economic debt by over $20 billion. These increases in Ohio and Florida are attributable to large increases in their pension unfunded actuarial accrued liabilities. California's sizable increase of over $42 billion in economic debt is due to an approximate 33% increase in their pension liabilities over the last year, and an increase in their net bonded debt of approximately 32%. These increases are staggering, and will pose a significant burden on future budgetary planning.

Exhibit 3

Three Year History Of State Economic Debt
Alabama - Missouri



Three Year History Of State Economic Debt
Montana - Wyoming

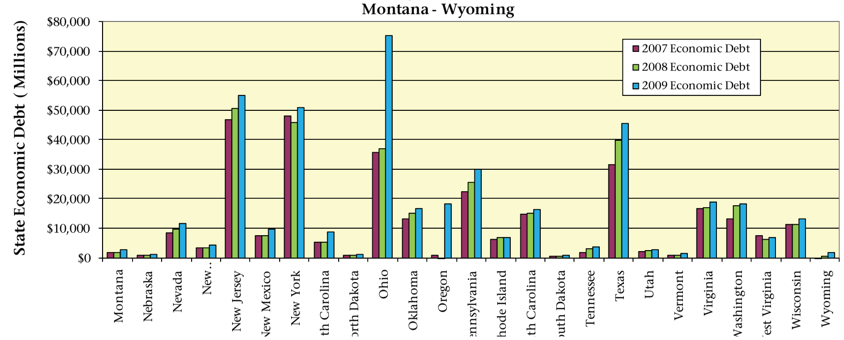


Table 3 **Calculation of Economic Debt**

State	General Fund Unreserved Balance ($ Mil)	Net Bonded Debt ($ Mil)	Sum UPBO ($ Mil)	Economic Debt ($ Mil)
Alabama	$217	$3,749	$10,871	$14,620
Alaska	$13,223	$940	$3,536	$4,476
Arizona	($1,401)	$4,857	$8,485	$14,743
Arkansas	$2,272	$900	$5,117	$6,017
California	($18,344)	$87,320	$67,070	$172,734
Colorado	$11	$2,012	$20,915	$22,927
Connecticut	($2,303)	$17,094	$15,859	$35,256
Delaware	$744	$2,203	$429	$2,632
District of Columbia	$217	N/A	($103)	($103)
Florida	$2,192	$20,820	$17,611	$38,431
Georgia	($493)	$11,011	$6,986	$18,490
Hawaii *	$567	$5,176	$5,107	$10,283
Idaho	$631	$831	$3,154	$3,985
Illinois	($7,722)	$23,957	$62,439	$94,118
Indiana	$1,460	$3,157	$9,872	$13,029
Iowa	$803	$219	$5,404	$5,623
Kansas	($201)	$3,214	$8,279	$11,694
Kentucky	($50)	$7,270	$18,008	$25,327
Louisiana	$803	$5,708	$15,851	$21,559
Maine	($390)	$1,002	$3,994	$5,387
Maryland	$147	$9,166	$17,683	$26,849
Massachusetts	$1,735	$30,371	$20,347	$50,718
Michigan	$177	$7,462	$11,492	$18,954
Minnesota	($752)	$5,463	$17,625	$23,841
Mississippi	$1,360	$4,364	$10,262	$14,626
Missouri	$669	$4,672	$12,279	$16,951
Montana	$393	$349	$2,488	$2,837
Nebraska	$856	$27	$1,134	$1,161
Nevada	$179	$2,446	$9,132	$11,578
New Hampshire	$0	$881	$3,542	$4,423
New Jersey	$2,186	$31,951	$23,045	$54,996
New Mexico	$377	$2,809	$6,986	$9,795
New York	($5,568)	$61,260	($15,905)	$50,923
North Carolina	($965)	$7,175	$504	$8,644
North Dakota	$863	$212	$834	$1,046
Ohio	$213	$10,766	$64,451	$75,217
Oklahoma	$3,166	$2,101	$14,543	$16,644
Oregon	($334)	$7,111	$10,739	$18,183
Pennsylvania	($2,541)	$11,827	$15,589	$29,957
Rhode Island	($62)	$2,241	$4,446	$6,749
South Carolina	($126)	$4,184	$12,053	$16,363
South Dakota	$131	$110	$609	$719
Tennessee	$634	$2,004	$1,603	$3,607
Texas	$5,586	$12,893	$32,553	$45,446
Utah	$327	$2,666	$3	$2,669
Vermont	$47	$441	$1,090	$1,531
Virginia	($928)	$7,056	$10,733	$18,717
Washington	$189	$14,833	$3,514	$18,347
West Virginia	$767	$1,963	$5,004	$6,967
Wisconsin	($3,121)	$9,726	$321	$13,169
Wyoming	($195)	$42	$1,493	$1,730

General Fund Unreserved Balance: Individual State 2009 Comprehensive Annual Financial Reports
Net Bonded Debt: Moody's 2010 State Debt Medians
Sum UPBO: Individual State 2009 Comprehensive Annual Financial Reports
Sum OPEB: Individual State 2009 Comprehensive Annual Financial Reports
Population: census.gov (July 1, 2009)
* The 2008 general unreserved balance was used in the absence of 2009 data.

Economic Debt Per Capita

There is a valid argument to be made that cross-sectional analysis of economic debt on a state by state basis is flawed. Population, as it relates to tax revenue, must be factored into the equation to determine the true severity of the outstanding liabilities. To address this concern, we look at economic debt on a per capita basis (See Table 4). When investigating economic debt per capita, three of the top five states from last year (Connecticut, Hawaii, and Illinois) remain at the top, while Massachusetts moved up from the 6th to 3rd spot, and Ohio moved up from the 21st to the 5th spot. The higher the economic debt per capita, the larger the burden on the state's fiscal health.

Table 4 **State Rankings - Economic Debt Per Capita**

Rank	State	Economic Debt Per Capita	Rank	State	Economic Debt per Capita	Rank	State	Economic Debt Per Capita
1	Connecticut	$10,021	18	Oklahoma	$4,514	35	Virginia	$2,374
2	Hawaii *	$7,939	19	Nevada	$4,381	36	Wisconsin	$2,329
3	Massachusetts	$7,692	20	Kansas	$4,149	37	Arizona	$2,235
4	Illinois	$7,290	21	Maine	$4,086	38	Arkansas	$2,083
5	Ohio	$6,516	22	West Virginia	$3,828	39	Florida	$2,073
6	Rhode Island	$6,408	23	South Carolina	$3,587	40	Indiana	$2,028
7	Alaska	$6,408	24	New Hampshire	$3,339	41	Michigan	$1,901
8	New Jersey	$6,316	25	Wyoming	$3,179	42	Georgia	$1,881
9	Kentucky	$5,871	26	Alabama	$3,105	43	Iowa	$1,870
10	Mississippi	$4,955	27	Delaware	$2,974	44	Texas	$1,834
11	New Mexico	$4,874	28	Montana	$2,910	45	North Dakota	$1,617
12	Louisiana	$4,799	29	Missouri	$2,831	46	Utah	$958
13	Oregon	$4,753	30	Washington	$2,753	47	North Carolina	$921
14	Maryland	$4,711	31	New York	$2,606	48	South Dakota	$884
15	California	$4,673	32	Idaho	$2,578	49	Nebraska	$646
16	Colorado	$4,563	33	Vermont	$2,462	50	Tennessee	$573
17	Minnesota	$4,527	34	Pennsylvania	$2,377	51	District of Columbia	($172)

* The 2008 general unreserved balance was used in the absence of 2009 data.

Economic Debt as a Percentage of Personal Income

Reviewing economic debt as a percentage of personal income we observe a similar pattern. Three of the last year's top five states remain (Hawaii, Connecticut, and Illinois), while Ohio, which last year ranked 17th, moved into the number 3 spot, and Kentucky moved up from 14th to the number 4 spot (See Table 5). Those states with high economic debt as a percentage of personal income may face more adversity if they count on taxpayers to pick up the tab to fund state pension plans.

Table 5 State Rankings - Economic Debt as a Percentage of Personal Income

Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income
1	Hawaii *	18.90%	18	Maine	11.12%	35	Wisconsin	6.32%
2	Connecticut	18.42%	19	California	11.04%	36	Indiana	6.01%
3	Ohio	18.42%	20	Colorado	11.04%	37	Pennsylvania	6.01%
4	Kentucky	18.41%	21	Kansas	10.94%	38	Michigan	5.59%
5	Illinois	17.60%	22	Minnesota	10.90%	39	Georgia	5.57%
6	Mississippi	16.46%	23	Maryland	9.76%	40	New York	5.55%
7	Rhode Island	15.63%	24	Alabama	9.38%	41	Florida	5.49%
8	Massachusetts	15.42%	25	Montana	8.56%	42	Virginia	5.41%
9	Alaska	15.04%	26	Idaho	8.15%	43	Iowa	5.09%
10	New Mexico	14.77%	27	Missouri	7.94%	44	Texas	5.03%
11	Louisiana	13.52%	28	New Hampshire	7.80%	45	North Dakota	4.09%
12	Oregon	13.33%	29	Delaware	7.47%	46	Utah	3.10%
13	Oklahoma	12.80%	30	Wyoming	6.95%	47	North Carolina	2.67%
14	New Jersey	12.55%	31	Arizona	6.79%	48	South Dakota	2.39%
15	West Virginia	11.88%	32	Washington	6.59%	49	Nebraska	1.70%
16	Nevada	11.35%	33	Arkansas	6.52%	50	Tennessee	1.68%
17	South Carolina	11.28%	34	Vermont	6.40%	51	District of Columbia	-0.26%

* The 2008 general unreserved balance was used in the absence of 2009 data.

What States are Doing to Curb These Costs

Temporary Relief

States have a variety of potential long-term and short-term solutions at their disposal to reign in astronomical increases in their pension liabilities. However, as discussed in last year's report, states should be wary of favoring quick fixes as opposed to long-term solutions, as the underlying issues that contributed to the underfunded nature will remain. Some of these quick fixes involve lengthening plans' amortization and smoothing periods, lowering salary increase projections, inflating investment projections, and selling off assets. As we have seen in our analysis, many states have employed some of these methods. To reiterate a point made throughout our review, **changing actuarial assumptions to decrease the financial liability in one year will almost always have a significant negative effect on the duration of the outstanding liability**. In our analysis, we explored states that had made some of these quick fixes relating to changes in actuarial assumptions. Selling off assets, especially with the current state of the economy, is only done as a means of last resort. Many plans' asset values are significantly lower than they were two years ago, as the market is just beginning to recover. Selling these assets at such a steep discount will impede future gains that would have been made had the plans held on to the assets throughout the recovery.

Long Term Solutions

There are a variety of long-term solutions states are focusing on to counter rising pension liabilities. These actions include: 1) issuing pension obligation bonds, 2) switching from a defined benefit to a defined contribution plan, 3) postponing or eliminating retirees' cost of living increases, 4) trimming benefits for new and existing employees and retirees, 5) increasing employee payroll contributions, 6) changing investment strategies through asset allocation, and 7) implementing more conservative changes to actuarial assumptions.

In the last few years there has been an influx of pension obligation bonds issued by municipalities and states. There is typically limited political pressure and little resistance from pensioners when a state decides to issue POBs. The issuance of pension obligation bonds may signal to investors that a state is taking steps to ensure there will be ample funds available to pay future pension liabilities. However, a potential problem arises once POBs have been issued, as the state has essentially turned their pension funding process from a flexible one to a fixed debt structure. If debt service payments or principal are not paid in full there would be a more adverse effect to the state's credit rating than if the state had not issued POBs and simply met their annual required contributions. Issuing POBs does not affect state credit ratings unless they are structured in a way to achieve short-term savings.[9]

Instead of defined benefit plans, some states have introduced defined contribution pension plans to new employees or have created a type of hybrid plan. These changes are typically met with little opposition, as future plan changes generally only affect new employees — older employees are usually given a choice. According to a study by the National Conference of State Legislatures, multiple states have made such changes.[4] In the past 43 years, five states have changed their primary plans to defined contribution plans for state employees: Alaska in 2005, DC in 1987, Michigan in 1997, Nebraska in 1967, and West Virginia in 1991. Within the last 12 years, other states, including Colorado, Florida, Montana, North Dakota, Ohio, and South Carolina, have created optional defined contribution plans. Florida, Georgia, Indiana, Ohio, Oregon, and Washington have all created some type of hybrid plan over the past 10 years. This is a trend we believe will continue, as many states realize these new plans will significantly reduce future costs.

Many states have eliminated cost of living adjustments for new employees, but some states have even tried to eliminate cost-of-living increases for current employees. Again, as seen in other long-term solutions, changing benefits for new employees does not reduce current pension liabilities, but it significantly reduces future costs. However, states that have looked for immediate savings by reducing current retiree benefits have been met with severe opposition. Tension has risen to such levels that lawsuits has been filed

In our analysis we have observed a trend in decreasing future employee benefits by raising the retirement age as well as vesting requirement. As an example, Illinois has raised the age for full benefits to 67 with 10 years of service, and for partial benefits they have raised the early retirement age to 62, again with 10 years of service.(5) Vermont, like Illinois, has also changed the retirement age to receive benefits to 65 from 62, or the retiree's age and years of service must add up to 90, in contrast to their previous system where retirees could receive benefits as long as they had 30 years of service at any age.(6) Rhode Island has a similar eligibility requirement that takes into account both age and service, whereas requirements were previously based solely on service.

Increases in employee contributions have become much more prevalent. In some extremes, like in Wyoming and Missouri, employees previously did not have to contribute anything to their defined benefit plans. Starting this year employees in Wyoming will put 1.4% of their salaries into the pension fund, while Missouri public employees will contribute 4% into their plans.(6,7) Unlike Wyoming and Missouri's previous systems, most municipal employees contribute some percentage of their salary into the retirement system. In light of the current economic crisis, many states have realized that increasing the employee contribution rate notably decreases the state's funding burden. In Mississippi, government employees now contribute 9%, up from 7.25%.(6) Other states that have increased employee contributions include Minnesota, Colorado, Iowa, New Mexico, and Vermont. New Hampshire and Texas have increased rates for new employees only.(8) In some states, like California, only a portion of the employees have agreed to increased rates.

With the severe market volatility over the last few years, pension fund managers have realized it is essential to diversify asset allocation. Pension portfolios heavily weighted in equities and real-estate investments have suffered double-digit losses throughout the current recession. Managers need to invest prudently in safer assets, while limiting equity exposure to higher-rated securities. A pension plan's projected long-term asset investment rates of return need to be reflective of the securities held in the pensions plan's assets. Many argue an average 8% return assumption is too high, as most portfolios' assets would not normally yield such a high percentage if more conservative investment strategies were implemented. Lowering the investment return assumptions as well as other assumptions will generally lead to higher annual contribution rates, but in the long run will allow for better budgetary planning, as the liability to assets ratio will be more transparent.

In Conclusion

As the economy begins to recover, state budgetary concerns will subside. States will see increased revenue in the form of taxes, making annual debt service requirements easier to fulfill, employment will rise and there will be economic growth. The problem, however, is that the burden of pension liabilities will be at historically one of its highest points. Prolonged periods of a precipitous downturn in the stock market under the current recession will be felt for years to come in the form of pension liabilities. The combination of negative investment returns, forgone annual required contributions and inflated actuarial assumptions are sure to have a tremendous effect on state solvency and taxpayers. States need to do something to reign in these large liabilities.

Other Post Employment Benefits

Other Post Employment Benefits have drawn immense attention over the past couple of years, in part due to the focus on growing pension liabilities, but more so due to the rapid increase in healthcare costs and insurance premiums. GASB's new accounting standards for government's disclosure of their pension and OPEB liabilities could, and likely will, cause pressure to local and state government budgets. GASB no. 45 provides more transparency to government's actual liabilities, but it does not require these liabilities to be prefunded. The pay-as-you-go mentality most states have taken to address OPEB liabilities is unsustainable and will only lead to greater liabilities and lower funded ratios.

Previously, states did not have to disclose information about their OPEB in conjunction with their pension liabilities, but the passage of GASB no. 45 has changed reporting requirements. GASB no. 45 includes a variety of statutes which mirror those of the currently acceptable pension accounting methodologies. This was our first year examining state OPEB liabilities due to the slow phase-in of the new accounting requirements. The reporting requirement dates dependent on plan size are as follows: "For periods beginning after December 15, 2006, for phase 1 governments (those with total annual revenues of $100 million or more); after December 15, 2007, for phase 2 governments (those with total annual revenues of $10 million or more but less than $100 million); and after December 15, 2008, for phase 3 governments (those with total annual revenues of less than $10 million)." (GASB no.45) Besides the gradual phase-in, the reporting requirements are not annual. Those plans with more than 200 in membership are required to report bi-annually at a minimum, while plans with less than 200 in membership are only required to report tri-annually. This makes data collection difficult, as plans with less than 200 members and revenues of less than $10 million are not yet required to report their financial OPEB statements in conjunction with their pension liabilities.

Funded Ratios

As discussed previously, OPEB tends to still be funded on a pay-as-you go basis. For this reason the majority of funded ratios were extremely low, especially in contrast to the funded ratios of state pension plans. Of the 57 plans with funded ratios for 2009, 38 had funded ratios of less than 5%. Out of the 48 plans with funded ratios for both 2009 and 2008, 12 were less funded, and 14 were more funded than they were the previous year.

Table 6.1 State OPEB System Review (Alabama - Kentucky)

State OPEB System	AVA	UAAL	Investment Return	Inflation	Salary Increase	Funded Ratios 2009	2008	2007	Remaining Amortization Period	Investment Smoothing Years
Alabama Public Education Employees' Health Insurance Plan (PEEHIP)	$580	$12,645	5.00%	4.50%	*	*	4%	3%	30	market value
Alabama State Employees' Health Insurance Plan (SEHIP)	$52	$2,951	5.00%	4.50%	*	*	2%	0%	30	market value
Alaska Teachers' Retirement System	$1,267	$3,381	4.50%	3.50%	4.00%-6.00%	*	27%	24%	19	5
Alaska Judicial Retirement System	$18	$2	8.25%	3.50%	4.00%	*	92%	*	13	5
Alaska Public Employees' Retirement System	$4	$9	4.50%	3.50%	2.50%-5.50%	*	29%	29%	20	5
Alaska Elected Public Officers' Retirement System	$0	$5	5.00%	3.50%	*	*	0%	*	25	market value
Arizona State Health Insurance Premium Benefit	$1,239	$207	8.00%	4.25%	4.50%-9.50%	*	86%	73%	30	10
Arizona State Long Term Disability Program	$275	$278	8.00%	4.25%	4.50%-9.50%	*	50%	38%	30	10
Arizona Public Safety Personnel OPEB System	$0	$26	8.50%	5.00%	5.50%-8.50%	0%	0%	0%	27	20
Arizona Correctional Officers OPEB System	$0	$44	8.50%	5.00%	5.50%-8.50%	0%	0%	0%	27	20
Arizona Elected Officials' OPEB Plan	$0	$12	*	*	*	0%	0%	0%	*	*
Arkansas State Police Medical	$0	$77	4.00%	5.00%-8.00%	2.00%	*	0%	*	30	*
Arkansas State Employee Health	$0	$1,711	4.00%	4.50%-9.00%	*	0%	*	0%	30	*
California's OPEB Fund	$0	$51,800	4.50%	3.00%	*	0%	*	*	30	*
University of Colorado OPEB Plan	$0	$197	5.00%	2.00%	*	*	0%	0%	30	*
Colorado State University- Retiree Medical Subsidy (RMPS)	$0	$54	4.00%	3.00%	*	0%	*	0%	29	*
Colorado State University- Retiree Medical Premium Refund Plan (RMPR)	$0	$25	4.00%	3.00%	4.00%	0%	*	0%	30	*
Colorado State University- Long-Term Disability Insurance Plan (LTD)	$0	$12	4.00%	3.00%	4.00%	0%	*	*	30	*
Colorado State University- Umbrella RX Plan (URX)	$0	$3	4.00%	3.00%	*	0%	0%	*	30	*
Colorado PERA Health Care Trust Fund	$0	$1,110	*	*	*	*	19%	20%	39	*
Connecticut's Retired Teacher Healthcare Plan (RTHP)	$0	$2,319	4.50%	4.00%-9.00%	4.00%-7.50%	*	0%	*	30	*
Connecticut's State Employee OPEB Plan (SEOPEBP)	*	*	*	*	*	*	*	*	*	*
Delaware OPEB Fund Trust	$83	$5,553	5.00%	5.00%-9.00%	3.75%	2%	*	*	30	market value
District of Columbia Postretirement Health and Life Insurance Benefit Plan	$309	$591	7.25%	5.25%-10.00%	5.00%	34%	30%	27%	30	market value
Florida Retirement System	$275	$4,835	7.75%	3.00%	6.25%	*	5%	*	30	market value
Georgia State Employees' Assurance Department-OPEB (SEAD-OPEB)	$737	$0	7.50%	3.75%	*	*	105%	*	6	market value
Georgia Retiree Health Benefit Fund (GRHBF)	$176	$16,449	4.50%	3.75%	*	*	1%	*	30	market value
Georgia Board of Regents Retiree Health Benefit Fund	$0	$3	4.50%	2.50%	*	*	0%	*	29	market value
Hawaii Employer-Union Health Benefit Trust Fund (EUTF)	$0	$7,192	5.00%-8.00%	3.00%	3.50%	*	*	0%	30	*
Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA)	$0	$1,597	5.00%	9.50%	3.50%	*	*	0%	30	*
Idaho Retiree Healthcare Plan	$0	$22	4.50%	3.00%	3.75%	*	0%	0%	11	*
Idaho Long-Term Disability Plan - Income	$0	$6	5.25%	3.00%	3.75%	*	0%	0%	8	*
Idaho Long-Term Disability Plan - Healthcare	$0	$10	4.50%	3.00%	3.75%	*	0%	0%	30	*
Idaho Long- Term Disablility Plan- Life Insurance	$0	$8	5.25%	3.00%	3.75%	*	0%	0%	30	*
Idaho Life Insurance Plan	$0	$33	4.50%	3.00%	3.75%	*	0%	0%	30	*
University of Idaho Plan	$0	$69	6.25%	*	3.00%	*	11%	3%	30	*
Illinois State Empolyees' Group Insurance OPEB	$0	$27,124	4.50%	3.50%	4.50%	0%	*	*	30	fair value
Indiana State Personnel Healthcare Plan	$0	$67	4.50%	*	4.00%	0%	0%	*	30	*
Indiana's Legislature's Healthcare Plan	$0	$8	4.50%	*	4.00%	0%	0%	*	30	*
Indiana State Police Healthcare Plan	$0	$342	4.50%	*	4.00%	0%	0%	*	30	*
Indiana's Conservation and Excise Police Health Care Plan	$0	$45	4.50%	*	4.00%	0%	0%	*	30	*
Iowa OPEB State Plan	$0	$293		*	*	0%	0%	*	30	*
Iowa OPEB University Funds	$0	$202	4.00%-6.95%	*	*	0%	0%	*	30	*
Kansas State OPEB Plan	*	$237	3.85%	*	*	*	*	*	30	*
Kentucky County Employees' Non-Hazardous OPEB	$1,217	$1,854				40%	33%	29%	*	*
Kentucky County Employees' Hazardous - OPEB	$651	$942				41%	35%	31%	*	*
Kentucky State Employees' Non-Hazardous -OPEB	$534	$3,973	7.75%	4.50%	4.75%-17.00%	12%	11%	12%	28	5
Kentucky Teachers' Retirement System OPEB Funds	$314	$6,231	4.50%	4.00%	4.00%-8.20%	5%	4%	2%	30	market value
Kentucky State Employees' Hazardous Retirement Plan - OPEB	$302	$189	7.75%	4.50%	4.50%-21.00%	61%	53%	50%	28	5
Kentucky State Police Retirement Plan - OPEB Funds	$124	$241	7.75%	4.50%	4.50%-21.00%	34%	28%	27%	28	5
Kentucky Judicial Retirement Plan - OPEB Funds	$44	-$4	7.00%	*	1.00%-4.00%	110%	93%	97%	25	market value
Kentucky Legislators' Retirement System - OPEB Funds	$24	-$6	7.00%	*	1.00%-4.00%	132%	106%	108%	25	market value

In Millions

Table 6.2 State OPEB System Review (Louisiana - Oregon)

State OPEB System	AVA	UAAL	Investment Return	Inflation	Salary Increase	Funded Ratios 2009	2008	2007	Remaining Amortization Period	Investment Smoothing Years
Louisiana Office Of Group Benefits (OGB) Plan	$0	$13,727	4.00%	*	*	*	0%	0%	30	*
Louisiana State University System (LSU)- OPEB	$0	$488	5.00%	6.00%-11.00%	4.00%	*	0%	0%	30	*
Maine State Employees' OPEB Plan	$82	$1,229	4.50-7.50%	3.75%	4.75%	6%	8%	*	29	market value
Maine Teachers' OPEB Plan	$0	$994	4.50%	3.75%	4.75%	0%	0%	*	29	*
Maine First Responders OPEB Plan	$0	$20,063	4.50%	3.75%	3.75%	0%	0%	*	28	*
Maryland's State Employee and Retiree Health and Welfare Benefits Program (Plan)- OPEB	$174	$15,279	4.30%	*	*	1%	1%	*	30	5
Massachusetts State Retiree Benefits Trust Fund (SRBTF)	$277	$15,028	4.50%	*	*	2%	3%	0%	30	*
Michigan Public School Employees' Retirement System - OPEB	$832	$26,000	4.00%	3.50%	3.50%-15.90%	*	3%	3%	28	market value
Michigan Legislative Retirement System	$15	$122	4.50%	4.00%	*	11%	11%	*	30	market value
Michigan State Employees' Retirement System	$0	$13,500	4.00%	3.50%	3.50%-14.40%	*	0%	0%	28	market value
Michigan State Police Retirement System	$0	$963	4.00%	3.50%	3.50%-93.50%	0%	0%	0%	28	market value
Michigan Life Insurance	$0	$913	4.00%	3.50%	*	*	*	0%	29	market value
Michigan Judges' Retirement System - Pension	$0	$7	4.00%	3.50%	4.00%	0%	0%	0%	27	market value
Minnesota OPEB Plan	$0	$755	4.75%	*	4.00%	0%	0%	*	30	*
Minnesota Metropolitan Council OPEB	$0	$301	*	*	*	*	0%	*	*	*
University of Minnesota OPEB	$0	$79	*	*	*	0%	*	*	*	*
Mississippi State and School Employees' Life and Health Insurance Plan	$0	$755	4.50%	4.25%	4.50%-15.00%	0.00%	0.00%	*	30	market value
Missouri Consolidated Health Care Plan (MCHCP)	$49	$1,581	7.00%	*	*	3%	1%	*	30	*
Missouri MoDOT and MSHP Medical and Life Insurance Plan (MHPML)	$0	$936	5.00%	*	*	0%	0%	*	30	*
Missouri Conservation Employees' Insurance Plan (CEIP)	$0	$109	4.50%	*	*	0%	0%	*	30	*
Montana State Plan-OPEB	$0	$449	*	*	*	*	*	0%	30	*
Montana University System-OPEB	$0	$183	*	*	*	*	*	0%	30	*
Nebraska State OPEB	*	*	*	*	*	*	*	*	*	*
Nevada Public Employee Benefits Program	$26	$1,790	4.00%	*	4.50%-14.75%	*	1%	0%	*	*
New Hampshire's Group II Police Officer's and Firefighters OPEB	$120	$152	8.50%	3.50%	4.50%-16.25%	44%	45%	44%	28	5
New Hampshire's Group I Political Subdivision Employees OPEB	$36	$25	8.50%	3.50%	4.50%-16.25%	59%	81%	71%	28	5
New Hampshire's Group I Teachers OPEB	$21	$228	8.50%	3.50%	4.50%-16.25%	8%	9%	8%	28	5
New Hampshire's Group I State Employees OPEB	*	$91	8.50%	3.50%	4.50%-16.25%	0%	0%	0%	28	5
New Jersey State Health Benefit Fund -State (SHBP)	$0	$19,851	4.50%	*	*	*	0%	0%	30	*
New Jersey State Health Benefit Fund -Education (SHBP)	$0	$36,063	4.50%	*	*	*	0%		30	*
New Mexico Retiree Health Care Authority (RHCA)	$171	$2,946	5.00%	*	*	*	6%	*	30	market value
New York State Health Insurance Program (NYSHIP)	$0	$46,316	4.16%	3.00%	*	*	0%	*	30	*
State University of New York (SUNY)	$0	$8,481	4.16%	3.00%	*	*	*	*	*	*
City University of New York (CUNY)	$0	$936	4.00%	*	*	*	*	*	*	*
North Carolina Health Benefit Fund	$435	$27,854	4.25%	3.75%	*	*	2%	1%	30	market value
North Carolina Disability Income Plan	$350	$127	7.25%	3.75%	4.50%-16.10%	*	73%	69%	*	5
North Dakota Retiree Health Insurance Credit Fund	$45	$57	8.00%	3.50%	*	44%	49%	46%	*	5
North Dakota Retiree Health Benefits Fund	$0	$6	4.50%	5.00%	*	*	0%	*	30	*
North Dakota Insurance Benefit	$0	$6	4.50%	5.00%	*	*	0%	*	30	*
Ohio Public Employees' Retirement System	$10,748	$18,875	6.50%	4.00%	4.50%-10.30%	36%	43%	39%	30	4
Ohio State Teachers' Retirement System	$2,694	$10,720	4.90%	3.00%	3.25%-12.00%	20%	33%	28%	30	market value
Ohio Police & Fire Pension Fund	$439	$2,725	6.00%	3.25%	5.00%-11.00%	*	14%	15%	30	market value
Ohio School Employees' Retirement System	$376	$3,904	5.25%	3.50%	*	9%	8%	9%	30	market value
Ohio State Highway Patrol Retirement System	$96	$228	6.50%	4.00%	4.30%-14.00%	*	30%	33%	30	4
Oklahoma State and Education Employee Group Insurance Board (OSEEGIB)	*	*	*	*	*	*	*	*	*	*
Oregon's Retirement Health Insurance Account -OPEB (RHIA)	$184	$310	8.00%	2.75%	3.75%	*	37%	*	10	market value
Oregon's Retirement Health Insurance Premium Account -OPEB (RHIPA)	$6	$16	8.00%	2.75%	3.75%	*	27%	34%	10	market value
Oregon's Public Employee Benefit Board -OPEB (PEBB)	$0	$323	4.50%	4.80%-10.70%	*	*	*	0%	30	*
Oregon's SAIF Corporation -OPEB	$0	$3	5.50%	*	*	*	*	0%	15	*
Oregon Health and Science University -OPEB	$0	$19	*	*	*	*	0%	*	*	*

In Millions

Table 6.3 State OPEB System Review (Pennsylvania - Wyoming)

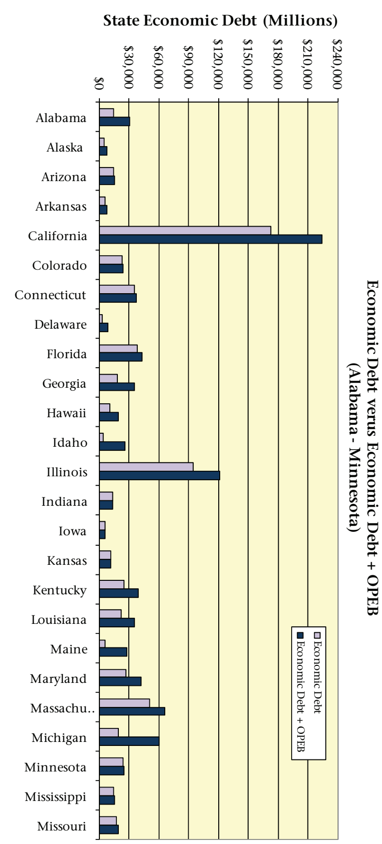
State OPEB System	AVA	UAAL	Investment Return	Inflation	Salary Increase	Funded Ratios 2009	Funded Ratios 2008	Funded Ratios 2007	Remaining Amortization Period	Investment Smoothing Years
Pennsylvania Retired Employees Health Program (REHP)	$48	$13,210	5.00%	*	*	0%	1%	*	30	fair value
Retired Pennsylvania State Police Program (RPSPP)	$41	$2,064	5.00%	*	*	2%	3%	*	30	fair value
Pennsylvania Judiciary OPEB Plan	$0	$427	*	*	*	*	*	0%	*	*
Pennsylvania House OPEB Plan	$0	$308	*	*	*	*	0%	*	*	*
Pennsylvania Senate OPEB Plan	$0	$252	*	*	*	*	*	*	*	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP): Teachers	$0	$10	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP): State Employees	$0	$680	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP):State Police	$0	$55	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP): Judges	$0	$14	3.57%	*	*	*	*	0%	30	*
Rhode Island Retiree Health Care Benefit Plan (RIRHCBP): Legislators	$0	$30	3.57%	*	*	*	*	0%	30	*
South Carolina Retiree Health Insurance Trust Fund (SCRHITF)	$270	$9,009	5.50%	*	*	*	3%	0%	30	market value
South Carolina Long Term Disability Insurance Trust Fund (LTDITF)	$27	-$1	6.00%	*	*	*	104%	0%	30	market value
South Dakota OPEB Plan	$0	$67	3.00%	*	*	0%	0%	*	30	*
Tennessee State Employee Group Plan	$0	$1,153	4.50%	3.00%	*	*	*	0%	30	*
Tennessee Teachers' Group Plan	$0	$253	4.50%	3.00%	*	*	*	0%	30	*
Tennessee State Medicare Supplement Plan	$0	$200	4.50%	3.00%	*	*	*	0%	30	*
Tennessee Teachers' Medicare Supplement Plan	$0	$140	4.50%	3.00%	*	*	*	0%	30	*
Tennessee State OPEB Plan	$0	$653	4.50%	3.00%	*	*	*	0%	30	*
Texas Teachers' Retirement System -OPEB (State Retiree Health Plan-SRHP)	$800	$23,557	5.25%	3.00%	4.25%-26.40%	3%	3%	3%	30	market value
Texas Municipal Supplemental Death Benefits Fund	$27	$112	4.25%	3.00%	*	20%	22%	22%	25	fund value
Texas County & District Retirement System- Optional Group Term Life Fund (OGTLF)	$15	$17	7.00%	3.50%	*	48%	39%	35%	30	fund value
Texas Employee Group Insurance Program (UT)	$0	$5,103	7.00%	4.00%	*	*	0%	0%	30	market value
Care Health and Life Plan (A&M Plan)	$0	$1,259	9.40%	4.00%	*	*	0%	0%	30	*
Texas Employees' Retirement System -OPEB (State Retiree Health Plan-SRHP)	$0	$22	5.50%	3.50%	3.50%-13.50%	0%	*	*	30	market value
Utah State Emplyoee's OPEB Plan	$54	$393	6.00%	*	*	*	12%	*	25	fair value
Utah Elected Officials' OPEB Plan	$0	$25	4.00%	*	*	*	0%	*	30	fair value
Vermont State Retirement System- OPEB	$6	$872	8.25%	*	*	1%	1%	0%	*	*
Vermont State Teachers' Retirement System- OPEB	$0	$775	8.25%	*	*	0%	0%	0%	*	*
Virginia's Group Life Insurance Fund	$975	$797	7.50%	2.50%	3.50%-6.20%	*	55%	57%	28	5
Virginia's Disability Insurance Trust Fund	$286	$77	7.50%	2.50%	3.75%-5.60%	*	79%	59%	28	market value
Virginia's Retiree Health Insurance Credit Fund	$261	$1,647	7.50%	2.50%	*	*	14%	11%	28	5
Virginia's Line of Duty Death and Disability	$3	$182	7.50%	2.50%	3.50%-4.75%	*	2%	*	30	market value
Virginia's Pre-Medicare Retiree Healthcare	$0	$982	4.97%	2.50%	3.50%-5.60%	*	*	0%	30	market value
Washington Public Employees' Benefit Board (PEBB)	$0	$4,014	4.50%	3.50%	4.50%	*	0%	0%	30	*
West Virginia Public Employee Insurance Agency (PEIA)	*	*	*	*	*	*	*	*	30	fair value
Wisconsin State Retiree Life Insurance Fund	$330	$53	6.00%	*	*	*	86%	*	30	market value
Wisconsin Duty Disability Fund	$312	$160	7.80%	*	*	*	66%	*	8	5
Wisconsin Local Retiree Life Insurance Fund	$212	$21	6.00%	*	*	*	91%	*	30	market value
Wisconsin State Health Insurance Program	$0	$1,473	4.00%	3.00%	*	*	*	0%	15-30	*
Wyoming Retirees Health Insurance Plan	$0	$174	5.00%	*	4.00%	*	*	0%	30	fair value
University of Wyoming OPEB Plan	$0	$15	*	*	*	*	0%		30	*

In Millions

Economic Debt

Previously, to calculate economic debt we factored in state general fund deficits, net bonded debt, and pension obligations. However, when we add state OPEB liabilities to our calculations, the results are staggering (See Exhibit 4 and Table 7). On average, state economic debt increased 75%. Ten states' economic debt increased by over 100% with the addition of OPEB liabilities. In dollar terms, the total economic debt for all states before factoring in OPEB liabilities totaled $1.095 trillion dollars. With OPEB, states' overall liabilities increased by nearly 45% to total outstanding liabilities of $1.638 trillion dollars. On a dollar for dollar basis, out of total state pension and OPEB liabilities of $1.132 trillion dollars, OPEB liabilities make up approximately 48% of the total liabilities. In short, other post employment benefits have a profound effect on states' economic debt, and are an essential factor to consider when evaluating total pension liabilities.

Exhibit 4



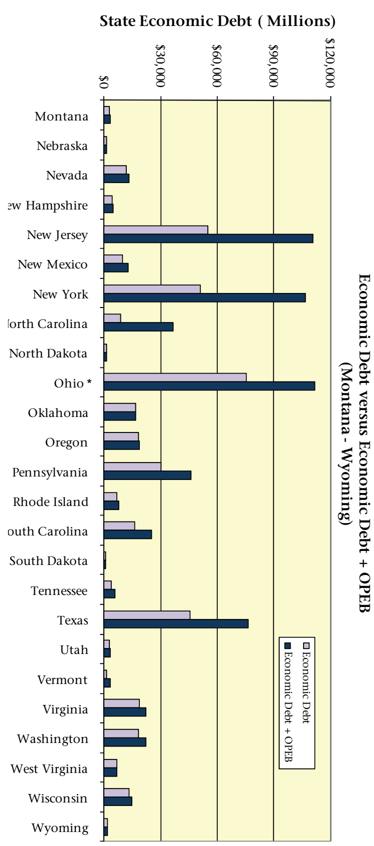


Table 7

Calculation of Economic Debt Including OPEB

State	General Fund Unreserved Balance ($ Mil)	Net Bonded Debt ($ Mil)	Sum UPBO ($ Mil)	Sum OPEB ($ Mil)	Economic Debt ($ Mil)
Alabama	$217	$3,749	$10,871	$15,596	$30,216
Alaska	$13,223	$940	$3,536	$3,397	$7,873
Arizona	($1,401)	$4,857	$8,485	$567	$15,310
Arkansas	$2,272	$900	$5,117	$1,788	$7,805
California	($18,344)	$87,320	$67,070	$51,800	$224,534
Colorado	$11	$2,012	$20,915	$1,401	$24,328
Connecticut	($2,303)	$17,094	$15,859	$2,319	$37,575
Delaware	$744	$2,203	$429	$5,553	$8,185
District of Columbia	$217	N/A	($103)	$591	$488
Florida	$2,192	$20,820	$17,611	$4,835	$43,266
Georgia	($493)	$11,011	$6,986	$16,452	$34,942
Hawaii *	$567	$5,176	$5,107	$8,789	$19,072
Idaho	$631	$831	$3,154	$21,729	$25,714
Illinois	($7,722)	$23,957	$62,439	$27,124	$121,242
Indiana	$1,460	$3,157	$9,872	$463	$13,492
Iowa	$803	$219	$5,404	$495	$6,118
Kansas	($201)	$3,214	$8,279	$237	$11,931
Kentucky	($50)	$7,270	$18,008	$13,441	$38,768
Louisiana	$803	$5,708	$15,851	$14,215	$35,774
Maine	($390)	$1,002	$3,994	$22,286	$27,673
Maryland	$147	$9,166	$17,683	$15,279	$42,128
Massachusetts	$1,735	$30,371	$20,347	$15,028	$65,746
Michigan	$177	$7,462	$11,492	$41,504	$60,458
Minnesota	($752)	$5,463	$17,625	$755	$24,596
Mississippi	$1,360	$4,364	$10,262	$755	$15,381
Missouri	$669	$4,672	$12,279	$2,626	$19,577
Montana	$393	$349	$2,488	$632	$3,469
Nebraska	$856	$27	$1,134	$0	$1,161
Nevada	$179	$2,446	$9,132	$1,790	$13,368
New Hampshire	$0	$881	$3,542	$497	$4,920
New Jersey	$2,186	$31,951	$23,045	$55,914	$110,910
New Mexico	$377	$2,809	$6,986	$2,946	$12,741
New York	($5,568)	$61,260	($15,905)	$55,733	$106,656
North Carolina	($965)	$7,175	$504	$27,981	$36,625
North Dakota	$863	$212	$834	$69	$1,115
Ohio	$213	$10,766	$64,451	$36,452	$111,669
Oklahoma	$3,166	$2,101	$14,543	$0	$16,644
Oregon	($334)	$7,111	$10,739	$671	$18,854
Pennsylvania	($2,541)	$11,827	$15,589	$16,261	$46,218
Rhode Island	($62)	$2,241	$4,446	$786	$7,535
South Carolina	($126)	$4,184	$12,053	$9,008	$25,371
South Dakota	$131	$110	$609	$67	$786
Tennessee	$634	$2,004	$1,603	$2,400	$6,007
Texas	$5,586	$12,893	$32,553	$31,069	$76,515
Utah	$327	$2,666	$3	$417	$3,086
Vermont	$47	$441	$1,090	$1,647	$3,178
Virginia	($928)	$7,056	$10,733	$3,685	$22,402
Washington	$189	$14,833	$3,514	$4,014	$22,361
West Virginia	$767	$1,963	$5,004	$0	$6,967
Wisconsin	($3,121)	$9,726	$321	$1,707	$14,876
Wyoming	($195)	$42	$1,493	$189	$1,919

General Fund Unreserved Balance: Individual State 2009 Comprehensive Annual Financial Reports
Net Bonded Debt: Moody's 2010 State Debt Medians
Sum UPBO: Individual State 2009 Comprehensive Annual Financial Reports
Sum OPEB: Individual State 2009 Comprehensive Annual Financial Reports
Population: census.gov (July 1, 2009)

Economic Debt Per Capita

Similar to our prior analysis of economic debt without OPEB liabilities, the issue of validity arises in terms of the ability to conduct cross-sectional analysis on a state by state basis. To alleviate this issue, we looked at economic debt on a per capita basis, including OPEB benefits (See Table 8). After adding OPEB, only Hawaii remained in the top 5 states with the highest economic debt per capita. Maine jumped from 21st to 1st, with the largest economic debt per capita of $20,991. Idaho moved to 2nd from 32nd, New Jersey to 4th from 8th, and Alaska moved from 7th to 5th for the highest economic debt per capita. When looking at the actual population figures, it is evident that Maine, Idaho, Alaska, and Hawaii have relatively low populations, as they make up less than 1.5% of the total US population. Therefore, the high economic debt on a per capita basis appears to be more attributable to the low population than the above average outstanding pension and OPEB liabilities. New Jersey, on the other hand, has a larger population than all four of those states combined, at approximately 3% of the total US population. This is a signal that New Jersey's OPEB and pension liabilities are severely underfunded.

Table 8

State Rankings - Economic Debt Per Capita Including OPEB

Rank	State	Economic Debt Per Capita	Rank	State	Economic Debt Per Capita	Rank	State	Economic Debt Per Capita
1	Maine	$20,991	18	Michigan	$6,064	35	Wyoming	$3,526
2	Idaho	$16,635	19	South Carolina	$5,562	36	Washington	$3,355
3	Hawaii *	$14,725	20	New York	$5,458	37	Missouri	$3,270
4	New Jersey	$12,737	21	Mississippi	$5,210	38	Texas	$3,087
5	Alaska	$11,271	22	Vermont	$5,111	39	Virginia	$2,842
6	Connecticut	$10,680	23	Nevada	$5,058	40	Arkansas	$2,701
7	Massachusetts	$9,971	24	Oregon	$4,928	41	Wisconsin	$2,631
8	Ohio	$9,674	25	Colorado	$4,842	42	Florida	$2,334
9	Illinois	$9,391	26	Minnesota	$4,671	43	Arizona	$2,321
10	Delaware	$9,247	27	Oklahoma	$4,514	44	Indiana	$2,101
11	Kentucky	$8,986	28	Kansas	$4,233	45	Iowa	$2,034
12	Louisiana	$7,964	29	North Carolina	$3,904	46	North Dakota	$1,723
13	Maryland	$7,392	30	West Virginia	$3,828	47	Utah	$1,108
14	Rhode Island	$7,154	31	New Hampshire	$3,714	48	South Dakota	$967
15	Alabama	$6,417	32	Pennsylvania	$3,667	49	Tennessee	$954
16	New Mexico	$6,340	33	Montana	$3,558	50	District of Columbia	$814
17	California	$6,075	34	Georgia	$3,555	51	Nebraska	$646

* The 2008 general unreserved balance was used in the absence of 2009 data.

Economic Debt as a Percentage of Personal Income

When reviewing economic debt as a percentage of personal income (See Table 9), we observe a similar result to economic debt as a percentage of personal income without adding OPEB. Hawaii, Kentucky, and Ohio remain in the top 5. Idaho moved into the number 2 spot from 26th, and Maine moved to the number 1 spot from 18th. OPEB liabilities for Maine and Idaho are exorbitantly high in contrast to their unfunded pension liabilities. Idaho's OPEB liabilities are over six times greater than its pension liabilities, while Maine's OPEB liabilities are over five times greater. As noted earlier, those states with high economic debt as a percentage of personal income may face more adversity if they count on taxpayers to pick up the tab to fund state pension plans.

Table 9 State Rankings - Economic Debt as a Percentage of Personal Income Including OPEB

Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income	Rank	State	Economic Debt as a % Of Personal Income
1	Maine	57.13%	18	Mississippi	17.31%	35	New Hampshire	8.67%
2	Idaho	52.59%	19	Maryland	15.31%	36	Texas	8.46%
3	Hawaii *	35.05%	20	California	14.35%	37	Arkansas	8.46%
4	Kentucky	28.19%	21	Oregon	13.82%	38	Washington	8.04%
5	Ohio	27.34%	22	Vermont	13.28%	39	Wyoming	7.71%
6	Alaska	26.46%	23	Nevada	13.11%	40	Wisconsin	7.14%
7	New Jersey	25.32%	24	Oklahoma	12.80%	41	Arizona	7.05%
8	Delaware	23.22%	25	West Virginia	11.88%	42	Virginia	6.48%
9	Illinois	22.68%	26	Colorado	11.71%	43	Indiana	6.23%
10	Louisiana	22.43%	27	New York	11.62%	44	Florida	6.18%
11	Massachusetts	19.99%	28	North Carolina	11.33%	45	Iowa	5.53%
12	Connecticut	19.63%	29	Minnesota	11.24%	46	North Dakota	4.36%
13	Alabama	19.39%	30	Kansas	11.16%	47	Utah	3.59%
14	New Mexico	19.22%	31	Georgia	10.52%	48	Tennessee	2.80%
15	Michigan	17.82%	32	Montana	10.46%	49	South Dakota	2.62%
16	South Carolina	17.49%	33	Pennsylvania	9.26%	50	Nebraska	1.70%
17	Rhode Island	17.45%	34	Missouri	9.16%	51	District of Columbia	1.23%

* The 2008 general unreserved balance was used in the absence of 2009 data.

In Conclusion

Other post employment benefits have gained significant attention over the past few years, and it is clear why this change has occurred. Previously, politicians, taxpayers, analysts, and investors evaluated the long-term solvency of pension plans by examining the funded ratios of the various plans. The fundamental problem behind this approach is that the funded ratios do not factor in other post employment benefits which have been awarded to retirees in conjunction with the standard benefits included in defined benefit plans. As shown through the analysis above, in some cases OPEB liabilities are even greater for any given state than their pension liabilities. Rising healthcare costs, combined with increased life expectancy, pose a serious problem for states if something is not done to reign in these costs.

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State Specific Endnotes

(Related to Pension System Review Tables)

Alabama: Retirement Systems of Alabama amortization dates changed because there was a law passed with legislation changing the previous maximum of 20 years to 30 years. It was then recomputed and recalculated at 30 years.

Arkansas: APERS investment assumption was revised for June 30, 2009 valuation. There were legislated changes in benefit provisions that decreased the funded ratio for APERS from 79 percent to 78 percent and ASPRS from 68.4 percent to 63.3 percent. APERS remaining amortization includes General Assembly, State and Local.

California: The actuarial assumption for the investment rate of return was reduced from 7.0 percent to 4.5 percent to reflect the funding of the JRF on a pay-as-you-go basis.

Georgia: The Employees Retirement System of Georgia 2009 valuations will be on the 2010 CAFR.

Hawaii: 2009 CAFR is unavailable until the end of the year.

Illinois: The investment smoothing years have changed to 5 years starting with 2009 valuations. TRS experienced actuarial gains under salary increase for both 2009 and 2008.

Indiana: PERS and TRF valuations are different from the State CAFR because the state of Indiana recognizes GASB 27 and only include the state portion of liability, while PERF and TRF reports according to GASB 25 and includes all of the government agencies liabilities.

Louisiana: SERS salary increase includes judges, correction officers, and wildlife agents.

Maryland: Remaining amortization period changed to 11 years as of June 30, 2009 for prior UAAL existing on June 30, 2000.

Minnesota: Minnesota Elective State Officers' Retirement Fund is a closed plan. There are no active contributing members. Legislators and Elective State Officers Retirement Funds, actual employer contributions include contributions from other sources (e.g. contributions from the state's General Fund).

Mississippi: The assumption for wage inflation changed from 4.00 percent to 4.25 percent. PERS salary increase for on or after 13 years were lowered and SLRP salary scale was lowered for all ages. For all plans, the PERS Board of Trustees adopted the contribution rate which provided a sufficient funding level to keep the unfunded accrued liability period less than 30 years.

South Carolina: To keep the funded ratios stabilized the investment return was changed.

Tennessee: 2009 CAFR is unavailable.

Texas: JRS2 amortization period was calculated based on estimated fiscal 2010 covered payroll. At the end of fiscal 2010, the ARC and the amortization period will be recalculated based on actual 2010 covered payroll.

Vermont: The 30 year period for amortization was restarted effective July 1, 2008.

West Virginia: 2009 valuation information will be presented in the 2010 CAFR.

**Notes taken directly from the State's Comprehensive Annual Financial Report.*

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Published: Thursday, Sep. 09, 2010 / Updated: Thursday, Sep. 09, 2010 12:05 PM

Ex-worker charged in misuse of Winthrop credit card

By Jamie Self - jself@heraldonline.com

ROCK HILL -- A former Winthrop employee was arrested Thursday on charges related to misuse of a university procurement card totaling $209,370, Winthrop officials say.

George Robert Walker was arrested by Winthrop Police after turning himself in. He was charged with two counts of breach of trust over $5,000 for misusing a university credit card, said Winthrop University Police Chief Frank Zebedis.

Zebedis said that Walker was "utilizing the Winthrop credit card and receiving money through two different sources."

More details about the case will come out in court, said.

Each charge carries a maximum jail sentence of 10 years, Zebedis said.

Walker was released on a personal recognizance bond of $150,000.

Winthrop discovered the problem when its budget office noticed increased costs in the printing services office when university offices were supposed to be aggressively reducing costs, a Winthrop release said.

An audit of the print shop, which Walker supervised, revealed someone was "defrauding the university and receiving payment from a Winthrop credit card through PayPal," according to a Winthrop police report.

When questioned, Walker's answers were "unsatisfactory," the release said. After working for Winthrop for almost 10 years, Walker resigned in April.

Walker deferred comments on the case to his attorney, Harry P. Collins of Rock Hill.

"I think this is going to be something that we can work out with the university," Collins said.

Asked whether Walker feels the charges brought against him are valid, Collins said, "We haven't seen the evidence against him yet. We'll be looking at that in the next couple of weeks and we'll be able to decide where to go from there."

Chief Zebedis said he understands Walker intends to cooperate with the police.

heraldonline.com/.../ex-worker-charged...

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Smyrna city official fired for purchasing card misuse

Human resources director had worked for city 14 years

By KAY POWELL
The Atlanta Journal-Constitution
Friday, February 13, 2009

The city of Smyrna has fired its longtime human resources director for abuse of his city purchasing card.

City Administrator Wayne Wright said Friday that Chris Corey made personal charges on his city-issued purchasing card. City officials would not reveal an amount. The purchasing card is similar to a credit card.

Corey, 14-year veteran of the city, was fired Feb. 4. City officials discovered the abuse on Jan. 27 during a routine review of paperwork regarding use of purchasing cards.

Corey, Wright said, made $82,000 a year, was a trusted department head and had been human resources director about 10 years.

"It's been very upsetting," Wright said. "He's a longtime city employee in a responsible position."

The city has issued purchasing cards to 60 employees, Wright said. Corey managed to circumvent procedures the city has in place to prevent abuse of the cards, he added.

The investigation continues. No charges have been filed.

On Jan. 14, the city of Austell fired veteran employee Patricia Regina Wilcurt for stealing more than $121,000 from municipal court where she was a clerk. She remains in jail and is being held without bond.

A routine audit showed money missing from court funds, and a police investigation led to Wilcurt's arrest. A 10-year court employee, she is charged with theft by taking and making a false statement in writing to a government entity.

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Fulton County employees accused of $183,000 theft

By Marcus K. Garner
The Atlanta Journal-Constitution

4:49 a.m. Wednesday, September 22, 2010

Four Fulton County employees are accused in an internal report of using a county credit card and other means to steal more than $183,000 in taxpayer money, documents show.

Fulton County Police Capt. Darryl Halbert said Tuesday his department is in the preliminary stages of investigating the report. "We haven't received all the information and we don't have any names," he said.

The four employees in question, all women, were still working and only recently reassigned to other positions once the report was leaked to media outlets, including The Atlanta Journal-Constitution.

The county's office of professional standards, after it supplied the report, was discontinued.

And two other employees -- a deputy county manager and professional standards investigator -- said they were wrongfully fired and demoted, respectively, because of their involvement with the report, and their attorney said they are considering legal action against the county.

Fulton County Manager Zachary Williams did not respond to repeated AJC requests for an interview, but in a Monday news release confirmed the existence of the investigation, which he said was at risk of being compromised because of the media leaks.

In his news release, Williams also addressed the potential lawsuit, saying, "Any personnel actions involving the plaintiffs in this case occurred prior to the date that the July 27th investigative report was received and the ongoing investigation had no bearing on the personnel actions taken."

The investigative report, prepared by since-demoted Maria Colon, devoted 1,039 pages to the four employees' questionable activities, which were said to have cost the county $183,194.37 over six years.

E-mails were highlighted that detailed spending $14,351.64 for unauthorized Wal-Mart gift card purchases from 2005 to 2007. Purchases were made for clothing, jewelry, video games, furniture, bedding, patio furniture and music compact discs that were delivered to the addresses of the women.

The report showed that one of the employees in 2005 asked another to buy a "Letter to Mom" pendant and poem from Wal-Mart's website. "Order this for me," the woman's e-mail said. "Personalize to say -- Love, [the woman's name]."

"The figure does not include any gift cards that [the woman's name] might have been used directly at the

store or given to friends and family members for their use," Colon wrote in her report. "This amount might be significant, since [the woman's name] had the ability and authority to purchase, activate and distribute the gift cards for various programs within the Department of Human Services."

One exhaustive online receipt dated in September 2009 showed that a woman bought 965 gift cards at a cost of $24,125 and had them shipped to her Fulton County office.

That gift-card purchase was just a portion of the $168,842.73 reportedly spent on the county credit card between September 2007 and January 2010.

Colon's investigation recorded evidence of only online purchases, but suggested there might have been more unauthorized purchases from Wal-Mart. The report also showed that employees created invoices for a bogus Georgia company to account for expenses, which included the purchase of equipment for a side business.

Through their attorney, Gwendolyn Warren, the deputy manager, said she was fired for reporting the ongoing fraud, while Colon, the investigator, said she was demoted and her office was closed because of her involvement. They have alleged they were punished, in violation of Georgia's Whistleblowers Act, for failing to delay the release of the investigative findings until after the November elections.

"Warren was never given any reason," said James Bradford, the women's attorney. "The only reason given to her was that certain commissioners wanted her gone that day."

David Ware, an attorney representing Fulton County, questioned the validity of Warren's and Colon's claims. "I tend to be cautious about jumping to conclusions based upon allegations in a demand," Ware said, referring to the lawsuit threat.

Colon said she forwarded her findings to the office Fulton County District Attorney Paul Howard Jr. On Tuesday, a district attorney's office spokeswoman said the information had been sent to Fulton Police.

Warren was not available for comment following back surgery and Colon declined to an interview citing fear of reprisal, Bradford said.

District 5 County Commissioner Emma Darnell, contacted Monday, declined to comment on the personnel moves or the closure of the office of professional standards.

The county's office of professional standards, operating for two years, was closed in July after Bill Edwards, commission vice chairman, had asked in a meeting whether the department was necessary. Edwards did not respond to an AJC interview request.

"We never should have abolished that office," said District 4 County Commissioner Tom Lowe, who said the action made him angry. "They were doing an excellent job."

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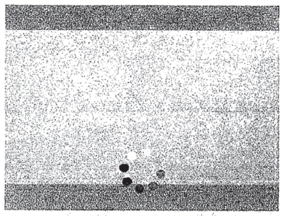
Georgia State Employee Arrested, Charged With Theft



Posted: 5:15 pm EDT August 4, 2010Updated: 6:28 pm EDT August 4, 2010

ATLANTA -- Angela Garner had a 23-year career with Georgia State University.

As business manager for the Department of Kinesiology and Health, she earned nearly $63,000 a year.

Now, Garner is out of a job after being arrested Tuesday and charged with theft.

"Her employment with the university has been terminated. Yesterday she was arrested for theft by taking," said Maj. Anthony Coleman.

Georgia State University police said Garner bought a TV with her university purchase card, or P card, as they are commonly called.

Auditors informed police of irregularities with purchases on Garner's Visa P card.

The $257, 19-inch TV was shipped to her office at Georgia State. Investigators questioned her Tuesday afternoon at her office. They told Channel 2 Action News reporter Diana Davis that Garner admitted buying the TV and taking it home.

"She told us where it was. The investigators went to her home with her and they recovered the television," said Coleman.

Davis went to Garner's Lilburn home to get her side of the story. No one answered and Garner did not return Davis' phone call.

"She didn't really explain why she had it at home, but she did say she was going to return it," the university said.

A letter that Davis obtained from a GSU whistleblower claimed that the TV is the tip of the iceberg, and outlines claims investigators are now checking.

The whistleblower alleges that Garner took either two or three university laptops to her home. When her department made legitimate purchases for items like Nintendos, the whistle blower said Garner would order 23 and take one home.

The whistle blower also said that Garner often sent large packages to Chicago via Fed Ex always at the department's expense.

"We've heard the same information," said Coleman. "Our auditing department along with our investigation division are looking into those charges. She did admit to the one television yesterday ... that's how she was arrested on those charges yesterday. However we are still investigating the other accusations."

In 2007, an investigation revealed widespread abuse within the Georgia University System. The chancellor then said all transactions would be subject to audits. There were at least 20,000 employees with purchasing cards at the time.

Excerpt from Budget Proviso 89.148:

89.148. (GP: Recovery Audits) The Budget and Control Board shall contract with one or more consultants to conduct recovery audits of payments made by state agencies included in this act to vendors. The audits must be designed to detect and recover overpayments and erroneous payments to the vendors and to recommend improved state agency accounting operations. A state agency shall pay, from recovered monies received, the recovery audit consultant responsible for obtaining for the agency a reimbursement from a vendor based on the following scale: 10% of up to the first $1,000,000 recovered; 5% of $1,000,001 to $5,000,000 recovered; 2.5% of the amount recovered above $5,000,001 with a maximum consultant payment of $2,500,000.

Funds recovered, less the cost of recovery, shall be remitted to a special fund subject to appropriation by the General Assembly. Agencies may recover costs that are documented to be directly related to implementation of this provision.

Recovery audits apply only to a payment made after a one hundred eighty day period from the date the payment was made.

All information provided under a contract must be treated as confidential by the vendor. A violation of this provision shall result in the forfeiture by the vendor of all recovery payments under the contract and to the same sanctions and penalties that would apply to that disclosure.

The Budget and Control Board shall require that recovery audits be performed in regard to state agencies which have total expenditures during a fiscal year in an amount that exceeds one hundred million dollars. Each state agency subject to this provision shall provide the recovery audit consultant with all information necessary for the audit. The Budget and Control Board may exempt from the mandatory recovery audit process a state agency that has a low proportion of its expenditures made to vendors, or sufficient internal procedures in place to prevent overpayments. The Budget and Control Board or a state agency in its discretion may require similar recovery audits of a state agency with expenditures of less than one hundred million dollars during a fiscal year.

Funds recovered, less the cost of audit and agency recovery, shall be remitted to a special fund subject to appropriation by the General Assembly. Agencies may recover costs that are documented to be directly related to implementation.

A state agency shall expend or return to the federal government any federal money that is recovered through a recovery audit conducted under this chapter. Payments to the recovery audit consultant from the federal share of recovered funds shall be solely from the federal portion as allowed by the federal agency.

The Budget and Control Board shall provide copies, including electronic form copies, of final reports received from a consultant under contract to: the Governor; the Chairman of the Senate Finance Committee; the Chairman of the House Ways and Means Committee; and the state auditor's office. Not later than January first of each year, the board shall issue a report to the General Assembly summarizing the contents of all reports received under this provision during the prior fiscal year.

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Review of Bank of America Analysis Statement:

Review of Bank of America Analysis Statement
August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
Category - Pricing			
FDIC	Pricing too high	Avg Charge of $24k/month or 25% of total monthly service charge.	Negotiate lower fee. Bank representatives indicated this fee is negotiable.
Earnings Credit Rate	Rate changed during review period from .60% to .50%. With fee schedule, do not know how often this rate is subject to change and what the rate is based upon.	n/a	Verify rate is proper and in accordance with agreement.
Wire Transfers - Domestic - Incoming and Outgoing	Pricing too high	Outgoing - $1900, Incoming $1,000	Negotiate lower fee. Incoming wire - pricing around $5 versus current charge of $10 per unit. Outgoing wire - pricing around $5 versus current charge of $8 per unit. For wire transfers to bank customers - pricing around $0.75 versus current charge of $4 per unit.
Depository Services - General Checks Paid Truncated versus General Cks Paid- Not Truncated	Same pricing for truncated checks versus not truncated. Truncated checks are not returned to the State. Price of $0.1050/ per unit is the same for different services. Also, uncertain why physical checks must be returned to State when electronic images are available for viewing and paid for as part of image capture services.	$3,200 for truncated and $140 for non-truncated.	Perform analysis to determine why staff need checks returned and duplicate costs incurred. Determine if procedures should be revised and additional training provided. Also, negotiate lower fee for truncated services as handling and mailing costs are reduced.
Depository Services - Chks Dep Pre-Encoded Items	Pricing differential should be larger between pre-encoded and un-encoded items. As the State, instead of the bank, is doing the work by pre-coding the items, pricing should be lower.	$9,300 for pre-encoded and $4,710 for un-encoded.	This is an line item where a savings will have a substantial impact. Negotiate lower fee for pre-encoded items.

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Review of Bank of America Analysis Statement
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Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
General ACH Services - ACH On Us/Off Us for various categories	On-Us items are ACH deposits posted to BOA accounts versus Off Us items are items posted to non-BOA accounts. Should be a lower charge for On-Us items.	$1,254 for On- Us, and $5,346 for Off-Us items.	Negotiate lower fee for ACH On-Us items.
Remote Deposit Services	The cost per item was comparable to processing a regular check deposit (or even slightly higher). As State is capturing the item and processing it instead of a bank teller, pricing should be lower.		Negotiate lower fee for Remote Deposit Services.
Depository Services - Stop Pay Automated	Pricing too high	$3,300 for automated stop payments.	Negotiate lower fee. These stop payments are entered into the system by the State and are automated. Pricing around $5 versus current charges of $12 or $20 per unit.
Category - Inconsistent Charges			
Depository Services - Cks Dep Rejects	Statements lists four different charges for this service; highest volume line item also has highest per unit charge.		Determine if fee structure for rejected can be condensed and determine if volume pricing is appropriate. For example, fee assessed for each reject repaired if account has up to 1% of their checks rejected at X cost, if account has up to 2% of their checks rejected at X +1 cost, and so on.
Depository Services - Cks Dep Pre-Encoded Items	On August statement, two pre-encoded pricing charges for same service and the line item with the lower volume had a lower price ($.087/per unit versus $.075/ per unit)		One charge for pre-encoded items for consistency purposes.

Review of Bank of America Analysis Statement
August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
General ACH Services	Numerous ACH services listed on statement with inconsistent pricing. For example, ACH Return Item listed twice with pricing ranging from $3.5 to $1.0 per unit. Also, ACH Input - Echannel listed three times with pricing varying from $10.0 to $7.0 per unit.		Determine if fee structure for ACH services can be condensed and negotiate appropriate charges for services.
Information Services - Direct Previous Day account and Direct Current Day account	Direct Previous Day account services and Direct Current Day account services each listed seven times with seven different pricing schedules ranging from $15 to $0 per unit.		Determine if fee structure for Information services can be condensed and negotiate appropriate charges for services. Also, determine if unlimited access to both services needed and if personnel should limit access to current day info to reduce costs.
Category - Operating Processes to Review to Lower Costs			
Depository Services - Check Deposit Rejects	Monthly volume varied from 500 to 1500 items per month at an average cost of $0.50 per item. These rejected items represent errors and result in wasted personnel time as well as additional bank charges to correct the reject.		Perform analysis of rejects to identify flaws in operating procedures. Modify procedures or perform additional training to minimize rejects and lower operating costs.
Depository Services - Banking Center (Branch) Deposits	Banking Center, night drop and vault deposits are at the same charge ($0.20/per unit). Typically, expect to see a lower price for night deposit or vault.		Perform analysis of deposit methods utilized by agencies to determine lowest cost for deposits. Consider availability of funds and bank cut-off times.

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Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
Commercial Deeps - Cash Vault - Currency/Coin Deposits and Orders	Increase usage of Night Deposits (ND) and Vaults (VLT) deposits versus utilizing the teller line (BKG CTR) which has a higher cost per item ($0.20 at BKG CTR, and $0.11 and $.095 at ND and Vault). However, the BKG Ctr method used more often than the other two; thereby incurring charges averaging $5k versus $300 a month.		Perform analysis of currency/coin deposit methods to determine lowest cost for such deposits. Consider availability of funds and bank cut-off times.
General ACH Services - ACH Standard Reports	Minimize usage of ACH Standard reports faxed or mail to State and instead receive ACH Standard reports electronically or retrieve from Bank's website. Faxed reports cost $3.0 per unit and Mailed reports cost $10.0 per unit. Monthly service charges for faxed and mailed statements average $700 month.		Analyze reasons why statements are being mailed or faxed to State and determine procedural changes or additional training necessary to implement.
Wire Transfer - Wire Advice - Mail and Fax	Minimize usage of receipt of wire advices by mail and fax and instead receive such advices from bank's website. Mailed advices cost $2.0 per unit and faxed advices cost $5.0 per unit. Monthly wire advices mailed and faxed average $900 month.		Analyze reasons why advices are being mailed or faxed to State and determine procedural changes or additional training necessary to implement.
Category - General Comments about Improving Bank Processing			
Description of Service Charges/Agreed Upon Pricing	Unable to easily match services listed on analysis statements to banking schedule of fees. Unable to discern difference between service charges with same descriptions but with different or same pricing per unit.		Need to develop an agreed upon fee schedule with Bank of America and such schedule should items services with its description.

Review of Bank of America Analysis Statement
August - October 2010

Service Description from Analysis Statement	Area of Concern	Average Monthly Service Charge	Recommendation
Minimize On-going Check Deposit Costs	While some check deposits and payments are being captured via remote data methods, new technology and hardware continue to downwardly price such services, thereby allowing for more checks/payments to be captured either through an ARC or ILC conversion process. Excluding the upfront hardware charges, remote capture data is a less expensive processing method over the traditional bank teller deposit of actual check.		Continue to analysis daily processing and move check deposit/payment processing to either ARC (Accounts Receivable Conversion for bill payments received) and ICL (Image Cash Letters) for all other deposits. Add deposit scanners to agencies based upon an analysis of needs versus costs.
Number of accounts	105 accounts open with Bank of America. Unknown number of accounts open with other banks.		Ascertain if all accounts are necessary and if any accounts can be closed.

Account Analysis Benefits Summary (The Weiland Financial Group, Inc.):

The Weiland Financial
Group, Inc.

Account Analysis Benefits Summary: Unleashing the Power of Your Account Analysis Statements

by
Stephen J. Weiland, Chairman
The Weiland Financial Group, Inc.

19 October 2009

Every month corporations receive an analysis statement from each of their banks detailing their deposit account service use. These billing statements contain a wealth of information about your bank accounts and cash management operation - they are a resource that should not go underutilized.

Specifically, account analysis statements detail the services rendered by each bank for the period including each service description, volume, price, calculated charge, status (waived, fee based, balance compensable), tax (if applicable), balance required, and, ideally, the AFP common service code. The balance section of your analysis statements provide additional information such as the average balance maintained in the account, the uncollected funds amount, the rate used to calculate the earnings credit, the credit amount, and the balance excess or deficit resulting from any earnings credit offset. In short, your analysis statements contain everything there is to know about your service usage, balance usage, and account performance - they are a looking glass into your deposit account operations.

To capture the wealth of information locked inside your analysis statements, you can (and should!) request and review the electronic versions of your statements: the domestic "822" and the global "BSB". Combined with advanced software, these electronic statements allow treasurers to select, sort, compare, and report on all statement data across any and all captured time periods. Through thorough statement review, corporations can enjoy controlled costs, optimized investment returns, enhanced compliance, and valuable metrics that enable accurate budgeting, improved bank negotiations, and powerful operational insights.

This paper outlines the many benefits of examining your analysis billing statements and helps build the case for unleashing their power.

Cost Control
With banks billing millions of individually negotiated service fees to their customers each and every month, billing errors are inevitable. These mistakes are buried deep within your account analysis statements and can cost you thousands of dollars each year. By examining your analysis statements each month, you can catch and correct these errors as well as identify other opportunities to control costs for real bottom-line savings.

Possible errors and cost saving opportunities include:

Account Related Errors and Opportunities

- Not My Account - I'm being charged for an account that is not mine.
- Inactive Account -1 keep getting billed a maintenance charge for an account I no longer use and should probably close.
- Closed Account -1 keep getting billed a maintenance charge for an account I already closed.
- Redundant Accounts -1 have more than one account performing essentially the same function(s) that should be consolidated.
- Family Relationship Pricing - The member account does not share the preferred relationship pricing I established with my bank.
- Missing Statement - I'm not receiving a statement for this account when I should be (HINT: you should be receiving an electronic statement for ALL your accounts!)
- Error in Bank Calculation - A math error resulted in a bad charge or credit that needs to be adjusted.

Balance Related Errors and Opportunities

- Unreasonable Earnings Credit Rate ("ECR") - The earnings credit rate is not competitive with my other banks.
- Tiered Credit Rates - My balances deserve a higher ECR.
- Reserve Reduction - The bank is applying my ECR to only a portion of my balances while receiving interest from the Fed on *all* its reserves.
- Expected Balance Discrepancy - My statement ledger, collected, or OD balance does not agree with the balance from my internal systems.
- Non-Monthly Compensation Cycle - Will a non-monthly compensation cycle allow me to use my monthly excess balance credits?
- Right of Offset - Do I enjoy the right of balance offset among my accounts which would reduce my overdraft fees?

Service Related Errors and Opportunities

- Not My Service -1 am being charged for a service that I did not agree to.
- Redundant Services - I'm using two different services that accomplish essentially the same thing (i.e. Stop Orders and Positive Pay).
- Contracted Price Violations - The actual price I'm being charged is different from th< contracted price I agreed to.
- Unauthorized Price Increases - The service price has been increased without warning
- Volume Reasonability Errors - This month's service volume is unreasonably high.
- Expected Volume Errors -1 know exactly what this service's volume should be and this isn't it.
- Volume discounts -1 was quoted a volume discount but did not receive it.
- Charges Against Waived Services - This service charge should be waived but it wasn't.

- Charges Against Inactive Services -1 marked this service as "Inactive" yet I'm still being charged for it.
- Suspicious Descriptions - There are services on my statements with descriptions containing words such as "Error", "Adjustment" and "Correction" that deserve additional scrutiny.
- Service Options - This service was hard charged (fee based) when it was supposed to be balance compensable.
- Flagged Service Suspects -1 want to follow-up on any instance of this service for anj number of reasons (i.e. I suspect the volume figures are wrong, I want to know when someone in my company uses the service, etc.).

Optimized Investment Return

Demand deposit accounts can contain an inordinate amount of idle balances. You can use the information contained in your analysis statements to optimize these balances, make informed investment choices, and properly manage all the balances in your deposit accounts.

- Track - Track what portion of average balances are being used to offset charges and then invest the rest to fund other activities.
- Assess - Determine what the true cost of maintaining large balances really is in terms of FDIC fee debits and earnings credits.
- Compare - How does my ECR compare to other commercially available rates?
- Decide - Based on current rates, balances, and service load, should I compensate the bank with fees in order to free up balances or should I maintain higher balances to offset bank charges?

Enhanced Compliance

Service charges merit oversight. SOX argues for the reporting of service charges as an element of cost and for proper price management. The data in your analysis statements provide all the information necessary to monitor and control service prices, charges, and balances according to SOX mandates. This information should be recorded, accessible, and easily reported.

Valuable Metrics

Analysis statement data provides a marvelous record of service usage, prices, balances, taxes, and rates. You can leverage this data for added business intelligence.

- Price Negotiation Strength - Negotiate with total knowledge of your deposit account performance, price, and profitability. By knowing each and every service price and volume across all your banks, you will be able to negotiate the most favorable terms.
- Compare Prices Against Benchmarks - Compare your historical price data as well as new pricing to reference values provided by the Phoenix-Hecht Blue Book and AFP Informa Price Guide.
- Modeling - Test volume, balance, and rate assumptions on an individual account or bank wide basis using actual values as a starting point.
- Bank Grading - Grade your banks based on their prices, services, and case resolution
- Allocation of Costs - Allocate the bank charges for whole accounts and/or individual services to particular departments to determine departmental costs.
- System Wide Totaling of Charges, Credits, and Balances - Use various account codes, product codes, division codes, etc. to total charges across all banks and

accounts. For example, what am I being charged across all banks for "Account Maintenance" or "Reporting" or "FDIC fees"?

- Variance Reporting - Are certain charges, volumes, or balances falling outside of tolerance limits? Compare usage in first quarter last year to first quarter this year or between any two time frames.
- Trend Reporting - Are service prices escalating? Are service volumes increasing or decreasing? Is service usage decreasing? Should I cancel or combine services? Are balance levels increasing in certain accounts? In certain banks?
- Budgeting - Make volume, balance, and pricing assumptions based on the prior year's activity to budget bank fees for the coming year. Compare budgets against actuals.
- Export Data to Existing Systems — Export summary totals to your GL. Export this year's totals to your budgeting system. Export your analysis data into spreadsheets foi analysts and interested parties.
- Straight-Thru-Processing - Provide fee payments to the banks on an STP basis and avoid paper statement examination.
- Electronically Process and Archive Statements - Eliminate paper, go green, and quickly access historical statements and data.
- Case Management - Develop "Cases" for each suspected error situation and follow the cases through to resolution.

Imagine capturing every line item service, volume, price, charge, tax, status, and required balance - every ledger, float, collected, and excess/deficit balance - every credit rate, credit amount, and total excess/deficit fee for every account at every bank every month. Now imagine selecting, sorting, filtering, comparing, totaling and reporting on all this data for any time period you choose. You'd be armed with all the information you'd need to dramatically cut costs and make the most informed treasury and business decisions possible.

So why don't you?

The answer becomes apparent by stacking all your paper statements one on top of the other and watching as the pile grows from inches to feet to yards. Keying all that data into a spreadsheet is not only terribly time consuming and mundane, but also prone to human error. That's why, like most people, you don't do it!

But it doesn't have to be this way!

Electronic statements - the US "822" and the global "BSB" - contain all the information on your paper statements in a format that can be quickly imported into your computer. Now all your account analysis data can be captured, error free, in a matter of minutes. And with commercially available software, you can easily manipulate, analyze, and act on this data to unleash the information locked inside your analysis statements.

So what are you waiting for? Gain maximum transparency into your deposit account operations by requesting electronic statements from your banks today and start realizing the benefits of automated, electronic account analysis.

Securities Data Corporation Reports:

Securities Data Corporation is the source of data contained attached reports. These reports list new bond issuances since 2005.

Report A is a listing by state of the cumulative number of new issuances by either trustee or paying agent. The data is provided for only certain southern states, South Carolina, Georgia, Maryland, North Carolina and Virginia for comparative purposes.

Report B is a listing by Southeast Region of new bond issuances from January 1, 2010 thru June 30, 2010 reported by trustee appointment. See South Carolina report for instance where SC Treasurer was appointed as trustee.

Report C is a listing by all other US regions of new bond issuances from January 1, 2010 thru June 30, 2010 reported by trustee appointment. See West Region report for instance where California Treasurer was appointed as trustee.

Report A

Trustee Role

State	SC

Count of Issuer		Year						
Type	St Trustee	2005	2006	2007	2008	2009	2010	Grand Total
Muni	Bank of New York	19	21	18	17	14	9	98
	BB&T Corp.					2		2
	BRANCH-BKT	6	1					7
	CA-FIRST-BK	1						1
	CAROLINA-FST-BK	2	4					6
	Deutsche Bank AG		1	1	6	3		11
	FIRST-COM-BK	2	6					8
	[redacted]							
	REGIONS-BK	2	2	5	5	5	1	20
	[redacted]							
	US Bank	19	16	29	21	11	13	109
	Wells Fargo & Co.	2	26	5	7	9	4	53
Muni Total		**54**	**77**	**60**	**56**	**46**	**28**	**321**
Grand Total		**54**	**77**	**60**	**56**	**46**	**28**	**321**

Paying Agent Role

State	SC

Count of Issuer		Year						
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010	Grand Total
GO	BK-NEW-YORK	15	6	2	1	9	7	40
	BK-SC	1						1
	BRANCH-BKT		1	1	1			3
	CA-FIRST-BK	1						1
	CAROLINA-FNB			1				1
	CAROLINA-FST-BK	12	10	3	3			28
	[redacted]							
	FIRST-CITIZENS	1		1				2
	[redacted]							
	REGIONS-BK	1	7	15	6	15	22	66
	SCBT					1	1	2
	TD-BANK-T	1	1		1			3
	US-BANK	15	17	13	4	11	17	77
	WELLS-FARGO-BK	15	11	17	21	54	13	131
GO Total		**77**	**62**	**60**	**45**	**101**	**69**	**414**
Muni	BK-NEW-YORK	23	25	25	20	16	10	119
	BRANCH-BKT	6	1	1	1	3		12
	CA-FIRST-BK	1						1
	CAROLINA-FST-BK	2	4					6
	DEUTSCHE-BANK		1	1	6	3		11
	FIRST-COM-BK	2	6					8
	[redacted]							
	REGIONS-BK	2	3	5	6	5	1	22
	SCBT					1		1
	US-BANK	21	16	29	21	12	14	113
	WELLS-FARGO-BK	2	27	6	7	9	8	59
Muni Total		**60**	**83**	**67**	**61**	**49**	**33**	**353**
Grand Total		**137**	**145**	**127**	**106**	**150**	**102**	**767**

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Source: Securities Data Corporation

Trustee Role

State	GA

Count of Issuer		Year						
Type	St Trustee	2005	2006	2007	2008	2009	2010	Grand Total
Muni	Bank of New York	25	17	29	28	31	14	144
	BB&T Corp.					1		1
	BK-OKLAHOMA	1	1	1			2	5
	BRANCH-BKT	4	3	5	2			14
	FIRST-CITIZENS			1				1
	FIRST-COM-BK	6	6	11	2		3	28
	Huntington National Bank					2		2
	[redacted]							
	MFR-TRADERS			1	1			2
	None	37	47	39	24	37	37	221
	PLANTERS-BKT	1						1
	REGIONS-BK	9	6	6	10	10	4	45
	US Bank	62	32	47	32	65	9	247
	Wells Fargo & Co.	4	9	9	12	2	13	49
Muni Total		**151**	**121**	**149**	**111**	**148**	**82**	**762**
Grand Total		**151**	**121**	**149**	**111**	**148**	**82**	**762**

Paying Agent

State	GA

Count of Issuer		Year						
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010	Grand Total
GO	BA-CORP		1					1
	BK-NEW-YORK	11	22	23	10	22	3	91
	BRANCH-BKT		1	1		1	1	4
	FIRST-COM-BK				1			1
	[redacted]							
	MORGAN-KEEGAN			1				1
	REGIONS-BK	7	15	18	15	9	13	77
	US-BANK	15	10	20	21	11	10	87
	WELLS-FARGO-BK			2	3	5	3	13
GO Total		**44**	**60**	**67**	**56**	**51**	**33**	**311**
Muni	BK-NEW-YORK	25	25	38	37	44	18	187
	BK-OKLAHOMA	1	1	1			2	5
	BRANCH-BKT	4	3	5	2	1		15
	FIRST-CITIZENS			1				1
	FIRST-COM-BK	6	6	12	2		3	29
	HUNTINGTON-NB					2		2
	[redacted]							
	MFR-TRADERS			1	1			2
	PLANTERS-BKT	1						1
	REGIONS-BK	9	13	15	12	17	16	82
	SYNOVUS-BK						3	3
	US-BANK	60	48	53	32	77	22	292
	WELLS-FARGO-BK	5	10	10	14	2	14	55
Muni Total		**114**	**106**	**136**	**100**	**143**	**82**	**681**
Grand Total		**158**	**166**	**203**	**156**	**194**	**115**	**992**

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Trustee Role

State	MD

Count of Issuer		Year						
Type	St Trustee	2005	2006	2007	2008	2009	2010	Grand Total
Muni	Bank of New York	10	16	17	17	6	7	73
	BB&T Corp.					2		2
	BRANCH-BKT		3		2			5
	Deutsche Bank AG			1	1	2	4	8
	[redacted]							
	MFR-TRADERS	24	39	34	34	14	14	159
	US Bank	11	4	12	8	3	5	43
	Wells Fargo & Co.	5	11	4	10	4	4	38
Muni Total		**51**	**73**	**68**	**72**	**31**	**34**	**329**
Grand Total		**51**	**73**	**68**	**72**	**31**	**34**	**329**

Paying Agent Role

State	MD

Count of Issuer		Year						
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010	Grand Total
GO	BK-NEW-YORK	1	2	1	1	4	4	13
	[redacted]							
	MFR-TRADERS	14	11	15	13	26	15	94
	[redacted]							
	US-BANK	3	3	1	1	4	4	16
	WELLS-FARGO-BK	1	1			2		4
GO Total		**33**	**28**	**30**	**25**	**65**	**44**	**225**
Muni	ALLFIRST-BK	1						1
	BK-NEW-YORK	11	15	17	17	6	7	73
	BRANCH-BKT		3		2	2		7
	DEUTSCHE-BANK			2	1	2	4	9
	[redacted]							
	MFR-TRADERS	23	43	34	35	15	14	164
	US-BANK	9	4	12	8	4	5	42
	WELLS-FARGO-BK	5	11	4	11	4	4	39
Muni Total		**50**	**77**	**71**	**76**	**34**	**36**	**344**
Grand Total		**83**	**105**	**101**	**101**	**99**	**80**	**569**

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Trustee Role

State	NC

Count of Issuer		Year						
Type	St Trustee	2005	2006	2007	2008	2009	2010	Grand Total
Muni	Bank of New York	29	24	37	35	26	17	168
	BB&T Corp.					6	4	10
	BRANCH-BKT	8	11	12	12			43
	Deutsche Bank AG	5	5	4	5			19
	FIRST-CITIZENS	12	21	16	17			66
	[redacted]							
	REGIONS-BK		2	7	3	5	3	20
	US Bank	42	20	28	19	39	30	178
	Wells Fargo & Co.	1	1	1	1	3	2	9
Muni Total		**98**	**84**	**105**	**92**	**79**	**56**	**514**
Grand Total		**98**	**84**	**105**	**92**	**79**	**56**	**514**

Paying Agent Role

State	NC

Count of Issuer		Year						
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010	Grand Total
GO	BK-NEW-YORK						2	2
	DEUTSCHE-BANK		1					1
	FIRST-CITIZENS	1	2	2	2			7
	[redacted]							
	REGIONS-BK			6		2		8
	[redacted]							
	US-BANK	3	1	1	1	10	2	18
	WELLS-FARGO-BK		1					1
GO Total		**61**	**45**	**37**	**35**	**78**	**56**	**312**
Muni	BK-NEW-YORK	29	23	37	35	26	17	167
	BRANCH-BKT	8	12	12	12	6	4	54
	DEUTSCHE-BANK	5	5	4	5			19
	FIRST-CITIZENS	12	20	17	17			66
	[redacted]							
	REGIONS-BK		2	7	3	5	3	20
	US-BANK	36	20	28	21	39	30	174
	WELLS-FARGO-BK	1	1	1	1	3	3	10
Muni Total		**93**	**83**	**106**	**94**	**79**	**57**	**512**
Grand Total		**154**	**128**	**143**	**129**	**157**	**113**	**824**

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West Region Rankings

Report C

West Region Trustee	2nd Quarter 2010 YTD # of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	2nd Quarter 2009 YTD # of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	147	2	31.4%	29.6%	8,650.1	113	1	30.5%	26.8%	7,018.9
The Bank of New York Mellon	148	1	31.6%	45.3%	13,224.9	107	2	28.8%	45.0%	11794.1
Wells Fargo Bank	84	3	18.0%	11.8%	3432.2	84	3	22.6%	14.3%	3756.8
Zions First National Bank	34	4	7.3%	2.5%	730.2	29	4	7.8%	3.9%	1019.0
Union Bank NA	21	5	4.5%	1.5%	442.6	17	5	4.6%	2.5%	659.6
UMB Bank NA	18	6	3.9%	0.5%	150	11	6	3.0%	0.5%	118.8
Deutsche Bank	8	7	1.7%	2.7%	779.6	4	7	1.1%	4.1%	1,069.3
Regions Bank	5	8	1.1%	0.8%	240.2	2	9	0.5%	0.7%	192.4
Bank of Albuquerque	2	9	0.4%	0.1%	20.4	3	8	0.8%	0.4%	104.5
State Treasurer of California	1	10*	0.2%	5.1%	1,496.3	1	10	0.3%	1.8%	465.4
BancFirst	1	10*	0.2%	0.1%	15.9	-	-	-	-	-
Subtotal with Trustee	468	-	30.8%	44.4%	29,182.4	371	-	29.5%	36.6%	26,198.7
Subtotal without Trustee	1,052	-	69.2%	55.6%	36,615.9	888	-	70.5%	63.4%	45,456.7
Industry Total	1,520	-	100.0%	100.0%	65,798.3	1,259	-	100.0%	100.0%	71,655.5

West Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	34	30.1%	0.9%	3.0%
W/Trustee	97	26.1%	1.3%	4.4%
Industry	261	20.7%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	1,631.2	23.2%	2.9%	10.6%
W/Trustee	2,983.7	11.4%	7.8%	21.3%
Industry	-5,857.2	-8.2%	-	-

North West Region

AK,CO,HI, ID,MT,OR,UT,WA Trustee	2nd Quarter 2010 YTD # of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	2nd Quarter 2009 YTD # of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	28	2	22.4%	13.8%	656.9	40	2	32.0%	26.6%	1,347.1
Wells Fargo Bank	32	1	25.6%	25.5%	1,214.9	43	1	34.4%	36.3%	1836.8
Zions First National Bank	26	3	20.8%	13.4%	637.5	16	3	12.8%	12.5%	633.7
The Bank of New York Mellon	20	4	16.0%	43.7%	2079.9	15	4	12.0%	22.2%	1125.5
UMB Bank NA	18	5	14.4%	3.2%	150.0	11	5	8.8%	2.3%	118.8
BancFirst	1	6	0.8%	0.3%	15.9	-	-	-	-	-
Deutsche Bank	-	-	-	-	-	-	-	-	-	-
Subtotal with Trustee	125	-	35.3%	33.7%	4,755.2	125	-	37.3%	35.8%	5,061.9
Subtotal without Trustee	229	-	64.7%	66.3%	9,361.5	210	-	62.7%	64.2%	9,078.1
Industry Total	354	-	100.0%	100.0%	14,116.7	335	-	100.0%	100.0%	14,140.0

West Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-12	-30.0%	-9.6%	-30.0%
W/Trustee	-	0.0%	-2.0%	-5.4%
Industry	19	5.7%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-690.2	-51.2%	-12.8%	-48.1%
W/Trustee	-306.7	-6.1%	-2.1%	-5.9%
Industry	-23.3	-0.2%	-	-

South West Region

AZ,CA,NV,NM,TX Trustee	2nd Quarter 2010 YTD # of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	2nd Quarter 2009 YTD # of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	119	2	34.7%	32.7%	7,993.2	73	2	29.7%	26.8%	5,671.8
The Bank of New York Mellon	128	1	37.3%	45.6%	11,145.0	92	1	37.4%	50.5%	10668.6
Wells Fargo Bank	52	3	15.2%	9.1%	2217.3	41	3	16.7%	9.1%	1920.0
Union Bank NA	21	4	6.1%	1.8%	442.6	17	4	6.9%	3.1%	659.6
Zions First National Bank	8	5*	2.3%	0.4%	92.7	13	5	5.3%	1.8%	365.3
Deutsche Bank	8	5*	2.3%	3.2%	779.6	4	6	1.6%	5.1%	1069.3
Regions Bank	5	7	1.5%	1.0%	240.2	2	8	0.8%	0.9%	192.4
Bank of Albuquerque	2	8	0.6%	0.1%	20.4	3	7	1.2%	0.5%	104.5
State Treasurer of California	1	9	0.3%	6.1%	1,496.3	1	9	0.4%	2.2%	465.4
Subtotal with Trustee	343	-	29.4%	47.3%	24,427.2	246	-	26.6%	36.7%	21,136.8
Subtotal without Trustee	823	-	70.6%	52.7%	27,254.4	678	-	73.4%	63.3%	36,378.6
Industry Total	1,166	-	100.0%	100.0%	51,681.6	924	-	100.0%	100.0%	57,515.4

West Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	46	63.0%	5.0%	16.8%
W/Trustee	97	39.4%	2.8%	10.5%
Industry	242	26.2%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	2,321.4	40.9%	5.9%	21.9%
W/Trustee	3,290.4	15.6%	10.5%	28.6%
Industry	-5,833.8	-10.1%	-	-

Trustee Role

State	VA

Count of Issuer		Year						
Type	St Trustee	2005	2006	2007	2008	2009	2010	Grand Total
Muni	Bank of New York	12	13	19	12	23	7	86
	BB&T Corp.					1		1
	BRANCH-BKT	3	2	1				6
	Deutsche Bank AG		1	2	1	1	4	9
	FIRST-CITIZENS	1						1
	[redacted]							
	MFR-TRADERS		3	3				6
	REGIONS-BK		5	7			3	15
	[redacted]							
	US Bank	83	36	50	38	24	34	265
	Wells Fargo & Co.	11	5	11	17	2	10	56
Muni Total		116	65	93	68	51	58	451
Grand Total		116	65	93	68	51	58	451

Paying Agent Role

State	VA

Count of Issuer		Year						
Type	ST Paying Agent	2005	2006	2007	2008	2009	2010	Grand Total
GO	BK-NEW-YORK	3		1				4
	BKRS-TRUST-IA				1			1
	[redacted]							
	DEUTSCHE-BANK				1	1		2
	[redacted]							
	REGIONS-BK			2	3		8	13
	[redacted]							
	US-BANK	12	12	11	11	11	11	68
GO Total		31	32	25	36	42	47	213
Muni	BK-NEW-YORK	13	15	19	12	26	12	97
	BRANCH-BKT	3	2	1		1		7
	CRESTAR-BK	1						1
	DEUTSCHE-BANK		1	2	1	1	4	9
	FIRST-CITIZENS	1						1
	[redacted]							
	MFR-TRADERS		3	3				6
	REGIONS-BK		5	7		1	3	16
	[redacted]							
	US-BANK	94	42	50	40	28	37	291
	WELLS-FARGO-BK	11	5	11	17	2	11	57
Muni Total		129	77	96	75	64	69	510
Grand Total		160	109	121	111	106	116	723

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Southeast Region Rankings

SE Region	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**133**	**1**	**37.2%**	**25.5%**	**6,325.9**	**103**	**2**	**34.2%**	**31.9%**	**7,413.7**
The Bank of New York Mellon	105	2	29.3%	27.3%	6,785.5	109	1	36.2%	39.5%	9177.3
Wells Fargo Bank	37	3	10.3%	29.2%	7254.7	16	4	5.3%	8.0%	1869.3
Regions Bank	35	4	9.8%	10.1%	2514.5	37	3	12.3%	10.4%	2406.6
Huntington National Bank	16	5	4.5%	2.6%	657.2	9	6	3.0%	2.9%	668.4
Manufacturers & Traders Tr Co	8	6	2.2%	2.5%	617.9	8	7	2.7%	3.9%	913.6
Deutsche Bank	6	7	1.7%	0.8%	189.2	-	-	-	-	-
TD Bank NA	5	8	1.4%	0.7%	179.9	3	8	1.0%	0.6%	177.7
First Commercial Bank	4	9	1.1%	0.1%	29.5	-	-	-	-	-
Wilmington Trust Company	3	10*	0.8%	0.6%	157.0	2	9*	0.7%	0.8%	176.6
Branch Banking & Trust Co	3	10*	0.8%	0.3%	65.1	10	5	3.3%	1.7%	386.3
Subtotal with Trustee	**358**	-	**37.5%**	**58.5%**	**24,823.5**	**301**	-	**38.8%**	**59.8%**	**23,243.3**
Subtotal without Trustee	**596**	-	**62.5%**	**41.5%**	**17,584.9**	**474**	-	**61.2%**	**40.2%**	**15,608.3**
Industry Total	**954**	-	**100.0%**	**100.0%**	**42,408.4**	**775**	-	**100.0%**	**100.0%**	**38,851.7**

SE Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	30	29.1%	3.0%	8.8%
W/Trustee	57	18.9%	-1.3%	-3.4%
Industry	179	23.1%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-1,087.8	-14.7%	-6.4%	-20.1%
W/Trustee	1,580.2	6.8%	-1.3%	-2.2%
Industry	3,556.7	9.2%	-	-

Alabama	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**4**	**3**	**11.1%**	**10.4%**	**81.6**	**3**	**3**	**13.0%**	**26.2%**	**187.2**
Regions Bank	17	1	47.2%	58.0%	288.4	8	2	34.8%	24.4%	174.0
The Bank of New York Mellon	11	2	30.6%	26.1%	129.9	10	1	43.5%	27.0%	192.8
First Commercial Bank	2	4*	5.6%	4.7%	23.5	-	-	-	-	-
Wells Fargo Bank	2	4*	5.6%	0.8%	3.8	2	4	8.7%	22.4%	160.0
Subtotal with Trustee	**36**	-	**40.0%**	**38.1%**	**497.1**	**23**	-	**35.4%**	**56.4%**	**714.0**
Subtotal without Trustee	**54**	-	**60.0%**	**61.9%**	**806.5**	**42**	-	**64.6%**	**43.6%**	**552.5**
Industry Total	**90**	-	**100.0%**	**100.0%**	**1,303.6**	**65**	-	**100.0%**	**100.0%**	**1,266.5**

Alabama Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	1	33.3%	-1.9%	-14.6%
W/Trustee	13	56.5%	4.6%	13.0%
Industry	25	38.5%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-135.6	-72.4%	-15.8%	-60.4%
W/Trustee	-216.9	-30.4%	-18.2%	-32.4%
Industry	37.1	2.9%	-	-

District of Columbia	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**2**	**2***	**16.7%**	**3.9%**	**62.0**	**1**	**4***	**7.7%**	**0.7%**	**16.7**
Wells Fargo Bank	7	1	58.3%	66.1%	1,056.8	4	1*	30.8%	50.6%	1192.8
Manufacturers & Traders Tr Co	2	2*	16.7%	21.4%	342.6	3	3	23.1%	30.3%	714.4
The Bank of New York Mellon	1	4	8.3%	8.6%	138.0	4	1*	30.8%	17.0%	400.7
Branch Banking & Trust Co	-	-	-	-	-	1	4*	7.7%	1.4%	33.5
Subtotal with Trustee	**12**	-	**100.0%**	**100.0%**	**1,599.4**	**13**	-	**100.0%**	**100.0%**	**2,358.1**
Subtotal without Trustee		-	**00.0%**	**0.0%**	**.0**		-	**0.0%**	**0.0%**	**.0**
Industry Total	**12**	-	**100.0%**	**100.0%**	**1,599.4**	**13**	-	**100.0%**	**100.0%**	**2,358.1**

District of Columbia Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	1	100.0%	9.0%	116.9%
W/Trustee	-1	-7.7%	0.0%	0.0%
Industry	-1	-7.7%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	45.3	271.3%	3.2%	447.4%
W/Trustee	-758.7	-32.2%	0.0%	0.0%
Industry	-758.7	-32.2%	-	-

Central Region Rankings

Central Region	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**97**	**2**	**23.5%**	**36.6%**	**8,886.3**	**85**	**2**	**22.6%**	**23.5%**	**5,634.3**
The Bank of New York Mellon	141	1	34.2%	31.7%	7,707.4	128	1	34.0%	37.4%	8971.5
Wells Fargo Bank	58	3*	14.1%	15.9%	3876.5	59	3	15.7%	15.1%	3621.5
UMB Bank NA	58	3*	14.1%	3.7%	904.8	42	4	11.1%	3.2%	770.7
TD Bank NA	17	5	4.1%	6.2%	1518.3	18	5	4.8%	4.1%	983.7
Southwest Trust Co	5	6*	1.2%	0.2%	47.4	4	10	1.1%	0.0%	10.5
Manufacturers & Traders Tr Co	5	6*	1.2%	0.3%	66.8	12	6	3.2%	3.1%	734.1
First Bank of Missouri	5	6*	1.2%	0.0%	4.3	6	7	1.6%	0.2%	38.2
Commerce Bank NA (MO)	4	9*	1.0%	0.2%	39.6	3	11	0.8%	0.3%	64.0
Old National Trust Company	4	9*	1.0%	0.8%	184.4	2	12*	0.5%	0.2%	53.7
Subtotal with Trustee	**412**	-	**20.6%**	**50.6%**	**24,312.0**	**377**	-	**20.5%**	**61.1%**	**23,961.6**
Subtotal without Trustee	**1,589**	-	**79.4%**	**49.4%**	**23,755.1**	**1,458**	-	**79.5%**	**38.9%**	**15,266.4**
Industry Total	**2,001**	-	**100.0%**	**100.0%**	**48,067.2**	**1,835**	-	**100.0%**	**100.0%**	**39,228.0**

Central Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	12	14.1%	0.9%	4.0%
W/Trustee	35	9.3%	0.1%	0.5%
Industry	166	9.0%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	3,252.0	57.7%	13.0%	55.4%
W/Trustee	350.4	1.5%	-10.5%	-17.2%
Industry	8,839.2	22.5%	-	-

Delaware	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	-	-	-	-	-	-	-	-	-	-
Subtotal with Trustee	-	-	-		-	-	-	-		-
Subtotal without Trustee	-	-	-		-	-	-	-		-
Industry Total	-	-	-		-	-	-	-		-

Delaware Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-	-	-	-
W/Trustee	-	-	-	-
Industry	-	-	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-	-	-	-
W/Trustee	-	-	-	-
Industry	-	-	-	-

Illinois	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**12**	**3**	**26.1%**	**42.2%**	**2,191.3**	**2**	**4**	**5.1%**	**0.7%**	**29.3**
Wells Fargo Bank	17	1	37.0%	20.4%	1,061.5	19	1	48.7%	53.0%	2184.5
The Bank of New York Mellon	13	2	28.3%	32.2%	1672.0	10	2	25.6%	23.9%	984.6
Amalgamated Bank of Chicago	3	4	6.5%	5.1%	265.8	5	3	12.8%	20.5%	845.4
UMB Bank NA	1	5	2.2%	0.1%	7.6	1	5*	2.6%	0.1%	3.6
Deutsche Bank	-	-	-	-	-	1	5*	2.6%	1.8%	75.4
Heartland Bank & Trust Co	-	-	-	-	-	1	5*	2.6%	0.0%	1.9
Subtotal with Trustee	**46**	-	**11.6%**	**33.3%**	**5,198.2**	**39**	-	**10.5%**	**57.0%**	**4,124.7**
Subtotal without Trustee	**351**	-	**88.4%**	**66.7%**	**10,407.3**	**332**	-	**89.5%**	**43.0%**	**3,108.7**
Industry Total	**397**	-	**100.0%**	**100.0%**	**15,605.5**	**371**	-	**100.0%**	**100.0%**	**7,233.4**

Illinois Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	10	500.0%	21.0%	411.8%
W/Trustee	7	17.9%	1.1%	10.5%
Industry	26	7.0%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	2,162.0	7378.8%	41.4%	5834.4%
W/Trustee	1,073.5	26.0%	-23.7%	-41.6%
Industry	8,372.1	115.7%	-	-

Out of U.S. Bank Territory Rankings

Out of U.S. Bank Territory	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**12**	**6***	**7.3%**	**11.3%**	**480.0**	**17**	**2***	**11.9%**	**20.0%**	**789.1**
Wells Fargo Bank	18	1	10.9%	13.1%	557.8	17	2*	11.9%	9.0%	355.8
The Bank of New York Mellon	17	2	10.3%	21.8%	925.5	11	5	7.7%	15.4%	608.8
BancFirst	15	3	9.1%	4.1%	176.1	2	17*	1.4%	2.4%	95.8
First National Bank	13	4*	7.9%	3.4%	143.6	15	4	10.5%	4.1%	160.7
Bankers Trust Company	13	4*	7.9%	2.2%	92.8	6	7	4.2%	0.9%	34.1
Bank of Oklahoma NA	12	6*	7.3%	9.5%	403.6	4	10*	2.8%	1.9%	75.6
UMB Bank NA	10	8	6.1%	3.4%	146.3	1	20*	0.7%	0.1%	5.2
Hancock Bank	9	9	5.5%	8.3%	352.4	21	1	14.7%	17.6%	695.7
Regions Bank	8	10	4.9%	3.0%	129.4	4	10*	2.8%	2.8%	110.7
Subtotal with Trustee	**165**	-	**15.1%**	**44.4%**	**4,245.9**	**143**	-	**13.1%**	**41.8%**	**3,952.9**
Subtotal without Trustee	**929**	-	**84.9%**	**55.6%**	**5,320.0**	**948**	-	**86.9%**	**58.2%**	**5,505.8**
Industry Total	**1,094**	-	**100.0%**	**100.0%**	**9,565.9**	**1,091**	-	**100.0%**	**100.0%**	**9,458.7**

Out of U.S. Bank Territory Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-5	-29.4%	-4.6%	-38.7%
W/Trustee	22	15.4%	2.0%	15.3%
Industry	3	0.3%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-309.1	-39.2%	-8.7%	-43.4%
W/Trustee	293.0	7.4%	2.6%	6.2%
Industry	107.2	1.1%	-	-

Arkansas	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**3**	**4**	**12.0%**	**39.5%**	**260.8**	**1**	**8***	**2.9%**	**1.7%**	**8.7**
Bank of the Ozarks	5	1*	20.0%	28.8%	190.2	8	1	22.9%	57.3%	299.1
Regions Bank	5	1*	20.0%	9.3%	61.5	1	8*	2.9%	2.5%	13.3
The Bank of New York Mellon	5	1*	20.0%	8.9%	58.8	1	8*	2.9%	1.8%	9.3
First National Bank	2	5	8.0%	5.2%	34.5	4	3	11.4%	7.6%	39.5
Wells Fargo Bank	1	6*	4.0%	4.6%	30.3	-	-	-	-	-
BancorpSouth Bank	1	6*	4.0%	2.1%	14.2	2	6*	5.7%	6.5%	33.8
The Farmers and Merchant Bank	1	6*	4.0%	0.8%	5.6	-	-	-	-	-
First Security Corporation	1	6*	4.0%	0.5%	3.1	-	-	-	-	-
Citizens Bank	1	6*	4.0%	0.3%	1.7	1	8*	2.9%	0.1%	.5
Subtotal with Trustee	**25**	-	**33.8%**	**61.2%**	**660.6**	**35**	-	**48.0%**	**63.9%**	**522.3**
Subtotal without Trustee	**49**	-	**66.2%**	**38.8%**	**418.3**	**38**	-	**52.1%**	**36.1%**	**295.1**
Industry Total	**74**	-	**100.0%**	**100.0%**	**1,078.9**	**73**	-	**100.0%**	**100.0%**	**817.4**

Arkansas Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	2	200.0%	9.1%	313.8%
W/Trustee	-10	-28.6%	-14.2%	-29.6%
Industry	1	1.4%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	252.1	2897.7%	37.8%	2270.1%
W/Trustee	138.3	26.5%	-2.7%	-4.2%
Industry	261.5	32.0%	-	-

Guam	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**2**	**1***	**100.0%**	**50.0%**	**103.3**	**1**	**2**	**50.0%**	**21.4%**	**101.2**
Bank of Guam	2	1*	100.0%	50.0%	103.3	2	1	100.0%	78.6%	372.3
Subtotal with Trustee	**2**	-	**100.0%**	**100.0%**	**206.6**	**2**	-	**100.0%**	**100.0%**	**473.5**
Subtotal without Trustee		-	**00.0%**	**0.0%**	**.0**		-	**0.0%**	**0.0%**	**.0**
Industry Total	**2**	-	**100.0%**	**100.0%**	**206.6**	**2**	-	**100.0%**	**100.0%**	**473.5**

Guam Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	1	100.0%	50.0%	100.0%
W/Trustee	-	0.0%	0.0%	0.0%
Industry	-	0.0%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	2.1	2.1%	28.6%	133.9%
W/Trustee	-266.9	-56.4%	0.0%	0.0%
Industry	-266.9	-56.4%	-	-

Northeast Region Rankings

NE Region	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**66**	**2**	**36.9%**	**30.3%**	**8,433.8**	**58**	**2**	**36.3%**	**21.5%**	**5,706.7**
The Bank of New York Mellon	85	1	47.5%	58.1%	16,182.8	73	1	45.6%	67.6%	17930.6
Manufacturers & Traders Tr Co	12	3	6.7%	5.2%	1439.4	3	6	1.9%	1.9%	500.6
Deutsche Bank	7	4	3.9%	3.7%	1024.0	6	4*	3.8%	4.7%	1255.4
Wells Fargo Bank	6	5	3.4%	1.7%	480.4	8	3	5.0%	1.7%	448.9
Peoples United Bank	2	6	1.1%	0.7%	203.5	6	4*	3.8%	0.3%	67.6
HSBC Bank USA	1	7	0.6%	0.3%	80.0	2	7*	1.3%	0.4%	103.7
Zions First National Bank	-	-	-	-	-	2	7*	1.3%	0.8%	210.0
Banco Popular de Puerto Rico	-	-	-	-	-	1	9*	0.6%	0.9%	250.0
Bangor Savings Bank	-	-	-	-	-	1	9*	0.6%	0.2%	50.0
Subtotal with Trustee	**179**	-	**26.4%**	**74.2%**	**27,843.9**	**160**	-	**30.1%**	**73.8%**	**26,522.5**
Subtotal without Trustee	**499**	-	**73.6%**	**25.8%**	**9,693.4**	**372**	-	**69.9%**	**26.2%**	**9,395.8**
Industry Total	**678**	-	**100.0%**	**100.0%**	**37,537.2**	**532**	-	**100.0%**	**100.0%**	**35,918.3**

NE Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	8	13.8%	0.6%	1.7%
W/Trustee	19	11.9%	-3.7%	-12.3%
Industry	146	27.4%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	2,728.1	47.8%	8.8%	40.8%
W/Trustee	1,321.4	5.0%	0.3%	0.5%
Industry	1,618.9	4.5%	-	-

Connecticut	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**16**	**1**	**72.7%**	**73.5%**	**1,285.8**	**9**	**1**	**100.0%**	**100.0%**	**940.5**
The Bank of New York Mellon	3	2	13.6%	12.9%	226.1	-	-	-	-	-
Deutsche Bank	2	3	9.1%	8.3%	145.0	-	-	-	-	-
Wells Fargo Bank	1	4	4.6%	5.3%	93.3	-	-	-	-	-
Subtotal with Trustee	**22**	-	**23.2%**	**51.1%**	**1,750.2**	**9**	-	**12.5%**	**36.2%**	**940.5**
Subtotal without Trustee	**73**	-	**76.8%**	**48.9%**	**1,674.6**	**63**	-	**87.5%**	**63.8%**	**1,654.1**
Industry Total	**95**	-	**100.0%**	**100.0%**	**3,424.8**	**72**	-	**100.0%**	**100.0%**	**2,594.6**

Connrcticut Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	7	77.8%	-27.3%	-27.3%
W/Trustee	13	144.4%	10.7%	85.6%
Industry	23	31.9%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	345.3	36.7%	-26.5%	-26.5%
W/Trustee	809.7	86.1%	14.9%	41.0%
Industry	830.2	32.0%	-	-

Maine	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**2**	**1***	**50.0%**	**67.7%**	**205.3**	**4**	**1**	**57.1%**	**39.7%**	**171.4**
The Bank of New York Mellon	2	1*	50.0%	32.3%	97.9	-	-	-	-	-
Zions First National Bank	-	-	-	-	-	2	2	28.6%	48.7%	210.0
Bangor Savings Bank	-	-	-	-	-	1	3	14.3%	11.6%	50.0
Subtotal with Trustee	**4**	-	**19.1%**	**62.9%**	**303.2**	**7**	-	**50.0%**	**72.8%**	**431.4**
Subtotal without Trustee	**17**	-	**81.0%**	**37.1%**	**179.0**	**7**	-	**50.0%**	**27.2%**	**160.9**
Industry Total	**21**	-	**100.0%**	**100.0%**	**482.2**	**14**	-	**100.0%**	**100.0%**	**592.3**

Maine Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-2	-50.0%	-7.1%	-12.4%
W/Trustee	-3	-42.9%	-30.9%	-61.8%
Industry	7	50.0%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	33.9	19.8%	28.0%	70.4%
W/Trustee	-128.2	-29.7%	-10.0%	-13.7%
Industry	-110.1	-18.6%	-	-

Southeast Region Rankings

Florida	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**10**	**2**	**27.0%**	**10.0%**	**545.9**	**11**	**1***	**32.4%**	**17.6%**	**740.6**
The Bank of New York Mellon	11	1	29.7%	24.7%	1,348.2	11	1*	32.4%	38.3%	1608.6
Wells Fargo Bank	5	3*	13.5%	22.9%	1247.3	3	4*	8.8%	5.4%	225.9
TD Bank NA	5	3*	13.5%	3.3%	179.9	3	4*	8.8%	4.2%	177.7
Regions Bank	4	5	10.8%	38.4%	2097.0	6	3	17.7%	34.5%	1452.3
Hancock Bank	2	6	5.4%	0.7%	39.7	-	-	-	-	-
Subtotal with Trustee	**37**	**-**	**37.0%**	**52.7%**	**5,458.0**	**34**	**-**	**51.5%**	**58.4%**	**4,205.0**
Subtotal without Trustee	**63**	**-**	**63.0%**	**47.3%**	**4,892.6**	**32**	**-**	**48.5%**	**41.6%**	**2,995.5**
Industry Total	**100**	**-**	**100.0%**	**100.0%**	**10,350.5**	**66**	**-**	**100.0%**	**100.0%**	**7,200.5**

Florida Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-1	-9.1%	-5.4%	-16.7%
W/Trustee	3	8.8%	-14.5%	-28.2%
Industry	34	51.5%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-194.7	-26.3%	-7.6%	-43.2%
W/Trustee	1,253.0	29.8%	-5.7%	-9.7%
Industry	3,150.0	43.7%	-	-

Georgia	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**8**	**1***	**29.6%**	**12.2%**	**489.2**	**12**	**2**	**36.4%**	**22.4%**	**410.4**
Wells Fargo Bank	8	1*	29.6%	80.7%	3,237.7	1	4*	3.0%	1.1%	19.4
The Bank of New York Mellon	6	3	22.2%	6.5%	260.4	13	1	39.4%	69.9%	1279.4
Regions Bank	3	4	11.1%	0.5%	19.6	6	3	18.2%	5.2%	95.7
First Commercial Bank	2	5	7.4%	0.1%	6.0	-	-	-	-	-
Branch Banking & Trust Co	-	-	-	-	-	1	4*	3.0%	1.4%	24.9
Subtotal with Trustee	**27**	**-**	**42.2%**	**84.5%**	**4,013.0**	**33**	**-**	**55.0%**	**42.6%**	**1,829.8**
Subtotal without Trustee	**37**	**-**	**57.8%**	**15.5%**	**736.0**	**27**	**-**	**45.0%**	**57.4%**	**2,464.4**
Industry Total	**64**	**-**	**100.0%**	**100.0%**	**4,748.9**	**60**	**-**	**100.0%**	**100.0%**	**4,294.1**

Georgia Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-4	-33.3%	-6.8%	-18.7%
W/Trustee	-6	-18.2%	-12.8%	-23.3%
Industry	4	6.7%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	78.8	19.2%	-10.2%	-45.6%
W/Trustee	2,183.2	119.3%	41.9%	98.3%
Industry	454.8	10.6%	-	-

Kentucky	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**16**	**1**	**45.7%**	**36.6%**	**811.1**	**11**	**2**	**36.7%**	**41.3%**	**821.4**
The Bank of New York Mellon	12	2	34.3%	25.3%	560.8	17	1	56.7%	57.9%	1150.9
Wells Fargo Bank	2	3*	5.7%	33.3%	738.1	-	-	-	-	-
Huntington National Bank	2	3*	5.7%	3.5%	76.6	-	-	-	-	-
Regions Bank	2	3*	5.7%	1.0%	22.9	1	3*	3.3%	0.2%	3.2
Central Bank & Trust	1	6	2.9%	0.3%	7.6	-	-	-	-	-
Monticello Banking Company	-	-	-	-	-	1	3*	3.3%	0.7%	13.6
Subtotal with Trustee	**35**	**-**	**28.7%**	**78.9%**	**2,217.0**	**30**	**-**	**22.7%**	**69.4%**	**1,989.1**
Subtotal without Trustee	**87**	**-**	**71.3%**	**21.1%**	**592.3**	**102**	**-**	**77.3%**	**30.6%**	**876.4**
Industry Total	**122**	**-**	**100.0%**	**100.0%**	**2,809.3**	**132**	**-**	**100.0%**	**100.0%**	**2,865.5**

Kentucky Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	5	45.5%	9.0%	24.5%
W/Trustee	5	16.7%	6.0%	26.4%
Industry	-10	-7.6%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-10.3	-1.3%	-4.7%	-11.4%
W/Trustee	227.9	11.5%	9.5%	13.7%
Industry	-56.2	-2.0%	-	-

Southeast Region Rankings

Report B

SE Region	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**133**	**1**	**37.2%**	**25.5%**	**6,325.9**	**103**	**2**	**34.2%**	**31.9%**	**7,413.7**
The Bank of New York Mellon	105	2	29.3%	27.3%	6,785.5	109	1	36.2%	39.5%	9177.3
Wells Fargo Bank	37	3	10.3%	29.2%	7254.7	16	4	5.3%	8.0%	1869.3
Regions Bank	35	4	9.8%	10.1%	2514.5	37	3	12.3%	10.4%	2406.6
Huntington National Bank	16	5	4.5%	2.6%	657.2	9	6	3.0%	2.9%	668.4
Manufacturers & Traders Tr Co	8	6	2.2%	2.5%	617.9	8	7	2.7%	3.9%	913.6
Deutsche Bank	6	7	1.7%	0.8%	189.2	-	-	-	-	-
TD Bank NA	5	8	1.4%	0.7%	179.9	3	8	1.0%	0.8%	177.7
First Commercial Bank	4	9	1.1%	0.1%	29.5	-	-	-	-	-
Wilmington Trust Company	3	10*	0.8%	0.6%	157.0	2	9*	0.7%	0.8%	176.6
Branch Banking & Trust Co	3	10*	0.8%	0.3%	65.1	10	5	3.3%	1.7%	386.3
Subtotal with Trustee	**358**	**-**	**37.5%**	**58.5%**	**24,823.5**	**301**	**-**	**38.8%**	**59.8%**	**23,243.3**
Subtotal without Trustee	**596**	**-**	**62.5%**	**41.5%**	**17,584.9**	**474**	**-**	**61.2%**	**40.2%**	**15,608.3**
Industry Total	**954**	**-**	**100.0%**	**100.0%**	**42,408.4**	**775**	**-**	**100.0%**	**100.0%**	**38,851.7**

SE Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	30	29.1%	3.0%	8.8%
W/Trustee	57	18.9%	-1.3%	-3.4%
Industry	179	23.1%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-1,087.8	-14.7%	-6.4%	-20.1%
W/Trustee	1,580.2	6.8%	-1.3%	-2.2%
Industry	3,556.7	9.2%	-	-

Alabama	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**4**	**3**	**11.1%**	**10.4%**	**51.6**	**3**	**3**	**13.0%**	**28.2%**	**187.2**
Regions Bank	17	1	47.2%	58.0%	288.4	8	2	34.8%	24.4%	174.0
The Bank of New York Mellon	11	2	30.6%	26.1%	129.9	10	1	43.5%	27.0%	192.8
First Commercial Bank	2	4*	5.6%	4.7%	23.5	-	-	-	-	-
Wells Fargo Bank	2	4*	5.6%	0.8%	3.8	2	4	8.7%	22.4%	160.0
Subtotal with Trustee	**36**	**-**	**40.0%**	**38.1%**	**497.1**	**23**	**-**	**35.4%**	**56.4%**	**714.0**
Subtotal without Trustee	**54**	**-**	**60.0%**	**61.9%**	**806.5**	**42**	**-**	**64.6%**	**43.6%**	**552.5**
Industry Total	**90**	**-**	**100.0%**	**100.0%**	**1,303.6**	**65**	**-**	**100.0%**	**100.0%**	**1,266.5**

Alabama Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	1	33.3%	-1.9%	-14.6%
W/Trustee	13	56.5%	4.6%	13.0%
Industry	25	38.5%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-135.6	-72.4%	-15.8%	-60.4%
W/Trustee	-216.9	-30.4%	-18.2%	-32.4%
Industry	37.1	2.9%	-	-

District of Columbia	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	**2**	**2***	**16.7%**	**3.9%**	**62.0**	**1**	**4***	**7.7%**	**0.7%**	**16.7**
Wells Fargo Bank	7	1	58.3%	66.1%	1,056.8	4	1*	30.8%	50.6%	1192.8
Manufacturers & Traders Tr Co	2	2*	16.7%	21.4%	342.6	3	3	23.1%	30.3%	714.4
The Bank of New York Mellon	1	4	8.3%	8.6%	138.0	4	1*	30.8%	17.0%	400.7
Branch Banking & Trust Co	-	-	-	-	-	1	4*	7.7%	1.4%	33.5
Subtotal with Trustee	**12**	**-**	**100.0%**	**100.0%**	**1,599.4**	**13**	**-**	**100.0%**	**100.0%**	**2,358.1**
Subtotal without Trustee		**-**	**00.0%**	**0.0%**	**.0**		**-**	**0.0%**	**0.0%**	**.0**
Industry Total	**12**	**-**	**100.0%**	**100.0%**	**1,599.4**	**13**	**-**	**100.0%**	**100.0%**	**2,358.1**

District of Columbia Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	1	100.0%	9.0%	116.9%
W/Trustee	-1	-7.7%	0.0%	0.0%
Industry	-1	-7.7%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	45.3	271.3%	3.2%	447.4%
W/Trustee	-758.7	-32.2%	0.0%	0.0%
Industry	-758.7	-32.2%	-	-

Southeast Region Rankings

South Carolina	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	8	1	61.5%	56.8%	222.7	7	1	43.8%	32.4%	280.9
The Bank of New York Mellon	4	2	30.8%	42.6%	167.5	6	2	37.5%	57.9%	501.9
Regions Bank	1	3	7.7%	0.8%	3.3	-	-	-	-	-
Wells Fargo Bank	-	-	-	-	-	1	3*	6.3%	4.4%	38.4
State Treasurer of SC	-	-	-	-	-	1	3*	6.3%	3.3%	28.9
Branch Banking & Trust Co	-	-	-	-	-	1	3*	6.3%	1.9%	16.5
Subtotal with Trustee	13	-	28.3%	23.2%	393.4	16	-	28.6%	62.0%	866.6
Subtotal without Trustee	33	-	71.7%	76.8%	1,300.4	40	-	71.4%	38.0%	530.5
Industry Total	46	-	100.0%	100.0%	1,693.9	56	-	100.0%	100.0%	1,397.1

South Carolina Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	1	14.3%	17.7%	40.4%
W/Trustee	-3	-18.8%	-0.3%	-1.0%
Industry	-10	-17.9%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-58.2	-20.7%	24.2%	74.6%
W/Trustee	-473.2	-54.6%	-38.8%	-62.6%
Industry	296.8	21.2%	-	-

Tennessee	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	9	1	47.4%	70.1%	962.9	6	2	25.0%	34.9%	575.4
The Bank of New York Mellon	5	2*	26.3%	26.6%	365.0	2	3	8.3%	24.0%	395.2
Regions Bank	5	2*	26.3%	3.4%	46.1	15	1	62.5%	36.2%	596.3
Wells Fargo Bank	-	-	-	-	-	1	4	4.2%	4.9%	81.5
Subtotal with Trustee	19	-	22.4%	38.9%	1,374.0	24	-	30.4%	61.6%	1,648.4
Subtotal without Trustee	66	-	77.7%	61.1%	2,161.6	55	-	69.6%	38.4%	1,025.6
Industry Total	85	-	100.0%	100.0%	3,535.6	79	-	100.0%	100.0%	2,674.0

Tennessee Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	3	50.0%	22.4%	89.6%
W/Trustee	-5	-20.8%	-8.0%	-26.3%
Industry	6	7.6%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	387.5	67.3%	35.2%	100.8%
W/Trustee	-274.4	-16.6%	-22.8%	-37.0%
Industry	861.6	32.2%	-	-

Virginia	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	21	1	52.5%	53.0%	1,388.4	16	1	57.1%	60.9%	2,092.4
Wells Fargo Bank	9	2	22.5%	25.9%	677.7	-	-	-	-	-
The Bank of New York Mellon	5	3	12.5%	16.5%	433.6	11	2	39.3%	38.9%	1336.5
Deutsche Bank	3	4	7.5%	4.0%	104.4	-	-	-	-	-
Regions Bank	2	5	5.0%	0.7%	17.3	-	-	-	-	-
Branch Banking & Trust Co	-	-	-	-	-	1	3	3.6%	0.2%	7.2
Subtotal with Trustee	40	-	45.5%	63.3%	2,621.4	28	-	47.5%	62.1%	3,436.1
Subtotal without Trustee	48	-	54.6%	36.7%	1,521.0	31	-	52.5%	37.9%	2,094.4
Industry Total	88	-	100.0%	100.0%	4,142.4	59	-	100.0%	100.0%	5,530.5

Virginia Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	5	31.3%	-4.6%	-8.1%
W/Trustee	12	42.9%	-2.0%	-4.2%
Industry	29	49.2%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-704.0	-33.6%	-7.9%	-13.0%
W/Trustee	-814.7	-23.7%	1.2%	1.9%
Industry	-1,388.1	-25.1%	-	-

Southeast Region Rankings

Maryland	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	4	3	20.0%	9.2%	96.4	2	3*	15.4%	9.6%	55.0
Manufacturers & Traders Tr Co	6	1	30.0%	26.4%	275.3	5	1	38.5%	34.1%	199.2
The Bank of New York Mellon	5	2	25.0%	30.2%	315.5	4	2	30.8%	52.9%	309.5
Deutsche Bank	3	4	15.0%	6.1%	84.7	-	-	-	-	-
Wells Fargo Bank	2	5	10.0%	26.0%	271.4	-	-	-	-	-
Branch Banking & Trust Co	-	-	-	-	-	2	3*	15.4%	3.4%	20.0
Subtotal with Trustee	20	-	37.0%	37.9%	1,043.2	13	-	32.5%	26.4%	584.6
Subtotal without Trustee	34	-	63.0%	62.1%	1,706.3	27	-	67.5%	73.6%	1,633.2
Industry Total	54	-	100.0%	100.0%	2,749.5	40	-	100.0%	100.0%	2,217.8

Maryland Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	2	100.0%	4.6%	29.9%
W/Trustee	7	53.8%	4.5%	13.8%
Industry	14	35.0%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	40.5	72.5%	-0.3%	-3.4%
W/Trustee	458.6	78.4%	11.6%	43.9%
Industry	531.7	24.0%	-	-

North Carolina	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	22	1	56.4%	38.9%	659.1	20	1	57.1%	54.8%	1,384.9
The Bank of New York Mellon	11	2	28.2%	54.8%	927.4	9	2	25.7%	29.3%	740.1
Branch Banking & Trust Co	3	3	7.7%	3.8%	65.1	4	3	11.4%	11.2%	284.2
Wells Fargo Bank	2	4	5.1%	1.3%	22.0	1	4*	2.9%	1.3%	32.7
Regions Bank	1	5	2.6%	1.2%	20.0	1	4*	2.9%	3.4%	85.2
Subtotal with Trustee	39	-	52.7%	47.9%	1,693.5	35	-	54.7%	60.2%	2,527.0
Subtotal without Trustee	35	-	47.3%	52.1%	1,842.7	29	-	45.3%	39.8%	1,674.1
Industry Total	74	-	100.0%	100.0%	3,536.3	64	-	100.0%	100.0%	4,201.1

North Carolina Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	2	10.0%	-0.7%	-1.2%
W/Trustee	4	11.4%	-2.0%	-3.7%
Industry	10	15.6%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-725.8	-52.4%	-15.9%	-29.0%
W/Trustee	-833.5	-33.0%	-12.3%	-20.4%
Industry	-664.8	-15.8%	-	-

Ohio	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	29	1	40.9%	29.9%	1,036.7	14	2	29.2%	30.7%	848.0
The Bank of New York Mellon	28	2	39.4%	53.4%	1,850.3	21	1	43.8%	43.2%	1193.6
Huntington National Bank	14	3	19.7%	16.7%	580.5	8	3	16.7%	21.4%	591.6
Wells Fargo Bank	-	-	-	-	-	3	4	6.3%	4.3%	118.6
Bank of Oklahoma NA	-	-	-	-	-	2	5	4.2%	0.4%	11.4
Subtotal with Trustee	71	-	35.5%	67.6%	3,467.5	48	-	36.4%	66.8%	2,763.2
Subtotal without Trustee	129	-	64.5%	32.4%	1,663.5	84	-	63.6%	33.2%	1,373.4
Industry Total	200	-	100.0%	100.0%	5,131.0	132	-	100.0%	100.0%	4,136.6

Ohio Quarterly Statistics

2Q10/2Q09 YTD B/(W) - # of Issues	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	15	107.1%	11.7%	40.1%
W/Trustee	23	47.9%	-0.9%	-2.5%
Industry	68	51.5%	-	-

2Q10/2Q09 YTD B/(W) - Proceeds (US$ Mil)	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	188.7	22.3%	-0.8%	-2.8%
W/Trustee	704.3	25.5%	0.8%	1.2%
Industry	994.4	24.0%	-	-

Southeast Region Rankings

West Virginia	2nd Quarter 2010 YTD					2nd Quarter 2009 YTD				
Trustee	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)	# of Issues	Rank	Mkt. Share on #	Mkt. Share on $	Proceeds (US$ Mil)
US Bank	-	-	-	-	-	-	-	-	-	-
The Bank of New York Mellon	5	1	100.0%	100.0%	210.6	1	1*	50.0%	47.0%	68.0
Huntington National Bank	-	-	-	-	-	1	1*	50.0%	53.0%	76.8
Subtotal with Trustee	5	-	41.7%	56.4%	210.6	2	-	50.0%	76.2%	144.8
Subtotal without Trustee	7	-	58.3%	43.6%	162.5	2	-	50.0%	23.8%	45.3
Industry Total	12	-	100.0%	100.0%	373.1	4	-	100.0%	100.0%	190.1

West Virginia Quarterly Statistics

	2010/2009 YTD B/(W) - # of Issues			
	Growth in #	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-	-	-	-
W/Trustee	3	150.0%	-8.3%	-16.8%
Industry	8	200.0%	-	-

	2010/2009 YTD B/(W) - Proceeds (US$ Mil)			
	Growth in $	Growth %	Mkt Share B/(W) %	Mkt Share Growth %
U.S. Bank	-	-	-	-
W/Trustee	65.8	45.4%	-19.7%	-25.9%
Industry	183.0	96.3%	-	-

Fee Comparison Report:

FEE COMPARISON REPORT

Corporate Trustees	Average Annual Fee	Source
BONY/Mellon	$601	Office of State Treasurer Inventory of State Debt Report
Bank # 1	$60	2006 Requests for Proposals
Bank #2	$100	2006 Requests for Proposals

Source: Office of State Treasurer - Inventory of State Debt
Revisions to average fee amount for US Bank, as Paying Agent

Report Page	Name of Bond Issue	Maturity Date	# of Issues	Average Annual Fee	Comments
pg 1	General Obligation State CIB Bonds Series 195MCI	**11/1/2010**	1	$2,934.00	This is a mini bond series, which means there are certificated bonds. The Paying Agent charged a fee based upon the number of registered holders. Fee was approximately $1.00 to $1.25 per bondholder. Other state bonds are book-entry only bonds, one bond registered to DTCC. Fees for mini bonds can not be compared against book-entry bonds. As such, these fees are exclused from fee comparison.
pg 1	General Obligation State CIB Bonds Series 99 MCI	**11/1/2010**	1	$3,805.00	Same comment as above
pg 1	General Obligation State CIB Bonds Series 00 MCI	**11/1/2010**	1	$2,661.00	Same comment as above
pg 4	General Obligation State Highway Bonds Series 2010A	6/1/2021	1	$850.00	According to the Official Statement for the bonds, The Bank of New York, not US Bank, is the Paying Agent. This Series 2010 A bond refunded certain maturities of three prior series of state highway bonds, 1999A, 2001A, and 2001B. The Inventory of State Debt Report denotes a one-time fee of $9,353 or an average annual fee of $850 over the 11 year life of the bond. This fee should be excluded from Average Fee Comparison for US Bank.
pg 4	General Obligation State Highway Bonds Series 2010A	6/1/2021	1	$227.00	Series 2010 A bonds listed three times on Inventory Report, see next item. It is presumed the one-time fee of $2503 is for the escrow agent services for the series 2001 A bonds still outstanding and listed earlier on the Inventory of State Debt report. This one-time fee amortized over life of 2010 bonds (11 yrs) or $227 a year. Except as noted in next instance, not aware of other defeased bonds being listed on the Inventory report.
pg 4	General Obligation State Highway Bonds Series 2010A	6/1/2021	1	$68.00	Series 2010 A bonds listed three times. It is presumed the one-time fee of $750 is for the escrow agent services for the series 2001 B bonds still outstanding and listed earlier on the Inventory of State Debt report. This one-time fee amortized over life of 2010 bonds (11 yrs) or $68 a year.
			6	$10,545.00	
	Total Number of US Bank PA deals as noted on Inventory Report	34	Total Avg Annual Fees of 34 US Bank deals as noted on Inventory Report	$18,320.00	**Revised Avg Annual Fee for US Bank:**
	Less the exceptions noted above	-6	Less the exception fees noted above	-$10,545.00	**$7,775 divided by 28 or $277.67**
	Revised total number of US Bank PA deals	28		$7,775.00	

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Sample Trustee Requests for Proposal:

SECTION ONE
INTRODUCTION

The undersigned State Treasurer, on behalf of the State of South Carolina (the "State"), is evaluating the potential efficiencies, service enhancements and other benefits that may be achieved by consolidating trustee, registrar, paying agent and escrow agent services (the "Services") with a single Service provider for existing and future indebtedness issued by the State and certain of its authorities, agencies and institutions. Continuing industry consolidation among institutions providing the Services has impacted the State and its entities authorized to incur indebtedness, and is a significant factor prompting this evaluation. In this connection, the State seeks proposals from institutions qualified to provide the Services, particularly from those whose qualifications include significant and measurable investments in and commitments to providing such Services.

Availability of Documents. The State's most recent Official Statement accompanies this Request for Proposals and provides, among other things, details of the State's Constitutional and statutory provisions authorizing the issuance of debt by various State entities, along with a summary of the debt outstanding pursuant to those authorizations and provisions. Audited financial statements of the State may be accessed on the website of the State's Comptroller General at http://www.cg.state.sc.us/. Audited financial statements of the State's authorities and institutions may be accessed on the website of the South Carolina Office of State Auditor at http://www.osa.state.sc.us/ and following the links under the "State Engagements" section of the page.

Other information may be made available by contacting F. Richard Harmon, Jr., Senior Assistant State Treasurer, 122 Wade Hampton Office Building, Capitol Complex, Columbia, South Carolina 29201, telephone (803) 734-2114, email rick.harmon@sto.sc.gov.

SECTION TWO
SCOPE OF SERVICES

Service Requirements. The institution selected to provide the Services will be expected to, among other things, serve as the State's trustee, registrar, paying agent, and in certain cases, escrow agent, for revenue indebtedness issued by the State and the entities described above. Services to be provided are those typical of trustees under trust indentures securing revenue bonds and shall include all such functions with respect to bond issues or series of bond issues issued for the State or its entities. Those services shall include, but are not limited to, the following:

1) Provide input to be used by bond counsel to develop standard procedures in structuring bond financing and preparing bond documents.
2) Review bond issue documents prepared by bond and other counsel.
3) Establish and maintain funds and accounts pursuant to indenture.
4) Establish and maintain requisite funds and accounts to hold cash and securities necessary for the defeasance and payment of prior bond issues.

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5) Invest and transfer funds in accordance with the State's investment guidelines and each respective indenture.
6) Follow the indenture in all respects as required therein.
7) Reconcile all accounts in a timely manner and pay expenses and fees on time.
8) Provide debt service notices in a timely manner.
9) Monitor sinking fund requirements and call provisions.
10) Provide accurate descriptions on trust statements.
11) Provide monthly or quarterly statements as specified by the State. Statements shall report all transactions in chronological order and not separate investments from other transactions.
12) Provide internet access to all State accounts as soon as they are set up.
13) Provide reports on bond issues and fund balances to the State on a regular basis and upon request.
14) Track and report on investments of the State for such things as arbitrage rebate compliance. Arbitrage calculators will have online access to the State's accounts to assist in gathering data for calculations.
15) Work with the State and bond counsel in fulfilling responsibilities as trustee to the State.
16) Examine documents and procedures related to bond issues.
17) Assist in disclosure requirements under SEC Final Rule 15c2-12.
18) Participate in activities associated with rating agency, bond insurer or credit enhancer review of documentation.
19) Act as custodian for the purpose of maintaining good faith accounts on behalf of the State and holding therein such securities and funds as shall be received.

SECTION THREE
INFORMATION TO BE PROVIDED IN RESPONSE

A. GENERAL INFORMATION

1) Provide a brief history of your institution, including year organized, ownership, affiliated companies and relationships and total size shown in U.S. assets.
2) A statement that the institution meets the qualifications and criteria established for providing the Services, has the professional credentials, legal authority and in all other respects the professional capabilities to provide the Services as described in this Request for Proposals, along with a certification that the institution is not presently under investigation for any alleged impropriety with respect to and has not been censured or otherwise enjoined from providing these or any other financial services whatsoever.
3) Information describing the institution's organizational establishment to include its parent company, if applicable, current year audited financial statements, evidence of the institution's credit rating from three rating agencies, evidence of general and professional liability insurance, and any other data necessary to clearly establish the institution's financial strength and ability to assume performance liability for the scope, complexity and size of this engagement.
4) A letter on the respondent's letterhead and signed by the respondent's Chief Executive Office describing the institution's ongoing commitment to providing the Services, along with an assessment of the importance and posture of the business line with regard to the institution's strategic objectives and corporate mission.

B. COMMITMENT TO SOUTH CAROLINA

A discussion of the institution's corporate presence in and economic commitment to the State of South Carolina, including whether or not the institution is based, has branch offices, or otherwise maintains a presence in the State, along with a brief description of its corporate investment in the State to include at a minimum three years' history of the number of branches located within the State, the number of and associated payroll for employees who are South Carolina residents, and any future plans affecting corporate commitment to or employment within the State of South Carolina.

C. EXPERIENCE

1) A disclosure of any past de-emphasis of the Services, elimination or sale of the business line that supports the Services (including such de-emphasis, elimination or sale of the business line within any institution acquired by the respondent), along with supporting information that demonstrates the institution's continuing investment in the business line that supports the Services, including portfolio acquisitions and investments in system and human resources;
2) Provide information regarding any accounts from which your institution was terminated or removed as trustee in the last three years, including the reason for termination or removal.
3) A discussion of the general expertise within or available to the institution with regard to the Services included in this Request for Proposals, along with a description of mechanisms utilized for research and maintaining an awareness of industry developments related to the Services.
4) An overview of memberships and relationships maintained by the institution with national organizations germane to the Services.
5) A representative list of similar or related assignments to issuers of equivalent size and complexity.
6) A list of three references, including names, titles, addresses, and telephone numbers of individuals who can attest to the institution's professional reputation and services.
7) A description of direct system access that will be made available to the State.
8) Describe technology your institution uses to ensure bond transactions are administered in accordance with bond documents.
9) A general discussion of the institution's conversion process, including legal documentation and other requirements to perfect the transfer of this business from the prior service provider to the respondent institution.
10) A description of any work associated with the State's bond issues to be performed or anticipated to be performed outside of the continental United States.
11) A description of any other relevant experience that would be benefit in performing this engagement.
12) A detailed description of the information and assistance the institution will require from the State in performing at the level contemplated by this Request for Proposals.
13) A description of any existing material relationships with the State of South Carolina, any South Carolina state agency, authority, instrumentality or political subdivision, any board member, director or employee of any of these entities, or any related entity where a conflict of interest or ethics violation might be asserted.

14) A disclosure of the terms and conditions of any agreements with subcontractors or other service providers that the respondent will engage to provide any portion of the Services.

D. QUALIFICATIONS OF PERSONNEL

An indication of the number of professional consultants on staff who have worked with assignments of this scope, including the name and a short biographical sketch of the primary account officer the institution would assign to this relationship if awarded this engagement. Include the account officer's telephone number, fax number, and e-mail address. Include a brief summary of account officer's professional credentials and specific experience managing similar large relationships: with relative specificity but without disclosure of proprietary client information, provide a summary of the account officer's portfolio in the context of the facts provided in this Request for Proposals including number of clients served and the relative position of this relationship within the account officer's present portfolio of relationships.

E. FEE PROPOSAL

Specific terms and conditions of the institution's engagement and standard service contract, including any renewal provisions, a copy of any fee language or agreements the institution would require as a condition of this engagement, and any service or performance contract the institution would offer in connection with the Services.

Pricing Proposal. Each institution submitting a proposal for the Services must complete the attached Fee Estimate Worksheet, which will be accepted as a non-binding fee proposal for each applicable State debt presently outstanding. The State will utilize this fee estimate for comparative purposes during the evaluation of responses to the Request for Proposals and following selection of the institution whose proposal is determined to be most responsive will serve as the basis for establishment of individual fee arrangements for each issue. The pricing proposal must include any itemized or fixed fees, any applicable hourly rates, and applicable minimum and maximum fees, particularly with respect to any fees determined under hourly rates. The fee proposal must include a commitment for a period of time during which fees will not be subject to adjustment. Each institution must separately itemize the types of actual costs and expenses for which the institution will expect reimbursement. The respondent's fee proposal must be segregated, sealed, and submitted in a separate envelope from the remainder of the respondent's proposal.

In addition to the foregoing, the institution selected to provide the Services will be required to provide a signed copy of its proposal by an officer authorized to legally bind the institution, along with following information no later than seven (7) calendar days following notice of the award:

- A statement of the firm's affirmative action and anti-discrimination policies.

Contractual Provisions. The State will reserve the right to negotiate any and all elements of this Request for Proposals. All contractual agreements will be subject to, governed by, and construed in accordance with, the laws of the State of South Carolina.

Content of Response. The State deems this Request for Proposals to be comprehensive and sufficient o make an informed decision for award of the Services. Accordingly, the State requests that respondents provide information that is germane and specifically requested within this Request for Proposals, following the order of the requested information as closely as possible. The State will not evaluate superfluous information, and specifically requests that it be excluded.

Questions and Additional Information. Any requests for additional information, clarification or other questions concerning this Request for Proposals should be made in writing and directed via e-mail or facsimile transmission to:

F. Richard Harmon, Jr.
facsimile (803) 734-2039
e-mail rick.harmon@sto.state.gov

The State will not respond to oral questions, but will use its best efforts to promptly provide additional information, clarification and answers to questions to all prospective respondents via email. The State will not entertain any ex parte communications concerning this Request for Proposals prior to the Response Deadline described below. Any such contact concerning this Request for Proposals by a respondent or its representative with the State, its agencies, authorities or institutions, their employees, or any other professionals or advisors currently engaged in an advisory capacity to the State, may result in disqualification of that respondent's proposal.

Response Deadline. Responses to this Request for Proposals must be received by 5:00 PM eastern time on . Proposals may be delivered by hand, e-mail, facsimile, U.S. mail, or other delivery service; however, the responsibility of timely delivery is that of the institution making the proposal. Five (5) copies of the proposal should be submitted as follows, marked in substance "Request for Proposals – State of South Carolina Trustee Services":

By U.S. Mail	By Hand or Overnight Delivery
F. Richard Harmon, Jr. Senior Assistant State Treasurer P O Box 11778 Columbia, SC 29211-1778	F. Richard Harmon, Jr. Senior Assistant State Treasurer 122 Wade Hampton Office Building Capitol Complex Columbia, SC 29201
By E-Mail	**By Facsimile**
rick.harmon@sto.state.gov Re: Request for Proposals – Trustee	F. Richard Harmon, Jr. (803) 734-2039

The requisite number of original, printed copies must promptly follow submission by facsimile or email.

Confidentiality. In accordance with South Carolina's Freedom of Information Act, all proposals will be considered a matter of public record and may be made available for public inspection or duplication upon reasonable request. Any portion of a proposal deemed to be proprietary should be separated and specifically identified as such in the proposal; in that event the State will use reasonable efforts to redact such portions prior to the public inspection or duplication. The State is unable to treat an entire proposal as confidential or proprietary.

Evaluation Process. The State Treasurer and his designees will review and evaluate all qualified proposals. This review process may include conducting interviews with selected respondents whose proposals are determined to be most responsive to this request. If such interviews are deemed necessary, they are likely to be scheduled for early ____________.
Any award will be based on but not limited to:

- An indication that the institution has a clear understanding of the Services and requirements of the State;
- The institution's demonstrated commitment to and investment in the business line providing the Services;
- The institution's experience engagements of this magnitude and complexity;
- The experience and qualifications of personnel assigned to this engagement;
- Overall costs of Services, and
- Any other factors deemed appropriate by the State.

The State anticipates evaluating responses to this Request for Proposals and making the award on or before ___________. Please do not contact the State with respect to the evaluation or award until after that date. On or following the Response Deadline above, respondents may contact the Office of the State Treasurer at (803) 734-2114 to confirm receipt of their response.

The State reserves the right to reject any and all proposals and issue subsequent Requests for Proposals. Following the selection of the firm whose proposal best meets the needs of the State, all firms submitting a proposal will be notified of the firm selected for the engagement.

Acknowledgement. All proposals submitted in response to this Request for Proposals are at the sole expense of the respondent and, by providing its response; the respondent acknowledges its responsibility for all costs associated with the preparation of its proposal, presentation and any travel expense incurred in connection with any interviews conducted during the Evaluation Process described above. In addition, submission of a response will be deemed to be the respondent's conclusive agreement with all other terms and conditions of this Request for Proposals.

Thank you for evaluating this request.

Date:

Curtis Loftis
State Treasurer

SECTION FOUR
EVAULATION AND AWARD PROCESS

Committee members shall evaluate and rank the responses independently. As indicated in this section, points shall be assigned to certain items presented in Section Three of the Request for Proposals. The committee members shall evaluate the responses by reviewing the answers to each of the items and assigning points up to the maximum points allowed for each item. The committee member shall not use those items without points assigned in computing numerical score, but shall use them as part of their evaluation and recommendation process, for informational purposes, or as a basis for possible disqualification. Based on the criteria for selection, committee members shall rank each response with the highest ranking denoted below.

Item Reference	Maximum Points
A. General Information	15
B. Commitment to South Carolina	15
C. Experience	30
D. Qualifications of Personnel	20
E. Fees	20
Total	100

FEE PROPOSAL WORKSHEET

Description	# of Existing Bond Issues	Total Fees All Issues
Revenue Bonds		
Fixed Rate Bonds		
Acceptance Fee for Future Issuances:	XXXX	
Annual Fee:		
Legal Counsel for Future Issuances:	XXXX	
Out-of-Pocket Expenses:		
Variable Rate Bonds		
Acceptance Fee for Future Issuances:	XXXX	
Annual Fee:		
Legal Counsel for Future Issuances:	XXXX	
Out-of-Pocket Expenses:		

- ***Annual paying agent and registrar fee shall be included in the administration fee.***
- ***Selected respondents may be requested to participate in a interview to discuss further their response to this Request for Proposals and to provide any additional clarification to responses.***
- ***FINAL FEE SCHEDULE SHALL BE SUBJECT TO NEGOTIATION***

Debt Management Audit Scopes:

Debt Management Audit Scope

1. Evaluate management's experience in public finance matters, including any certifications.
2. Determine level of staff participation in industry trade organizations, such as public finance, trustees or technology organizations. Professional organizations provide exposure to comparative data and best practices.
3. Assess amount and sufficiency of staff training performed.
4. Review of the adequacy of tickler system to remind staff of key events and dates to perform action required by bond documents.
5. Review of disaster recovery procedures and ease of retrieval of bond documents, ticklers and system information if destroyed.
6. Review of policies and procedures for adequacy and applicability to current operating procedures.
7. Account Reviews of a sample of existing bond issuances under administration for adherence to terms of governing documents and department policy and procedures. Review to include defeasance escrow accounts. See attached review forms.
8. Review of Debt Management System for functionality (including interfaces with other accounting and investment systems), processing capabilities, reporting and staff access controls.
9. Review of prior audits for noted deficiencies and corrective action implemented.

Account Review

Issue Name:

	Yes	No	N/A
A. Account Set Up			
1. Are executed governing documents in file?			
3. Is this issue properly set up on the following systems and closing entries made:			
- Debt Management System			
- Capital Projects System			
- Sub Fund Accounts established and properly funded			
- Initial Closing Entries made (deposits, JVs, Transfers, Vouchers)			
- Costs of Issuance accurately paid			
- Bond Issue Working Checklist completed			
- Fees			
B. Investments			
1. Are all investments permitted under the governing document?			
2. Is proper written investment direction/authorization in file?			
3. Is investment income transferred to appropriate sub fund account and transferred in a timely manner as directed by governing document?			
4. Are reserve sub fund accounts fully funded?			
C. Insurance			
1. Is all insurance required by the governing document in force?			
2. Is the State (or appropriate secured party) properly listed on the Policy?			
3. Are appropriate ticklers established for expiration?			

D. UCC's			
1. Are all required UCC's current?			
2. Is the State (or the appropriate secured party) properly noted on the form?			
E. Compliance			
1. Are all required Officer Certificates current?			
2. Are arbitrage rebate calculations performed and have requirements been met?			
3. If any, other compliance requirements met? Describe:			
4. Are appropriate ticklers established for future events?			
F. Credit Enhancement			
1. Is original credit enhancement stored in a vault or other secured location?			
2. Are appropriate ticklers established for expiration/renewal?			
G. Bond Payments			
1. Are revenues deposited with STO as required?			
2. Is the amortization schedule in file?			
3. Is the amortization schedule correct?			
4. Have bond payments been made in a timely and accurate manner?			
5. Were bond payments disbursed from the correct subaccount?			
6. Are appropriate ticklers established for payment dates?			
H. Redemptions			
1. Have redemptions been performed as required by the governing document?			
2. Are appropriate ticklers established for redemption dates?			

I. Construction Requisitions			
1. Have disbursements of capital project funds been properly approved?			
2. Have disbursements been properly reflected on the Capital Projects System?			
3. Have funds been disbursed from the proper sub fund account?			
4. Were remaining balances transferred to appropriate sub fund account for early bond redemption?			

J. Sub Fund Accounts			
1. Can any sub fund accounts be closed?			
2. Are any funds commingled in sub fund accounts?			

Exceptions:

Performed By: ______________________ Date: __________

Reviewed By: ______________________ Date: __________

Defeasance Escrow Account Review

Escrow Account Name:

	Yes	No	N/A
A. Account Set Up			
1. Are executed governing documents in file?			
2. Escrow Cash Flow Verification in file?			
3. Is this issue properly set up on the following systems:			
- Debt Management System			
- Accounts opened and funded by Escrow Agent			
- Initial Closing Entries made			
- Fees			
B. Investments			
1. Are all investments permitted under the governing document?			
2. Is cash balance as reflected by Escrow Agent's statement in agreement with Cash Flow Verification?			
3. Are all security maturities re-invested in accordance with escrow agreement?			
C. Escrow Fund Balance			
1. Are all transactions, including bond payments, are in accordance with escrow agreement?			

Exceptions:

Performed By: ______________________ Date: __________

Reviewed By: ______________________ Date: __________

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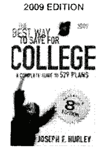

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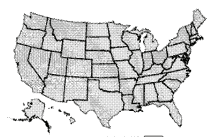

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You can also search by type, name, program manager, or investment manager.

529 performance rankings as of June 30, 2010. Direct-sold 529 plans.

Updated September 1, 2010

One-year performance ranking (click here for three-year performance table and five-year performance table):

Rank	State	Plan	Percentile
1	Nevada	The USAA 529 College Savings Plan	0.49
2	Montana	Pacific Life Funds 529 College Savings Plan (Direct-sold) MT	27.83
3	Virginia	Virginia Education Savings Trust (VEST)	28.94
4	Alaska	T. Rowe Price College Savings Plan	30.11
5	Alaska	University of Alaska College Savings Plan	30.59
6	Michigan	Michigan Education Savings Program	30.77
7	Vermont	Vermont Higher Education Investment Plan	32.44
8	Louisiana	START Saving Program	32.71
9	Maryland	College Savings Plans of Maryland -- College Investment Plan	38.47
10	Minnesota	Minnesota College Savings Plan	39.64
11	Oklahoma	Oklahoma College Savings Plan	40.14
12	New York	New York's 529 College Savings Program - Direct Plan	40.88
13	District of Columbia	DC 529 College Savings Program (Direct-sold)	43.94
14	Kansas	Schwab 529 College Savings Plan	44.39
15	Mississippi	Mississippi Affordable College Savings (MACS) Program	44.52
16	Rhode Island	CollegeBoundfund (Direct-sold, Alternative R)	44.95
17	Utah	Utah Educational Savings Plan (UESP) Trust	45.50
18	South Dakota	CollegeAccess 529 (Direct-sold)	46.57
19	Maine	NextGen College Investing Plan -- Client Direct Series	46.74
20	North Carolina	National College Savings Program	47.16
21	Wisconsin	EdVest (Direct-sold)	48.68
22	Connecticut	Connecticut Higher Education Trust (CHET)	48.96
23	New Jersey	NJBEST 529 College Savings Plan	50.03
24	Nevada	The Vanguard 529 Savings Plan	50.13
25	Kentucky	Kentucky Education Savings Plan Trust	50.67
26	Nebraska	College Savings Plan of Nebraska (Direct-sold)	50.71
27	Georgia	Path2College 529 Plan	50.99
28	Pennsylvania	Pennsylvania 529 Investment Plan	53.75
29	West Virginia	SMART529 WV Direct	54.85
30	Nebraska	TD Ameritrade 529 College Savings Plan	55.15

31	Nevada	The Upromise College Fund	55.91
32	West Virginia	SMART529 Select	56.23
33	Colorado	Direct Portfolio College Savings Plan	56.25
* 34	South Carolina	Future Scholar 529 College Savings Plan (Direct-sold)	57.56
35	Ohio	Ohio CollegeAdvantage 529 Savings Plan	58.00
36	Arizona	Fidelity Arizona College Savings Plan	58.81
37	New Hampshire	UNIQUE College Investing Plan	59.78
38	Delaware	Delaware College Investment Plan	60.02
39	California	The ScholarShare College Savings Plan	60.12
40	Massachusetts	U.Fund College Investing Plan	61.38
41	Hawaii	Hawaii's College Savings Program	62.04
42	Iowa	College Savings Iowa	62.40
43	Arkansas	GIFT College Investing Plan	62.78
44	Idaho	Idaho College Savings Program (IDeal)	62.97
45	Missouri	MOST - Missouri's 529 College Savings Plan (Direct-sold)	65.19
46	North Dakota	College SAVE	65.43
47	Kansas	Learning Quest 529 Education Savings Program (Direct-sold)	65.70
48	Indiana	CollegeChoice 529 Investment Plan (Direct-sold)	68.99
49	Illinois	Bright Start College Savings Program -- Direct-sold Plan	69.93
50	New Mexico	The Education Plan's College Savings Program (Direct-sold)	82.89
51	Texas	Texas College Savings Plan	89.96
-	Alabama	College Counts 529 Fund	NA
-	Florida	Florida College Investment Plan	NA
-	Oregon	Oregon College Savings Plan	NA

NA = Not applicable = Program does not have at least three portfolios with sufficiently long performance under our ranking model.

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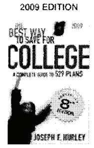

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Updated September 1, 2010.

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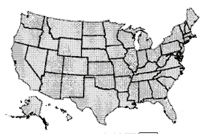

Select state: AK Go

You can also search by type, name, program manager, or investment manager.

Three-year performance ranking (click here for one-year performance table and five-year performance table):

Rank	State	Plan	Percentile
1	Nevada	The USAA 529 College Savings Plan	16.56
2	Kansas	Schwab 529 College Savings Plan	21.78
3	Utah	Utah Educational Savings Plan (UESP) Trust	29.53
4	Michigan	Michigan Education Savings Program	33.92
5	Nevada	The Vanguard 529 Savings Plan	34.41
6	Pennsylvania	Pennsylvania 529 Investment Plan	35.09
7	Montana	Pacific Life Funds 529 College Savings Plan (Direct-sold) MT	35.46
8	Missouri	MOST - Missouri's 529 College Savings Plan (Direct-sold)	36.74
9	Nevada	The Upromise College Fund	36.83
10	New York	New York's 529 College Savings Program -- Direct Plan	37.43
11	Ohio	Ohio CollegeAdvantage 529 Savings Plan	38.26
* 12	South Carolina	Future Scholar 529 College Savings Plan (Direct-sold)	38.47
13	Georgia	Path2College 529 Plan	38.96
14	Iowa	College Savings Iowa	39.72
15	Arkansas	GIFT College Investing Plan	41.10
16	Virginia	Virginia Education Savings Trust (VEST)	41.34
17	Kansas	Learning Quest 529 Education Savings Program (Direct-sold)	41.64
18	Wisconsin	EdVest (Direct-sold)	41.78
19	Colorado	Direct Portfolio College Savings Plan	42.09
20	Vermont	Vermont Higher Education Investment Plan	43.59
21	New Jersey	NJBEST 529 College Savings Plan	44.03
22	Nebraska	College Savings Plan of Nebraska (Direct-sold)	44.21
23	Louisiana	START Saving Program	45.56
24	Kentucky	Kentucky Education Savings Plan Trust	46.37
25	District of Columbia	DC 529 College Savings Program (Direct-sold)	46.67
26	Minnesota	Minnesota College Savings Plan	47.38
27	North Dakota	College SAVE	48.47
28	Oklahoma	Oklahoma College Savings Plan	48.56
29	Mississippi	Mississippi Affordable College Savings (MACS) Program	48.66
30	Connecticut	Connecticut Higher Education Trust (CHET)	49.52

Rank	State	Plan	Percentile
31	Nebraska	TD Ameritrade 529 College Savings Plan	50.44
32	Maine	NextGen College Investing Plan -- Client Direct Series	51.33
33	Alaska	University of Alaska College Savings Plan	52.97
34	Maryland	College Savings Plans of Maryland -- College Investment Plan	53.43
35	Arizona	Fidelity Arizona College Savings Plan	57.32
36	Delaware	Delaware College Investment Plan	57.56
37	Rhode Island	CollegeBoundfund (Direct-sold, Alternative R)	57.57
38	Massachusetts	U.Fund College Investing Plan	57.74
39	New Hampshire	UNIQUE College Investing Plan	57.87
40	California	The ScholarShare College Savings Plan	58.17
41	South Dakota	CollegeAccess 529 (Direct-sold)	58.19
42	Alaska	T. Rowe Price College Savings Plan	58.53
43	West Virginia	SMART529 WV Direct	61.78
44	West Virginia	SMART529 Select	66.79
45	New Mexico	The Education Plan's College Savings Program (Direct-sold)	89.18
-	Alabama	College Counts 529 Fund	NA
-	Florida	Florida College Investment Plan	NA
-	Hawaii	Hawaii's College Savings Program	NA
-	Idaho	Idaho College Savings Program (IDeal)	NA
-	Illinois	Bright Start College Savings Program -- Direct-sold Plan	NA
-	Indiana	CollegeChoice 529 Investment Plan (Direct-sold)	NA
-	North Carolina	National College Savings Program	NA
-	Oregon	Oregon College Savings Plan	NA
-	Texas	Texas College Savings Plan	NA

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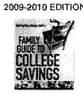

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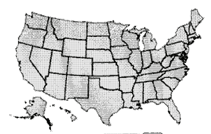

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529 performance rankings as of June 30, 2010.
Direct-sold 529 plans.

Updated September 1, 2010

Five-year performance ranking (click here for one-year performance table and three-year performance table):

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1	Montana	Pacific Life Funds 529 College Savings Plan (Direct-sold) MT	23.77
2	Kansas	Schwab 529 College Savings Plan	25.08
3	Nevada	The USAA 529 College Savings Plan	27.05
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14	Nevada	The Vanguard 529 Savings Plan	41.55
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24	Minnesota	Minnesota College Savings Plan	46.73
25	New York	New York's 529 College Savings Program -- Direct Plan	47.67

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28	Colorado	Direct Portfolio College Savings Plan	51.23
29	West Virginia	SMART529 Select	56.76
30	Mississippi	Mississippi Affordable College Savings (MACS) Program	58.52
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32	District of Columbia	DC 529 College Savings Program (Direct-sold)	62.51
33	Delaware	Delaware College Investment Plan	64.12
34	Arizona	Fidelity Arizona College Savings Plan	64.34
35	Connecticut	Connecticut Higher Education Trust (CHET)	65.03
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37	Massachusetts	U.Fund College Investing Plan	67.86
38	New Mexico	The Education Plan's College Savings Program (Direct-sold)	87.76
-	Alabama	College Counts 529 Fund	NA
-	California	The ScholarShare College Savings Plan	NA
-	Florida	Florida College Investment Plan	NA
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-	Maine	NextGen College Investing Plan -- Client Direct Series	NA
-	Missouri	MOST - Missouri's 529 College Savings Plan (Direct-sold)	NA
-	North Carolina	National College Savings Program	NA
-	North Dakota	College SAVE	NA
-	Oregon	Oregon College Savings Plan	NA
-	Pennsylvania	Pennsylvania 529 Investment Plan	NA
-	Texas	Texas College Savings Plan	NA
-	Vermont	Vermont Higher Education Investment Plan	NA

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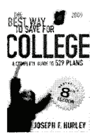

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5-Cap Ratings

We assign a rating to each state-sponsored program ranging from one cap (least attractive) to five caps (most attractive). The 5-Cap Rating represents our opinion of the overall usefulness of a state's 529 plan based on many considerations.

The 5-Cap Rating is not strictly a measure of historical returns and it is not a predictor of future investment performance, level of investment risk, or financial solvency of the program funds. For more information on the criteria used in assigning a 5-Cap Rating, click HERE.

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Alabama		
CollegeCounts 529 Fund	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
CollegeCounts 529 Fund Advisor Plan	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
Prepaid Affordable College Tuition (PACT) Program	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
Alaska		
John Hancock Freedom 529	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
T. Rowe Price College Savings Plan	(Resident Rating)	(Non-Resident Rating)
University of Alaska College Savings Plan	(Resident Rating)	(Non-Resident Rating)
Arizona		
Arizona Family College Savings Program -- CollegeSure® 529 Plan	(Resident Rating)	(Non-Resident Rating)
Fidelity Arizona College Savings Plan	(Resident Rating)	(Non-Resident Rating)
InvestEd Plan	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Arkansas		
GIFT College Investing Plan	(Resident Rating)	(Non-Resident Rating)
iShares 529 Plan	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
California		
ScholarShare Advisor College Savings Plan	ADVISER SOLD (Resident Rating)	(Non-Resident Rating)
The ScholarShare College Savings Plan	(Resident Rating)	(Non-Resident Rating)
Colorado		
Direct Portfolio College Savings Plan	(Resident Rating)	(Non-Resident Rating)

Prepaid Tuition Fund	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
Scholars Choice College Savings Program	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Smart Choice College Savings Plan	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
Stable Value Plus College Savings Program	(Resident Rating)	(Non-Resident Rating)
Connecticut		
Connecticut Higher Education Trust (CHET)	(Resident Rating)	(Non-Resident Rating)
Connecticut Higher Education Trust (CHET) -- Advisor Plan	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
Delaware		
Delaware College Investment Plan	(Resident Rating)	(Non-Resident Rating)
District of Columbia		
DC 529 College Savings Program (Adviser-sold)	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
DC 529 College Savings Program (Direct-sold)	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Florida		
Florida College Investment Plan	(Resident Rating)	(Non-Resident Rating)
Florida Prepaid College Plan	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Georgia		
Path2College 529 Plan	(Resident Rating)	(Non-Resident Rating)
Hawaii		
Hawaii's College Savings Program	(Resident Rating)	(Non-Resident Rating)
Idaho		
Idaho College Savings Program (IDeal)	(Resident Rating)	(Non-Resident Rating)
Illinois		
Bright Directions College Savings Program	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Bright Start College Savings Program -- Advisor-sold Plan	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Bright Start College Savings Program -- Direct-sold Plan	(Resident Rating)	(Non-Resident Rating)
College Illinois! 529 Prepaid Tuition Program		

Program	Resident	Non-Resident
	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Indiana		
CollegeChoice 529 Direct Savings Plan	(Resident Rating)	(Non-Resident Rating)
CollegeChoice Advisor 529 Savings Plan	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Iowa		
College Savings Iowa	(Resident Rating)	(Non-Resident Rating)
Iowa Advisor 529 Plan	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Kansas		
Learning Quest 529 Education Savings Program (Direct-sold)	(Resident Rating)	(Non-Resident Rating)
Learning Quest Advisor	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Schwab 529 College Savings Plan	(Resident Rating)	(Non-Resident Rating)
Kentucky		
Kentucky Education Savings Plan Trust	(Resident Rating)	(Non-Resident Rating)
Kentucky's Affordable Prepaid Tuition (KAPT)	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
Louisiana		
START Saving Program	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Maine		
NextGen College Investing Plan -- Client Direct Series	(Resident Rating)	(Non-Resident Rating)
NextGen College Investing Plan -- Client Select Series	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Maryland		
College Savings Plans of Maryland -- College Investment Plan	(Resident Rating)	(Non-Resident Rating)
College Savings Plans of Maryland -- Prepaid College Trust	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Massachusetts		
U.Fund College Investing Plan	(Resident Rating)	(Non-Resident Rating)
U.Plan	(Resident Rating)	(Non-Resident Rating)
Michigan		

Program	Resident	Non-Resident
MI 529 Advisor Plan	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
Michigan Education Savings Program	(Resident Rating)	(Non-Resident Rating)
Michigan Education Trust	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Minnesota		
Minnesota College Savings Plan	(Resident Rating)	(Non-Resident Rating)
Mississippi		
MACS 529 Advisor Program	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Mississippi Affordable College Savings (MACS) Program	(Resident Rating)	(Non-Resident Rating)
Mississippi Prepaid Affordable College Tuition (MPACT) Program	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Missouri		
MOST - Missouri's 529 Advisor Plan	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
MOST - Missouri's 529 College Savings Plan (Direct-sold)	(Resident Rating)	(Non-Resident Rating)
Montana		
Montana Family Education Savings Program -- CollegeSure® 529 Plan	(Resident Rating)	(Non-Resident Rating)
Pacific Life Funds 529 College Savings Plan (Adviser-sold) MT	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Pacific Life Funds 529 College Savings Plan (Direct-sold) MT	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Nebraska		
College Savings Plan of Nebraska (Adviser-sold)	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
College Savings Plan of Nebraska (Direct-sold)	(Resident Rating)	(Non-Resident Rating)
State Farm College Savings Plan	NEW PLAN (Resident Rating)	NEW PLAN (Non-Resident Rating)
TD Ameritrade 529 College Savings Plan	(Resident Rating)	(Non-Resident Rating)
Nevada		
Columbia 529 Plan	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Nevada Prepaid Tuition Program	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Putnam 529 for America		

NEW PLAN (Resident Rating) NEW PLAN (Non-Resident Rating)

The Upromise College Fund

(Resident Rating) (Non-Resident Rating)

The Vanguard 529 Savings Plan

(Resident Rating) (Non-Resident Rating)

USAA 529 College Savings Plan

(Resident Rating) (Non-Resident Rating)

New Hampshire

Fidelity Advisor 529 Plan

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

UNIQUE College Investing Plan

(Resident Rating) (Non-Resident Rating)

New Jersey

Franklin Templeton 529 College Savings Plan

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

NJBEST 529 College Savings Plan

(Resident Rating) NOT OPEN (Non-Resident Rating)

New Mexico

Scholar'sEdge

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

The Education Plan's College Savings Program

(Resident Rating) (Non-Resident Rating)

New York

New York's 529 College Savings Program -- Advisor Plan

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

New York's 529 College Savings Program -- Direct Plan

(Resident Rating) (Non-Resident Rating)

North Carolina

National College Savings Program

(Resident Rating) (Non-Resident Rating)

North Dakota

College SAVE

(Resident Rating) (Non-Resident Rating)

Ohio

BlackRock CollegeAdvantage 529 Plan

NEW PLAN (Resident Rating) NEW PLAN (Non-Resident Rating)

Ohio CollegeAdvantage -- Guaranteed Savings Fund

NOT OPEN (Resident Rating) NOT OPEN (Non-Resident Rating)

Ohio CollegeAdvantage 529 Savings Plan

(Resident Rating) (Non-Resident Rating)

Oklahoma

Oklahoma College Savings Plan

(Resident Rating) (Non-Resident Rating)

Oklahoma Dream 529 Plan

NEW PLAN (Resident Rating) NEW PLAN (Non-Resident Rating)

Oregon

MFS 529 Savings Plan

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

Oregon College Savings Plan

NEW PLAN (Resident Rating) NEW PLAN (Non-Resident Rating)

Other

Private College 529 Plan

(Resident Rating) (Non-Resident Rating)

Pennsylvania

Pennsylvania 529 Guaranteed Savings Plan

(Resident Rating) NOT OPEN (Non-Resident Rating)

Pennsylvania 529 Investment Plan

(Resident Rating) (Non-Resident Rating)

Rhode Island

CollegeBoundfund (Adviser-sold)

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

CollegeBoundfund (Direct-sold, Alternative RI)

(Resident Rating) NOT OPEN (Non-Resident Rating)

South Carolina

Future Scholar 529 College Savings Plan (Adviser-sold)

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

Future Scholar 529 College Savings Plan (Direct-sold)

(Resident Rating) NOT OPEN (Non-Resident Rating)

South Carolina Tuition Prepayment Program

NOT OPEN (Resident Rating) NOT OPEN (Non-Resident Rating)

South Dakota

CollegeAccess 529 (Adviser-sold)

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

CollegeAccess 529 (Direct-sold)

(Resident Rating) NOT OPEN (Non-Resident Rating)

Tennessee

Tennessee's BEST Prepaid College Tuition Plan

(Resident Rating) NOT OPEN (Non-Resident Rating)

Texas

Lonestar 529 Plan

ADVISER SOLD (Resident Rating) ADVISER SOLD (Non-Resident Rating)

Texas College Savings Plan

(Resident Rating) (Non-Resident Rating)

Texas Guaranteed Tuition Plan

	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
Texas Tuition Promise Fund	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Utah		
Utah Educational Savings Plan (UESP)	(Resident Rating)	(Non-Resident Rating)
Vermont		
Vermont Higher Education Investment Plan	(Resident Rating)	(Non-Resident Rating)
Virginia		
CollegeAmerica	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
CollegeWealth	(Resident Rating)	(Non-Resident Rating)
Virginia Education Savings Trust (VEST)	(Resident Rating)	(Non-Resident Rating)
Virginia Prepaid Education Program (VPEP)	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Washington		
Guaranteed Education Tuition (GET)	(Resident Rating)	NOT OPEN (Non-Resident Rating)
West Virginia		
SMART529 Prepaid Tuition Plan	NOT OPEN (Resident Rating)	NOT OPEN (Non-Resident Rating)
SMART529 Select	(Resident Rating)	(Non-Resident Rating)
SMART529 WV Direct College Savings Plan	(Resident Rating)	NOT OPEN (Non-Resident Rating)
The Hartford SMART529	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Wisconsin		
EdVest (Adviser-sold)	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
EdVest (Direct-sold)	(Resident Rating)	(Non-Resident Rating)
tomorrow's scholar	ADVISER SOLD (Resident Rating)	ADVISER SOLD (Non-Resident Rating)
Wyoming		
Direct Portfolio College Savings Plan WY	(Resident Rating)	NOT OPEN (Non-Resident Rating)
Stable Value Plus College Savings Plan	(Resident Rating)	NOT OPEN (Non-Resident Rating)

South Carolina
OFFICE OF STATE TREASURER

Project Charter

General Information		
Project Title		Date
Project to Replace Investment Management System (NVEST)		July 18, 2014
Executive Sponsors	Telephone	Email
Curtis Loftis [redacted]	[redacted]	Curtis.Loftis@sto.sc.gov [redacted]@sto.sc.gov [redacted]@sto.sc.gov
Division Sponsors	Telephone	Email
[redacted]	[redacted]	[redacted]
Project Director	Telephone	Email
[redacted]	[redacted]	[redacted]
Project Manager	Telephone	Email
[redacted]	[redacted]	[redacted]
Investments Co-Leads	Telephone	Email
[redacted]	[redacted]	[redacted]
Document Version		Date of Update
V 1.0 – Initial Draft		June 10, 2014
V 2.0 – Incorporate Changes Made By SCEIS		July 18, 2014
V 3.0 – Incorporate Changes Made By Executive Staff		July 31, 2014

Project Scope

Situation/Problem/Opportunity

The STO's Investment Management System (IMS) is more than twenty-five years old and is a mainframe system built on old technology and written in Natural software. Over the years, it has been modified many times, and has also been tightly integrated with STARS. STO needs to replace IMS for the following reasons:

- STARS is being retired and replaced with SCEIS with an estimated conversion date of June 30, 2015 (as established by the STO).
- A number of the treasury functions/systems in STO have been or are currently being converted to SCEIS.
- IMS requires significant maintenance because of its age and the numerous changes that have been made to this system over the years.
- STO currently has numerous manual processes which require duplication of work by STO staff and a transition to SCEIS would enable STO to take advantage of the Treasury Management functionality to improve operational efficiencies.
- A new system would allow STO to pursue direct links to third party business partners such as Bloomberg and Bank of New York (BNY) further eliminating manual processes for both STO and business partners.

After documenting the functionality provided by the current IMS system, STO contracted with SAP to conduct a Gap Analysis and a Proof of Concept (POC) to determine how much of the current IMS functionality can be provided in SCEIS through configuration (i.e., selecting options in the Treasury Management Module to use functionality out-of-the-box), and how much custom development would be required. SAP was able to demonstrate between 70% and 75% of STO's day-to-day trade activities, reporting, etc. through configuration of the SCEIS software (no development was required). This functionality is part of the Treasury Management Module and will be enhanced and supported by SAP under the State's existing maintenance contract.

The remaining 25% to 30% of STO's activities will require customization of the SAP software. This customization may include:

- Pooled Investments
- Amortization Calculations
- Block Trading
- Other customizations may involve interfaces with internal and central systems, and with third party contractors like BNY and Bloomberg to streamline transmission of trade information.
- Customization of investment reports will be needed where not available in SAP.
- Additional customization may be identified during the blueprint process

All customization must be developed, tested, implemented and maintained by STO and SCEIS personnel. STO will need to provide appropriate staff and training for the persons assigned this responsibility.

Implementation Approach:
A consultant with extensive experience implementing the investment functionality in SAP will conduct requirements sessions, lead the development of a business blueprint, configure functionality, develop specifications for customization, develop test scenarios, conduct testing and provide training.

SCEIS technical and functional representatives will attend requirements sessions and provide technical specifications for customization once requirements have been finalized and approved by the STO.

An ABAP developer will assist in the development/customization of the SCEIS functionality as defined in the blueprint and technical specifications. These developers will also assist in testing, developing reports, conversion activities and transition of programs to production in SCEIS.

Working in conjunction with the SCEIS Reporting Team, a consultant will develop specialized investment reports and dashboards not standard in SCEIS.

A member of the SCEIS staff will configure accounting data to integrate this data with the FI module in SCEIS.

STO will contract with independent verification contractors to conduct a review of this implementation strategy and to review blueprint work products, specifications for customizing SCEIS, development activities, test results, training materials/training results, conversion plan/activities, interfaces, and approve the timing of 'go live'. These contractors will report directly to Executive Sponsor (the State Treasurer).

STO and SCEIS will jointly develop and maintain all project documents including the blueprint, configuration, testing plans, test results, etc. needed for a successful implementation of the Investment Functionality in SCEIS.

This is estimated to be a 12 month project.

Ongoing Support Approach:
ABAP developers will be available at SCEIS until all customization has been proven successful and can be supported by existing SCEIS staff.

Several members of STO's IT staff will be trained in SAP Treasury Management to coordinate requests with SCEIS for future changes to investment functionality.

Several members of STO's IT staff will be trained in the development of Business Objects reports and dashboards to support requests for changes and additions by STO Divisions.

All members of the Investments staff will be trained in the use of the investment/treasury management functionality in SCEIS.

A member of the SCEIS staff will be trained to configure and maintain the treasury management functionality in SCEIS.

User manuals will be developed for all investment activities performed in SCEIS.
Project Goals
The primary goals of this project are as follows: • To replace the STO's Investment Management Systems (IMS). • To reduce/eliminate manual and redundant processes. • To automate the transmission of files to and from business partners. • To improve availability of management reports. • To provide a secure operating environment that protects the privacy and confidentially of all banking and investment data. • To identify cost reductions and cost savings through the elimination of duplicate systems, functions, contracts, manual processes, printing of reports, etc.
In Scope/Out of Scope
The following Items are in scope for the initial phase the NVEST Project: • Replacement of the Investment Management System (IMS). • Replacement of interfaces to DMS and FMS if these systems are still active after Project 'go live'. The following Items are not in scope for the initial phase of the NVEST Project: • Replacement of the Local Government Investment Pool (LGIP) and QED. • Replacement of the Distribution System. • Replacement of the Collateral System (will be reviewed during blue print to determine timing of implementation). • Replacement of STO's Financial Management System (this is a separate project). • Replacement of STO' Debt Management System (this is a separate project).
Deliverables
The deliverables for this phase of the NVEST Project are as follows: • Replace IMS System with SCEIS on a modern platform with an estimated 'go live' date of July 1, 2015. • Replace interfaces to DMS and FMS if these systems are still active. • Implement investment functionality in SCEIS within established budget. • Develop management and operational reports needed by the business areas for the performance of their daily, weekly, monthly and annual duties and responsibilities. • Develop operational/user manuals for the Investments System. • Conduct training of all members of the STO staff on the administration, management, security and uses of SAP Treasury Management functionality. • Provide training for several members of STO's IT staff in Treasury Management functionality to

coordinate requests with SCEIS for changes to investment functionality.

- Provide training for several members of STO's IT staff to develop Business Objects reports and dashboards to support requests for changes and additions by STO Divisions.
- Coordination with all SCEIS, agencies, educational institutions and business partners to thoroughly test operational activities being transitioned to SCEIS.

Assumptions

The following assumptions have been made about this phase of the NVEST Project:

- Resources will be provided by all business areas as defined in the project plan to perform tasks and complete assignments in a timely manner.
- An appropriate change management process will be followed to document and approve requests for change by business areas.
- Funding for this project will be available according to approved budget allocations.
- Independent verification contractors will be hired and will provide timely feedback to the Project Sponsor necessary to meet all milestones dates.

Risks and Dependencies

The following risks and dependencies can impact the timely and successful completion of this phase of the NVEST Project:

- Lack of resources or resource availability to complete requirements on a timely basis.
- Until requirements are finalized, SCEIS resources and timeline constraints cannot be confirmed or agreed upon.
- Scope creep that requires unplanned/additional time, costs, resources, etc.
- Delays in the review and approval of deliverables that adversely impact the project schedule.
- Funding for the project is diminished or removed.

Resource Requirements

Project Resources

Project resources are listed below. Some resources (i.e., Executive Sponsors, Administrative Representatives, Business Partners, etc.) will only need to be involved at various times throughout the project. Other resources will be dedicated to the project full time.

- Executive Sponsors
- Divisions Sponsors
- Investment Co-Leads
- Treasury Management Representative

Resource Requirements

Project Resources

- Administrative Representative
- Project Director
- Project Manager
- System Analysts/Developers
- Security/Privacy Officers
- Consultant – Integrator/Functional Lead
- Consultant – ABAP Programmers
- Consultant – Report Developer
- Consultant – Conversion Lead
- Consultant – Test Coordinator
- SCEIS – Project Management, Configuration, Customization, Technical, Document Management and Security Personnel
- Business Partners – CG, State Auditor, Agencies
- Interface Team –STO staff, BNY, Bloomberg, etc.
- Consultant – Independent Verification Contractor

High-Level Milestones and Timeline

The following are estimated date for completion of key milestones. The dates are subject to change pending final requirements and resource availability.

• Project Kickoff Meeting	June 18, 2014
• Project Charter Approved	July 25, 2014
• Resources Hired and On-Board	July 14, 2014
• First Draft of Business Requirements/Blueprint/Scripts	September 1, 2014
• Finalize Requirements/Blueprint	September 15, 2014
• Development Completed	March 31, 2015
• Unit Testing Completed	March 31, 2015
• Integration/Parallel Testing Completed	June 1, 2015
• Report Design/Development/Conversion Complete	June 1, 2015
• Training Completed	June 18, 2015
• Go-Live	July 1, 2015

NOTE: Until requirements are finalized, SCEIS cannot confirm milestone dates.

STO Project Team – Responsibilities of Key Members		
Team Member	Role	Responsibilities
Curtis Loftis [redacted]	Executive Sponsors	The Executive Sponsors serve as the champions for the project. They ensure appropriate resources are allocated to complete the project on schedule and budget. They set priorities between projects, when needed. At a high level, they encourage and monitor completion of requirements by team members. The Executive Sponsors provide authorization to the Project Director and Project Manager as outlined in this Project Charter. They serve on the Change Control Board.
[redacted]	Division Sponsors	The Investment Division Sponsors coordinate with the Project Director and the Project Manager to provide resources needed to complete project requirements on a timely basis. The Investment Division Sponsors sign off on business requirements documents, all major milestones, test plans and test results, requests for change and the 'go live' schedule. They serve on the Change Control Board.

[redacted]	Project Director	The Project Director manages the project at a strategic level. The Project Director is the project's point person, managing resources and overseeing finances to ensure that the project progresses on time and on budget. The Project Director reviews regular progress reports and makes staffing, financial, or other adjustments to align the developing project with broader organizational goals. The Project Director oversees the activities of the Project Manager. The Project Director serves on the Change Control Board.
[redacted]	Project Manager	The Project Manager develops and maintains the project plan (resourcing, implementation, work plans, etc.), monitors project progress, and ensures projects are completed on time and within budget. She maintains all project documents. She provides status reports to stakeholders as set forth in this Project Charter.
[redacted]	Functional Team	The Functional Team is responsible for supplying business knowledge and expertise throughout all phases of the project required to develop and manage the business blueprint. The Functional Lead will conduct requirements sessions, lead development of the business blueprint, configure functionality in test environments, develop specifications for customization, develop test scenarios, conduct testing, and provide training. He coordinates with the business areas to interpret requirements

		into design documents for the System Analysts/Developers. The Functional Lead is responsible for identifying issues and escalating them to the Project Manager and the Project Director to determine solutions to issues on a timely basis. He is responsible for coordinating and documenting the overall design, configuration, testing and implementation processes for sign off by the Sponsors. He provides training for the investment and IT staff. The Functional Lead serves on the Change Control Board.
[redacted]	Co-Lead (Banking) Co-Lead (Investments)	The Investment Co-Leads serve as the 'lead' for their business area coordinating the activities of the business area staff to schedule meetings and gather information in order to meet project timelines. They analyze, interpret and document business rules and requirements for technical systems. In addition, they assist in coordinating with business partners, development of interfaces, participate in integration and user acceptance testing, support the development of training material, participate in the implementation of systems, and provide post-implementation support.
[redacted]	Systems Analyst and Test Coordinator	The Test Coordinator will work with the Project Team to develop and document test plans, oversee execution of those plans to ensure requirements of the business area are met, ensure quality

		requirements are met, provide input into the project plans for work completed status, and ensure testing issues are resolved.
[redacted]	Conversion Team	The Conversion Team will ensure the quality of historical data being converted to SCEIS, develop programs to cleanse data as needed, participate in system development and operations during implementation, provide input into the project plans for work completed status, produce all technical project deliverables, documentation and design specifications, and ensure technical issues are resolved.
[redacted]	Interface Team	The Interface Team works with BNY and Bloomberg to implement and ensure that interfaces work well; to provide input into the project plans for work completed status, to review and test technical project deliverables, to develop documentation and design specifications, and to ensure technical issues are resolved.
[redacted]	Reporting Team	The Reporting Team will work with Investment and Executive staff to understand and document Investments reporting needs, develop reports using Business Objects and Business Warehouse that are not already in SAP, provide input into the Project Plan for expected completion dates for each report, and provide work completion status reports. The Reporting lead will also provide

		training to all Project Team members.
[redacted]	Privacy/Security Team	The Privacy and Security Team will determine the sensitivity of information entered and maintained in SCEIS, and based on state and federal directives, as well as legal and regulatory requirements, determine the appropriate levels of protection required to be 'designed into' programs.
[redacted]	Technical Team	The Technical Team will work with SCEIS and the Project Team to provide configuration and customization, reports, transports, testing and technology support as needed. They will also provide input into the Project Plan for expected completion dates for customization tasks, reports, etc., and provide work completion status reports. The Technical Lead serves on the Change Control Board.
[redacted]	Treasury Management Representative	The Treasury Management Representative will review business requirements and other project documentation to ensure activities conform to accounting and treasury management standards, and that all accounting data for investments is being capture and reported corrected in SCEIS and FMS. He will determine the Treasury Management staff that needs to be involved in all business and technical reviews, testing, training, report development and go live activities.
[redacted]	Administrative Representative	The Administrative

		Representative will assist in the procurement of supplies, services and equipment needed during the start-up of the project. She will also assist in the posting and on-boarding of new employees. She will support the issuance of RFP's and/or SOW as needed to acquire consulting services and in the processing of all payment. She will also provide monthly budget reports to the Executive Sponsors and the Project Director.
TBD	Quality Team	STO will contract with Independent Verification Contractors to review STO's implementation strategy and to review blueprint work products, specifications for customizing SAP, development activities, test results, training materials/results, conversion plan/activities, interfaces and approve the timing of 'go live'. These contractors will report directly to the Executive Sponsors.

SCEIS Project Team – Responsibilities of Key Members		
Team Member	Role	Responsibilities
[redacted]	Project Manager (SCEIS)	Working with the STO Project Manager, will develop and maintain the project plan (resourcing, implementation, work plans, etc.), monitor project progress, and ensure projects are completed on time and within budget. She maintains all project documents. She provides status reports to

SCEIS Project Team – Responsibilities of Key Members		
Team Member	Role	Responsibilities
		stakeholders as set forth in this Project Charter.
[redacted]	SCEIS Functional/Technical Team	The SCEIS Functional/Technical Team members will work with STO and the Project Team to provide configuration and customization, reports, transports, testing and technology support as needed. They will also provide input into the Project Plan for expected completion dates for customization tasks, reports, etc., and provide work completion status reports.

Communications Strategy					
Description	Provider	Recipient	Frequency	Format	Distribution
Kickoff Meeting	Project Director / Project Manager	Project Team	One Time Only	Meeting	Face-to-Face
Project Team Meetings	Project Director / Project Manager	Project Team	Weekly	Meeting	Face-to-Face
Meeting Minutes	Project Manager	Distribution List	2 Days After Meeting	Word Document	Email
Action Items	Project Team	Project Team	Weekly	Word Document	Email and Face-to-Face
Status Reports	Project Director / Project Manager	Executive Management	Weekly	Word Document	Email and Face-to-Face
Blueprinting Sessions	Project Director / Project Manager, System Analyst and Developers	Functional Team	Twice a Week	Meeting	Face-to-Face/ Conference Call
Technical Design Sessions	Project Director / Project Manager, System Analyst and Developers	Technical Team	Twice a Week	Meeting	Face-to-Face/ Conference Call
Budget Reports	Administrative Representative	Executive Management/ Project Director	Monthly	Excel Document	Face-to-Face

Executive Approval

Reviewed BY	Title	Date	Signature
Curtis Loftis	Executive Sponsor		[illegible]
[redacted]	Executive Sponsor	8/8/14	[redacted]
[redacted]	Executive Sponsor	8/4/14	[redacted]
[redacted]	Investments Division Sponsor	8/~~15~~ 21/14	[redacted]
[redacted]	Investments Division Sponsor	8/26/14	[redacted]
[redacted]	Project Director	7/31/14	[redacted]
[redacted]	SCEIS Division Sponsor	8-29-14	[redacted]
[redacted]	SCEIS Project Director	8-28-14	[redacted]

South Carolina
OFFICE OF STATE TREASURER

Project Charter

General Information		
Project Title		**Date**
Project to Transition General Deposit Bank Accounts to SCEIS		August 5, 2014
Executive Sponsors	**Telephone**	**Email**
Curtis Loftis [redacted]	[redacted]	[redacted]
Division Sponsors	**Telephone**	**Email**
[redacted]	[redacted]	[redacted]
Project Manager	**Telephone**	**Email**
[redacted]	[redacted]	[redacted]
Banking Lead	**Telephone**	**Email**
[redacted]	[redacted]	[redacted]
Document Version		**Date of Update**
V1.0		August 5, 2014
V2.0		August 13, 2014

Project Scope
High Level Overview
The State Treasurer's Office (STO) manages, maintains and reconciles 19 general depository bank accounts for use by state agencies, colleges and universities to make deposits by taking cash, coins and checks to the bank, by remote deposit capture, by credit card purchases via terminals and the Web, and via ACH and Wire transfers. The 19 banks capture and send transactional data to the STO. Six of the larger banks (Wells Fargo, Bank of America, TD Bank, First Citizens, BB&T and NBSC) provide deposit

transactions to the STO in standard BAI2 file format on a daily basis. The remaining 13 banks send the STO paper statements on a monthly basis.

For the six larger banks, the STO's Data Processing Staff accesses the Web sites of these banks on a daily basis and downloads the BAI2 files to the mainframe computer at the State Data Center. A job (e.g., TFM018JR) is then submitted by the Data Processing Staff which captures certain data elements for each deposit from the BAI2 file including the date of deposit, amount of deposit and, if available, the Terminal ID (TID) and the location code. These transactions are then loaded to STO's Financial Management System (FMS). These are called 'intransit' transactions by the Treasury Management Staff. Each of these six bank accounts has an associated FMS ledger number. The total amount of the deposit transactions for a BAI2 file is posted into the associated FMS ledger account on a daily basis. A report (TDA058NR) is provide to the Treasury Management staff to compare the total amount of the transactions for the BAI2 file for the day and the total amount posted to the associated FMS ledger account. On occasions, some transactions are dropped (usually debits) and have to be posted into FMS manually. The amount of the deposits for these 13 smaller banks is not posted into FMS. None of the deposits for the 19 bank accounts are currently posted in SCEIS.

The Treasury Management Staff approves deposits made by state agencies, colleges and universities. This approval is required before these funds can be expended in STARS by the state agency, college or university. A majority of the deposits are entered into SCEIS either manually or through a standard file transfer process provided in SCEIS. The Treasury Management Staff logs on to SCEIS and reviews the deposits comparing each deposit with the supporting documentation attached in SCEIS (e.g., a deposit slip). The deposit records in SCEIS also contain the FMS ledger number and, if appropriate, the TID number or location code. Once approved, the transactions are posted in FMS. These are called 'outstanding' transactions by the Treasury Management Staff. If the Treasury Management Staff identifies differences with a deposit and the supporting documentation, they contact the agency to resolve the issue. Reports are provided to the Treasury Management Staff to show the deposit that were approved during the day.

In some instances, deposit records are not created in SCEIS. This is primarily for credit card purchases via terminals or over the Web. At the time the BAI2 is received from the banks (primarily for Wells Fargo and Bank of America), a deposit record is created in FMS/STARS for these transactions. Special logic and lookups in a TID Table are used to identify the accounting information necessary to posts these transactions into FMS/STARS. These are also considered 'outstanding' transactions. In the future, these records will have to be created in SCEIS.

On the third or fourth day of the each month, the Treasury Management Staff starts the process of reconciling the 19 general depository bank accounts. Jobs are run for the six automated accounts that compare (current day and current day $\pm$ a day) the 'intransit' and 'outstanding' transactions by bank account. The records are matched on deposit date, deposit amount, TID number and location code. For the records that match, the status is changed in FMS to show that the transactions have been cleared. If there are multiple matches for a deposit date and deposit amount, the first match will be marked as cleared even though it may not be the correct match. The Treasury Management Staff receives several reports (TFM750NR, TFM755NR and TFM655NR) showing the final deposits remaining in an 'intransit' status, an 'outstanding' status and a list of all transactions cleared during the reconciliation process for the month.

The Treasury Management Staff also receives exception reports (e.g., TFM751NR) showing a listing of the ‘intransit’ and ‘outstanding’ transactions for each of the six automated bank accounts. Each of the exceptions has to be researched manually and notes made as to the findings concerning the differences. If during this research the exceptions can be matched, the Treasury Management Staff can clear the transactions in FMS manually. The largest account, Well Fargo, takes approximately two and a half weeks to reconcile. The smaller accounts take considerably less time.

There are exceptions to this process which require manual processing by the Treasury Management Staff including STO investment activity, Student Loan Corporation and the Government Advantage Account. These exceptions need to be reviewed and resolved as part of this project, if possible. Also, adjustments between bank accounts occur occasionally. A process exists in FMS/STARS to make these adjustments, but not in SCEIS. As part of this project, a process needs to be established for this purpose.

If deposits cannot be reconciled, they are move to a special STO ledger account based on predefine time periods. Regular deposits are moved to this ledger account one full fiscal year after the deposit date, and wires and ACH’s are moved to this ledger account two full fiscal years after the deposit date.

The Treasury Management Staff currently receives reports for year-end closing. Similar reports must be provided as part of this project.

The total amount of funds deposited into the FMS ledger accounts is used as part of the calculation to determine the total funds that can be invested by the STO on a daily basis. This is one of several factors that must be taken into consideration as part of this process. This is part of the ‘check funding’ process in STO’s Investment Management Division. The ‘check funding’ process will be moved to SCEIS as part of this project.

STO estimates that this will be a nine (9) month project.

Project Goals

The primary goals of this project are as follows:

- To replace the bank reconciliation processes in FMS with similar, more robust and automated functionality in SCEIS.
- To replace the ‘check funding’ process in FMS with the similar, automated functionality in SCEIS.
- To automate files exchanges and reconciliation processes with banks where transaction volume is of significant size.
- To improve access to and the availability of reports to manage banking activities.
- To provide a secure operating environment that protects the privacy and confidentially of all banking data.
- To identify cost reductions and cost savings through the elimination of duplicate systems, functions, manual processes, printing of reports, etc.

In Scope/Out of Scope
The following Items are in scope for General Depository Bank Account Project: • To replace the bank reconciliation processes in FMS with similar, more robust and automated functionality in SCEIS. • To replace the 'check funding' process in FMS with similar automated functionality in SCEIS. • To ensure the implementation of these processes in SCEIS are planned and developed in a manner to promote the future implementation of other SCEIS functionality such Cash Management, Banking Communications and In-House Cash. The following Items are <u>not</u> in scope for General Depository Bank Account Project: • Replacement of FMS (this is a separate project). • Bank accounts other than the 19 general depository bank accounts currently managed, maintained and reconciled by STO.
Deliverables
The deliverables for the General Depository Bank Account Project are as follows: The Treasury Management Staff has identified the following issues/improvements to be included as part of this project: 1. Automate the reconciliation process for the 13 bank accounts currently reconciled manually, if the volume of transactions justifies such automation. 2. Automate the exchange of BAI2 files between the banks and SCEIS and eliminate the process currently utilized by the STO Data Processing Staff to access bank web sites and download BAI2 files. 3. Load BAI2 files for each bank into SCEIS (rather than FMS) using a procedure that identifies and reports exceptions on a daily basis. 4. Post the total amount for deposit transactions for all 19 banks into SCEIS on a daily or monthly basis, as appropriate. 5. Establish general ledger account(s) in SCEIS for each of the 19 bank accounts to replace the FMS ledger accounts. 6. Establish a process to make bank-to-bank adjustments (pink deposits and bank vouchers) in SCEIS. 7. Notify state agencies, college and universities in a timely manner of the new general ledger accounts in SCEIS and how they are to be used in making deposits into these 19 bank accounts. 8. Create a record for credit card deposits and post these records into SCEIS with appropriate data

elements, documentation, identifiers and general ledger account information.

9. Create a TID Table in SCEIS.

10. Create a new 'check funding' process in SCEIS.

11. Customize processes as necessary to automate the reconciliation of certain types of deposit transactions that currently require manual processing (e.g., Government Advantage Account).

12. Develop year-end reports similar to the current reports available in FMS.

13. Identify and implement processes to more efficiently match 'intransit' and 'outstanding' deposit transactions having same bank account, deposit date and deposit amount.

Assumptions
The following assumptions have been made about this phase of the General Depository Bank Account Project: • ABAP developers will be available at SCEIS until all customization has been proven successful and can be supported by existing SCEIS staff. • Members of STO's IT staff will be trained in the development of Business Objects reports and dashboards to support requests for changes and additions by Treasury Management Staff. • Members of the Treasury Management Staff will be trained in the use of the bank reconciliation functionality in SCEIS. • A member of the SCEIS staff will be trained to configure and maintain the treasury management functionality in SCEIS. • An appropriate change management process will be followed to document and approve requests for change by business areas. • Funding for this project will continue to be available as appropriated.

Risks and Dependencies
The following risks and dependencies can impact the timely and successful completion of the General Depository Bank Account Project: • Lack of resources or resource availability to complete requirements on a timely basis. • Scope creep that requires unplanned/additional time, costs, resources, etc. • Delays in the review and approval of deliverables that adversely impact the project schedule. • Approved funding for the project is diminished or removed.

Resource Requirements

Project Resources

Project resources are listed below. Some resources (i.e., Executive Sponsors, Administrative Representatives, Business Partners, etc.) will only need to be involved at various times throughout the project. Other resources will need to participate in most project activities.

- Executive Sponsors
- Divisions Sponsors
- Banking Leads
- Investments Representative
- Debt Representative
- Administrative Representative
- Project Manager
- System Analysts
- Subject Matter Experts
- Security/Privacy Officers
- Integrator/Functional Lead
- Consultants – ABAP Programmers
- Consultant – Report Developer
- Conversion Lead
- Consultant – Test Coordinator
- Business Partners – CG, State Auditor, Agencies
- Interface Team – STO and Banks

High-Level Milestones and Timeline

The following are STO's estimated dates for completion of key milestones. The dates are subject to change pending development of final requirements and resource availability.

• Project Kickoff	June 1, 2014
• Project Charter Approved	August 15, 2014
• Resources Hired and On-Board	July 14, 2014
• First Draft of Business Requirements/Blueprint/Scripts	October 1, 2014
• Finalize Requirements/Blueprint	October 15, 2014
• Development Completed	January 15, 2015
• Unit Testing Completed	January 15, 2015

• Notification to Agencies	January 15, 2015
• Integration/Parallel Testing Completed	March 15, 2015
• Report Design/Development/Conversion Complete	March 15, 2015
• Training Completed	March 15, 2015
• Go-Live	April 1, 2015

Project Team – Responsibilities of Key Members		
Team Member	Role	Responsibilities
Curtis Loftis [redacted]	Executive Sponsors	The Executive Sponsors serve as the champions for the project. They ensure appropriate resources are allocated to complete the project on schedule and budget. They set priorities between projects, when needed. At a high level, they encourage and monitor completion of requirements by team members. The Executive Sponsors provide authorization to the Project Manager as outlined in this Project Charter. They serve on STO's Change Control Board.
[redacted]	Division Sponsors	The Division Sponsors coordinate with the Project Managers to provide resources needed to complete project requirements on a timely basis. The Division Sponsors sign off on business requirements documents, all major milestones, test plans and test results, requests for change and the 'go live' schedule. They serve on STO's Change Control Board.

Project Team – Responsibilities of Key Members		
Team Member	Role	Responsibilities
[redacted]	Project Manager	The Project Manager manages the project at a strategic level. and serves as the points of contact for STO and SCEIS for managing resources and overseeing finances to ensure that the project progresses on time and on budget. He reviews regular progress reports and make staffing, financial, or other adjustments to align the developing project with broader organizational goals. The Project Manager serves on STO's Change Control Board.
[redacted] d) [redacted]	Functional Team - Lead Configuration Lead	The Functional Team is responsible for supplying business knowledge and expertise throughout all phases of the project required to develop and manage the business blueprint. The Functional Leads will conduct requirements sessions, lead development of the business blueprint, configure functionality in test environments, develop specifications for customization, develop test scenarios, conduct testing, and provide training. They coordinate with the business areas to interpret requirements into design documents for the System Analysts/Developers. The Functional Leads are responsible for identifying issues and escalating them to the Project Manager to determine solutions to issues on a timely basis. They are responsible for coordinating

Project Team – Responsibilities of Key Members		
Team Member	**Role**	**Responsibilities**
		and documenting the overall design, configuration, testing and implementation processes for sign off by the Sponsors. They provide training for the investment and IT staff. The Functional Leads serve on the Change Control Board.
[redacted]	Banking Lead	The Banking Lead serves as the 'lead' for her business area coordinating the activities of the business area staff to schedule meetings and gather information in order to meet project timelines. She analyzes, interprets and documents business rules and current/future requirements for reconciling deposits. In addition, she assists in coordinating with banks, participates in integration and user acceptance testing, supports the development of training material, participates in the implementation of systems, and provides post-implementation support.
[redacted]	Systems Analyst and Test Coordinator	The Test Coordinators will work with the Project Team to develop and document test plans, oversee execution of those plans to ensure requirements of the business area are met, ensure quality requirements are met, provide input into the project plans for work completed status, and ensure technical issues are resolved.
[redacted]	Conversion Team - Lead	The Conversion Team will ensure

Project Team – Responsibilities of Key Members		
Team Member	Role	Responsibilities
[redacted]		the quality of historical data being converted to SCEIS, develop programs to cleanse data as needed, participate in system development and operations during implementation, provide input into the project plans for work completed status, produce all technical project deliverables, documentation and design specifications, and ensure technical issues are resolved.
[redacted]	Interface Team	The Interface Team works with banks to implement and ensure that interfaces work well; to provide input into the project plans for work completed status, to review and test technical project deliverables, to develop documentation and design specifications, and to ensure technical issues are resolved.
[redacted]	Reporting Team	The Reporting Team will work with Treasury Management staff to understand and document reporting needs, develop reports using Business's Objects and Business Warehouse that are not available in SAP, provide input into the Project Plan for expected completion dates for each report, and provide work completion status reports. The Reporting lead will also provide training to all Project Team members.
[redacted]	Privacy/Security Team	The Privacy and Security Team will determine the sensitivity of information entered and

Project Team – Responsibilities of Key Members		
Team Member	**Role**	**Responsibilities**
		maintained in SCEIS, and based on state and federal directives, as well as legal and regulatory requirements, determine the appropriate levels of protection required to be 'designed into' programs.
[redacted]	Technical Team	The Technical Team will work with SCEIS and the Project Team to provide configuration and customization, reports, transports, testing and technology support as needed. They will also provide input into the Project Plan for expected completion dates for customization tasks, reports, etc., and provide work completion status reports. The Technical Lead serves on the Change Control Board.
[redacted]	Investment s Representative	The Investments Management Representative will review business requirements and other project documentation to ensure activities conform to accounting and investment standards, and that all accounting data for investments is being capture and reported corrected in SCEIS. She will determine the Investment Management staff that needs to be involved in all business and technical reviews, testing, training, report development and go live activities especially as it relates to the 'check funding' process.
[redacted]	Administrative Representatives	The Administrative Representatives will assist in the

Project Team – Responsibilities of Key Members		
Team Member	Role	Responsibilities
		procurement of supplies, services and equipment needed during the start-up of the project. She will also assist in the posting and on-boarding of new employees, if needed. She will support the issuance of RFP's and/or SOW as needed to acquire consulting services and in the processing of all payment. She will also provide monthly budget reports to the Executive Sponsors and the STO Project Manager.

Communications Strategy					
Description	Provider	Recipient	Frequency	Format	Distribution
Kickoff Meeting	Project Managers	Project Team	One Time Only	Meeting	Face-to-Face
Project Team Meetings	Project Managers	Project Team	Weekly	Meeting	Face-to-Face
Meeting Minutes	Project Managers	Distribution List	2 Days After Meeting	Word Document	Email
Action Items	Project Team	Project Team	Weekly	Word Document	Email and Face-to-Face
Status Reports	Project Managers	Executive Sponsors & Project Team	Weekly	Word Document	Email and Face-to-Face
Blueprinting Sessions	Project Managers, System Analyst and Developers	Functional Team	Once a Week	Meeting	Face-to-Face/ Conference Call
Technical Design Sessions	Project Managers, System Analyst	Technical Team	Twice a Week	Meeting	Face-to-Face/ Conference Call

	and Developers				
Budget Reports	Administrative Representative	Executive Sponsors/ Project Managers	Monthly	Excel Document	Face-to-Face

Charter Approval			
Name	Title	Date	Signature
Curtis Loftis	Executive Sponsor		
[redacted]	Executive Sponsor		
[redacted]	Executive Sponsor		
[redacted]	Division Sponsor		
[redacted]	Division Sponsor		
[redacted]	Banking Lead		
[redacted]	Project Manager		
[redacted]	SCEIS Executive Sponsor		

Exhibit 48

Proviso 98.2 of the FY 2024-2025 Appropriations Act[1]

98.2. (TREAS: STARS Approval) Decisions relating to the Statewide Accounting and Reporting System (STARS) and the South Carolina Enterprise Information System (SCEIS) which involve the State Treasurer's Banking Operations and other functions of the State Treasurer's Office shall require the approval of the State Treasurer.

[1] This exact iteration of the proviso has been included in every single appropriations act since FY2013

Exhibit 49

Selected Accounts Variation Report — Run Date / Time 03/26/2024, 20:58:09

Bus Area: * Fund: 30350993 Grant: *
Cost Ctr: * Funded Program: * Period: 16, 2023
Account Group Selected: *

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal	
1000000000 CASH DUE TO/FROM	(29,126,331,493.06)	-	(29,126,331,493.06)	
1010339900 UC TRUST - FEDERAL	(533,584,001.21)	-	(533,584,001.21)	
1011300000 WF_E16_STO_Contingent Acct_CASH	10,678,504,773.50	-	10,678,504,773.50	
1011300700 WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT	25,339,949,424.07	-	25,339,949,424.07	
1011300707 WF GENERAL DEPOSIT WRITE OFFS	17.50	-	17.50	
1013300000 BOA CASH_STO_GENERAL DEPOSIT ACCOUNT	1,094,129,628.79	-	1,094,129,628.79	
1013301000 BOA_CASH_STO_GDA_INT ACCT	(280,000,000.00)	-	(280,000,000.00)	
1015300000 UNITED COMMUNITY BANK_E16_CASH_GEN DEP	(8,927,566.14)	-	(8,927,566.14)	
1016300000 SYNOVUS CASH_GEN DEP	(297,953,597.15)	-	(297,953,597.15)	
1016300100 SYNOVUS RESTRICTED CASH_GEN DEP	(1,706,211,622.08)	-	(1,706,211,622.08)	
1017300000 TD BANK_E16_CASH_GEN DEP	(669,705,559.77)	-	(669,705,559.77)	
1018300000 FARMERS AND MERCHANTS GENERAL DEPOSIT	(9,425.47)	-	(9,425.47)	
1019300000 FIRST NTL HOLLY HILL_E16_CASH_GEN DEP	(6,098,183.34)	-	(6,098,183.34)	
1020300000 FIRST CITIZENS_E16_CASH_GEN DEP	(2,365,057,191.53)	-	(2,365,057,191.53)	
1021300000 TRUIST_E16_CASH_GEN DEP	(59,427,822.83)	-	(59,427,822.83)	
1024300000 ARTHUR STATE BANK_E16_CASH_GEN DEP	(3,764,915.61)	-	(3,764,915.61)	
1025300000 BANK OF CLARENDON_E16_CASH_GEN DEP	(16,551,854.73)	-	(16,551,854.73)	
1026300000 SOUTH STATE BANK GENERAL DEPOSIT	(164,761,893.22)	-	(164,761,893.22)	
1028300000 BANK OF TRAVELER'S REST_E16_CASH_GEN DEP	(245,009.38)	-	(245,009.38)	
1029300000 BLUE RIDGE BANK_E16_CASH GEN DEP	(1,299,749.69)	-	(1,299,749.69)	
1032300000 ENTERPRISE BANK_E16_CASH_GEN DEP	(2,315,631.97)	-	(2,315,631.97)	
1034300000 PALMETTO STATE BANK_E16_CASH_GEN DEP	(22,881,753.39)	-	(22,881,753.39)	
1036300000 JPMC CASH_STO_GENERAL DEPOSIT ACCOUNT	5,000,000.00	-	5,000,000.00	
1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT	0.11	-	0.11	
1063300307 BONY GENERAL WRITE OFFS	(0.11)	-	(0.11)	
1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP	(500.00)	-	(500.00)	
2400600002 DUE TO OTHER FUNDS - EQUITY IN POOLED CASH	(1,852,455,573.29)	-	(1,852,455,573.29)	
Sum with 1000000000 and 2400600002	(0.00)	-	(0.00)	28
Sum without 1000000000 and 2400600002 (Banks Only)	30,978,787,066.35	-	30,978,787,066.35	26

Exhibit 50

From: [redacted]n
Sent: Friday, March 2, 2018 7:21 PM
To: [redacted]
CC: [redacted]
Subject: FW: conversion gl cleanup
Attachments: CONVERSION GL CLEANUP 218.2.28.xlsx; final conversion gl cleanup 2018.02.28.pdf

Conversion entry w/p's...... I have spoken with [redacted], he wants to create a different GL Account for me to use, says it will be Monday since [redacted] is out of office...... these aje's will be posted to February 2018 but it will be Monday before the system is ready

---

From: [redacted]
Sent: Thursday, March 01, 2018 3:02 PM
To: [redacted]
Cc: [redacted]
Subject: conversion gl cleanup

Take a look at the attached .pdf which shows the ZGLB and the aje's that comprise the balances in each fund as necessary
Then (at same time) look at the tabs on the xcel for discussion/analysis by fund and proposed aje
Gimme a holler afterwards and I'll post when we are happy

[redacted] | **Director - Treasury Management**
South Carolina Treasurer's Office
116 Wade Hampton Building
Capitol Complex, Columbia, SC 29201
[redacted]

Exhibit 51

From: [redacted]
Sent: Monday, November 21, 2016 7:48 PM
To: [redacted]
CC: [redacted]
Subject: RE: Your Assistance

Spoke with [redacted]......... he believes he's identified the "duplicates" on his w/p's and that would leave an immaterial variance between the GL and STO reported .... He says he has spoken to [redacted] as to such.
I have reached out to [redacted] (left VM) regarding the w/p he had asked me to send........and I have sent that w/p showing the wash between the "legacy 1030" cash accounts and the Conversion GL by GAAP Fund
I have received email from [redacted] whereby he says he tested the "wash" noted above and he says:

> "I just finished going through an analysis of the General Fund similar to what we did previously for some of the smaller funds and Program Services. It compares line by line each business area, fund and GL combination between the two years. "

so I am waiting to hear back from [redacted] to discuss these w/p's...........will keep you posted

---

From: [redacted]
Sent: Monday, November 21, 2016 1:04 PM
To: [redacted]
Cc: [redacted]
Subject: RE: Your Assistance

Seems like we have a misunderstanding. If you will, please reach out to [redacted]. If we need to meet to clarify let's do so. Better to clarify than have a dozen Emails.
Thanks,
[redacted]

From: [redacted]
Sent: Monday, November 21, 2016 1:02 PM
To: [redacted]
Cc: [redacted]
Subject: RE: Your Assistance
Uh......ok?....... It is MY understanding that I have nothing to GIVE CLA other than that which I have already given [redacted] ?........ [redacted], are you of the impression we have anything else to proffer ?

From: [redacted]
Sent: Monday, November 21, 2016 1:00 PM
To: [redacted]
Subject: FW: Your Assistance
FYI.. [redacted] if you will, let us know what happens tomorrow.

From: [redacted]
Sent: Monday, November 21, 2016 11:24 AM
To: [redacted]
Subject: RE: Your Assistance
[redacted]
Thanks. I believe we could defer a meeting today. It is my understanding through [redacted] and CLA that [redacted] is preparing a schedule for delivery to CLA tomorrow. If this works out we may not have to meet unless some other issue arises.
[redacted]

From: [redacted]
Sent: Sunday, November 20, 2016 11:47 PM
To: [redacted]
Cc: [redacted]
Subject: Re: Your Assistance
[redacted]
Happy to check with [redacted] and [redacted] about tomorrow afternoon if you think a meeting will be helpful.
Thanks,
[redacted]

Sent from my iPad

On Nov 18, 2016, at 11:12 AM, [redacted] wrote:

> [redacted],
> Thank you. I understand that the dialogue has been very positive yet there is still a ways to go before CLA will sign off on the cash and investments. In anticipation of their return "onsite" do you think a meeting of our offices would be beneficial? I would limit the group to you and I plus [redacted] and [redacted]. Perhaps one or two others from each if they could contribute. Monday afternoon would work for us if you feel it would be beneficial . Let me know your thoughts.
> Thanks.
> [redacted]
>
> ---
>
> **From:** [redacted]
> **Sent:** Thursday, November 17, 2016 5:53 PM
> **To:** [redacted]
> **Cc:** [redacted]
> **Subject:** RE: Your Assistance

[redacted]

I am not aware of a "resolution timeline" as the parties have been in constant communication. CLA has left the "onsite" office yesterday and I believe they return Monday or Tuesday.

[redacted]ent information to [redacted] early this afternoon and again, they have been communicating. To my knowledge, the good news is there are no questions regarding the total amount of cash and investments reported. Remaining questions from your team are how the information provided by our office will be presented in the CAFR.

We recognize the information provided from our office out of SCEIS is a new format for your staff and we remain committed in assisting your team and CLA as you reach the finish line.

Thanks,

[redacted]

From: [redacted]
Sent: Wednesday, November 16, 2016 5:11 PM
To: [redacted]
Subject: RE: Your Assistance

Of course. I received an update from [redacted] this morning and it is my understanding [redacted] has been in constant communication with both CLA and your staff ([redacted] just came from CLA). Let me check with [redacted] and we can discuss tomorrow.

Thanks,

[redacted]

From: [redacted]
Sent: Wednesday, November 16, 2016 4:21 PM
To: [redacted]
Subject: Your Assistance

[redacted]

As we approach the finish line in the preparation of the FY 2016 CAFR we have met with *Clifton, Larsen, Allen(CLA)* this afternoon as part of our weekly update. The one outstanding issue is the resolution of the cash and investments portion of the CAFR audit. This is the only significant hold up and neither CLA or this office can proceed any further until it is resolved.

The auditors have expressed a need for an STO resolution timeline in order to provide adequate resources to complete the final audit review of cash and investments.

I offer our accounting resources to provide any assistance that might be required.

I appreciate your continued cooperation.

[redacted]
Chief-of-Staff
Office of Comptroller General
State of South Carolina
[redacted]

Exhibit 52

Proviso 98.14 of the FY 2024-2025 Appropriations Act

98.14. (TREAS: Fund Balances & Closing Packages) For the current fiscal year, the Office of the State Treasurer shall provide the Office of the Comptroller General all cash and investment fund balances by aggregation of funds by unique disclosure entity for the purposes of cash reconciliation and annual comprehensive financial report compilation. Further, the Office of the State Treasurer shall fully comply with information requested in the form of closing packages from the Office of the Comptroller General for the same purposes.

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

January 24, 2025

Marcia Adams, Executive Director
Department of Administration
1200 Senate St., Suite 460
Columbia, SC 29201

RE: AlixPartners LLP Meeting

Dear Marcia,

This letter is in reference to the meeting between AlixPartners LLP and Treasurer's office staff and consultants, which was scheduled to occur at 2:00 p.m. today, that you have decided to reschedule.

The purpose of this meeting was to allow Treasurer's office staff and consultants the opportunity to gain clarity from AlixPartners representatives regarding their *State Treasury Forensic Accounting Review Final Report* ("AP Report") issued on January 15, 2025.

As you will recall, the AP Report was not provided to our office until 2:00 p.m. on January 15, 2024, *after* we had been given a preliminary summary of the AP Report in a meeting with AlixPartners.

On January 16, 2025, within one business day of having received the report, Deputy State Treasurer Melissa Simmons contacted you via e-mail (attached) requesting clarification from AlixPartners regarding the AP Report. Thereafter, on January 22, 2025, I wrote a letter to Susan Markel of AlixPartners, copying you, (also attached) further requesting clarity and providing feedback regarding two of the AP Report's recommendations.

It was our hope and understanding that the meeting scheduled for today would allow our staff and consultants to gain a better understanding regarding the AP Report. Of particular importance, we had arranged for Martin Taylor, who was personally involved in the SCEIS conversion on behalf of the Treasurer's office, to attend the meeting and provide his first-hand insight.

However, you informed me via text message that you will not allow the meeting with AlixPartners to go forward unless the Treasurer's office attendance is limited to Treasurer Loftis, Deputy State Treasurer Melissa Simmons, and myself, and in a follow-up e-mail you stated your belief that "it is not appropriate to include the forensic accountant working for FTI Consulting, a firm associated with the STO."

The AP Report has been made public, and AlixPartners has already testified twice in public hearings on their findings. In our view, there should be nothing sensitive or confidential to justify the limited attendance you have communicated, or the exclusion of any of our outside consultants.

In conclusion, we appreciate your proposal to reschedule the meeting to Monday, January 27, 2025 from 2-4 p.m., but we consider Mr. Taylor's attendance to be critical, and as you have already been informed, his current teaching schedule does not permit this timing.

If you and AlixPartners are amenable, I propose that we meet at 5 p.m. on Monday, January 27, 2025, and I respectfully request that you reconsider any limitations you intended to place on attendance.

Sincerely,

Clarissa T. Adams

Clarissa T. Adams
Chief of Staff

From: Simmons, Melissa
Sent: Thursday, January 16, 2025 5:12 PM
To: Adams, Marcia <Marcia.Adams@admin.sc.gov>
Cc: Breazeale, Perry <Perry.Breazeale@sto.sc.gov>; Royal, Caroline <Caroline.Royal@sto.sc.gov>; Evans, Marissa <Marissa.Evans@sto.sc.gov>; Miller, Leann <Leann.Miller@sto.sc.gov>; Adams, Clarissa <Clarissa.Adams@sto.sc.gov>
Subject: RE: Alix Partners

Marcia,
STO is beginning our review and understanding of the information in the Alix Partners report provided to STO by DOA on January 15, 2025, at the 11:00 joint meeting with Alix Partners, STO, CGO, OSA and DOA.
STO will have additional questions and areas that we will need to understand so that we can work together to assist in the recommendations in this next week. We do have a couple of questions based upon our immediate review.

We have the following question for Alix Partners:

1. We are asking for clarification to understand the position in their presentation to HWM constitutional Subcommittee that indicated the 1.6 billion did not exist? If the 1.6 billion does not exist, how is the 1.8 billion dollars in SCEIS general ledger fund 30350093 necessary to "correct" the 2022 ACFR? The General Ledger bank balances in SCEIS fund 30350993 are necessary to reduce "real cash" and the overstatement on the ACFR to properly restate the ACFR.

2. We understand that 5.9 billion was double counting of appropriation that was reflected in SCEIS GL fund 10019000 and the 1.6 billion (1.2 billion and an additional 300 million) was also appropriation that was posted as a series of entries from SCEIS fund 10019000 to 30350993. Is that correct?

3. Could Alix Partners help clarify the statement that General Ledger bank balances in fund 30350993 were not invested? The bank general ledger balances in fund 30350993 are a part of the total STO-custodied bank balances. STO pooled cash management and investments were not a part of the AP review with our office. STO could assist with concerns or questions to clarify our investment policy and practices.

Would you have a few minutes to discuss a couple of additional questions(not included here) on Friday January 17th?

Thank you.

Melissa Davis Simmons, CPA | Deputy State Treasurer
South Carolina Treasurer's Office
1200 Senate Street, Suite 214
Wade Hampton Office Building
Columbia, SC 29201
803-734-2662 melissa.simmons@sto.sc.gov

THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

January 22, 2025

Ms. Susan Markel
Managing Director
AlixPartners LLP
2099 Pennsylvania Ave NW
Suite 300
Washington, SC 20006

Dear Ms. Markel,

We are in receipt of the **State Treasury Forensic Accounting Review** submitted by AlixPartners LLP, in response to South Carolina Proviso 93.19 of the 2024 Appropriations Act. In response to this review, our office has the following feedback:

1. Recommendation #4 states **Develop comprehensive policies and procedures outlining the roles and responsibilities of the STO which must require that the STO report (and independently confirm, as needed) cash and investments in its custody by agency and fund at least annually.**

   Does this recommendation differ from how cash was reported on the FY24 Cash and Investments Reporting Package? If not, our office will continue to report by agency and fund as was done for FY24; however, new reports will need to be developed to refine this reporting. Business Requirement Documents (BRD) will be submitted to SCEIS to aid in this development.

   Please define what balances would need to be confirmed versus reported. A BRD was submitted March 29, 2024, to SCEIS to facilitate individual agency cash confirmations (if necessary), however it is not clear if this is a requirement of the recommendation.

   It was previously agreed that investments at the General Fund level would remain rolled up. If this is no longer the case, a BRD will be submitted to SCEIS for creation of a report that will allocate General Fund Portfolio investments to the Fund and Business Area level.

THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

2. Recommendation #17 states **The CGO should record two sets of entries to SCEIS to properly reflect the $1.8 billion cash balance: (1) reverse the $1.6 billion incorrectly-converted ACFR Business Area balances as proposed by the CGO; and (2) record an entry to SCEIS for $245 million as a debit to account 2400600002 (Due to Other Funds – Equity in Pooled Cash) in Fund 30350993 and a credit to account 7000001000 (Prior Period Adj – CAFR) (i.e., the restatement account) within the ACFR General Fund.**

   When and how did the ACFR business area balances get into STARS and/or SCEIS and what was the impact to cash at that time? Please provide STO the original STARS and/or SCEIS entry that created cash in the ACFR business areas and was then converted to SCEIS Fund 30350993. This would help us understand the $1.6 billion Alix Partners' recommended correction in the general ledger. If this is in SharePoint, could you direct us to the name of the workbook, worksheet and row number? We have reviewed SharePoint, and we want to be sure we are looking at the proper original adjustment. Please include entry dates and document numbers as well.

   Based on Alix Partners' confidence in recommendation #17, our office is hopeful that the Office of the Comptroller General (CGO) will post these journal entries as soon as possible in SCEIS.

It is imperative that the STO receive responses to the above inquiries as soon as possible. We thank you in advance for your assistance. Our office stands ready to comply with the recommendations set forth in this report and will obtain the necessary resources to implement in a timely and effective manner.

Sincerely,

Clarissa T. Adams

Clarissa T. Adams
Chief of Staff

Cc: Marcia Adams

Wade Hampton Building, 1200 Senate Street
Columbia, SC 29201

(803) 734-2101 Fax (803) 734-2690
www.treasurer.sc.gov

admin
SOUTH CAROLINA
DEPARTMENT of ADMINISTRATION

Henry McMaster, *Governor*
Marcia S. Adams, *Executive Director*

OFFICE of THE EXECUTIVE DIRECTOR

January 26, 2025

Clarissa Adams, Chief of Staff
State Treasurer's Office
Wade Hampton Building
1200 Senate Street
Columbia, S.C. 29201

Dear Clarissa,

As you relate in your letter dated January 24, 2025, a Teams meeting among representatives of AlixPartners, the State Treasurer's Office (STO), the Attorney General's Office (AGO), and the Department of Administration (Admin) was scheduled for 2 p.m. Friday, January 24, 2025. The purpose of the meeting was for AlixPartners to walk the STO through their State Treasury Forensic Accounting Review Final Report's (Report) findings and recommendations related to 1) the STO's establishing policies and procedures for reporting cash and investments in its custody by agency and fund, and 2) materials surrounding the incorrect conversion of non-cash Annual Comprehensive Financial Report (ACFR) Business Area entries reflecting a balance of approximately $1.6 billion, which had the effect of erroneously showing that non-cash balance as "real cash" in general ledger accounts and the subsequent treatment of that balance in the 2022 ACFR Restatement. I rightfully postponed the meeting upon receiving, shortly before the meeting was to begin, a system notification that the STO had forwarded my meeting invitation to an outside forensic accountant working for FTI Consulting. I have rescheduled the meeting for Monday, January 27, 2025, from 2-4 p.m. with the understanding that participants will include only relevant members of STO staff, AlixPartners, the AGO, and Admin.

The STO's inclusion of an outside forensic accountant who, to Admin's knowledge, has had absolutely no involvement with the STO's activities related to the requirements of Proviso 93.19 or the Working Group established by Governor McMaster was inappropriate. Your assertion that since the Report has been made public and AlixPartners has testified in public hearings you should, in essence, be entitled to include whomever you choose in the group's discussion is misguided. The topics to be addressed will clearly relate to the working materials used by AlixPartners to reach the conclusions and make the recommendations set out in the Report. While the Report itself is public, Proviso 93.19 expressly provides that such working materials are exempt from public disclosure. Additionally, as is only appropriate and consistent with Proviso 93.19, the Working Group has operated under the direction of the AGO in such a manner to maintain necessary legal privileges attached to communications among members of the Working Group and their ultimate work product.

Further, the STO's involvement of its outside forensic accountant in a meeting with AlixPartners at this stage is curious. The engagement by the STO of a forensic accountant in the years after the completion of the banking conversion but prior to the enactment of Proviso 93.19 may have proven effective in resolving or expediting the appropriate resolution of the discrepancy. The inclusion of a forensic accountant engaged by the STO at this point seems to be counterproductive to the direction given by Proviso 93.19 and to the State's implementation of the Report's recommendations. Consequently, Admin cannot allow the STO's third-party consultant to participate in the meeting with AlixPartners.

Also, in your letter you discuss Admin's release of the report. As you know, Proviso 93.19 directed a forensic accounting review of several aspects of the State Treasury and specifically directed that the report resulting from that review be provided by Admin to the Governor, President of the Senate, Chairman of the Senate Finance Committee, Speaker of the House of Representatives, and Chairman of the House Ways and Means Committee. After Admin provided the report to the designated State leaders, but prior to its public release, Admin and Alix Partners convened a meeting with members of the Working Group, including the STO, to provide an overview of the Report's findings and recommendations. Prior to its public release, Admin also provided the full Report to members of the Working Group, including the STO. Further, regarding your questions about the Report's conclusions surrounding the $1.6 billion, the STO, since July of 2024, has been aware of the tests (which AlixPartners verified), that demonstrated that approximately $1.6 billion of the $1.8 billion in question did not represent real cash, as that information was made available to the entire Working Group through the SharePoint site that Admin established. The STO did not provide an alternative theory to AlixPartners or to Admin during the process, and the conclusion in the Report concerning the $1.6 billion should not be a surprise.

Finally, you seem to indicate that AlixPartners and Admin have not been responsive to questions the STO has about the report. Just to be clear, I met with Melissa Simmons after hours in my office January 16, 2025, to discuss her questions. Additionally, as I have informed you, we have worked with AlixPartners to address the STO's questions and were/are prepared to discuss with you in the appropriate setting.

Unfortunately, our schedules do not allow for the meeting time to be moved as you requested. However, as indicated in my email to you this past Friday, AlixPartners, AGO, and Admin are available to meet Monday, January 27, 2025, from 2-4 p.m. with relevant members of the STO to address your questions. Please let me know who from the STO will be in attendance, and Admin will send them invitations to the Teams meeting.

Sincerely,

Marcia S. Adams

Marcia S. Adams
Executive Director

Exhibit 55

Jessica Wigington

From:	Amanda Adler
Sent:	Tuesday, March 18, 2025 10:38 AM
To:	Jessica Wigington
Subject:	FW: Meeting
Attachments:	St. Treasurer Meeting Request 1 24 25.pdf

From: Quentin Hawkins [redacted]>
Sent: Monday, January 27, 2025 10:14 AM
To: Amanda Adler <AmandaAdler@scsenate.gov>
Cc: Jessica Wigington <JessicaWigington@scsenate.gov>
Subject: FW: Meeting

From: Adams, Marcia <[redacted]>
Date: Friday, January 24, 2025 at 7:05 PM
To: [redacted] [redacted], Quentin Hawkins <[redacted]>
Subject: FW: Meeting

[redacted] and Quentin,

As you are aware, I postponed a meeting with the STO, AlixPartners, and Admin today because shortly before the meeting, I received notification that the STO forwarded the meeting to a [redacted], [redacted], who is a forensic accountant working with the STO. In addition, the STO forwarded the meeting to [redacted], a former STO employee who was interviewed by AlixPartners as part of its investigation. While inappropriate, we would not have postponed the meeting because of the STO including [redacted]. However, it is totally improper to include a forensic accountant hired by the STO in a meeting with AlixPartners. As a result, I sent [redacted] a text informing her that it was inappropriate to have former employees and the forensic accountant hired by STO on the call with AlixPartners and that we would postpone the meeting. I stated that AlixPartners would be happy to present information concerning the report to the Treasurer, to [redacted], and to [redacted] in the STO office. After I had postponed the meeting, I received a text from [redacted] stating that they would not include [redacted], but they would include [redacted] to "communicate exactly what he is asking for with AlixPartners present". She also asked me to call her.

I sent her the email below rescheduling the meeting to Monday, January 27 from 2-4pm and asked her to send me a list of people the STO would like to attend. I received the attached letter from her in response. Her letter in part states that Admin has received questions from the STO. That is accurate, and AlixPartners was planning to respond to those questions and any others in the meeting with the STO today. As a note, I did speak to [redacted] from the STO in my office on Thursday, January 16 and attempted to respond to her questions/concerns.

[redacted]'s letter also asks Admin to consider not placing any limitations on the inclusion of STO consultants and to move the meeting to 5 pm to accommodate [redacted] schedule. Admin still offers an invitation for a discussion with the AlixPartners and the STO on Monday, January 27 from 2-4pm. However, we will not participate in a meeting that includes a forensic accountant who is part of a firm hired by the STO.

AlixPartners has spent 6 months working on this project and have presented their findings and recommendations to the House and Senate committees. The entries associated with the $1.6B that is not cash have been available to the STO since the end of July 2024. The STO introducing a new forensic accountant at this stage of the process seems to have no benefit for the State of South Carolina.

Please let me know if you have questions or would like to discuss further.

Thanks,
Marcia

From: [redacted] <[redacted]
Sent: Friday, January 24, 2025 5:42 PM
To: Adams, Marcia <[redacted]
Cc: [redacted] Loftis, Curtis [redacted]; [redacted]
<[redacted]
Subject: RE: Meeting

[redacted] | **Chief of Staff**
South Carolina Treasurer's Office
1200 Senate Street Suite 214
[redacted]

From: Adams, Marcia <[redacted]>
Sent: Friday, January 24, 2025 4:12 PM
To: [redacted]
Cc: [redacted]
Subject: Meeting

[redacted]
AlixPartners is available to meet from 2-4 pm on Monday. At this meeting, AP will explain the $1.8B and walk through information included in the report. If you would like to meet, please send me a list of people you would like to attend, and I will send them an invite. As I said in my text, it is not appropriate to include the forensic accountant working for FTI Consulting, a firm associated with the STO. We will include the Attorney General's Office in the meeting as we consider this conversation to be part of the Working Group.

Thanks,
Marcia

Marcia S. Adams
Executive Director
South Carolina Department of Administration

Exhibit 56


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                 CASH STATUS REPORT
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    THIS CONTROL REPORT, PREPARED FORM THE CASH CONTROL
FILE, IS PRODUCED FOR THE   STATE TREASURERS OFFICE  . IT
MUST BE INDIVIDUALLY CONTROLLED. THE PRIMARY SORT OF THE
REPORT IS BY AGENCY, FUND, FUND GROUP AND FUND DETAIL. THE
REPORT GIVES A DETAIL LINE FOR EACH FUND DETAIL WITHIN
FUND GROUP. THE DETAIL LINE CONTAINS;
            .      FUND DETAIL CODE
            .      FUND DETAIL TITLE
            .      BEGINNING BALANCE
            .      CASH RECEIPTS
            .      NET TRANSFERS
            .      CASH DISBURSEMENTS
            .      ENDING BALANCE; AND
            .      OVER DRAFT DATE (IF APPLICABLE)
  SUBTOTAL LINES SIMILAR TO THE ABOVE DETAIL LINE ARE
CREATED FOR EACH FUND GROUP WITHIN FUND, EACH FUND WITHIN
AGENCY, AND FOR EACH AGENCY, ALSO THERE IS A RECAP
SHOWING THE GENERAL DEPOSIT TOTAL, RESTRICTED ACCOUNT
TOTAL AND GRAND TOTAL FOR CASH.
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Full 172 page report can be made available upon request

South Carolina State Housing Finance and Development Authority
300-C Outlet Pointe Blvd., Columbia, South Carolina 29210
Telephone: 803.896.9001 TTY: 803.896.8831
SCHousing.com

C. Todd Latiff
Chairman

Richard A. Hutto
Executive Director

September 10, 2024

Mr. Trey Walker
Chief of Staff, Office of the Governor
State House
1100 Gervais Street
Columbia, SC 29201

Mr. Quentin Hawkins
Chief of Staff, Senate Finance Committee
South Carolina Legislative Services Agency
223 Blatt Building, 1105 Pendleton Street
Columbia, SC 29201

Ms. Meredith Ross
Chief of Staff, House Ways and Means
South Carolina Legislative Services Agency
223 Blatt Building, 1105 Pendleton Street
Columbia, SC 29201

RE: South Carolina Emergency Housing Assistance Funds

Dear Mr. Walker, Mr. Hawkins, and Ms. Ross,

As you may be aware, the American Rescue Plan Act of 2021 authorized establishment of the Homeowner Assistance Fund to support homeowners facing financial hardship associated with COVID-19, and directed the U.S. Department of the Treasury to allocate and make payments to States to be used for assistance with mortgage payments, homeowner's insurance, utility payments, and other specified purposes. South Carolina's allocated share of this funding was $144.65 million, and all amounts received under this program have been exhausted.

In addition to the foregoing, ARPA and the Consolidated Appropriations Act of 2021 authorized the Emergency Rental Assistance Program to support housing stability for eligible renters throughout the COVID-19 pandemic, including as applicable covering costs for affordable rental housing and eviction prevention activities. South Carolina's allocated share of this funding was $518.04 million.

Grantees of these programs were and remain subject to compliance with certain requirements, including the authorizing program statute and all other applicable federal statutes, regulations, executive orders, and Treasury guidance.

The State recorded this funding into two funds segregated by program; however, earnings on the funds were directed to the State's General Fund.

In July 2024, the U.S. Department of the Treasury instructed the State of South Carolina to provide an accounting of interest earned on these funds, which was imputed through June 30, 2024, by the South Carolina Office of State Treasurer at a total of approximately $5.929 million, of which amount $3.686 million would have been earned on amounts held in the Emergency Rental Assistance Fund, and $2.244 million would have been earned on amounts held in the Housing Assistance Fund.

These amounts were subsequently communicated to the U.S. Department of the Treasury, which thereafter advised that any earnings in excess of $500 per year must be rebated pursuant to 2 CFR 200.305(b)(8) and (9) of the Treasury regulations, which provide among other things that a "non-Federal entity must maintain advance payments of Federal awards in interest-bearing accounts [2 CFR 200.305(b)(8)]" and "Interest earned amounts up to $500 per year may be retained by the non-Federal entity for administrative expense. Any additional interest earned on Federal advance payments deposited in interest-bearing accounts must be remitted annually to the Department of Health and Human Services [2 CFR 200.305(b)(9)]."

As a condition of transferring the imputed earnings now held in the State's General Fund to the program fund for remittance in accordance with the Federal Regulations, the Office of State Treasurer has taken the position that the transfer must be approved by an external source, and has advised SC Housing to seek guidance from your offices on where such approval lies. SC Housing believes that the Federal Regulations are clear and unambiguous, without necessity for further approval or intervention since the funding was conditioned on and subject to U.S. Treasury regulations applicable to all advance payments of Federal awards.

Notwithstanding, SC Housing seeks your guidance to satisfy the conditions prescribed by the Office of State Treasurer, so that the State can fulfill its obligations in accordance with the Federal Regulations.

Thank you for assisting us in resolving this important and time-sensitive matter. Please let me know if you have any questions.

Yours very truly,

Richard Hutto, CPA
Executive Director

Jessica Wigington

From: [redacted]
Sent: Thursday, February 27, 2025 12:13 PM
To: Jessica Wigington
Cc: [redacted]; [redacted]
Subject: RE: [External] SC Housing Earned Interest

Absolutely.

Thank you,

[redacted]
Chief of Staff
300-C Outlet Pointe Blvd. I Columbia, SC 29210
[redacted]

SC HOUSING
Financing Housing. Building SC.

From: Jessica Wigington <JessicaWigington@scsenate.gov>
Sent: Thursday, February 27, 2025 11:59 AM
To: [redacted]
Cc: [redacted]
Subject: RE: [External] SC Housing Earned Interest

Good afternoon, [redacted]

Thank you for providing this update. We have a Constitutional Sub. upon adjournment. Is it okay if I give you a ring afterwards?

From: [redacted]>
Sent: Thursday, February 27, 2025 10:58 AM
To: Jessica Wigington <JessicaWigington@scsenate.gov>
Cc: [redacted]
Subject: FW: SC Housing Earned Interest
Importance: High

Jessa,

We received the email below this morning from the US Treasury noting the issuance of a Notice of Non-Compliance related to HAF interest earnings. These are the Federal funds that the Treasurer refuses to move from the State General Fund (where it was incorrectly directed by the STO) to the HAF program fund so that it is available to SC Housing for rebate to the US Treasury.

The amount that needs to be moved from the General Fund is $2,243,714.45 (as reported by STO as of June 30, 2024) plus accrued interest on the June 30, 2024 amount through the date that the transfer is made.

Please feel free to call my mobile [redacted]

Thank you,

[redacted]
Chief of Staff
300-C Outlet Pointe Blvd. I Columbia, SC 29210
[redacted]

SC HOUSING
Financing Housing. Building SC.

From: [redacted]
Sent: Thursday, February 27, 2025 9:34 AM
To: Hollo[redacted]
Cc: [redacted]
Subject: [External] SC Housing Earned Interest

Good morning,

This email is in regard to the outstanding HAF non-compliance item of remitting earned interest in excess of $500.

As you have made aware to me this issue is still be sorted out, unfortunately we are much past the deadline to do so and Treasury is preparing to issue a Notice of Non-Compliance, as you have not submitted any excess earned interest as required since the start of your HAF program.

At this point, Treasury will have to designate you as non-compliant if the earned interest is not returned as required by 2 CFR 200.

Please provide an update as soon as possible on the matter.

Thank you.

[redacted]
Compliance Analyst
Office of Capital Access
U.S. Department of the Treasury
[redacted]

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