

Office of the State Inspector General

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Limited Investigation of the South Carolina Office of the State Treasurer

May 2026

I. Introduction

The South Carolina Office of the State Inspector General (SCOIG) was established by the South Carolina General Assembly in 2012 (Act No. 105) for the purpose of investigating and addressing allegations of fraud, waste, abuse, mismanagement, and misconduct in agencies, specifically the executive branch of state government. The SCOIG's authorities are found in South Carolina Code of Laws, [§1-6-10 et seq.](#)

By letter dated 4/30/2025, the chairman of the Constitutional Subcommittee of the South Carolina Senate Finance Committee requested that the SCOIG conduct a thorough investigation of the Office of the State Treasurer for South Carolina (STO) to determine the existence of fraud, waste, abuse, mismanagement, misconduct, violations of state or federal law, and wrongdoing.

The purpose of this report is to provide a road map for the South Carolina legislature, STO leadership and other executive branch agencies to address and improve processes in oversight and accountability for the state's appropriations and funds entrusted to these leaders by the citizens of South Carolina. This report is not intended to address every individual complaint or issue conveyed to the SCOIG.

The SCOIG extends its appreciation to the State Treasurer and STO staff (current and former), the Comptroller General and Office of the Comptroller General staff, and the South Carolina Department of Administration for their cooperation and intentionality of seeking solutions to the issues identified by the SCOIG. In addition, the SCOIG is appreciative of the people who initiated confidential contact with the SCOIG.

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[OFFICE OF THE STATE TREASURER RESPONSE TO THE REPORT](#)

II. Background

A. Predicate

By letter dated 4/30/2025, the chairman of the Constitutional Subcommittee of the South Carolina Senate Finance Committee requested that the SCOIG investigate the Office of the State Treasurer for South Carolina (STO) to determine the existence of fraud, waste, abuse, mismanagement, misconduct, violations of state or federal law, and wrongdoing.

Prior to the Senate Finance Committee's request for the investigation, the State Treasurer met individually with the State Inspector General on 4/1/2025 and requested an investigation into the STO's operations.

B. Scope and Objectives

The initial scope of the investigation focused on the following areas of STO operations:

- The potential waste of state resources by the STO in “carrying out public information campaigns, utilizing crisis communication services, and engaging outside experts...” in response to the Senate Finance Committee's investigative report,
- The STO's use of “other funds” rather than general funds appropriated by the General Assembly,
- The statutory requirements for STO reporting disclosures to the General Assembly and the public, and
- The reconciliation process of accounts, funds, and investments under the custody and control of the STO.

During the investigation, the scope expanded to include a review of the Master Lease Program and the Unclaimed Property Program.

C. Methodology

The SCOIG reviewed relevant documentation comprised of STO records, Office of the Comptroller General (CGO) records, South Carolina Enterprise Information System (SCEIS) records/transactions, South Carolina Department of Administration (SCDOA) records, South Carolina Department of Revenue (SCDOR) records, and vendor records. In addition, the SCOIG reviewed applicable state and federal laws, regulations, and policies.

The SCOIG met with current and former STO staff and administrators, members of the public, subject matter experts, including the Comptroller General (CG) and CGO staff, the SCDOA, SCEIS team, and people who initiated confidential contact with the SCOIG.

Reviews and investigations by the SCOIG are conducted in accordance with professional standards set forth by the Association of Inspectors General's *Principles and Standards for Offices of Inspector General*, often referred to as the “*Green Book*.” This investigation used the preponderance of evidence standard.

D. Office of the State Treasurer

Article VI, Section 7 of the [Constitution of the State of South Carolina](#) establishes the Office of the State Treasurer as an elected constitutional position with a four-year term coterminous with the Governor's. The treasurer's duties are defined via Article VI, Section 7 as those “*prescribed by law*.” Additional provisions are cited within Article X (Finance, Taxation, and Bonded Debt) related to the Treasurer's role in fiscal matters such as investments, fund custody, or related procedures, e.g., endowment funds held and invested by the State

Treasurer as noted in implementing language for specific sections like those governing state funds or debt-related mechanisms.

The S.C. Code of Laws, Chapter 5 of Title 11, houses the bulk of the STO's statutory authority and duties.

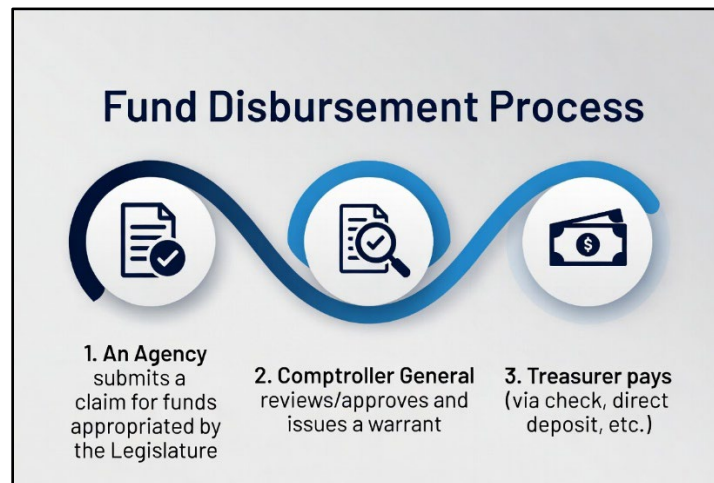
The STO's relationship with the CGO is that of checks and balances, see generally [S.C. Code § 11-3-100](#):

"...[CGO] constituting a complete check upon that office [STO]." Similarly, per [S.C. Code § 11-3-130](#), with limited exceptions, no payments can be made by the STO without "warrants drawn by the Comptroller General, and the vouchers for the same must be filed in his office."

The STO lacks the ability to unilaterally expend monies. Per S.C. Code § 11-3-170:

"After the approval of the annual appropriation act by the Governor, monies may be obtained from the State Treasury only by drawing vouchers upon the Comptroller General."

An agency submits a claim for funds appropriated by the legislature → Comptroller General reviews/approves and issues a warrant → Treasurer pays (via check, direct deposit, etc.).



This workflow exists with certain substitutions for expenditures relating to state institutions of higher learning, counties, etc. See also, "daily reports" required from STO to CGO per S.C. Code § 11-5-170 for *"...of all monies paid out"* by the STO.

In the extreme scenario when an appropriation is unclear, the STO lacks discretion. S.C Code § 11-5-160 states:

"...it shall be paid under the direction of the Governor and the Attorney General in such manner as will safeguard the interests of the State."

The STO's operations are primarily funded in two (2) ways: General Fund appropriations and Other Funds authorization that allow the STO to assess fees and retain these funds to offset the cost of certain STO functions. As explained on the STO's website <https://treasurer.sc.gov/about-us/our-responsibilities/>:

"The Office of the State Treasurer serves as the bank for South Carolina state government and is responsible for the safety and security of the Palmetto State's money, now and into the future."

An overview of the divisions and responsibilities within the STO are:

- **Administration:** The Administration Division is responsible for administrative support to the State Treasurer. That includes budget, planning and accounting, human resources management, payroll, procurement and facilities management.
- **Banking & Investment Management:** The Banking & Investment Management Division manages specialized banking services for State agencies and universities and performs daily cash-management functions to maximize bank-available operating funds for investment. Staff invests and manages state and local government funds in accordance with applicable state laws to preserve capital, maintain liquidity and obtain the best return within the appropriate risk parameters.
- **Communications:** The Communications Division provides public relations and marketing support to promote greater awareness of the State Treasurer's Office programs and operations.
- **Debt Management:** The Debt Management Division is responsible for managing the debt for the State, its agencies, institutions and authorities, optimizing the debt structure and ensuring timely repayment of debt when it is due. Staff also manage the State's Master Lease Program and the Charter School Revolving Loan Fund.
- **Information Technology:** The Information Technology Division is responsible for the development, implementation, support and security of the agency's systems, applications, data, networks and hardware.
- **Legal:** The Legal Division provides counsel and advice to the State Treasurer, reviews all contracts for the agency and processes Freedom of Information Act requests.
- **Programs:** The Programs Division oversees the Future Scholar 529 College Savings Plan, the SC Tuition Prepayment Program, the Palmetto ABLE Savings Program and the state's Unclaimed Property Program.
- **Treasury Management:** The Treasury Management Division is responsible for managing statewide cash deposit and disbursement accounting. Duties include payroll payment processing and other disbursements on behalf of the state, administration of Aid to Subdivisions, collection and remittance of court fines, and reconciliation of bank accounts.

III. Master Lease Program

The Master Lease Program (MLP) is established in state law pursuant to [S.C. Code § 1-1-1020](#) and overseen by the STO:

“Purchase of equipment by Office of State Treasurer for lease or resale to entities of state government; funding.

(A) The Office of State Treasurer is authorized to provide financing arrangements under the master lease program on behalf of boards, commissions, institutions, and agencies of state government for the purpose of renting, leasing, or purchasing office equipment, telecommunications equipment, energy conservation equipment, medical equipment, data processing equipment, and related software in accordance with procurement statutes and regulations.”

[S.C. Code § 1-1-1020\(B\)](#) further provides that ***“The Office of State Treasurer shall negotiate the terms of any financing arrangement and prescribe the procedures necessary to administer this program.”***

The SCOIG selected the MLP transaction(s) related to the South Carolina State Election Commission (SEC) regarding the acquisition of certain voting machines and related software/services. This transaction was identified as a subsequent event in the [2024 South Carolina Annual Comprehensive Financial Report](#) (ACFR), p. 191:

“On September 30, 2024, the South Carolina Elections Commission, reported within the General Fund, issued a note for \$28.846 million. Additionally, on January 31, 2025, the South Carolina Elections Commission, issued a note for \$2.018 million.”

A. STO Conducted No Due Diligence of the SEC’s Ability to Repay the Loan

The STO failed to recognize that the SEC was unable to make the first loan payment on the combined MLP loans of \$30.8 million. While the legislature appropriated funds to the SEC, the funds were not set for disbursement until February 2026 – four (4) months after the first payment was due. The SEC did not have sufficient funds on hand to make the payment without a September 2025 disbursement of the appropriations.

B. STO Arranged the MLP Financing Terms

The terms of the MLP agreements with agencies (as lessees) and the lender were arranged by the STO and not subject to further negotiation. This was explained in the opening paperwork from the STO’s program counsel (formally identified as a party to the MLP contracts as the "Acquisition Fund Custodian").

Our role as Program Counsel is limited to preparing the Lease Documents, interfacing with the Lessor and you to satisfy closing conditions and rendering a tax opinion. In preparing the Lease Documents, we will elicit certain information from you relating to the Equipment. Please be advised that the Lease Documents are standard documents that have been pre-approved by the Office and the Lessor and are not open to significant negotiation. We will ask your General Counsel to review the Lease Documents on your behalf and to render a standard Lessee’s counsel opinion.

Also, please be further advised, that as Program Counsel, we do not represent the Lessor or you, as Lessee, under the Lease Program.

(Alan M. Lipsitz letter to SEC dated 9/5/24, p.1).

Ultimately, the STO selected TD Equipment Finance, Inc. [TD Bank] as the lender to facilitate the financing for the SEC’s acquisition of the state’s voting machines.¹²

The STO’s MLP procurement process began on or about 8/29/2024, when the STO emailed various banks seeking quotes/bids to finance the SEC’s acquisition of the voting equipment through the MLP. The SCOIG reviewed records that indicated that the STO received bids “from BOA, TDEF, Truist, US Bank, and Wells Fargo.”³ The SCOIG reviewed the STO’s “Statement of the State Treasurer’s Bank Deposits” for the fiscal quarters during this MLP process and determined the five banks that responded to the STO’s RFP collectively held on deposit more than \$1.87 billion in state funds at the end of 2024. (See Table 1 below)

Table 1

STO Cash Deposits	QE 6/30/24	QE 9/30/24	QE 12/31/24
BOA	\$ 954,165,024	\$ 1,246,038,427	\$ 1,298,205,753
TD Bank	\$ 19,461,607	\$ 11,353,469	\$ 29,726,311
Truist	\$ 53,873	\$ 544,130	\$ 2,243,705
US Bank			
Wells Fargo	\$ 887,877,711	\$ 314,342,162	\$ 542,599,679
TOTALS	\$ 1,861,558,215	\$ 1,572,278,188	\$ 1,872,775,448

¹ “TD Equipment Finance, Inc. (“TDEF”) is a wholly owned subsidiary of TD Bank, N.A.” <https://www.td.com/us/en/commercial-banking/lending-solutions/equipment-finance>

² The SCOIG notes that the law firm used by the STO for these MLP transactions (between the SEC and TD Bank) appears to have provided services related to TD Bank:

“Representative Matters as Liquidity Provider’s Counsel

- \$50,000,000 Standby Liquidity Support Agreement between Duke University and TD Bank, N.A. (January 23, 2020)
- \$100,000,000 Standby Liquidity Support Agreement by the Board of Governors of the University of North Carolina (on behalf of The University of North Carolina at Chapel Hill) with TD Bank, N.A. (September 18, 2019)


Representative Matters as Lender’s Counsel

- \$8,537,000 Installment Financing Contract between TD Bank, N.A. and the Town of Harrisburg, North Carolina (January 14, 2021)”

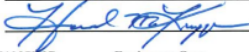
<https://www.maynardnexsen.com/professionals-stephen-l-cordell#ViewAll>

³ The SCOIG was informed the MLP financing of the sales tax portion was assigned to TD Bank without a second RFP.

The SEC's first MLP financing request to the STO was dated 8/27/2024 for \$28,846,199. A second SEC MLP financing request to the STO was dated 12/17/2024 for \$2,017,930.92.


**State of South Carolina
Office of State Treasurer**

**Master Lease Program
Financing Request**


AGENCY NAME: State Election Commission
 ADDRESS: 1122 Lady Street, Suite 500
Columbia, SC 29201
 AGENCY CONTACT: Howard Knapp TITLE: Executive Director
 CONTACT PHONE #: (803) 734-4139 FAX #: _____
 CONTACT SIGNATURE:  DATE: August 27, 2024

AMOUNT OF FINANCING:	Equipment Cost	\$ <u>28,831,199.00</u>
	Plus Legal Fees and Transaction Costs	<u>15,000.00</u>
	Less Down payment/trade in	(_____)
	Net Amount to be Financed	\$ <u>28,846,199.00</u>

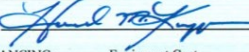
FINANCING TERM REQUESTED (3, 4, 5, 7 or 10 Yrs) 3 PAYMENT INTERVAL (annual, semi-annual, quarterly, monthly) annual
 DATE FUNDS NEEDED: Oct 1, 2024 (if funds will be drawn over time, please attach anticipated draw schedule)
 DOES THE AGENCY PLAN TO PAY FOR THE EQUIPMENT AND SEEK A REIMBURSEMENT FROM FINANCING? No
 IS INTERIM OR OTHER DEBT BEING REFUNDED? No IF YES, EXPLAIN: _____

EQUIPMENT DESCRIPTION, ESSENTIAL USE, NEED FOR EQUIPMENT, EXPECTED USEFUL LIFE AND OTHER PERTINENT INFORMATION. A COPY OF THE VENDOR'S QUOTE, PROPOSAL OR INVOICE INCLUDING A LIST OF THE EQUIPMENT, EQUIPMENT COST, AND ANY OTHER DOCUMENTATION PERTINENT TO THE TRANSACTION MUST ACCOMPANY THIS REQUEST.

Equipment description: DS300 polling place scanners and tabulators, ExpressVote Ballot Marking Devices, DS950 high-speed scanners and tabulators, and pollbook hardware. Essential use: Equipment will be used to conduct elections by county voter registration and election offices across the state. All 46 counties will receive equipment. Need for equipment: Equipment is needed to meet the demands of county voter registration and election offices conducting elections. Expected useful life of equipment: 5 years. Additional information and vendor quote attached.


**State of South Carolina
Office of State Treasurer**

**Master Lease Program
Financing Request**

AGENCY NAME: State Election Commission
 ADDRESS: 1122 Lady Street, Suite 500
Columbia, SC 29201
 AGENCY CONTACT: Howard Knapp TITLE: Executive Director
 CONTACT PHONE #: (803) 734-4139 FAX #: _____
 CONTACT SIGNATURE:  DATE: December 17, 2024


AMOUNT OF FINANCING:	Equipment Cost	\$ <u>2,010,430.92</u>
	Plus Legal Fees and Transaction Costs	<u>7,500.00</u>
	Less Down payment/trade in	(_____)
	Net Amount to be Financed	\$ <u>\$2,017,930.92</u>

FINANCING TERM REQUESTED (3, 4, 5, 7 or 10 Yrs) 3 PAYMENT INTERVAL (annual, semi-annual, quarterly, monthly) annual
 DATE FUNDS NEEDED: January 31, 2025 (if funds will be drawn over time, please attach anticipated draw schedule)
 DOES THE AGENCY PLAN TO PAY FOR THE EQUIPMENT AND SEEK A REIMBURSEMENT FROM FINANCING? No
 IS INTERIM OR OTHER DEBT BEING REFUNDED? No IF YES, EXPLAIN: _____

EQUIPMENT DESCRIPTION, ESSENTIAL USE, NEED FOR EQUIPMENT, EXPECTED USEFUL LIFE AND OTHER PERTINENT INFORMATION. A COPY OF THE VENDOR'S QUOTE, PROPOSAL OR INVOICE INCLUDING A LIST OF THE EQUIPMENT, EQUIPMENT COST, AND ANY OTHER DOCUMENTATION PERTINENT TO THE TRANSACTION MUST ACCOMPANY THIS REQUEST.

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While the description portion of the two (2) financing request forms is the same, the SCOIG was informed that the second MLP request was for sales tax not included in the original invoice from the vendor for the voting machines and related software/services – not “equipment costs” as set forth in request. See below the STO’s explanation in an email to TD Bank, dated 12/5/2024.

 Election Systems & Software, LLC 6055 Paysphere Circle Chicago, IL 60674 (877) 377-8683	Invoice Invoice Date 10/29/24 Due Date 10/31/24 Customer Number 34450 Customer's PO No DS300 EXPV DS950	ORIGINAL Invoice Number PR579423a Order Number Election Date Page 1 (1)
	Invoice Address State of South Carolina 102 Courthouse Dr Ste 115 St Matthews, SC 29135-1479 US - UNITED STATES	Delivery Address State of South Carolina 102 Courthouse Dr Ste 115 Matthews, SC 29135-1479
Description		USD
Net Amount Invoice #PR579423a represents the state and local sales tax due from invoice #PR579423.		0.00
Total Exclusive Tax		0.00
Description City County District State		Tax Amount 105,630.70 11,228.48 242,766.00 1,425,272.94
Paid through Master Lease draw on 12/9/24		
Total Tax		1,784,898.12
Total Invoice Amount		1,784,898.12
Customer Number 34450 SC, South Carolina PLEASE DETACH AND RETURN THIS STUB WITH YOUR PAYMENT. THANK YOU.	Invoice Number PR579423a	INVOICE AMOUNT 1,784,898.12
		Election Systems & Software ABA Routing No: 071000039 Account No: 5800923558

Subject: issue regarding the Master Lease for the SC Elections Commission

CAUTION: EXTERNAL MAIL. DO NOT CLICK ON LINKS OR OPEN ATTACHMENTS YOU DO NOT TRUST
ATTENTION : COURRIEL EXTERNE. NE CLIQUEZ PAS SUR DES LIENS ET N'OUVREZ PAS DE PIÈCES JOINTES AUXQUELS VOUS NE FAITES PAS CONFIANCE

Good morning, Maggie,

Do you have a few minutes today for a phone call? A situation has arisen with the SC Elections Commission master lease, and it would be better to discuss by phone.

Essentially, the taxes were not included in the vendor invoice, and they are being billed 3 months later for an amount of around \$2 million. For what it’s worth, I looked back at the quote/invoice, it does state (although in fine print) that city, local and state taxes are not included and are the responsibility of the customer.

I spoke with Alan Lipsitz. We both thought it best to check with you to see if the lease could be amended in some way to include the taxes.

Just let me know when it’s convenient for you to discuss.

Thanks,

The vendor of the voting machines received payment and subsequently invoiced the SEC for sales tax in the amount of \$1,784,898.12 as represented by invoice #PR579423a (in support of invoice #PR579423). The SCOIG observed that although the original \$28.8M MLP financing was reviewed by the SEC, the STO, and multiple outside attorneys ["Program Counsel" as well as "special tax counsel"] no one noticed that sales tax was not included on the invoice (#PR579423).

Regardless, because of the second MLP financing instrument, TD Bank required additional insurance coverage to reflect the total of both financing arrangements. The South Carolina Insurance Reserve Fund [IRF] informed the SCOIG that:

"On January 15, 2025, [SEC] emailed a request to increase the \$28,846,199 in coverage for the new election equipment by the amount of \$2,017,930 coverage. That addition brought the total of coverage for new election equipment to the \$30,864,130 [sic]. It was an additional value added to the most recent segment created on September 16, 2024 covering the election equipment leased under the most recent lease."


The SCOIG notes, there was no "new election equipment" but merely sales tax for already paid for equipment. Additionally, the sales tax invoice referenced "state and local sales tax" line item(s) that appeared inconsistent with South Carolina sales tax, i.e., "District" sales tax of "\$242,766.00." The SCOIG is unaware of a "District" sales tax in South Carolina. The SEC confirmed that the equipment was delivered to South Carolina and taken into possession by the SEC in South Carolina. The "Shipping and Handling" was listed in the paperwork twice for \$1,424,875 and \$96,155 for a total of \$1,521,030.

The STO's MLP process resulted in vendor payments of more than \$30 million (2/3 of which had not been appropriated by the General Assembly) via the STO's "DISBURSEMENT REQUEST FORM." (See below)

FORM OF DISBURSEMENT REQUEST FORM			
Re: Equipment Lease/Purchase Agreement dated as of September 30, 2024 by and between TD Equipment Finance, Inc., as Lessor and the State Election Commission, as Lessee			
In accordance with the terms of the Acquisition Fund Agreement, dated as of September 30, 2024, (the "Acquisition Fund Agreement"), between the State Election Commission (the "Lessee"), TD Equipment Finance, Inc. (the "Lessor") and the Office of State Treasurer of the State of South Carolina (the "Acquisition Fund Custodian"), the Lessee hereby requests the Acquisition Fund Custodian to disburse to the Lessee the sum of \$28,846,199.00 from the Acquisition Fund created under the Acquisition Fund Agreement (the "Acquisition Fund"). The Lessee hereby agrees to use such sums received from the Acquisition Fund Custodian to pay the following persons and amounts for the following purposes.			
Payee's Name and Address	Invoice Number	Dollar Amount	Purpose

Dated: September 30, 2024


STATE ELECTION COMMISSION
(Lessee)

By: 
Authorized Representative

FORM OF DISBURSEMENT REQUEST FORM			
Re: Equipment Lease/Purchase Agreement dated as of January 31, 2025 by and between TD Equipment Finance, Inc., as Lessor and the State Election Commission, as Lessee			
In accordance with the terms of the Acquisition Fund Agreement, dated as of January 31, 2025, (the "Acquisition Fund Agreement"), between the State Election Commission (the "Lessee"), TD Equipment Finance, Inc. (the "Lessor") and the Office of State Treasurer of the State of South Carolina (the "Acquisition Fund Custodian"), the Lessee hereby requests the Acquisition Fund Custodian to disburse to the Lessee the sum of \$2,017,930.92 from the Acquisition Fund created under the Acquisition Fund Agreement (the "Acquisition Fund"). The Lessee hereby agrees to use such sums received from the Acquisition Fund Custodian to pay the following persons and amounts for the following purposes.			
Payee's Name and Address	Invoice Number	Dollar Amount	Purpose

Dated: January 31, 2025

STATE ELECTION COMMISSION
(Lessee)

By: 
Authorized Representative

Section 6.01, [Title to and Security Interest in Equipment and Acquisition Fund], of the MLP agreement states:

"To secure all obligations of Lessee hereunder, Lessee hereby grants to Lessor a security interest in and to all of Lessee's right, title and interest in and to the Equipment including substitutions and replacements thereof or thereto and all proceeds (cash and non-cash), including the proceeds of insurance, thereof."

As a result, the voting machines of the State of South Carolina belonged to TD Bank in the event of a default by the SEC per the MLP agreement.

1) Late Charge: 213.84% for unpaid amounts after due date

The SEC’s payment tables for the two (2) MLP/TD Bank loans were as follows:

SCHEDULE A					SCHEDULE A				
SCHEDULE OF PAYMENTS STATE ELECTION COMMISSION					SCHEDULE OF PAYMENTS STATE ELECTION COMMISSION				
Interest Rate: 3.29000000%					Interest Rate: 3.768%				
Payment Date	Rental Payment	Interest	Principal	Outstanding Balance	Payment Date	Rental Payment	Interest	Principal	Outstanding Balance
9/30/2024	\$0.00	\$0.00	\$0.00	\$28,846,199.00	9/30/2025	715,835.56	51,255.15	664,580.41	1,353,350.51
9/30/2025	\$10,254,918.61	\$949,039.95	\$9,305,878.67	\$19,540,320.33	9/30/2026	715,835.56	51,888.40	663,947.16	689,403.35
9/30/2026	\$10,254,918.61	\$642,876.54	\$9,612,042.07	\$9,928,278.26	9/30/2027	715,835.56	26,432.21	689,403.35	0.00
9/30/2027	\$10,254,918.61	\$326,640.35	\$9,928,278.26	\$0.00					
Total	\$30,764,755.84	\$1,918,556.84	\$28,846,199.00						

On 9/30/2025 the SEC owed TD Bank a combined total of \$10,970,754.17. The SEC informed the SCOIG prior to the SEC’s September 2025 payment that it did not have that level of funds on hand. Set forth in the fiscal year (FY) 2025-26 Appropriation Act: [Section 118.22\(B\)\(71\)](#):

“The State Treasurer shall disburse the following appropriations on February 20, 2026... (71) E280 Election Commission (b) Statewide voting system upgrade... \$10,970,755.”

One of the STO-negotiated terms of the MLP financing agreements was an exponential increase in liquidated damages when any payment is late beyond 30 days.

B. LATE PAYMENTS
There will be a late charge to Lessee of 10% of the delinquent amount per month, or the highest legal rate allowed if less, on the amount of any Rental Payment which remains unpaid for thirty (30) days after the due date, which charge Lessee agrees to pay.

If the late “Rental Payment” included the “late charge” amount in subsequent “unpaid” months, then this represented an additional 213.84% [$\{EAR\} = (1 + 0.10)^{\{12\}} - 1$] per year with every month of substantial additional interest due as set forth in Table 2.

Table 2

If the 10% per month late fee is applied to full amount outstanding each month			
Month	Balance at Start	Penalty (10%)	New Balance
September	\$ 10,970,754.17	—	\$10,970,754.17
October	\$ 10,970,754.17	\$ 1,097,075.42	\$12,067,829.59
November	\$ 12,067,829.59	\$ 1,206,782.96	\$13,274,612.55
December	\$ 13,274,612.55	\$ 1,327,461.25	\$14,602,073.80
January	\$ 14,602,073.80	\$ 1,460,207.38	\$16,062,281.18

This created an endless debt cycle for the SEC as the \$10,970,755 appropriated to cover the first TD Bank payment in September 2025 was not available until 2/22/2026. Subject to the terms of the STO’s MLP agreements and the late payment, the balance due in February 2026 would increase to more than

\$16,062,281.18. Consequently, \$5,091,527.01 would remain unpaid and subject to further round(s) of “per month” compounding penalty math at 213.84%.

Alternatively, if the late “Rental Payment” did not include the “late charge” amount in subsequent “unpaid” months, then the calculation represented a 120% APR penalty on any unpaid “Rental Payment.”⁴ The liquidated damages calculation in such a scenario would amount to \$4,388,301.67 (4 months × 10% of \$10,970,754.17, rounded per month) – far [40%] beyond the appropriated amount to the SEC. (See Table 3)

Table 3

If the 10% per month late fee only applies to the outstanding Rental Payment amount past due each month			
Month	Balance at Start	Penalty (10%)	New Balance
September	\$ 10,970,754.17	—	\$10,970,754.17
October	\$ 10,970,754.17	\$ 1,097,075.42	\$12,067,829.59
November	\$ 12,067,829.59	\$ 1,097,075.42	\$13,164,905.00
December	\$ 13,164,905.00	\$ 1,097,075.42	\$14,261,980.42
January	\$ 14,261,980.42	\$ 1,097,075.42	\$15,359,055.84

The financing terms negotiated by the STO (MLP administrator) were presented as a take-it-or-leave-it basis with terms that were “not open to significant negotiation.” The late payment clause included in the MLP agreement equated to 120% APR and adversely affected public interest.

To safeguard against such a penalty being applied, basic fiduciary due diligence necessitated an independent verification of funds available to make timely payments when due. The STO advised the SCOIG that the STO relied in good faith on the representations made by the lessee agency – as such, the STO conducted no due diligence. As a fiduciary and the lessee’s treasurer, the STO had ready access to identify fund balances and the duty to verify the availability of funds of the SEC. (See, [S.C. Code § 11-5-100](#))

The SEC and TD Bank entered into a loan modification to avoid a late payment penalty due to the lack of disbursed appropriations in September 2025. This loan modification caused the amount of the delayed payment to TD Bank in February 2026 to “*exceed the amounts and purposes stated in the appropriations*” in violation of [S.C. Code § 11-9-20\(A\)](#).⁵ The effect of [S.C. Code § 11-9-20\(B\)](#) is:

“An officer, clerk, or other person who violates the provisions of this section is guilty of malfeasance in office. The Governor may suspend immediately the officer and shall investigate the conduct of the person.”

The STO negotiated the MLP terms that included the significant late payment penalties. According to the 10/15/2025 SEC [board meeting minutes](#):

- *“Treasurer Loftis reiterated that failure to sign could result in the bank repossessing the equipment. He noted the significant penalties involved and emphasized that the issue stems from misrepresentations by Knapp, not the actions of TD Bank or the Treasurer’s Office.”*

⁴ The agreement contains the following language: “Section 5.01. Rental Payments Not to Constitute a Full Faith and Credit Obligation of Lessee.” If the “LATE PAYMENTS” amounts are interpreted to NOT be part of the “Rental Payments” category then the §5.01 protections of the agreement do not apply to the “LATE PAYMENTS” amounts.

⁵ The STO informed the SCOIG that future versions of MLP note agreements no longer had the aggressive late payment clause after the SCOIG brought these concerns to the STO.

- *“Treasurer Loftis reported: ... The General Assembly altered the timing of appropriations, moving the Commission’s funding from September to February...Treasurer Loftis noted that he was not informed that appropriations had been shifted to February.”*⁶

Also noted at the SEC board meeting and reported by the news media, the State Treasurer remarked:

“The agency needs to come to some sort of agreement with the bank financing the loan before costly monthly penalties begin to mount, or before the bank moves to repossess the voting equipment, Loftis said.” <https://scdailygazette.com/2025/10/15/sc-election-commission-has-questions-about-32m-contract-after-firing-director/>

“The miscue had sparked concerns from figures like state Treasurer Curtis Loftis that the bank could potentially repossess the machines and damage the state’s credit rating.” https://www.postandcourier.com/politics/sc-voting-machines-cost-election-commission/article_d1ce88fa-84ca-41f8-b978-4bbcc6f33c19.html

After TD Bank’s disbursement of funds to the STO, as the Acquisition Fund Custodian, and prior to the payment of the funds to the vendor, the STO invested the borrowed funds and generated more than \$117,252 in investment earnings. TD Bank on the other hand, due to the late payment terms negotiated by the STO, had a financial incentive to make the loan - even if it is known that lessee would be unable to make the first payment.

At the outset of this investigation, the SCOIG identified the issues above and immediately informed the SEC, which ultimately entered into one or more refinancing type instruments to avoid the eventuality created by the STO’s negotiated terms, all of which resulted in additional transaction fee(s) and/or loan interest.

2) Funding Source: External banks versus use of the state’s General Fund

A review of [S.C. Code § 1-1-1020](#) and the legislative acts reveal that originally (1981) the General Services division ran the MLP program and used funds from the IRF. Over the decades the MLP was eventually moved to the STO and continued the use of the IRF as the source of funds. The statute expressly established the state using money on hand for financing, e.g., no real debt as the interagency loan arrangement cancels itself out within the state’s ACFR with a loan and a contra receivable.⁷

The SCOIG was informed by the STO that the current MLP documents/agreements contain critical clauses designed to preclude the ability of any agency to create “debt” via the MLP - as explained by the South Carolina Attorney General’s Office in a 1991 opinion 1991 S.C. Op. Atty. Gen. No. 91-6, [1991 WL 474736](#):

[W]e reiterate that an agency of the State could not bind the State by contract over a multi-year period unless there is a valid annual appropriation therefor. Such a contract should contain a non-appropriation clause and be terminable with each fiscal year; otherwise, such a contract would amount to a debt. The same arguments often advanced in a lease-purchase situation (including a non-appropriation clause, not counting the lease-purchase within debt limitations, etc.) would apply in this type of situation. Caddell v. Lexington County School District No. 1, 296 S.C. 397, 373 S.E. 2d 598 (1988).

⁶ The “appropriations” referred to by the STO at the SEC board meeting existed in the FY 2025-26 Appropriations Act, [Section 118.22\(B\)\(71\)](#), which further provided, “...Except as otherwise specifically provided, this act takes effect July 1, 2025.”

⁷ When preparing the combined government-wide statements, the "Due to" and "Due from" accounts are consolidated and eliminated. This ensures the report correctly shows the government's financial position to external parties, without inflating assets and liabilities with internal transactions.

The SCOIG reviewed SCEIS records that indicated the STO categorized the MLP transaction(s) as debt, i.e., "OTHER DEBT CHARGES" under Cost Center "E160DM0000 DEBT MANAGEMENT." Additionally, two (2) IRS Form 8038-G "Information Return for Tax-Exempt Governmental Bonds" were executed by the SEC agency head for the transactions during the STO's MLP process, as illustrated below.

Form 8038-G Information Return for Tax-Exempt Governmental Bonds
 (Rev. October 2021) Under Internal Revenue Code section 149(e) See separate instructions.
 Department of the Treasury Internal Revenue Service OMB No. 1545-0047
 Caution: If the issue price is under \$100,000, use Form 8038-GC. Go to www.irs.gov/F8038G for instructions and the latest information.

Part I Reporting Authority Check box if Amended Return

1 Issuer's name
 State Election Commission
 2 Issuer's employer identification number (EIN)
 57-6000228
 3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)
 3b Telephone number of other person shown on 3a

4 Number and street (or P.O. box if mail is not delivered to street address) Room/suite
 1122 Lady St., 5th Floor
 5 Report number (For IRS Use Only) 3
 6 City, town, or post office, state, and ZIP code
 Columbia, South Carolina 29201
 7 Date of issue
 09/30/2024
 8 Name of issue
 \$28,846,199.00 Equipment Lease/Purchase Agreement
 9 CUSIP number
 N/A
 10a Name and title of officer or other employee of the issuer whom the IRS may call for more information
 Howard M. Knapp, Executive Director
 10b Telephone number of officer or other employee shown on 10a
 (803) 734-4139

Part II Type of Issue (Enter the issue price.) See the instructions and attach schedule.

11 Education	11	28,846,199.00
12 Health and hospital	12	
13 Transportation	13	
14 Public safety	14	
15 Environment (including sewage bonds)	15	
16 Housing	16	
17 Utilities	17	
18 Other, Describe	18	

19a If bonds are TANs or RANs, check only box 19a
 19b If bonds are BANs, check only box 19b
 20 If bonds are in the form of a lease or installment sale, check box

Part III Description of Bonds. Complete for the entire issue for which this form is being filed.

(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
09/30/2027	\$ 28,846,199.00	\$ 28,846,199.00	3.00	years 3.29 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	0
23 Issue price of entire issue (enter amount from line 21, column (b))	23	28,846,199.00
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	15,000.00
25 Proceeds used for credit enhancement	25	0
26 Proceeds allocated to reasonably required reserve or replacement fund	26	0
27 Proceeds used to refund prior tax-exempt bonds. Complete Part V	27	0
28 Proceeds used to refund prior taxable bonds. Complete Part V	28	0
29 Total (add lines 24 through 28)	29	15,000
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	28,831,199.00

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.

31 Enter the remaining weighted average maturity of the tax-exempt bonds to be refunded years
 32 Enter the remaining weighted average maturity of the taxable bonds to be refunded years
 33 Enter the last date on which the refunded tax-exempt bonds will be called (MM/DD/YYYY)
 34 Enter the date(s) the refunded bonds were issued (MM/DD/YYYY)

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63773S Form 8038-G (Rev. 10-2021)

Form 8038-G Information Return for Tax-Exempt Governmental Bonds
 (Rev. October 2021) Under Internal Revenue Code section 149(e) See separate instructions.
 Department of the Treasury Internal Revenue Service OMB No. 1545-0047
 Caution: If the issue price is under \$100,000, use Form 8038-GC. Go to www.irs.gov/F8038G for instructions and the latest information.

Part I Reporting Authority Check box if Amended Return

1 Issuer's name
 State Election Commission
 2 Issuer's employer identification number (EIN)
 57-6000228
 3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)
 3b Telephone number of other person shown on 3a

4 Number and street (or P.O. box if mail is not delivered to street address) Room/suite
 1122 Lady St., 5th Floor
 5 Report number (For IRS Use Only) 3
 6 City, town, or post office, state, and ZIP code
 Columbia, South Carolina 29201
 7 Date of issue
 01/31/2025
 8 Name of issue
 \$2,017,930.92 Equipment Lease/Purchase Agreement
 9 CUSIP number
 N/A
 10a Name and title of officer or other employee of the issuer whom the IRS may call for more information
 Howard M. Knapp, Executive Director
 10b Telephone number of officer or other employee shown on 10a
 (803) 734-4139

Part II Type of Issue (Enter the issue price.) See the instructions and attach schedule.

11 Education	11	2,017,930.92
12 Health and hospital	12	
13 Transportation	13	
14 Public safety	14	
15 Environment (including sewage bonds)	15	
16 Housing	16	
17 Utilities	17	
18 Other, Describe	18	

19a If bonds are TANs or RANs, check only box 19a
 19b If bonds are BANs, check only box 19b
 20 If bonds are in the form of a lease or installment sale, check box

Part III Description of Bonds. Complete for the entire issue for which this form is being filed.

(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
09/30/2027	\$ 2,017,930.92	\$ 2,017,930.92	2.6666	years 3.768 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	0
23 Issue price of entire issue (enter amount from line 21, column (b))	23	2,017,930.92
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	7,500.00
25 Proceeds used for credit enhancement	25	0
26 Proceeds allocated to reasonably required reserve or replacement fund	26	0
27 Proceeds used to refund prior tax-exempt bonds. Complete Part V	27	0
28 Proceeds used to refund prior taxable bonds. Complete Part V	28	0
29 Total (add lines 24 through 28)	29	7,500
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	2,010,430.92

Part V Description of Refunded Bonds. Complete this part only for refunding bonds.

31 Enter the remaining weighted average maturity of the tax-exempt bonds to be refunded years
 32 Enter the remaining weighted average maturity of the taxable bonds to be refunded years
 33 Enter the last date on which the refunded tax-exempt bonds will be called (MM/DD/YYYY)
 34 Enter the date(s) the refunded bonds were issued (MM/DD/YYYY)

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63773S Form 8038-G (Rev. 10-2021)

Howard M. Knapp" signed on behalf of the "Issuer" of over \$30M in debt.



The SCOIG observed that the STO's MLP agreement(s) contained one or more non-appropriations clause(s), however no realistic mechanism existed to unwind the transaction and walk-away from the SEC's acquisition of the voting machines. The SEC traded in all the old (DS200 and related equipment) voting machines to the vendor as part of the purchase.

This trade-in of the surplus voting equipment failed to follow Part M of the South Carolina Surplus Property Office's (SCSPO) [State Agency User Manual](#):

The SPO Manager or his designee shall have the authority to determine whether property shall be traded in and the value applied to the purchase of new, like items or classified as surplus and sold in accordance with the provisions of the SC Procurement Code. When the original purchase price exceeds \$100,000, the SPO Manager or his designee shall make a written determination as to its reasonableness and document such trade-in transaction.

3) Illegal procurement of DS300 voting machines and associated hardware/software

On 01/15/26 the State Fiscal Accountability Authority (SFAA) finalized an analysis of the SEC's and concluded the "recent acquisition of DS300 Voting Equipment did not comply with the [Procurement] Code."

<p>HENRY MCMASTER, CHAIR GOVERNOR CURTIS M. LOFTIS, JR. STATE TREASURER BRIAN J. GAINES COMPTROLLER GENERAL</p> <p> State Fiscal Accountability Authority THE DIVISION OF PROCUREMENT SERVICES DELBERT H. SINGLETON, JR. DIVISION DIRECTOR (803) 734-8018 JOHN ST. C. WHITE MATERIALS MANAGEMENT OFFICER (803) 737-0600 FAX: (803) 737-0639</p> <p>HARVEY S. PEELER, JR. CHAIRMAN, STATE FINANCE COMMITTEE BRUCE W. BANNISTER CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE GRANT GILLESPIE EXECUTIVE DIRECTOR</p> <p>Via Email</p> <p>1/15/2026</p> <p>Brian D. Lamkin Inspector General SC Office of the Inspector General 111 Executive Center Drive, Suite 204 Columbia, SC 29210</p> <p>Re: Election Commission Acquisition of DS300 Voting Equipment from Election Systems & Software, LLC</p> <p>Dear Mr. Lamkin,</p> <p>In our recent meeting, you asked me to review our procurement files along with documents your office provided to determine if the Election Commission's (Commission) recent acquisition of DS300 Voting Equipment from Election Systems & Software, LLC (ES&S) for almost \$29 million complied with the requirements of the Consolidated Procurement Code (Code).</p> <p>As an initial matter, Section 11-35-1210 of the Code only authorizes the Commission to make direct procurements up to \$50,000. All other procurements must go through the Division of Procurement Services (DPS). And after reviewing our procurement files, we have no record that the Commission asked DPS to conduct a procurement on its behalf for the DS300 Voting Equipment.</p> <p>In 2019, DPS issued a procurement on behalf of the Commission for DS200 voting equipment, software, and software licenses and maintenance. That contract, Number 4400021704, was awarded to ES&S. ES&S was to provide the equipment for all 46 counties at the front end of the contract. However, the contract had a duration of seven years for software licensing and maintenance. The contract did not provide for the acquisition of more equipment during the life of the contract. The awarded contract amount was \$50,888,359. The equipment cost was \$48,122,910.¹ Because this contract exceeds the Commission's authority to make direct procurements, all change orders to this contract must go through DPS. DPS has no record that</p> <p>¹ The hardware price of \$62,698,024 less an "Equipment Discount and Allowance" of \$14,575,114.</p> <p>1333 MAIN STREET, SUITE 700 • COLUMBIA, SOUTH CAROLINA 29201 HTTP://PROCUREMENT.SC.GOV</p>	<p>Letter to Inspector General Election Commission Acquisition of DS300 Voting Equipment Page 2 of 2</p> <p>the Commission approached DPS to request a change order to allow it to purchase DS300 equipment.</p> <p>An exception to the monetary limitation on the Commission's authority to make direct procurements is when it makes sole source procurements per Section 11-35-1560. Importantly, the Code requires an agency to advertise its intent to enter a sole source contract greater than \$50,000 in South Carolina Business Opportunities (SCBO) before entering into the contract. S.C. Code § 11-35-1560. There is no record in SCBO that the Commission made such an advertisement. The Commission must also report all sole source procurements to DPS quarterly. S.C. Code § 11-352440(1)(a). DPS has no records that the Commission reported this acquisition to DPS as a sole source.</p> <p>Similar rules apply to emergency acquisitions. S.C. Code § 11-35-1570. In such procurements, however, the agency must advertise in SCBO that it has entered into an emergency contract as soon as practical.² Again, there is no record this acquisition was advertised in SCBO as an emergency procurement or reported to DPS.</p> <p>Due to the lack of documentation showing compliance with the Code, one can only conclude that the Commission's recent acquisition of DS300 Voting Equipment did not comply with the Code.</p> <p>Sincerely  John St. C. White Materials Management Officer</p> <p>² In typical emergencies, there is insufficient time to advertise before addressing the emergency situation.</p>
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As a result of the failure to adhere to the Procurement Code, the SEC and/or the STO must follow the procedures set forth in [S.C. Code Regs. 19-445.2015](#) ["Unauthorized or Illegal Procurements"]. The Division of Procurement Services provided an [FAQ](#) summarizing the details of this process.

Once the possibility of a loan default was imminent the STO took affirmative steps to assist the SEC in modifying the lease agreement with TD Bank.

C. Summary of Findings and Recommendations

Finding § III(B)-1: Per, S.C. Code § 1-6-20(B), the SCOIG's investigation determined the STO missed opportunities to identify that the SEC lacked appropriations when it applied to the MLP for the purchase of DS300 voting machines. Basic due diligence of the borrower (SEC) could have avoided the loan modification that resulted in an additional \$139,771.40 in interest paid to TD Bank by the SEC.⁸ Furthermore, the STO negotiated and approved late-payment provisions for the MLP agreements that imposed penalties (effectively 120% APR) capable of ballooning a single \$10.97 million installment by more than \$4 million. This exposed taxpayers to millions in avoidable liquidated damages and violated the STO's core obligation to faithfully discharge official duties and protect the state's fiscal interests.

Recommendation § III(B)-1a: The SCOIG recommends to the STO that a full program review and independent audit be conducted of the MLP to ensure that terms are commercially reasonable, that appropriate due diligence is/was performed, and that funds are only provided for qualified acquisitions per the MLP, e.g., equipment versus services and whether all software licensing charges are eligible to be financed via the MLP. Critically, whether a trade-in of otherwise valuable equipment creates an inability to walk away from the MLP transaction via forfeiture and risks exposing the state to agency-created debt, *see generally*, Caddell v. Lexington County School District No. 1, 296 S.C. 397, 373 S.E. 2d 598 (1988).

Recommendation § III(B)-1b: The SCOIG recommends that General Assembly and/or the STO determine whether borrowing funds from an outside financial institution is prudent, versus using general funds for the MLP at a competitive interest rate.⁹

Recommendation § III(B)-1c: The SCOIG recommends that the General Assembly consider the implementation of a secondary review process of MLP lending by the SFAA or the Joint Bond Review Committee (JBRC) when the MLP loan attains a minimum threshold determined by the SFAA or JBRC to ensure an acceptable level of due diligence has been executed by the STO and that an executive branch agency does not encumber the state without the necessary funds to repay the MLP loan.

Recommendation § III(B)-1d: The SCOIG investigation identified mismanagement of the MLP by the STO. Per S. C. Code § 1-6-40(A), the SCOIG must report this matter to the Governor. In view of the fact a determination that the mismanagement of the MLP may or may not constitute misconduct is beyond the scope of the SCOIG's purview and analysis and requires further review per S.C. Code § 1-6-40(B).

⁸ SCEIS Document Number 3036319844, posting date 02/27/2026 payment for \$11,110,525.57. Per the original Schedule of Payments, the 09/30/2025 payments were \$10,970,754.17 [\$10,254,918.61 + \$715,835.56].

⁹ Note, this would preclude the STO from receiving the MLP funds from the lender/lessor and then investing those funds to earn interest for the benefit of the STO and/or the general fund, as well as eliminate any arbitrage issues/costs for the MLP.

IV. Reporting Statute

A. S.C. Code § 11-5-120 – “Publication of quarterly statements”

S.C. Code § 11-5-120 states, “*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.*”

The language “*and the respective funds to which it belongs*” is statutorily mandated content in the STO’s quarterly public disclosure for over the last 120 years. For about a century the STO’s quarterly report was required to be published in a Columbia newspaper. In 2007, S.C. Code § 11-5-120 was amended [[2008 Act No. 353](#), § 2, Part 29B.1.] to allow for electronic publication.

1) At a minimum, two funds exist: General and Restricted

[GASB Statement No. 54](#), titled Fund Balance Reporting and Governmental Fund Type Definitions (issued February 2009, effective for fiscal periods beginning after June 15, 2010) explaining: “*Governments are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.*”

The SCOIG reviewed multiple quarterly publications by the STO over various years and decades via archived copies of The State newspaper. Set forth below is a snippet of the newspaper publication for the period ending March 31, 1990.¹⁰

First Union Natl Bk of SC, Anderson	300,000.00	Southern Natl Bank, Columbia	2,240,097.45
First Union Natl Bk of SC, Bennettsville	400,000.00	Southern Natl Bank, Florence	600,000.00
First Union Natl Bk of SC, Blacksburg	400,000.00	Southern Natl Bank, Loris	625,000.00
First Union Natl Bk of SC, Branchville	400,000.00	Southern Natl Bank, W. Columbia	100,000.00
First Union Natl Bk of SC, Chapin	400,000.00	Southern Natl Bank, Williamston	300,000.00
First Union Natl Bk of SC, Charleston	400,000.00	Spartanburg National Bank, Spartanburg	300,000.00
First Union Natl Bk of SC, Chester	425,000.00	The Anchor Bank, Myrtle Beach	1,100,000.00
First Union Natl Bk of SC, Clover	400,000.00	The Anchor Bank, Surfside Beach	400,000.00
First Union Natl Bk of SC, Columbia	2,000,353.00	The Bk of So Carolina, Charleston	700,000.00
First Union Natl Bk of SC, Eastley	400,000.00	The Exchange Bank, Kingstree	600,000.00
First Union Natl Bk of SC, Florence	750,000.00	The Palmetto Bank, Fountain Inn	400,000.00
First Union Natl Bk of SC, Fountain Inn	400,000.00	The Palmetto Bank, Greenwood	400,000.00
First Union Natl Bk of SC, Gaffney	600,000.00	The Palmetto Bank, Hodges	400,000.00
First Union Natl Bk of SC, Goose Creek	300,000.00	The Palmetto Bank, Laurens	1,007,389.23
First Union Natl Bk of SC, Gray Court	300,000.00	The Palmetto Bank, Simpsonville	300,000.00
First Union Natl Bk of SC, Greenville	1,100,000.00	United Carolina Bank, Greer	1,722,927.77
First Union Natl Bk of SC, Hanahan	300,000.00	Williamsburg First Natl Bk, Kingstree	710,847.30
First Union Natl Bk of SC, Hilton Head	700,000.00	Woodruff State Bank, Woodruff	685,000.00
First Union Natl Bk of SC, Hollyhead	400,000.00	U.S. Governments and Agencies	1,409,780,730.52
First Union Natl Bk of SC, Irmo	400,000.00	Insured Building, Saving & Loan Association	22,400,000.00
First Union Natl Bk of SC, Isle of Palms	300,000.00		1,607,535,065.12
First Union Natl Bk of SC, Laurens	1,000,000.00		
First Union Natl Bk of SC, Lugoff	400,000.00	Funds Are Grouped As Follows	
First Union Natl Bk of SC, Mt. Pleasant	300,000.00	General Deposit Account	1,607,279,421.68
First Union Natl Bk of SC, North Charleston	400,000.00	Restricted Funds	255,643.44
First Union Natl Bk of SC, Orangeburg	970,000.00		1,607,535,065.12
First Union Natl Bk of SC, Pelzer	300,000.00		
First Union Natl Bk of SC, Prosperity	500,000.00	\$1,608,345,730.52 Of The Above On Interest-Bearing	
First Union Natl Bk of SC, Rock Hill	550,000.00	Certificates of Deposit, Interest-Bearing Treasury Bills And Interest-Bearing Savings	
First Union Natl Bk of SC, Spartanburg	700,000.00	And Loan Shares, Checks Outstanding	
First Union Natl Bk of SC, St. Matthews	400,000.00	For Remainder.	
First Union Natl Bk of SC, Travelers Rest	400,000.00		
First Union Natl Bk of SC, Walhalla	400,000.00		
First Union Natl Bk of SC, West Columbia	425,000.00		
First Union Natl Bk of SC, Williamston	400,000.00		
First Union Natl Bk of SC, Winnsboro	450,000.00		

The SCOIG was unable to identify any instance of the STO’s quarterly reports issued under S.C. Code § 11-5-120 after the one for period ending 3/31/1990, that included a breakout of “*the respective funds to which it belongs,*” e.g., General Deposit Account and Restricted Funds.

¹⁰ *State*, First ed., 2 June 1990, p. 62. Available at: <https://infoweb-newsbank-com.scs12.idm.oclc.org/apps/news/document-view?p=AMNEWS&docref=image/v2%3A11210D30DA68B248%40EANX-NB-151CDBF4105EB32C%402448045-151BEBEEE3DDF8B7%4061-151BEBEEE3DDF8B7%40> (Accessed: 8 May 2025).

Internet archives show the STO's website started electronic publication by quarter, with each successive quarter's report being substituted for the prior one (no archiving of prior publications unless utilizing private internet archive tools, e.g., "waybackmachine"). During the review of prior electronic quarterly publications, the SCOIG was unable to confirm that any statement for the quarter ending 6/30/2015 was ever published per S.C. Code § 11-5-120.¹¹

The SCOIG observed another change to the quarterly reports began for the third quarter of 2019 that no longer included the amount in "US Fixed Income Securities." The new version included a note that stated:

"Note: Prior to September 30, 2019-Previous Quarter Balances included Fixed Income and CDs for General Fund, State Pool, Long Term Pool and Insurance Reserve. In conformity with the South Carolina Code of Laws Section 11-5-120, the quarterly (sic) balances above represent Bank Balances as of the quarter end."

A side by side illustrating the change is set forth below:

Statement Of Balances in the State Treasurer's Office Showing the Bank in which Funds are Deposited at the Close of Business 06/30/2019		
PUBLISHED AS REQUIRED BY SECTION 11-5-120, CODE OF LAWS OF S.C. 1976		
	Acct No	
Arthur State Bank	0079	8,679.10
Bank of America, NA	0551	154,212,753.32
Bank of America, NA-Imprest Accounts		5,414,828.27
Bank of the Ozarks		10,000,000.00
Beacon Community Bank		5,000,000.00
BNY Mellon		964,781.47
Blue Ridge Bank	0638	12,715.98
Branch Banking and Trust Co.		560,101.97
Enterprise Bank of SC	0257	23,444.38
Farmers & Merchants Bank of SC	0642	1,500.00
First Bank		5,000,000.00
First Citizens Bank of SC	8601	8,240,004.96
First National Bank of South Carolina	8447	555.85
Home and Federal Savings & Loan		700,000.00
Synovus Bank	1901	7,995,709.10
Palmetto Heritage Bank & Trust		-
Palmetto State Bank	0000	58,069.53
SC Community Bank		4,800,000.00
Security Federal Savings		10,000,000.00
South State Bank	0244	1,248,735.15
Southern First Bank-Greenville		10,000,000.00
TD Bank	4432	14,262,249.98
The Bank of Clarendon	0027	60,310.14
United Community Bank	1056	44,323.20
Wells Fargo Bank	5543	551,938,033.83
Wells Fargo Bank-Imprest Accounts		43,856,898.63
US Fixed Income Securities*		11,382,610,819.88
TOTAL		12,217,014,514.74

The above balances include deposits and CDs in certificates of deposit placed by competitive bid and deposits needed to cover banking activity. Deposits in excess of federal insurance limits are collateralized in accordance with Statute 11-13-60. All other amounts are invested in US Fixed Income Securities pursuant to Statute 11-9-660.

* General Fund, State Pool, Long Term Pool, Insurance Reserve

Statement of the State Treasurer's Bank Deposits As of Close of Business 09/30/2019	
PUBLISHED AS REQUIRED BY SECTION 11-5-120, CODE OF LAWS OF S.C. 2016	
Arthur State Bank	19,688
Bank of America, NA	443,902,262
BNY Mellon	845,002
Blue Ridge Bank	18,312
Branch Banking and Trust Co.	623,622
Enterprise Bank of SC	24,452
Farmers & Merchants Bank of SC	1,510
First Citizens Bank of SC	2,216,863
First National Bank of South Carolina	2,356
Palmetto State Bank	101,583
South State Bank	1,384,012
Synovus Bank	2,547,555
TD Bank	15,002,567
The Bank of Clarendon	135,776
United Community Bank	25,555
Wells Fargo Bank	375,603,799
TOTAL	842,454,914

Deposits in excess of federal insurance limits are collateralized in accordance with Statute 11-13-60.

Note: Prior to September 30, 2019-Previous Quarter Balances included Fixed Income and CDs for General Fund, State Pool, Long Term Pool and Insurance Reserve. In conformity with the South Carolina Code of Laws Section 11-5-120, the quarterly balances above represent Bank Balances as of the quarter end.

Regarding S.C. Code § 11-5-120, the STO website maintained various explanatory documents, including [SKM_C250i24031412030](https://www.treasurer.sc.gov/media/24031412030). (See graphic on the following page)

¹¹ The 3/31/2015 report resided on the STO website for about a year and was replaced around March 2016 with the report for quarter ending 12/31/15. <https://web.archive.org/web/20160312140046/http://www.treasurer.sc.gov:80/business/investment-information/>

¹² <https://web.archive.org/web/20200101161527/https://treasurer.sc.gov/media/81811/bank-balances-quarterly-statement-september-2019.pdf> and <https://web.archive.org/web/20190901152112/https://treasurer.sc.gov/media/81687/2019-0630-bankbal.pdf>

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.

The words “*money*” as well as “*funds*” are both used in S.C. Code § 11-5-120. The SCOIG observed that the legislature deliberately used two (2) different words in the same sentence and would not have done so if those words meant the same thing. More importantly, not providing funds [plural not singular] data in the S.C. Code § 11-5-120 publication would render the last eight (8) words of the statute superfluous.¹³

The plain language of S.C. Code § 11-5-120 requires the quarterly publication of a report for the public—Wall Street and Main Street alike—designed to transparently furnish South Carolinians with precise updates on the amounts of their money on hand, the financial institutions holding those deposits, and the respective funds to which the balances belong. The STO is in partial compliance with reporting of financial institution(s) deposits but is not complying with the second part of the statute by omitting fund-level detail at each financial institution.

B. Failure to Reconcile by Fund

The STO demonstrated for the SCOIG a SCEIS reporting function called “STO Cash Report.” The STO informed the SCOIG at the demonstration that the function is not performed monthly but only “when needed,” such as when an auditor (internal and/or external) requested it, or for the end of fiscal year closing package process for the ACFR.

During the demonstration, the STO informed the SCOIG that it can provide basic fund data as part of the bank balance reporting document per S.C. Code § 11-5-120. Additionally, the STO provided the SCOIG an example for TD Bank for period ending 6/30/2025 that included five (5) categories that comprised the total amount on deposit. However, the STO informed the SCOIG that despite the capability they do not provide that fund level data in the “best interest of the reader.”

Regular reconciliation by fund combined with reconciliation by bank account(s) would allow reliable ready production of the quarterly publication per S.C. Code § 11-5-120 including “the respective funds to which it belongs.” As illustrated above, the STO failed to provide any fund data in the current quarterly publication per S.C. Code § 11-5-120.

¹³ “A statute should be so construed that no word, clause, sentence, provision or part shall be rendered surplusage, or superfluous....” *Matter of Decker*, 322 S.C. 215, 219, 471 S.E.2d 462, 463 (1995) (quoting 82 C.J.S. Statutes § 346).

C. S.C. Code § 11-13-80 is not being satisfied for all banks

S.C. Code §§ 11-13-70, 80, and 90 are related statutes providing the following requirements related to banks or trust companies having deposits made by the STO:

<p>S.C. Code § 11-13-70 states: “Banks or trust companies having deposits made by the State Treasurer shall file a report with the Treasurer on the first day of each calendar month on forms furnished by the Comptroller General.”</p>	<p>S.C. Code § 11-13-80 states: “Banks or trust companies having on deposit funds of the State shall transmit monthly to the Comptroller General a copy of the report made to the State Treasurer under the provisions of SECTION 11-13-70.”</p>	<p>S.C. Code § 11-13-90 states: “In case any depository shall fail to render such statement at the time specified, without good cause shown, the State Treasurer shall at once withdraw all state deposits from such depository and close its account.”</p>
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The STO informed the SCOIG that the banks fall into three (3) categories:

- (a) most file electronically directly tied into SCEIS,
- (b) some provide the STO with electronic reports that the STO enters in SCEIS, and
- (c) a few provide the STO with paper reports that the STO enters in SCEIS.

S.C. Code §§ 11-13-70 and 11-13-80 were not satisfied by categories (b) and (c). These statutes impose an affirmative, independent obligation on the banks (as depositories) both to file reports directly with the STO and to transmit a copy of those reports directly to the CGO – to fulfill their separate duties. In contrast, the reporting to the CGO is not accomplished independently by the banks but occurs only through entries made by the STO into SCEIS. The CGO verified to the SCOIG that the CGO did not receive any reports/statements from the banks per S.C. Code 11-13-80.

This intermediary approach, while perhaps operationally efficient in a modern centralized accounting environment, fails to satisfy the basic requirements that the banks themselves “shall transmit” the copy to the CGO directly. A breach of the duties stipulated by [S.C. Code § 11-13-80](#) requires, per [S.C. Code § 11-13-90](#), that the STO “shall at once withdraw all state deposits from such depository and close its account.” The STO informed the SCOIG that [S.C. Code § 11-13-90](#) has never been invoked.

D. Summary of Findings and Recommendations

Finding § IV(A)-1: The STO’s duties are defined via Article VI, Section 7 of the Constitution of the State of South Carolina as those “prescribed by law.” S.C. Code § 11-5-120 mandates that the STO shall publish fund data. The STO currently publishes quarterly bank statements under S.C. Code § 11-5-120 but omits the respective funds to which the deposited monies belong. The STO is in partial compliance with the reporting statute but the failure to report the funds to which the deposited monies belong as required by law constitutes mismanagement.

Recommendation § IV(A)-1a: The SCOIG recommends that the STO follow the plain language of S.C. Code § 11-5-120 and fulfill the duty to publish fund data. Given the vast number of funds under the custody of the STO one solution to reporting the fund data is to report funds at each financial institution by homogeneous groups with a cumulative total for each group. This will achieve full compliance with S.C. Code § 11-5-120 and provide the necessary transparency to the public.

Recommendation § IV(A)-1b: The SCOIG investigation identified mismanagement in the partial reporting compliance of S.C. Code § 11-5-120 by the STO. Per S. C. Code § 1-6-40(A), the SCOIG must report this matter to the Governor. In view of the fact a determination that the mismanagement

may or may not constitute misconduct is beyond the SCOIG’s purview and analysis and requires further review per S.C. Code § 1-6-40(B).

Finding § IV(B)-1: One or more banks are not independently providing the CGO with monthly reports per S.C. Code § 11-13-80. The STO informed the SCOIG that the CGO has not provided forms per § 70 to the banks. Regardless, failing to “...at once withdraw all state deposits from such depository and close its account” any bank that is not independently providing the CGO with monthly reports per S.C. Code § 11-13-80 is a violation of S.C. Code 11-13-90 and constitutes mismanagement.¹⁴

Recommendation § IV(B)-1a: The SCOIG recommends that the STO immediately coordinate with the CGO and provide a full list of banks and accounts with contact information and that the CGO provide the appropriate forms to ensure those banks provide the CGO independent copies of the monthly bank reports.

Recommendation § IV(B)-1b: The SCOIG recommends that the legislature consider revising these three statutes to ensure that electronic compliance is acceptable and further consider the necessity of S.C. Code § 11-13-90: e.g. “at once withdraw all state deposits from such depository and close its account.”

Recommendation § IV(B)-1c: The SCOIG investigation identified mismanagement in the STO’s failure to comply with S.C. Code §§ 11-13-80 and 90. Per S. C. Code § 1-6-40(A), the SCOIG must report this matter to the Governor. In view of the fact a determination that the mismanagement may or may not constitute misconduct is beyond the SCOIG’s purview and analysis and requires further review per S.C. Code § 1-6-40(B).

V. Analysis of STO’s Appropriations, Budgeting, and Spending

The “Fiscal Year 2024-2025 General Appropriations Bill” (H.5100), ratified on 6/26/2024, along with subsequent allocations for the statewide pay increase and health insurance increase, provided \$14,108,182 to the STO, \$2,591,373 (18%) from General Funds, and an Other Funds authorization of \$11,516,809 (82%). Other Funds include revenue from federal sources or funds generated by the agency, such as fees, fines, licenses, and service charges.

State Treasurer's Office			
Appropriation, Authorization, and Actual Expenses For Fiscal Year 2025			
	General Fund Appropriation	Other Funds Authorizaton	FY 2025 Agency Totals
Appropriation, Authorization	<u>2,591,373</u>	<u>11,516,809</u>	<u>14,108,182</u>
Actual Expenses			
Salaries	1,643,851	5,221,813	6,865,664
Fringe	680,766	2,164,147	2,844,913
Operating Expenses	<u>266,756</u>	<u>2,743,436</u>	<u>3,010,192</u>
Total Actual Expenses	<u>2,591,373</u>	<u>10,129,395</u>	<u>12,720,768</u>
Unspent FY2025 Authorization	<u>-</u>	<u>1,387,414</u>	<u>1,387,414</u>

¹⁴ Ibid.

The STO fully expended to the dollar its general fund appropriations for FY 2025. It did so in each of the past five FYs. The STO management confirmed that this full exhaustion of its general fund appropriation was an intentional effort and guided by the STO's "Budget and Finance Policy and Procedures" guide with instructions found in its year-end procedures section:

"If necessary, process JEs [journal entries] to clear the general fund appropriations for the year. This should be done after all payables have been processed for the year."

If unspent general fund appropriations existed at year's end, the only way to comply with the STO's year-end instruction would be to reclassify or move expenses from one or more of the functions supported by Other Funds to a function supported by the general fund appropriation, thereby reducing the unspent appropriations. If those expenses were correctly classified in Other Funds functions, moving them "to clear the general fund appropriations for the year" would be an intentional misclassification of expenses, a violation of Generally Accepted Accounting Principles-Financial Accounting Standards Board (GAAP-FASB) and standards of the Governmental Accounting Standards Board.¹⁵

A. The STO's Other Funds Appropriation and Spending

The South Carolina General Assembly requires state agencies to submit detailed, itemized reports of all anticipated "Other Funds" as part of their budget request to the governor. Subsequently, the General Assembly authorizes all Other Funds in the annual appropriations act, which contains conditions on the expenditure of those funds (S.C. Code § 2-65-20).

The STO tracks and reports budget activity by each of its agency functions, using SCEIS cost centers. The functions supported by the general fund appropriation consist of agency administration, internal operations, planning, accounting, banking, IT, and the Able Savings Program. The functions supported by the Other Funds authorization consist of:

- Court Fines and Fees
- Debt Management
- Investment Management
- The Local Government Investment Pool (LGIP)
- The Unclaimed Property Program (UPP)
- The College Savings Plan

The 2024-2025 General Appropriation Bill permitted the STO to assess fees and use certain funds to offset the costs of its Other Funds functions. Under the Unclaimed Property Act (SC Code § 27-18-240), the STO may retain a portion of surrendered unclaimed funds to offset the Unclaimed Property Program's cost. The relevant 2024-2025 budget provisos and the Unclaimed Property statute are provided below:

98.4. (TREAS: Management Fees) The State Treasurer is authorized to charge a fee for the operating and management costs associated with the Local Government Investment Pool, the Deferred Compensation Program, the Tuition Prepayment Program, and the College Investment Program and is further authorized to retain and expend the fees to provide these services. *The fees assessed may not exceed the cost of the provision of such services.* [emphasis added]

¹⁵ GAAP & FASB – Consistency and Materiality Principles: Moving expenses in a way that differs from previous periods violates the principle of consistency. GASB – Functional Reporting Misclassification: Moving expenses from functional areas (e.g., public safety) to (e.g., general government) violates GASB standards regarding how costs are classified by function in financial statements.

98.5. (TREAS: Investment Management Fees) Unless otherwise prohibited by law, the State Treasurer may charge a fee for the operating and management costs associated with the investment management and support operations of various state funds and programs, and further, may retain and expend the fees to provide these services. *The fees assessed may not exceed the actual cost of the provision of these services or the earnings on these investments.* [emphasis added]

98.6. (TREAS: Debt Management Cost Allocation) Unless otherwise prohibited by law, the State Treasurer may charge actual costs associated with the administration and management of the indebtedness of the State, its agencies and institutions, and further, may retain and expend any amounts so allocated to provide these services. Costs associated with the original issuance of bonds and other indebtedness must be assessed on an hourly basis, must be taken from the costs of issuance of any bond issue or other indebtedness, and must not exceed the actual cost of providing these services. Ongoing costs of administration and maintenance must be assessed against expenses of debt service *and must not exceed the actual costs of providing these services.* [emphasis added]

Title 27, Chapter 18 Uniform Unclaimed Property Act – SC Code § 27-18-240.

(B) Before making any deposit to the credit of the general fund, the administrator may deduct:

- (1) Any costs in connection with the sale of abandoned property;
- (2) Costs of mailing and publication in connection with any abandoned property;
- (3) *Reasonable service charges;* and [emphasis added]
- (4) Costs incurred in examining records of holders of property and in collecting the property from those holders.

The General Assembly included language in each proviso that required the STO's fee assessments to reflect only the actual costs of the Other Funds functions. The Unclaimed Property Act permitted the STO to retain proceeds from surrendered property to cover "*reasonable service charges*" and certain specific costs. An accurate classification of expenses is required to ensure that the fees assessed match the actual costs and that the unclaimed property proceeds offset only "*reasonable service charges.*"

The STO advised that its Administration Division provides a recommended agency budget (projected and actual expenses) which is reviewed and approved during monthly budget meetings with the chief of staff, deputy state treasurers, and administration finance staff. Budget performance is monitored in monthly budget meetings. In its FY 2025 budget request, the STO requested an increase in its Other Funds authorization for banking system enhancements, the general pay increase, associated employer contributions, and six full-time equivalent (FTE) positions. The General Assembly approved two FTEs and the balance of the request.

The STO's FY 2024 Other Funds authorization was \$10,375,809, and the General Assembly approved \$11,326,809 for FY 2025, an increase of \$951,000. During FY 2025, the STO requested an additional \$190,000 in authorization to offset the FY 2025 statewide general pay increase and the employee health insurance increase, which was approved by the Executive Budget Office (EBO). The STO's final FY 2025 Other Funds authorization totaled \$11,516,809, an increase of \$1,141,000 over its FY 2024 authorization.

The STO assessed fees and used funds totaling \$10,353,410 for FY 2025, which was \$1,163,399 less than the authorization allowed. As a result, the STO did not utilize any of its FY 2025 authorization increase. Not only did the STO not utilize its FY 2025 Other Funds authorization increase but its actual expenses of \$10,129,395

could have been funded within its FY 2024 authorization of \$10,375,809. The STO's Other Funds budgetary surplus contrasts with the STO fully expending its General Fund Appropriation for FY 2025. (See Table 4)

Table 4

State Treasurer's Office							
Other Funds Authorization and Actual Expenses For Fiscal Year 2025							
	Total Other Funds Functions	Court Fines	Debt Management	Investments	Local Govt. Investment Pool	Unclaimed Property Program	College Savings Plan
Other Funds Authorization	<u>11,516,809</u>	<i>Note: STO staff advised that budget "is not tracked" by these Other Funds areas.</i>					
Actual Fees/Funds Collected	<u>10,353,410</u>	<u>98,601</u>	<u>1,639,692</u>	<u>3,294,542</u>	<u>1,771,292</u>	<u>2,481,912</u>	<u>1,067,371</u>
Actual Expenses							
Salaries	5,221,813	63,459	764,535	1,522,413	1,065,769	1,215,009	590,627
Fringe	2,164,147	25,708	311,637	630,732	437,376	525,566	233,126
Operating Expenses	<u>2,743,436</u>	<u>6,823</u>	<u>492,310</u>	<u>1,177,925</u>	<u>177,162</u>	<u>736,433</u>	<u>152,782</u>
Total Actual Expenses	<u>10,129,395</u>	<u>95,991</u>	<u>1,568,483</u>	<u>3,331,071</u>	<u>1,680,308</u>	<u>2,477,008</u>	<u>976,536</u>
Unspent* Other Funds Athorization	<u>1,387,414</u>	<i>*Note: STO's unspent Other Funds Appropriation cannot be carried forward.</i>					
Surplus/(Deficit)-Fees Minus Expenses**	<u>224,015</u>	<u>2,610</u>	<u>71,209</u>	<u>(36,529)</u>	<u>90,984</u>	<u>4,904</u>	<u>90,835</u>
<i>**Note: While Other Funds Authorization cannot be carried forward, STO did carryforward cash totaling \$666,368 to FY2026, which is comprised of the FY2025 Surplus of fees over actual expenses of \$224,015 plus an accumulated cash surplus from prior years.</i>							

The STO's FY 2025 actual fees assessed/funds utilized (revenue) totaled \$10,353,410, and its actual expenses totaled \$10,129,395, and resulted in a cash surplus of \$224,015 that was carried forward to FY 2026. The STO carried forward a total of \$666,368 in cash to FY 2026, consisting of the FY 2025 surplus and accumulated surpluses from previous fiscal years. While unspent Other Funds authorization cannot be carried forward, a budget surplus, or the difference between the actual fees (revenue) and actual expenses, results in cash that can be carried forward to the next fiscal year. The actual cost to operate the STO's other funds programs was \$10,129,395 in FY2025. The actual fees accessed was \$10,353,410 - which exceeded the statutory limitations "not to exceed actual costs of providing these services."

The EBO monitors the amount of Other Funds cash agencies carry forward and requires those agencies to provide justifications for seeking to carry forward an amount greater than one-sixth (16.5%) of the agency's prior year expenses. The STO's \$666,368 cash carryforward was 6.58% of its prior year expenses.

The SCOIG also observed sizeable unspent authorizations in FY 2024 (\$701,406), FY 2023 (\$916,400), and FY 2022 (\$626,449), which is an indicator of a budgeting process that seeks to inflate its actual needs, resulting in excess Other Funds authorizations. The STO had no reliable process for assessing program costs in that it requested an increase of \$1,141,000 in Other Funds authority and did not utilize \$1,387,414 of its total authority in FY 2025. See [Appendix A](#) for a five-year comparison of STO Other Funds authorizations, assessed program costs and program expenses.

B. STO Accounting Practices

The SCOIG determined that the STO made extensive use of expense allocations among its General Fund and Other Funds functions, which GASB recognizes as an acceptable accounting practice to determine "the full cost of services in activities and programs." While direct expenses, those attributable only to a single function,

should be recorded in full to that function, indirect expenses can be allocated among functions provided there is a sound and justifiable basis for the allocation. The Government Finance Officers' Association (GFOA) recommends [Indirect Cost Allocation](#) as a best practice for various purposes, including setting service fees.

The GFOA described two main methods for allocating indirect costs: determining an indirect cost rate or creating a cost allocation plan. The GFOA explained that determining an indirect cost rate can be complex and must adhere to strict guidelines, as in its use in federal grant accounting. The GFOA emphasized that any cost allocation plan, whether formal or informal, should allocate expenses using a documented, logical method that can withstand external review by auditors and oversight bodies.

The SCOIG found that the STO did not have a formal cost allocation plan but provided guidance on allocation procedures in its Budget and Finance Policies and Procedures guide. According to the guide, deputy treasurers review salary allocations for their divisions annually as part of the budgeting process. The SCOIG interviewed a STO staff member who advised that allocations are reviewed and discussed in monthly budget meetings.

While the STO's guide explains how allocations are performed, it does not provide the rationale or basis for those allocations. A cost allocation plan would include both the "how" and the "why," thereby enhancing transparency for external auditors and oversight bodies. The GFOA also notes that including the basis for the allocation and its associated calculation in payment documentation is a best practice.

C. Analysis - STO Allocation of Salaries, Benefits, and Operating Expenses

The SCOIG reviewed an SCEIS "Position Funding Report" from October 2025, which provided details on where each employee's salary and fringe costs are "funded" (or charged), revealing that the STO extensively allocated those costs. Of the 77 employees listed, 57 had their salary and fringe cost allocated to at least two or more functions, while 100% of the salary and fringe cost of the remaining twenty were charged to a single function. The STO's Budget and Finance Policies and Procedures guide did not provide the rationale or basis for allocating the costs of the 57 employees. The remaining 20 employees included the State Treasurer, legislative liaison, 15 Unclaimed Property Program employees, and three Debt Management employees.

A breakdown of salaries and fringe costs by function, along with the number of employees whose salaries and fringe costs (or portions thereof) allocated to each function is set forth in Table 5 on the following page.

Table 5

Office of the State Treasurer Analysis of Personal Service Expense Allocations to STO Functions (Cost Centers) For Fiscal Year 2025														
Fiscal Year 2025 Total	Allocations to General Fund Functions (Fund 10010000)							Allocations to Other Funds Functions (Fund 30350000)						
	Admin.	Planning	Operations	Accounting	Banking	Information Technology	Able Savings	Court Fees and Fines	Debt Investments	Debt Service	LGIP	Unclaimed Property	College Savings	
Personal Services Expense:														
Salaries	\$6,865,664	\$278,074	\$208,706	\$75,444	\$565,348	\$398,216	\$80,516	\$37,546	\$63,459	\$1,522,413	\$764,535	\$1,065,769	\$1,215,009	\$590,627
Fringe	<u>2,844,913</u>	<u>112,024</u>	<u>79,544</u>	<u>29,314</u>	<u>243,877</u>	<u>170,387</u>	<u>26,309</u>	<u>19,310</u>	<u>25,708</u>	<u>630,732</u>	<u>311,637</u>	<u>437,376</u>	<u>525,566</u>	<u>233,126</u>
Total Personal Services	9,710,576	390,099	288,250	104,758	809,226	568,603	106,825	56,857	89,167	2,153,146	1,076,172	1,503,146	1,740,575	823,754
Numbers of Employees:														
Charged to Only One Function	2	0	0	0	0	0	0	0	0	0	3	0	15	0
Charged to Two or More Functions*	0	12	7	11	13	5	1	5	51	24	42	27	27	30

**These amounts represent the number of employees with portions of their salary and fringe cost charged to the function.*

In total:
 14 employees were allocated to two functions
 16 employees were allocated to three functions
 3 employees were allocated to four functions
 4 employees were allocated to five functions
 20 employees were allocated to six functions
 57

Based on a SCEIS RH086 Position Funding Report which listed a total of 77 active employees.

The SCOIG reviewed and analyzed \$2,506,826 or 83% of the STO’s Other Operating Expenses for FY 2025, which totaled \$3,010,192. SCOIG’s process involved selecting and analyzing certain general ledger accounts, including those with significant dollar amounts, those with expense allocations, and those whose purpose was unclear. The review and analysis covered invoices from 29 vendors, including other state agencies that provided services to the STO. The SCOIG accessed and reviewed purchase orders issued to vendors, as well as vendor invoices and documentation that the STO scanned to SCEIS to support vendor payments.

The SCOIG determined that the STO broadly allocated its other operating expenses. Invoices from 21 of the 29 vendors were allocated to two or more STO functions, and 17 of the 21 were allocated to functions in both the General Fund and Other Funds areas. The expense allocations were assessed to determine whether the STO’s accounting accurately reflected the true costs in the Other Funds functions, consistent with the relevant provisos and the statute. In many instances, STO’s reported expenses could not be established as the “actual costs” due to the absence of a basis or justification for the STO’s allocations.

D. Vendor Analysis of Misallocation/Misclassification of Operating Expenses

Department of Administration – Division of Technology (DTO) – FY 2025 Total - \$251,018

DTO provided extensive services to the STO, including Microsoft applications, data backup and storage, email, Internet access, firewall and router support, VPN, and server management. DTO’s FY 2025 charges were the STO’s third-largest operating expense and were allocated to both General Fund functions (18% total) and Other Funds functions (82% total), as shown in the table below. The absence of allocations to five General Fund functions, where DTO clearly provided services, understated the cost of those functions and overstated the cost of other functions. The 25% allocation of DTO charges to the Unclaimed Property Program (UPP), when compared to the lesser allocations to Debt and Investments, seemed incorrect given that the Debt and Investment systems are housed and maintained within DTO/SCEIS, where the UPP system is an online system provided and maintained by the vendor (see Kelmar invoices below).

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
1%	0%	17%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
1%	21%	21%	7%	25%	7%	100%

Department of Administration-Rent State-Owned Property - FY 2025 Total – \$240,461

The Department of Administration invoices agencies for occupancy charges of state-owned property. Rent charges are the STO’s fourth-largest operating expense, and those charges were allocated to both General Fund Functions (18% total) and Other Funds Functions (82%). The STO did not allocate any rent charges to five General Fund functions. Rent is typically allocated based on FTEs or their footprint, and SCOIG’s analysis determined that portions of the salaries of 49 employees were allocated to those 5 functions. The absence of allocations to those five functions understated their cost and overstated the cost of other functions.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
1%	0%	17%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
1%	26%	25%	5%	20%	5%	100%

Department of Administration-Security Surcharges – FY 2025 Total - \$18,447

The Department of Administration invoices the STO for security surcharges associated with its occupancy of the Wade Hampton building. The SCOIG found that this cost was allocated to only one of the seven General Fund functions, and two-thirds of the surcharges were allocated to Investments and the UPP. These charges appear to be occupancy-related, which would call for an allocation to all functions based on FTEs or their footprint.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	22%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	46%	3%	3%	20%	7%	100%

Department of Administration-State-owned Property - Maintenance, Operations, and Excess Energy Charges – FY 2025 Total - \$37,853

The SCOIG believed this expense was rent-related and expected the STO’s allocation to be utilized on the same basis as the rent allocation, which would require allocations to all General Fund functions.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
1%	0%	9%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
1%	30%	27%	10%	11%	12%	100%

Insurance Reserve Fund-General Property and Liability Insurance – FY 2025 Total - \$43,697

The SCOIG found that the general tort liability portion of the STO’s IRF premium was \$41,633 or 95% of its total premium. The general tort liability premium is based on the number and types of an agency’s employees, plus the amount of prepaid legal coverage an agency purchased. Prepaid legal coverage amounts and premiums are standard across all state agencies. The SCOIG did not determine the amount of prepaid legal coverage the

STO purchased, but based on the standard premiums, SCOIG determined that the portion of the STO’s general liability premium attributable to the number of the STO’s employees was at least 59%, which would require an allocation to all functions. The allocation shown in the table below did not match the number of employees allocated to each function.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
1%	0%	17%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
1%	26%	25%	5%	20%	5%	100%

Soteria – Security Assessment – FY 2025 Total - \$39,674

Soteria is a state vendor that provides consulting services and solutions to prevent, detect, and respond to cybersecurity incidents. The STO engaged Soteria to perform a security assessment of the agency. Soteria is a contractor to the Division of Information Security to assess the compliance of all state government agencies with state information security and privacy policies and procedures. The documentation the SCOIG reviewed did not include the scope of the STO’s security assessment.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	1%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	27%	22%	11%	22%	17%	100%

Soteria – Data Analytics – FY 2025 Total - \$30,421

The STO engaged Soteria to provide what was described in Soteria’s invoices as “*data analytics*,” and the STO charged the cost solely to Investments. Soteria’s invoice and the STO’s documentation did not provide a sufficient description of the services provided.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	100%	0%	0%	0%	0%	100%

Blue Hill Data Services – FY 2025 Total - \$190,132

The STO’s FY 2025 purchase order to Blue Hill totaled \$237,200 and included services described as “*Applications*” [support?], “*Data Control*”, “*Database Admin*”, and “*Consultant*.” The Blue Hill invoices referred to an “*Applications, Data Control, DBA Support Contract – Effective 4/8/2020*,” and the invoiced amounts were described as a “*Weekly Retainer*” of \$1,890 per week.

The STO advised that Blue Hill supports STO’s legacy debt management system, developed in the early 1980s and housed on the state’s mainframe system, as well as other STO functions. The DTO provides mainframe services for the STO’s legacy debt management systems and approximately six other legacy systems utilized by other state agencies. The DTO advised that efforts are underway to replace all legacy systems. The STO’s 44% allocation to the Debt function equates to an annual cost of \$83,658 to support the legacy debt system.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	11%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	45%	44%	0%	0%	0%	100%

Willoughby, Humphrey & D’Antoni – FY 2025 Total - \$80,442

This law firm invoiced the STO during FY 2025 for legal fees that identified three matters. Two of the matters involved litigation named on the invoices, with associated legal fees totaling \$19,218. The balance of the fiscal year invoices totaling \$61,214 were identified as “Matter Number: 0693-0070” and not otherwise identified. All the firm’s invoices were allocated to both the General Fund functions and Other Funds functions, as shown in the table below, except for two invoices charged solely to the Debt function, one involving “Matter Number 0693-0070” totaling \$23,940, and the second that totaled \$1,170 and involved one of the litigation matters.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	7%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	23%	50%	16%	2%	2%	100%

Heather Smith and Associates – FY 2025 Total - \$19,200

Heather Smith is a registered lobbyist, and her invoices to the STO described her services as either “Legislative Monitoring” or “Legislative Services in South Carolina.” Smith has been engaged by the STO continuously since March 2023. The State Ethics Commission advised that the STO has not filed a “State Agency Lobbyist’s Principal” disclosure, which would be required if Smith were conducting lobbying activity on behalf of the STO. The STO verified that Smith does not conduct lobbying on behalf of the STO. The State Ethics Commission advised that legislative monitoring may not represent lobbying activity.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	17%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	16%	20%	7%	36%	5%	100%

Deloitte – FY 2025 Total - \$383,186

The STO issued a purchase order to Deloitte for FY 2025 totaling \$458,862, listing the service to be provided as “Audits.” The Deloitte invoices described the services as “Internal Audit” and “Cash/Investments analysis.” Payments to Deloitte were the STO’s largest operating expense. Deloitte’s invoices and the STO’s payment documentation did not identify areas covered by the internal audits. The Office of the State Auditor approved the use of Deloitte and has oversight of their performance at the STO.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	6%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	55%	21%	9%	5%	5%	100%

Suggs Johnson, LLC – FY 2025 Total - \$18,250

Suggs Johnson, LLC is a CPA firm, and its invoices list the services performed for the STO as “*professional services rendered in connection with our preparation of the SC State Treasurer’s Office financial statements for the year ended June 30, 2024.*” The STO’s purchase order to Suggs stated the service was “Audit.” The Office of the State Auditor, which is required to perform oversight of CPA firms’ engagements with state agencies, advised that the STO’s engagement of Suggs Johnson, LLC was to “compile” (prepare) the STO’s financial statements and not to audit the STO. The SCOIG determined that the cost of preparing financial statements, if allocated, should be allocated to all agency functions. The absence of an allocation to five General Fund functions understated the cost of those functions and overstated the cost of other functions.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	17%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	15%	20%	7%	36%	5%	100%

The Hobbs Group, PA – FY 2025 Total - \$28,700

This vendor is a CPA firm, and their invoices list the service provided to the STO as “*Completion of your audited financial statements for the year ended June 30, 2024.*” Both Suggs Johnson, LLC, and The Hobbs Group, PA provided services to the STO for the year ended June 30, 2024. The Office of the State Auditor confirmed that The Hobbs Group, PA, performed the STO’s FY 2024 audit. The involvement of these two firms, with one preparing the STO’s financial statements and the other performing the STO audit, has been in place since at least 2019. The SCOIG determined that the cost of auditing an agency, if allocated, should be allocated to all functions of the agency. The absence of an allocation to five General Fund functions understated the cost of those functions and overstated the cost of other functions. The Hobbs Group, PA’s “*Independent Auditors’ Report on Internal Control Over Financial Reporting.....*” dated December 11, 2024, advised, “The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*”

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	17%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	15%	20%	7%	36%	5%	100%

Find Great People, LLC – FY 2025 Total - \$123,681 (named temp employees)

This vendor is a recruitment, staffing, human resources consulting, and temp agency. The SCOIG has listed this vendor twice because our analysis found two different services provided. The STO’s purchase order for these services stated “*TM/Admin Temps – Pam; TM/Admin Temps – Brenda; TM/Admin/UPP Temps – Darden; and Communications Temp.*” These invoices were billed to the Temporary Services (5021520000) general ledger account for three temporary employees at rates of \$30.80, \$34.47, and \$35.00 per hour. Two of the temporary employees’ services were invoiced regularly throughout the fiscal year, while the third was invoiced occasionally. The SCOIG estimated a total of 2,500 hours were invoiced for the fiscal year. The invoices for two of the three temporary employees were allocated to six functions using the same percentage distribution throughout the fiscal year. The third employee’s invoices were charged solely to the Unclaimed Property Program (UPP).

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	14%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	26%	22%	9%	21%	9%	100%

Find Great People, LLC – FY 2025 Total - \$37,410 (HR Services)

The STO issued a second purchase order to Find Great People, LLC, with “*HR Services*” listed as the requested service. Find Great People, LLC’s invoices did not provide any details about the services provided but did include weekly charges for varying hours at \$100.00 per hour. The invoices also included charges for background checks at \$60 each. All invoices were allocated using the same percentage distribution to five of the six Other Funds functions. No allocation was made to any General Fund functions.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	32%	40%	7%	11%	10%	100%

Meketa Investment Group – FY 2025 Total - \$98,667

The STO’s purchase order and this vendor’s invoices all refer to investment consulting services, and all invoices were charged to the Investments function.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	100%	0%	0%	0%	0%	100%

Hannah News Service-Midwest, LLC – FY 2025 Total - \$3,099

This vendor’s invoices described its service as a subscription for “*Hannah Legislative Tracking – SC Cabinet State Agencies.*”

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	5%	15%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	33%	20%	7%	10%	10%	100%

Treasury Advisors Group – FY 2025 Total - \$10,000

This vendor listed the service they performed as “*Bank Service Fee Assessment (Eight Banks)*” and an “*Administration Fee.*”

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	75%	0%	25%	0%	0%	100%

Resolution Technologies, Inc. – FY 2025 Total - \$22,470

This vendor advertises that it is a leader in IT staffing and consulting. The STO’s purchase order to this vendor listed the item ordered as “*HR Services.*” The vendor’s invoices included weekly billing for varying hours for an “*IT Operations Lead*” at \$105.00 per hour. Payment documentation the STO included with one invoice stated, “*I believe this is related to recruiting efforts for [an employee].*”

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	1%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	35%	24%	9%	20%	10%	100%

Protiviti Government Services, Inc. – FY 2025 Total - \$221,254

This vendor advertises that it is a global consulting firm offering a variety of services to government clients. The STO issued a purchase order to Protiviti on 10/3/2024 for \$217,034.80, listing the item ordered as “*staffing services.*” The SCOIG’s analysis of this vendor’s invoices identified the following services listed on the invoices:

Business Analyst – 617.5 hours at \$90.36 per hour	\$ 55,797.30
Subject Matter Expert II* – 168.25 hours at \$225.00 per hour	37,856.25
Employee Recruitment Fees – six employees	<u>127,600.00</u>
Total	\$221,253.55

The STO recorded the total of this vendor’s charges to the Investments function. The vendor’s invoices for the recruitment fees identified the six employees by name and job title, and none appeared to be exclusively assigned to the Investment function. The vendor’s invoices identified the “*Subject Matter Expert II*” as a former STO employee who, based on email correspondence provided to the SCOIG, was acting during FY 2025 as a consultant to the STO in relation to the AlixPartners “*State Treasury Forensic Accounting Review.*” The SCOIG determined that there was no legitimate basis for charging the entirety of the “*Subject Matter Expert II*” fees and the recruitment fees to the Investments function and doing so was inappropriate.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	100%	0%	0%	0%	0%	100%

**The Subject Matter Expert II was identified as a former state employee.
The STO purchased \$37,383 in services from Protiviti during the previous fiscal year (FY 2024).*

Infinity Marketing – FY 2025 Total - \$72,258

The STO issued a purchase order to Infinity Marketing on 10/2/2024 for \$72,258, listing the ordered item as “*Communications.*” Infinity Marketing’s invoices listed the services as “*Crisis Communication.*” The SCOIG determined that there was no legitimate basis for charging this expense entirely to the Investments function, and doing so was inappropriate.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	100%	0%	0%	0%	0%	100%

William W. Holder, DBA – Professor – Univ. of Southern California – FY 2025 Total - \$19,680

The vendor’s invoices dated December 2024 and January 2025, listed hours spent reviewing documents and preparing for and participating in various meetings related to the ACFR. The vendor billed 26.24 hours at \$750.00 per hour. This vendor has been identified to the SCOIG as a consultant to the STO, providing services related to the AlixPartners “*State Treasury Forensic Accounting Review.*” The SCOIG determined that there was no legitimate basis for charging this expense entirely to the Investments function, and doing so was inappropriate.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	100%	0%	0%	0%	0%	100%

Financial Surety Underwriters, LLC – FY 2025 Total - \$6,044

This vendor provided a \$10 million government crime policy. The SCOIG observed that exposure and the number of employees are both factors in determining the premium for a government crime policy. The SCOIG determined The STO’s allocation of this expense was not correct due to the absence of any allocation to the accounting and banking functions, where risk was obvious.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
1%	0%	17%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
1%	35%	10%	10%	12%	14%	100%

HUB International Carolinas – FY 2025 Total - \$35,881

This vendor provided a cyber liability insurance policy.

General Fund Functions:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	17%	0%	0%	0%	0%
Other Funds Functions:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	15%	20%	7%	36%	5%	100%

KG Workforce Solutions – FY 2025 Total - \$9,331

This vendor advertises that it provides “*HR Consulting, Recruiting, and Compensation [consulting].*” The STO issued a purchase order on 7/9/2024 to this vendor totaling \$10,000 for “*HR Services.*” The vendor’s invoices did not specify the services provided; they listed only the number of hours for each weekly period at a rate of \$99.00 per hour. The total billings were charged to the UPP.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	0%	0%	0%	100%	0%	100%

LexisNexis – FY 2025 Total - \$13,621

This vendor’s invoices included fees for various services, including identity and location searches for the owners of unclaimed property surrendered to the state, as well as other searches to verify ownership claims for surrendered property. All invoices were properly charged to the UPP.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	0%	0%	0%	100%	0%	100%

Milliman – FY 2025 Total - \$7,500

This vendor provided actuarial services to the STO to establish the state's liability for future claims arising from surrendered unclaimed property. The STO properly charged Milliman’s fee to the UPP.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	0%	0%	0%	100%	0%	100%

Palmetto Shop - FY 2025 Total - \$5,729

This vendor provided promotional advertising materials, including 2,500 “Push Pop Stress Balls” charged to the College Savings function and 80 “Alfresco Cooler Bags” charged to the LGIP function.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	0%	0%	19%	0%	81%	100%

Dave Cowley Incentives – FY 2025 Total - \$7,674

This vendor provided promotional advertising materials that included 500 “Wolverine Gripper Pens” and 2,000 “Thrifty Pig Stress Relievers”, which were charged to the Able Savings Program.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	100%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	0%	0%	0%	0%	0%	100%

Young Office – FY 2025 Total - \$51,907

This vendor provided and installed six cubicles, and the cost was charged entirely to the Investments function. The STO’s purchase order and the vendor’s invoices did not provide details on where the cubicles were located.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	100%	0%	0%	0%	0%	100%

Kelmar Associates – FY 2025 Total - \$374,368

This vendor provided multiple services to the UPP, and all the vendor’s charges are recorded to the UPP function.

General Fund Cost Centers:						
Admin	Planning	Int. Ops.	Acctg.	Banking	IT	Able Sav.
0%	0%	0%	0%	0%	0%	0%
Other Funds Cost Centers:						
Court	Invest.	Debt	LGIP	UPP	College	Total
0%	0%	0%	0%	100%	0%	100%

The STO leases an online unclaimed property management system (KAPS) from Kelmar Associates under a Subscription-Based Information Technology Arrangement (SBITA). The previous SBITA expired in July 2024 and was replaced by a new SBITA with a commencement date of 8/1/2024 and a 96-month term. Under the current SBITA, the STO is required to make monthly payments of \$21,288 through July 2031. In addition to the lease payments, Kelmar invoiced the STO for identification and authentication searches utilizing LexisNexis as a subcontractor, and transaction fees (KFI transactions) for online claims at \$0.50 per transaction. Other Kelmar charges include “*data match fees*”, storage fees for data exceeding 1TB, and call center charges where Kelmar answers claimant calls to the STO during periods of high call volume. The table below lists the Kelmar invoices for FY 2025, by month.

Kelmar Associates - FY2025 Invoices Breakdown*								
Services for Month of:	Invoice Totals	KAPS System Lease Pmts.	KAPS Services				Other Charges	
			LexisNexis LexID	LexisNexis Authentication	LexisNexis Best Address	KFI Transactions	Descp	Amount
July	23,477.17	18,742.50	79.04	3,093.75			Website	1,561.88
Aug.	24,625.92	21,288.28	202.64	3,135.00				
Sept.	24,025.95	21,288.28	948.92	1,788.75				
Oct.	38,859.48	21,288.28	12,192.20	2,367.50		3,011.50		
Nov.	38,256.47	21,288.28	10,337.44	2,871.25		3,759.50		
Dec.	30,387.99	21,288.28	1,185.96	3,356.25		4,557.50		
Jan.	29,973.87	21,288.28	142.84	3,593.75		4,949.00		
Feb.	28,481.26	21,288.28	270.48	2,817.50		4,105.00		
Mar.	38,642.40	21,288.28	640.12	2,308.75	2,259.50	3,445.50	Data Match Fees	8,700.25
Apr.	31,044.51	21,288.28	56.12	1,797.50		2,858.50	Images Storage Cost Over 1TB	4,200.00
May	39,784.31	21,288.28	375.32	7,543.75		10,176.50	Call Center Chgs.	844.11
June	26,808.66	21,288.28	140.88	2,110.00		3,269.50	Call Center Chgs.	400.46
Totals*	374,367.99	252,913.58	26,571.96	36,783.75	2,259.50	40,132.50		15,706.70

* Amounts shown do not include Kelmar audit fees for unclaimed property audits under Proviso 98.11 of multi-state companies believed to be holding property belonging to South Carolina citizens.

E. Summary of Findings and Recommendations

Finding § V(A)-1: The STO's process and practice of reclassifying expenses from Other Funds functions that were properly classified to zero-out its General Fund Appropriation, violates GAAP and results in the inaccurate accounting of expenses in both the General Fund functions and Other Fund functions.

Recommendation § V(A)-1: The STO should eliminate the practice of reclassifying expenses to zero-out its General Fund Appropriation.

Finding § VI(A)-2: The STO inflated its budget estimates of Other Funds, resulting in excessive Other Funds Authorizations that are not needed or utilized.

Recommendation § V(A)-2: The STO must present budget requests that equate to the projected actual cost of its Other Funds functions.

Finding § V(C)-2: The STO does not have a cost allocation plan, resulting in a less-than-transparent basis of cost allocations, making it impossible to determine if the expenses charged to its Other Funds functions include only actual costs consistent with the provisos and statute.

Recommendation § V(C)-1: The STO must prepare and maintain a cost allocation plan sufficient for auditors and oversight bodies to determine the accuracy of the STO's accounting of the Other Funds functions' costs.

VI. Unclaimed Property Program

A. Audits of Unclaimed Property Holders


Title 27, Chapter 18, the Unclaimed Property Act names the State Treasurer, including his agents and representatives, as the "*administrator*" of the Act. The Act provides the administrator with the authority, under S.C. Code § 27-18-310, to examine the records of organizations that have not filed unclaimed property reports to determine whether they have complied with the Act. The following budget proviso places requirements on the administrator's use of third-party, private sector auditors as follows:

98.11 (TREAS: Unclaimed Property) The State Treasurer may not expend funds to retain a third party, private sector auditor, or auditing firms to fulfill his duties pursuant to the South Carolina Uniform Unclaimed Property Act on a contingency basis or any basis other than an hourly basis, with the exception that the State Treasurer may join other state(s) in multi-state contingent fee auditors' examinations, not to include companies whose parent company is headquartered or incorporated in South Carolina, when there is a reason to believe that those companies being audited are holding funds belonging to South Carolina citizens. The Office of State Treasurer shall retain \$200,000 from the Unclaimed Property Program for the sole purpose of employing internal compliance auditors to enforce the Unclaimed Property Act.

The SCOIG's review and analysis of the Unclaimed Property Program (UPP) expenses identified three procurement solicitations issued in the last 15 years for unclaimed property audit services. The most recent solicitation awarded contracts to five firms for audit services from 5/3/2021 through 7/30/2026. Analysis of UPP operating expenses did not identify any payments recorded in SCEIS for any of the five contracted firms.

The SCOIG conducted a sampling analysis of the five firms and selected Kelmar Associates. Analysis of Kelmar Associates invoices provided by the STO for the period of 7/1/2017 to the present identified that Kelmar performed audits on a contingency-fee basis, deducted its audit fees from the cash value of the identified property and remitted the balance to the state.

The detailed invoices, dating from 2017 through 2023, provided the name of the audited entity, the composition and total value of property identified, its cash value, Kelmar’s audit fee, and the net property value transferred to the state after deducting the audit fee. Numerous Kelmar invoices revealed that insufficient cash existed for Kelmar to deduct their audit fee. In those instances, Kelmar deducted its fees from property identified during future audits and reported the deduction on invoices covering those future audit engagements. Those Kelmar audit invoices that reported large cash values typically included not only Kelmar’s fee for that audit, but also deductions for past audits in which the cash value had been insufficient to cover Kelmar’s fee. The delayed deduction of fees to future audit engagements obscured the audit trail and accountability for the fees. One such invoice, shown below, included deductions for 23 previous audits.

	KELMAR	Invoice No. 2020-SC-035	Project KEL19894
		Invoice Date 11/30/2020	

Dayle DeLong
 South Carolina State Treasurer’s Office, Unclaimed Property Program
 1200 Senate Street, Suite 214
 Wade Hampton Building
 Columbia, SC 29201

Dear Ms. DeLong,

Kelmar’s contract rate for the services provided is a contingency fee of 12.0% of the gross amount identified, paid and reported to the State of South Carolina as a result of the services performed by Kelmar.

Report ID: 222932	
Holder Name: Computershare	FEIN: 43-1912740
Holder Address: 150 Royall St., Canton, MA 02021	State of Incorporation: DE


INVOICE:

Remittance Date:	11/20/2020
Share Entitlement:	12714 shares
Price Per Share at Remittance Date:	\$52.60
Share Value:	\$668,756.40
Cash Value:	\$201,054.14
Total amount identified, paid, and reported:	\$869,810.54
Contract Rate:	12.0%
Total Amount Due to Kelmar:	\$104,377.27

REMITTANCE:

Amount Received into Escrow from Holder:	\$201,054.14
Less: Amount Due from Above:	(\$104,377.27)
Less: Surplus Cash Applied to Invoice # 2020-SC-016 ACCO BRANDS:	(\$23.52)
Less: Surplus Cash Applied to Invoice # 2020-SC-017A COMPUTERSHARE:	(\$476.78)
Less: Surplus Cash Applied to Invoice # 2020-SC-017B COMPUTERSHARE:	(\$542.93)
Less: Surplus Cash Applied to Invoice # 2020-SC-017C COMPUTERSHARE:	(\$668.64)
Less: Surplus Cash Applied to Invoice # 2020-SC-017D COMPUTERSHARE:	(\$630.66)
Less: Surplus Cash Applied to Invoice # 2020-SC-017E COMPUTERSHARE:	(\$752.96)
Less: Surplus Cash Applied to Invoice # 2020-SC-018 LEGAL & GENERAL:	(\$1,025.00)
Less: Surplus Cash Applied to Invoice # 2020-SC-019 HCP:	(\$1,036.71)
Less: Surplus Cash Applied to Invoice # 2020-SC-020 HONEYWELL:	(\$1,135.35)

Kelmar Associates, LLC 500 Edgewater Drive, Suite 525 Wakefield, MA 01880	Billing Inquiries: Billing@KelmarAssoc.com Phone: 781.213.6926 Fax: 781.928.9258
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	KELMAR	Invoice No. 2020-SC-035	Project KEL19894
		Invoice Date 11/30/2020	

Less: Surplus Cash Applied to Invoice # 2020-SC-021 COMPUTERSHARE:	(\$1,398.60)
Less: Surplus Cash Applied to Invoice # 2020-SC-022 COMPUTERSHARE:	(\$1,717.90)
Less: Surplus Cash Applied to Invoice # 2020-SC-023 COMPUTERSHARE:	(\$1,842.60)
Less: Surplus Cash Applied to Invoice # 2020-SC-024 COMPUTERSHARE:	(\$1,975.31)
Less: Surplus Cash Applied to Invoice # 2020-SC-025 GENERAL MILLS:	(\$2,428.94)
Less: Surplus Cash Applied to Invoice # 2020-SC-026 COMPUTERSHARE:	(\$2,390.32)
Less: Surplus Cash Applied to Invoice # 2020-SC-027 COMPUTERSHARE:	(\$2,835.00)
Less: Surplus Cash Applied to Invoice # 2020-SC-028 COMPUTERSHARE:	(\$3,843.00)
Less: Surplus Cash Applied to Invoice # 2020-SC-029 ELI LILLY:	(\$1,627.18)
Less: Surplus Cash Applied to Invoice # 2020-SC-030 COMPUTERSHARE:	(\$4,846.14)
Less: Surplus Cash Applied to Invoice # 2020-SC-031 ALLIANT ENERGY:	(\$5,491.09)
Less: Surplus Cash Applied to Invoice # 2020-SC-032 COMPUTERSHARE:	(\$6,097.38)
Less: Surplus Cash Applied to Invoice # 2020-SC-033 COMPUTERSHARE:	(\$26,326.02)
Less: Surplus Cash Applied to Invoice # 2020-SC-034 COMPUTERSHARE:	(\$27,305.93)
Net Amount Remitted to South Carolina:	\$258.91

Thank you for choosing Kelmar. If you have any questions regarding this invoice, please contact our billing department at billing@kelmarassoc.com.

Very truly yours,

Elizabeth S. Sullivan, CPA
 Controller

Kelmar Associates, LLC 500 Edgewater Drive, Suite 525 Wakefield, MA 01880	Billing Inquiries: Billing@KelmarAssoc.com Phone: 781.213.6926 Fax: 781.928.9258
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The SCOIG assessed that the deduction of audit fees from property surrendered to the state, or the “netting of fees” understated the cost of the UPP by those costs not being recognized as a cost of the program and understated the value of the unclaimed property remitted to the state for which the state is liable for the full value surrendered.

B. The STO Changed the Payment Method for UPP Audit Vendors

Beginning after 1/1/2024, the Kelmar invoices no longer displayed the deduction of Kelmar's audit fees. A provision of the 2021 audit contract allowed the audit vendors to invoice the STO with payments made through SCEIS. Regardless, the review did not identify any payments to the audit vendors under their assigned state vendor numbers in SCEIS.

The STO provided payment documentation for one recent audit payment to Kelmar that SCOIG discovered was paid through the SCEIS "Interface Vendor Invoice Process." This process is used for multiple vendor payments via an interface (from another system), rather than through the SCEIS manual process, which issues vendor payments based on each vendor's unique state vendor number.

The SCOIG traced this Kelmar payment in SCEIS to STO Fund 38790000 named "*Claims Res – Unclaimed Prop*" and determined that the Kelmar payment was included among multiple payments to unclaimed property claimants initiated through KAPS, Kelmar's system used to manage the UPP. The SCOIG was able to find the audit fee payment among the multiple claimant payments only by searching by the amount of the payment. As it appeared in SCEIS, the audit fee was indistinguishable from the claimant payments and required access to the KAPS system to determine the character of the payment.

This Kelmar audit payment, along with the claimant payments, was posted to a general ledger revenue account as debits. The revenue account included credits with associated SCEIS document types that represented deposits of negotiable unclaimed property. The result of using the revenue account in that manner netted the value of the unclaimed property received with the disbursements to claimants. Since the audit fees were intermingled with claim payments, those fees were also netted against the property value received.

The SCOIG assessed that the change in the audit payment method eliminated future fee deductions but continued the practice of netting fees. Further, it made audit fees substantially less transparent, as the audit fees are now buried among the thousands of disbursements to claimants. The single Kelmar payment provided by the STO was found among 2,327 disbursements during the month of August 2025.

The SCOIG's review of Kelmar's audit invoices dating from 2017 through 2025 revealed that Kelmar identified delinquent unclaimed property totaling \$6,807,501 during this period. For that same period, Kelmar assessed fees totaling \$780,177. The SCOIG did not review the invoices of the other four vendors on the current audit contract.

C. UPP – One of the most expensive areas of STO Operations

The UPP was the second costliest of the STO's Other Funds functions, with total expenses in FY 2025 of \$2,477,008. These UPP expenses in FY 2025 did not include the fees paid to the five contractors that conducted multi-state audits to identify unclaimed property. Additionally, the UPP had the largest number of STO's employees assigned to it on a full-time basis.

A review of STO Fund 38790000 for FY 2025 revealed it contained not only payments to claimants, deposits of unclaimed property, and the payment of audit fees, but also included the funds transfer of \$2,481,912 used to offset the FY 2025 UPP cost, and a \$15 million transfer to the General Fund.

Fund 38790000 included large dollar amounts and a high volume of transactions. The STO advised that claims payments totaled \$46,990,151 (including the audit fees) and \$129,938,010 in deposits of unclaimed property received for FY 2025. The \$46,990,151 represented 36,409 individual claim payments for FY 2025, or an average of 147 claims per workday. The average claim was \$1,291 during FY 2025.

The STO's UPP is a high-volume, high-value operation, with transactions totaling millions annually. Such an operation is considered a "high-risk" where accuracy and transparency is of utmost importance as the custodian.

D. Summary of Findings and Recommendations

Finding § VI(A)-1: The payment process for unclaimed property audit invoices of netting the invoice amounts from or against the value of the unclaimed property surrendered to the state, results in less transparent fees.

Recommendation § VI(A)-1: The STO should require the audit firms to invoice STO for their audit fees and, STO should pay the invoices through the normal SCEIS accounts payable process.

Finding § VI(C)-1: The STO's Unclaimed Property Program involves a high volume of transactions with the receipt and disbursement of millions of dollars.

Recommendation § VI(C)-1: The STO should direct their outside contractor performing internal audit services to regularly audit the Unclaimed Property Program.

VII. Other Observations of Misallocation of Expenses

A. Crisis Management and Consulting Fees Allocated 100% to Investment Management

The SCOIG identified three instances where vendor invoices were charged entirely to the Investment Management function, with no discernable relationship between most of the services provided and that function.

Infinity Marketing	Crisis Communication	\$ 72,258
William W. Holder, DBA	Services related to the AP "Forensic Review"	\$ 19,680
Protiviti Govt. Services, Inc.	Comprised of:	
	Business Analyst	\$ 55,797
	Subject Matter Expert II	37,856
	Employee Recruitment Fees	<u>127,600</u>
		\$ 221,253

No discernable relationship exists between either Infinity Marketing's crisis communications services or William Holder's fees and the Investment Management function, or any satisfactory justification for charging the entire cost to that function. Additionally, there appears to be no identifiable relationship between Protiviti's subject matter expert (SME) and employee recruitment fees and the Investment Management function. The SME aided the STO in relation to the Alix Partners "Forensic Review." The employee recruitment fees were for six employees, none of whom were exclusively associated with the Investment function. These charges totaling \$257,394, were improperly charged to the Investment Management Function. No information was provided on the work performed by Protiviti's business analyst.

B. The Medicaid Management Information System (MMIS) Issue(s)

State Treasurer Curtis Loftis advised, in his letter dated 10/2/2015 to the House Legislative Oversight Committee, that the "Health and Human Services Banking Function" was one of six systems that remained to be converted to SCEIS. Implementation of this banking function would convert the South Carolina Department of Health and Human Services' (SCDHHS) payments of Medicare and Medicaid claims from a legacy system to SCEIS. In preparation for the move, SCEIS staff created 16 general ledger accounts to accommodate the various types of bank transactions needed to process MMIS payments. After the conversion was completed, the first payment was processed on 7/1/2019.

The STO assigns the various funds in its custody to different investment portfolios based on several factors, including the fund's cash flow needs, safety and liquidity factors, and legal requirements such as the requirement that earnings of certain funds are to be retained by those funds. Unless a fund is allowed to retain its earnings, all investment earnings are returned to the state General Fund. The STO's investment management system (NVEST) tracks investments and allocates earnings based on the investible balances of the source funds and distributes the investment earnings to the state's General Fund, or to those funds allowed to retain their earnings.

In September 2025, a substantial overdistribution of investment earnings was identified involving SCDHHS fund number 44790000, where the MMIS transactions are recorded. Fund 44790000 is allowed to retain its investment earnings. Analysis revealed that certain of the 16 MMIS general ledger accounts created in 2017 were not included in the calculation of the fund's investible balance, thereby overstating the fund's investible balance, and this resulted in an overdistribution of investment earnings to the fund.

One of the general ledger accounts was a primary MMIS disbursement account, which recorded \$573 million in disbursements for FY 2025. The analysis determined that disbursements from those accounts had not been considered in the investible balance calculation or the investment earnings distribution since their use began on 7/1/2019. The accumulated overdistribution of earnings was estimated at \$65 million. This overdistribution to the MMIS fund caused an equal and opposite under distribution to the state's General Fund.

Subsequently, the STO submitted a business requirements document to SCDOA/SCEIS in September 2025 and requested a change to include the general ledger account range "*in the Cash by Fund in the Treasury Management Module (NVEST) as soon as possible.*" SCDHHS advised that they agreed to have STO apply current MMIS investment earnings against the \$65 million under distribution to the General Fund – as a method of repayment.

1) The MMIS Issue – Not a New Issue

The SCOIG determined that the improper earnings distribution associated with certain of the 16 general ledger accounts for MMIS bank transactions was not the first-time issues involving those accounts were identified and addressed.

A review of emails from September 2020 revealed a "year-end closing/new year opening process" that identified a discrepancy in the General Fund cash balance, resulting in its overstatement by \$1.733 billion. The discrepancy was related to three general ledger accounts created for MMIS bank transactions, including the account with the largest annual disbursement. Employees of the STO, the CGO, and SCEIS successfully resolved the issue by adding the general ledger accounts to the correct SCEIS "group/set." Afterward, the "year-end/new year" process balanced with no discrepancies. SCEIS concluded that the accounts had not been set up correctly and noted not only that the General Fund had been overstated, but also that the overstatement resulted in the overdistribution of investment earnings to the General Fund.

The SCOIG reviewed additional emails from November 2021 between SCEIS and CGO staff concerning two SCEIS reports using cash general ledger accounts that "*appeared to be incorrect.*" The two general ledger accounts were two of the MMIS general ledger accounts. No further emails from this exchange were provided to the SCOIG.

The MMIS general ledger accounts were identified yet again in several emails the SCOIG reviewed from August 2022. One email included the statement,

“We had a similar issue a couple of years ago and it’s J020 [SCDHHS] causing the issue again. I think we need to add the two Medicaid cash G/L’s below to ECC ZGLB report set SC_CASH_AVAIL_EDIT_CBF. Is that something we could request?”

One of the two general ledger accounts was the one with the largest annual disbursement amount noted previously. The last email the SCOIG reviewed included the statement, *“I thought we had already addressed this one...?”*

C. Summary of Findings and Recommendations

Finding § VII(A)-1: The STO improperly posted expenses totaling \$257,394 to the Investment Management function. The posting of those expenses to the function inflated the cost of the function that resulted in the over assessment of fees in violation of Proviso 98.5.

Recommendation § VII(A)-1: The STO should post expenses to functions that properly relate to the function.

Finding § VII(B)-1: The MMIS overdistribution of investment earnings is consistent with the previous errors addressed through the engagement of AlixPartners, Mauldin & Jenkins, LLC, and the oversight of the remediation process by Forvis Mazars, LLP, in that it is SCEIS-conversion related, and multiple individuals and agencies were involved at different times, yet it persisted for multiple years.

Recommendation § VII(B)-1: All entities involved in the validation and remediation process must approach and participate in that effort with a maximum level of resolve and cooperation to assure the state’s financial reporting is accurate, timely, and reliable.

VIII. Conclusion

The Office of the State Treasurer is South Carolina’s constitutional fiduciary and custodian of more than \$40 billion in state funds, investments and assets. Over the last three years, the STO has undergone various levels of oversight, audits, scrutiny and public reporting. This review reinforced that STO is a complex financial operation. Notwithstanding, South Carolina law, specifically the statutes that direct the STO’s oversight of these funds and programs, is explicit in the expectations of the STO’s reporting of the state’s finances.

The purpose of this report is to provide a road map for the South Carolina legislature and the STO to improve oversight and transparency of the state’s financial operations, investments, debt management and other programs under the STO’s custody and control of more than \$40 billion of South Carolina’s citizens.

The SCOIG identified instances of program mismanagement and partial compliance with statutorily mandated reporting. As such, the SCOIG is required to make a report to the Governor of South Carolina of these findings per S.C. Code § 1-6-40(A). Whether these instances rise to the level of misconduct is beyond the scope of the SCOIG’s purview and analysis and requires a secondary level of review by the appropriate law enforcement or prosecuting authority per S.C. Code § 1-6-40(B).

The SCOIG extends its appreciation to the State Treasurer and STO staff, the Comptroller General and CGO staff, the Department of Administration and SCEIS staff for their cooperation and intentionality of seeking solutions to the issues identified by the SCOIG. Additionally, the SCOIG extends its appreciation to the State Library for providing the SCOIG with ready access to archived newspapers.