

<b>AGENCY NAME:</b>	Office of the State Treasurer		
<b>AGENCY CODE:</b>	E16	<b>SECTION:</b>	097



## Fiscal Year 2014-15 Accountability Report

### SUBMISSION FORM

<b>AGENCY MISSION</b>	<p style="text-align: center;"><i>"To serve the citizens of South Carolina by providing transparent, accountable and efficient banking, investment and financial management services for South Carolina State Government. Our commitment is to safeguard our State's financial resources and to maximize return on our State's investments."</i></p>
-----------------------	--

Please identify your agency's preferred contacts for this year's accountability report.

	<u>Name</u>	<u>Phone</u>	<u>Email</u>
<b>PRIMARY CONTACT:</b>	Edward Frazier	(803) 734-2016	edward.frazier@sto.sc.gov
<b>SECONDARY CONTACT:</b>	Jessica Franklin	(803) 734-9811	jessica.franklin@sto.sc.gov

I have reviewed and approved the enclosed FY 2014-15 Accountability Report, which is complete and accurate to the extent of my knowledge.

<b>AGENCY DIRECTOR</b> <i>(SIGN/DATE):</i>	
<i>(TYPE/PRINT NAME):</i>	The Honorable Curtis M. Loftis, Jr.

<b>BOARD/CMSN CHAIR</b> <i>(SIGN/DATE):</i>	
<i>(TYPE/PRINT NAME):</i>	

<b>AGENCY NAME:</b>	<b>Office of the State Treasurer</b>		
<b>AGENCY CODE:</b>	<b>E16</b>	<b>SECTION:</b>	<b>097</b>

**AGENCY’S DISCUSSION AND ANALYSIS**

Treasurer Loftis was elected in November 2010 and took his oath of office on January 12<sup>th</sup>, 2011. His administration is in place and the first term was marked with many accomplishments. This document serves as a review of the Office for the previous fiscal year.

State Treasurer Curtis M. Loftis, Jr. is now serving his fifth full year in office and has worked tirelessly to reform the Office, enhance services and create an environment of openness in government while bringing the Office into the 21<sup>st</sup> century as it conducts business on behalf of the State.

The Office of the State Treasurer is responsible for the investment, cash management, and safekeeping of the State's general and restricted funds, as well as the custodian of the \$30 billion in retirement funds of the South Carolina Retirement Systems. The Office also provides fiscal management services, including receipt and disbursement of all funds. The Office coordinates all banking services, manages the State's debt, administers the Unclaimed Property and College Savings Programs and works and communicates regularly with the three major bond rating firms to maintain high credit ratings that keep the State's borrowing costs low. The Office invests the excess funds of the State as well as the local governments and political subdivisions.

The Office continues to operate with five major program areas: Treasury Management; Investment Management; Debt Management; Unclaimed Property; and College Savings Plans.

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

**Treasury Management.** The Treasury Management Division is responsible for the day-to-day banking operations of the State, collection and remittance of court fines, account deposits, payroll processing, check distribution and cash management activities for the State. In the previous fiscal year, the Division managed the receipt of \$29 Billion, expended \$28 Billion, made 4,233,652 disbursements, distributed 1,157,342 paper checks, distributed 3,076,310 electronic checks and made over 179,813 deposits on behalf of the State.

The Treasury Management Division continues to work with the SCEIS team in the transition of statewide banking and investment functions to SCEIS. The Division has already converted the following four out of the five statewide checking accounts to SCEIS; contingent checks, public assistance checks, payroll checks and income tax relief checks. The remaining checking accounts for special payments are ongoing and will be completed in the upcoming fiscal years. Conversion of general deposit accounts with smaller banks to SCEIS has been successful with the larger banks remaining and expected to be converted April 2016.

**Investment Management.** The Investment Management Division manages, according to SC Code 11-9-660, approximately \$14.425 billion in assets for both the State of South Carolina and local governments. The current custodial agent, Bank of New York Mellon, acts as a holder and record keeper of these funds.

The Investment Management Division utilizes the services of its external investment advisor Silvercrest Asset Management Group LLC (Silvercrest), whose job is to advise the Division on investment strategy

<b>AGENCY NAME:</b>	<b>Office of the State Treasurer</b>		
<b>AGENCY CODE:</b>	<b>E16</b>	<b>SECTION:</b>	<b>097</b>

in order to optimize potential earnings on all of the investments that the State of South Carolina holds. The STO also utilizes the services of Pension Consulting Alliance (PCA) for portfolio monitoring services. The Treasurer holds quarterly investment meetings with Silvercrest, PCA and internal staff to review portfolio performance and strategies.

For fiscal year 2014-2015, the General Fund and State Investment Pool portfolio had a 0.47% and a 0.91% return on investments respectively as compared to benchmarks of the 90-day Treasury Bills and Barclay’s 1-3 Year Gov’t/Credit rates of 0.01% and 0.92% respectively. The Local Government Investment Pool (LGIP) continued to produce above market returns for its participants, earning an average rate of .028% compared to the average 90-day T-Bill benchmark rate of 0.01%.

Earnings on General Fund investments were \$128,441,580; General Fund and other such funds are excess funds with erratic cash flows being invested for short periods of time and should not be compared to long-term investments. This was achieved in spite of continued historically low interest rates, as well as increased demand for securities on the short end of the yield curve.

The STO provided investment services at a low cost of 0.0237% compared to the industry average of 0.10% (Source: advisor Silvercrest Asset Management Group LLC). The cost of services slightly decreased over the previous fiscal year in spite of the cost attributed to the SAP systems conversion.

The Investment Division made significant progress toward implementing SCEIS with a conversion date of September 2015. The Bloomberg AIM (Asset and Investment Manager) data feed implementation is in Phase 2. AIM implementation is expected in October 2015.

**Debt Management.** During the fiscal year, the division assisted 8 agencies in the sale of 17 issues for the purposes of academic and housing construction, economic development, and refinancing. In total, the State issued \$582 million in general obligation and revenue debt, of which the State will achieve \$5.3 million in refinancing savings from the refunded issues. Further, during the fiscal year, the State maintained its excellent credit ratings with Moody’s, S&P, and Fitch as AAA, AA+, and Aaa, respectively.

Over the course of the fiscal year, the division continued to refine its disclosure policies, enhance the State’s official statements, and review continuing disclosure requirements. The division has also made significant progress in implementing SCEIS processing, enhancing its legacy systems to become SCEIS compliant and reducing dependence on STARS interfaces, and evaluating alternatives to its Debt Management System debt and capital projects systems. Conversion of Debt from the legacy system to SCEIS is expected in October 2015.

**Unclaimed Property.** The Unclaimed Property Program Division continues its commitment to returning unclaimed property to its rightful owners by processing 32,306 claims totaling more than \$18.1 million. The total dollars paid increased by 13% over the previous fiscal year. The Program received over \$58 million in unclaimed property, an increase of 15% over last fiscal year. Also, the Program sold 68,244 shares of stock at no cost to the claimants.

The Unclaimed Property audit staff assisted holder companies with compliance matters, reporting requirements and remittance processes. The number of reported accounts due to audits was 18,274

<b>AGENCY NAME:</b>	<b>Office of the State Treasurer</b>		
<b>AGENCY CODE:</b>	<b>E16</b>	<b>SECTION:</b>	<b>097</b>

which totaled over \$1 million and is now available to be returned to the citizens and businesses to which it belongs.

**Future Scholar College Savings Program.** Future Scholar is now in its third year since launching new Direct and Advisor products with lower fees, lower investment minimums and new and expanded investment products. The public responded positively and Future Scholar had another record sales year with total accounts surpassing 113,000. For calendar year 2014, new sales increased 24% over 2013 to a record \$339 Million. As of June 30, 2015, sales increased 28% over the calendar year to date sales for the six month period ending June 30, 2014.

In conjunction with National 529 Day, Future Scholar launched its third annual grant program privately funded by Columbia Management called the Future Scholar 529 Day PalmettoBaby Grant Program. All babies born in South Carolina on May 29<sup>th</sup> were awarded the opportunity to receive a \$529 grant into a Future Scholar account. The STO partnered with 40 South Carolina hospitals to distribute materials to families of all babies born on May 29, 2015.

Once again, Future Scholar received top accolades from Morningstar and was recognized by third party research firm SavingforCollege.com as a national leader, with program rankings for various plans in the top 1%, 5% and 10% in the nation in investment performance and low cost. At the end of the fiscal year, the number of Future Scholar accounts totaled 119,000 with more than \$2.38 Billion in assets under management. The Treasurer is proud to continue operating one of the nation’s highest rated 529 College Savings Programs without the use of state funds.

The Office continues to monitor the \$55,910,003 unfunded liability under which the South Carolina Tuition Prepayment Program has operated since 2002 when the plan was closed by the General Assembly to new entrants. An annual report is sent to the General Assembly with updated information to keep the legislature apprised of the ongoing legislative financial obligation to the Program which is scheduled to deplete all assets on 2019 unless additional funds are appropriated by the General Assembly. The State Treasurer also updates the Office’s legislative budget subcommittees during his budget hearings each year. Bloomberg AIM

**Administration and Information Technology.** While maintaining daily operational activities, the Administrative Division staff monitored and provided budgetary and legislative information reports, processed personnel actions and employee benefits for new hires and separations, reviewed and revised Office contracts, and updated records retention schedules. Additionally, the Information Technology staff coordinated a number of projects to transition payment processing, banking and investment activities from STARS, the statewide agency legacy system, to SCEIS, and also had Grant Thornton conduct a comprehensive IT Security Audit.

Grant Thornton completed a risk, technical and physical security assessment in June 2015 for all of the STO’s networks, applications and systems. In its Audit Report, Grant Thornton made a number of recommendations for better securing the STO information, systems and resources. For fiscal year 2015-2016, STO’s IT Division has established as a high priority the implementation of these recommendations. STO has as set a long-term goal of obtaining national certification with NIST standards. The STO also continues to work closely with the State’s Division of Information Security to update security policies, to upgrade software and hardware to better protect and secure the Agency’s data and resources, and to provide security training for all members of the STO staff.

<b>AGENCY NAME:</b>	<b>Office of the State Treasurer</b>		
<b>AGENCY CODE:</b>	<b>E16</b>	<b>SECTION:</b>	<b>097</b>

By statute, the STO is responsible for conducting and managing the investment and debt service functions for all state government agencies. The existing Debt and Investment Management Systems used for these purposes were developed in the 1980's. These Systems use mainframe technologies, and are nearly thirty years old. These Systems are integrated with STARS, the STO's Financial Management System, as well as several other legacy systems.

During previous fiscal years, the STO contracted with SAP to conduct 'proof of concept' demonstrations of the investment and debt functionality in the Treasury Management Module of its Enterprise Resource Planning, a software product that the State of South Carolina owns. The STO determined SAP investment and debt functionality closely matched the functionality available in its legacy, mainframe Investment Management System. The STO has created projects to implement this SAP functionality for both investments and debt.

For some reason the STO was not scheduled for conversion to SCEIS prior to 2011. Between 2011 and 2013 the STO increased staff training and began the planning on the multi-year conversion of the three major statewide financial systems.

During the 'proof of concept' demonstration of the SAP debt functionality, the STO identified a number of 'gaps' in this functionality when compared to the functionality available in its legacy, mainframe Debt Management System. The State Treasurer sent a letter to SAP requesting its assistance in resolving these 'gaps'. SAP's response to the Treasurer resulted in the creation of a joint development project to enhance the debt functionality in SAP's Treasury Management module, which is currently underway.

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