

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

**CONSTITUTIONAL SUBCOMMITTEE
OF THE SENATE FINANCE COMMITTEE**

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April 16, 2024

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\$1.8 Billion Discrepancy in Treasury Balances
And Certain Other Matters

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INTRODUCTION

On October 31, 2023, South Carolina Comptroller General Brian Gaines, appointed by Governor Henry McMaster less than six months earlier, wrote a letter to longtime South Carolina Treasurer Curtis Loftis. What became known as the “Halloween letter” would mark the beginning of a months-long Senate investigation that continues to expose financial irregularities and other deeply troubling activities within the Office of State Treasurer.¹

In the letter, the Comptroller directed Treasurer Loftis to research the origins of a cash balance recorded to SCEIS Fund 30350993.² Treasurer Loftis was directed to then determine the State entities and agencies that owned the funds and to classify or reclassify the monies to appropriate funds and general ledger accounts.³

Staff of the Senate Finance Committee was made aware of the letter. Staff research determined that Fund 30350993 reflected a balance of approximately \$1.8 billion.

Neither the general public nor members of the General Assembly knew about the fund until the Comptroller questioned its origins. Mr. Loftis has been State Treasurer since 2011 and the fund has existed as a “pass-through” fund since 2014.⁴

Treasurer Loftis maintains that he is unable to determine proper ownership of the \$1.8 billion.

EXECUTIVE SUMMARY

The Treasurer is “the state’s banker, chief investment officer, and custodian of more than \$70 billion in [public] funds.”⁵ The South Carolina Code of Laws establishes a framework for the operations of the Office of State Treasurer and includes requirements that the Treasurer provide an account “in every instance” for appropriations made by the General Assembly, carefully maintain financial records, provide the Comptroller with information upon request, and regularly and publicly report financial information. The Treasurer also must take steps to ensure that the State’s General Fund balance never falls below zero.⁶

Summarized in this interim report are findings and recommendations resulting from the Subcommittee’s ongoing investigation into the origin and purpose of Fund 30350993. The fund was created by and designated for responsibility of the Office of State Treasurer.

¹ Exhibit 1. Comptroller General Brian J. Gaines to Treasurer Curtis Loftis, October 31, 2023.

² Ibid.

³ Ibid.

⁴ A “pass-through” or “clearing” fund is typically used to realize movement of cash or other balances between funds and accounts. When utilized appropriately these funds typically will have a zero ending balance as cash balances are posted and cleared.

⁵ “About us.” SC Office of the State Treasurer Website. <https://treasurer.sc.gov/about-us/>

⁶ Exhibit 2. S.C. Code §11-5-100; §11-5-120; §11-5-180; §11-5-290; §11-9-300.

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The Subcommittee's work includes communications with the Office of the State Treasurer, the Office of the Comptroller General, the State Auditor, and the Department of Administration. Legal counsel and outside auditing firms were also consulted. The Subcommittee has amassed thousands of pages of documentary evidence supportive of findings.

Treasurer Loftis appeared before the Subcommittee on April 2, 2024, and testified under oath for more than five hours. The Subcommittee found Treasurer Loftis' conduct during the hearing to be unprofessional. Under questioning he was noticeably agitated, at times obfuscatory, and erratic. Particularly alarming was his threat to post to the internet highly sensitive financial information belonging to the State. Such a move would expose the State to great risk of cyberattack, a fact that Treasurer Loftis volunteered to the Subcommittee. Additional details about his baffling conduct during and after the meeting are included in the following pages.

The Subcommittee notes that on April 11, 2024, Governor McMaster established a task force comprised of stakeholder offices and charged it with determining rightful ownership of monies in Fund 30350993. While the Subcommittee appreciates the Governor's involvement and hopes the task force is successful, it is aware that previous good faith efforts to work with Treasurer Loftis to resolve this issue have proven fruitless.

The Subcommittee makes the following interim findings.

1. \$1.8 billion in unresolved differences arose in connection with the conversion by the Office of State Treasurer from the legacy STARS⁷ to the SCEIS system, and have existed in a State Treasury fund without identification of agency claim and ownership since 2016.
2. Treasurer Curtis Loftis exhibited a lack of response and control of the fund holding \$1.8 billion fund.
3. Treasurer Loftis failed to disclose the existence of the \$1.8 billion fund to the General Assembly and to the people of South Carolina over the last seven years, despite his explicit statutory duty to do so.⁸
4. Treasurer Loftis claimed during sworn testimony on April 2, 2024, that the \$1.8 billion fund has earned \$225 million in interest that has been spent by the General Assembly. If his claim is accurate, then his failure to disclose the fund may have impaired the General Assembly's fiduciary responsibility to ensure proper application of the earnings.⁹

⁷ Statewide Accounting and Reporting System.

⁸ Exhibit 2. S. C. Code §11-5-185(7).

⁹ Because funds have not been identified as to agency ownership and fund, they may consist of federal, earmarked, general, and restricted funds, each of which have specific requirements for disposition of earnings.

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5. Treasurer Loftis was reckless in planning to release on the internet highly sensitive financial information of the State.¹⁰ His plan, which he placed in writing, calls into question his current judgement and temperament.¹¹

The Subcommittee makes the following interim recommendations.

1. The General Assembly should advance legislation establishing complete independence of the State Auditor,¹² by eliminating his reporting relationship and accountability the State Fiscal Accountability Authority.¹³

While Section 11-7-45 of the South Carolina Code of Laws provides that “the State Auditor shall maintain independence in the performance of his authorized duties” and that “neither the Governor nor an agency or entity of the executive or judicial branches of state government has the authority to limit the scope, direction, or report content of an audit undertaken by the State Auditor,” the Subcommittee concludes that further independence of the State Auditor from the State Fiscal Accountability Authority is warranted to protect the integrity of the audit process.

2. The General Assembly should appropriate funds for an independent forensic audit of SCEIS Fund 30350993. The forensic audit should be conducted by an external firm guided by the Department of Administration. The Office of State Treasurer must fully cooperate with forensic auditors and must provide unrestricted access to records and information in its possession. The funds designated for the audit, and the engagement and oversight of the external auditor, should be managed and administered by the Department of Administration.
3. Transfer and expenditure of any funds appropriated for the purposes of audit support to aid the Office of the State Treasurer should be subject to a plan submitted by the Office of the State Treasurer in conjunction with the Department of

¹⁰ Exhibit 3. “Balance by of Cash GL Accounts by Agency and Fund FY 2024 Period 6.” Redacted

¹¹ Exhibit 4. Treasurer Curtis M. Loftis to Members of the Constitutional Subcommittee of the Senate Finance Committee, April 4, 2024. While the Subcommittee appreciates Treasurer Loftis’ service, this action to disclose highly sensitive financial information calls into question his current judgement and temperament.

¹² The Office of State Auditor is established pursuant to Chapter 7 of Title 11 and is selected by the State Fiscal Accountability Authority. The State Auditor has responsibility for among other things annual audits of state agencies, audit of the State’s basic financial statements prepared by the Comptroller General; compliance with the US Office of Management and Budget; and compliance with auditing standards generally accepted in the United States of America.

¹³ The State Fiscal Accountability Authority is established pursuant to Chapter 55 of Title 11 of the South Carolina Code of Laws, with membership consisting of the Governor, who serves as Chairman; and the State Treasurer, the Comptroller General, the Chairman of the Ways and Means Committee of the House of Representatives, and the Chairman of the Senate Finance Committee, all of whom serve ex officio. The Authority has powers to exercise functions, powers, duties, responsibility, and authority related to issuance of bonds and bonding authority, and certain grants, loans, and other forms of financial assistance to other entities. The Authority also has other specific powers, duties, responsibilities, and authority pursuant to other provisions of the South Carolina Code of Laws.

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Administration for prior review and comment by the Joint Bond Review Committee.

4. The Subcommittee should receive weekly progress reports of the task force initiated by Governor McMaster. The Subcommittee will diligently monitor the progress of the task force.
5. The General Assembly should advance legislation proposing to the voters an amendment to the Constitution of the State of South Carolina, to remove the State Treasurer as an elected office.

The progress of the Governor's task force will be diligently monitored. In the meantime, the consequences of Treasurer Loftis' actions continue to emerge, and the Subcommittee continues to investigate the Treasurer's activities. There remain many unanswered questions about Fund 30350993 and the other financial irregularities detailed in this interim report.

Members of the Subcommittee are mindful that other mechanisms for corrective action are available. Preparations have been made to use these mechanisms should circumstances warrant.

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This interim report summarizes the findings and recommendations of the Subcommittee's investigation of a \$1.8 billion discrepancy in SCEIS¹⁴ Fund 30350993, a fund requested and authorized by the Office of State Treasurer. First, this report provides a summary of key issues of principal concern already investigated, followed by a list of key issues that are still under investigation. Secondly, is a detailed account of background information and an accounting of the investigation itself, as well as factual information and findings. Thirdly, the interim report closes with the recommendations at present, but the Subcommittee continues to research and monitor the situation as it progresses and continues.

Key Issues of Principal Concern

1. \$1.8 billion in unresolved differences arose in connection with the conversion by the Office of State Treasurer from the legacy STARS¹⁵ to the SCEIS system and have existed in a State Treasury fund without identification of agency claim and ownership since 2016.
2. Treasurer Loftis' lack of response and control of the fund holding \$1.8 billion fund.
3. Treasurer Loftis' failure to disclose the \$1.8 billion fund to the General Assembly and to the people of South Carolina over the last seven years, despite his statutory duty to do so.¹⁶¹⁷
4. Treasurer Loftis' claim during sworn testimony on April 2, 2024, that the \$1.8 billion fund has earned \$225 million in interest that has been spent by the General Assembly. If his claim is accurate, then his failure to disclose the fund may have impaired the General Assembly's fiduciary responsibility to ensure proper application of the earnings.¹⁸
5. Treasurer Loftis' reckless plan to release on the internet highly sensitive financial information of the State. His plan, which he placed in writing, calls into question his current judgement and temperament.

¹⁴ South Carolina Enterprise Information System.

¹⁵ Statewide Accounting and Reporting System.

¹⁶ Exhibit 2. S. C. Code §11-5-185(7).

¹⁷ While Treasurer Loftis did report the fund on the Other Funds Survey for his agency, he failed to directly speak to the fund balance to members of the General Assembly. When provided an opportunity to disclose the matter during the Subcommittee's investigation into the FY2022 ACFR Restatement, he did not do so. See Exhibit 24. Excerpts from Treasurer Loftis' Sworn Testimony before the Constitutional Subcommittee of the Senate Finance Committee, February 23, 2023.

¹⁸ Because funds have not been identified as to agency ownership and fund, they may consist of federal, earmarked, general, and restricted funds, each of which have specific requirements for disposition of earnings.

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Key Issues Requiring Further Investigation by the Subcommittee

1. The Subcommittee understands that the State’s General Fund reflected a negative position of \$474 million on June 30, 2023, in violation of Section 11-9-300 of the South Carolina Code.¹⁹ The Subcommittee has evidence indicating that the Office of State Treasurer took deliberate steps to conceal the negative cash position.²⁰
2. The Subcommittee understands that the State’s investment portfolio on June 30, 2023, reflected unrealized losses of \$990 million, despite positive bank balances and record receipts of revenue into the General Fund.²¹
3. The Subcommittee understands that there exists in SCEIS considerable discrepancies in actual bank balances compared to reported amounts in SCEIS that arose from conversion of the Treasury’s banking records in 2015.²²²³

Statutory Provisions Breached by Treasurer Loftis

1. Section 11-5-180 of the South Carolina Code. “The State Treasurer shall, at the end of every month, report to the Comptroller General an accurate statement of the cash transactions of the Treasury, of every description, stating therein every sum of money received or paid away in behalf of the State, particularizing the person and his office of whom received and to whom paid, as also on what account received and for what purpose paid. He shall, at all times, when required by the Comptroller General, produce to him satisfactory statements of the cash in hand and furnish him promptly with the official information, duly certified, relative to any matter connected with the revenue and finance of the State.”

Subcommittee Finding. Pursuant to the above statute, the Comptroller General determines information that is satisfactory. The Subcommittee found that on multiple occasions the Comptroller General requested satisfactory information from the Treasurer, but that the Treasurer would not or could not provide the

¹⁹ Exhibit 5. “State of South Carolina. Balance Sheet. Governmental Funds. June 30, 2023.” FY 2023 Annual Comprehensive Financial Report, Draft for Management Review and Comment.

²⁰ Exhibit 6. J. Wigington (e-mail communication, February 6, 2024).

²¹ Exhibit 21. STO – Investment Operations. Reconciliation of NVEST (Treasury Management) to Custodial Bank (BNYM) as of June 30, 2023.

²² Exhibit 7. Selected Accounts Variation Report for Fund 30350993. Period 16, 2023.

²³ The above report details a variance of 31 billion across multiple banks within Fund 30350993. Variance in this case refers to the adjustment amounts necessary for each bank reflected in SCEIS Fund 30350993 to match the bank’s balance in SCEIS to the balance reflected on that bank’s statement.

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information.²⁴ An outside audit performed by Mauldin & Jenkins in March 2024 confirms this finding.²⁵

2. Section 11-5-185(7) of the South Carolina Code. “In addition to other reports required by law to be made, by the State Treasurer, he shall also report annually to the General Assembly in the month of January on the following matters: [] (7) Any other information relating to state revenue which the Treasurer deems pertinent and of value to the General Assembly, including such items as special state funds, the highway fund and other funds not specified herein, as may be deemed appropriate by the Treasurer.”

Subcommittee Finding. The Subcommittee finds it indefensible that Treasurer Loftis did not consider a hidden special fund containing \$1.8 billion to be information “pertinent and of value to the General Assembly.” Treasurer Loftis remains obstinate in his claim that the fund is the responsibility of the Office of Comptroller General; however, the Subcommittee finds that the \$1.8 billion is held in a special fund designated to and utilized by the Office of State Treasurer, and that the fund is tied specifically to State Treasury cash and investments.

3. Section 11-5-100 of the South Carolina Code. “The Treasurer shall raise an account in the Treasury books in every instance for the several appropriations made by the General Assembly, so that the appropriations of money and application thereof conformably thereto may appear clearly and distinctly on the Treasury books.”

Subcommittee Finding. The Subcommittee finds that the existence of a \$1.8 billion balance with no designated ownership violates this statute, as a lack of ownership is neither clear nor distinct.

4. Section 11-5-120 of the South Carolina Code. “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.”

Subcommittee Finding. On various occasions, including in letters to and in sworn testimony before the Subcommittee, Treasurer Loftis asserted that he is in compliance with this statute.²⁶ However, it is the understanding of the Subcommittee that this law requires the Office of State Treasurer to designate

²⁴ Exhibit 8. Communications between The Office of the Comptroller General and the Office of the State Treasurer, October 2023 to December 2023.

²⁵ Exhibit 9. Mauldin & Jenkins CPAs & Advisors. “STO Reporting for the ACFR Observations and Recommendations.” Operational Performance Assessment of the ACFR Development Process. Full document available upon request.

²⁶ Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024.

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ownership of funds to particular state agencies. Ownership of funds is integral to understanding the origins of the \$1.8 billion balance.

5. Fiduciary Responsibility. Although not specifically stipulated in statute, it is commonly understood that the State Treasurer has a fiduciary duty to the people of the State.

Subcommittee Finding. Treasurer Loftis acknowledged this duty publicly and under oath.²⁷ Based on current information, the Subcommittee finds that Treasurer Loftis has breached his fiduciary duty.

Background

In 2022, the Subcommittee investigated the circumstances that led to a \$3.5 billion restatement within the State’s Fiscal Year 2022 Annual Comprehensive Financial Report.²⁸ Following publication of findings by the Subcommittee, then-Comptroller Richard Eckstrom resigned, and Governor Henry McMaster appointed Brian J. Gaines as Comptroller General.

Thereafter, the General Assembly appropriated funds to provide additional support to the Office of Comptroller General, and also directed the State Treasurer to fully comply with any information requested in the form of closing packages and other information related to the compilation of the ACFR.²⁹ On September 1, 2023, the Constitutional Subcommittee of the Senate Finance Committee requested that State Auditor George Kennedy utilize a portion of the appropriations directed for additional support to provide for an outside audit of the ACFR compilation process.³⁰

These changes were expected to promote the State’s financial integrity. However, by letter dated October 31, 2023, General Gaines requested that Treasurer Loftis investigate a cash balance recorded to SCEIS Fund 30350993 for the purpose of reclassifying the balance to appropriate funds and general ledger accounts.³¹ Following receipt of a copy of the Comptroller General’s request, staff of the Senate Finance Committee researched the fund and found that it reflected a balance of approximately \$1.8 billion.³²

On December 15, 2023, staff of the Senate Finance Committee attended a meeting at the request of the Office of State Treasurer to discuss the status and resolution of the issue raised by the Comptroller General. Committee staff assumed that the meeting would provide information and insight; however, the meeting focused predominantly on blame shifting by the Office of State Treasurer, with Treasurer Loftis repeatedly suggesting that the best course of action would be to

²⁷ Exhibit 11. Selections from sworn Testimony of Treasurer Curtis Loftis before the Constitutional Subcommittee of the Senate Finance Committee, April 2, 2024.

²⁸ ACFR.

²⁹ Exhibit 13. Proviso 98.14 of the Fiscal Year 2024 Appropriations Act.

³⁰ Exhibit 12. Communication from Senator Larry K. Grooms to George Kennedy. September 1, 2024.

³¹ Exhibit 1. Comptroller General Brian J. Gaines to Treasurer Curtis Loftis, October 31, 2023.

³² Exhibit 7. See Line “2400600002 Due to Other Funds – Equity in Pooled Cash.”

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blame the problem on former Comptroller General Richard Eckstrom.³³ Finance Committee staff continued to study the issue as the General Assembly convened in January 2024.

Investigation of the \$1.8 Billion Discrepancy in SCEIS Fund 30350993

On February 1, 2024, the Subcommittee wrote Treasurer Loftis asking whether his office was in compliance with Proviso 98.14 of the Fiscal Year 2024 Appropriations Act, which requires the Office of State Treasurer to provide “all cash and investment fund balances by aggregation of funds by unique disclosure entity for the purposes of cash reconciliation and ACFR compilation.”³⁴ Proviso 98.14 also directed the Office of State Treasurer to fully comply with information requested by the Comptroller General.³⁵ The Subcommittee also requested information about the origin and purpose of SCEIS Fund 30350993.

The Subcommittee found Treasurer Loftis’ response letter of February 8, 2024, to be obfuscatory and lacking in material detail. Treasurer Loftis wrote that he believed his office was in “full compliance” with Proviso 98.14 despite the fact that his office either could not or would not provide all information requested by the Comptroller General.

Treasurer Loftis wrote that his Office had “not received notification from the CGO of any issues with non-compliance.” This assertion by Treasurer Loftis is contrary to letters from the Comptroller General to Treasurer Loftis dated October 31, 2023, and November 15, 2023, on which the Subcommittee was copied. Treasurer Loftis wrote further that SCEIS Fund 30350993 “was established in October 2014 to primarily record daily cash transfers between banks” and to “convert bank and agency cash fund balances as the State converted legacy systems into SCEIS.”

The Subcommittee understands that a fund used for the purpose of cash transfers and to convert from one system to another should have an ending balance of zero dollars, meaning that every dollar would be accounted for and in appropriate accounts.³⁶ Furthermore, Treasurer Loftis asserted that “the 1.8B has ALWAYS been accounted for and fully visible in the SCEIS General Ledger,” however the Subcommittee finds that Treasurer Loftis never made the General Assembly aware of the \$1.8 billion balance.³⁷

State Auditor George Kennedy testified before the Subcommittee on February 15, 2024, to present his agency’s budget requests for the upcoming fiscal year. During that meeting, he was asked about the \$1.8 billion in SCEIS Fund 30350993. Mr. Kennedy confirmed that the balance arose during

³³ Comments from three Senate Finance Committee staff members.

³⁴ Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024.

³⁵ Exhibit 13. Proviso 98.14 of the Fiscal Year 2024 Appropriations Act.

³⁶ Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024. Treasurer Loftis referenced this purpose in his letter. Its relevance to the \$1.8 billion discrepancy, if any, is not known.

³⁷ Emphasis by Treasurer Loftis.

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the conversion from the STARS legacy system to SCEIS, but that the fund should have a zero balance because it is a “clearing” or “pass-through” account.³⁸

When questioned why the discrepancy was not mentioned to the General Assembly last year, Mr. Kennedy responded that he presumed because so much focus had been on addressing the \$3.5 billion ACFR restatement made by the previous Comptroller.³⁹ Mr. Kennedy stated that to fix the \$1.8 billion unresolved balance in the fund, a journal entry would need to be made to record appropriate debits and credits to various accounts belonging to specific agencies, but to do so would first require determination of ownership of the funds.⁴⁰ During the Subcommittee meeting, Chairman Grooms asked Mr. Kennedy to provide in writing his understanding of SCEIS Fund 30350993, as well as his recommendations for the Subcommittee.⁴¹

On February 20, 2024, Mr. Kennedy responded to the Subcommittee summarizing his testimony on February 15, and wrote that “...management⁴² must continue to work to establish an underlying claim by agencies within the General Fund to support the journal entry needed to reclassify the accounts.”⁴³ He further wrote that this journal entry would “require historical activity” as a condition of accurately researching and resolving the unresolved differences.⁴⁴

On February 29, 2024, Treasurer Loftis was interviewed by Fox Carolina, an Upstate television station.⁴⁵ In this interview, Treasurer Loftis stated that he was not interested in “ownership” of money, but rather in investments, and that SCEIS Fund 30350993 yielded \$194 million in investment earnings, that the account was “in the right place at the right time,” and has “been there for years.”⁴⁶ Treasurer Loftis stated that he wanted the Comptroller’s office to be “folded” into his office, and that he “always assumed that the General Assembly would fix” the \$1.8 billion discrepancy.⁴⁷

On determination that SCEIS Fund 30350993 was established, directed, and maintained by the Office of State Treasurer, on March 7, 2024, the Subcommittee wrote Treasurer Loftis and asked that he provide ownership of monies contained in SCEIS Fund 30350993 by agency, by fund.⁴⁸

³⁸ Exhibit 14. G. Kennedy testimony before Constitutional Subcommittee of the Senate Finance Committee, February 15, 2024.

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ Exhibit 15. George Kennedy Letter to Senator Larry Grooms. February 20, 2024.

⁴² The Subcommittee understands Mr. Kennedy’s reference to the term “management” to mean the Office of State Treasurer and any others charged with resolution of the unresolved balance. The Subcommittee understands Mr. Kennedy’s reference to the term “reclassify” to mean processing corrective entries needed to record the unresolved differences to the agencies and funds to which those balances properly belong.

⁴³ Exhibit 15. George Kennedy Letter to Senator Larry Grooms. February 20, 2024.

⁴⁴ Ibid.

⁴⁵ Exhibit 16. Treasurer Curtis Loftis Interview with Fox Carolina, February 29, 2024.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024.

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Treasurer Loftis responded by letter on March 14, 2024.⁴⁹ His response was again obfuscatory and largely immaterial to the requests made by the Subcommittee.⁵⁰ Treasurer Loftis wrote that the Office of Comptroller General was responsible for disclosing and resolving the \$1.8 billion discrepancy. His claim lacks credibility, as SCEIS Fund 30350993 is a Treasury-only fund and was hidden from the Office of Comptroller General for reporting purposes until 2022.⁵¹

Following receipt of this letter, the Subcommittee was advised that Mauldin & Jenkins had completed its external audit of the ACFR process and was ready to present its findings to the Subcommittee. A representative of Mauldin & Jenkins presented the results of the audit on March 21, 2024.

The audit made nine recommendations, two of which were directed to the Office of State Treasurer.⁵² The audit noted the importance of Section 11-5-180 of the South Carolina Code, which directs that the Treasurer “produce satisfactory statements of cash in hand, and furnish him [the Comptroller General] promptly with official information, duly certified, relative to any matter connected with the revenue and finance of the State.”

Mauldin & Jenkins found that the “Treasurer is responsible for producing the necessary reports and records the CGO needs to compile the ACFR as well as for any other purpose identified and communicated by the CGO.” Further, the Treasurer “should be providing the CGO with requested information needed for ACFR reporting.”⁵³ Mauldin & Jenkins also recommended that the Office of State Treasurer be provided “education” about its responsibilities relating to ACFR reporting, and that the State should designate a person “with the appropriate level of authority and resources to help ensure governance”.⁵⁴

On March 21, 2024, Treasurer Loftis wrote the Subcommittee and asked for a meeting to present his Office’s budget request for Fiscal Year 2024-2025.⁵⁵ The Subcommittee subsequently advised Treasurer Loftis that his hearing was scheduled for April 2, 2024, at which time he should present his budget request and be prepared to answer questions relating to SCEIS Fund 30350993.

On March 28, 2024, Treasurer Loftis was interviewed on The Charlie James Show on the 98.9 WORD radio station in the Upstate. During the interview, Treasurer Loftis stated that he had not been provided an opportunity to testify under oath regarding his understanding of the \$1.8 billion discrepancy, and that the “problem is that we don’t know who owns it.” He also stated that it was

⁴⁹ Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024.

⁵⁰ Ibid.

⁵¹ Exhibit 17. K. Kip (email communication, October 6, 2022).

⁵² Exhibit 9. Mauldin & Jenkins CPAs & Advisors. “STO Reporting for the ACFR Observations and Recommendations.” Operational Performance Assessment of the ACFR Development Process. Full document available upon request.

⁵³ Ibid.

⁵⁴ Ibid. The Subcommittee interprets the term “governance” to mean oversight of responsibilities for the ACFR process, including the information the Office of State Treasurer must provide to ensure accuracy of the ACFR.

⁵⁵ Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024.

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not the responsibility of the Office of State Treasurer to determine ownership of funds, but rather that of the Office of Comptroller.

In this interview, Treasurer Loftis claimed that SCEIS Fund 30350993 had earned \$250 million from investment, and that the General Assembly had spent those earnings. The money has “never been lost, never been not protected, and never been not invested,” he said. The Subcommittee was perplexed by this statement, as he had previously denied knowledge of the \$1.8 billion unresolved difference and had never disclosed it to the General Assembly.

On April 2, 2024, Treasurer Loftis appeared before the Subcommittee and was placed under oath. He presented his budget request after which members of the Subcommittee asked him questions relating to SCEIS Fund 30350993.

Treasurer Loftis’ testimony was characterized by considerable misdirection and blame shifting, with one Subcommittee member noting he did not take responsibility for any part of the \$1.8 billion in unresolved differences.⁵⁶ Treasurer Loftis again stated that the fund had earned \$225 million in interest. When asked how the General Assembly had supposedly spent those earnings, he did not answer.

Treasurer Loftis had noticeable difficulty answering many questions, repeatedly giving responses that were irrelevant to questions asked by the Subcommittee. He often said that he did not know the answer to questions, frequently turned to members of his staff for answers, and on multiple occasions attempted to ignore members’ questions entirely.⁵⁷ The Subcommittee also found Treasurer Loftis’ conduct at times during the hearing to be unprofessional and erratic. As evidenced on video recordings made during the hearing, at various times he interrupted and spoke over members, stated that he was offended by certain questions, and expressed annoyance about the Subcommittee’s inquiry in general.⁵⁸

Treasurer Loftis grew angry when asked whether his office was in compliance with Section 11-5-120 of the South Carolina Code, which requires that “The State Treasurer shall publish, quarterly, by electronic means and in a manner that allows for public review, a statement showing the amount of money on hand and in what financial institution it is deposited and the respective funds to which it belongs.”⁵⁹ He claimed that members of the Subcommittee were instructing him to publish detailed account and financial information, including bank account numbers.⁶⁰ Treasurer Loftis’ voluntarily stated that to publish such detailed information would place the State at great risk of cyberattack by foreign operatives. He further stated that were he to

⁵⁶ Exhibit 11. Selections from sworn Testimony of Treasurer Curtis Loftis before the Constitutional Subcommittee of the Senate Finance Committee, April 2, 2024.

⁵⁷ Treasurer Curtis Loftis, Sworn Testimony, April 2, 2024. The entirety of his testimony may be found under video archives, “Tuesday, April 2, 2024, 9:00 a.m. Senate Finance Committee – Finance Constitutional Subcommittee Part 1 & Part 2” of the S.C. State House Website.

⁵⁸ Ibid.

⁵⁹ Exhibit 11. Selections from sworn Testimony of Treasurer Curtis Loftis before the Constitutional Subcommittee of the Senate Finance Committee, April 2, 2024.

⁶⁰ Ibid.

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publish the information, among his first actions would be to “call the Secret Service.”⁶¹ Members of the Subcommittee made clear that they were not instructing him to publish such detailed information. Despite members’ clarification, and despite Treasurer Loftis telling the Subcommittee how dangerous publishing the information would be, Treasurer Loftis tossed a document containing detailed financial and account information to one of his staff members and instructed the staff member to “post this by the close of business.”⁶²

Treasurer Loftis also stated that he was “done” with the hearing, implored various members of the Subcommittee to come to his defense, and at one point became so exasperated that he threw an ink pen.⁶³ When Subcommittee members completed their questions, Treasurer Loftis and members of his staff walked out of the hearing prior to its adjournment.⁶⁴

Origin of the \$1.8 Billion and Other Unresolved Differences

The Subcommittee concludes that the State Treasurer is responsible for the \$1.8 billion discrepancy. This conclusion is based on the following findings:

1. The State Treasurer is responsible for the banking and investment functions of the State. As part of that responsibility, he must maintain accurate records of the balances on deposit in the banks, and the investments held in custody by others.⁶⁵
2. As part of the record-keeping responsibilities for banking and investments, the Treasurer must identify and resolve errors in his records and the balances on deposit in banks and investments held by custodians.⁶⁶
3. Prior to approximately 2015 or 2016, banking and investment records were maintained on legacy systems used by the Office of State Treasurer. There are no present indications that records of either the legacy banking or investment systems were out of balance with the balances on deposit in banks or investments held by custodians.
4. The decision to convert the State’s banking and investment records from the legacy system to the SCEIS Treasury system was a decision of the Office of State Treasurer, a finding supported in law by a long-standing proviso that states “decisions relating to the Statewide Accounting and Reporting System (STARS)

⁶¹ Exhibit 11. Selections from sworn Testimony of Treasurer Curtis Loftis before the Constitutional Subcommittee of the Senate Finance Committee, April 2, 2024.

⁶² Ibid.

⁶³ Treasurer Curtis Loftis, Sworn Testimony, April 2, 2024. The entirety of his testimony may be found under video archives, “Tuesday, April 2, 2024, 9:00 a.m. Senate Finance Committee – Finance Constitutional Subcommittee Part 1 & Part 2” of the S.C. State House Website.

⁶⁴ Ibid.

⁶⁵ Exhibit 2. S. C. Code §11-5-180; §11-5-185.

⁶⁶ Treasurer Curtis Loftis, Sworn Testimony, April 2, 2024. The entirety of his testimony may be found under video archives, “Tuesday, April 2, 2024, 9:00 a.m. Senate Finance Committee – Finance Constitutional Subcommittee Part 1 & Part 2” of the S.C. State House Website.

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and the South Carolina Enterprise Information System (SCEIS) which involve the State Treasurer's Banking Operations and other functions of the State Treasurer's Office shall require the approval of the State Treasurer."⁶⁷

5. Implementation of the conversion of the banking and investment records to the SCEIS Treasury system included Treasurer's Office employees, consultants, and SCEIS resources, all acting as resources and under the direction of the Office of State Treasurer.
6. Two SCEIS funds⁶⁸ intended for Treasury use only were established as clearing or pass-through funds to affect the conversion to have an ending balance of zero, meaning that all of the funds cleared the conversion and were accounted for and in the right place.
7. Following the conversions, an unresolved difference of \$1.5 billion from the investments conversion remained.⁶⁹ The Office of State Treasurer was responsible for resolution of this difference.
8. Only employees of the Treasurer's Office, their consultants, and SCEIS employees assigned to the conversion, were authorized to make entries within the fund assigned to the Treasurer's Office.
9. Treasurer Loftis stated that the Comptroller General was fully aware of the funds held in the clearing account; notwithstanding, the Office of Comptroller General had no context, perspective, background, or authorization to make entries to these funds.
10. Treasurer Loftis testified that the fund was "always fully visible." However, because the fund was classified as a clearing or pass-through fund, it was not visible by the Office of the Comptroller General for reporting purposes until 2022.⁷⁰
11. Research indicates that conversions of the banking and investment records were completed in 2015 and 2016, with corrective actions continuing through 2017 and possibly into 2018.
12. In 2017, the difference of \$1.5 billion that remained unresolved in the investment conversion fund was consolidated and moved by the Office of State Treasurer to the banking conversion fund.⁷¹

⁶⁷ Exhibit 18. Proviso 98.2 of the Fiscal Year 2024 Appropriations Act.

⁶⁸ SCEIS Fund 30350993 is the primary focus of the Subcommittee's investigation. SCEIS Fund 30350992 was used as the clearing account for the conversion of investments. As noted in Paragraphs 20 and 25, on completion of the conversion of investments, the Office of State Treasurer initiated a transaction to consolidate \$1.5 billion in unresolved differences from SCEIS Fund 30350992 into SCEIS Fund 30350993. The \$1.5 billion so consolidated is a part of the \$1.8 billion unresolved difference.

⁶⁹ Exhibit 19. Selected Accounts Variation Report for Fund 30350992. Period 16, 2016.

⁷⁰ Exhibit 17. K. Kip (email communication, October 6, 2022).

⁷¹ Exhibit 20. SCEIS Movement of 30350992 to 30350993.

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13. In 2018, an additional \$300 million in unresolved differences that are not related to the banking and investments conversions were recorded to the banking conversion fund,⁷² which together with the \$1.5 billion in unresolved differences forms the \$1.8 billion total unresolved differences.⁷³
14. These differences have remained unresolved and undisclosed to the General Assembly and the people of South Carolina for more than seven years.
15. Research conducted by Subcommittee staff did not reveal any indications of malfeasance or misuse of funds; however, the possibility cannot be summarily dismissed due to the size of the errors, the length of time they were concealed, and the inaccurate condition of the Treasury records.

Conclusions Regarding the \$1.8 Billion in Unresolved Differences

The Subcommittee concludes from these findings that:

1. \$1.5 billion of the \$1.8 billion in unresolved differences from the investments conversion occurred in funds under the exclusive control of the Office of State Treasurer Curtis Loftis;
2. Treasurer Loftis has failed to maintain the integrity of the State's banking and investment records;
3. Treasurer Loftis has known about the unresolved differences for at least seven years;
4. Any suggestion that Treasurer Loftis did not know about the unresolved differences is implausible;
5. Treasurer Loftis has not given the Subcommittee clear answers about the origins and character of the unresolved differences;
6. Treasurer Loftis has made conflicting and likely inaccurate statements about the nature and implications of the unresolved differences; and
7. Treasurer Loftis has not been forthcoming with information that State law requires him to provide.

Negative Cash Position of \$474 Million in the General Fund on June 30, 2023

The 2023 ACFR reflected a cash balance in the General Fund of \$0 at the close of the Fiscal Year ending on June 30, 2023.

⁷² SCEIS Fund 30350993.

⁷³ Exhibit 20. SCEIS Movement of 30350992 to 30350993.

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1. Research revealed that the General Fund was actually negative by \$474 million at the close of Fiscal Year 2023.⁷⁴ A determination was made to offset the negative balance by the value of the State’s investments to conform with accounting rules.⁷⁵
2. The negative position in the General Fund originated within the State’s investment portfolio, where earnings on investments have not been sufficient to maintain the cash balance of the General Fund, despite positive cash balances held in the banks, and record receipts of revenues into the General Fund.⁷⁶
3. Actual earnings on investments in 2023 were \$164 million, far short of the \$474 million deficiency in the General Fund.⁷⁷
4. The Management Letter⁷⁸ for the 2023 ACFR audit drafted for comment originally included an audit finding that the negative position in the General Fund was a deficiency in internal controls. The audit finding was excluded from the final version of the Management Letter following a conversation between the Office of State Treasurer and the auditors.⁷⁹

Conclusions Regarding the Negative Cash Position of \$474 Million

1. The Subcommittee concludes that the negative position of the General Fund likely violates Sections 11-9-290, 11-9-300 and 11-5-185 of the South Carolina Code, which provides that the State Treasurer shall at all times maintain a sufficient cash reserve in the general deposit account and that the general fund shall at no time become exhausted.
2. Section 11-5-185 of the South Carolina Code requires the State Treasurer to provide information relating to state revenue which the Treasurer “deems pertinent and of value to the General Assembly.” That Treasurer Loftis did not consider a negative \$474 million in the General Fund, or even a zero balance in the General Fund to be pertinent or valuable information for the General Assembly is inexplicable.

⁷⁴ Exhibit 5. “State of South Carolina. Balance Sheet. Governmental Funds. June 30, 2023.” FY 2023 Annual Comprehensive Financial Report, Draft for Management Review and Comment.

⁷⁵ Exhibit 6. J. Wigington (e-mail communication, February 6, 2024).

⁷⁶ Exhibit 21. STO – Investment Operations. Reconciliation of NVEST (Treasury Management) to Custodial Bank (BNYM) as of June 30, 2023.

⁷⁷ Exhibit 22. STO – Use for allocation of Purchases and Fair Market Value on Pushdown.

⁷⁸ Letter to Management dated December 20, 2023, of State Auditor George L. Kennedy, III, and Clifton Larson Allen LLP, included in the Report to Governance on the Audit of the State of South Carolina for the year ended June 30, 2023.

⁷⁹ Exhibit 6. J. Wigington (e-mail communication, February 6, 2024).

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Actions Following Subcommittee Testimony on April 4, 2024

By letter dated April 4, 2024, Treasurer Loftis asserted that the Comptroller General and the General Assembly were “reinterpreting” his statutory responsibilities, particularly Sections 11-5-120, 11-5-170, and 11-5-180 of the South Carolina Code of Laws, imposing new and different disclosure obligations.⁸⁰ Treasurer Loftis advised that he would publish to the website of the State Treasurer a detailed fund report to comply with the provisions of Section 11-5-120.⁸¹ He further advised that he alerted the Department of Administration so that it could take steps to protect SCEIS and the State’s other financial and information systems against the security risks created by publication of such detailed information.⁸²

The Subcommittee issued no directives concerning the statutes Treasurer Loftis contends were “reinterpreted;” rather, Treasurer Loftis himself testified on April 2, 2024, that he was not in compliance with the requirements of Section 11-5-120 of the South Carolina Code of Laws.⁸³

Section 11-5-120 of the South Carolina Code requires the quarterly publication by electronic means and in a manner that allows for public review a statement showing the amount of money on hand and in what institution it is deposited and the respective funds to which it belongs.⁸⁴

The detailed fund report proposed by the Treasurer for publication appeared to include extremely sensitive information unnecessary to fulfill the requirements of the statute.⁸⁵ Its release posed a significant threat of compromising the data security of the State.

Following the advice of independent cybersecurity experts, the Department of Administration acted expeditiously, cautioning Treasurer Loftis to reconsider the level of detail he intended to publish.⁸⁶ Additionally, the Subcommittee was informed that Governor McMaster called Treasurer Loftis and advised him against publishing the detailed financial information.

The Subcommittee is alarmed by Treasurer Loftis’ intent to publish sensitive financial information, which reflected poor judgement, a lack of professional discretion, and definitive failure to evaluate the risks of publishing sensitive financial information. Such actions by Treasurer Loftis amount to reckless endangerment of the State and likely would violate State and Federal law.

⁸⁰ Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024.

⁸¹ Ibid.

⁸² Exhibit 10. Communications between the Constitutional Subcommittee of the Senate Finance Committee and the Office of the State Treasurer. February 2024 to April 2024.

⁸³ Exhibit 11. Selections from sworn Testimony of Treasurer Curtis Loftis before the Constitutional Subcommittee of the Senate Finance Committee, April 2, 2024.

⁸⁴ Exhibit 2. S. C. Code §11-5-120.

⁸⁵ Exhibit 3. “Balance by of Cash GL Accounts by Agency and Fund FY 2024 Period 6.” Redacted.

⁸⁶ Exhibit 23. Director Marcia Adams to Treasurer Curtis Loftis, April 4, 2024.

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Working Group Established by Governor McMaster on April 11, 2024

On April 11, 2024, Governor McMaster established a task force and charged its members with “work[ing] together as a group in order to determine the existence, purpose and intended destination of the \$1.8 billion in question before July 1,” according to a statement provided by a spokesman for the Governor.⁸⁷ The task force includes representatives of the Office of State Treasurer, the Office of Comptroller General, the State Auditor, the Department of Administration, the Office of the Attorney General, and the Governor’s Office.

The Subcommittee appreciates the Governor’s good-faith efforts to address the financial difficulties Treasurer Loftis has imposed upon the State and hopes the task force is successful in its work. The Subcommittee is also painfully aware that employees in many of these offices have in the past made multiple attempts to obtain Treasurer Loftis’ cooperation and that their attempts have been futile.

Members of the Subcommittee take seriously their responsibility to recommend solutions to the problems caused by Treasurer Loftis’ financial neglect. Accordingly, the Subcommittee is closely assessing the work of the task force, and will diligently monitor the extent of its progress.

If the task force is unable to achieve the objectives established by the Governor, Subcommittee members are mindful that other mechanisms for corrective action are available. Preparations have been made to utilize these mechanisms should circumstances warrant.

Interim Recommendations

The Subcommittee makes the following interim recommendations, subject to continued vigilance, close monitoring of research, resolution, and developments, and reserving further action and recommendations for any matters pending further investigation.

1. The General Assembly should advance legislation establishing complete independence of the State Auditor,⁸⁸ by eliminating his reporting relationship and accountability the State Fiscal Accountability Authority.⁸⁹

⁸⁷ “McMaster creates task force to resolve \$1.8 billion mystery” at <https://www.wistv.com/2024/04/13/mcmaster-creates-task-force-resolve-18-billion-mystery/>; visited April 14, 2024.

⁸⁸ The Office of State Auditor is established pursuant to Chapter 7 of Title 11, and is selected by the State Fiscal Accountability Authority. The State Auditor has responsibility for among other things annual audits of state agencies, audit of the State’s basic financial statements prepared by the Comptroller General; compliance with the US Office of Management and Budget; and compliance with auditing standards generally accepted in the United States of America.

⁸⁹ The State Fiscal Accountability Authority is established pursuant to Chapter 55 of Title 11 of the South Carolina Code of Laws, with membership consisting of the Governor, who serves as Chairman; and the State Treasurer, the Comptroller General, the Chairman of the Ways and Means Committee of the House of Representatives, and the Chairman of the Senate Finance Committee, all of whom serve ex officio. The Authority has powers to exercise functions, powers, duties, responsibility, and authority related to issuance of bonds and bonding authority, and

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While Section 11-7-45 of the South Carolina Code of Laws provides that “the State Auditor shall maintain independence in the performance of his authorized duties” and that “neither the Governor nor an agency or entity of the executive or judicial branches of state government has the authority to limit the scope, direction, or report content of an audit undertaken by the State Auditor,” the Subcommittee concludes that further independence of the State Auditor from the State Fiscal Accountability Authority is warranted to protect the integrity of the audit process.

2. The General Assembly should appropriate funds for an independent forensic audit of SCEIS Fund 30350993. The forensic audit should be conducted by an external firm guided by the Department of Administration. The Office of State Treasurer must fully cooperate with forensic auditors and must provide unrestricted access to records and information in its possession.
3. The Subcommittee further recommends that the funds designated for the audit, and the engagement and oversight of the external auditor, should be managed and administered by the South Carolina Department of Administration. Expenditure of any funds appropriated for the purposes of forensic audit support should be subject to a plan submitted by the Office of the State Treasurer in conjunction with the Department of Administration for prior review and comment by the Joint Bond Review Committee.
4. The Subcommittee should receive weekly progress reports of the task force initiated by Governor McMaster. The Subcommittee will diligently monitor the progress of the task force.
5. The General Assembly should advance legislation proposing to the voters an amendment to the Constitution of the State of South Carolina, to allow the Governor to appoint the State Treasurer.

certain grants, loans, and other forms of financial assistance to other entities. The Authority also has other specific powers, duties, responsibilities, and authority pursuant to other provisions of the South Carolina Code of Laws.

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EXHIBITS



State of South Carolina
Office of Comptroller General

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Columbia, South Carolina 29201

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BRIAN J. GAINES
COMPTROLLER GENERAL

CHIEF OF STAFF

October 31, 2023

VIA HAND DELIVERY

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

Dear Treasurer Loftis,

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

1. Fully cooperate with the Comptroller General's Office ("CGO") to automate and provide accurate financial accounting and reporting of Cash and Investments in the custody of the STO for the State of South Carolina, including for the preparation of accurate ACFRs;
2. Certify by duly authorized signature, without qualification, each Fiscal Year's ACFR Compiled Cash and Investment Closing Package-STO Treasury and Investments Signature Page no later than the applicable Fiscal Year's closing package submission deadline to be specified by the CGO beginning with Fiscal Year 2024;
3. Provide Quarterly Reports in compliance with GAAP/GASB of Cash and Investments in the custody of the STO by Fund as of the end of each of the first quarter, second quarter and third quarter of each Fiscal Year within 60 days following the close of the relevant quarter beginning with the quarter ending December 31, 2023 and continuing each quarter thereafter; and
4. Before the end of Fiscal Year 2024, complete research of cash balances in Triple Zero Agencies and Fund 30350993 that arose due to conversion; and after completing that research, then classify (or reclassify) those amounts of money to the appropriate Fund(s) and general ledger accounts—all in accordance with notes 9 and 10 of the STO Signature Page for the Fiscal Year 2023 ACFR Closing Package.

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

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

Most respectfully,



Brian J. Gaines
South Carolina Comptroller General

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

EXHIBIT 2

South Carolina Code of Laws, Unannotated
Title 11 - Public Finance, Chapter 5, State Treasurer

Treasurer's Responsibilities - Generally

SECTION 11-5-100. Account in books for appropriations.

The Treasurer shall raise an account in the Treasury books in every instance for the several appropriations made by the General Assembly, so that the appropriations of money and application thereof conformably thereto may appear clearly and distinctly on the Treasury books.

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

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

SECTION 11-5-170. State Treasurer to send daily reports to Comptroller General.

The State Treasurer shall, at the close of business on each day, send to the Comptroller General a report of all monies paid out by him, to whom paid and on what account, except that paid upon warrants of the Comptroller General.

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

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

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

SECTION 11-5-185. Treasurer's annual report to the General Assembly.

In addition to other reports required by law to be made, by the State Treasurer, he shall also report annually to the General Assembly in the month of January on the following matters:

- (1) The amount of state revenue collected in the previous fiscal year.
- (2) The amount of such revenue deposited in the state general fund.
- (3) The location of general fund revenue in banks and other financial institutions including invested funds, as of the end of the previous fiscal year.
- (4) The interest accrued from deposits and investments for the previous fiscal year and the use of such interest.
- (5) The amount expended for debt service in the previous fiscal year.
- (6) The current status of the general fund reserve including any expenditure or reimbursement thereof.

(7) Any other information relating to state revenue which the Treasurer deems pertinent and of value to the General Assembly, including such items as special state funds, the highway fund and other funds not specified herein, as may be deemed appropriate by the Treasurer.

The General Assembly shall provide in the annual general appropriations act for the cost of preparing this report.

SECTION 11-5-245. State Treasurer reports to boards of trustees of institutions of higher learning.

The State Treasurer shall report no less than quarterly to the respective boards of trustees of the institutions of higher learning the status of all funds invested pursuant to Section 11-9-665 on behalf of each institution. At a minimum the report must contain such information as to allow the trustee to comply on a timely basis with Section 59-153-90.

Treasurer's Power to Invest

SECTION 11-9-660. Investment of funds.

(A) The State Treasurer has full power to invest and reinvest all funds of the State in any of the following:

- (1) obligations of the United States, its agencies and instrumentalities;
- (2) obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank;
- (3) obligations of a corporation, state, or political subdivision denominated in United States dollars, if the obligations bear an investment grade rating of at least two nationally recognized rating services;
- (4) certificates of deposit, if the certificates are secured collaterally by securities of the types described in items (1) and (3) of this section and held by a third party as escrow agent or custodian and are of a market value not less than the amount of the certificates of deposit so secured, including interest; except that this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government;
- (5) repurchase agreements, if collateralized by securities of the types described in items (1) and (3) of this section and held by a third party as escrow agent or custodian and of a market value not less than the amount of the repurchase agreement so collateralized, including interest; and
- (6) guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution, whose long-term unsecured debt rating bears the two highest ratings of at least two nationally recognized rating services.

(B) The State Treasurer may contract to lend securities invested pursuant to this section.

(C) The State Treasurer shall not invest in obligations issued by any country or corporation principally located in any country which the United States Department of State determines commits major human rights violations based on the Country Reports on Human Rights Practices by the Bureau of Democracy, Human Rights and Labor of the U. S. Department of State.

General Deposit Account; General Fund

SECTION 11-9-290. Borrowing to maintain balance in general deposit account.

The State Treasurer shall at all times maintain a sufficient cash reserve in the general deposit account to finance properly the activities supported by the respective funds comprising the general deposit account and to this end the State Fiscal Accountability Authority may borrow, from time to time, such amounts as are necessary. To the end that such borrowing may be kept at a minimum each department and institution may be required to give to the State Treasurer a quarterly anticipation of its expenditures, itemized according to budget classifications, by months.

SECTION 11-9-300. Borrowing to maintain general fund; required cash balance.

The State Fiscal Accountability Authority shall, when necessary, borrow as otherwise provided by law a sufficient sum or sums of money to provide for the payment of all demands upon the State Treasury, to the end that the general fund herein authorized shall at no time become exhausted, and the authority shall maintain at all times a cash balance sufficient in its judgment to meet the requirements of Sections 11-9-240 to 11-9-270 and this section.

Comptroller General

SECTION 11-3-100. Books of Treasurer; report to General Assembly.

The Comptroller General shall keep a set of books exhibiting the separate transactions of the State Treasury. Such set of books shall be a transcript of the books of the Treasury, constituting a complete check upon that office. And the Comptroller shall, in addition to the exhibits of cash transactions of the Treasury, annually report to the General Assembly a balance sheet of the books aforesaid, setting forth as well by whom debts are due to the State as the amounts of those debts.

SECTION 11-3-120. Comptroller General to inspect vouchers of State Treasurer.

The Comptroller General shall between the first and tenth day of each month examine the vouchers in the office of the State Treasurer for all payments made by the Treasurer during the preceding month.

SECTION 11-3-130. Payments by Treasurer to be on warrants drawn by Comptroller General, exceptions.

All payments by the State Treasurer, except for interest on the public debt and the pay of officers, members and attaches of the General Assembly, shall be made on warrants drawn by the Comptroller General, and the vouchers for the same must be filed in his office.

SECTION 11-3-170. Payments from State Treasury.

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. All vouchers, except for appropriated salaries, shall be accompanied by a classified and itemized statement of expenditures showing in each case the name of the payee and a list of articles purchased or services rendered, together with a certified statement that such articles or services were purchased or rendered exclusively for the purpose or activity for which the appropriation was made. These statements of expenditures shall be prepared on printed forms prescribed by the Comptroller General and they shall be prepared in duplicate, the copy to be retained for the purpose of assisting in the annual audit and as a permanent office record.

EXHIBIT 3

**Balance by of Cash GL Accounts by Agency and Fund
FY 2024
Period 6
Source: Business Objects**

| Description | GLA | GLA Name | Business Area | Agency Name | Assoc. Bus Area Key | Associated Business Area | Fund | Period 6 |
|-----------------------------------|-----|----------|---------------|--------------------------------|---------------------|--------------------------|------|----------|
| Bank-Controlled by Agency Not STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | J040 | HEALTH & ENVIRON CNTL DEPT | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | N040 | CORRECTIONS DEPARTMENT | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | N040 | CORRECTIONS DEPARTMENT | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | N040 | CORRECTIONS DEPARTMENT | # | Not assigned | | |
| Bank-Controlled by Agency Not STO | | | N040 | CORRECTIONS DEPARTMENT | # | Not assigned | | |
| Bank-Controlled by STO | | | E160 | STATE TREASURERS OFFICE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | R600 | DEPT OF EMPLOYMENT & WORKFORCE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A010 | LEG DEPT-THE SENATE | # | Not assigned | | |
| Bank-Controlled by STO | | | A050 | LEG DEPT-HOUSE OF REPRE | # | Not assigned | | |
| Bank-Controlled by STO | | | A050 | LEG DEPT-HOUSE OF REPRE | # | Not assigned | | |
| Bank-Controlled by STO | | | A050 | LEG DEPT-HOUSE OF REPRE | # | Not assigned | | |

EXHIBIT 4



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

April 4, 2024

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

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Dear Chairman Grooms:

As I testified on Tuesday, my office has complied with all our statutory reporting requirements consistent with how these statutes have been historically interpreted both during my tenure as Treasurer and during the tenure of my predecessors. The reports and information have been made to the public whether by publication in newspapers or on the internet, to the comptroller general through SCEIS as specified in that office's Annual Accountability reports and in CAFR/ACFR reporting packages, and to the General Assembly in our annual reports. No one has ever objected to the adequacy of these disclosures or asked for additional information until after the Comptroller General (CG) did the ACFR restatement.

We now understand that the CG and the General Assembly is re-interpreting these statutes especially SC Code Ann. §§ 11-5-120, 11-5-170 and 11-5-180. These re-interpretations impose new and different disclosure obligations on my office, some of which may require modifications to SCEIS.

Based on this new understanding, my office will hand deliver to the CG printed daily reports of "monies paid out" without a warrant as referenced in § 11-5-170 and monthly reports as referenced in § 11-5-180. We will provide paper copies, even though the CG already has essentially real time electronic access to this information, as my office reports it in SCEIS.

With respect to the electronic publication for public review of quarterly statements referenced in § 11-5-120, we will begin posting on the State Treasurer's website a detailed fund report. We alerted the Department of Administration so that that agency can take action to protect SCEIS and

The Honorable Larry K. Grooms
April 4, 2024

the State's other information and financial systems from the added security risks created by the publication of such detailed information.

Sincerely,

A handwritten signature in blue ink that reads "Curtis M. Loftis, Jr." with a stylized, cursive script.

Curtis M. Loftis, Jr.
State Treasurer

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

State of South Carolina

Balance Sheet

GOVERNMENTAL FUNDS

June 30, 2023

(Expressed in Thousands)

| | General Fund | Departmental Program Services | Local Government Infrastructure | Department of Transportation Special Revenue |
|---|----------------------|-------------------------------------|---------------------------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ (474,408) | \$ 546,636 | \$ 159,395 | \$ 3,038,673 |
| Investments..... | 11,481,666 | 1,846,867 | 543,884 | — |
| Invested securities lending collateral..... | 492,055 | 62,486 | 46,613 | 82,664 |
| Receivables, net: | | | | |
| Accounts..... | 138,015 | 280,359 | 1,822 | 35,529 |
| Contributions..... | 260 | 749 | — | — |
| Accrued interest..... | 125,705 | 15,870 | 10,086 | — |
| Income taxes..... | 1,249,190 | — | — | — |
| Sales and other taxes..... | 909,929 | 1,820 | — | 7,139 |
| Student accounts..... | 126 | — | — | — |
| Patient accounts..... | 16,164 | 2,246 | — | — |
| Loans and notes..... | 38,569 | — | 762,987 | 4,305 |
| Leases..... | 8,200 | 4,867 | — | — |
| Due from Federal government and other grantors..... | 10,343 | 1,289,905 | 7,798 | 144,780 |
| Due from other funds..... | 68,422 | 17,967 | 26,074 | 184,874 |
| Due from component units..... | 53,036 | 189 | 4,000 | 42 |
| Interfund receivables..... | 51,157 | 6,750 | 81,944 | — |
| Inventories..... | 32,157 | 48,066 | — | 4,294 |
| Restricted assets: | | | | |
| Cash and cash equivalents..... | 16,385 | — | 891,323 | — |
| Accounts receivable, net..... | — | — | 8,000 | — |
| Other..... | — | — | 13,304 | — |
| Prepaid items..... | 26,405 | 8,416 | — | 5,383 |
| Other assets..... | 150 | — | — | 203 |
| Total assets..... | \$ 14,243,526 | \$ 4,133,193 | \$ 2,557,230 | \$ 3,507,886 |
| LIABILITIES | | | | |
| Accounts payable..... | 289,071 | 440,657 | 4,307 | 210,583 |
| Accrued salaries and related expenditures..... | 134,448 | 37,874 | 111 | 24,860 |
| Retainages payable..... | 41 | 1,242 | — | — |
| Tax refunds payable..... | 1,122,979 | — | — | — |
| Payable—aid to individuals/families..... | 8,068 | 18,893 | — | — |
| Intergovernmental payables..... | 75,767 | 516,925 | 33,341 | — |
| Due to other funds..... | 294,539 | 57,321 | 363 | 1,639 |
| Due to component units..... | 31,670 | 17,773 | — | — |
| Interfund payables..... | 6,750 | 249 | — | 81,944 |
| Unearned revenues..... | 25,124 | 1,917,457 | 10,311 | 521,928 |
| Deposits..... | — | — | 32,715 | 1,872 |
| Securities lending collateral..... | 492,055 | 62,486 | 46,613 | 82,664 |
| Other liabilities..... | 673,039 | 11,727 | — | — |
| Total liabilities..... | 3,153,551 | 3,082,604 | 127,761 | 925,490 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenues..... | 12,970 | 49,548 | 15,000 | 2 |
| Deferred nonexchange revenues..... | 22,777 | — | — | — |
| Lease related..... | 7,863 | 5,435 | — | — |
| Total deferred inflows of resources..... | 43,610 | 54,983 | 15,000 | 2 |
| FUND BALANCES | | | | |
| Nonspendable..... | 141,250 | 56,482 | — | 9,880 |
| Restricted..... | 1,580,428 | 905,614 | 2,414,469 | 2,572,514 |
| Committed..... | — | 36,844 | — | — |
| Assigned..... | 722,535 | — | — | — |
| Unassigned..... | 8,602,152 | (3,334) | — | — |
| Total fund balances..... | 11,046,365 | 995,606 | 2,414,469 | 2,582,394 |
| Total liabilities, deferred inflows and fund balances..... | \$ 14,243,526 | \$ 4,133,193 | \$ 2,557,230 | \$ 3,507,886 |

The Notes to the Financial Statements are an integral part of this statement.

Jessica Wigington

From: Kennedy, George <[REDACTED]>
Sent: Tuesday, February 6, 2024 1:55 PM
To: Jessica Wigington
Subject: RE: [External] FW: Governance letter - Final

Hi Jessa:

The comment is below.

The comment arose because of a negative cash balance in the general fund that was covered by short-term investments, and our concern that the State may not be liquid enough to cover short-term needs. STO staff and Remi Omisore of CLA spoke further on this issue, and STO staff provided additional explanations of their process. Based on this discussion, we determined the formal comment could be removed. It remains noted as an issue in our files, but one that was verbally communicated to management.

George

Cash and Investment Reporting

The State Treasurer's Office (STO) has custody of most of the State's cash and investment balances and pools the funds across state agencies for investment purposes. The South Carolina Enterprise Information System (SCEIS) tracks the allocation of these funds in separate general ledger accounts so that each agency can review its respective balances. The State General Fund (which represents all residual activity of the State) had a negative cash position which was offset by investment balances for reporting within the State's financial statements. The negative cash position indicates that the general fund is borrowing from other funds for short-term liquidity. We recommend that the State review its current policies and procedures regarding liquidity analysis in conjunction with financial statement reporting.

From: Jessica Wigington <[REDACTED]>
Sent: Tuesday, February 6, 2024 1:27 PM
To: Kennedy, George <[REDACTED]>
Cc: Quentin Hawkins <[REDACTED]>; Rick Harmon <[REDACTED]>
Subject: [External] FW: Governance letter - Final

Good afternoon, George,

I hope you are well and your legislative session is off to a good start!

I just finished reading the Report to Governance for FYE 2023. I noticed that Gen. Gaines' Management Letter mentions "four areas of deficiencies," two of which were directed at STO. This final report only has one.

Was there another version of this report? Or a draft that referenced this? If so, could I please request a copy?

Thank you.

Jessa Wigington

Budget Analyst

Senate Finance Committee | South Carolina Senate

Gressette Building, Suite 108 | 1101 Pendleton Street, Columbia, SC 29201

Tel: 803-212-6651 | Fax: 803-212-6690 [REDACTED]

[REDACTED] Rick Harmon <[REDACTED]>

Sent: Monday, January 22, 2024 4:28 PM

To: Quentin Hawkins <[REDACTED]>; Jessica Wigington <[REDACTED]>; Morgan O'Donnell <[REDACTED]>

Subject: FW: Governance letter - Final

From: Kennedy, George <[REDACTED]>

Sent: Monday, January 22, 2024 3:59 PM

To: Rick Harmon <[REDACTED]>

Subject: Governance letter - Final

Rick:

Attached is the final Governance package for the FY23 audit. I sent the same to SFAA for distribution.

I am headed to a meeting now, but will get you some note on the uncorrected misstatements early this evening.

George



George L. Kennedy, III, CPA

State Auditor ● South Carolina Office of the State Auditor

1401 Main Street, Suite 1200 ● Columbia, SC 29201

Office ● 803.253.4160

Fax ● 803.343.0723

Email ● [REDACTED]

Direct ● [REDACTED]

Mobile ● [REDACTED]

● osa.sc.gov

EXHIBIT 7

| Selected Accounts Variation Report | | Run Date / Time 03/26/2024, 20:58:09 | | |
|---|---------------------|--------------------------------------|---------------------|----|
| Bus Area: * | Fund: 30350993 | Grant: * | | |
| Cost Ctr: * | Funded Program: * | Period: 16, 2023 | | |
| Account Group Selected: * | | | | |
| GL Account | YTD Beg Bal | MTD Activity | YTD End Bal | |
| GL Account | YTD Beg Bal | MTD Activity | YTD End Bal | |
| 1000000000 CASH DUE TO/FROM | (29,126,331,493.06) | - | (29,126,331,493.06) | |
| 1010339900 UC TRUST - FEDERAL | (533,584,001.21) | - | (533,584,001.21) | |
| 1011300000 WF_E16_STO_Contingent Acct_CASH | 10,678,504,773.50 | - | 10,678,504,773.50 | |
| 1011300700 WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT | 25,339,949,424.07 | - | 25,339,949,424.07 | |
| 1011300707 WF GENERAL DEPOSIT WRITE OFFS | 17.50 | - | 17.50 | |
| 1013300000 BOA CASH_STO_GENERAL DEPOSIT ACCOUNT | 1,094,129,628.79 | - | 1,094,129,628.79 | |
| 1013301000 BOA_CASH_STO_GDA_INT ACCT | (280,000,000.00) | - | (280,000,000.00) | |
| 1015300000 UNITED COMMUNITY BANK_E16_CASH_GEN DEP | (8,927,566.14) | - | (8,927,566.14) | |
| 1016300000 SYNOVUS CASH_GEN DEP | (297,953,597.15) | - | (297,953,597.15) | |
| 1016300100 SYNOVUS RESTRICTED CASH_GEN DEP | (1,706,211,622.08) | - | (1,706,211,622.08) | |
| 1017300000 TD BANK_E16_CASH_GEN DEP | (669,705,559.77) | - | (669,705,559.77) | |
| 1018300000 FARMERS AND MERCHANTS GENERAL DEPOSIT | (9,425.47) | - | (9,425.47) | |
| 1019300000 FIRST NTL HOLLY HILL_E16_CASH_GEN DEP | (6,098,183.34) | - | (6,098,183.34) | |
| 1020300000 FIRST CITIZENS_E16_CASH_GEN DEP | (2,365,057,191.53) | - | (2,365,057,191.53) | |
| 1021300000 TRUIST_E16_CASH_GEN DEP | (59,427,822.83) | - | (59,427,822.83) | |
| 1024300000 ARTHUR STATE BANK_E16_CASH_GEN DEP | (3,764,915.61) | - | (3,764,915.61) | |
| 1025300000 BANK OF CLARENDON_E16_CASH_GEN DEP | (16,551,854.73) | - | (16,551,854.73) | |
| 1026300000 SOUTH STATE BANK GENERAL DEPOSIT | (164,761,893.22) | - | (164,761,893.22) | |
| 1028300000 BANK OF TRAVELER'S REST_E16_CASH_GEN DEP | (245,009.38) | - | (245,009.38) | |
| 1029300000 BLUE RIDGE BANK_E16_CASH_GEN DEP | (1,299,749.69) | - | (1,299,749.69) | |
| 1032300000 ENTERPRISE BANK_E16_CASH_GEN DEP | (2,315,631.97) | - | (2,315,631.97) | |
| 1034300000 PALMETTO STATE BANK_E16_CASH_GEN DEP | (22,881,753.39) | - | (22,881,753.39) | |
| 1036300000 JPMC CASH_STO_GENERAL DEPOSIT ACCOUNT | 5,000,000.00 | - | 5,000,000.00 | |
| 1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT | 0.11 | - | 0.11 | |
| 1063300307 BONY GENERAL WRITE OFFS | (0.11) | - | (0.11) | |
| 1076300000 ANDERSON BROTHERS_E16_CASH_GEN DEP | (500.00) | - | (500.00) | |
| 1087300000 CAROLINA BANK AND TRUST_E16_CASH_GEN DEP | (500.00) | - | (500.00) | |
| 2400600002 DUE TO OTHER FUNDS - EQUITY IN POOLED CASH | (1,852,455,573.29) | - | (1,852,455,573.29) | |
| Sum with 1000000000 and 2400600002 | (0.00) | - | (0.00) | 28 |
| Sum without 1000000000 and 2400600002 (Banks Only) | 30,978,787,066.35 | - | 30,978,787,066.35 | 26 |

EXHIBIT 8



BRIAN J. GAINES
COMPTROLLER GENERAL

State of South Carolina
Office of Comptroller General

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

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

CHIEF OF STAFF

October 31, 2023

VIA HAND DELIVERY

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

Dear Treasurer Loftis,

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

1. Fully cooperate with the Comptroller General's Office ("CGO") to automate and provide accurate financial accounting and reporting of Cash and Investments in the custody of the STO for the State of South Carolina, including for the preparation of accurate ACFRs;
2. Certify by duly authorized signature, without qualification, each Fiscal Year's ACFR Compiled Cash and Investment Closing Package-STO Treasury and Investments Signature Page no later than the applicable Fiscal Year's closing package submission deadline to be specified by the CGO beginning with Fiscal Year 2024;
3. Provide Quarterly Reports in compliance with GAAP/GASB of Cash and Investments in the custody of the STO by Fund as of the end of each of the first quarter, second quarter and third quarter of each Fiscal Year within 60 days following the close of the relevant quarter beginning with the quarter ending December 31, 2023 and continuing each quarter thereafter; and
4. Before the end of Fiscal Year 2024, complete research of cash balances in Triple Zero Agencies and Fund 30350993 that arose due to conversion; and after completing that research, then classify (or reclassify) those amounts of money to the appropriate Fund(s) and general ledger accounts—all in accordance with notes 9 and 10 of the STO Signature Page for the Fiscal Year 2023 ACFR Closing Package.

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

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

Most respectfully,



Brian J. Gaines
South Carolina Comptroller General

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



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

November 30, 2023

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

VIA HAND DELIVERY AND ELECTRONIC MAIL

Dear General Gaines:

Brian

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

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

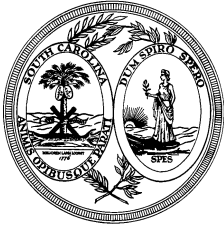
If the CGO is concerned with the correctness of any outstanding ACFR issues, including the CGO's placement in the 2021-2022 ACFR of the SCEIS Fund 30350993 balances in the State's General Fund, it is imperative that the CGO timely provide that information to the STO in order for me to fulfill my aforementioned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

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

Sincerely,

Curtis M. Loftis, Jr.
Curtis M. Loftis, Jr.
State Treasurer

CML/sk



State of South Carolina
Office of Comptroller General

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

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

BRIAN J. GAINES
COMPTROLLER GENERAL

CHIEF OF STAFF

December 12, 2023

VIA ELECTRONIC MAIL

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

Dear Treasurer Loftis:

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

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

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

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

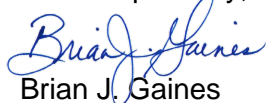
Fund 30350993, as understood by the Comptroller General's Office, was originally established by the State Treasurer's Office to balance entries coded incorrectly between bank accounts – and it was set up as to not be presented to the General Assembly as moneys potentially available for appropriation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

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

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

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

Most respectfully,



Brian J. Gaines
South Carolina Comptroller General

Enclosure
FY2023 ACFR draft



THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

December 14, 2023

VIA HAND DELIVERY AND ELECTRONIC MAIL

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

Dear General Gaines:

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

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

Sincerely,

A handwritten signature in black ink that reads "Curtis Loftis".

Curtis M. Loftis, Jr.
State Treasurer

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

Recommendation 8: The CGO should consistently communicate to agencies any proposed material adjustments made to submitted information and the rationale for the adjustments in addition to supporting documentation (workpapers) that details how the changes will be made. By communicating modifications, the CGO will enhance agencies' awareness and understanding of the rationale behind reported figures in the ACFR potentially appearing different from the information that the agency previously attested on. In addition to communicating modifications made to an agency's data, the CGO should provide the agency with the opportunity to ask questions and if needed, appeal the changes to the State Auditor for mediation.

STO Reporting for the ACFR Observations and Recommendations

Observation 9: For the FY23 reporting package, the CGO combined portions of the cash and investment reporting packages unique to the STO into a single reporting package that required collaboration across multiple divisions of the STO. The CGO leveraged the STO-provided data to prepare a reconciliation of cash and investments to SCEIS G/L data to allow for ACFR reporting at the desired level of detail.

Pursuant to State Code Section 11-5-180, the State Treasurer shall, when required by the Comptroller General, "produce to him satisfactory statements of the cash in hand and furnish him promptly with the official information, duly certified, relative to any matter connected with the revenue and finance of the State."

The CGO's use of information provided by the STO to prepare a reconciliation of cash and investments to SCEIS G/L data may create conflict with Section 11-3-100 of the State Code, which requires the Comptroller General to keep a set of books that "shall be a transcript of the books of the Treasury" by creating a separate record that no longer reflects a transcript of the books of the Treasury.

Recommendation 9A: The Treasurer is responsible for producing the necessary reports and records the CGO needs to compile the ACFR, as well as for any other purpose identified and communicated by the CGO. The CGO should not have to leverage information provided by the STO and make modifications for ACFR reporting purposes, as it creates the potential for conflicting official records of the State.

Recommendation 9B: The STO should be providing the CGO with requested information needed for ACFR reporting. If the STO is able to report cash and investments at the business area and fund level which reconciles to the G/L, and accounts for timing adjustments as opposed to the CGO (who prepares the ACFR) performing the reconciliation, there will be enhanced controls and quality assurance as one party can validate another party's work.

In order for the STO to prepare the requested documentation, additional SCEIS reporting requirements may be necessary to produce documentation at the requested level of detail. The State should provide the resources necessary to implement any additional reporting requirements to enable the CGO's desired level of reporting from the STO. The Department of Administration should continue to work with the CGO and the STO to operationalize the draft requirements previously submitted to the Department of Administration by the CGO that should enable the STO to provide the desired reporting to the CGO for ACFR compilation.

As the STO provides the requested information (cash and investments at the business area and fund level which reconciles to the G/L, and accounts for timing adjustments) in the future to the CGO needed for ACFR reporting, the associated assertions contained in the RPs should be constructed in a manner that relates to data and information for which either the STO is/will be responsible for and/or data that the STO pulls from SCEIS with reasonable assumptions.

Recommendation 9C: Additionally, the STO may need additional experience or education about ACFR reporting requirements, to ensure appropriate preparation. To facilitate the assumption of this responsibility, the STO may need to consider hiring or contracting with subject matter experts who can assist the STO in further understanding and complying with CGO ACFR reporting requirements. The CGO should propose to the STO the associated assertions and assumptions related to providing the requested information (cash and investments at the business area and fund level which reconciles to the G/L, and accounts for timing adjustments information). If needed, the STO should develop a plan in terms of needs/requirements to be reasonably comfortable with the proposed assertions and assumptions for the new level of ACFR reporting to the CGO.

Recommendation 9D: Based on the State's evaluation of the recommendations and determination of implementation, the State should appoint a person(s) with appropriate level of authority and resources to help ensure governance over the transformation.

EXHIBIT 10

**Senate Finance Committee
Constitutional Subcommittee**

LARRY GROOMS
CHAIRMAN

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



JESSICA WIGINGTON
ANALYST
803-212-6651

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

February 1st, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

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

Dear Treasurer Loftis:

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

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

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

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

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

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

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

Senate Finance Committee
Constitutional Subcommittee

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

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

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

Thank you for your timely response.

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



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

February 8, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

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

Re: 2023 STO Closing and Reporting File and CGO assistance

Dear Chairman Grooms:

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

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

The STO believes that it is in full compliance with the directives outlined in Proviso 98.14¹.

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

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

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

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

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

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

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

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

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

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

Again, we have not received notification from the CGO of any issues or non-compliance with the 2023 Cash and Investment Closing file requirements. If the CGO has additional questions or

information needed, we would appreciate notification of specific question(s) or documentation requirements.

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

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

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

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

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

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

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

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

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

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

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

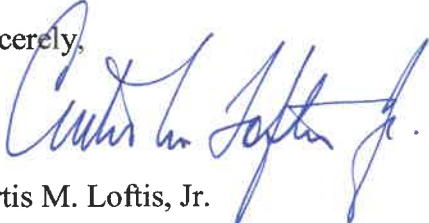
The Honorable Lawrence K. "Larry" Grooms
February 8, 2024

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

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

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

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

Sincerely,


Curtis M. Loftis, Jr.
State Treasurer

Enclosures

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



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

September 8, 2023

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

SENT VIA HAND DELIVERY AND OFFICIAL ELECTRONIC MAIL.

Dear General Gaines:

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

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

Moreover, based on information provided by CGO and others, either directly or indirectly, the STO understands that the mapping error that caused the 2022 restatement of the ACFR has been corrected. First, your office, in its November 29, 2022 response to the State Auditor and independent audit firm, CliftonLarsonAllen, LLP (CLA), concerning material weakness #2022-002, stated that it "has corrected the miscoded activity within the State's general ledger that had been incorrectly coded for ACFR reporting purposes since the SCEIS reporting system was set up in 2007." Second, in February 23, 2023 testimony to the Senate Finance Constitutional Subcommittee, Marcia Adams, Director of the Department of Administration (DOA), who oversees SCEIS, stated that on January 6, 2023 the CGO's staff informed a working group consisting of CGO, STO and DOA personnel that the mapping error had been fixed. Third,

CLA was engaged to perform Agreed Upon Procedures (AUP) to examine support for cash and investment amounts in the closing file as of December 31, 2022. CLA performed the AUP, including inspecting the reconciliation to determine if fund 10019000 (mapped incorrectly for years) was now appropriately included within the cash and investments reconciliation. According to its July 21, 2023 report CLA reported “no exceptions were identified,” indicating that the CGO had fixed the mapping error in the December 31, 2022 cash and investment closing file. Correcting the mapping error eliminated previously excluded appropriation transfers.

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

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

Brian J. Gaines, Comptroller General
September 8, 2023

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

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

Sincerely,



Clarissa T. Adams
Chief of Staff

CTA/cl
Enclosures:

Appendix to Letter to CGO 9/8/2023


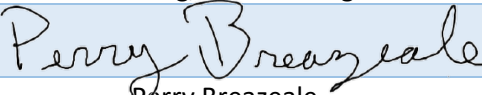
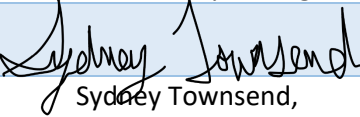
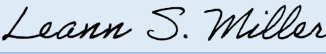
The State Treasurer's Office (STO) has carefully reviewed the instructions and the Closing File issued by the CGO and provided responses as shown in this Appendix. The signature(s) of STO personnel on the accompanying letter represent the assertions of the STO that the information contained in each response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

| # | CGO Assertion / STO Response |
|---|--|
| 1 | <p><i>CGO Assertion:</i> "Cash is correct at the business area/fund level (not ACFR category) and agrees to cash in banks (cash G/L'S) and is supported by signed reconciliations."</p> <p><i>STO Response:</i></p> <ul style="list-style-type: none"> ✓ Provided June 30th bank account reconciliations and bank statements. ✓ Agreed G/L balances on STO bank reconciliations (provided to the CGO) to the Closing File, <i>Cash and Investments Reconciliation</i> tab (provided by the CGO). Several exceptions were noted in the Closing File returned with this package titled <i>Closing File Response – STO Cash</i>. |
| 2 | <p><i>CGO Assertion:</i> "Investments (purchases, FMV) tracked by the STO'S SCEIS systems (Treasury Management) at the business area/fund (not ACFR category) level are correct and agrees to: investments held at third party institutions and the G/L (Portfolio/Treasury Accounting)."</p> <p><i>STO Response:</i></p> <ul style="list-style-type: none"> ✓ STO tested that the data provided in the <i>ZIMRQ300</i> tab agreed with the <i>ZIMRQ300</i> provided by STO in the 4.4 Investment Reporting package. ✓ Reconciliations comparing Treasury Management to the General Ledger (see STO's <i>Investments – TM to FI</i> tab) and to BNYM (see STO's <i>Investments – TM to BNYM</i> tab) are complete. These are provided in the Closing File returned with this package titled <i>Closing File Response – STO Investments</i>. ✓ <i>Summary Detail</i> tab – Reconciled Investment Acquisition Costs and FMV Investments to the <i>GL Detail</i> tab. ✓ <i>Cash and Investments Reconciliation</i> tab - STO confirmed the figure in Cell B145 agreed to the Investment Purchase Amount in CGO's <i>ZIMRQ300</i> tab. ✓ <i>Cash and Investments Reconciliation</i> tab - STO confirmed the figure in Cell C145 agreed to the Mark-to-Market Value in CGO's <i>ZIMRQ300</i> tab. ✓ <i>Cash and Investments Reconciliation</i> tab - STO confirmed the Investment Purchases figure in Cell B146 reconciled to cash in the G/L for investment funds related to Portfolios 01, 03, EI, GF, DI, HI, SB, and CV in total. ✓ <i>Cash and Investment Reconciliation</i> tab – STO confirmed the FMV figure in Cell C146 reconciled to the Current and L/T (Long Term) Mark to Market G/L accounts (1202010000 and 1206010000 respectively) for investment funds related to Portfolios 01, 03, EI, GF, DI, HI, SB and CV in total. The Sonoco Stock (AD) was not captured in this figure. ✓ Reconciliation and explanation of variance between <i>ZIMRQ300</i> and G/L for Investment Purchases provided on the <i>Investments – TM to FI</i> tab in the Closing File returned with this package titled <i>Closing File Response – STO Investments</i>. ✓ Reconciliation and explanation of variance between <i>ZIMRQ300</i> and G/L for Investments at FMV provided on the <i>Investments – TM to FI</i> tab in the Closing File returned with this package titled <i>Closing File Response – STO Investments</i>. ✓ <i>Pushdown</i> tab – STO confirmed the Investment Purchase and FMV columns reconcile to the CGO GL totals. |

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

APPENDIX

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

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

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
CHAIRMAN

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



JESSICA WIGINGTON
ANALYST
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ADMINISTRATIVE ASSISTANT
803-212-6677
FAX: 803-212-6690

March 7, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

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

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

Dear Treasurer Loftis:

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

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

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

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

Thank you for your timely response,

A handwritten signature in black ink that reads "Larry K. Grooms".

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

Senate Finance Committee
Constitutional Subcommittee

Enclosures

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



BRIAN J. GAINES
COMPTROLLER GENERAL

State of South Carolina
Office of Comptroller General

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

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

CHIEF OF STAFF

October 31, 2023

VIA HAND DELIVERY

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

Dear Treasurer Loftis,


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

1. Fully cooperate with the Comptroller General's Office ("CGO") to automate and provide accurate financial accounting and reporting of Cash and Investments in the custody of the STO for the State of South Carolina, including for the preparation of accurate ACFRs;
2. Certify by duly authorized signature, without qualification, each Fiscal Year's ACFR Compiled Cash and Investment Closing Package-STO Treasury and Investments Signature Page no later than the applicable Fiscal Year's closing package submission deadline to be specified by the CGO beginning with Fiscal Year 2024;
3. Provide Quarterly Reports in compliance with GAAP/GASB of Cash and Investments in the custody of the STO by Fund as of the end of each of the first quarter, second quarter and third quarter of each Fiscal Year within 60 days following the close of the relevant quarter beginning with the quarter ending December 31, 2023 and continuing each quarter thereafter; and
4. Before the end of Fiscal Year 2024, complete research of cash balances in Triple Zero Agencies and Fund 30350993 that arose due to conversion; and after completing that research, then classify (or reclassify) those amounts of money to the appropriate Fund(s) and general ledger accounts—all in accordance with notes 9 and 10 of the STO Signature Page for the Fiscal Year 2023 ACFR Closing Package.

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

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

Most respectfully,



Brian J. Gaines
South Carolina Comptroller General

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

CHAPTER 5
State Treasurer

ARTICLE 1
General Provisions

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

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

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

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

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



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

March 14, 2024

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

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Dear Chairman Grooms:

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

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

Defining the Problem and Finding a Solution

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

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

History and Timeline

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

The question now facing South Carolina is whether this \$1.8 billion is “available” or “general funds”? The CGO reported the \$1.8 billion in the General Fund for ACFR purposes, and the State Auditor agreed with

that accounting treatment to a “reasonable degree of certainty.” The STO cannot now opine on that the propriety of these decisions, since work is still on-going to identify the source of the cash represented by SCEIS Fund 30350993. *We can, however, assure you and the taxpayers of this State that we have safeguarded that cash and invested it over these many years. SCEIS fund 30350993 is a separate and distinct fund for accounting purposes. Nevertheless, all investment earnings have accrued to the benefit of the General Fund.*

Statutory Compliance

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

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

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

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

1912 Civil Code Section 794:

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

The statutory specific information is currently contained in two online reports: The Portfolio Performance Summary (<https://treasurer.sc.gov/media/pnzi0hfb/investment-performance-report-93023.pdf>) (Exhibit 3)

The Honorable Larry K. Grooms
March 14, 2024

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

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

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

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

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

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

In a December 15, 2022, email from David Starkey to Richard Eckstrom (Exhibit 6), that is included on page 50 of the Constitutional Subcommittee of the Senate Finance Committee's *Report on the Investigation of the FY 2022 Annual Comprehensive Financial Report Restatement*, David Starkey shows the "Restatement by Entities" as \$3.5 billion with no mention of the \$1.8 billion reduction from \$5.9 billion.

At the February 9, 2023, hearing Comptroller General Eckstrom testified that the restatement was a "mapping error" – with no mention of the \$1.8 billion in SCEIS fund 30350993 that the CGO included in the ACFR General Fund to help reduce the amount of the restatement. In fact, the total cash overstatement resulting from the mapping error was \$5.9 billion, not \$3.5 billion.

On February 16, 2023, the Comptroller General again referred to agencies with Audited Financial Statements as the source of the problem. Further, the Senate report acknowledges that there was a \$517 million "cash issue" that was not mentioned in Note 15 or presented by the Comptroller General in his testimony. (Senate Report p. 8). This was presumably the DOT transfer.

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

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

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

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

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

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

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

Restricted Access in account

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

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

Conclusion

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

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

The Honorable Larry K. Grooms
March 14, 2024

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

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

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

Sincerely,



Curtis M. Loftis, Jr.
State Treasurer

Enclosures

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

The Honorable Larry K. Grooms
March 14, 2024

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

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
CHAIRMAN

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



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March 21, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

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

Dear Treasurer Loftis:

We hereby acknowledge receipt of your response dated March 14, 2024, to the Subcommittee's information request of March 7, 2024, regarding SCEIS Fund 30350993.

The Subcommittee has expressed a further interest in the following:

1. A 10-year analysis of staff turnover and compensation at the Office of State Treasurer, including particularly the Banking and Investment Divisions;
2. An analysis of prior treasury, governmental, and other experience of each employee hired by the Office of State Treasurer during the same 10-year period; and
3. Any written complaints, correspondence, or other negative statements made by staff of the Office of State Treasurer against any employee or official of the Office of Comptroller General.

Please provide a sufficient level of detail, but without necessity of disclosing individual identities, as necessary to provide a comprehensive analysis of the above requests. Your response should be provided no later than March 28, 2024. If you have any questions, contact Jessica Wigington, Staff Analyst for the Subcommittee, at jessicawigington@scsenate.gov.

The Subcommittee appreciates your cooperation as it continues its important work and duty to the citizens of the State of South Carolina.

Thank you for your timely response,

A handwritten signature in black ink that reads "Larry Grooms".

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

cc: The Honorable Brian Gaines, Comptroller General
The Honorable Harvey Peeler, Chairman of the Senate Finance Committee

**Senate Finance Committee
Constitutional Subcommittee**

The Honorable Bruce Bannister, Chairman of the House Ways & Means Committee
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

March 25, 2024

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

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Dear Chairman Grooms:

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

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

Sincerely,

A handwritten signature in blue ink that reads "Curtis M. Loftis, Jr." with a stylized flourish at the end.

Curtis M. Loftis, Jr.
State Treasurer

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

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
CHAIRMAN

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



JESSICA WIGINGTON
ANALYST
803-212-6651

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

March 26, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

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

Dear Treasurer Loftis:

Please be prepared to present the budget requests of the Office of the State Treasurer before the Constitutional Subcommittee of the Senate Finance Committee on Tuesday, April 2nd at 9:00 a.m. The meeting will be held in room 105 of the Gressette Building.

Sincerely,

A handwritten signature in cursive script that reads "Larry Grooms".

Larry K. Grooms, Chairman

cc: The Honorable Brian Gaines, Comptroller General
The Honorable Harvey Peeler, Chairman of the Senate Finance Committee
The Honorable Bruce Bannister, Chairman of the House Ways & Means Committee
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews



THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

March 28, 2024

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

OFFICIAL ELECTRONIC MAIL SENT VIA EMAIL.

Dear Chairman Grooms:

I am in receipt of your letter dated March 21, 2024. The South Carolina Treasurer's Office (STO) appreciates the opportunity to provide information to the Senate Finance Constitutional Subcommittee (the Subcommittee) related to the agency's most valuable asset, our highly competent and qualified staff.

The Subcommittee requested information related to turnover and compensation over a ten-year period (7/1/2014 – present), particularly relating to the Treasury Management, Banking, and Investment Management (TM, B, and IM) functions. The STO is not unique amongst state agencies in experiencing staff turnover in the past decade.

- The STO's average turnover rate of approximately nineteen percent (19%) has been consistent with or slightly higher than the average of over eighteen percent (18%) for all state agencies over the last decade.
- During the last five years (7/1/2018 – 6/30/2023), STO's average turnover rate has been approximately seventeen percent (17%), which is approximately two percent (2%) less than the nineteen percent (19%) average turnover rate for state agencies.
- While the STO experienced turnover within the TM, B, and IM functions, the departing employees had been with the STO for an average of eight and a half (8.5) years prior to separation, providing the opportunity for contributions to progress and innovation within the divisions, succession planning, and knowledge transfer.

Due to the exceptional talent and highly visible nature of our central state agency, the STO has been a frequent target of staff "poaching." Fifty-seven percent (57%) of turnover in the TM, B, and IM functions are inclusive of either retirement of long-time staff or transfers to other state

agencies. Approximately nine percent (9%) of the turnover represents transfers to the Annual Comprehensive Financial Report (ACFR) team at the Comptroller General's Office (CGO). Three (3) of the six (6) or fifty percent (50%) of the current ACFR team is comprised of transfers from the STO, representing approximately eighteen percent (18%) of total STO turnover in these three functional areas since 2020.

Due to the visibility, marketability, and quality of STO staff, it has been imperative to provide competitive compensation, not only with other state agencies, but also with the private sector.

- The General Assembly authorized six (6) general increases for state employees over this period.
- A comparison of compensation between current staff of the TM, B, and IM functions against departed staff indicates an increase in average compensation of approximately twenty-three percent (23%) for the current staff. This increase demonstrates the STO's commitment to assembling a team of highly qualified personnel in these positions.
- As compensation increased during this time period, so did the volume of funds managed by the STO. The total funds managed increased from approximately forty-two billion dollars (\$42 billion) to approximately sixty-eight billion dollars (\$68 billion), or by approximately sixty-one percent (61%) during my time in office (January 2011 – present), augmenting the need to provide competitive compensation to recruit and retain the qualified staff necessary to support this growth.

The Subcommittee also inquired about the qualifications of staff hired during this period. I have continuously prioritized the recruitment and retention of highly credentialed and qualified individuals.

- Twenty-four percent (24%) of staff performing TM, B, and IM functions are Certified Public Accountants (CPAs).
- In an effort to recruit and retain this necessary level of talent, the average salary of CPAs at the STO has increased by approximately thirty-one percent (31%) since 2020.

Of particular note is the small working group within the STO that has spent thousands of hours since December 14, 2022 supporting the CGO in validating and implementing new measures to prevent further restatements of the ACFR. While the STO remains committed to supporting the CGO, the STO's top priority is to maintain its mission-driven responsibilities, including the management of over sixty-eight billion dollars (\$68 billion) on behalf of state and local governments for the citizens of South Carolina.

This eight-person working group represents top talent within state government finance. Their qualifications include:

- **Education:** a minimum education level of a bachelor's degree in accounting, multiple master's degrees in fields such as accounting, business administration and public policy, as well as a juris doctor degree

The Honorable Larry K. Grooms
March 28, 2024

- **Credentials:** seventy-five percent (75%) are licensed CPAs, and one is licensed as a Certified Government Finance Officer (CGFO)
- **Average state government financial experience:** an average of nearly eighteen (18) years
- **Average relevant private sector experience:** an average of over twelve (12) years in roles, including time with renowned audit and accounting firms such as Ernst and Young, Deloitte and Touche, Price Waterhouse Cooper, and Grant Thornton; other extensive private sector financial reporting experience, and executive level financial experience at major healthcare systems
- **Total average relevant experience:** an average of over thirty (30) years

In reviewing all hires across the TM, Banking, and IM functions since July 1, 2014, qualifications included:

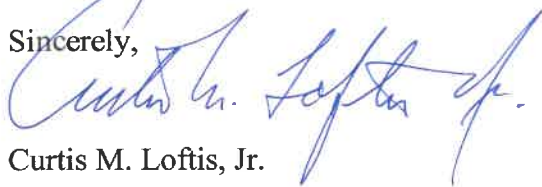
- **Education:** approximately ninety-six percent (96%) held a minimum of a bachelor's degree with thirty-five percent (35%) having a masters level education
- **Credentials:** include but are not limited to thirteen (13) CPAs, two (2) Certified Internal Auditors (CIAs), a CGFO, a Certified Fixed Income Professional (CFIP), a Certified Information Systems Auditor (CISA), and a Certified Financial Planner (CFP)
- **Average prior state government experience:** approximately five (5) years at the time of hire
- **Total relevant prior experience:** over ten (10) years at the time of hire in accounting, finance, banking, or investments

The Subcommittee also requested information on documented complaints related to the CGO. I am not aware of any written complaints or correspondence by any staff member of the STO against any employee or official of the CGO. Of course, it would be understandable if STO staff expressed frustration over the additional work burden of thousands of hours the STO's staff has been required to undertake because of issues relating to the CGO's ACFR restatement.

I hope you will find this information relevant in demonstrating the progress the STO has made in building an exceptional team to safeguard the State's financial resources.

The STO stands ready to further assist the State and the CGO by implementing the recommendations of the recent Mauldin & Jenkins report, which include performing functions not historically performed by the STO. As the report references, to complete these new required functions, additional staff and resources will be necessary.

Sincerely,



Curtis M. Loftis, Jr.
State Treasurer

The Honorable Larry K. Grooms
March 28, 2024

cc: The Honorable Brian J. Gaines, Comptroller General
The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young
The Honorable Margie Bright Matthews

EXHIBIT 11

Referenced Selections from the Sworn Testimony of Treasurer Curtis Loftis before the Constitutional Subcommittee of the Senate Finance Committee on April 2, 2024
(complete transcript available upon request)

36:21

TREAS. LOFTIS

But it is it is Senator, it is a lot of information and it's arcane and I understand it's easy to forget or easy easy to miss these things. But we inputted it. Our fingers were on the keys, but we were given that by the state's accountant.

We listened to the State Council. He is a complete check upon our office in the accounting.

CHAIRMAN GROOMS

I was wanting to get through some of the that you get through this, but you you hit something right there that I think needs just a little bit exploring.

TREAS. LOFTIS

Yes, Sir.

CHAIRMAN GROOMS

The Comptroller General's office brought it to your attention that's 300 and \$350 million and and ask you to do what?

TREAS. LOFTIS

Ask us do -- It's almost a quote. I'll be I might be a little off. They said please wash this \$324 million through the conversion account.

CHAIRMAN GROOMS

And did you do it?

TREAS. LOFTIS

Yes.

CHAIRMAN GROOMS

Why didn't they do it?

TREAS. LOFTIS

I don't know why.

CHAIRMAN GROOMS

Because they don't have access.

TREAS. LOFTIS

No, Sir. They --No Sir, they do.

CHAIRMAN GROOMS

They've got access. They can see it, but they can't enter. That's why they asked.

TREAS. LOFTIS

Well, that would be--

CHAIRMAN GROOMS

--if you didn't think you could then why did you?

TREAS. LOFTIS

Well, if I one more bullet down shows that on... let me find the date here because I'm out of order. November 23.

Which is what? Four months ago, a CPA in the CGO's office posted a \$1.8 billion offsetting entry to the fund in 0993.

And then they backed it out. They have access to that fund. Do we? Where's the? We have a copy of that. Somebody hand me a copy of that. Senator, I have had no contact with y'all other than demand letters. That's it. And every letter I have, except for the one time when I asked staff to come over, every copy of of correspondence that I get with y'all is copied to the to the the Comptroller General's Office. I never see anything they have --We're dealing with a completely different set of facts. We can, I can prove we have, We have, And I thought we had sent in that 50 page attendant amendment appendices. I'm sorry, I'm confused. I'm half sick and I I don't feel well where we showed all of these things and we can can somebody bring me do we have that printed from---

CHAIRMAN GROOMS

Senator from Georgetown.

SEN. GOLDFINCH

I know you wanted him to get through this.

CHAIRMAN GROOMS

I do. But I think he's getting to the end and we'll be---

TREAS. LOFITS

Yeah I am but but this is this is important They say ---

CHAIRMAN GROOMS

It is important. Yes. It really is. Yeah.

42:47

SEN. MCELVEEN

But that's that's what I want to stay on for a second if that's if that's OK. So my first question is, is, yeah, I kind of want to know how you, how you view your role from a statutory perspective, Mr. Treasurer. And the first question I have is as a constitutional officer who serve, who's serving what in this fourth term you you recall the oath of office that you've sworn every time that you've that you've began a new term, correct? And that that oath is is similar to or the same

as the as the one that the six of us have taken. I can't memorize it. I hadn't memorized it. But it's, "I do solemnly swear or affirm that I'm duly qualified, according to the constitution of this state, to exercise duties of the office which I've been elected or appointed." And then "I will, to the best of my ability, discharge the duties thereof and preserve, protect and defend the constitution of this state and of the United States, say, help me God." And that's the same oath that you took, is required by our state constitution. Is that correct?

TREAS. LOFTIS

Yes, Sir.

SEN. MCELVEEN

All right. And when did you take that oath, Mr. Treasurer?

TREAS. LOFTIS

Take it four times.

SEN. MCELVEEN

All right. I think that would have been, what, in 2011, 2011, because you're elected in 2010, and then again in recently as 15 and 19 and then last year, right?

TREAS. LOFTIS

Yes, Sir.

44:02

SEN MCELVEEN

OK, All right. Do you, do you believe that you have discharged the duties of the state treasurer's office to the best of your abilities?

TREAS. LOFTIS

Yes, Sir.

45:43

SEN. MCELVEEN

Thank you, Mr. Treasurer. And and going back to the Code South Carolina Code section 11-5-100 directs that the Treasurer shall raise an account in the Treasury books in every instance for the several appropriations made by the General Assembly, so that the appropriation of money and application thereof, conformably there too may appear clearly and distinctly on the Treasury books. Are you in compliance with that statute?

TREAS. LOFTIS

Yes, Sir.

SEN. MCELVEEN

All right. Are you familiar with all of your statutory requirements?

TREAS. LOFTIS

I am. I've got a if we're going to go through one by one, I need to pull out. Oh, here it is right here. I think I have a list of all of them. Which which one would you like to speak about?

SEN. MCELVEEN

Well, the question I have is, is, are you yourself are familiar? I think you've already told me this earlier in your testimony. But you yourself are familiar with the statues as far as your responsibilities and requirements of state treasurer.

TREAS. LOFTIS

Yes, Sir.

SEN. MCELVEEN

I think you said that you are, that you're not familiar with all the statues of South Carolina. I don't know anybody who really is. But with the ones that govern your office and your responsibilities, you're intimately familiar.

46:51

TREAS. LOFTIS

Well, I'm. I like to think I'm familiar. But we we do have lawyers that kind of keep us between the ditches. But yes, Sir.

SEN. MCELVEEN

OK, I I think we're going to come back to that, but I want, I want to kind of stay on statutory--

TREAS. LOFTIS

Yes Sir, I'm sorry.

SEN. MCELVEEN

if possible right now. If that's OK, Mr. Treasurer. I will represent to you that South Carolina code section 11-5-120 has specific provisions. If you don't mind. I'm going to read the statute also in its its entirety.

54:26

“The state treasurer shall publish quarterly by electronic means and in a manner that allows for public review, a statement showing the amount of money on hand and in what financial institution it is deposited in, the respective funds to which it belongs.” Are you in compliance with that requirement?

TREAS. LOFTIS

No, Sir.

SEN. MCELVEEN

You're not?

TREAS. LOFTIS

No, because this is the report. It's 80 pages.

SEN. MCELVEEN

Your Wells Fargo example you gave earlier when you said talked about going into to Charlotte and--

TREAS. LOFTIS

--yes--

SEN. MCELVEEN

--the investment side that that made me wonder, I mean so you're saying you're not in compliance with that requirement?

TREAS. LOFTIS

I am only in compliance with that requirement. This is what I meant about laws aging. That law was from 1912 or either 1902 I'm not quite sure and it speaks to and we have referenced this in y'all's package the the little 6 inch long 2 inch wide ad that since the beginning of time has been in the newspaper and then I think in '86 or someplace around there they said, "Hey you don't have to put it in the newspaper anymore you have to put it into the on the on the electronically." So we do that. It has never been anticipated that each fund had to be listed. This is the fund list. It is 80 pages. It lists, if we do this correctly, the account numbers, the owner and the amounts like you, you might think that somebody in Kiev would be interested to know in what account \$4.6 billion is in. If you would like this published, Senator, we will publish it tonight.

SEN. MCELVEEN

Well I mean, if it needs to be published, it should have been published before tonight, correct?

TREAS. LOFTIS

Well, no. If you think that we should publish this report, I'll publish it now. Before I do that, I will call SCEIS, we'll call my IT and we'll call the Secret Service because this is an invitation for anybody that wants our money to come get our money. That's the report by fund, by agency, I mean by by fund. And with the fund accounts, it is the architecture of the state treasurer's office, OK. It is the Bank of the state and we will, we will do as we are told, Senator.

SEN. MCELVEEN

So, so my recollection is when you were sent a letter around March 7th of this year by this, by this subcommittee, I think you were asked if you were complying with the statute and your response was very similar to the one you've given today, that you believe the law was old. I believe you said in the term fund in the early 1900s meant accounts.

TREAS. LOFTIS

Yes.

SEN. MCELVEEN

But that law still in the books, right?

TREAS. LOFTIS

Yes, Sir.

57:04

SEN. MCELVEEN

Have you ever come to the General Assembly asking the General Assembly to change the law?

TREAS. LOFTIS

The General Assembly has never ever changed the law for me.

SEN. MCELVEEN

Do do you--

TREAS. LOFTIS

I have asked repeatedly, and I have never had a statute, even in in other roles that I have changed for me.

SEN. MCELVEEN

All right. So so if your interpretation of that statute is that the term fund in the early 1900s actually meant accounts, where does that interpretation come from? Did that come from outside counsel?

TREAS. LOFTIS

Yes, outside counsel and inside counsel.

SEN. MCELVEEN

So. So you're inside counseling.

TREAS. LOFTIS

Yeah, because that was before computers and it was before modern accounting. It was, it was all different.

57:40

SEN. MCELVEEN

My question about that is if, if, if there's a question about something like that and you know, public disclosure, should, should you err on the side of transparency, which is a word that gets thrown around up here or or--

TREAS. LOFTIS

--make sure we post this today, We'll we'll do it, Senator, I apologize and we will post it today. All right.

SEN. MCELVEEN

So if you, if you're going to post it today, your testimony is that you have not been in compliance with that status.

TREAS. LOFTIS

That's that's correct, Senator.

SEN. MCELVEEN

All right. And so--

TREAS. LOFTIS

--well, that's your interpretation. I think we've interpreted it properly.

SEN. MCELVEEN

Well, I I think I don't want to speak for the members of the subcommittee, but I think that that we believe that it that the law, the statute requires actually a by, by agency, by fund reconciliation, which the treasurer's office to my understanding is not doing currently.

58:22

TREAS. LOFTIS

Yeah, this is the way and y'all have this in your package. This is how the law has been traditionally interpreted. This is from Grady Patterson's time. We could go back further or whatever this year is.

SEN. MCELVEEN

Did your--was there was there a point in time that your office did do that by agency, by fund reconciliation?

TREAS. LOFTIS

Well we're talking about different things, reconciliations or I thought we were talking about posting.

SEN. MCELVEEN

Well, let me ask you this question. This the statute we've been talking about was was there a time that your office did comply with that statute?

TREAS. LOFTIS

We---yes. We applied in the old standard.

SEN. MCELVEEN

OK. So you so you can apply it under the former.

TREAS. LOFTIS

Yeah. And we still do. It's on the it's on the it's on the web now this this is the the modern equivalent of this is posted today. It gets posted regularly and -- but the modern interpretation as

this Senate hearing has is for us to post the architecture of the States Bank online and we will do so today. I've been given clear instructions. We're more than happy to do it.

SEN. MCELVEEN

I'm not giving instructions. I'm just, my question is really just how do you interpret your statutory responsibility there in compliance within compliance with statute. And your testimony today is that no the treasurer's office has not been in compliance with South Carolina code section 11-5-120 which I read a few minutes ago.

59:39

TREAS. LOFTIS

Yeah I'm I'm not a lawyer so I am inept about understanding exactly how the answer to that--

SEN. MCELVEEN

But you have access to the lawyers, correct?

TREAS. LOFTIS

Sir I would think that discretion is in is used in every officers job and this has worked since 1902. What you're--what I am being told now. Correct me if I'm wrong that the committee believes I am not in compliance with the law. So we will now bring that into compliance and it'll be done before the day's over. I did not think it was wise. I still don't think it was wise, but if my oversight committee says do it, I'll be more than happy to do it.

SEN. MCELVEEN

All right. So now you're talking about agency discretion when it comes to following the black and white letter of the of the law. So my follow up question to that is, are there other statues that that you're using your discretion not to follow?

1:00:36

TREAS. LOFTIS

I said, well, I think we are following the law.

TREAS. LOFTIS

You tripped me up a little because I didn't know where you were going with this.

SEN. MCELVEEN

That was not my intent.

TREAS. LOFTIS

Yeah, well, that's OK. I didn't mean that negatively. I didn't know where you're headed. With all this, we believe we are complying with the spirit of the law. We can't conceive of why anybody would want to know by modern day accounting standards, those funds. I mean, have y'all had a chance to look at the report. We gave you a page. Did anybody look at it? It's 80 pages, negative numbers, positive numbers, billions. And like the I think the first number is the General Assembly is a -2 billion dollars. You're gonna probably ask why that is, aren't you? Why would

you have a negative? It's complex as hell. It's all built into SCEIS. It's the appropriation versus cash. That report will do nobody any good except give every Internet scammer and Caracas, Kiev and Moscow a target. But we will be more than happy to say my discretion has been wrong and I'm the violation of the law because I didn't put that on the on the Internet. I'll be--I will--I'm guilty. So I just don't know what else to say.

SEN. MCELVEEN

Well, I won't stay on this too long, Mr. Chairman. I'm sorry for the longer than I intended but where's the line there, then? Between being transparent, following the law, letting the taxpayers know where where the money is and the citizens of the state, but then also having some sort of protection against what you say could expose us to scammers?Where's the line?

TREAS. LOFTIS

I think the line was what's been done since the early 1900s. It post and and I think the law was probably more geared toward letting people know what bank was involved because it's the favoritism of banks. We still have that. I mean everybody you know everybody wants the other person's business. Bankers are powerful and this is probably one of the main things because of this you can see this long line, not all but one line or bank lines.

1:02:52

I just tell you what bank the money's in though. I mean we're more than happy to go by that. But Senator, I got to tell you, if, if, if discretion, if we don't have discretion, we got to start over because SCEIS doesn't work without discretion.

None of what we do works without discretion. We have to use our discretion and we have to be accountable. I'm accountable for not putting that 88 page report on it. Do whatever you got to do.

1:06:30

TREAS. LOFTIS

I think I said we balance daily and that and and sometimes you can't balance daily because you've always got trades hung up you've got the end of the month where, where a trade an investment was bought in this month and it clears in this month. I mean so there's there's a whole lot of--

SEN. MCELVEEN

I'm I'm not in the banking world but is it is it prudent to report if you're not balanced?

TREAS. LOFTIS

We are balanced. Nobody has ever said we're not balanced. It's just you have official [unintelligible]--

SEN. MCELVEEN

If you're not balanced--

TREAS. LOFTIS
Sir?

SEN. MCELVEEN
Would it would it be prudent to issue a report? If you're not balanced?

1:07:08

TREAS. LOFTIS

I might have to get back to you because we're in in the dirty, deep weeds of...I will get four or five accountants who have 20 or 30 years of of time each. They'll go to their rooms. They'll figure out exactly the right answer to this because it's just complex. And the more I speak, the more I'm going to get in trouble because I don't push those buttons. We have to wait for other systems to balance and they have to wait for us sometimes. But we we have insight every day. We balance back to the banks. We see them. We talk to them daily. We have Bloomberg terminals. We can we can follow all--It's just what's the definition of balance? Is it the year, and month, in the weekend or is it every day? You know, so I I we can't do all of that with the same precision.

SEN. MCELVEEN

Maybe I just don't understand. But is there is there ever an appropriate time for books to be out of balance? Especially when we're talking about taxpayers' money? Public money?

1:16:13

TREASURER LOFTIS

So what we've done even though, and the most important thing about the Mauldin & Jenkins report is that it it repeatedly stated that the Comptroller General's Office has a history of not communicating well. And I think the Chairman's already said like, "We're going to deal with Comptroller general's office." But I'm answering the question, this is very specific.

SEN. MCELVEEN

The question was just was just did that report find that the treasurer's office was following--

TREAS. LOFTIS

with caveats and and I don't know that he saw their report. Senator, if you want us to cancel all of the of the accommodations from SCEIS and start doing things again the old way or we're going to be in opposition to the statute, then I'm going to need \$1,000,000 because we're going to have to go back and build a whole new system. The point of SCEIS. And Morgan, I know you remember this figure. Was it \$140 million on SCEIS? Somebody, there was there were numbers around. And what we're saying is we can't use SCEIS. We're more than happy if, Senator, when we leave this office today, if you and you alone tells me forget about these accommodations, we want you to go back to the statutes as they're written.

SEN. MCELVEEN

I don't see that as my call to make. Well, I don't see that as my--

TREAS. LOFTIS

Senator, the state treasurer's office and the state treasurer in full public view is being told over and over and over it's not in compliance with the law. I fear for our state's rating agencies, our state's AAA rating because we cannot continue to have this bickering about small government governance in public without there being a fallout.

1:42:31 into Part 2

TREASURER LOFTIS

That's what I believe has to happen.

SEN. MATTHEWS

And do you accept ownership of any responsibility?

TREASURER LOFTIS

I always accept ownership.

SEN. MATTHEWS

No -You-I haven't heard that.--

TREASURER LOFTIS

--And Senator, if I could, if I could come up with the story that I got drunk and went in there last night.--

SEN. MATTHEWS

Please don't interrupt me.--

TREASURER LOFTIS

--I'm sorry, Senator. I apologize--.

1:42:50

SEN. MATTHEWS

I have not. That was one of my biggest disappointments of today, because I've heard several people being responsible, even computer systems being responsible. I've heard the Comptroller General I've heard, and who I've heard even Director Adams, Marcia Adams's Office Administration. I've heard SCEIS and even some to some extent, Senator grooms and for not complying or responding to you and some of the governor's office.

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
CHAIRMAN

MEMBERS
THOMAS MCELVEEN
MIKE FANNING
STEPHEN GOLDFINCH
TOM YOUNG



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ANALYST
803-212-6651

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FAX: 803-212-6690

September 1, 2023

Mr. George L. Kennedy, III
State Auditor of South Carolina
1401 Main Street, Suite 1200
Columbia, S.C. 29201

Dear Mr. Kennedy:

On behalf of the people of South Carolina, thank you for your cooperation in this subcommittee's request to investigate the status of cash and investment reconciliation between the Office of the Treasurer and the Office of the Comptroller General. Our collective duty as public servants is to ensure our citizens have an accurate financial picture of South Carolina going forward, and to safeguard against any future reporting errors.

As I'm sure you're aware, this fiscal year the General Assembly appropriated one million dollars to the Office of the Comptroller General for the purposes of rehabilitation following the subcommittee's investigation of the FY2022 Annual Comprehensive Financial Report (ACFR) Restatement. Therefore, with a portion of those funds, we respectfully request that an independent accounting firm be contracted to conduct a thorough review and audit of the ACFR compilation process. We expect this review to include but not be limited to the assessment of the ACFR related cash reconciliation process for roles and responsibilities, inputs, outputs, controls, and governance; the information required from the Office of the Treasurer in the form of closing packages for the purposes of accurate and complete financial reporting to include reconciliation of bank records by fund and agency; and the format in which this information should be requested by the Office of the Comptroller General and provided by the Office of the Treasurer.

I appreciate your anticipated full cooperation with the above request. Should you have any questions or concerns, please let me know.

Very truly yours,

A handwritten signature in black ink that reads "Larry Grooms". The signature is written in a cursive style.

Senator Larry Grooms
Chairman, Constitutional Subcommittee of the Senate Finance Committee

cc: The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Brian J. Gaines, Comptroller General
The Honorable Curtis Loftis, Treasurer

EXHIBIT 13

Proviso 98.14 from the Fiscal Year 2024 Appropriations Act

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

EXHIBIT 14

Referenced Selections from the Testimony of George Kennedy, State Auditor, before the Constitutional Subcommittee of the Senate Finance Committee on February 15, 2024

(complete transcript available upon request)

0:00

MR. KENNEDY

Definition is a self balancing set of accounts. In this case 30350993 retains a balance of of about \$1.8 billion.

SEN. FANNING

1.8 what?

MR. KENNEDY

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

1:22

SEN. GOLDFINCH

Mr. Chairman, just before you move from that point. It was part of the \$3.5 billion?

MR. KENNEDY

That's correct.

SEN. GOLDFINCH

Or it's in addition to \$3.5 billion?

MR. KENNEDY

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

2:47

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

3:30

SEN. GOLDFINCH

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

CHAIRMAN GROOMS

I do, but let let me get one in—

SEN. GOLDFINCH

Sure.

CHAIRMAN GROOMS

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

4:01

MR. KENNEDY

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

SEN. GOLDFINCH

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

MR. KENNEDY

Sure.

SEN. GOLDFINCH

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

4:56

MR. KENNEDY

It is, I think of it more as like a clearing account for activity.

SEN. GOLDFINCH

I'm not sure I know the difference.

MR. KENNEDY

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

11:30

SEN. GOLDFINCH

Why weren't we having this discussion that we had the discussion about the the missing money last year? I I I know about missing money.

CHAIRMAN GROOMS

That's the mistake.

SEN. GOLDFINCH

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

11:42

MR. KENNEDY

Yeah. I can't answer that.

SEN. GOLDFINCH

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

MR. KENNEDY

Why we didn't discuss it?

SEN. GOLDFINCH

Why we didn't know about it. Why?

12:01

MR. KENNEDY

I mean, I'm not sure I can answer that. I I I changed—The focus was on—

SEN. GOLDFINCH

Should we have known about it?

MR. KENNEDY

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

SEN. GOLDFINCH

I can go on and on, Mr. Chairman.

38:54

SEN GOLDFINCH

Tell me what questions I need to be asking.

MR. KENNEDY

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

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

39:39

SEN GOLDFINCH

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

MR. KENNEDY

There shouldn't be any liabilities.

SEN. GOLDFINCH

Wait, aren't or shouldn't?

MR. KENNEDY

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

SEN GOLDFINCH

One more time is it paper or is it cash?

MR. KENNEDY

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

SEN. GOLDFINCH

—comingled, commingled.

MR. KENNEDY

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

SEN. GOLDFINCH

That that's a great, that's a great question—

41:33

MR. KENNEDY

—I'd like to—

SEN. GOLDFINCH

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

MR. KENNEDY

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

SEN. GOLDFINCH

Because they could belong to the reserve fund?

MR. KENNEDY

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

43:00

44:58

CHAIRMAN GROOMS

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

MR. KENNEDY

Alright.

CHAIRMAN GROOMS

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

MR. KENNEDY

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

CHAIRMAN GROOMS

But can you please put that in writing.

46:45

MR. KENNEDY

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

CHAIRMAN GROOMS

—I agree—

MR. KENNEDY

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



February 20, 2024

Dear Senator Grooms:

In our meeting on February 15, 2024, I was asked to provide the Finance Constitutional Subcommittee with our thoughts on fund 30350993, including the accounting surrounding the balance remaining in the fund.

Additionally, I am providing some definitions of terms I used in our meeting on February 15th. As some of these terms may have different meanings throughout State government, these definitions provide clarity as to how we as auditors use them.

Definitions

ACFR - the statewide annual comprehensive financial report, also referred to as the statewide financial statements.

Conversion – The process of converting STARS, a legacy financial system, to SCEIS, the State’s current financial system.

Fund – A self-balancing set of accounts used to account for specific activities. A governmental unit may have multiple funds.

General Fund – A governmental fund type that is used to account for and report all financial resources not accounted for and reported in another fund. A governmental entity has only one general fund, but the State’s General Fund, as presented in the ACFR, reflects the financial activities, balances and funds of numerous State agencies.

It is also important to define the role of management and the auditor.

Management - Those in a position of authority in the State who are responsible for day-to-day decision-making and management of the operations of the State. Management responsibilities include preparing the State’s ACFR. As it relates to cash management and the ACFR, management usually means the Office of the Comptroller General (CGO) and/or the Office of the State Treasurer (STO).

Independent Auditor - Those charged with the responsibility of verifying that the State’s financial statements are materially correct, based on an independent and objective view. To be independent and objective, the auditor must be separate from management by refraining from the performance of any management functions including involvement in day-to-day decision-making and management of the operations of the State, preparation of the financial statements, and the design and implementation of internal controls.

Fund 30350993 Accounting

As we discussed in the February 15th meeting, fund 30350993 was created primarily to record cash transfers between banks. That remains its primary purpose today. However, the fund was also used to convert bank and agency cash balances as the legacy STARS system was converted to SCEIS.

At the close of fiscal year 2017, fund 30350993 carried a balance of approximately \$1.5 billion, representing STARS to SCEIS conversion activity. That amount grew to approximately \$1.8 billion in subsequent years as the conversion was completed. It was believed that this conversion-related activity was previously recognized financial activity that had no relevance in the preparation of the statewide financial statements. Accordingly, the CGO coded fund 30350993 to ignore the balances for ACFR preparation purposes.

In 2022, the CGO successfully performed a reconciliation of the pool of cash to the balance of cash as presented in the ACFR. The reconciliation was the key to identifying a \$3.5 billion net overstatement of General Fund cash in the ACFR. A correction was reflected in the fiscal year 2022 ACFR, including a correction of the \$1.8 billion understatement caused by the exclusion of the remaining balance of fund 30350993 from the ACFR.

While the \$1.8 billion can not be assigned to a specific agency or fund, the State's pool of cash does not reconcile to the SCEIS general ledger without its inclusion. Therefore, there is evidence that the \$1.8 billion exists.

As independent auditors, our responsibility is to express an opinion on the governmental and other activities of the State, as presented in the State's ACFR. This includes the General Fund as a component of governmental activities. While the General Fund is composed of numerous agencies, activities and funds of the State, our opinion is on the aggregate General Fund and not on individual agencies, funds and activities.

The CGO determined the \$1.8 billion should be classified within the General Fund for financial statement presentation purposes but could not provide us with specific documentation that the \$1.8 billion is owned by the General Fund. We determined that, given the lack of specific documentation, the best approach to testing management's decision was by necessity a process of gaining assurance that the \$1.8 billion is not owned by a fund other than the General Fund for financial statement purposes. We performed the following inquiries and analyses to determine if the \$1.8 billion, or portions thereof, should be reflected by a fund other than the General Fund.

First, cash received or held by the State and its agencies for a specific purpose is generally reflected in the following funds:

- Departmental Services Fund
- Local Government Infrastructure Fund
- Department of Transportation Special Revenue Fund

Accounting for cash assigned to these funds is managed at an agency level. In addition to requirements that cash be used for a specific purpose, there are usually reporting requirements imposed by State or Federal governments or by other granting entities regarding the status of unspent funds. We are not aware of any material issues raised by agencies regarding specific purpose cash either during or after the conversion.

Second, various components of the State, including higher education institutions and other State activities such as the Ports Authority and Public Service Authority, are audited by other auditors. We rely on their audit work in our audit of the statewide financial statements, and we are not aware of material issues related to cash identified by the audits of these approximately 50 separately audited components.

Based on the procedures we performed, we did not obtain any information that refuted management's assertion that the General Fund is the owner of the \$1.8 billion for financial statement purposes. This is consistent with the definition of the General Fund (for financial statement purposes) as the fund used to *account for and report all financial resources not accounted for and reported in another fund*.

Status of Fund 30350993

The accounts composing the \$1.8 billion remain in fund 30350993 and that fund remains unbalanced. While this is unusual, its placement there serves to segregate the accounts composing the balance until an adjusting journal entry can be recorded in SCEIS to reclassify (reallocate) the balances. The journal entry should eliminate the balance of fund 30350993 and clearly establish underlying ownership of cash within the General Fund.

During the summer of 2023, we attended a meeting along with the CGO and STO where fund 30350993 was discussed. Additionally, we were copied on a letter from the Comptroller General to the State Treasurer dated October 31, 2023, formally requesting that the STO research cash balances of Fund 30350993 that arose due to the conversion and classify those amounts to the appropriate funds and general ledger accounts. In its response dated February 8, 2024, to a request for updates on certain matters by the Subcommittee, we noted the State Treasurer indicated that since the 2022 and 2023 ACFR attests to the placement of fund 30350993 in the General Fund, STO expects the CGO to provide a written directive regarding the appropriate SCEIS entry to align the General Fund with the ACFR.

To be clear, while the CGO has asserted that the General Fund is the owner of the \$1.8 billion for financial statement purposes, management must continue to work to establish an underlying claim to cash by agencies within the General Fund to support the journal entry needed to reclassify the accounts. Regardless of which management agency makes the journal entry required to reclassify the balance of fund 30350993, research of historical information will be required.

Based on the process we described above to validate the CGO placement of the \$1.8 billion in the General Fund, we have no reason to believe the research will not support its ownership by agencies reflected in the General Fund. However, if evidence is discovered to support the ownership of the \$1.8 billion or positions thereof by a fund other than the General Fund, a reclassification of cash presented in the ACFR will need to be made.

Summary

In summary, we agree that the ACFR presentation of the balance of fund 30350993 in the General Fund is appropriate. However, management needs to make an adjusting journal entry in SCEIS to move the balances from fund 30350993 to the applicable funds at each respective agency. The journal entry will require continued research of historical activity as support.

Thank you for your attention to this matter. As auditors, we must maintain independence and objectivity and refrain from the performance of management functions, including performing the research necessary to support an adjusting journal entry. However we stand ready to assist management as we can, including reviewing or testing a proposed journal entry, if requested to do so.

Sincerely,



George L. Kennedy, III, CPA
State Auditor

Fox Carolina Treasurer Loftis Interview 2/29/24

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

00:00:51

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

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

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

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

00:02:01

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

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

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

00:04:16

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

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

00:04:47

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

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

J. Dougherty: Is that what you want?

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

work for the middle class. That's the biggest bunch of people, special interests taking care about. And when anything, if you want to know what the State Treasurer's office is doing, whether it's unclaimed property, future scholar, college savings, or if it's the, uh, uh, the the General Fund and investments, you what suits the working and and, uh, middle-class taxpayer, that's who I serve. I don't serve rich people who can control from behind the scenes.

00:07:33

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

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

00:08:16

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

EXHIBIT 17

From: Kip, Katherine <[REDACTED]>
Sent: Thursday, October 6, 2022 8:53 AM
To: Baker, Katrina <[REDACTED]>
Subject: fund 30350993

Katrina,
What do you use fund 30350993 for?



Katherine Kip, CPA | Statewide Reporting

South Carolina Comptroller General's Office | Statewide Reporting
305 Wade Hampton Building, 1200 Senate Street, Columbia, SC 29201

D [REDACTED]
E [REDACTED]

From: Baker, Katrina <[REDACTED]>
Sent: Thursday, October 6, 2022 9:02 AM
To: Kip, Katherine <[REDACTED]>
Cc: Romaniello, Meg <[REDACTED]>
Subject: RE: fund 30350993

Hi, Katherine. I hope you are well.

Fund 30350993 was set up to record Cash management entries. This is the movement of money between GDAs.

| | | |
|----------|-----------------|---------------------------------|
| 30350993 | Gen Dep Adj | STO General Deposit Adjustments |
| 30350994 | SP ACCT FUNDING | SP ACCOUNT FUNDING |
| 30350995 | PA ACCT FUNDING | PA ACCOUNT FUNDING |
| 30350996 | TX ACCT FUNDING | TX ACCT FUNDING |
| 30350997 | CT ACCT FUNDING | CT ACCOUNT FUNDING |

Thanks,
Katrina



Katrina S. Baker | Program Manager

Office of the State Treasurer
1200 Senate Street, Suite 214
Wade Hampton Office Building
Columbia, SC 29201

[REDACTED]

From: Kip, Katherine <[REDACTED]>
Sent: Thursday, October 6, 2022 9:03 AM
To: Baker, Katrina <[REDACTED]>
Cc: Romaniello, Meg <[REDACTED]>
Subject: RE: fund 30350993

So in theory it should be zero?

From: Baker, Katrina <[REDACTED]>
Sent: Thursday, October 6, 2022 9:07 AM
To: Kip, Katherine <[REDACTED]>
Cc: Romaniello, Meg <[REDACTED]>
Subject: RE: fund 30350993

Should be for the most part. The only variances I can think of would be write-offs that have not been offset to the general fund (done at end of fiscal year) or bank fees the banks have yet to credit back to the GDAs.

Is there an issue we need to review?



Katrina S. Baker | Program Manager
Office of the State Treasurer
1200 Senate Street, Suite 214



RE: fund 30350993



Kip, Katherine

To Baker, Katrina
Cc Romaniello, Meg



10/6/2022

So it has a cash balance of 1,852,455,573.29 and it looks like it is due to another fund. I was thinking this fund should be zero too!

| Period | Debit | Credit | Balance | Cumulative balance |
|------------------|-------|--------|---------|--------------------|
| Bal. Carryfor... | | | | 1,852,455,573.29- |
| 1 | | | | 1,852,455,573.29- |

EXHIBIT 18

Proviso 98.2, as written and included in Appropriations Acts since 2011

98.2. (TREAS: STARS Approval) Decisions relating to the Statewide Accounting and Reporting System (STARS) and the South Carolina Enterprise Information System (SCEIS) which involve the State Treasurer's Banking Operations and other functions of the State Treasurer's Office shall require the approval of the State Treasurer.

EXHIBIT 19

Selected Accounts Variation Report

Run Date / Time 02/28/2024,

Bus Area: * Fund: 30350992 Grant: *
Cost Ctr: * Funded Program: *
Account Group Selected: *

Period: 16, 2016


| GL Account | YTD Beg Bal | MTD Activity | YTD End Bal |
|---|-----------------|--------------|-----------------|
|  1000000000 CASH DUE TO/FROM | 493,178,011.31 | | 493,178,011.31 |
| 1011300700 WF_E16_CASH_STO_GENERAL DEPOSIT ACCOUNT | 1067736,784.65 | | 1067736,784.65 |
| 1011300702 WELLS FARGO GEN DEP ACH OUT | | | |
| 1011300712 WELLS FARGO GEN DEP ACH IN | | | |
| 1063300300 BANK OF NEW YORK/MELLON GENERAL DEPOSIT | | | |
| 1063300302 BONY GENERAL ACH OUT | | | |
| 1063300312 BANK OF NY GENERAL ACH IN | | | |
| 9999999999 CONVERSION ACCOUNT | 1560914,795.96- | | 1560914,795.96- |
| * Total | | | |

EXHIBIT 20

G/L Account Line Item Display G/L View

G/L Account: 999999999 CONVERSION ACCOUNT
 Company Code: SC01
 Ledger: ZL

| St | Assignment | DocumentNo | BusA | Fund | G/L | Offst.acct | Typ | Doc. Date | Estng Date | Year | Year/month | PK | Amount in local cur. | D/C | Text | O |
|--------------------------|------------|------------|------|----------|------------|------------|-----|------------|------------|------|------------|----|----------------------|-----|--|---|
| <input type="checkbox"/> | ✓ 20160623 | 1001745921 | E160 | 30350992 | 9999999999 | 1063300300 | SU | 06/23/2016 | 06/23/2016 | 2016 | 2016/12 | 50 | 503,090,447.18- | H | BONYM conversion as of 20160531 | S |
| <input type="checkbox"/> | ✓ 20160624 | 1001746011 | E160 | 30350992 | 9999999999 | 1063300300 | SU | 06/24/2016 | 06/24/2016 | 2016 | 2016/12 | 50 | 1,057,824,348.78- | H | BONYM conversion as of 20160531 | S |
| <input type="checkbox"/> | ✓ 20170131 | 1002746137 | E160 | 30350992 | 9999999999 | 1063300300 | SU | 01/31/2017 | 01/31/2017 | 2017 | 2017/07 | 40 | 188.70 | S | BNY PLATFORM CONVERSION DIFFERENCES | S |
| <input type="checkbox"/> | ✓ 20170208 | 1002747838 | E160 | 30350992 | 9999999999 | 9999999999 | SU | 02/08/2017 | 02/08/2017 | 2017 | 2017/08 | 50 | 215,000.00- | H | | S |
| <input type="checkbox"/> | ✓ 20170626 | 1003448757 | E160 | 30350992 | 9999999999 | 1011300700 | SU | 06/26/2017 | 06/26/2017 | 2017 | 2017/12 | 40 | 1,561,129,607.26 | S | to move all bank conversions to same fund 30350993 | S |
| | | | | | | | | | | | | | 0.00 | | | |
| ** Account 9999999999 | | | | | | | | | | | | | 0.00 | | | |

G/L Account: * *
 Company Code: *
 Ledger: ZL

| St | Assignment | DocumentNo | BusA | Fund | G/L | Offst.acct | Typ | Doc. Date | Estng Date | Year | Year/month | PK | Amount in local cur. | D/C | Text | O |
|----|------------|------------|------|------|-----|------------|-----|-----------|------------|------|------------|----|----------------------|-----|------|---|
| | | | | | | | | | | | | | 0.00 | | | |

Display note

REASON FOR AJE

all conversion activity within 30350992 represented bank conversion activity with BONYM. inasmuch as all other banking conversion activity resides within 30350993 i am washing this through the WF GDA and reclassifying this activity to the 30350993

any other activity within 30350992 represents the daily wire to/from BONYM and WF which balances and zeros between the two banks daily, ergo this fund s/n/h any cash balance

✓ ✗

Selected Accounts Variation Report

Run Date / Time 06/26/2017, 16:01:01

Bus Area: * Fund: 30350992
 Cost Ctr: * Funded Program: *
 Account Group Selected: SC_TRIAL_BALANCE_DETAIL

Grant: * **BEFORE**

Period: 11, 2017

| GL Account | YTD Beg Bal | MTD Activity | YTD End Bal |
|--|-------------------|----------------|-------------------|
| 1000000000 CASH DUE TO/FROM | 1,159,866,942.96 | 61,599,348.01 | 1,221,466,290.97 |
| 1011300700 WF E16 GENERAL DEP | 401,262,853.00 | 61,599,348.01- | 339,663,504.99 |
| 1011300702 WELLS FARGO GEN DEP ACH OUT | | | |
| 1011300712 WELLS FARGO GEN DEP ACH IN | | | |
| 1063300300 BK OF NY GEN DEP | 188.70- | | 188.70- |
| 1063300302 BONY GENERAL ACH OUT | | | |
| 1063300312 BANK OF NY GENERAL ACH IN | | | |
| * Cash | 1,561,129,607.26 | | 1,561,129,607.26 |
| ** Total Assets | 1,561,129,607.26 | | 1,561,129,607.26 |
| *** Total Assets | 1,561,129,607.26 | | 1,561,129,607.26 |
| 9999999999 CONVERSION ACCOUNT | 1,561,129,607.26- | | 1,561,129,607.26- |
| * Other Accounts | 1,561,129,607.26- | | 1,561,129,607.26- |
| ** Fund Balance Total | 1,561,129,607.26- | | 1,561,129,607.26- |
| *** Total Liabilities and Fund Balance | 1,561,129,607.26- | | 1,561,129,607.26- |
| **** Total | | | |

NOTE THIS FUND S/N/H AND CASH BALANCE, THE ONLY ACTIVITY IN THIS FUND IS THE DAILY WIRE TO/FROM BONY/WF^{OR CA}. THE AMOUNT OF CONVERSION IN THIS FUND IS THE RESULT OF ENTRIES IN SP416 TO CONVERT BONY/M TO ACTUAL CASH BALANCES AND OTHER SMALL BANK/CBF ASE'S WITHIN PORTFOLIO FUNDS. SINCE ALL BALANCES = BANKING ASE'S I'M MOVING THESE AMOUNTS TO GDA CONVERSION FUND = 30350993 VIA THE WF GDA ACCT.

MP
6/26/17

ASE

1003448757

Selected Accounts Variation Report

Run Date / Time 06/26/2017, 16:41:03

Bus Area: E160

Fund: 30350992

Grant: *

Cost Ctr: *

Funded Program: *

Period: 12, 2017

Account Group Selected: SC_TRIAL_BALANCE_DETAIL

| CL Account | YTD Beg Bal | MTD Activity | YTD End Bal |
|--|-------------------|-------------------|-------------------|
| 1000000000 CASH DUE TO/FROM | 1,221,466,290.97 | 83,499,400.59 | 1,304,965,691.56 |
| 1011300700 WF E16 GENERAL DEP | 339,663,504.99 | 1,763,597,197.66- | 1,423,933,692.67- |
| 1011300702 WELLS FARGO GEN DEP ACH OUT | | | |
| 1011300712 WELLS FARGO GEN DEP ACH IN | | 118,968,189.81 | 118,968,189.81 |
| 1063300300 BK OF NY GEN DEP | 188.70- | | 188.70- |
| 1063300302 BONY GENERAL ACH OUT | | | |
| 1063300312 BANK OF NY GENERAL ACH IN | | | |
| * Cash | 1,561,129,607.26 | 1,561,129,607.26- | |
| ** Total Assets | 1,561,129,607.26 | 1,561,129,607.26- | |
| *** Total Assets | 1,561,129,607.26 | 1,561,129,607.26- | |
| 9999999999 CONVERSION ACCOUNT | 1,561,129,607.26- | 1,561,129,607.26 | |
| * Other Accounts | 1,561,129,607.26- | 1,561,129,607.26 | |
| ** Fund Balance Total | 1,561,129,607.26- | 1,561,129,607.26 | |
| *** Total Liabilities and Fund Balance | 1,561,129,607.26- | 1,561,129,607.26 | |
| **** Total | | | |

AFTER
1003448757

EXHIBIT 21

STO-Investment Operations
Reconciliation of NVEST (Treasury Management) to Custodial Bank (BNYM)
As of June 30th, 2023

Investment Purchase Tie-Out:

| | |
|--|--------------------------------|
| NVEST ZIMRQ300 - Investment FMV | 26,498,378,121.12 |
| NVEST ZIMRQ300 - Acquisition Value | 27,489,201,412.43 |
| Calculated Unrealized Gain/Loss Balance | <u><u>(990,823,291.31)</u></u> |

BNYM - Asset and Accrual Detail

| | <u>Net Unrealized Gain/Loss</u> |
|--------------------------------------|--|
| GENERAL FUND | (300,824,908.75) |
| INSURANCE RESERVE FD | (50,016,743.97) |
| STATE INVESTMENT PL | (481,824,659.89) |
| LONG TERM POOL | (32,350,226.28) |
| EDUCTN IMPRVMENT ACT | 1,071,773.67 |
| LTDI TRUST FUND | (4,330,851.52) |
| SCRHI TRUST FUND | (122,714,858.15) |
| Grand Total of ALL Portfolios | (990,990,474.89) |
| <i>Difference</i> | 167,183.58 |

EXHIBIT 22

| Provided by the STO-Use for allocation of Purchases and FMV on Pushdown SUPPORTS PUSHDOWN | | | | | | | | | |
|---|---------------|----------|--------------------------|-------------------------|----------------------|----------------------------|-----------------------------|----------------------|--------|
| Portfolio | Business Area | Fund | Associated Business Area | Account Name | Mark to Market Value | Investment Purchase Amount | Accr. Inv. Earnings Balance | Cash Income Received | Pu Int |
| GF | E160 | 28370000 | | GENERAL REVENUE | 0.00 | 0.00 | 1,932,972.79 | 1,607,593.32 | |
| GF | E160 | 28370EAR | | GF EARMARKED ROLLUP TR | 2,242,407,307.80 | 2,299,309,643.25 | 21,922,518.17 | 37,542,829.25 | |
| GF | E160 | 28370FED | | GF FED FUND ROLLUP TRUS | 8,475,900,093.61 | 8,690,980,783.31 | 73,086,945.61 | 111,261,148.15 | |
| GF | E160 | 28370GEN | | GF GENERAL ROLLUP TRUS | 829,254,070.18 | 850,296,854.47 | 2,517,380.86 | 3,442,640.51 | |
| GF | E160 | 30770000 | | FEDERAL - INTEREST | 22,136.69 | 22,698.42 | 275.21 | 547.48 | |
| GF | E160 | 45760000 | E160 | CAPITAL RESERVE FD PRIN | 80,397,481.96 | 82,437,612.89 | 704,930.23 | 1,107,655.58 | |
| GF | E160 | 46630000 | | CONTINGENCY RESERVE FU | 0.00 | 0.00 | 2,323,324.27 | 5,748,067.43 | |
| GF | E160 | 47130000 | E160 | GENERAL FUND RESERVE P | 221,093,074.91 | 226,703,434.93 | 1,924,703.95 | 2,946,661.75 | |
| GF | E200 | 30350091 | | MOX LITIGATION | 507,133.70 | 520,002.51 | 4,506.88 | 7,440.89 | |
| Less Management Fees | | | | | | -4,376,318.95 | 0.00 | 0.00 | |
| Misc. | | | | | | 44.15 | | 0.00 | |
| CV | | | | | | 4,240,775.64 | | 2170583 | |
| AD | | | | | | 4,196,912.20 | | | |
| | | | | | 26,506,815,808.96 | 27,488,096,967.72 | | 163,664,584.36 | |
| | | | | | E16048G67999 | | | | |



April 4, 2024

The Honorable Curtis M. Loftis, Jr.
SC Office of the State Treasurer
1200 Senate Street, Suite 214
Columbia, SC 29201

Dear Treasurer Loftis,

Clarissa Adams emailed me and requested the Department of Administration's (Admin) assistance in assessing the risks of publicly providing all of the information contained in the detail fund report attached to her email. As I informed Clarissa earlier this afternoon, Admin would be consulting with experts at an outside cyber security firm familiar with government operations regarding the release of this information as soon as possible. Also, I gave her my initial opinion that the information should not be publicly posted and my strong recommendation that the document should not be released until we have had a chance to outline the risks associated with it.

We have now conferred with the cyber security experts regarding the information contained in the detail fund report and they have corroborated our concerns. First, it is apparent that the detail fund report contains more information and more specificity related to that information than may be required to be published by the State Treasurer's Office. The cyber security experts noted that a basic and fundamental principal with regard to ensuring the security of valuable information is to share only what is required. The detail fund report contains information – general ledger account numbers, general ledger account names, fund account numbers, software type, etc. – that may not be required to be released in order to comply with the state law. The experts warned that providing so many identifying data points would give potential hackers more ability to “triangulate” and map their way to improper access. They advised that a potential hacker armed with all of this detail would need less additional information to convince the custodian of the funds that the hacker has a right to access the funds and that this type of specificity would lend credibility to the scammer.

Accordingly, based on Admin's review and the advice of the experts with the outside cyber security firm, we are strongly recommending that the detail fund report attached to Clarissa Adams' email not be published. We believe that publishing the information contained in the report would create a real and unnecessary risk for the State.

South Carolina Department of Administration
1200 Senate Street, Suite 460 Columbia, SC 29201
Post Office Box 2825, Columbia, SC 29211

Ph: 803.734.8120
Fx: 803.734.9002
www.admin.sc.gov



The Honorable Curtis M. Loftis, Jr.

April 4, 2024

Page 2

Please let me know if you need further clarification from me on this matter.

Sincerely,



Marcia S. Adams

cc: Governor Henry D. McMaster
Senator Thomas C. Alexander, President of the Senate
Representative G. Murrell Smith, Jr., Speaker of the House of Representatives
Senator Harvey S. Peeler, Jr., Chair, Senate Finance Committee
Representative Bruce W. Bannister, Chair, House Ways and Means Committee
Senator Lawrence K. Grooms, Chair, Senate Finance Constitutional Subcommittee
Comptroller General Brian J. Gaines

EXHIBIT 24

Excerpts from Treas. Loftis Testimony 2/23/23

“The oversight does come from the General Assembly.” - ~5min

“We balance back to the bank every single day.” - ~6min

“Most important day is June 30, end of the Fiscal Year for our bank reconciliations.” - ~11min

“We want to help in any way we can, we feel that we have, and we will in the future.” - 13min

“We don’t see the backside we see our side” – 14:42

“The 3.5B is a specific problem...we were joking the other day that we have to name our problems...the 3.5 consists of several smaller problems” - 19:47

“If they (CG) need information from us they ask, and we give it to them.” 21:00

CML speaks of the public expectation gap and how they only get bits and pieces of what is “actually” happening, when citizens deserve the full picture. – 25:20

“But what I do know is that fraud, waste, and abuse is unabated; it’s difficult to find and when people find it they don’t want to act on it, because you actually have to do something, and we know everybody in State Government, County Government, City Government, who wants to throw that flag up and say ‘You know what? The County Manager here is doing the books wrong or the city manager there or you know, DHEC is spending money...I’m just making that up...incorrectly,’ you know nobody wants to be that guy, but we have to want to be that guy because I believe there are large sums of money that are not used for the purposes intended...you know, outside of this issue that we are talking about right now...” – 30:40

“Mr. Treasurer do you have any concerns about what will happen in your office in the next few weeks?” – Sen McElveen 36:00

“No, sir, not in our office, again, I mean we...I am very confident that my office is exactly where it needs to be...” – 36:33

“Oversight has got to come from the legislative branch.” – 37:24

“How fast should an agency head come before us with a problem like this?” – Sen. McElveen 38:20

“Pretty fast...” – 39:12

“Legacy conversion issues come up from time to time, but they are known...and most of this happened long before I was Treasurer.” – 52:53, *in response to Sen. Young’s question regarding Gen. Eckstrom testifying previously that the reports they needed they didn’t receive from STO. Last Cash Reconciliation by agency by fund was in 2015. CML became treasurer in 2011*

“Any information he (CG) needs, we are more than happy to give it to him”- 55:37

“Is it the job of the STO to provide the CG with cash reconciliations?” Sen. Goldfinch- 1:03:55

“Yes, in the format in which they requested.” – 1:04:00

“Heaven forbid, knocking on wood everywhere, the stock market dies and you wake up tomorrow and you’re missing \$3.5B, what do you do?” Sen. Fanning – 1:10:54

“I call you guys. I’m going to call y’all first. It has happened before, the previous Treasurer went through 08-09 dislocation and such...when there was no money to make we came to y’all first.” – 1:11:30

“The point is the sooner that y’all (*GA*) get the bad news, the better” – 1:13:12

“I probably have \$4 in my pocket but they treat me like I have \$50-60-80B. If I go to New York City, half of Wall Street knows I’m on my way. It’s amazing. They know everything about me.” – 1:16:40

“I didn’t know that there was a significant problem...I knew that there was some kind of legacy problem, but those are the kind of things that get worked out, they’re kind of known within the team...but they’re not big deals.” - 1:37:17