



**ANNUAL ACCOUNTABILITY REPORT  
FOR FISCAL YEAR 2006-2007**

**CONVERSE A. CHELLIS III, CPA  
STATE TREASURER**

## Table of Contents

<b>Section I</b>	<b>Executive Summary</b>	<b>1</b>
<b>Section II</b>	<b>Organizational Profile</b>	<b>3</b>
	<b>Expenditures/ Appropriations Chart</b>	<b>5</b>
	<b>Major Program Areas Chart</b>	<b>6</b>
<b>Section III</b>	<b>Elements of Malcolm Baldrige Award Criteria</b>	
	<b>Category 1 - Leadership</b>	<b>7</b>
	<b>Category 2 - Strategic Planning</b>	<b>8</b>
	<b>Category 3 - Customer Focus</b>	<b>10</b>
	<b>Category 4 - Measurement, Analysis, and Knowledge Management</b>	<b>11</b>
	<b>Category 5 - Workforce Focus</b>	<b>13</b>
	<b>Category 6 - Process Management</b>	<b>15</b>
	<b>Category 7 - Results</b>	
	<b>Accounting and Banking</b>	<b>17</b>
	<b>Investments</b>	<b>23</b>
	<b>Debt Management</b>	<b>28</b>
	<b>Unclaimed Property Program</b>	<b>33</b>
	<b>College Savings Plans</b>	<b>36</b>
	<b>Strategic Planning Chart</b>	<b>40</b>
	<b>Glossary of Acronyms Used</b>	<b>43</b>

## **EXECUTIVE SUMMARY**

### **I.1 - MISSION STATEMENT**

*The mission of the State Treasurer's Office (STO) is to serve the citizens of South Carolina by providing the most efficient and effective banking and financial management services for State Government.*

To this end, the State Treasurer and his professional, responsive staff constantly strive to use a vast network of resources, industry knowledge, and technology to provide high quality service in key areas: receipt and disbursement of funds; investment and cash management; debt issuance and debt service; management of all State banking relations; administration of the Unclaimed Property Program and the College Savings Plans; and providing advice and counsel to local governments on issues related to investments, debt and other fiscal matters.

The State Treasurer's Office is ready and willing to serve the State's citizens and works hard to provide the most effective solutions to identified problems.

### **VALUES**

The values of those employed by the State Treasurer's Office can be summed up in one word - ETHICS.

**E FFICIENCY** in every task is our motto in maximizing services to the public.

**T ECHNOLOGY** is crucial in our mission to provide the most up to date services.

**H ARD WORK** is key to performing the tasks required of the STO.

**I NTEGRITY** in our job performance and duty to the state is critical.

**C OURTESY** is essential to providing quality assistance.

**S ERVICE** to the taxpayers of our state is primary to our mission.

### **I.2 - MAJOR ACHIEVEMENTS**

Major achievements for the State Treasurer's Office (STO) during FY07 include the following:

- Successfully managed multiple transitions. The office was able to respond and acclimate quickly to an unprecedented number of transitions during the past year. Without any disruption of services to state and local government, the office was able to seamlessly adapt to three agency head transitions during an eight month period of time. The structure and operating procedures that have been put into place, coupled with the training and professionalism of the staff, enabled the office to meet these challenges and perform flawlessly under extraordinary conditions.
- Through a transition team, the transfer of management of the Retirement Systems' fixed income portfolio to the Investment Commission was completed by June 30, 2007.
- Conversion of the Local Government Investment Pool to the QED portfolio management system was completed by June 30, 2007. Planned upgrades will eventually allow participants to view their statements and initiate transaction through a secure website.

### **I.3 - STRATEGIC GOALS**

The goals of the State Treasurer's office align with our values. Our current focus is on technology, accountability, and reliable customer service. It is fundamental to the fiscal well being of South Carolina that the State Treasurer's Office maintains state of the art financial systems. The STO continues to work with the South Carolina Enterprise Information System (SCEIS) team to ensure that internal systems specific to treasury functions are replaced by or properly interface with the new SCEIS system without interruption of services. During FY07, the Accounting and Financial Reporting modules of the SCEIS system were the main focus for the STO.

The second strategic goal of the agency is to provide state of the art, accountable and reliable services in relation to the State's financial resources. Through regular communication with our internal staff and outside vendors, we continually seek to measure ourselves against industry standards and benchmarks and seek to employ best practices in all facets of our operation.

The focus on customer satisfaction and courtesy is exemplified by our constituents' positive comments on the fact that when they call our office they actually speak to a person rather than a machine and that employees focus on getting answers swiftly, accurately, and courteously.

### **I.4 - OPPORTUNITIES AND BARRIERS TO SUCCESS**

The continuing demand for staff (particularly experienced, management level staff) to devote time to the SCEIS project in these critical implementation years is competing for personnel resources required for day to day problem solving and supervision. Although this project is expected to benefit the agency and the State over the long run, its success will depend in part on all staff receiving the appropriate training which is planned for early fall.

While the South Carolina Tuition Prepayment Program did receive a needed appropriation this year, the ability of the Program to honor payments under existing contracts in the future will continue to be a topic of discussion within the General Assembly during the upcoming session.

### **I.5 - ACCOUNTABILITY REPORT**

The Accountability Report is used at all levels of the agency to improve organizational performance by focusing on the strategic goals and by measuring our effectiveness. The report is published on the agency's electronic Employee Resource Guide for easy access by all employees. It is also available to the general public on the agency website at <http://www.state.sc.us/treas/office/index.htm>.

The annual review and updating process serves to bring all managers together to review our progress, our shortcomings, identify obstacles, and reset or reinforce priorities. The legislative process of tying budget requests to the Accountability Report helps focus our efforts on stated priorities and defend budget requests through use of data and analysis.

## ORGANIZATIONAL PROFILE

### II.1. – II.2. Major Services and Key Customers of the State Treasurer’s Office are:

Major Services	Key Customers
State-wide banking and accounting services (receipt and disbursement of all funds) for all agencies and institutions	State agencies State employees and retirees Participants in the Deferred Compensation program The State’s vendors Taxpayers Recipients of other state disbursements
Investment services for all state funds, the Local Government Investment Pool, and the fixed income portion of Retirement System funds	State agencies and institutions Local governments and School Districts Members of the South Carolina Retirement Systems Contributors to and beneficiaries of the Tuition Prepayment Plan
Debt issuance and management services for general obligation, revenue, and special debt issues	State agencies and institutions Holders of the State’s GO and Revenue Bonds Holders of the State’s Mini-bonds
Administration of the State’s Unclaimed Property Program	Rightful owners of Unclaimed Property Holders of unclaimed property
Administration of the two College Savings Plans: South Carolina Tuition Prepayment Program and Future Scholar	Contributors to and beneficiaries of College Savings Plans Institutions of Higher Learning

**II.3. Key stakeholders** other than the direct customers of our services are the citizens of South Carolina and the Legislature.

**II.4. Key suppliers** are: other state agencies, banks and other financial service providers, investment advisors and custodial banks, the outside administrators of College Savings Plans, vendors of services and supplies, technology vendors, software providers and partners, holders of unclaimed property, and internet service providers.

**II.5. The State Treasurer’s Office is located** on the 1<sup>st</sup> and 2<sup>nd</sup> floors of the Wade Hampton Office Building, Capital Complex, Columbia, SC.

**II.6. The State Treasurer’s Office has a total of 70 authorized full-time equivalents (FTEs)** of which 44 are state funded and 26 are other funded. The State Treasurer’s Office also has one temporary employee and one employee who works a reduced hour schedule. At fiscal year end, we were operating with 88% of our authorized FTEs or 61.75 positions filled and 8.25 positions vacant. Our FTEs include the State Treasurer, 3 unclassified and 66 classified positions.

#### **II.7. Regulatory environment**

The Treasurer’s Office operates under the same regulatory authority as other state agencies as far as OSHA, procurement (with certain exceptions), and personnel regulations. The office is also subject to certain banking regulations (NACHA) regarding processing of financial transactions and MSRB

regulations regarding filings for bond issues and other financing transactions such as those of the College Savings plans. The office is responsible for compliance with CMIA requirements and arbitrage rebate calculations.

**II.8. Key strategic challenges**

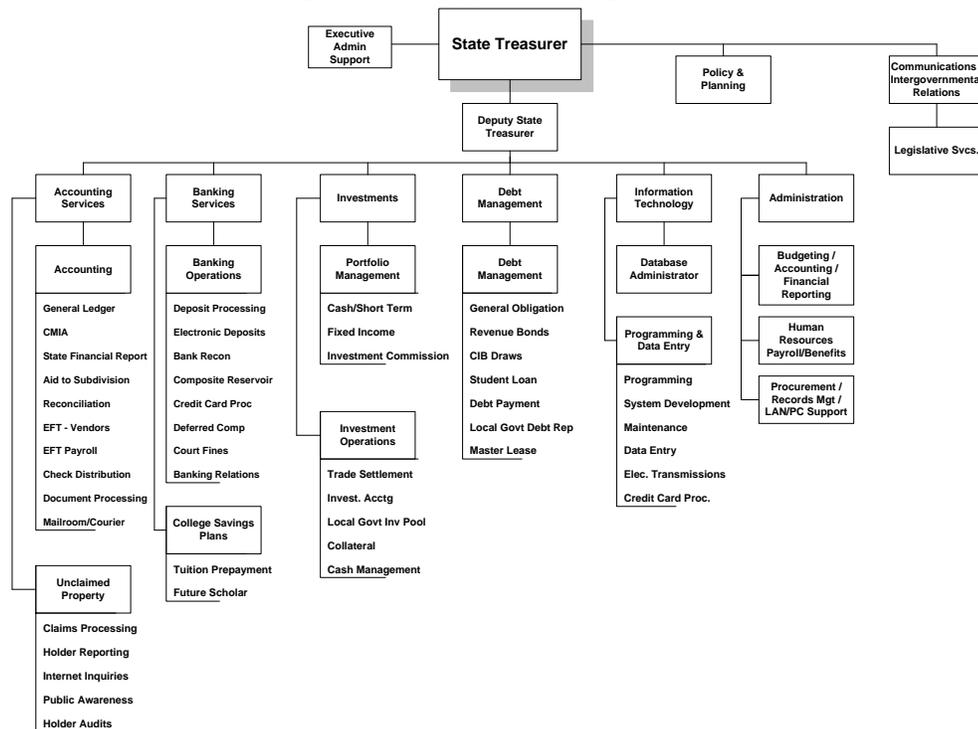
The key challenges to meeting our strategic goals are market conditions over which we have no control, tuition increases over which we have no control, and human resource limitations particularly in the information technology area.

**II.9. Performance improvement systems**

Trend analysis as well as measurement of our results against peers and industry benchmarks, as noted in Section 7 – Results of this report, are our primary improvement systems. A watch word of the office is to find ways to do things “Better, Cheaper, Faster” and that goal is shared with our vendors and other business partners. The annual EPMS system discussed under Human Resources provides a way for each employee’s goals to be tied with the office goals.

**II.10. The Organizational Chart** that follows indicates the primary functions of each division.

**State Treasurer’s Office**



II. 11. The Appropriation/Expenditure Chart that follows outlines the major spending categories of the budget.

**Accountability Report Appropriations/Expenditures Chart**

**Base Budget Expenditures and Appropriations**

Major Budget Categories	FY 05-06 Actual Expenditures		FY 06-07 Actual Expenditures		FY 07-08 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$ 2,998,635	\$ 1,928,018	\$ 3,211,563	\$ 2,010,081	\$ 3,251,190	\$ 1,982,370
Other Operating	\$ 1,045,994	\$ 355,312	\$ 897,472	\$ 333,052	\$ 1,463,822	\$ 271,341
Special Items	\$ 8,989,706	\$ 1,622,662	\$ 8,989,706	\$ 1,622,662	\$ 5,742,044	\$ 375,000
Permanent Improvements			\$ -	\$ -	\$ -	\$ -
Case Services			\$ -	\$ -	\$ -	\$ -
Distributions to Subdivisions			\$ -	\$ -	\$ -	\$ -
Fringe Benefits	\$ 794,314	\$ 504,022	\$ 823,927	\$ 515,374	\$ 893,842	\$ 554,196
Non-recurring						
<b>Total</b>	\$ 13,828,649	\$ 4,410,014	\$ 13,922,668	\$ 4,481,169	\$ 11,350,898	\$ 3,182,907

**Other Expenditures**

Sources of Funds	FY 05-06 Actual Expenditures	FY 06-07 Actual Expenditures
Supplemental Bills	\$ -	\$ -
Capital Reserve Funds	\$ -	\$ -
Bonds	\$ -	\$ -

II.12. The Major Program Areas Chart lists the agency's major service programs of the total budget.

**Major Program Areas**

Program Number and Title	Major Program Area Purpose (Brief)	FY 05-06 Budget Expenditures	FY 06-07 Budget Expenditures	Key Cross References for Financial Results*
II. Programs and Services	<b>Accounting and Banking</b> provides statewide services to all agencies and institutions by receipt and distribution of funds from all sources.	State: 747,311.00 Federal: 0.00 Other: 185,456.00 Total: 932,767.00 % of Total Budget: 7%	State: 827,064.00 Federal: 0.00 Other: 190,449.00 Total: 1,017,513.00 % of Total Budget: 7%	Figures 1.1, 1.2, 1.4 and 1.5
II. Programs and Services	<b>Investments</b> provides statewide investment services to state agencies and institutions through investment of all state funds, management of cash liquidity, cash flow, and collateral.	State: 0.00 Federal: 0.00 Other: 756,269.00 Total: 756,269.00 % of Total Budget: 5%	State: 0.00 Federal: 0.00 Other: 805,212.00 Total: 805,212.00 % of Total Budget: 6%	Figures 2.1, 2.2, 2.3, 2.7, 2.8 and 2.9
II. Programs and Services	<b>Debt Management</b> provides statewide debt management services for the State, its agencies and institutions by management of debt issues including debt structure and payments.	State: 427,365.00 Federal: 0.00 Other: 24,848.00 Total: 452,213.00 % of Total Budget: 3%	State: 345,402.00 Federal: 0.00 Other: 95,886.00 Total: 441,288.00 % of Total Budget: 3%	Figures 3.1, 3.2, 3.3, 3.7 and 3.8
II. Programs and Services	<b>Unclaimed Property Program</b> provides a statewide service to the citizens of South Carolina by returning various forms of property or money to the rightful owners.	State: 0.00 Federal: 0.00 Other: 583,364.00 Total: 583,364.00 % of Total Budget: 4%	State: 0.00 Federal: 0.00 Other: 567,807.00 Total: 567,807.00 % of Total Budget: 4%	Figures 4.1 and 4.3
II. Programs and Services	<b>SC Tuition Prepayment Program (SCTPP) / SC College Investment Program (Future Scholar)</b> are college savings plans that allow families the option of saving now at great advantage for their children's college education.	State: 0.00 Federal: 0.00 Other: 501,653.00 Total: 501,653.00 % of Total Budget: 4%	State: 0.00 Federal: 0.00 Other: 415,101.00 Total: 415,101.00 % of Total Budget: 3%	Figures 5.1, 5.3 and 5.5
II. Programs and Services	<b>Student Loans-Teachers</b> are funds received and then disbursed to the Student Loan Corp pursuant to the Appropriations Act to fund student loans for teacher program.	State: 1,622,662.00 Federal: 0.00 Other: 7,367,044.00 Total: 8,989,706.00 % of Total Budget: 65%	State: 1,622,662.00 Federal: 0.00 Other: 7,367,044.00 Total: 8,989,706.00 % of Total Budget: 65%	Figure 3.8

Below: List any programs not included above and show the remainder of expenditures by source of funds.

<b>Remainder of Expenditures:</b>	State: 1,612,677.00 Federal: 0.00 Other: 0.00 Total: 1,612,677.00 % of Total Budget: 12%	State: 1,686,041.00 Federal: 0.00 Other: 0.00 Total: 1,686,041.00 % of Total Budget: 12%
-----------------------------------	--	--

\* Key Cross-References are a link to the Category 7 - Business Results. These References provide a Chart number that is included in the 7th section of this document.

## **MALCOLM BALDRIGE AWARD CRITERIA**

### **III.1 – LEADERSHIP**

(Questions 1-9 are addressed in this section)

In alignment with the Constitution of South Carolina and the directives set forth by the General Assembly, the State Treasurer puts forth goals and strategies through individual and team meetings.

Pending issues and policies are discussed in these meetings and the State Treasurer uses these meetings to express his objectives, concerns, or directives. Senior management uses this time as a mechanism to express ideas, offer suggestions, and work as a team in problem resolution. Following such meetings, senior management apprises their respective staffs of issues discussed, seeking input when appropriate for problem resolution or for planning purposes.

The State Treasurer's Office has a long history of instilling staff loyalty in job performance and effective public service to the State and its citizens. This positive leadership, support and recognition of employees has generated below-average turnover in personnel. This has created a stable work environment where experienced professional staff can manage the State's finances in an efficient and effective manner.

The South Carolina State Treasurer's Office has always believed that accessibility is the key to success. The agency establishes and promotes a focus on customers by allowing the customers and citizens of South Carolina complete access to the STO. The State Treasurer promotes availability to the public and its customers by providing access to office services through the internet, by handling telephone calls in person rather than through a menu driven voice mail system and by maintaining an open door policy.

As an elected office, the State Treasurer's Office is particularly sensitive to the impact on the State's citizens of actions taken and the effective allocation of the State's resources. For this reason, we are vigilant in seeking information and communicating with experts to find the best ways of meeting the responsibilities of the office and delivering services. The State Treasurer closely monitors the State's cash flows, banking relationships, status of the State's debt and credit rating, and investment of the state funds, especially retirement funds.

## III.2 - STRATEGIC PLANNING

(Questions 1 – 7 are addressed in this section)

For the past few years, the priorities of the State Treasurer's Office have been:

- **Public and Higher Education**
- **Economic development**
- **Efficiency and customer service**

### Strategies for supporting education:

In 2002, the State Treasurer's Office opened the South Carolina College Investment Plan ("Future Scholar" 529 College Savings Plan) by taking advantage of enhancements to the IRS Code allowing for tax advantaged tuition plans sponsored by state agencies. In five years, the number of Future Scholar accounts has grown to 63,907 with a market value of more than \$975 million. Over 50% of these accounts are held by South Carolinians. Our agency has worked closely with the national College Savings Plan Network (CSPN) to improve federal financial aid treatment of funds held in 529 college savings plans as well as extending favorable tax treatment beyond 2010.

Another vehicle for college savings is the South Carolina Tuition Prepayment Program (SCTPP), which was transferred to the State Treasurer's Office in 2000. Unprecedented increases in tuition and fees at the State's public colleges and universities (89.8% in the last 5 years) however, contributed greatly to a growing unfunded liability. This year, the funding of the contracts was greatly enhanced by lower than average tuition increases and a one time appropriation of \$20 million. While cutting the unfunded liability from \$63 million last year to just under \$38 million at June 30, 2007, the program is not out of the woods yet and further solutions will continue to be sought.

The STO also works closely with the South Carolina Education Assistance Authority to provide funding for student loans and the South Carolina Educational Facilities Authority to maximize borrowing opportunities for the State's private colleges.

This year, the STO provided input and analysis to a legislative committee considering an infrastructure bank for school facilities construction programs. In recent years, our agency has completed the issuance of \$750 million School Facilities Bonds, providing funds needed to address a critical shortage of modern classrooms around the State. The bonds are general obligations of the State and were issued without incurring taxes or fees at best rates available in the marketplace at the time of issuance, thereby maintaining the overall cost of borrowing at the lowest available.

For public higher education, the agency works with the state's higher education institutions to provide funding for capital projects and other financing needs. The Economic Development Bond Act and Research Universities Infrastructure Bond Act have provided additional tools to fund both economic development and research initiatives.

In prior years, the State issued mini-bonds to fund capital improvement projects such as college additions and renovations, prisons, and harbor dredging as authorized by the Legislature. The mini-bonds are safe, tax-free investments that provide the citizens of South Carolina a vehicle for saving while they benefit from the capital improvements funded by the sale of these bonds. Mini-bonds have not been issued recently due to historically low interest rates and exhaustion of capital improvement

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25", Tab stops: 0.5", List tab + Not at 0.25"

bonding authority. However, the STO continues to monitor the demand and market conditions for future issues.

**Strategies for bolstering economic development:**

Our agency continues to work closely with the Department of Commerce in providing funding for large economic development projects.

Maintaining a strong credit rating also helps promote the State’s reputation as a good investment choice. During the fiscal year, the State Treasurer worked with members of the legislature in a united effort to show the state’s resolve to keep our financial house in good order and adhere to strong fiscal discipline.

The State Treasurer also urged the General Assembly to bolster financial practices to strengthen the state’s credit rating by accomplishing the following goals:

- End the practice of using one-time money for recurring expenses;
- Replenish and increase the state’s reserve funds;
- Enact legislation requiring a multi-year forecast of revenues and expenditures; and
- Enact legislation to eliminate future accounting (“GAAP”) deficits.

The legislature has supported these strategies; however, programs to address rating agency concerns centering on wealth, income, and employment must be undertaken to promote economic stability.

The STO seeks opportunities within our banking responsibilities to foster and develop relationships with local banks while achieving competitive rates of returns on state investments. This year, the STO was presented with a unique opportunity to achieve both a higher rate of return while placing hundreds of millions of dollars in assets locally.

**Strategies for promoting greater efficiency in government:**

The State Treasurer’s personal philosophy is to retire State general obligation debt within a 15 year period rather than extending the debt to the maximum 30 year period permitted by most bond enabling statutes. Structuring repayments over a shorter time period has resulted in millions of dollars in interest costs savings over the life of the debt.

Wherever constitutionally and statutorily possible, the State Treasurer’s Office is attempting to create a “paperless” work environment by capitalizing on new technologies to improve delivery of services, save money, and free-up resources for other uses.

During the fiscal year, electronic solutions were again aggressively sought. Emphasis continued to be on eliminating nonessential functions in order to focus on the most critical and to move delivery of services to the internet or other self-serve or electronic means. Changes were made with consideration for the impact on the customer and how to offer electronic alternatives to the data and services previously provided by more paper or people intense delivery methods. The Business Results in Section 7 of this report highlight specific examples of such solutions implemented.

This objective has also been conveyed to our suppliers and partners so that, in an effort to serve us better, they can help identify opportunities for more paperless delivery of their services.

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.75" + Tab after: 1" + Indent at: 1", Tab stops: Not at 1"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.75" + Tab after: 1" + Indent at: 1", Tab stops: Not at 1"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.75" + Tab after: 1" + Indent at: 1", Tab stops: Not at 1"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.75" + Tab after: 1" + Indent at: 1", Tab stops: Not at 1"

### **III.3 - CUSTOMER FOCUS**

(Questions 1-5 are addressed in this section)

The State Treasurer's Office relies on direct customer feedback to improve service to its customers. This is accomplished in part through participation in conferences and forums, state fairs and senior citizens' events, meetings with financial institutions and state agencies, as well as public meetings attended by the State Treasurer and his staff. The STO also maintains an open door policy and uses its website to further receive public input.

Throughout the State, the State Treasurer's Office deals with the public on a wide range of issues. Most often we receive inquiries on retirement issues, tax refund checks, vendor checks, paychecks, deferred compensation, and information about individual programs such as Unclaimed Property, College Savings Plans, and Mini-Bonds.

Most of our programs are detailed on the State Treasurer's Office web site for further accessibility. Our agency has made it a priority to continually make links, downloadable documents, narrated training, and other information available to reduce costs and response times. During the year, the State Treasurer's Office redesigned the office's website in order to make it more customer friendly to the people of South Carolina as well as to other state agencies. This was accomplished without any cost whatsoever to the office, state government, or the taxpayers. The business results section beginning on page 16 includes references by program where the website(s) were enhanced during the fiscal year.

Legislative inquiries are handled through a dedicated professional staff that coordinates research and provides accurate information on legislative matters. Several issues requiring significant research and support during the 2007 legislative session included: the future of the Tuition Prepayment Program, strengthening the Retirement Systems to address the system's growing unfunded liabilities and cost of living adjustments (COLAs), and helping the state plan for a growing Other Post-Employment Benefit Obligations (OPEB) liability.

Ongoing communication with State agencies provides feedback on how their requirements and expectations can best be fulfilled. During the fiscal year, several agencies were involved in either implementing new banking arrangements specific to them or piloting new services initiated by the State Treasurer's Office. For example a pilot program for a comprehensive electronic payment solution was implemented at Clemson with anticipated savings of over \$800,000 when fully implemented.

The STO regularly participates in special projects to improve statewide processes. This year, representatives of the agency continued to serve on committees studying the statewide accounting system (SCEIS system) as the implementation date nears. Even more staff members were brought into the process as the impact on the agency was studied in more detail. This effort will continue to be a large focus in the coming years, demanding time, particularly of the management staff.

Representatives of the agency make annual presentations to the South Carolina Governmental Finance Officers Association at both their fall and spring conferences and use those forums not only to disseminate information to others, but also to receive feedback from these customers and identify ways we can best meet their needs. Staff also served as presenters at the College and University Bursars Association meetings and at training for local governments on Court Fines.

### III.4 - MEASUREMENT, ANALYSIS, AND KNOWLEDGE MANGEMENT

(Questions 1 – 7 are addressed in this section)

Performance measures are incorporated in all operations of the agency. The measures used are selected by management to:

- Track compliance with State and federal laws where applicable or with externally imposed requirements like accounting standards and regulatory compliance;
- Monitor compliance with management directives, goals, or objectives;
- Measure success of efficiency measures implemented;
- Measure performance against industry benchmarks;
- Indicate trends in meeting customer expectations; and
- Set priorities for resource allocation.

An inventory of key performance indicators shows the majority of measures used are in the areas of compliance, mission accomplishment, and customer focus. This is consistent with the nature of the agency where most functions are delegated to it by statute, with few programs at the discretion of the State Treasurer.

Comparative data and information is selected and used based on an intentional search for best practices and benchmarks relevant to our mission. Participation in national organizations such as the National Association of State Auditors, Comptrollers and Treasurers (NASACT), the National Association of State Treasurers (NAST), the College Savings Plan Network (CSPN), and other professional organizations in banking, cash management, investments, unclaimed property, and college savings plans provides exposure to comparative data and “best practices,” many of which have been adopted.

Accuracy of data is assured through reconciliation and confirmation with external sources:

- Statewide accounting data is reconciled daily to the Office of the Comptroller General;
- Banking data is confirmed with the depository bank, custodian of investments, and the counterparty to transactions;
- The status of investment portfolios and performance results is measured by at least three external sources in addition to the internal process: the custodial bank, the independent investment advisor, and the Investment Panel’s consultant for Retirement portfolios;
- Local Government Investment Pool transactions are confirmed with Pool participants through daily confirmations of transactions and monthly statements;
- Information on debt issues and payments is monitored and confirmed by external parties, including bond counsel, financial advisors, independent paying agents, bond holders, and the institutions served; and
- Internal administrative data such as budget status, procurement information, payroll and personnel transactions is confirmed with statewide reporting systems and subjected to routine audit.

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25", Tab stops: Not at 0.25"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25", Tab stops: Not at 0.25"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25", Tab stops: Not at 0.25"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25", Tab stops: Not at 0.25"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25", Tab stops: Not at 0.25"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0" + Tab after: 0.25" + Indent at: 0.25", Tab stops: Not at 0.25"

Agency data is subjected to annual audit directly by at least 9 audit teams, including:

- Statewide GAAP Audit Team for cash, investments, debt, and data processing control;
- Agreed Upon Procedures audit of the agency;
- Local Government Investment Pool GAAP audit;
- Independent auditors for the South Carolina Retirement Systems;
- Independent auditors for the Tobacco Settlement Revenue Management Authority;
- Independent auditors for the South Carolina Resources Authority;
- Independent auditors for the Deferred Compensation Board;
- Independent auditors doing follow-up audits on Court Fine remittances; and
- Statewide single audit team for compliance with CMIA.

Indirectly, agency information is subjected to audit repeatedly through the audit confirmation process of the various agencies and institutions for which we serve as the State's bank.

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

Formatted: Indent: Left: 0.25", Bulleted + Level: 1 + Aligned at: 0.5" + Tab after: 0.75" + Indent at: 0.75", Tab stops: Not at 0.75"

### III.5 – WORKFORCE FOCUS

(Questions 1-8 are addressed in this section.)

The agency continues its human resources commitment to retain a qualified, trained work force while promoting employee motivation, satisfaction and well-being in a safe and healthy environment. This commitment is demonstrated in every facet of our business, externally and internally, through an open-door policy, formal and informal communication, teamwork, equal treatment, customer focus and employee recognition.

As a result of our efforts, the State Treasurer's Office met 92.2% of its affirmative action goals for the year, ranking 12<sup>th</sup> among agencies with 15-100 employees and 25<sup>th</sup> overall among all 93 state agencies reporting.

Our staff consists of 70 authorized full-time equivalents (FTEs) of which 44 are state funded and 26 are other funded. The State Treasurer's Office also has one temporary employee and one employee working a reduced hour schedule. At fiscal year end, we were operating with 88% of our authorized FTEs or 61.75 positions filled and 8.25 positions vacant. Our FTEs include the State Treasurer, 3 unclassified and 66 classified positions.

The State Treasurer's Office experienced organizational changes this year as well as the transfer of Retirement Systems investments to the Investments Commission. However, during these transitions, the State Treasurer's Office continued to provide quality services to the citizens of South Carolina in a very effective and professional manner, which is a direct result of our well trained and qualified staff. We filled five vacant positions during the year.

The State Treasurer's emphasis on a well-trained professional workforce and his support of external training supplemented by internal learning to ensure employee growth and innovation has enabled our agency to continue to meet its mission and provide exceptional customer service. After careful review of training needs, we were able to provide professional development and technical training to approximately 36 percent of our staff. This training not only boosted employee morale, but optimized employee efficiency and effectiveness in performance. Further, the continuous efforts by Senior Management and staff to ensure that cross training remains a priority has enabled us to develop highly skilled and versatile employees. Such versatility allowed us to realign and/or promote skilled employees across divisional lines to meet work demands and customer needs.

The State Treasurer's Office actively seeks employee input and feedback in relation to agency functions and processes through the Employee Performance Management System. Throughout the evaluation period, supervisors informally meet with employees and discuss ways in which they can improve their performance and be successful in their jobs. These formal and informal sessions allow supervisors an opportunity to assess employee satisfaction and gain insight and input from employees on how to improve processes. These discussions are an integral part of determining better and more efficient ways to operate and were beneficial in helping managers and supervisors achieve a 100% success rate in completing their employee yearly evaluations in a timely manner.

The State Treasurer's Office promotes employee motivation, well-being and satisfaction.

- We provide flexible work schedules to assist employees in balancing work and family demands, which also allows for the office areas to be covered during longer periods of the day.

- We also offer a part-time program for employees who need to work reduced hours which has been critical in helping reduce employee turnover.
- The recognition of staff for accomplishments has become an important responsibility of our Senior Management team. During Employee Appreciation Week, we provide our employees with a luncheon in their honor.
- The office also sponsored benefits fairs, book fairs, health screenings, mammograms, blood donations and flu shots.

The State Treasurer's Office encourages employees' personal growth and teamwork in actively supporting community groups such as:

- United Way
- The First Ladies' Walk for Life
- Community Health Charities
- The Wellness Walk
- United Black Fund
- Harvest Hope Food Bank

## III.6 - PROCESS MANAGEMENT

(Questions 1 – 6 are addressed in this section)

In **Accounting and Banking**, deposits, distributions, reconciliations, and financial reporting are time sensitive processes with an external customer focus. Deadlines are imposed either by legal mandate, management policy, or customer expectations. Constant monitoring of deadlines, exception reports, and other performance requirements drives day-to-day operations. In order to meet growing demands with limited resources, managers must continually look for ways to better utilize automation for processing, verifying, and reporting information and for identifying exceptions needing attention.

Systems tied to non-state entities are often driving forces for automation. Office systems are electronically tied to outside banks and service providers through electronic receipt and submission of data, credit card and Internet payment systems, electronic daily confirmations, and automated reconciliation systems. Likewise, the needs of the customer, primarily other state agencies and institutions, drive decisions as to how and when certain services will be delivered. Where possible, the State Treasurer's Office strives to standardize banking services to take advantage of efficiency of scale, while serving the diverse and sometimes unique needs of each customer at competitive rates.

The State Treasurer's Office continues to promote Automated Deposits System, Electronic Vendor Payments, Deposit Sweep systems for Colleges and Universities, and sub-account systems for depository accounts. During the year with guidance from the State Treasurer's Office and our banking partners, two agencies implemented remote deposit capture systems. Progress toward these goals and efficiencies achieved are reported in Section III.7 Results.

In the area of **Investments**, the office is linked by the latest technology to market information, brokers, investment advisors, custodial banks, and accounting systems. To obtain the best investment opportunities within the guidelines of approved investments, the State Treasurer's Office maintains constant communication with securities professionals and uses on-line securities quotation services. The State Treasurer also receives expert advice from an independent investment advisory firm. During the year a successful project to combine the portfolios of the 5 separate retirement systems into one pool for efficiency of investment, while maintaining separate records for each system through the features of the QED Common Fund functionality was completed.

BidSC, the quarterly internet auction process for bidding on Certificate of Deposits continues to be an efficient and effective method of assuring the State the best rate on time deposits while allowing all financial institutions in the State an opportunity to bid for State deposits. In addition to the increase in return on the deposits, the system also provides an efficient method of communicating settlement information to the banks and financial institutions on those trades.

The STO continues to explore options for banking partners to obtain public deposits for local uses while assuring the funds are secure and comply with collateral statutes. During the year several stakeholders were involved in a task force to study the state's collateral requirements and legislation was introduced but not passed to improve the process.

The overall objectives of the fixed portfolio for Retirement Funds are provided in the Statement of Investment Objectives adopted by the newly created South Carolina Retirement System Investment Commission. Objectives for investment of General and Other Funds are developed in conjunction with the State's investment advisor and adopted by the State Treasurer. In addition to daily monitoring and communication with investment advisors, twice monthly investment update meetings are held with the

State Treasurer and investment staff to review economic and market conditions as well as investment direction. Monthly performance reports provided by both the custodial bank and investment advisor reviewed by staff, assure the performance requirements are reviewed regularly and processes are adjusted as market conditions dictate.

In the area of **Debt Management**, the State Treasurer's Office continues to use internet-based technology in advertising bond sales and accepting bids. While this process saves printing and postage costs, it more significantly broadens the universe of potential bidders on the State's debt offerings.

The legacy Debt Management System (DMS) provides a system of controls and automation for the Debt Management division. This system provides mechanisms for record keeping and reporting, and provides automation for electronic debt payment through the Automated Clearing House to the State's paying agents. It also provides functionality for tracking agency payments for authorized capital projects to ensure timely and accurate payments for projects approved by the Joint Bond Review Committee and as appropriated by the General Assembly.

The Debt Management area has performed an evaluation of the system needs and analyzed those needs against the current system's continuing ability to meet them and evaluated other alternatives including the SAP system. As no acceptable "off the shelf" alternatives were identified, and there remain unanswered questions about SAP's capabilities, the agency continues to face the question of how best to replace the aging system. Options include investing internal resources in rewriting the aging system or seeking the vendor's assistance in adapting the SAP system to the State's requirements.

In administering the **Unclaimed Property Program**, and the **College Savings Plans**, two programs involving direct interaction with the general citizenry, promotion and education, customer expectations and customer-oriented delivery systems are the driving forces. Internet access to data and services continues to be the focus. Both systems are managed through outside vendor software systems designed specifically for the industry. By outsourcing these unique systems, the programs are able to take advantage of upgrades and best practices applicable to other states.

The **support systems** of the office include Administration, Data Processing, and Legislative and Constituent Services. These systems are designed to assist the production areas by providing a well-qualified work force, adequate funds to support the mission and retain valuable staff, efficient data processing systems, accurate and timely data for decision making, and information and opportunities for input on legislative matters and constituent concerns.

Recognizing the importance of our **key supplier relationships**, the State Treasurer has built dedicated support systems for each of these type relationships. Through regular meetings with major suppliers of banking services, and agencies requesting new types of bank services, the office has been able to forge partnerships with these suppliers. These partnerships have allowed us to take advantage of their industry experience and knowledge of our operations to recommend and help implement state of the art solutions to specific banking processes, resulting in cost savings and more efficient, reliable and accurate systems. Category 7 – Business Results, starting on page 16) highlights specific examples of improvements.

### III.7 RESULTS

#### Accounting and Banking

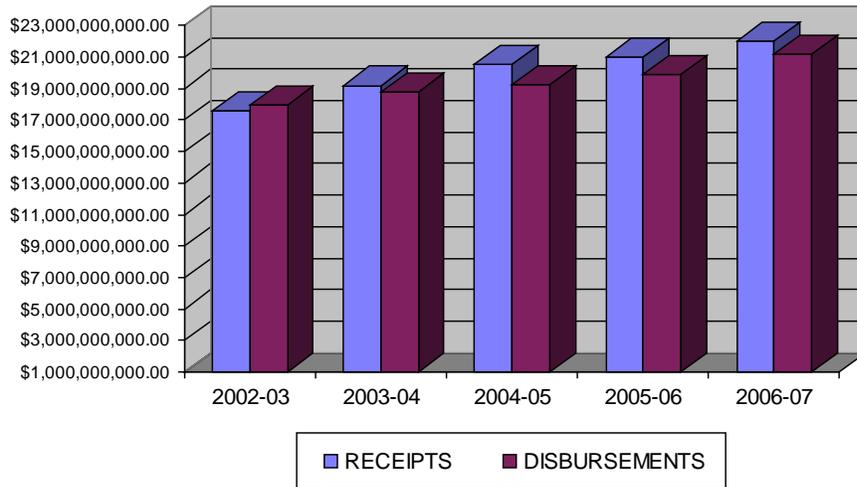
**Program Cost:**

	2002-03	2003-04	2004-05	2005-06	2006-07
<b>State Funds</b>					
Accounting			\$ 444,499	\$ 512,588	\$ 562,766
Banking			\$ 226,671	\$ 234,723	\$ 264,298
<b>Total State Funds</b>	\$ 718,183	\$ 736,401	\$ 671,170	\$ 747,311	\$ 827,064
<b>Other Funds - Banking*</b>	198,050	182,003	162,593	185,456	190,449
<b>Total</b>	\$ 916,233	\$ 918,404	\$ 833,763	\$ 932,767	\$ 1,017,513

<b>FTE's</b>	17.45	15.70	15.70	16.80	15.80
--------------	-------	-------	-------	-------	-------

\*FY03 amount represents funds used under Proviso 72.69 (Flexibility) to maintain critical programs previously funded with General Fund appropriations. Beginning with FY04, amounts include other funds received for administration of Court Fines and Deferred Compensation funds.

**Figure 1.1 - 5 Year Comparison of Cash Receipts and Cash Disbursements**



Note: Figure 1.1 represents all cash receipts and cash disbursements recorded to STARS in the State Treasury from July 1 through June 30 for the years indicated.

**Accounting Program Goals:**

- Receive and disburse funds from all sources in a timely and accurate manner.
- Analyze FMS and STARS entries to reconcile Account Balances with the Comptroller General’s Office daily.
- Provide efficient and effective financial reporting and accounting services for all state agencies and institutions as required.
- Conduct timely reconciliations of imprest bank accounts for the State, assuring accuracy of banking information and timely resolution of discrepancies.
- Distribute shared revenue to subdivisions monthly, quarterly, or annually according to statute.
- Manage the flow of direct deposit authorizations from customers assuring prompt posting of funds to customer’s bank accounts.
- Analyze and provide input on budgetary and legislative matters related to statewide accounting matters.
- Continuously analyze processes to look for cost savings through efficiencies and ways to streamline duties.

Formatted: Indent: Left: 0", Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5", Tab stops: 0.25", List tab + Not at 0.5"

**Accounting Objectives and Key Results:**

1. **Disburse all funds within 24 hours of request by increasing the number of payments made electronically (thus improving accuracy, timeliness of payment, and reducing cost to process).**
  - 1.1. Increased the use of Electronic Vendor Payments and EFT payments to 36% of total payments and expanded the procurement card program (which reduces the number of individual disbursements required), allowing staff to process disbursements within the goal of 24 hours from request.

*Figure 1.2 - Comparison of Disbursements by Type*

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Number	%								
<b>Disbursements</b>										
Paper Checks	2,940,949	68%	2,891,570	67%	2,823,083	66%	2,767,635	64%	2,672,063	61%
Electronic Payments	<u>1,401,757</u>	<u>32%</u>	<u>1,428,043</u>	<u>33%</u>	<u>1,450,757</u>	<u>34%</u>	<u>1,572,541</u>	<u>36%</u>	<u>1,695,861</u>	<u>39%</u>
<b>Total disbursements</b>	<u>4,342,706</u>	<u>100%</u>	<u>4,319,613</u>	<u>100%</u>	<u>4,273,840</u>	<u>100%</u>	<u>4,340,176</u>	<u>100%</u>	<u>4,367,924</u>	<u>100%</u>
<b>FTE's in process area</b>	4		3.25		3.25		4		4	

2. **Distribute Shared Revenues to subdivisions as required by law between the 20<sup>th</sup> and the 25<sup>th</sup> of each month.**
  - 2.1. All shared revenues were distributed according to State Treasurer’s Office (STO) policy between the 20<sup>th</sup> and 25<sup>th</sup> of the month in which distribution is required by statute.

**Figure 1.3 - Shared Revenues Distributed by type**

Annual	Monthly	Quarterly
Brokers Premium Taxes	Local Option Sales Tax – Property Tax Relief	Local Government Fund
Fire Department Premium Taxes	Motor Transport Fees in Lieu of Taxes	Aid to Planning Districts
Excise Tax on Liquor by the Drink – Hold Harmless		Local Option Sales Tax- Capital Projects
		Local Option Sales Tax – School Districts
		Local Option Sales Tax – Transportation Facilities
		Liquor by the Drink Excise Tax
		Accommodations Tax
		Accommodations Tax – Tourism Districts
		Solid Waste Tire Fees

**3. Reconcile all imprest bank accounts of the State within 1 day after receipt of the bank information. These high volume disbursement accounts include: Contingent, Payroll, Income Tax Refund, Public Aid, and Special Payments.**

3.1. The staff has maintained the daily reconciliation process at a 1 to 2 day turnaround through improved automation of reconciliation. By partnering with banks to take advantage of Positive Pay services, bank discrepancies in reconciling checks have decreased, and bank efforts in fraud prevention have benefited. All imprest bank accounts of the State incorporate this service.

**4. Process all payroll and vendor direct deposit authorizations by the following payday.**

4.1. All payroll and vendor direct deposit requests were processed by the following payday. As of June 30, 2007, 1,375 vendors had signed up for Electronic Vendor Payments.

**5. Reconcile all receipts, disbursements and transfers with the Comptroller General’s Office daily as required by State law. Identify and resolve all differences.**

5.1. Daily reconciliations with the Comptroller General’s Office were achieved, and all differences were identified and resolved.

**6. Review all proposed legislation related to banking and accounting matters, and provide feedback by the deadline to respond.**

6.1. Multiple pieces of legislation and amendments were reviewed and analyzed during the fiscal year related to Accounting and Banking matters.

**7. Process, batch and distribute all checks, IDT’s and Treasurer Receipts for state agency pick up within 24 hours of processing.**

7.1. All done within 24 hour turnaround.

**8. Provide efficient customer service to state agencies when canceling checks, replacing checks and providing paid check copies.**

8.1. During the year, we cancelled checks at least once a week or as requested by state agencies. Our goal was to provide check copies and replace checks within 48 hours of an agency’s request. We were able to meet this goal with few exceptions.

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Tab after: 0.55" + Indent at: 0.55"

**9. Provide timely and accurate financial information and reports as required.**

- 9.1. Prepared annual reports and furnished financial data to internal and external customers by prescribed deadlines. (GAAP Closing Packages, CMIA TSA and Annual Report, Annual Accountability Report)
- 9.2. During this fiscal year, several employees spent many hours serving as subject matter experts (SMEs) on the South Carolina Enterprise Information System (SCEIS) project. The project's focus was on the Realization Phase. During the Realization Phase, the SCEIS project team began to configure the SAP modules based on the STO agency and central state government's business processes identified during the Business Blueprint Phase.

**Banking Program Goals:**

- Receive and record funds from all sources in a timely and accurate manner.
- Provide efficient and effective financial reporting and banking services for all state agencies and institutions as required.
- Conduct timely reconciliations of depository bank accounts throughout the State, assuring accuracy of banking information and timely resolution of discrepancies.
- Receive and distribute Court Revenues according to the governing statutes.
- Manage the flow of deferred compensation funds from pay centers to the third party administrator to facilitate prompt posting of those funds to participant accounts.
- Analyze and provide input on budgetary and legislative matters related to statewide banking matters.
- Work with banking vendors to implement best practices and to look for cost savings through efficiencies and ways to streamline duties.

Formatted: Indent: Left: 0", Bulleted + Level: 1 + Aligned at: 0.25" + Tab after: 0.5" + Indent at: 0.5", Tab stops: 0.25", List tab + Not at 0.5"

**Banking Objectives and Key Results:**

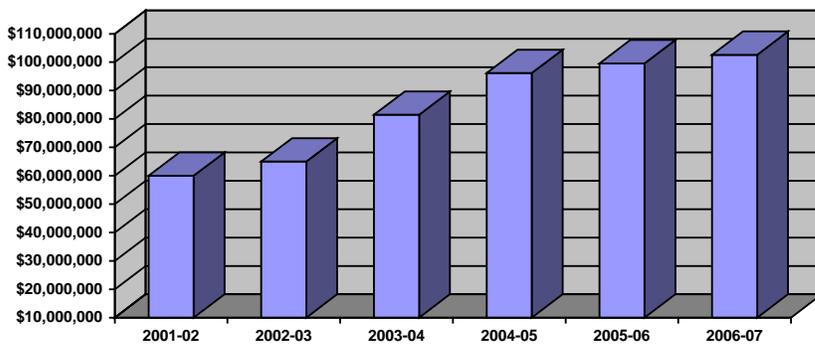
- 1. **Record all deposits within 1 business day of receipt from the agencies.**
  - 1.1. Deposits were recorded within 1 business day of receipt from agencies.
- 2. **Increase the number of agencies using the electronic deposit system, focusing on the high-volume deposit agencies.**

*Figure 1.4 - Comparison of Receipts by type*

	<u>2002-03</u>		<u>2003-04</u>		<u>2004-05</u>		<u>2005-06</u>		<u>2006-07</u>	
	<u>Number</u>	<u>%</u>								
<b>Receipts:</b>										
Manual deposits	78,701	48%	48,881	30%	48,359	29%	36,839	21%	38,293	22%
Automated deposits	45,224	28%	73,416	45%	75,896	45%	90,913	53%	92,529	52%
Credit card deposits	30,564	19%	34,988	21%	35,232	21%	37,599	22%	41,628	23%
ACH deposits	8,651	5%	7,356	4%	7,749	5%	6,967	4%	5,722	3%
<b>Total deposits</b>	<u>163,140</u>	<u>100%</u>	<u>164,641</u>	<u>100%</u>	<u>167,236</u>	<u>100%</u>	<u>172,318</u>	<u>100%</u>	<u>178,172</u>	<u>100%</u>
<b>FTE's in process area</b>	4		4		4		4		4	

- 2.1. The percent of automated vs. manual deposits stayed about the same at 75/25 but the number of deposits in just about all categories increased, so past enhancements allowed the STO to process those increased deposits within the 1 day requirement. Once SAP is fully implemented in all agencies, the need for manual deposits will be eliminated as agencies will be entering them directly into SAP themselves.
- 3. Reconcile all bank accounts of the State (27 accounts) within 30 days of receipt of the bank information, keeping the level of unrecorded deposits at June 30 under the audit tolerance for materiality.**
- 3.1. Reconciliation time for all depository accounts remains at 30 days.
- 3.2. The STO continued successful efforts to identify and adjust unclaimed deposits that typically occur when entities make bank deposits without submitting proper paperwork to STO for the deposits to be recorded. At fiscal year end, unclaimed deposits totaled only \$646,222, or 0.003% of revenues, well below the established tolerance level of 3%. This efficiency allows funds to be available for program purposes on a timely basis
- 4. Continue to improve the reconciliation process by incorporating entire bank data transmissions as well as all FMS transactions into the “Outstanding Deposit File” for all banks.**
- 4.1. During the fiscal year an additional automated bank reconciliation was programmed using the standard BAI2 file provided by the bank. As time permits other manually reconciled accounts will be converted to this process. In addition, with full implementation of SAP, we expect to utilize their automated reconciliation capabilities for all accounts.
- 5. Provide for the reporting and disbursement of existing and any new Court Revenues required by legislation.**
- 5.1. No new Court Revenues were added by legislation during the fiscal year.
- 6. Continue to enhance compliance with court revenue collection and reporting through redesign of reports and instructions, follow-up of delinquent reports, increase monitoring of local government audit reports and respond to requests for information or assistance.**

*Figure 1.5 - Fines, fees and assessments collected and remitted*



- 6.1. At June 30, 2007, 9 Municipal, 2 General Sessions and 1 Magistrate Court showed on our delinquent report, meaning they had not remitted any court fines to the STO in 3 months. Our staff contacts those on the delinquent list to determine the reason for not reporting and to offer assistance. In addition to reporting those who're delinquent to various stakeholders, these reports are provided to the State Auditor monthly as a basis for follow-up if he so chooses. The lack of a fine for delinquent reporting gives little teeth to our follow-up efforts.
- 6.2. Out of 248 entities remitting Court Fines to the office, 23 have not submitted the required annual audit reports for Fiscal Year 2006. We assume an audit will be done within at least 12 months of year end and that the entity will submit it to our office within 90 days of issuance, so this represents those having not submitted a report to us within 15 months from each entity's fiscal year end. We believe our follow-up letters are responsible for the over 100% increase in compliance with this requirement from only three years ago when only 88 entities had submitted audits to the STO. The lack of a specific deadline for annual audits to be completed makes it difficult to enforce this requirement.
- 6.3. Considerable time was dedicated to following-up the audits contracted through the State Auditors Office. Of the 37 audit reports issued to date, only one, that of the City of Spartanburg, was issued with no findings.
- 6.4. Additionally, all banking staff was included in a one day training session on Court Fines conducted by the outside auditor currently conducting these follow-up audits in the field. Several procedures for improving review of the remittance forms were implemented based on his findings.
- 6.5. The agency applied for and was approved to receive free programming through the state portal to web enable the Court Fine reporting process by March 2008. The lessons learned from the auditor in the field, per 6.3 and 6.4 above, will be used to incorporate edits and compliance tests into the new system.
- 7. Process all deferred compensation funds within 1 week of receipt by this office.**
  - 7.1. All pay centers for Deferred Compensation funds were remitting directly to the administrator by June 30, 2007. This operational efficiency allows for quicker deposits of contributions to individual accounts and potentially increased earnings for those contributions.
- 8. Reconcile the Composite Reservoir Master Bank Accounts and distribute detail account statements to state agencies by the 15th of the month.**
  - 8.1. Composite Reservoir accounts were reconciled with detailed statements distributed to the agencies by the 15th of the month.
- 9. Review all proposed legislation related to banking matters and provide timely feedback.**
  - 9.1. Multiple pieces of legislation related to Banking, Collateral and Court Fines were reviewed during the year with feedback provided to both internal and external staff.

### Investments

**Program Cost:**

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
State Funds	\$ 517,943				
Other Funds	114,683	598,267	\$ 637,791	\$756,269	\$805,213
<b>Total</b>	<b>\$ 632,626</b>	<b>\$ 598,267</b>	<b>\$ 637,791</b>	<b>\$756,269</b>	<b>\$805,213</b>

FTE's 8 8 9 10 8 \*

\* Reflects the transfer of the Retirement Fixed Income portfolio to the Commission at June 30, 2007

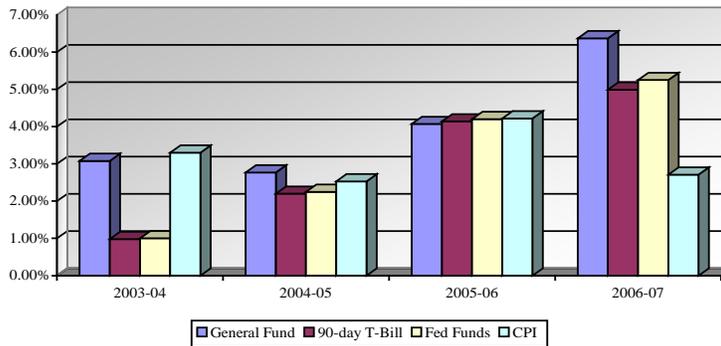
**Program Goals:**

- To manage investment programs in accordance with section 11-9-660 and other statutes of the South Carolina Code of Laws, 1976, as amended, as applicable, in an effective manner.
- To invest all State funds pursuant to statutory authority and the fixed income components of the South Carolina Retirement Systems portfolios, which are structured to meet the long-term nature of pension obligations, in an effective manner.

**Objectives and Key Results for General and Other Funds:**

1. Obtain the best return within prescribed parameters on a portfolio basis, meeting or exceeding the applicable benchmarks, while preserving capital.

*Figure 2.1 - General Funds Rate of Return compared to Benchmarks (Figure)*



**Figure 2.2 - General Funds Rate of Return compared to Benchmarks (Figure)**

	2003-04	2004-05	2005-06	2006-07
Rate of return (cash basis)	3.08%	2.77%	4.07%	6.37%
<b>Benchmarks</b>				
90-day T-Bill rate (12 month average)	0.98%	2.20%	4.14%	4.99%
Fed Funds rate (12 month average)	1.00%	2.25%	4.20%	5.25%
Consumer Price Index	3.30%	2.53%	4.33%	2.71%

- 1.1. The portfolio outperformed the benchmarks of 90 day Treasury Bills and the Federal Funds.
- 1.2. During FY07, the Federal Reserve Open Market Committee raised short term rates from 5.00% to 5.25%. The increase had a positive effect on the overall investment performance of the General Fund compared to the prior three years.
- 1.3. The State’s Local Government Investment Pool (LGIP) earned a rate of 5.32% as compared to the average benchmark investment rate of 4.99% (90-day Treasury Bill Rate) while allowing entities 24 hour access to their funds.

**2. Provide professional investment services for all funds under management through efficient utilization of available resources.**

- 2.1. The STO continues to provide professional portfolio services for all funds managed at a considerable cost savings to the state and the Retirement Systems. The cost for investment management services was 0.0073%, or 0.73 basis points, compared to the industry average portfolio management fees of 0.1% in the industry of .10%, or 10 (10 basis points). (Source: Jameson Eaton & Wood, investment advisors)

**Figure 2.3 – Cost of Investment Management Services**

	FY2004	FY2005	FY2006	FY2007
General Funds Portfolio Management Fees	\$523,538*	\$637,791*	\$756,269	\$805,213
Investment Commission for Fixed Income			\$526,130	\$481,355
SCRS for Fixed Income	\$606,126	\$712,356	\$142,282	\$190,777
<b>Total Cost</b>	<b>\$1,129,664*</b>	<b>\$1,350,147*</b>	<b>\$1,424,681*</b>	<b>\$1,477,338</b>
Funds Managed	\$17,578,074,425*	\$20,579,062,131*	\$19,834,345,888	\$20,327,864,034
<b>Cost as % of Funds Managed*</b>	<b>.0064%</b>	<b>.0066%</b>	<b>.0072%</b>	<b>.0073%</b>

\*Prior to FY05/06 did not include Local Government Investment Pool.

2.2. Assets under management continue to grow as state agencies and political subdivisions recognize the value both in enhanced returns and low expense of investing with the State Treasurer's Office when compared to private sector alternatives. We continue to deliver a high value product at a low cost in an efficient and effective manner to our many and diverse customers. See Figure 2.2 for specifics on funds managed and Figure 2.1 for cost of investment services.

**Figure 2.4 - General and Other Funds Managed**

	2003-04	2004-05	2005-06	2006-07
Workload - State and local				
General funds managed (average)	510,608,734	942,146,286	1,714,211,023	2,021,494,494
Restricted funds managed (average)	2,619,168,412	3,101,038,477	3,356,956,210	3,729,677,700
Tobacco funds managed	494,660,240	458,836,644	487,715,450	460,411,362
Total State funds managed	<u>3,624,437,386</u>	<u>4,502,021,407</u>	<u>5,558,882,683</u>	<u>6,211,583,556</u>
LGIP funds managed (average)	2,171,340,885	2,059,867,527	1,957,665,038	2,065,724,013
LGIP Accounts	549	509	519	554
Number of State and local portfolios	22	22	20	20
Total number of investment trades	3,676	4,698	4,356	3,435

2.3. Conversion of the LGIP portfolio to the QED system was running parallel by June 30, 2007 and with the completion of several enhancements, implementation is expected in the fall 2007. With planned upgrades this will allow participants to view their accounts online and initiate transactions through a secure website.

2.4. The securities lending program with the Bank of New York continues to surpass industry benchmarks in both utilization (percentage of holding actually loaned) and the contract spread (difference between the loan rate of assets and the reinvestment rate of proceeds) in high utilization classes. Revenue from this program covers custodial bank fees and provides additional earnings. The revenue share to the state was increased from 80/20 to 85/15 during the fiscal year through renegotiations with the custodial bank.

**Figure 2.5 - Security Lending Program Performance compared to Benchmarks**

Asset Class	RMA* Utilization	BNY Utilization	RMA Spread	BNY Spread
US Govt	83%	96%	18bp	21bp
US Agency	41%	58%	10bp	11 bp
GNMA	23%	76%	9bp	13bp
Equity/ADR	9%	25%	42bp	33bp
Corporates	8%	1%	24bp	18bp

(1) Corporate Assets include large amount of non-lendable securities, Adjusted utilization of 11-13%.  
\*Risk Management Association Security Lending Committee

Source: Bank of New York

2.5. BidSC program continues to be a great success. The quarterly CD auctions resulted in increased earnings for the State of over \$161,505 during this fiscal year

**3. Meet or exceed the general fund budget estimate projection for investment earnings for the year.**

3.1. Earnings on General Fund investments were \$128,756,090 which surpassed the investment earnings projection of \$116.5 million by \$12,256,090.

**4. Maintain adequate liquidity for cash needs.**

4.1. All portfolios maintained adequate liquidity to immediately meet cash flow needs.

**5. Manage cash flow to optimize earnings for the State.**

5.1. All funds are fully invested daily. We monitor online systems with the banks to fully utilize any funds received prior to 12:00 each day. We negotiate the best possible rates for any funds received after 12:00. Funds are transferred online between the banks to meet liquidity needs and to maximize the use of funds.

**6. Maintain adequate collateral to secure State funds deposited in financial institutions.**

6.1. All deposits were properly collateralized.

**Results - Retirement Funds:**

**Figure 2.6 - Retirement Funds held in Custody**

	2003-04	2004-05	2005-06	2006-07	%
Fixed Income managed internally	13,953,637,039	14,017,173,197	12,029,794,309	11,421,602,645	40.00%
Equities managed externally	10,381,460,694	11,149,108,194	13,652,550,676	16,506,898,281	57.80%
Liquidity pool internally*	NA	417,465,336	288,340,448	628,953,820	2.20%
SCRS total funds	<u>24,335,097,733</u>	<u>25,583,746,727</u>	<u>25,970,685,433</u>	<u>28,557,454,746</u>	<u>100%</u>
Retirement portfolios managed (fixed)	4	4	5	6	

\*The Liquidity Pool was separated from the Fixed Income Portfolio during FY05 to facilitate the daily cash flows in the respective retirement systems. It is invested in short maturity securities and the targeted amount is less than 5% of total assets.

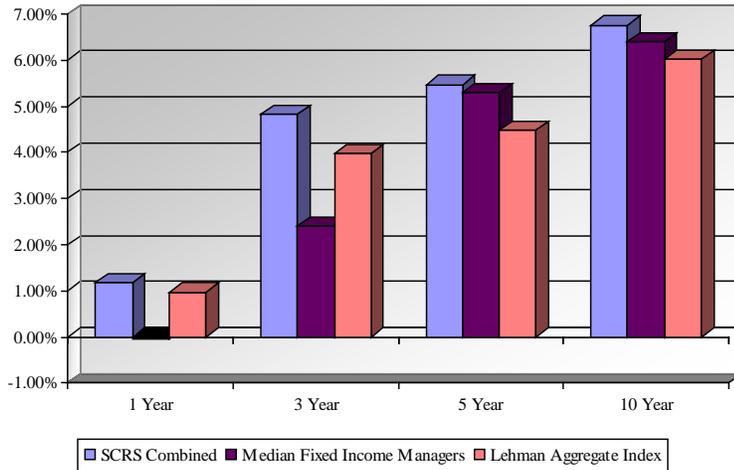
**Figure 2.7 - Return on Retirement Fixed Income Investments vs. Benchmarks (Figure)**

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
SCRS Fixed Income	7.02%	4.82%	5.47%	6.75%
Benchmarks				
Median Fixed Income Managers <sup>2</sup>	6.19%	4.32%	4.89%	6.32%
Lehman Aggregate Index <sup>1</sup>	6.12%	3.98%	4.48%	6.02%

<sup>1</sup> Source: Bank of New York

<sup>2</sup> Source: New England Pension Consultants

**Figure 2.8 - Return on Retirement Fixed Income Investments vs. Benchmarks (Figure)**



1. SCRS Fixed Income returns exceeded the benchmark, the Lehman Brothers Aggregate Index, for the one year period ending June 30, 2007, and for the three, five and ten year periods.
2. During the year, in an effort to further diversify the holdings of the Retirement portfolios, the Investment Commission approved hiring of 17 new managers (including 5 new asset types) and terminated 5 managers, requiring untold hours of work on the part of our staff (who still serve the custodial role for these funds) to set up the new custody accounts, add general ledger control accounts for each, and add the new managers to reports. As the liquidity portfolio manager we also had to be prepared to fund each manager once contracts were finalized.
3. As of July 1, 2007, the Fixed Income portfolio management for the Retirement System was transferred to the Investment Commission. The Liquidity pool and the Investment operations still reside with the State Treasurer's Office.
4. The STO cost for in house management of the fixed and liquidity portfolios continues to be well below the cost associated with active management of equity funds in the retirement system and when compared to the industry average of 10 bps (0.10%) for active core fixed income managers.

**Figure 2.9 - Cost of Managing Retirement Portfolios in FY07 - by sector**

	Funds Managed	Fees Paid	%
Fixed & Liquidity In house	\$12,050,556,465	\$1,144,233*	0.00950%
Equity: Index	\$7,258,159,826	\$337,169	0.00465%
Active	\$9,248,738,455	\$32,631,486	0.35282%
Total	\$28,557,454,746	\$34,112,888	0.11945%

\*includes allocation of STO salaries

## Debt Management

**Program Cost:**

	2002-03	2003-04	2004-05	2005-06	2006-07
State Funds	\$ 372,766	\$ 365,382	\$ 270,893	\$ 427,364	\$ 345,402
Other Funds	-	-	75,012	24,848	95,886
<b>Total Funds</b>	<b>\$372,766</b>	<b>\$365,382</b>	<b>\$345,905</b>	<b>\$452,212</b>	<b>\$ 441,288</b>
FTE's	5.00	4.00	5.00	5.75	5
Temporary Employees	0.40	0.50	0.60		1

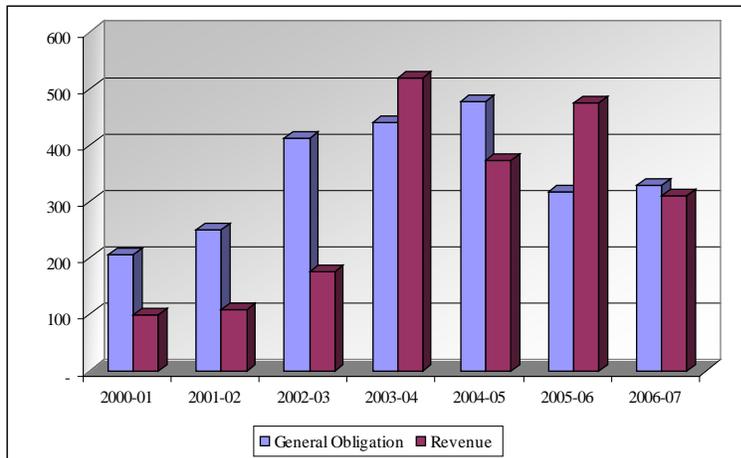
**Program Goals:**

- Manage all debt issues for the state, its agencies and institutions to optimize debt structure and assure timely debt payments.
- Coordinate communications with rating agencies to maximize the state's credit rating.
- Assure compliance with legal requirements, including Arbitrage Rebate and Constitutional Debt Limit.

**Program Objectives and Key Results:**

1. **Make debt service payments accurately and on time and in compliance with Federal arbitrage requirements.**
  - 1.1. All debt payments were promptly made.
  - 1.2. Compliance with Federal arbitrage requirements was certified.

*Figure 3.1 - Comparison of debt payments by fiscal year (in millions)*



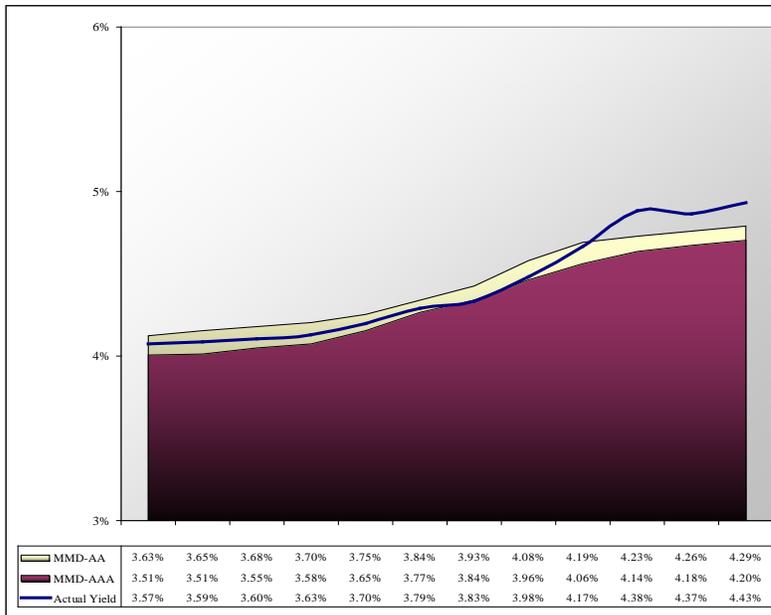
**Figure 3.2 - Debt payments (in millions)**

	Fiscal Year						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Obligation	\$ 205.5	\$ 250.9	\$ 412.6	\$ 441.1	\$ 478.4	\$ 316.3	\$ 329.5
Capital Improvement	145.3	136.6	216.5	294.7	238.6	141.5	119.9
Revenue	99.8	108.9	175.7	518.9	372.1	475.1	311.2

**2. Analyze the markets and structure the debt to assure the lowest rate of interest is paid.**

- 2.1. On a composite basis, general obligation debt was issued at or above yields at the Municipal Market Data (MMD) yields for comparably secured MMD-AA securities. This is partially attributable to the changing interest rate environment and a flat yield curve. Other contributing factors include the state’s lower credit rating, and the fact that all general obligation debt issued during the period was state institution debt, which tend to price above the MMD-AAA scale.
- 2.2. For the fiscal year, the overall yield on general obligation debt issued was 4.17%, as compared to the MMD-AAA and MMD-AA yields for the same period at 4.04% and 4.13%, respectively. The dollar significance of this difference is approximately \$1.2 million of a total interest cost of \$38.4 million for \$82.5 million in general obligation debt issued.

**Figure 3.3 - Comparison of bond yields**



**3. Close all debt issues by the required deadline.**

**Figure 3.4 - Bond issues closed**

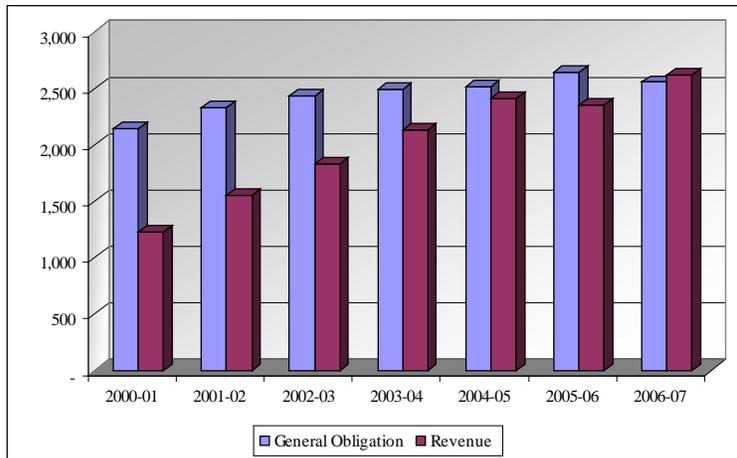
	Fiscal Year						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Obligation	7	7	20	12	6	16	5
Revenue	13	7	13	11	16	8	9
Intergovernmental	1	-	2	-	-	-	-
<b>Total</b>	<b>21</b>	<b>14</b>	<b>35</b>	<b>23</b>	<b>22</b>	<b>24</b>	<b>14</b>
Bond Issues Deceased	-	1	14	6	7	-	-

3.1. All new bond issues were closed as scheduled.

**Figure 3.5 - Comparison of outstanding debt (in millions)**

	Fiscal Year						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Obligation	\$ 2,146.7	\$ 2,328.6	\$ 2,433.3	\$ 2,494.3	\$ 2,518.4	\$ 2,640.6	\$ 2,555.8
Revenue	1,224.7	1,548.6	1,829.3	2,133.5	2,412.5	2,350.1	2,614.9
<b>Total</b>	<b>\$ 3,371.4</b>	<b>\$ 3,877.2</b>	<b>\$ 4,262.6</b>	<b>\$ 4,627.8</b>	<b>\$ 4,930.9</b>	<b>\$ 4,990.7</b>	<b>\$ 5,170.7</b>
Total Issues	120	117	152	150	153	150	184

**Figure 3.6 - Outstanding debt (in millions)**



**4. Process all Capital Improvement Project draws as requested by state agencies.**

4.1. All agency requests to draw bond proceeds were processed within 24 hours of receipt.

**Figure 3.7 - Bond draws processed (\$ amounts in millions)**

	Fiscal Year						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Improvement							
Bond Draws and Refunds	5,734	3,727	2,660	2,258	2,790	1,383	1451
Amount	\$ 1,083.9	\$ 696.2	\$ 781.7	\$ 386.9	\$ 505.0	\$ 500.9	385.2

**5. Process all South Carolina Housing Finance and Development Authority and Education Assistance Authority transactions as requested.**

5.1. All South Carolina State Housing Finance and Development Authority and South Carolina Education Assistance Authority transactions were processed within 24 hours as requested by the agencies.

**Figure 3.8 - Housing Authority and Education Assistance Authority daily transactions**

	Fiscal Year						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Housing Authority and Education Assistance Authority Daily Transactions	2,527	2,407	1,640	1,948	2,127	2,234	2,071

**6. Provide state institutions and agencies with guidance in effectively managing their debt issuances and programs.**

6.1. During the fiscal year, the agency responded to eight requests for fiscal impact on debt proposals, performed various special analyses for the Senate Finance and House Ways and Means committees, provided an overview of the debt analysis process, provided advice and comment regarding tobacco diligent enforcement and other MSA-related responsibilities, prepared several debt comparisons and savings analyses for the governor’s office in connection with preparation of the executive budget and other specific requests from that office, performed an analysis and comparison of unfunded liability of the state’s retirement system and other measures of financial health with other state retirement systems, provided technical advice for legislation to address the state’s Other Post Employee Benefits liability, and provided comment and advice to the legislature and the Budget and Control Board for legislation and special studies.

6.2. The agency also assisted the Department of Transportation in the development of a request for proposals and selection criteria for financial advisory services, and provided assistance to the University of South Carolina in developing selection criteria for a lead underwriter. The Office also refined qualification criteria for engagement of other firms engaged in the finance process, further refined the JEDA professional services qualification and approval processes, and approved more than twenty requests for qualification of firms seeking to provide financial services to the state in various capacities.

6.3. Several school districts requested that the Office provide them with the special debt analysis prescribed by SC Code Section 59-21-420(b), which permits the State Board of Education to grant a waiver of certain provisions of the statute upon certain findings and a certification from the State Treasurer that the school district’s borrowing rates are beneficial when compared to

prevailing rates. These determinations benefited the school districts by affording them continued expenditure flexibility with respect to state funding.

**7. Provide information to credit rating agencies on a timely basis.**

7.1. The State Treasurer is designated by law to be the state official who is to communicate with the credit rating agencies. The office maintains frequent and ongoing contact and communication with the three rating agencies. The office responds to requests for information in a timely and efficient manner. Revenue data was provided on a monthly basis, as published by the Board of Economic Advisors. Legislative and budget updates were also provided as developments in these areas occurred.

**8. Assure outstanding debt does not exceed debt limitations.**

8.1. The debt management division performs impact analyses on debt limits in response to various borrowing proposals considered during the budget process. These analyses are generally provided within one business day of the request.

**Unclaimed Property Program**

**Program Cost:**

	<u>2002-03</u>		<u>2003-04</u>		<u>2004-05</u>		<u>2005-06</u>		<u>2006-07</u>
State Funds									
Other Funds	\$ 881,361	\$	2,426,498	*	\$ 815,617	\$	583,364	\$	567,806
FTE's	6.00		6.00		6.00		7.75		9.75
Temporary Employees	1.00		1.00		1.00		1.00		0

\* FY04 cost increase was attributable to one time fees paid to collect demutualization funds.

**Program Goals:**

- Sustained public awareness of the program.
- Prompt and accurate payment of funds to rightful owners.
- Efficient processing of remitted funds.
- Meet or exceed budget projections for General Fund transfer.

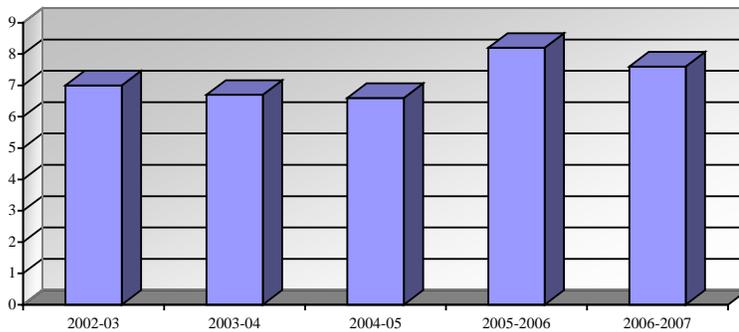
**Program Objectives and Key Results:**

- 1. Increase public awareness of the program utilizing the most efficient methods.**
  - 1.1. Increased the probability of money being claimed by rightful owners in the most cost efficient manner possible through providing information to television stations throughout the state to assist in the location of owners and to generally promote the Program.
  - 1.2. Each year, we run an advertisement in a newspaper in every county advising residents of the availability of unclaimed funds. In addition, we supply lists of unclaimed property owed to citizens within each newspaper's readership area to any newspapers in the state who request them.
- 2. Provide and promote services via the Internet thus making it easier for the public to submit claims while keeping the cost of services down.**
  - 2.1. Promoted use of the State Treasurer's website (i.e., database search for property, printing of claim forms, holder electronic reporting) through television and newspaper as outlined in 1.1 above. In FY07, 7,958 potential owners inquired about possible unclaimed accounts using the State Treasurer's website search feature. Of those making these inquiries, 75% printed claim forms from the website.
  - 2.2. South Carolina participates with thirty-six other states in www.missingmoney.com, a state endorsed national unclaimed property search website. During FY07, there were 534,869 South Carolina searches and 4,955 claims printed. These unclaimed property search sites reduce the number of research requests that would otherwise have to be performed by the Program staff. Providing claimants the ability to print their own claim forms eliminates the time and cost of printing and mailing the claim forms from the office.
- 3. Increase the return of property to the rightful owners through aggressive outreach programs.**
  - 3.1. Continued the targeted outreach program wherein staff did individual searches for owners of the largest amounts and for easily located persons and entities. Of the \$7.6 million paid in claims in FY07, \$2,010,365 was paid because of these targeted research efforts.

3.2. The Program continues to work closely with SC Department of Revenue to locate the owners of undeliverable tax refund checks. In FY07, DOR transferred 5,444 unclaimed tax refund checks worth \$1,447,686. Of that amount, \$615, 990 (1,501 checks) was returned to the rightful owners.

3.3. The Program continues to pay unclaimed child support to the custodial parents from funds transferred to the Program from DSS in March 2006. During FY07, unclaimed child support payments, valued at \$19,710.84, were paid to the rightful owners.

**Figure 4.1 - Amount returned to rightful owners (in millions)**



Note: The amount of claims paid fluctuates from year to year contingent upon several factors: the amount of media attention the program receives; the frequency and success of public outreach efforts; the amount of reciprocal payments made to other states; thoroughness of due diligence performed by the reporting companies and/or an unusually high holder remittance.

**4. Increase compliance with the Unclaimed Property Act by increasing the number of holders filing an annual report.**

4.1. The number of new holders filing reports in FY07 was 1,286, up from 1,075 in FY06. This increase was due to the greater awareness in the business community of the obligation to remit unclaimed funds to the State.

4.2. Letters were sent to all holders in the Program’s database, reporting and non-reporting holders, reminding them of their reporting obligations and offering staff assistance.

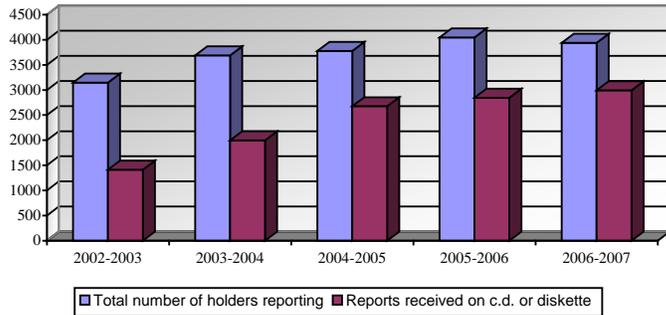
4.3. Compliance efforts were further enhanced by the presentation given by key staff at various business association functions.

**5. Increase the number of holders that report electronically, thereby reducing the risk of input errors, the cost of processing reports, and the time between the receipts of property and availability for claims.**

5.1. As a result of a proactive outreach program, the number of holders filing reports electronically increased from 2,846 to 2,992. 75% of holders reporting in FY07 reported electronically compared to 70% a year ago.

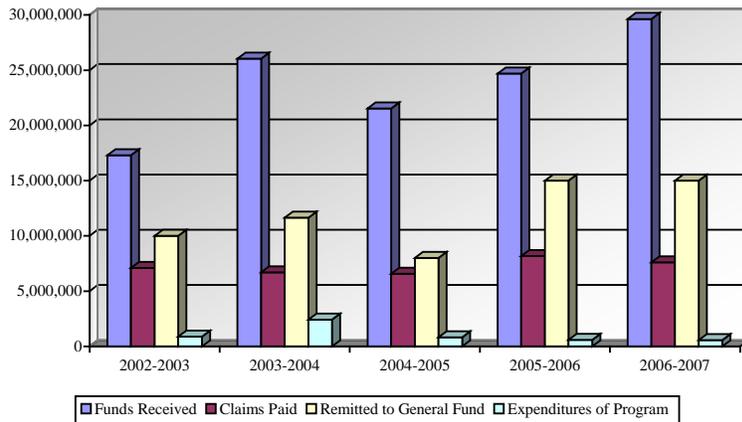
5.2. Electronic reporting further reduces the percentage of reports that have to be manually keyed; thereby decreasing the staff hours needed to key the reports, while increasing the accuracy of the newly-added account information.

**Figure 4.2 - Number of holders reporting electronically**



**6. Analyze the reserve requirements for paying expenses and claims and increase the amount of unclaimed funds turned over to the General Fund, if possible.**

**Figure 4.3 - Comparison of sources and uses of funds**



Note: Based on analysis of receipts, claims experience, expenditures of the program, and reserves necessary, the STO regularly reviews the amount available for transfer to the General Fund. During fiscal year FY07, STO transferred \$15 million to the General Fund.

**College Savings Plans:**

**South Carolina Tuition Prepayment Program (SCTPP)  
South Carolina College Investment Program (Future Scholar)**

**Program Cost:**

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
State Funds					
Other Funds	\$ 516,877	\$ 481,898	\$ 482,394	\$ 501,653	\$ 415,101
FTE's	2.30	2.30	2.30	2.20	2.20

**Program Goals:**

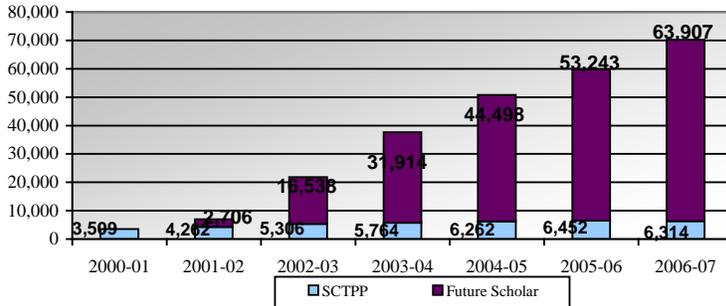
- Promote college savings through public awareness of both programs, particularly among South Carolinians.
- Implement efficient and customer-friendly processes for applications, account collections, refunds, and benefits usage.
- Administer Future Scholar and SCTPP, including contract management and oversight of external vendor relationships.
- Monitor the actuarial soundness of the SCTPP Fund.

**Program Objectives and Key Results:**

- 1. Increase public awareness of the programs utilizing the most efficient methods.**
  - 1.1. Maintained dealer agreements (to open Future Scholar accounts) with 170 brokerage firms (up from 169 last year), allowing more financial advisors the ability to discuss 529 college savings advantages with clients, including tax savings provided by the State.
  - 1.2. Ran print and radio ads for Future Scholar statewide with media plans designed to reach South Carolinians of all income levels, including point-of-sale campaigns at all South Carolina Bank of America financial centers.
  - 1.3. Conducted successful campaigns for Future Scholar enrollment and account building during December 2006 for year-end awareness and February and March 2007 to educate parents on the value of the state and federal tax benefits for Future Scholar account contributions.
  - 1.4. The number of active Future Scholar accounts increased by 17% to 63,907 and the accounts' market value rose 41% to \$975 million. The national average growth rate for the 529 industry over the past year was 17%, according to FRC (Financial Research Corporation).
  - 1.5. The number of active SCTPP accounts decreased by 2% to 6,314 (a result of depleted and cancelled accounts during a year in which an open enrollment period for new accounts was not held). The SCTPP Fund value however increased by 14% to \$129 million due to additional contract payments and investment returns.

**2. Steadily increase the number of College Savings accounts with focus on serving South Carolina residents across all income levels.**

*Figure 5.1 - Future Scholar and SCTPP active accounts*



- 2.1. Increased the ratio of participation in Future Scholar by South Carolina residents from 50% to 55% of total accounts. 34,956 of the 63,907 Future Scholar accounts are owned by a South Carolina resident. The State Treasurer is committed to administering college savings opportunities for South Carolinians that offer low-cost, high-quality investment options. By incorporating a program that allows for out-of-state participation at a higher investment cost, Future Scholar is able to minimize the cost of participation for South Carolinians.
- 2.2. Future Scholar maintained a higher than average percentage of participants in its direct program (primarily South Carolina residents) as compared to the industry average for investment in direct and advisor-sold programs.
- 2.3. The Future Scholar Direct Investment Program (a no-load program available only for South Carolinians) is one of the lowest priced plans in the nation, with expenses ranging from 0.10% to 0.40%. (Source: Proprietary information reported to us by our outside administrator.)

*Figure 5.2 – SCTPP participation by income*

Family Income	SCTPP Accounts
< \$30K	2.3%
\$30K - \$50K	12.1%
\$50K - \$80K	27.1%
\$80K - \$100K	21.4%
>\$100K	37.1%

**3. Enhance services available through the Internet thus making it easier for the public to submit applications, make account changes, and utilize benefits.**

- 3.1. Added additional financial tools to the Future Scholar website to assist participants with determining financial needs for future higher education expenses.
- 3.2. SCTPP account holders also are now able to view on line more detailed information on account benefits usage.

3.3. South Carolina also participates in the CSPN national website and maintains up to date statistics on the programs for the site.

**4. Increase participation in automatic draft contribution options.**

- 4.1. Maintained percentage of Future Scholar accounts with systematic contributions, using automatic bank draft or payroll deduction, at 37%. The automatic draft option for Future Scholar not only promotes efficiency, but also encourages systematic savings. This feature is promoted to account holders throughout the year as part of an on-going “account builder” campaign that also educated parents on the rising cost of a college education and the need for increased systematic investments.
- 4.2. The agency also maintained the percentage of SCTPP contract holders making monthly payments by automatic draft at 39% as part of a continuing effort to reduce bank service charges and assure payments are made in accordance with the contracts.

**5. Continually review program offerings and procedures to maintain market competitiveness and improved usability for families interested in college savings.**

- 5.1. Maintained high rankings for Future Scholar in nationally recognized 529 Plan rating websites. The ratings are based on a program’s flexibility, investment options, economic benefits, and add-on incentives. Future Scholar’s Direct Program (for South Carolina residents) has a 5.0 out of 5.0 rating at SavingForCollege.com and a 4.5 out of 5.0 rating at Yahoo.com’s College Savings Center.

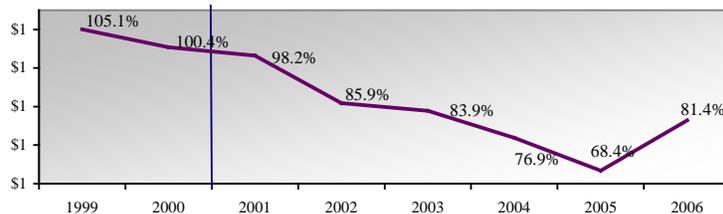
**6. Maintain oversight of the Future Scholar program through regular contact with the administrators, review of program plans and materials, and monitoring program results and portfolio performance.**

- 6.1. In March 2007, the Future Scholar Program Descriptions and collateral materials were enhanced to include more comprehensive information and user-friendly tables. The Descriptions continue to be in line with the College Savings Plan Network (CSPN) national standards and include all MSRB required disclosure.

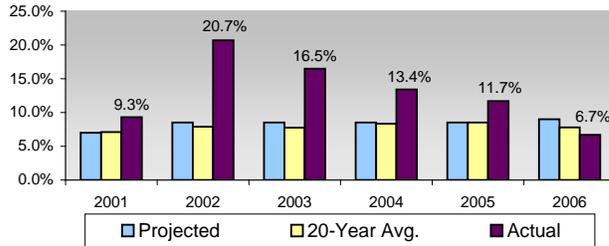
**7. Analyze the cash flow expectations for SCTPP and review actuarial assumptions to sustain program soundness.**

- 7.1. Continued to work closely with SCTPP’s independent actuary, the SC higher education community and members of the Senate Finance and House Ways and Means Committees to assure that actuarial assumptions used are appropriate.
- 7.2. During the year the SCTPP’s investment strategy was shifted to a target allocation of 60% equities (45% domestic and 15% international) and 40% fixed, which staff believed to be appropriate for the nature of the funds. As of June 30, 2007, the portfolio was at 53.8% equity (51.5% domestic and 2.3% EAFE funds) and 46.2% fixed income securities.

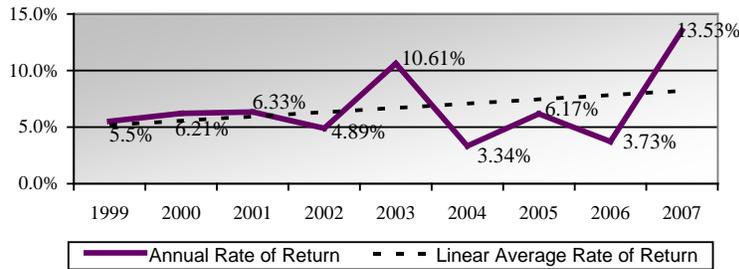
**Figure 5.3 - SCTPP percent funded**



**Figure 5.4 - SCTPP projected vs. actual tuition increases since program inception**



**Figure 5.10 - SCTPP Fund annual returns**



**Figure 5.5 – Factors contributing to the SCTPP actuarial unfunded liability**

1. Progression of Surplus	
Surplus at June 30, 2006	(\$ 63,818,099)
Projected Change to June 30, 2007 <sup>1</sup>	(4,626,812)
Gain from Favorable Tuition Inflation	5,840,549
Gain due to Favorable Investment Experience	6,864,002
Change due to Additional Contract Sales	N/A
All Other Experience Items <sup>2</sup>	(1,497,970)
Additional Appropriations <sup>3</sup>	19,312,182
Surplus at June 30, 2007	(\$ 37,926,148)

<sup>1</sup> The actuarial items in this valuation incorporate the time value of money. This time value adjustment changes each year. As long as assets and liabilities are not exactly equal, the surplus or deficit will change each year as the time value of money adjustment changes.

<sup>2</sup> Other experience items consist principally of differences between actual and projected contract cancellations.

<sup>3</sup> The actual dollar amount of appropriations is \$20,000,000. The value in the table above is \$20,000,000 with a time value of money adjustment from December 2007, the expected date of receipt, back to June 30, 2007.

## Strategic Planning Chart

Program Number and Title	Supported Agency Strategic Planning Goal/Objective	Related FY 06-07 Key Agency Action Plan/Initiative(s)	Key Cross References for Performance Measures
1. Accounting and Banking	1.1 Receive and disburse all funds timely and accurately	Further automate receipt and disbursements where possible in order to process increased workflows with existing staff	Figure 1.1, Figure 1.2 and Figure 1.4
	1.2 Support agency banking needs	Communicate with agencies about their specific banking needs and through partnering with banking service providers incorporate new services and technology where available	Key Results – Banking 1.1 and 2.1
	1.3 Reconcile bank accounts and limit unrecorded deposits	Add sub-accounts for additional agencies, utilize additional features of online banking services and further automate file transfer and reconciliation to facilitate timely reconciliations	Key Results – Accounting 3.1 and Banking 3.1 and 4.1
	1.4 Distribute Shared revenue	Utilize and regularly review automated systems to assure compliance with applicable distribution laws	Figure 1.3 and Key Results – Accounting 2.1
	1.5 Receive and distribute Court Fines	Monitor legislative changes related to Court Fines, educate local governments on any changes, update forms and instructions and upgrade computer systems to process new fines	Figure 1.5 and Key Results – Banking 6.1 thru and 6.5
	1.6 Manage flow of Deferred Comp funds to administrator	Increase number of entities transmitting deferred compensation funds directly to the program administrator	Key Results – Banking 7.1
2. Investments	2.1 Provide cost effective, professional portfolio management services	With a highly trained, professional staff and state of the art portfolio management tools, manage fixed income funds internally	Figure 2.3, and Figure 2.9
	2.2 Maintain adequate collateral	Utilize automated systems for timely monitoring and adjustment of collateral	Key Results – Investments 6.1
	2.3 Maintain adequate liquidity	Employ proper cash forecasting models and communication with agencies to predict cash needs and to match investments with those needs	Key Results – Investments 4.1
	2.4 Obtain best return within prescribed parameters	Utilize state of the art information and analysis systems, professional investment advisory services, and a highly trained and motivated staff to maximize investments in accordance with investment policies	Figure 2.1, Figure 2.2, Figure 2.5, Figure 2.7, and Figure 2.8
	2.5 Optimize earnings through effective cash management	Utilize state of the art cash management tools and practices	Key Results – Investments 5.1
	2.6 Meet or exceed budgetary earnings projection	Monitor economic forecasts for state revenue and expenditures and market conditions to ensure revenues are on target, or revise targets when necessary	Key Results – Investments 3.1

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

3. Debt Management	3.1 Pay all debt accurately and on time	Utilize automated system for timely and accurate calculation, and execution of debt payments	Key Results – Debt 1.1 and 1.2 Figure 3.1, and Figure 3.2
	3.2 Close all new debt issues by deadline	Utilize experienced staff and outside advisors depending on the nature of the issue	Key Results – Debt 3.1, and Figure 3.4
	3.3 Issue debt at lowest rate possible	Maintain AAA credit rating and utilize online bid capabilities to maximize exposure or offerings	Key Results – Debt 2.1 and 2.2 and Figure 3.3
	3.4 Process Capital Improvement draws as requested by state agencies	Utilize automated system for monitoring of authorized draw schedule and processing of draws	Figure 3.7
	3.5 Process Housing Authority transactions as requested	Coordinate with Housing Authority	Figure 3.8
	3.6 Monitor state debt limit	Perform impact analyses as requested for various proposed borrowing scenarios during the budget process	Key Results – Debt 8.1
	3.7 Assist agencies and institutions with debt issuance	Provide professional advice and services as needed	Key Results – Debt 6.1 thru 6.3
	3.8 Provide timely information to credit rating agencies as needed	Keep rating agencies apprised of issues regarding the state’s financial condition and respond to requests for information in a timely manner	Key Results – Debt 7.1
4. Unclaimed Property	4.1 Increase public awareness of the program	Partner with local TV and newspaper outlets to raise awareness of the program in the most cost efficient methods possible	Key Results – UPP 11 and 1.2
	4.2 Provide and promote internet inquiries and claims	Use advertising to promote internet access to the complete unclaimed property records rather than listing newly reported property annually	Key Results – UPP 2.1 and 2.2
	4.3 Aggressively seek rightful owners	Utilize a subscription internet service to assist in locating owners of property over \$1,000	Key Results – UPP 3.1 thru 3.3, and Figure 4.1
	4.4 Promote holder compliance with unclaimed property requirements	Promote holder awareness through outreach and education efforts.	Key Results – UPP 4.1 thru 4.3
	4.5 Promote electronic reporting of unclaimed property	Provide downloadable reporting software via the internet	Figure 4.2 and Key Results - UPP 5.1 and 5.2
	4.6 Review reserve requirements and transfer excess funds to the General Fund	Utilize an historical analysis methodology to predict the level of reserves needed for future claims	Figure 4.3
5. College Savings	5.1 Increase public awareness of the programs and promote saving for college	Coordinate with the Future Scholar administrator to identify promotional opportunities within the state and elsewhere.	Figure 5.1 and Key Results – CSP 1.1 thru 1.5

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted

Formatted

Formatted

Formatted

5.2	Increase the number of college savings accounts within the programs particularly among South Carolinians	Partner SCTPP with Future Scholar to promote college savings to South Carolinians at all income levels and throughout the State	Figure 5.2 and Key Results – CSP 2.1 thru 2.3
5.3	Expand internet services of both programs, meeting customer expectations and enabling participation	Provide better online access to account holders of SCTPP and Future Scholar	Key Results – CSP 3.1 thru 3.3
5.4	Increase automatic payments in both programs	Include automatic payment option information on the SCTPP website and conduct Future Scholar “Account Building” campaigns promoting systematic, electronic payments	Key Results – CSP 4.1 and 4.2
5.5	Increase program flexibility and options while maintaining compliance with IRS 529 Guidelines	Review fund offerings in Future Scholar	Key Results – CSP 5.1
5.6	Improve actuarial soundness of the tuition prepayment program	Work with program actuary to review actuarial assumptions, get input from higher education community regarding tuition cost projections, manage the program investment strategy, reduce administrative expenses where feasible, and provide information to legislative committees as requested	Key Results – CSP 7.1 and 7.2 and Figure 5.3, Figure 5.4, and Figure 5.5
5.7	Oversee Future Scholar program	Hold regular status meetings with administrator. Review program materials and disclosures. Regularly review portfolio performance, costs and offerings	Key Results – CSP 6.1
* Key Cross-References are a link to the Category 7 - Business Results. These References provide a Figure number that is included in Category 7, “Results,” of Section III of this document.			

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

Formatted: Indent: Left: 0", Hanging: 0.29", Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0" + Tab after: 0.42" + Indent at: 0.42", Tab stops: Not at 0.42"

## GLOSSARY OF ACRONYMS USED

CDARS	Certificate of Deposit Account Registry Service
CMIA TSA	Cash Management Improvement Act - Treasury State Agreement
COLA	Cost of Living Adjustment
CSPN	College Savings Plan Network – a division of NAST
DMS	Debt Management System
FMS	Financial Management System
GAAP	Generally Accepted Accounting Principles
GARS	General Assembly Retirement System
IMS	Investment Management System
JSRS	Judges and Solicitors Retirement System
LGIP	Local Government Investment Pool
MMD	Municipal Market Data
MSRB	Municipal Securities Rulemaking Board
NASACT	National Association of State Auditors, Controllers, and Treasurers
NAST	National Association of State Treasurers
PORS	Police Officers Retirement System
SCEIS	South Carolina Enterprise Information System
SCRS	South Carolina Retirement System
SCTPP	South Carolina Tuition Prepayment Program
STARS	State Accounting and Reporting System
STO	State Treasurer’s Office
UPP	Unclaimed Property Program